1. Tactical Planning and Budgeting

One of the main purposes of the budget is based on goals and operational objectives to **develop a tactical action plan for a budget year divided into sup periods, which is economically assessed in a budget.**

Budgets and action plans are implemented and then another main purpose is **follow-up, where actual assumptions, actual actions and their economic impact for the period are compared with expected assumptions, actions plans and budget** in order to detect any abnormalities, evaluate the result and take the necessary steps:

- If possible to maintain or expand a favorable, respective seek to stop or reduce an unfavorable, course of action
- Possibly to adjust action plans and budgets for the remaining periods of the budget year

The budget should - as well as accounting records - be divided in order to follow the organization's structure of responsibilities. In addition to the traditional division of class and any additional breakdowns such as function and/or projects.
2. Budget Purposes

The table below shows various purposes related to budgeting and aims related to follow up step by step. Focus as well on various purposes as on various aims may be considered more or less important depending on the circumstances. However, the action planning process - and the associated budgeting process being an economic assessment of the plan – is fundamental. The same goes for follow up as planning without follow up will be waste of time.

The need for coordination and delegation may differ according to the actual needs.
3. Budget Cycle

Seen in a time perspective the budget cycle is divided in three phases

1. A ex ante budgeting (planning and economic assessment) phase
2. An actual period where the budget is implemented as basis for a management and execution phase
3. An ex post Follow up phase

3.1 Planning and Budgeting

In the first phase, the planning and assessment take place based on expected assumptions.
This work ought to be documented according to a general budget guide – like this:

a. Main focus and actions  
b. Goals, objectives and targets  
c. Main assumptions  
d. Main comments to the budget  
e. Valuation of uncertainty in the budget

3.2 Implementation and Execution

Next phase is the phase, where the budget is implemented and actions take place based on the plan and budget.

3.3 Follow up on Plans and Budgets

In the third phase, follow up takes place. The expected assumptions are tested against actual assumptions, planned actions tested against actual actions, and expected economic assumptions tested against actual economic assumptions.

This periodical work also ought to be documented according to a general guide – something like this:

a. An explanation of the reasons to all main deviations  
b. An estimate of the consequences to the result for the remaining periods and for the total budget year  
c. Planned activities, which will take place to address respective encourage an unfavorable or beneficial situation
4. Budget Models

The budget models ought to be in accordance with the users needs. That often means that the budget models have to be tailor made.

Among others, the following questions have to be considered:

A. Which type of budgets
B. Structure
   a) Organization structure – concern, organization, division
   b) Responsibility structure
   c) Purpose structure:
      - Activity structure (product-market structure)
      - Cost structure
   d) Specification (account type)
C. Budget functionality
D. Follow up structure
E. Budget periods – part time periods, budget year, further years for long time budget
F. Aggregating levels for less specified simulations
G. Forecast possibilities
H. How to establish the models

4.1 Budget Frames

The following figure shows budget types adding up to total result balance and liquidity budgets.
4.2 Structure

The budget structure has to be in accordance with the accounting structure. However not necessarily detailed like the accountings specification.

4.3 Functionality

Possibilities to build in functional relations like

- Volume and price
- Price and/or volume index
- Cost variability
- Credit time, stock time
- Calculation of either how much to buy, stock size, production or amount of delivery
- Interests
- Depreciations
- Amortization

Moreover, other options ought to be taken into consideration.

4.4 Follow up

Budget data from the budget modules may be exported to accounting systems or the other way around. Pro or contra should be taken into consideration before deciding, which way to go.

4.5 Periods

Relevant expectations and thereby needs and purposes the various users have for the use of the budget model

- A budget for a year divided into sup periods
- Same plus possibility of manual prognosis on a yearly basis
- Same plus possibility of forecast

Ought to be considered before deciding how to do.
4.6 Sensibility (or Sensitivity) Analyse

Sensibility analyse are a technique used to determine how the value of off a single different assumption will influence the result - provided otherwise unchanged assumptions.

If the users want to use the models for simulations, it has to be decided which aggregating level of the models would be preferable basis for simulations.

Total sums for the underlying levels would have to be transformed to average input assumptions at the given level. This input then would do as basis for alternative changes of assumptions and calculations of their consequences. Most likely, the change of assumptions and calculations of consequences would be based on yearly budget periods.

4.7 Forecast

To forecast means to estimate or calculate something in advance – especially to predict the occurrence of future coming events and conditions.

There are different forecasting techniques, which can be divided in 3 main groups - qualitative methods, time series analysis and projections and casual methods.

If the users would like having the possibilities to calculate yearly forecasts, they have to be based on historical data and perhaps one or more budget years preferable for at least a total of 5 years.

Most likely a given aggregating level of the models will be preferred as basis for forecast.

Forecast could be based on various forecasting techniques.

If the result of a forecast is transformed to average input, these assumptions might be changed as basis for further alternative calculations.

Such a model might also be relevant for long range planning in connection with breaking down of strategic goals into tactical objectives and targets.
4.8 Development and Implementation of the Models

The trick is to take it step by step in a prioritized sequence and keep each step simple.

First step might be kind of a feasibility study with the purpose to map the different needs of the users.

Based on these needs a presentation of a first draft solution

Proposals for models adding up to a total budgeting system

A. A short draft description of the various models
   a) purpose
   b) input
   c) activity (calculations)
   d) output
   e) and relations between the models

B. A step by step plan for detailed planning, development, test, user documentation and implementation of the models

C. Estimation of expected time and other resources to build and implement a knock down version in spreadsheets’ of the system divided into steps

D. Proposals for involvement of staff during development, test and implementation of the system divided into steps

E. Emphasizing of the importance of user involvement all the way

F. Further activities