CHARTA LEARNING · INTERVIEW PREPARATION

Planning, Budgeting and Forecasting

Interview preparation summary · FP track

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INT.FP.1.a · Budgets

Compare a top-down target with a bottom-up budget, size the gap between them and explain how a finance team closes it.

A top-down budget starts from the board or executive team: a revenue and profit target set from strategy, market growth and what investors expect. A bottom-up budget starts from the people who run the business: sales teams, plant managers and department heads each submit what they expect to deliver and spend, and finance adds it up. Neither is right alone: top-down targets can ignore capacity, while bottom-up submissions are often cautious because managers will be measured against them. The finance job is to compare the two, size the gap in revenue and in profit, and run a structured negotiation: which part of the gap can be closed by stretching volume or price, which by cost action, and which by changing the target. The budget calendar typically runs assumptions, submissions, review rounds, then approval. Interviewers look for the gap worked in numbers, flow-through at contribution margin rather than revenue, and the point that a gap closed only on paper is a risk. The usual mistake is to treat the gap as one number to split evenly.

WORKED EXAMPLE: HARROWGATE BIKES: A 150.0M TARGET AGAINST A 140.0M BOTTOM-UP BUDGET

Harrowgate Bikes is an invented bicycle maker. The board target for next year is revenue of 150.0m and operating profit of 15.0m. Regional submissions are UK 62.0m, Europe 48.0m and North America 30.0m of revenue, with a combined operating profit of 11.2m. Typical contribution margin on extra sales is 38%. Figures are in GBP m and ignore tax. Size the gap and suggest how to close it.

Answer: The gap is 10.0m of revenue and 3.8m of profit. Accepting 5.0m of revenue stretch closes 1.9m of profit and leaves 1.9m, about 1.5% of costs, to find through named cost actions or an agreed change to the target.

> **Interview tip:** Say it in order: size the gap in revenue and profit, convert revenue to profit at contribution margin, split the gap between stretch and cost with owners, and say what you would escalate if the plan cannot close it.

INT.FP.1.b · Budgets

Build a driver-based budget from operating drivers and explain when zero-based budgeting is a better tool than an incremental one.

A driver-based budget builds revenue and cost from the operating quantities that cause them: sites, visits per site, price per visit, units per machine hour, sales reps and their productivity. Because each line is a driver times a rate, the budget can be flexed quickly when an assumption changes, and managers can be questioned on the driver rather than on a lump sum. This differs from an incremental budget, which takes last year and adds or subtracts a percentage. It is quick, but it carries forward old inefficiencies. Zero-based budgeting asks every cost to be justified from nothing each cycle, which suits discretionary areas such as marketing, travel or central support, though it takes effort and is rarely applied to every line every year. A strong answer names the drivers, separates volume, price and cost per unit, checks the history behind each driver, and tests sensitivity: which assumption moves profit most. The usual mistakes are too many drivers, drivers that finance cannot observe, and presenting a precise-looking number that rests on one weak assumption.

WORKED EXAMPLE: MARLOW CARE CLINICS: REVENUE AND CONTRIBUTION FROM VISIT DRIVERS

Marlow Care Clinics is an invented chain of physiotherapy clinics. It has 24 mature clinics, each expecting 130 visits per week over 48 trading weeks at an average fee of 62 per visit. Two new clinics open for the last 24 trading weeks of the year at 60% of the mature visit rate. Variable cost (clinician sessional pay and consumables) is 21 per visit. Build revenue and contribution, then test a 5% change in visits at the mature clinics. Ignore tax and fixed costs.

Answer: Revenue is 9.52m on 153,504 visits, with contribution of 6.29m. Each 5% in mature visits is worth about 0.46m of revenue, so visit rate is the driver to test first.

> **Interview tip:** Say the driver tree out loud, number of sites times visits times fee, then name the one assumption you would challenge and how you would check it against last year's actuals.

INT.FP.1.c · Budgets

Plan headcount and capital spending in a budget, separating in-year cost from run-rate and cash from profit, and explain how targets and incentives shape behaviour.

Headcount is usually the largest cost in a budget, so it is planned by role: current people, planned hires with start dates, leavers and vacancy gaps, pay awards and on-costs such as employer pension and social charges. The key distinction is in-year cost against run-rate. A hire starting in October costs a quarter of a year in this budget but a full year in the next, so a budget can look comfortable while the following year carries a step up. Capital spending is planned as cash by project and timing, then flows to the income statement as depreciation over the asset life, so the cash and profit effects differ. Targets and incentives matter because people respond to how they are measured. A budget that sets a bonus on beating a submitted number rewards low submissions, often called sandbagging, while a target set without ownership invites gaming. Good practice separates the forecast of what is likely from the target of what is wanted. Candidates should show the arithmetic and mention the following year.

WORKED EXAMPLE: DUNMERE LOGISTICS: HIRES AND VEHICLES, IN-YEAR AGAINST RUN-RATE

Dunmere Logistics is an invented haulage firm. Next year's plan has 6 drivers starting 1 April at a salary of 38,000, 4 warehouse staff starting 1 July at 34,000 and 2 analysts starting 1 October at 45,000. On-costs add 22% to salary. The firm also buys 6 vehicles at 90,000 each on 1 April, depreciated on a straight line over 6 years with no residual value. Calculate the in-year cost, the run-rate and the vehicle effects.

Answer: Payroll costs 319,030 in the year but 553,880 at run-rate, so the next budget starts 234,850 higher. The vehicles take 540,000 of cash but only 67,500 of this year's profit.

> **Interview tip:** Always give both numbers, the in-year figure and the full-year figure, and add that the profit and cash effects of capital spending differ.

INT.FP.2.a · Forecasts

Explain how a rolling forecast differs from the annual budget and measure forecast accuracy and bias.

The annual budget is fixed once approved: it is the target and the yardstick for performance. A rolling forecast is refreshed regularly, for example each month or quarter, and always looks a fixed period ahead, such as the next 12 months or the next five quarters. Its purpose is a current view of what is likely, which supports decisions on hiring, spend and cash. Practice varies, and many firms keep both. Forecast quality is measured in two ways. Accuracy is how far forecasts miss, often shown as mean absolute percentage error, where each miss counts regardless of its direction. Bias is whether the misses lean one way, shown by the average signed error. Two forecasters can have the same accuracy yet one is unbiased and the other consistently high, which signals sandbagging in reverse or optimism. Bias is usually the more fixable problem, because it points to a behaviour or an assumption rather than to noise. Interviewers like to hear both measures named, calculated and interpreted.

WORKED EXAMPLE: QUILLON COMPONENTS: TWO REGIONS WITH THE SAME ACCURACY BUT DIFFERENT BIAS

Quillon Components is an invented parts maker. Monthly revenue actuals for six months, in GBP m, were 8.4, 8.9, 9.6, 9.1, 10.2 and 9.8. Region A's forecasts made one month ahead were 9.0, 9.4, 9.9, 9.8, 10.9 and 10.3. Region B's were 8.0, 9.3, 9.2, 9.7, 9.7 and 10.3. Work out each region's mean absolute percentage error and bias, and say what they mean. Error is forecast minus actual.

Answer: Region A has an error of 5.9% and a bias of +5.9%: it is consistently optimistic. Region B has an error of 5.0% and a bias of +0.4%: its misses are noise. Region A needs a challenge on its assumptions, Region B needs better inputs.

> **Interview tip:** Say that accuracy tells you how big the misses are and bias tells you which way they lean, then say what you would do differently for each.

INT.FP.2.b · Forecasts

Forecast revenue from volume, price and mix, and split a revenue change into those three effects.

Revenue is price times volume summed over products, customers or channels, so a revenue forecast should state its assumption on each. Volume is the number of units sold, price is the average selling price for a like-for-like unit including discounts, and mix is the effect of selling more of the higher-priced or lower-priced products within the total. A common

method is to set the volume effect as the change in total units at last year's average price, the mix effect as the shift in the product shares valued at last year's product prices, and the price effect as the change in price on this year's units. The three add to the total change. Mix matters because total volume can rise while average price per unit falls, and because margins differ by product. Interviewers ask this to see whether you can break one number into causes that different managers own. State your convention, check that the effects add up, and say which one you would challenge first.

WORKED EXAMPLE: KESTREL FOODS: FORECASTING NEXT YEAR'S REVENUE GROWTH BY PRICE, VOLUME AND MIX

Kestrel Foods is an invented snack maker with two products. This year Product A sells 100 thousand units at 5.00 and Product B sells 60 thousand units at 12.00. Next year's forecast is Product A 104 thousand units at 5.15 and Product B 66 thousand units at 12.30. Split the change in revenue into volume, mix and price effects.

Answer: Revenue rises 127.4 thousand, or 10.4%: volume 76.25, favourable mix 15.75 and price 35.4 thousand. Most of the growth is volume, and the faster growth of the dearer Product B adds a useful mix gain.

> **Interview tip:** State the convention, give the three effects, show they add to the total and say which assumption you would test first, usually volume.

INT.FP.2.c · Forecasts

Run sensitivity and scenario analysis on a forecast and communicate a forecast change clearly to non-finance leaders.

A single-point forecast hides uncertainty. Sensitivity analysis changes one assumption at a time, such as price, volume or input cost, and shows how much profit moves, which tells leaders where to focus. Scenario analysis changes several assumptions together into a coherent story, typically a base, a downside and an upside, and shows the range of outcomes. Operating leverage explains why the answers differ by driver: price changes usually fall almost entirely into profit, volume changes fall in at contribution margin, and a cost rate change hits profit directly. Communication matters as much as the arithmetic. When a forecast changes, a good finance partner leads with the new number against the old one, bridges the change into a few causes in plain words, says what is certain and what is judgement, gives the range, and names the trigger that would move it again. Avoid burying the message in detail, avoid false precision, and avoid hiding a bad number in an appendix.

WORKED EXAMPLE: BRANNOCK TOOLS: SENSITIVITY AND SCENARIOS AROUND A PROFIT FORECAST OF 20.0M

Brannock Tools is an invented tool maker. The base forecast has revenue of 200.0m, variable costs of 110.0m and fixed costs of 70.0m, so operating profit is 20.0m. Calculate the profit effect of a 1% change in price, in volume and in the variable cost rate. Then build a downside (volume down 5%, price flat, input cost per unit up 3%) and an upside (volume up 3%, price up 1%, input cost flat). Ignore tax; fixed costs do not change.

Answer: Per 1%, price is worth 2.0m, volume 0.9m and variable cost 1.1m. The downside gives profit of 12.4m and the upside 24.8m, around a base of 20.0m. The message to leaders is the range, the skew and the two assumptions to watch.

> **Interview tip:** Give the base, the range and the single assumption that matters most, then say what you would watch and when you would update the forecast.

Summary of the Charta interview-preparation topic. Companies and figures in the examples are invented. Draft content, not yet expert reviewed.