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# Corporate Planning

## Loan, Increase, Interest

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## ASSIGNMENT OF TASKS

In the enterprise in the example given the existing bank loan is planned to be increased by the amount of 250,000 at the beginning of the business year. The interest rate for the additional loan is 5% annually and is debited against the existing bank account.

On the page following the next opening balance sheet, as well as profit plan, finance plan and budgeted balance sheet of the enterprise are presented before taking the above described business activity into consideration.

Based on the context of profit plan, finance plan and budgeted balance sheet the following numerical connections between profit plan, finance plan and budgeted balance sheet can be seen even before considering the activity presented above:

The depreciation included in the framework of the fixed costs of the profit plan has a negative effect on the profit of the enterprise. This effect is corrected with a positive mathematical sign in the finance plan as there is no payment in cash. For this reason, with a profit or loss of 0 in the profit plan, a surplus of cash amounting to 150,000 occurs simultaneously in the finance plan.

The depreciation of 150,000 which is presented in the finance plan reduces the value of the fixed assets in the budgeted balance sheet, the surplus of cash of 150,000 in the finance plan increases the bank account in the budgeted balance sheet.

Please, present in what way the increase of the loan and the interest payment for this additional loan affect profit plan, finance plan and budgeted balance sheet of the enterprise.

Should a profit arise it must be taxed with a tax rate on income of 30%. There are no taxes prepaid.

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## BASIC DATA

| Opening Balance Sheet | | | |
|---|---|---|---|
| Fixed assets | 900.000 | Equity | 500.000 |
| Inventories | 500.000 | Liabilities | 500.000 |
| Receivables | 500.000 | Bank loan | 1.500.000 |
| Bank account | 600.000 | | |
| **Assets** | **2.500.000** | **Equity and Liabilities** | **2.500.000** |

| Profit Plan | |
|---|---|
| **Turnover / Sales** | **5.000.000** |
| **Variable costs** | **-2.500.000** |
| **Contribution margin** | **2.500.000** |
| **Fixed costs** | **-2.500.000** |
| Personnel | -1.500.000 |
| Depreciation | -150.000 |
| Other costs | -750.000 |
| Interest | -100.000 |
| **Profit / Loss before tax** | **0** |
| Tax | 0 |
| **Profit / Loss after tax** | **0** |

| Finance Plan | | |
|---|---|---|
| **Profit / Loss after tax** | **0** | |
| Depreciation | 150.000 | ← |
| Provision | 0 | |
| Tax provision | 0 | |
| Receivables | 0 | |
| Liabilities | 0 | |
| Inventories | 0 | |
| Investments | 0 | |
| Bank loan | 0 | |
| Dividend | 0 | |
| **Surplus / Demand** | **150.000** | ← |

| | Budgeted Balance Sheet | | | | |
|---|---|---|---|---|---|
| | Fixed assets | 900.000 | | Equity | 500.000 |
| → | Depreciation | -150.000 | 750.000 | Liabilities | 500.000 |
| | Inventories | 500.000 | | Bank loan | 1.500.000 |
| | Receivables | 500.000 | | | |
| | Bank account | 600.000 | | | |
| → | Surplus / Demand | 150.000 | 750.000 | | |
| | **Assets** | **2.500.000** | | **Equity and Liabilities** | **2.500.000** |

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## ANSWER FORM

| Opening Balance Sheet | | | |
|---|---|---|---|
| Fixed assets | 900.000 | Equity | 500.000 |
| Inventories | 500.000 | Liabilities | 500.000 |
| Receivables | 500.000 | Bank loan | 1.500.000 |
| Bank account | 600.000 | | |
| **Assets** | **2.500.000** | **Equity and Liabilities** | **2.500.000** |

| Profit Plan | |
|---|---|
| **Turnover / Sales** | |
| **Variable costs** | |
| **Contribution margin** | |
| **Fixed costs** | |
| Personnel | |
| Depreciation | |
| Other costs | |
| Interest | |
| **Profit / Loss before tax** | |
| Tax | |
| **Profit / Loss after tax** | |

| Finance Plan | |
|---|---|
| **Profit / Loss after tax** | |
| Depreciation | |
| Provision | |
| Tax provision | |
| Receivables | |
| Liabilities | |
| Inventories | |
| Investments | |
| Bank loan | |
| Dividend | |
| **Surplus / Demand** | |

| Budgeted Balance Sheet | | | |
|---|---|---|---|
| Fixed assets | | Equity | |
| Inventories | | Liabilities | |
| Receivables | | Bank loan | |
| Bank account | | | |
| **Assets** | | **Equity and Liabilities** | |

## ANSWER KEY STEP 1-4/4

| Opening Balance Sheet | | | |
|---|---|---|---|
| Fixed assets | 900.000 | Equity | 500.000 |
| Inventories | 500.000 | Liabilities | 500.000 |
| Receivables | 500.000 | Bank loan | 1.500.000 |
| Bank account | 600.000 | | |
| **Assets** | **2.500.000** | **Equity and Liabilities** | **2.500.000** |

| | Profit Plan | | |
|---|---|---|---|
| | **Turnover / Sales** | **5.000.000** | |
| | **Variable costs** | **-2.500.000** | |
| | **Contribution margin** | **2.500.000** | |
| | **Fixed costs** | **-2.512.500** | |
| | Personnel | -1.500.000 | |
| | Depreciation | -150.000 | |
| | Other costs | -750.000 | |
| | Interest | -100.000 | |
| 2 ➔ | Interest bank loan | -12.500 | -112.500 |
| 3 ➔ | **Profit / Loss before tax** | **-12.500** | |
| | Tax | 0 | |
| 3 ➔ | **Profit / Loss after tax** | **-12.500** | |

| Finance Plan | | | |
|---|---|---|---|
| **Profit / Loss after tax** | **-12.500** | | 🡐 3 |
| Depreciation | 150.000 | | 🡐 |
| Provision | 0 | | |
| Tax provision | 0 | | |
| Receivables | 0 | | |
| Liabilities | 0 | | |
| Inventories | 0 | | |
| Investments | 0 | | |
| Bank loan | 0 | | |
| Bank loan | 250.000 | 250.000 | 🡐 1 |
| Dividend | 0 | | |
| **Surplus / Demand** | **387.500** | | 🡐 4 |

| | Budgeted Balance Sheet | | | | | | |
|---|---|---|---|---|---|---|---|
| | Fixed assets | 900.000 | | Equity | 500.000 | | |
| ➔ | Depreciation | -150.000 | 750.000 | Profit / Loss after tax | -12.500 | 487.500 | 🡐 3 |
| | Inventories | 500.000 | | Liabilities | 500.000 | | |
| | Receivables | 500.000 | | Bank loan | 1.500.000 | | |
| | Bank account | 600.000 | | Bank loan | 250.000 | 1.750.000 | 🡐 1 |
| 4 ➔ | Surplus / Demand | 387.500 | 987.500 | | | | |
| | **Assets** | **2.737.500** | | **Equity and Liabilities** | **2.737.500** | | |

**Data**

| | |
|---|---|
| **Bank loan** | 250.000 |
| Interest rate | 5% |
| Interest | 12.500 |

## ANNOTATION TO THE ANSWER KEY

The increase of the loan by 250,000 improves the liquidity in the finance plan of the enterprise. (step 1)

The interest rate for the additional credit amounts to 5% annually. 5% multiplied by the additional credit balance of 250,000 results in an additional interest expense of 12,500.

Due to the additional interest amount of 12,500 the fixed costs rise by 12,500 in the profit plan. (step 2)

As the profit plan in the example given is based on the assumption of a profit or loss of 0 the increased fixed costs result in a loss amounting to 12,500. This loss of 12,500 which was compiled in the profit plan forms also the new basis for the finance plan. (step 3)

By the loss of 12,500 which forms the basis for the finance plan (see step 3), by the existing depreciation of 150,000 (see assignment of tasks) and the increase of the loan by 250,000 (see step 1) a surplus of cash of 387,500 arises as the result of the finance plan. (step 4)

All changing values of the finance plan are incorporated into the budgeted balance sheet:

The raising of the loan of 250,000 increases the existing bank loan in the budgeted balance sheet. (step1)

The existing depreciation of 150,000 (see basic data) reduces the fixed assets in the budgeted balance sheet.

The loss of 12,500 which was transfered from the profit plan to the finance plan reduces the equity in the budgeted balance sheet. (step 3)

The surplus of cash of 387,500 as the result of the finance plan increases the bank account in the budgeted balance sheet. (step 4)