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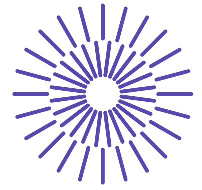

New Opportunities for the Development of Education at the Technical University of Liberec

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Learning materials

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CZECH RECOVERY PLAN

MINISTRY OF EDUCATION, YOUTH AND SPORTS

8 Financial Planning (Long-term, Short-term)

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Financial planning is a formal decision-making process concerning the forms of financing (obtaining of finance), investing financial resources into assets (capital budgeting) and cash flow management. The financial plan is an integral part of a company's management and, in addition, it is a tool used in financial management. (Ross, Westerfield a Jaffe, 2010, s. 59)

Financial planning is oriented towards financial management. It is closely interconnected with the principle of long-term investing, although short-term plans that are derived from long-term plans are also established.

Financial plans are part of long-term business plans. Financial plans incorporate all components of business plans. These components are in accordance with a company's major business objectives and secure its financial stability. A financial plan verifies the feasibility and success of all other parts of the business plan.

The basis for financial planning is investment decisions and long-term financing. Investments are a basic factor in every company that change with profit levels and influence how a company finances its operations. The form of financing is very important because it can significantly influence a company's bottom line.

There are no strict rules for financial planning. The form of the financial plan should comply with the form of the company's financial statements (balance sheet, income statement and cash flow statement). Accounting and financial planning are closely interconnected. Financial accounting is a basis for financial analysis and, therefore, financial plans are connected to financial accounting. A financial plan is usually not created as a simple sum of detailed items on the bottom-up principle but, rather on the top-down principle, which means deriving it from the most important items of all figures. Planning is choosing from amongst the alternative possibilities of a company's future activities. It is a decision about whom, when and in which way a certain activity will be performed.

The basis for financial planning is the long-term financial plan that strikes a balance between long-term needs and long-term resources. The objectives of the long-term financial plan are reflected in the annual financial plan. The short-term financial plan together with budgets forms the basis for a company's short-term financial management.

The planning process varies depending on the size and structure of a company, its line of business, economic environment, etc. Before starting the planning process, it has to be clear what should be planned and which outputs are required. Planning is usually considered a basic or beginning function of a company's management.

Financial planning can be defined as a set of activities whose output is a forecast of the future effects of a company's financial and investment decisions, i.e. the financial plan.

Financial planning contains:

- setting the financial objectives of a company;
- a feasibility study of strategic business objectives;
- analysing deviations between the actual and planned status; this analysis should also include an identification of the interrelationships between the individual parts of a company;
- a set of measures needed for obtaining objectives;
- identification of all options that lead to achieving objectives; this should assure overall effectiveness and the increase the company's market value.

A crucial factor for classifying planning activities is the time horizon. Plans are prepared for different time periods and they are divided into **short-term** (sometimes called operative or annual plans) and **long-term** (often called business or strategic plans).

Short-term financial plans are connected with a time horizon lasting from several months to a year. These plans are focused on normal business activities, such as cash flow planning and obtaining short-term financing to secure the company's liquidity. Long-term planning is connected with a time horizon lasting from two to five or even more years. Its aim is to plan the needs of financial resources several years ahead.

Financial planning is based on the following theses: (Grünwald and Holečková, 2009, p. 111-115) (Grünwald and Holečková, 2006, p. 133-135)

1. The financial objective – its aim is to set a target that shall be achieved to improve the current situation.

2. Earnings before taxes – the operative goal of a company is mostly net profit; this profit should not be simply derived from revenues but it should include expenses of all business activities.

3. Diminishing financial risk – financial planning prevents possible unexpected situations so that it projects the results of current decisions into the future.

4. The long-term nature of financial planning – the most profitable results are achieved in the long run and, therefore, financial planning forecasts the future for the time horizon between 3 and 5 years or even more.

5. A financial plan is part of the long-term business plan –all components of the business plan related to the main objective of a company are embodied in the financial plan; the financial plan verifies the feasibility of all parts of the business plan.

6. A financial plan is set with the help of the rolling principle – a long-term financial plan includes the financial plan for the next period, which is prepared in greater detail; after the end of the current year, the long-term plan is reworked so that the previous year is shown as the first year and a forecast for an additional year is added so that there is a constant number of periods.

7. A financial plan is relatively autonomous – it respects the chosen financial policy and it is based on the actual situation of business financing and the forecasted development of the external company environment; a financial plan is not prescriptive because it can be changed based on management's decisions.

8. The basis for financial planning is investment decisions and long-term financing –a company's profit is mostly influenced by investment projects that have extensive costs and whose return lasts several years; how investments are financed influences the future development of a company (the regular payment of loans, dividend payments); long-term financing is connected with the status of fixed assets and working capital.

9. The structure and form of the financial plan respects the structure and form of financial statements – a financial plan is prepared like planned financial statements (pro-forma statements); these planned financial statements are used for monitoring financial phenomena that occur during the implementation of the plan.

10. Cash flow is in the spotlight of long-term planning – the cash flow statement complements the balance sheet; it consists of three parts: cash flow from operating, investing and financing activities; cash flows are reflected in the planned balance sheet and in the planned income statement by the planning process.

11. Financial planning uses the most transparent calculations – these calculations are based on principles and the logic of the relationships between input values; the financial plan is created using the top-down principle, but budgets are created the other way round, using the bottom-up principle.

12. The cash flow embodied in the long-term plan is based on the following three documents:

a) The sales forecast (revenue plan), which is essential for assessing the future development of profit, if the profit is linked to the volume of sales

b) The forecast of investment expenses, which includes expenses for both replacement and development investments

c) The external financing budget, which provides information about the repayment of long-term debts; it also provides information about the dates and volume of needed external financial sources (equity or long- term loans or bonds).

13. The financial plan is evaluated with the help of a financial analysis – financial analysts use various ratios to evaluate the financial health of a company ex ante or ex post.

14. Inflation expected during the planning period is not taken into account; by preparing a long-term financial plan current prices are used (prices from the year that is before the first year of the planning period).

8.1 Basic principles used in financial planning

In preparing financial plans, the following key principles have to be respected: (Marek, 2009, p. 501)

- **A systematic approach** means that the plan is implemented according to a certain methods and it is prepared in a written form (formalization). In addition, the basic goal is systematically followed.
- **Completeness** means that the financial plan should include all of company's activities.
- **Harmonization** means that all parts of the plan have to be timely coordinated.
- **Clarity** means that everybody who uses the financial plan is able to quickly find the information needed.
- The plan is prepared by **those managers** who will be responsible for its implementation.
- **Periodicity** means that the plan is prepared in regular and consecutive periods.
- **Flexibility** means the possibility of revising the plan according to changed external and internal conditions to keep the plan up to date.
- **Slipperiness** expresses a state when the planning horizon of the new plan partly overlaps the planning horizon of the previous plan. (see figure 6.1)
- Planning is a **yearlong activity** that is connected with a permanent control.

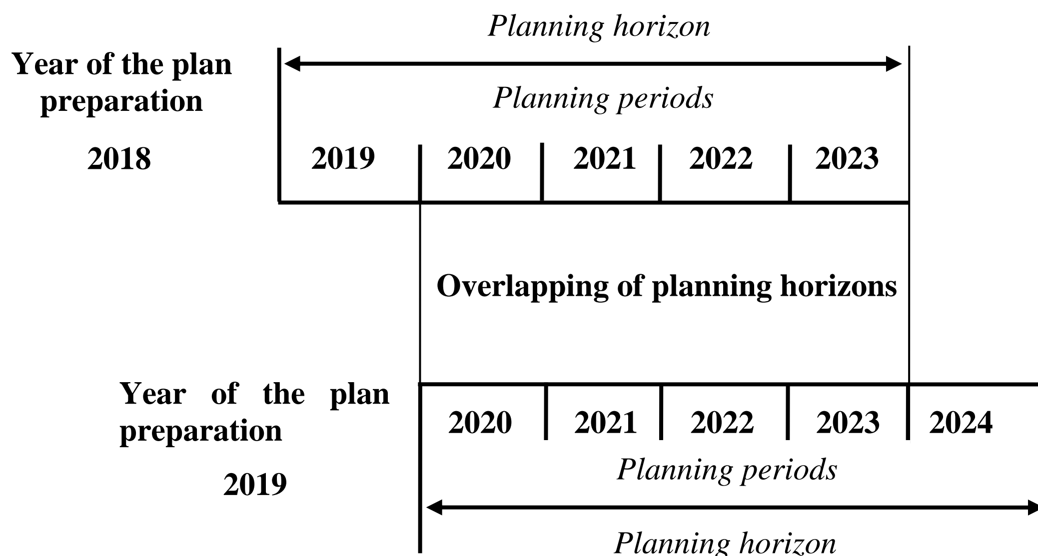

Figure 8.1 Slipperiness principles by preparation of long-term plans.
Source: Marek, P., Studijní průvodce financemi podniku, p. 502.

In literature, the key principles are mentioned under the abbreviation SMART, with each letter indicating one word that describes a certain feature that a plan should have: (Žůrková, 2007, p. 24)

- *Specific* – a plan should contain all outputs in a certain form, quality, level of detail, informative value etc. according to the requests of the company's owners.

- *Measurable* – a plan should be expressed in measurable units (financial); it should be comparable with actual amounts of the current period.
- *Attainable* – every employee should know the target values and these values have to be attainable and motivating.
- *Realistic* – a plan has to comply with a company's current market situation and thus it has to respect both internal and external conditions
- *Tangible* – a plan should reflect the tangible actions and measures implemented in the individual areas of a company's activities. (purchasing, manufacturing, marketing etc.)

In addition to these measures the financial plan should respect the principles of ***time coordination*** (time horizon) and ***space coordination*** (level of aggregation) (Marek, 2009, p. 502).

Time coordination is the coordination of short-term and long-term financial planning. The short-term plan includes information about planned investments, the distribution of profit and obtaining long-term financing that is embodied in the long-term plan.

According to the time horizon, the following two levels can be distinguished:

a) long-term financial planning
- it is used for a time horizon lasting from 1 to 5 years;
- some companies set plans for even 10 or more years;
- the decisions taken have a long-term character and they have to be made long before their actual implementation;
- the task of financial planning is to forecast the need of financial resources for financing both fixed and current assets several years ahead.

b) short-term financial planning
- it is used for a time horizon lasting up to one year;
- it is related to the current business activity and it is mostly focused on cash flow planning and obtaining short-term external financing in order to secure the company's liquidity;
- a company must be assured that:
  - it has a sufficient amount of cash,
  - it is able to pay its liabilities,
  - the loans granted to it are as efficient as they can be.

It is generally true that the shorter the planning period, the greater level of certainty and accuracy is achieved. The time horizon of the financial plan is influenced by the length of the planning period, the tools and methods used and the financial resources used for covering the company's needs.

Space coordination is used for summarizing the individual partial economic plans of every business unit into one big comprehensive plan for the whole company. The first step is preparing a sales plan, from which a production plan is derived. The production plan is the basis for creating the individual plans of partial production or supplementary departments. It is also used in the preparation of investments, personnel, R&D, quality

management, maintenance and ecological plans. Time and space coordination is shown in figure 6.2.

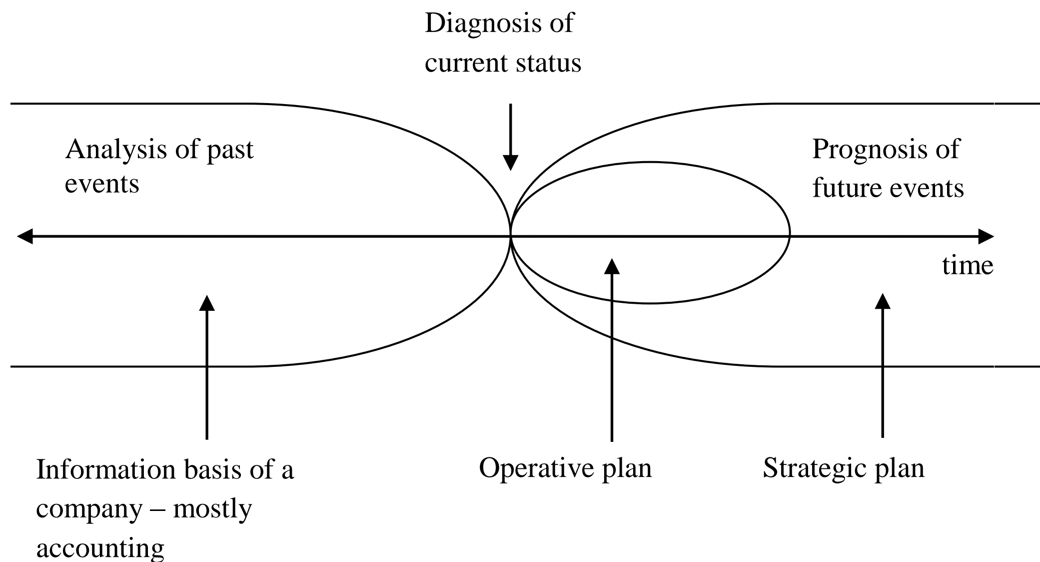

Figure 8.2 Space and time coordination
Source: Mikovcová, H., Controlling v praxi, p. 112.

Another essential condition for the successful preparation of a financial plan is sufficient motivation by the managers of the individual departments and centres when preparing the input documentation.

8.1.1 Preparation of a financial plan

The preparation of a financial plan is a specific process. This process consists of the following steps: (Marek, 2009, p.504)

- choosing the planning method;
- determination of the planning horizon (short-term, medium-term, long-term);
- determination of the length of one planning period (one year, one month etc.);
- securing data collection from accounting, other economic plans, macroeconomic prognoses and other sources;
- carrying out a financial analysis and evaluating the informative value of calculated financial ratios (analysing the financial health of a company in the past);
- drawing conclusions from the results of the analysis made in the previous step;
- detection of the strengths and weaknesses of a company;
- preparation of the financial plan;
- control of the financial plan.

Planning is connected with certain advantages for a company's management. It is necessary not to separate the planning process from the management function because this can cause an increase in bureaucracy. (Grünwald and Holečková, 2006, p. 119)

A company's strategic plan is its general intent for either a medium- or long-term period. Therefore, it should be available in an appropriate extent and form to every employee in the company. It is necessary that every employee understands what his or her company wants to achieve. This will strengthen the motivation of employees and their active participation by achieving set goals. Because of these reasons, a strategic plan has a formalized structure: introduction, prognosis, goals, strategy and policies, plans of divisions and departments and a personnel and financial plan. (Grünwald and Holečková, 2006. p. 120)

The introduction creates a link between future and past plans. It evaluates previous periods, past results and the company's strengths and weaknesses. The causes of a company's weaknesses have to be identified.

The *prognosis of external* factors is the basis for the new planning period. It is a forecast of economic, political, social and technological development as well as development of the competitive environment.

Goals are specified both in quantitative and qualitative terms.

Strategy and policies determine how to achieve goals in individual business areas. They determine the milestones for controlling achieved goals for the given period.

Plans of divisions and departments contain factual goals that are specified for a certain type of production or product. These plans create the basis for creating the personnel and financial plans.

The personnel plan determines the size and structure of a company's staff. It also contains requalification programs, the recruitment of new employees and deals with redundant jobs.

The financial plan is an integral part of a company's strategic plan. It transforms inputs, conversion and outputs into money units.

8.2 Long-term financial planning

A long-term financial plan is an integral part of a strategic business plan. In addition to the financial area, a company has to plan other areas that are closely interconnected. (see figure 6.3)

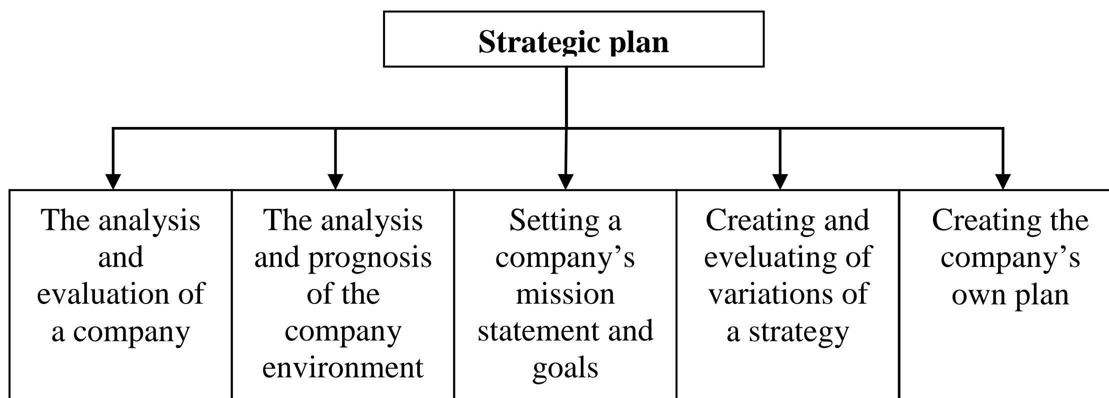

Figure 8.3 Components of the strategic plan
Source: Růčková, P., Finanční analýza: metody, ukazatele, využití v praxi , p. 91.

The creation of the strategic plan is connected with the analysis of the following areas:

a) The analysis and evaluation of a company
b) The analysis and prognosis of the company environment
c) Setting a company's mission statement and goals
d) Creating and evaluating variations of a strategy
e) Creation the company's own plan

a) The analysis and evaluation of a company

It is necessary to evaluate information that characterizes individual areas of a company's business activities (e.g. production, selling products and R&D). It is an analysis that is focused on the following areas: (Růčková, 2011, p. 91)

- the analysis of company resources;
- the analysis of the production program;
- an evaluation of the company's financial health;
- an analysis of a company's strength and weaknesses.

b) Analysis and prognosis of the company environment

This component of a strategic plan is based on the assumption that a company is operating in a competitive environment. Therefore, it is necessary to evaluate the company's market position. The company environment is very changeable and the frequency it changes has been recently increasing. An analysis of the company environment is focused on a company's analysis of macro- and microenvironment.

The analysis of the macroenvironment is focused on legislative and economic changes (tax system, protection of the environment, etc.). It is further focused on the technological environment (scientific and technological development), the forecasted international political and economic development (the creation of new integration groupings, identification of sources of political instability in certain regions), and the development of financial markets. The **SLEPT** analysis is used to analyse essential and real opportunities, as well as threats resulting from the company environment. In practice, this means focusing on social, legislative, economic, political and technological areas.

The analysis of the microenvironment is especially focused on the characteristics of the market on which a company is operating. This analysis is especially focused on: (Růčková, 2011, p. 92)

- the analysis of the market situation and its development (analysis of market opportunities and entry barriers to markets, determining factors that influence demand, etc.),
- the analysis of factors influencing the market position (thorough the analysis of current competitors, identification of potential competitors and evaluating threats resulting from potential substitution of products),
- the availability and price development of raw materials and the energy market (possible increase in prices).

c) Setting a company's mission statement and goals

The mission statement is the top target of all company goals and it usually expresses the reason for the company's existence. More detailed information is given in chapter 5.1 Company's management and planning.

d) Creating and evaluating variations of a strategy

The business strategy is a way for a company to achieve strategic goals. More detailed information is given in chapter 5.1 Company's management and planning.

e) Creating the company's plan

A long-term (strategic) plan is prepared for a time horizon that is longer than one year. Long-term plans are usually prepared for a time period of 5 years. This period can be even longer if it is connected with a company's investment plan or with the requirements of banks through the application for a loan.

The length of the period for which a plan is set depends on a company's size and production program. Small companies usually prepare plans for shorter periods, if they have any plan at all. The bigger the company, the longer the planning period they have (e.g. large multinational companies plan for a period of 10 or 15 years).

The structure of the strategic plan reflects individual functional strategies that are projected into individual partial plans as is shown in figure 6.4.

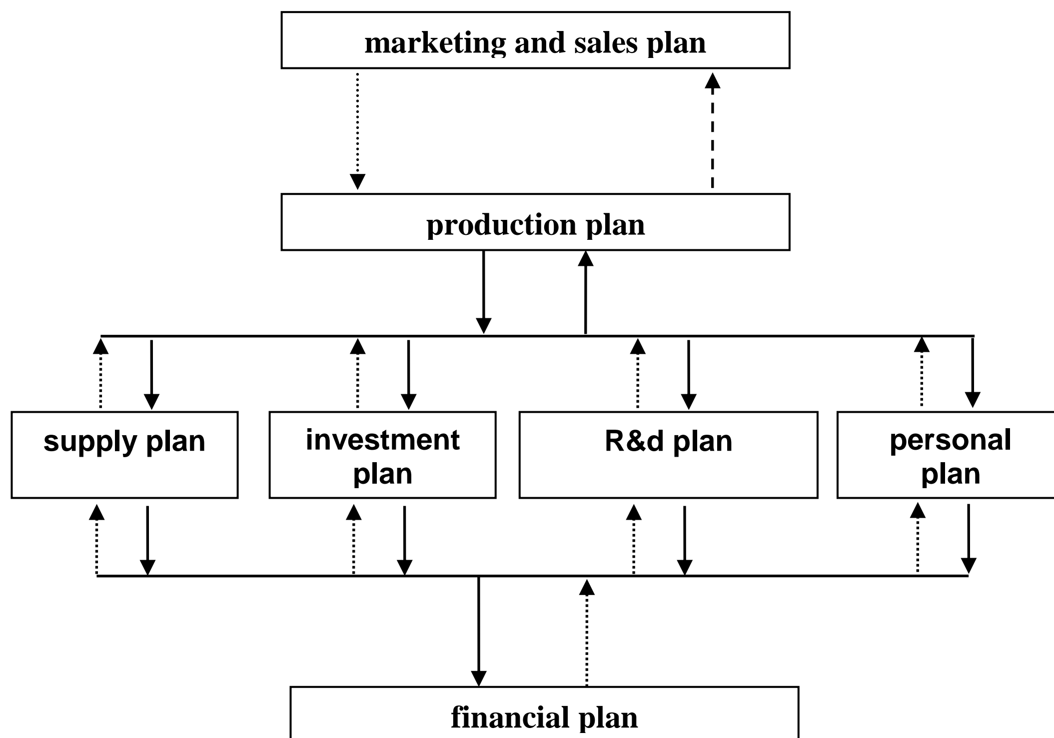

Figure 8.4 Interconnection of individual partial plans in a company
Source: Ručková, Finanční analýza: metody, ukazatele, využití v praxi, p. 96.

A marketing and sales plan creates the basis for the whole system of financial planning. This plan includes the volume of sales of individual products, forecasted sale

prices, distribution channels and other activities connected with sales promotion. The marketing and sales plan is the basis for calculating revenues, which are a key item in the income statement. The planned level of sales has to be covered by production. Therefore, the marketing and sales plan has to be interconnected with the **production plan.** The production plan has to secure input data for the supply plan (obtaining necessary raw materials, semi-products, energy, services, etc.), the investment plan (specifying the maintenance and expansion of production and the technical base and introducing new technology into the production process), the R&D plan (inventing new products, technology, product innovations, etc.) and the personnel plan (securing human resources in a sufficient quantity and quality). All this is covered in the **financial plan,** which plans the financial cover for the other plans. When preparing a financial plan, qualitative input data are needed and the result of the plan has to be set. The result of the plan can be:

- the amount of cash at the end of each planning period,
- the increase in bank loans to cover a lack of cash (assuming no problems with getting a loan),
- changes in the amount of certain type of assets (e.g. marketable securities), etc.

8.2.1 The main outputs of the long-term financial plan

The main outputs of a long-term financial plan are:

- **The planned income statement,** which contains a calculation of a certain level of company profit (earnings before taxes, earnings after taxes etc.); first, according to the data in the sales plan, the revenues are calculated; then individual types of expenses are forecasted; these expenses are deducted from the planned revenues; the planned values can be expressed both in absolute and relative amounts;
- **The planned balance sheet,** which contains individual items of assets, liabilities and equity; the amount of fixed assets is planned according to the investment plan; the value of current assets is estimated according to the supply plan and the planned amount of trade receivables and payables; the amount of equity is dependent on profit and its redistribution; the planned liabilities reflect the estimated amounts of provisions, loans and other liabilities;
- **Planned profit distribution** deals with the distribution of profit achieved in the previous period; more detailed information is given in the section that is focused on internal financial resources;
- **The planned calculation of income taxes** is based on the planned income statement on earnings before taxes; this result has to be adjusted to the tax base (the reduction of expenses and revenues that are not recognised as tax deductible and other tax deductions such as tax loss, donations etc.). The planned income tax is calculated using the estimated tax rate for the next planning period.
- **Planned cash flow statements** are prepared in a simplified form; they are based on the planned income statement, planned balance sheet, planned profit distribution and the calculation of income taxes;

8.3 The short-term financial plan

The short-term financial plan is prepared for a time period not longer than one year. It specifies the intentions for the given year in the long-term plan. The short-term plan should update the long-term financial plan, not insist on the planned values or measures contained in the original long-term financial plan.

Similarly to the long-term financial plan, the short-term financial plan has the following basic outputs: a planned balance sheet, a planned income statement and a planned cash flow statement. A short-term cash flow statement is prepared for two reasons:

- it secures a company's everyday solvency;
- it should identify the surplus or lack of financial resources; as individual payments are monitored, this plan is also called as the payment schedule.

The short-term planned cash flow statement is usually prepared in the three following planning horizons: (Marek, 2009, p. 511)

- The first planning horizon lasts 14 day or one month. Daily cash inflows and outflows are monitored. This time horizon usually corresponds with the maturity of trade receivables and payables (it can be found from invoices received or issued). This plan is updated every day.
- The second planning horizon lasts three or six months. Weekly or monthly cash inflows and outflows are monitored. This plan is updated weekly or monthly.
- The third planning horizon lasts one year. Monthly or quarterly cash inflows and outflows are monitored. This plan is updated monthly or quarterly.

<u>An annual financial plan has the following characteristics: </u>(Grünwald and Holečková, 2006, p. 133-135)

1) The planned period follows the period for which certain data are not known - the final results of the current year are not known when the financial plan is prepared and, therefore, the deviations from the previous financial plan and its causes have to be carefully monitored.
2) The shorter the planning period, the smaller risk of prognostic errors - several variants of plans can be prepared but the most probable version is chosen.
3) The planned profit is limited by the production potential, which does not change very much in the short run - the current production capacity and product range limit revenues. The technology used determines production expenses.
4) Planning of revenues, expenses and profit - planned revenues are calculated according to anticipated sales and changes in the product range, market structure or exchange rates. The expenses in this plan are classified into direct and indirect types.
5) The main aim of the plan is securing short-term liquidity - in the short term, the factual plans give more comprehensive estimates of cash inflows and outflows. Therefore, the direct method preparing the cash flow statement can be used. Possible problems concerning cash flows should be identified and corrective measures proposed.
6) In an annual financial plan, the three following steps can be distinguished -first, the income statement is prepared according to the plan of revenues, expenses and profit (expenses in this plan are classified into direct and indirect types). Secondly, a cash flow statement is prepared. It is based on the planned income statement and on the budget of cash inflows and outflows. The investment plan and plan of external

financing should be also reflected. Lastly, a planned balance sheet which includes planned changes in financial resources should be prepared.
7) An annual financial plan includes tactical goals and not tasks - the basic goals are dependent on the company's current financial health. First, the very existence of the company has to be secured. This means securing short-term liquidity and then long-term solvency. After that, the requirements of banks, suppliers, customers and investors should be reflected. The last step is securing the optimal capital appreciation that allows annual dividend payments.

From the above mentioned statements, every company formulates different goals. A company struggling for survival has more immediate goals than being successful. In a normal operating company the following goals are set:

- turnover targets (the most important targets because if these targets are achieved, other targets will also be achieved;
- profit targets (setting targets of total profit);
- targets securing liquidity (formulation of additional conditions).

The fulfilment of the quarterly or monthly financial plan is controlled with the help of financial statements that are prepared each month for the company's purposes. (Růčková, 2011, p. 99)

8.3.1 The structure of an annual financial plan

The basic information needed for preparing a financial plan is obtained from the estimated reality of the previous period. The information obtained from financial statements creates the basis for preparing the financial plan. The annual financial plan is prepared as an extrapolation of the estimated reality from the previous period with regard to expected changes in expenses and revenues. The annual financial plan includes the following basic documents:

a) Plan of revenues, expenses and profit.
b) Plan of short-term liquidity.
c) Plan of the property and financial structure

a) Plan of revenues, expenses and profit

The plan of revenues, expenses and profit is actually a planned income statement. Revenues and expenses are calculated within both financial planning and budgeting.

Revenues are planned based on anticipated sales and the company's market share. The amount of revenue is influenced by the following factors:

- the sales structure according to individual products,
- changes in prices,
- modifications of discounts and rebates,
- changes in exchange rates by export,
- anticipated development of demand based on prices, discounts, etc.

Within planning, ***expenses*** are classified as variable (they develop the same way as revenue) and fixed (they change by intentional interventions regarding factors that cause these expenses). The course of variable expenses is fundamentally linear to the amount

of revenues but in certain situations the course can be over- or under-proportional. If the company output is close to its production capacity, the costs of exceeding the full employment of a company can arise (overtime hours etc.) and sometimes even new employees has to be recruited or new machinery purchased. In these cases variable expenses can be progressive.

b) A short-term liquidity plan

The main objective of a short-term financial plan is securing liquidity for a one-year time horizon. The key areas of short-term financial planning are connected with working capital (current assets and short-term liabilities). The annual financial plan is a tool for managing current assets and short-term capital.

A pre-condition for permanent solvency is the favourable proportion of total cash inflows and outflows in the planning period, especially in individual partial periods. In addition, it has to be guaranteed that the fluctuations in cash inflows and outflows will not cause payment difficulties. (Grünwald and Holečková, 2006, p. 143)

The basis for managing short-term liquidity is a systematic refilling of working capital within the long-term financial plan. The planning of liquidity is based on the cash flow statement. In preparing the cash flow statement the indirect method is not recommended because many cash inflows and outflows are not specified (e.g. payments from customers). The planning of liquidity is based on the direct method, which is based on the following steps:

Cash at the beginning of the year

+ planned cash inflows (operating – revenues; investing - the sale of assets; financing – interest receivable)
- planned cash outflows (operating – wages, material consumption; investing – the purchase of investments; financing – interest payable, insurance).

= Cash at the end of the year

The difference between planned cash inflows and outflows has to be solved:

- if there is a lack of cash, the company has to obtain additional cash inflows or decrease or defer cash outflows (e.g. the sale of redundant assets, obtaining a loan, the sale of trade receivables to a factoring company, the use of sale-lease-back, increase in paid-in capital and loans to equity holders).
- if there is a surplus of cash, the company can choose various options to invest this surplus. For example, securities can be purchased. Because it is only a short-term investment of cash, these securities should have high liquidity (e.g. treasury bills).

Similarly to the sales plan and production plan, the budget of cash inflows and outflows is prepared for individual months or even shorter time periods. Aggregating the monthly plans creates the annual plan budget of cash inflows and outflows. Between the moment when a certain phenomenon influences the production of goods and the moment when it subsequently influences cash inflows and outflows, a certain time lag can occur. This may cause alternating periods when a company has a lack or a surplus of cash, in other words, periods when a company repays or obtains external financing. (Marek, 2009, p. 512)

c) A property and financial structure plan

The planning of revenues, expenses and profit leads to the preparation of an income statement, which provides input data for the plan of cash flows. In preparing the plan of cash flows, information about changes in assets and liabilities has to be obtained. A planned balance sheet is prepared simultaneously with the plan of cash flows because each change of active or passive items is reflected in the amounts at the end of the period. For this reason all three parts of the annual financial plan are interconnected and cannot be prepared separately.

To obtain the actual amount of current assets the following things have to be considered: the needed amount of inventories, estimates of the real maturity of trade receivables, reflection of the amount of redundant inventories and risky trade receivables. Each asset has to be financed and it is connected with financial costs that have to be as low as possible.

Longer lasting problems concerning cash flows can change into financial distress which will change both the financial structure and operating activities. To prevent financial distress, a company should focus within the planning process on the following activities: removing unprofitable activities, the sale of activities with insufficient revenues or high investments, the sale of redundant assets, etc. The goal is to focus on core activities to improve the company's performance. (Grünwald and Holečková, 2006, p. 146)

Summary

Financial planning can be characterized by a vast amount of definitions such as a set of activities whose result is forecasting of the future effects of financial and investing decisions of a company, i.e. the financial plan.

The most crucial factor for classifying planning activities is a time horizon. Plans are prepared for different time periods and they are divided into **short-term** (sometimes called operative or annual plans) and **long-term** (often called business or strategic plans).

Short-term financial plans are connected with a time horizon lasting from several months to a year. These plans are focused on normal business activities such as cash flow planning and obtaining short-term financing to secure the liquidity of a company. Long-term planning is connected with a time horizon lasting from two to five or more years. The aim of long-term planning is to plan the need of financial resources several years ahead.

In preparing a financial plan, certain basic principles should be respected as well as ***time coordination*** (time horizon) and ***space coordination*** (the level of aggregation).

A long-term financial plan is an integral part of a strategic business plan. In addition to finances, a company has to plan other areas that are closely interconnected. The creation of a strategic plan is connected with the analyses of the following areas: the analysis and evaluation of the company, the analysis and prognosis of the company environment, setting the company's mission statement and goals, creating and evaluating of variations strategies and creation the company's own plan. The main outputs of a long-term financial plan are: a planned income statement, a planned balance sheet, a planned profit distribution and a planned calculation of income taxes.

A short-term financial plan is prepared for a time period lasting not longer than one year. It specifies the intentions for the given year in the long-term plan. A short-term plan updates the long-term financial plan as opposed to rigidly insisting on the planned values or measures contained in the original long-term financial plan. An annual financial plan has the following characteristics: the planned period follows a period for which certain data are not known, the shorter the planning period, the smaller the risk of prognostic errors, planned profit is limited by the production potential which is hardly changeable in the short term and it plans revenues, expenses and profit. Its main aim is secure short-term liquidity. An annual financial plan includes tactical goals and not tasks.

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