



## BUDGETTING

- Methodology
- Case

### Why bother

- Quantify scenaria *Get yourself an overview*
- Quantify perspectives *Get people involved*
- Determine cash requirements *Get your venture funded -*
- Cashflow management *- and managed*  
by budget supervision

<sup>1</sup> DTU Management Engineering,  
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## BUDGETTING PROCEDURE

*Precondition for budgetting:*

### Business model finalized

- Market penetration scenaria outlined -> **sample**
- Company operations scenaria determined
- Budgets on transactions<sup>1</sup> in sales and production
- Budget on transactions in company operations =>  
**CASHFLOW BUDGET version 1.0**

<sup>1</sup>) Transaction = money being moved in or out of the company's bank account

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## CASHFLOW BUDGET

### CFIMITYM

*Cash Flow Is More Important Than Your Mother (Ken Morse, MIT)*

- **Input:**  
ALL estimated in- and outgoing payments in a time domain
- **Output:**  
The total amount of cash flowing in and out in the time domain => The net amount of cash flowing in/out  
=> *Accumulated cash flow = **Cash in Hand** as a function of time*

*Cash ind hand **NEVER** negative:  
that defines your capital requirements!  
Inject capital until this precondition is met at any given time*

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## Cash Flow Budgeting -> Capital Requirements



### SALES and PRODUCTION

Outgoing payments to cover production and incoming payments from sales are derived from:

- Unit costs
- Market potentials
- Market penetration in the time domain

### MARKETING and OPERATIONS

Outgoing payments to run the company are derived from

- Sales & Marketing expenditures
- Rent, running costs, salaries
- IPR, R&D expenditures
- Capital expenditures

Add all outgoing (+) and incoming (-) payments determine cashflow ( $Q$  [DKK/month]) and cash-in-hand ( $\sum Q$  [DKK]).

Adjust with appropriate cash injections (*loan, equity capital*) to create a positive cash-in-hand throughout the project

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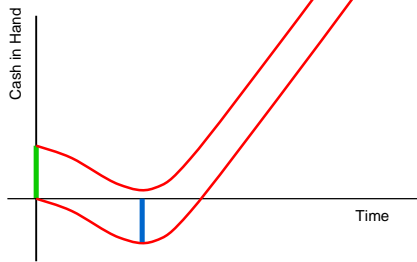
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## Cash Flow Budgeting



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## Budget on Profit & Loss

Precondition: the cashflow budget



- Covers an extended period eg.: 1 year = Annual results
- Objectives: analysis, perspectives, key figures, profitability
- Consequences:
  - Trim your business
  - Benchmarking against your competitors' performance
  - Benchmarking against your own previous performance
  - Sanity check – with key-figures and common sense
  - Quantify returns on investments => VC case? Y/N.

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**Budget on Assets & Liabilities - 1**

- **Assets = Values owned by the company**
- **Liabilities = How are said values financed**
- **Assets** = outstanding amounts owed to the company, cash, IPR, goodwill , buildings, cars, production facilities - - - depreciated to value as per to day.
- **Liabilities** = invested capital, accumulated profit/loss, outstanding amounts owed by the company
- **Invested equity capital + cumulated profit/loss = equity capital**

**Budget on Assets & Liabilities is the last to complete**

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**Budget on Assets and Liabilities - 2**

**Objectives:**

- Determine value creation
- Present financing
- Keep track of development in debtors and creditors
- Check minimum legal equity

**Consequence:**

- **Solvency = capacity to withstand losses is determined**
- **The development of values over time is quantified**
- **The proficiency in running a tight payment policy is demonstrated**
- In DK: legal minimum equity capital is checked

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**the waterbike**



Sample

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