



VARZA SCHOOL · THE FOUNDATIONAL 100

Budgeting and Forecasting: Targets, Assumptions, Cash Plans, Scenarios, and Rolling Forecasts

Chapter 69 · Track 7 — Cost, Pricing, Planning, and Management Decisions

THE QUESTION IT ANSWERS

How can an organization preserve accountability to an approved plan while updating expectations when reality changes?

CONCEPTS DEFINED

Budget · Forecast · Scenario · Sensitivity analysis · Rolling forecast · Variance · Cash flow · Accountability

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Varza promise: clear enough for a first-time learner, exact enough for a professional conversation, and practical enough to support a real decision.

Why this chapter matters

This track converts cost information into management choices. It separates cost behavior, traces resources to products and services, tests plans against actual performance, and shows how price and capacity decisions shape contribution and profit.

Central question: How can an organization preserve accountability to an approved plan while updating expectations when reality changes?

Budget expresses authorized intent; forecast expresses current expectation; scenario explores coherent possibilities. Keeping them separate allows management to learn from variance without pretending the original target was never set or forcing an outdated plan onto new facts.

Varza approaches the subject from life to ledger and from ledger to decision. We begin with what actually happened, identify the rights, obligations, resources, timing, and uncertainty, and only then choose the correct term, calculation, document, or account. This order protects the learner from a common error: learning a label without understanding the economic reality that the label is supposed to describe.

Learning outcomes

- Define and distinguish budget in plain and professional language.
- Define and distinguish forecast in plain and professional language.
- Define and distinguish scenario in plain and professional language.
- Define and distinguish sensitivity analysis in plain and professional language.
- Apply the concepts to a numerical case and explain the result rather than only calculate it.
- Identify evidence, workflow, controls, and Varza entities required for reliable use.
- Recognize when jurisdiction-specific or licensed professional advice is required.

The Varza mental model

A financial concept becomes decision-ready when six questions have answers: **what, who, when, how much, based on what evidence**, and **under which assumption or rule**. A seventh question—**what should happen next**—turns knowledge into management.

This chapter uses internationally recognized terminology, but it remains jurisdiction-neutral unless explicitly stated. Accounting standards, tax rules, contract law, consumer protection, labor requirements, and investment regulation can produce different legal outcomes in different countries. The global foundation gives the learner a stable map; local collections must add the binding rules.

Core concepts

1. Budget

Working definition. Budget is an approved quantitative plan for income, spending, resources, and financing over a defined period.

A budget is a decision before the event, not a punishment after it. The concept should be measured at the smallest level that still supports a real action.

Simple example. A household allocates monthly income among essentials, debt, savings, and discretionary use.

Decision test. What is being measured, and what has been left outside the boundary? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

2. Forecast

Working definition. Forecast is a current estimate of what is likely to happen based on evidence, assumptions, and recent information.

Budgets express intention; forecasts express expectation. Both should coexist. The number alone is not enough; its definition determines whether comparisons are valid.

Simple example. A business may keep its annual sales budget but lower its rolling forecast after demand weakens.

Decision test. When did the underlying right, obligation, benefit, or sacrifice arise? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

3. Scenario

Working definition. Scenario is a coherent set of assumptions describing a possible future state and its financial and operational consequences.

A scenario is not just one number changed. Demand, price, currency, capacity, collection, and management response may interact. This is where operational activity and financial reporting meet.

Simple example. A downside scenario combines 15% lower sales, slower collection, and higher imported material cost.

Decision test. Which document or observation would allow another person to verify it? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

4. Sensitivity analysis

Working definition. Sensitivity analysis is the examination of how an output changes when one or more assumptions change.

Use sensitivity to find decision-critical variables and thresholds. It does not assign probability unless probability is modeled separately. In Varza language, the concept becomes useful when it changes a decision.

Simple example. The project value is recalculated across discount rates and sales volumes.

Decision test. How would a different assumption change the result? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

5. Rolling forecast

Working definition. Rolling forecast is a forecast updated at regular intervals while extending the planning horizon by an equivalent period.

It keeps attention on the next decision horizon rather than forcing reality into an outdated annual snapshot. The professional term matters because it prevents two different realities from being recorded as though they were the same.

Simple example. Each month the company forecasts the next twelve months using latest actuals and assumptions.

Decision test. Who can influence the result, and who only reports it? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

6. Variance

Working definition. Variance is the measured difference between a planned, standard, or expected amount and the actual result.

Do not stop at the number. Identify cause, controllability, recurrence, and required action. A non-specialist can understand this by separating the object, the timing, and the consequence.

Simple example. Actual utilities of CU 1,250 against a budget of CU 1,000 create a CU 250 adverse spending variance.

Decision test. Does the item affect cash now, later, or not at all? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

7. Cash flow

Working definition. Cash flow is the movement of cash and cash equivalents into and out of a person, project, or organization.

Profit measures performance under accounting rules; cash flow measures liquidity movement. The concept should be measured at the smallest level that still supports a real action.

Simple example. Collecting an old invoice creates cash inflow without creating current-period revenue.

Decision test. What is being measured, and what has been left outside the boundary? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

8. Accountability

Working definition. Accountability is the obligation to explain and accept responsibility for decisions, actions, controls, and results.

Responsibility without information is unfair; authority without accountability is dangerous. Varza should connect each material state change to an identifiable actor. The number alone is not enough; its definition determines whether comparisons are valid.

Simple example. The project manager owns the latest cost forecast and must explain material changes.

Decision test. When did the underlying right, obligation, benefit, or sacrifice arise? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

How the concepts connect

The concepts in this chapter are a system, not a vocabulary list. Budget, Forecast, Scenario, Sensitivity analysis, Rolling forecast, Variance, Cash flow, and Accountability describe different parts of the same decision. Confusing them usually creates one of three failures: the wrong amount is measured, the right amount is assigned to the wrong period or person, or a correct report is used for a decision it was never designed to support.

A useful analysis therefore preserves both **classification** and **relationship**. Classification tells us what an item is. Relationship tells us what caused it, what it affects, and what could change it. Varza should store both. A report that shows only totals may be suitable for orientation; a controlled decision requires traceability to the underlying relationships.

Formulas and quantitative relationships

Driver-based revenue

Forecast revenue = Expected quantity × Expected realized price

The formula separates volume and price assumptions.

Boundary: Mix, returns, tax, timing, performance, and collection require additional modeling.

Rolling horizon

New forecast horizon end = Prior horizon end + One update interval

Each update adds a new future period as the oldest actual period closes.

Boundary: The organization may use different horizons for cash, operations, and strategy.

Worked case — Budget stays; forecast changes

A company budgeted annual sales of CU 12 million evenly. After three months, actual sales are CU 2.4 million and a major customer delay is confirmed.

Item	Amount or observation
Annual budget	CU 12.0 million
First-quarter budget	CU 3.0 million
First-quarter actual	CU 2.4 million
Q1 variance	CU 0.6 million adverse
Latest full-year forecast	CU 10.5 million base; CU 9.5 million downside

Calculation and reasoning

1. Keep the CU 12 million approved budget as the accountability baseline.
2. Record the CU 0.6 million Q1 variance and identify volume, timing, price, and customer causes.
3. Update the forecast to CU 10.5 million based on current pipeline and delivery evidence.
4. Model the downside with slower collection, inventory response, cost actions, and cash triggers—not sales alone.
5. Assign actions and review dates without rewriting the original target.

What the result means

The organization can still pursue the budgeted ambition while managing from the best current expectation. Honesty about forecast is not surrender; it is the basis for timely action.

The case is deliberately compact. In practice, Varza would preserve the supporting documents, currency, dates, counterparty, project or cost center, approvals, and links to the resulting records. The lesson is not merely to reach a number; it is to make the path to that number reviewable.

Practical workflow

1. **Define the decision, responsible person, economic unit, period, and acceptable uncertainty.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
2. **Define strategic goals, constraints, drivers, and accountable owners.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
3. **Build integrated profit, cash, balance, capacity, and resource plans.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
4. **Approve the budget and preserve its version.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
5. **Update rolling forecasts from actual evidence and test base, upside, downside, and response scenarios.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
6. **Reconcile the result to source evidence and investigate exceptions rather than forcing agreement.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
7. **Approve the decision or record at the authority level required by value, risk, and legal consequence.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
8. **Monitor the outcome, compare it with the original assumption, and retain the learning for the next cycle.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.

How this concept should appear in Varza

The minimum Varza data model for this chapter includes budget_version, assumption, driver, target, cash_plan, scenario, forecast_version, variance, owner, approval. These names are not merely interface labels. Each entity should have a stable identifier, status history, responsible owner, applicable currency or unit, effective dates, evidence links, and access controls.

A useful Varza screen should answer four questions without forcing the user to reconstruct the story manually:

1. **What happened or is expected to happen?** Show the operational event, obligation, or decision in plain language.
2. **What changed financially?** Show cash, asset, liability, equity, income, expense, commitment, or risk effects.

3. **Why should the user trust it?** Show source documents, calculations, approvals, and revision history.
4. **What requires attention now?** Show exceptions, due dates, thresholds, and the next responsible action.

The Varza design principles most relevant here are:

- Prefer a traceable estimate with stated assumptions to an impressive number with hidden assumptions.
- Use automation to strengthen evidence and consistency, never to remove accountability.
- Turn information into a decision, a control, or a question; otherwise it is only decoration.

Varza AI may explain, classify, compare, simulate, and prepare a proposed action. It should not silently change a legal record, post a material transaction, close a period, release a payment, or make an investment decision on the user's behalf. Material actions require visible evidence, permissions, validation rules, and an accountable human approval path.

Controls and professional boundaries

1. **Assumption register with owner and source.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
2. **Integrated model checks so profit, cash, and balance sheet reconcile.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
3. **No overwriting approved budget with latest forecast.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
4. **Scenario actions and trigger thresholds agreed in advance.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
5. **Stable definitions, versioned assumptions, and consistent units across plans, records, and reports.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
6. **Traceability from every material total to evidence, calculation, owner, and change history.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
7. **Access and approval rights aligned with responsibility and the possible consequence of error or misuse.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.

A control is effective only when it operates in practice. A policy that everyone can bypass is a statement of hope, not a control. Likewise, a control that blocks ordinary work without distinguishing

low-risk and high-risk cases encourages hidden workarounds.

Common mistakes and better responses

Mistake 1: Budgeting by adding a percentage to last year without drivers

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 2: Treating the budget as the most likely forecast after conditions change

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 3: Building a downside case that changes sales but not collection, inventory, or management response

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 4: Punishing every favorable underspend without asking whether required outcomes were delivered

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 5: Using a technically correct number outside the period, entity, currency, or decision boundary for which it was calculated

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 6: Accepting an automated result without reviewing the evidence, assumptions, exceptions, and required professional judgment

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Decision checklist

- ☐ Can I explain budget in plain language and in professional terms?
- ☐ Can I explain forecast in plain language and in professional terms?
- ☐ Can I explain scenario in plain language and in professional terms?
- ☐ Can I explain sensitivity analysis in plain language and in professional terms?
- ☐ Have I stated the entity, currency or unit, date or period, and decision boundary?
- ☐ Can another person reproduce the number from retained evidence?
- ☐ Have I separated actuals, estimates, commitments, and scenarios?
- ☐ Have I tested timing, liquidity, risk, and at least one adverse outcome?
- ☐ Is the required approval proportional to the possible loss or legal consequence?
- ☐ Does the final output lead to a specific action, owner, and review date?

Practice lab

1. **Explain it.** Describe Budget to a person who has never studied finance. Then add the professional definition and identify one boundary your simple explanation omitted.
2. **Classify it.** Create five examples from your household or a small business and classify each using Forecast. State any assumptions.
3. **Calculate it.** Rebuild the worked case with amounts 20% higher. Identify which conclusions change and which remain structurally true.
4. **Challenge it.** Describe a situation in which Scenario could be measured correctly but still lead to a poor decision because timing, risk, or incentives were ignored.
5. **Design it.** Sketch a Varza screen or report for this chapter. Include fields, evidence links, status, owner, exceptions, and one AI-assisted action.

Answer guidance

A strong answer uses consistent definitions, reveals assumptions, distinguishes fact from estimate, and connects the result to an action. More than one conclusion may be reasonable when the learner clearly states the decision objective and uncertainty. The worked-case recalculation should preserve the method even when the numbers change.

Varza AI knowledge capsule

This capsule is intentionally explicit so that a retrieval system can distinguish canonical teaching points from examples and commentary.

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    "Forecast: a current estimate of what is likely to happen based on evidence, assumptions, and recent information.",
    "Scenario: a coherent set of assumptions describing a possible future state and its financial and operational consequences.",
    "Sensitivity analysis: the examination of how an output changes when one or more assumptions change.",
    "Rolling forecast: a forecast updated at regular intervals while extending the planning horizon by an equivalent period.",
    "Variance: the measured difference between a planned, standard, or expected amount and the actual result.",
    "Cash flow: the movement of cash and cash equivalents into and out of a person, project, or organization.",
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Suggested questions for Varza AI

- Explain this chapter using an example from a household, a shop, and a service business.

- Ask me five diagnostic questions before applying this concept to my situation.
- Show the difference between cash effect, accounting effect, and decision effect.
- Recalculate the worked case using my currency and assumptions, but preserve the original definitions.
- Identify which parts require local accounting, tax, legal, labor, or investment rules.

Sources and standards horizon

This chapter is original Varza educational content. It paraphrases and synthesizes concepts; it does not reproduce a standard or third-party article. The following sources were used to establish terminology, scope, and current professional context:

- **S206 — AICPA and CIMA, *Global Management Accounting Principles, second edition*.** 2026-03-30. Modern management accounting, value, analysis and sustainable decision support. Source: <https://www.aicpa-cima.com/resources/download/gmap-global-accounting-principles>
- **S207 — Institute of Management Accountants, *Expanded Management Accounting Competency Framework*.** 2025. Current finance and accounting competency domains. Source: https://prodcn.imanet.org/-/media/IMA/Files/Home/Career-Resources/Competency-Framework/2025Nov17CompetencyFrameworkWhitePaper_LP_Final_PDF.ashx
- **S208 — U.S. Government Accountability Office, *Cost Estimating and Assessment Guide*.** 2020-03-12. Reliable estimating, work breakdown structures, assumptions, risk and estimate updates. Source: <https://www.gao.gov/products/gao-20-195g>
- **S003 — OECD-INFE, *Core Competencies Framework on Financial Literacy for MSMEs*.** 2018; accessed 2026-08-31. Financial capability for entrepreneurs and small-business managers. Source: https://www.oecd.org/en/publications/oecd-infe-core-competencies-framework-on-financial-literacy-for-msmes_220101c9-en.html

Standards horizon. Reviewed through 2026-08-31. IFRS 18 and the third edition of the IFRS for SMEs Accounting Standard are included as transition knowledge where relevant; both have mandatory effective dates beginning in 2027, with early application permitted under their respective requirements.

Jurisdiction note. Global educational foundation; local law, tax, reporting, consumer-protection, licensing, and professional requirements must be checked separately.

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