

The Variance Analysis process.

In a completely real situation you would start at point 1. and work your way through the process. In a seminar or exam question there wouldn't be time to do this in any but the most simple of scenarios.

You may find that a question gives you some of the information and requires you to calculate another part. This could even mean working backwards as in one of the seminar questions. Setting a question like that gives us the opportunity to test your understanding even if it isn't a 'real' thing to do.

1. **Standard data** i.e. the 'budget for one', sometimes called the unit data.
2. **Budget.** Write the budget based on the planned number of units times the standard data.
3. **Actuals.** Do it and collect the financial and non-financial information including prices and quantities used.
4. **Determine the variance to be explained.** This is the difference between the budgeted profit and the actual profit (or the difference between the budgeted costs and the actual costs). Don't forget to determine whether it is Favourable or Adverse.
5. **Flexed.** Rewrite the budget based on the actual number of units made and sold but still using the standard data. It's the Budget you would have written in the first place if you had known you were going to make and sell that actual number of units.
6. **Planning variance.** Determine the variance caused by the change in the number of units made and sold, i.e. compare the original budget to the flexed budget
7. **Variations for each line.** Compare each line of the flexed budget to the same line for the actual records. This will show how much more or less you have spent/received for each raw material etc. It is possible to skip this step if you want to go straight to determining the individual quantity and price variances.
8. **Calculate the quantity and price variances.** Using my 'Budget @ Budget' method (or another if you are more comfortable with it) calculate how much of the

variance for each line (calculated in 7) is due to a change in Quantity and how much due to a change in Price. These two numbers should net off to the figure you calculated for each line at 7.

9. Produce a variance schedule. This lists all the variances with the Favourable variances in one column and the Adverse variances in another.

Totalling each column and netting them off should give you the same number as you calculated at 4 – the variance to be explained.

If it doesn't:

1. Check you have all the variances in the schedule. It is common to forget the planning variances (sales and production) and to forget the sales price variance. Sometimes people forget the fixed cost price variances.
2. Check you have the signs correct on the variances.
3. Then check the calculations again.

The only 'hard' thing to do is to make sure you are comparing the right sets of numbers.