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Short note on profit planning

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DESCRIPTION

Profit planning is a set of actions taken to reach a target profit level. These actions involve the development of a set of linked budgets that are combined into the overall budget. The management team coordinates this set of budget information to reach the combination of actions required to reach the target profit level. The planning process may include a large amount of what-if analysis to see what the expected profits will be in different scenarios. This plan can cause operational and financial issues that need to be addressed. For example, you may need to increase staff in a particular area. This requires more office space and computer equipment. In addition, expanding your business may require more financing, either in the form of debt or capital. In particular, management needs to plan business bottlenecks that prevent sales growth.

Personal finance mainly deals with households, investments in personal savings, and the use of consumer credit. Individuals usually get a mortgage from a commercial bank or savings and loan association to buy a home, but they can get money from a bank or financial company to buy consumer goods (automobiles, home appliances). Checking accounts and credit cards are other important means for banks and businesses to provide consumers with short-term credit. If an individual needs to clear up their debt or borrow cash in an emergency, a small cash advance is available from a bank, credit union, or financial company.

The level and importance of public or government finances in Western countries has increased significantly. Because the nature of taxes, public spending, and government debt usually has a far greater impact on the economy of today's countries than it used to. Government fund spending in many different ways, the most important of which is taxes. However, the national budget is rarely balanced and the government has to borrow to cover the budget deficit, which leads to national debt. Most government debt consists of marketable securities issued by the government and requires specific payments to the holders of those securities at specific times. See government bonds.

Treasury managers also need to make overall forecasts of future capital needs in order to secure funds to fund new investment programs. The first step in creating such a forecast is to get a sales forecast for each year of the forecast period. This quote is made jointly by the marketing, production and finance departments. The marketing manager estimates the demand. The production manager estimates the capacity. The Treasury Manager estimates the availability of funds to fund new accounts receivable, inventory, and fixed assets. For the expected sales level, the finance manager estimates the funds available from the company's operations and compares that amount to the amount required to pay for new fixed assets (machinery, equipment, etc.).

If the growth rate exceeds 10% per year, the need for wealth is likely to exceed internal sources of funding, so you should plan to raise funds by issuing securities. Slow growth, on the other hand, will generate more money than is needed to support estimated revenue growth. In this case, the finance manager will consider several alternatives, such as increasing dividends to shareholders, paying off debt, using surplus funds to buy other companies, or increasing spending on R & D. An annual budget (or overall budget) is a comprehensive set of budgets that covers all aspects of a company's activities. It consists of several separate but interdependent households. We have developed a scheme for this budgeting process to clarify the interdependencies of the various individual budgets. The sales budget shows the expected sales for the budget period expressed in dollars and units. It is usually based on a company`s sales forecast. All other parts of the master budget are dependent on the sales budget. The production budget is prepared after the sales budget. It lists the number of units that must be produced during each budget period to meet sales needs and to provide for the desired ending inventory. Second, the production budget directly affects the budget for direct materials, direct labor, and manufacturing overhead. This allows you to create a final inventory budget for your finished product. Then combine these budgets with SG & A and SG & A data to determine your cash budget.

A cash budget is a detailed plan that shows how you can get and use cash over a period of time. All operating budgets affect the cash budget. The final step in the process is the creation of a planned income statement and a planned balance sheet. Top management must be enthusiastic and committed to the budget process otherwise nobody will take it seriously. Top management must not use the budget to pressure employees or blame them when something goes wrong. This breeds hostility and mistrust rather than cooperative and coordinated efforts. Highly achievable budget targets are usually preferred (rather than "stretch budget" targets) when managers are rewarded based on meeting budget targets.