

### **Financial planning**

A financial plan consists of sets of [financial statements](#) that forecast the resource implications of making business decisions. For example, a company that is deciding to expand e.g. by buying and fitting out a new factory will create a financial plan which considers the resources required and the financial performance that will justify their use. You can see from this statement that the financial plan will need to take into account sources of finance, costs of finance, costs of developing the project, as well as the revenues and likely profits to justify the expansion programme.

Planning models may consist of thousands of calculations. Typically these plans will be constructed with the aid of forecasting models and spreadsheets that can calculate and recalculate figures such as profit, cash flows and balance sheets simply by changing the assumptions. For example, the business may want to do one set of calculations for low, medium, and high demand figures for its products.

### **Financial plans**

Financial plans are typically made out for a given time period, e.g. one, three or five years. The length of the time considered depends on the importance of projecting into the future and the reliability of estimates the further we consider the future.

Long-term plans are created for major strategic decisions made by a business such as:

- \* take over and merger activity
- \* expansion of capacity
- \* development of new products
- \* overseas expansion.

In addition financial planning will be carried out for shorter time spans. For example, annual budgets will be created which can be analysed by month and by cost centre.

Short term financial plans then provide targets for junior and middle management, and a measure against which actual performance can be monitored and controlled. In addition it is normal practice for a business to prepare a three- or five-year plan in less detail, which is updated annually.

A [budget](#) is a short term financial plan. It is sometimes referred to as a plan expressed in money - but it is more accurately described as a plan involving numbers.

A cost centre is defined by CIMA as 'a production or service location, function, activity or item of equipment whose costs may be attributed to cost units'.