# Course Title: C.1.4.4 Financial Plan

# Abstract:

The goal of this class is to introduce students to the very basics of financial planning. The class should start with a general debate of the advantages and problems that come with plans. Afterwards, I suggest repeating some basic knowledge of cost/management accounting classes regarding the nature of costs, the budgeting process, break-even analysis and forecasting. This review can be found on the slides. The core of this class is a “learning by doing” exercise in which students should create a financial plan on their own. A respective video tutorial should guide the students. This class works well in a distance learning (online) context (this is what the video is for). If you are not that familiar with financial planning or you want to teach this class face to face, you can use the step-by-step process described in the video as a guide for your own teaching and walk the students step-by-step through the process.

# Learning Objectives:

# Students understand the importance of financial planning

# Students become aware that no plan is perfect and various assumptions and scenario planning is required

# With a hands-on exercise, students familiarise themselves with the problems in financial planning

# Assessment Method:

Financial planning exercise report

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Session # | Session Content | Method(s) | Learning Objectives of Session | Material | Time (mins.) | Comments |
| 1 | **Financial Plan** |  |  |  | **95** |  |
| Introductory discussion: “No plan is ever accurate, why do we need to plan at all?” | Class discussion | Understand the necessity of planning | PPT (Slides 3-4) | 15 |  |
| The nature of costs and break-even analysis: I usually take some random object I can find in the classroom (e.g. a chair or water bottle) and discuss types of costs that are needed to produce this specific object. I later let the students estimate the costs of this object and discuss the break-even analysis also based on this example | Slides and practical example | Differentiate between fixed and variable costs, as well as direct and indirect costs and their importance for financial planning | PPT (Slides 5-8) | 20 |  |
| Methods to deal with uncertainty: I extend the break-even analysis with three methods that help to deal with uncertainty in the planning process:   * Scenario Planning (in Excel) * Sensitivity Analysis (in Excel) * Monte Carlo Simulation (using Crystal Ball if available)   I usually use the same numbers that we developed with the students before. Instructions on how to use Excel are in the notes of the PPT. | Slides and practical example | Being able to apply basic methods that account for uncertainty in the planning process | PPT (Slides 9-12)  Excel  Crystal Ball (if available) | 15 | Note: This section does also fit later in this session (related to forecasting). However, I introduced it right in the beginning to add something to the break-even analysis that most students are already familiar with |
| Introduction to budgeting and the financial plan:   * The nature of a master budget and its sub-budgets * The importance of the marketing plan (incl. revenue budget as a starting point * The difference between pull marketing and push marketing and consequences for the budgeting process * The importance to differentiate between cash and profit   Basic information sources (benchmarking) | Slides | Understand the basics of financial planning  Understand budgeting as a firm spanning process | PPT (Slides 13-20) | 25 |  |
| Forecasting: Introduction of forecasting using  simple methods such as moving averages and OLS regression (incl. the integration of seasonal effects) are introduced using practical examples | Slides and practical example | Being able to apply basic methods for forecasting | PPT (Slides 21-24)  Excel (files attached) | 20 | The solutions for the exercises and an explanation how to solve them can be found in a separate Excel file. |
| 2 | **Self-study Exercise** | | | | **240** |  |
| Exercise: Create a financial plan for going abroad  The video file can be used for e-Learning purposes. Otherwise, the attached video is a helpful teaching note that gives a step-by-step introduction how to create a financial plan. Financial planning is best explained “on the job” and slides are only of limited help here. I strongly suggest relying on this practical exercise. The lecturer can create an individual financial plan using the video as a template and introduce the steps in class one by one. | Either explain the steps one-by-one in a guided exercise or use the video for self-directed e-Learning | Be able to forecast your financing needs on your own  (this is the core of this class) | PPT (Slides 25)  Video on financial planning (https://mediathek.htw-berlin.de/video/Financial-Plan/3cb438554742ba9761c60d64ff14a6ca)  Excel  Annual reports (attached)  Database access is helpful if available (Bloomberg, etc.) | 240 | 150min-350min(depending on potential shortcuts) |
| 1. Introduce scenario: (e.g. German consumer electronics retailer wants to enter Finland) I suggest a very simple scenario with a publicly-listed firm for better data access | | | | |
| 1. Brief introduction where to find information (Bloomberg, World Bank, comparable companies, etc.) | | | | |
| 1. How to budget revenues?    1. Explain why revenues first (relation of cost and revenues, push vs. pull, etc.)    2. Forecasting revenues       1. Subjective methods (ask marketing department, Delphi method, etc.)       2. Extrapolation of current results (e.g. regression analysis, weighted average, moving average)🡪 usually recommended, but tricky for internationalisation       3. Relation to economic indicators (of the industry, country, etc.)       4. Comparable country analysis | | | | |
| 1. How to budget the respective operating expenses    1. Explain the relation of EBIT(DA) to operating expenses and revenues    2. Emphasise that comparable information is needed (e.g. from current operations) | | | | |
| 1. How to budget net investments and replacement investments    1. Explain why depreciation is a solid indicator of re-investments    2. Forecast the needed net investments in fixed assets and working capital | | | | |
| 1. How to budget the income    1. Explain difficulties in forecasting the taxes    2. Explain the tax shield effect of interests | | | | |
| 1. How to calculate the financing needs and the cost of capital    1. Explain the difference between WACC before and after taxes    2. Explain the relation between financial accounting profits (EBIT, etc.) and cash flows | | | | |
| 1. Judge your current plan    1. What have been your underlying assumptions?    2. How accurate are your assumptions?    3. Which alternative scenarios should you calculate | | | | |