

# [Financial planning in an engineering business assignment](https://assignbuster.com/financial-planning-in-an-engineering-business-assignment/)

The Financial Planning process Starts with strategic planning. Various strategic sections have financial implications and therefore it is imperative that there is a strong correlation between strategic plan and budgeting. Strategic planning encompasses a process of establishing goals and objectives over short term as well as the long run. Strategic objectives and corresponding goals are developed based on a very thorough assessment of the organization and the external environment. Strategic plans are implemented by developing an Action Plan.

Financial Plans (Budgets) Operating Plan & THORN; Strategic Plan b Action Plan In this assignment we will study financial planning process in a hypothetical many (VALUELESS) manufacturing low cost sub E 50 Cell phones. VALUELESS will assemble various components parts to make cell phones. The company is incorporation with head office in London. CEO Dave who is also the Chief Finance Officer (SCOFF) heads the company. For this new hypothetical company VALUELESS market research is undertaken to analyses existing market conditions.

A PESTLE analysis, Porter’s five-force analysis and a SOOT analysis have already been conducted and now the CEO is preparing a detailed financial planning process for the company. Financial Planning Process: The financial plan starts with enlisting various items showing the capital costs and set up costs involved in the business. The list should include expenditure such as alterations to buildings, improvements, roads, planning and legal costs and equipment costs. This will help in determining how much capital is required to initiate the business and how the business can be funded.

It would also help to determine if any over draft or loans are needed. The Cash Flow Forecast The cash flow is a useful tool for reflecting potential sales and contains details of all the income and expenditure of the business over a fixed period of time. It is used to evaluate the timing of incoming and outgoing money. A cash flow forecast can be budgeted on a monthly, quarterly or yearly basis. As the first year is the most critical for any new business venture, the first year’s cash flow would typically be set out on a monthly basis.

The Sales Forecast Sales are the most important financial activity therefore; the Sales Forecast is made first in order to estimate sales. In order to arrive a reasonable sales forecast the past sales trend as well as various factors that influence sales are studied in details. Once all the relevant information has been collected and analyzed the finance manager can estimate sales volumes for the planning period. It is important that the estimates are correct and reasonable since this estimate will be used for several other estimates in the budgets. The Sales Forecast has to take into account what the firm is selling and at what sales price.

Following sales forecast are arrived at based on previous trends. Product Units sold Price Total Sales Cell Phones 16, 000 E 45. 00 E 720, 000 Percent of Sales Next step in the financial planning is to predict account changes because of estimated sales. One way to estimate and forecast certain account balances is tit the Percent of Sales Method. By looking at past account balances and past changes in sales, one can establish a percentage relationship. For example, all variable costs and most current assets and current liabilities will vary as sales change.