

STRATEGIC FINANCIAL PLANNING AND FORECASTING



PLAN-TO-PERFORM
BLUEPRINT

A WEB BASED PLANNING PROCESS
FOR INCOME STATEMENT,
BALANCE SHEET AND CASH FLOW

VERSION 1.0

EXECUTIVE SUMMARY

Solution map

This application brief demonstrates a web-based planning process for managing Income Statement, Balance Sheet and Cash Flow projections using Cognos Enterprise Planning. Integrated Financial Statements are the cornerstone of the planning process and are fed by other planning modules enabling financial analysts to validate the bottom up plans against the strategic objectives of the corporation. The models and processes described in this document are generic for manufacturing industries in the US, but can be configured to support the complexity of Integrated Financial Statements model requirements for any industry in any country.



OVERVIEW

Throughout the corporation during the planning cycle there will be models supporting different types of planning processes such as sales planning, head-count planning and capital planning. These models are designed to collect data at the micro level. Integrated Financial Statements is the macro level model consolidating and analyzing the results of the micro planning processes. At a corporate level the results of the planning process should be validated against the strategic objectives of the corporation and provide predictability into the long range plan.

MODEL OBJECTIVES

The Integrated Financial Statement blue print achieves a number of planning objectives:

1. Connects operational plans to the financial statements
2. Flow
3. Provides the basis for the strategic
4. Validates bottom up plans against strategic objectives

KEY BENEFITS OF THE COGNOS ENTERPRISE PLANNING SOLUTION:

- Flexible model development using Cognos Analyst to support Integrated Financial Statement modeling
- Web based deployment of models for data collection and consolidation
- Real-time workflow
- Real-time consolidation;
- Real-time calculations in the browser for immediate results
- Scalable architecture with proven deployments to thousands of line managers
- Linking functionality to provide collaboration between all areas of the corporation
- Capability to perform form-based planning with selection boxes to drive application logic and calculations

STEPS

- The financial analyst first looks at the overall financial position of the corporation by examining the income statement, balance sheet and financial summary ratios;
- The financial analyst makes adjustments to the income statement such as increasing sales and/or reducing expenses to improve the financial position;
- The financial analyst can further impact the financial position of the corporation through the flow mechanism such as reducing days sales outstanding, days inventory outstanding etc.

INCOME STATEMENT

The Income Statement is fed by bottom-up plans developed in other blue prints e.g. sales blue print. The Financial Analyst can compare these bottom-up plans to actual data, his current forecast and his previous forecast. By using the client loader extension the Financial Analyst can easily transfer data from the current forecast to the previous forecast and create a new current forecast.

Sample Income Statement View

	Jan	Feb	Mar	Q1
Sales	257,168	263,441	269,713	790,323
Cost of sales				
Raw Materials	83,973	86,022	88,070	258,065
Labor	62,980	64,516	66,052	193,548
Total Cost of Sales	146,953	150,538	154,122	451,613
Gross margin	110,215	112,903	115,591	338,710
Gross Margin %	42.86%	42.86%	42.86%	42.86%
Depreciation and amortization	54,645	54,645	54,645	163,934
Selling expenses	11,475	11,475	11,475	34,426
Administrative expenses	17,213	17,213	17,213	51,639
Total operating expenses	83,333	83,333	83,333	250,000
Profit from operations	26,882	29,570	32,258	88,710
Interest expense	8,333	8,333	8,333	25,000
Net income before taxes	18,548	21,237	23,925	63,710
Provision for income taxes	16,667	16,667	16,667	50,000
Net income	1,882	4,570	7,258	13,710
Earnings per share				
Basic				\$0.69
Diluted				\$0.65

FLOW

The Flow tab links the Income Statement to the Balance Sheet and the Cash Flow (Direct Method). It enables the Financial Analyst to modify targets such as 'Days sales outstanding' either by changing the metric directly, changing the 'Accounts receivable - end of period' balance or the 'Receipts from customers' figure. Changes made here will automatically be reflected in the Balance Sheet and Cash Flow (Direct Method) tabs and the Financial Analyst can immediately see the changed financial position of the company.

Sample Flow View

Income Statement Balance Sheet Flow Cash Flow (Direct Method) Cash Flow (Indirect Method) Financial				
2003				
ABC Inc.				
Actual				
	Jan	Feb	Mar	
FLOW - OPERATING OPERATIVES				
Accounts receivable				
Accounts receivable - beginning of period	300,000	375,442	425,806	
Sales	257,168	263,441	269,713	
Net Sales	257,168	263,441	269,713	
Receipts from customers	(181,726)	(213,077)	(301,763)	
Accounts receivable - end of period	375,442	425,806	393,757	
Days sales outstanding	45	45	45	
Inventory				
Raw materials inventory - beginning of period	130,000	187,721	212,903	
Raw materials consumed	(83,973)	(86,022)	(88,070)	
Raw materials purchased	141,694	111,204	72,045	
Raw materials inventory - end of period	187,721	212,903	196,878	
Days raw materials outstanding	69	69	69	
Accounts payable				
Accounts payable - beginning of period	200,000	177,649	146,923	
Purchases	141,694	111,204	72,045	
Payments to suppliers	(164,045)	(141,930)	(143,790)	
Accounts payable - end of period	177,649	146,923	75,177	
Days purchases outstanding	39	37	32	
Accrued expenses				
Accrued expenses - beginning of period	15,000	43,689	72,377	
Selling Expenses	11,475	11,475	11,475	
Administrative Expenses	17,213	17,213	17,213	
Accrued expenses paid				
Accrued expenses - end of period	43,689	72,377	101,066	

BALANCE SHEET

The Financial Analyst can see the new financial position of the corporation and can repeat the process if not satisfied with the result. Once the Financial Analyst is satisfied new targets can be given to the various operations of the corporation e.g. increase sales by X%, reduce expenses by X%, reduce days sales outstanding to X days and so on.

Sample Balance Sheet View

Income Statement Balance Sheet Flow Cash Flow (Direct Method) Cash Flow (Indirect Method) Final				
2003				
ABC Inc.				
Balance				
	Dec-PY	Jan	Feb	Mar
Assets:				
Cash and cash equivalents	500,000	453,859	461,852	559,298
Accounts receivable	300,000	375,442	425,806	393,757
Inventories	130,000	187,721	212,903	196,878
Property, plant and equipment - cost	5,000,000			
Accumulated depreciation	(75,000)	(54,645)	(109,290)	(163,934)
Property, plant and equipment - net	4,925,000	(54,645)	(109,290)	(163,934)
Total assets	5,855,000	962,378	991,272	985,998
Liabilities:				
Accounts payable	200,000	177,649	146,923	75,177
Accrued labor costs	11,000	10,158	11,521	17,046
Accrued expenses	15,000	43,689	72,377	101,066
Interest payable	5,000	8,333	16,667	25,000
Income taxes payable	900,000	16,667	33,333	50,000

CASH FLOW (DIRECT METHOD)

Income Statement Balance Sheet Flow Cash Flow (Direct Method) Cash Flow (Indirect Method)				
2003 ABC Inc. Actual				
	Jan	Feb	Mar	
Cash flows from operating activities:				
Cash received from customers	181,726	213,077	301,763	
Cash paid to suppliers and employees	(227,867)	(205,084)	(204,318)	
Interest paid (net of amount capitalized)				
Income taxes paid				
Net cash from/(used in) operating activities	(46,141)	7,993	97,446	
Cash flows from investing activities:				
Capital expenditures				
Net cash from/(used in) investing activities				
Cash flows from financing activities:				
Net borrowings under line of credit agreement				
Net proceeds issuance/repayment of long term debt				
Proceeds from issuance of common stock				
Net cash from/(used in) financing activities				
Net increase/(decrease) in cash and equivalents	(46,141)	7,993	97,446	

CASH FLOW (INDIRECT METHOD)

Income Statement Balance Sheet Flow Cash Flow (Direct Method) Cash Flow (Indirect Method) F				
2003 ABC Inc. Actual				
	Jan	Feb	Mar	
Cash flows from operating activities:				
Net income	1,882	4,570	7,258	
Adjustments to net income:				
Depreciation and amortization	54,645	54,645	54,645	
Change in assets and liabilities:				
(Increase)/decrease in receivables	(75,442)	(50,364)	32,050	
(Increase)/decrease in inventory	(57,721)	(25,182)	16,025	
Increase/(decrease) in payables	(22,351)	(30,726)	(71,746)	
Increase/(decrease) in accrued expenses	27,847	30,051	34,214	
Increase/(decrease) in income taxes payable	(883,333)	16,667	16,667	
Increase/(decrease) in interest payable	3,333	8,333	8,333	
Increase/(decrease) in deferred taxes payable				
Total adjustments	(953,023)	3,423	90,187	
Net cash provided by operating activities	(951,141)	7,993	97,446	
Cash flows from investing activities:				
Capital expenditures				
Net cash from/(used in) investing activities				

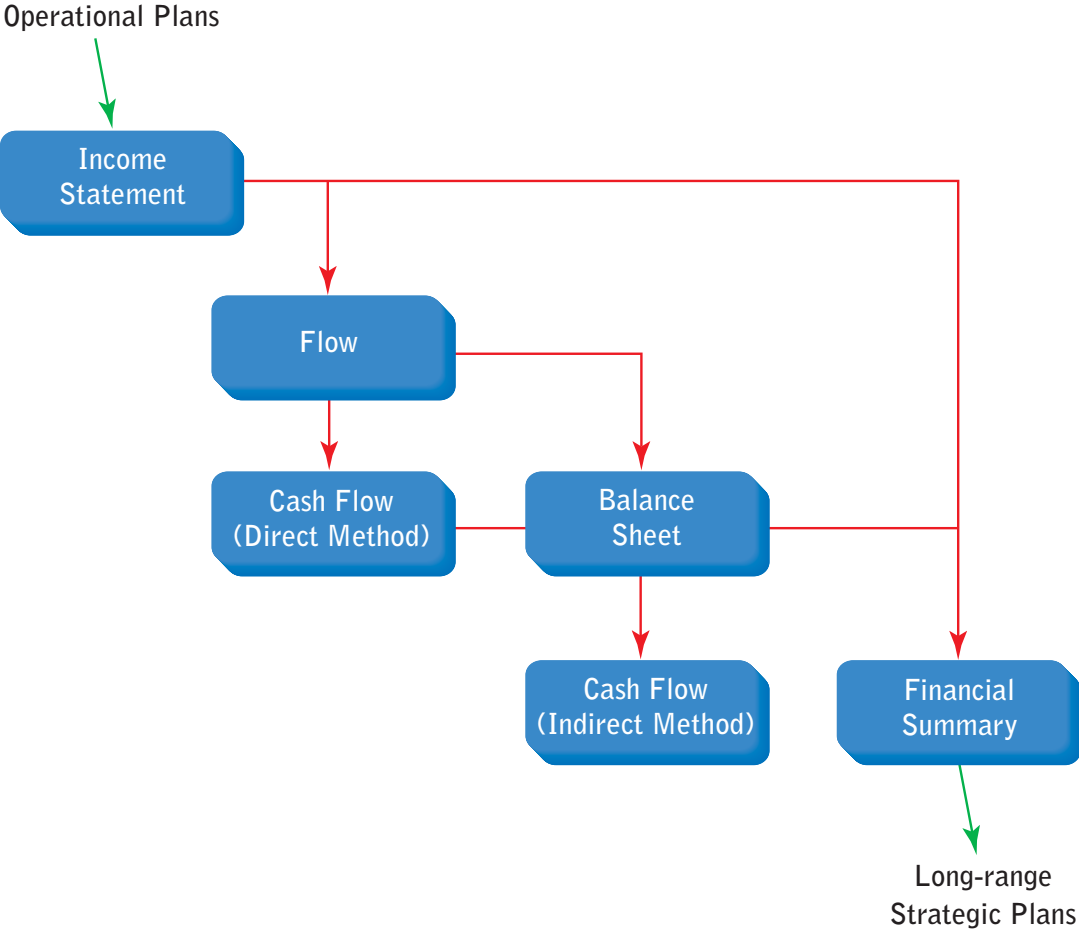
Both the direct and indirect methods of cash flow reporting are supported.

FINANCIAL SUMMARY

The Financial Summary tab enables the Financial Analyst to see the impact of the changes on key ratios.

Income Statement Balance Sheet Flow Cash Flow (Direct Method) Cash Flow (Indirect Method) Financial Su					
2003					
ABC Inc.					
Actual					
	Q1	Q2	Q3	Q4	Total Year
Earnings Per Share:					
Basic	0.69	1.90	3.10	4.31	10.00
Diluted	0.65	1.80	2.96	4.11	9.52
Revenue Growth		7.14%	6.67%	6.25%	
Gross Margin	338,709.68	362,903.23	387,096.77	411,290.32	1,500,000.00
Gross Margin %	42.86%	42.86%	42.86%	42.86%	42.86%
Net Income Growth		63.83%	38.96%	28.04%	100.00%
Current Ratio	4.29	3.25	3.00	2.95	2.95
Quick Ratio	3.55	2.80	2.65	2.65	2.65
Net Working Capital Ratio	0.49	0.52	0.57	0.64	0.64
Return on Assets	1.40%	3.28%	4.52%	5.33%	15.58%
Return on Equity	4.46%	11.24%	15.88%	18.38%	53.09%
Profit Margin	1.73%	4.48%	6.88%	8.99%	5.71%
Assets Turnover Ratio	0.81	0.73	0.66	0.59	2.73

FLOWCHART



**ABOUT THE COGNOS INNOVATION CENTER
FOR PERFORMANCE MANAGEMENT**

The Cognos Innovation Center is dedicated to transforming routine performance management practices into "next practices" that help cut costs, minimize risk, streamline processes, boost productivity, enable rapid response to opportunity, and increase management visibility.



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