

BUDGET VARIANCE ANALYSIS

*Quick Reference
Guide*

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INTRODUCTION

Budget variance analysis is an essential tool in financial management, especially for finance staff within Indigenous organizations. It helps in comparing budgeted figures to actual figures, identifying discrepancies, and understanding their causes. This guide provides clear and practical tips to aid in the process.

KEY CONCEPTS

WHAT IS BUDGET VARIANCE?

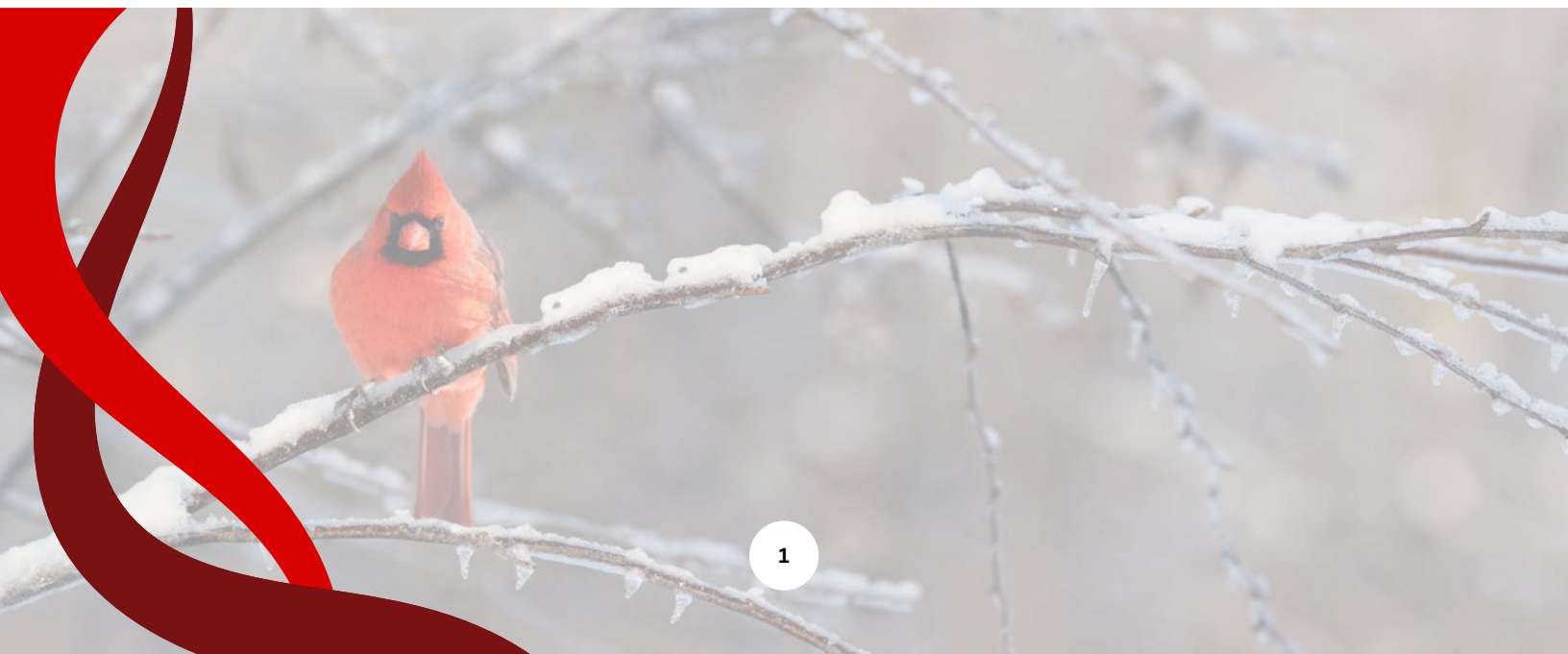
The difference between budgeted (planned) amounts and actual (realized) amounts.

TYPES OF VARIANCES

- **Favourable Variance:** When actual income is higher than budgeted or actual expenses are lower than budgeted.
- **Unfavourable Variance:** When actual income is lower than budgeted or actual expenses are higher than budgeted.

IMPORTANCE OF VARIANCE ANALYSIS

- **Performance Measurement:** Helps in assessing how well the organization is adhering to its financial plan.
- **Decision Making:** Provides insights for making informed financial decisions.
- **Accountability:** Enhances transparency and accountability within the organization





STEPS IN *Budget Variance Analysis*

1 COLLECT DATA

- **Budgeted Figures:** Gather the original budget figures for the period under review.
- **Actual Figures:** Collect the actual financial results for the same period.

2 CALCULATE VARIANCE

Formula:

- **Variance** = Actual Amount - Budgeted Amount
- **Percentage Variance** = (Variance / Budgeted Amount) * 100

Example

- If the budgeted revenue was \$100,000 and the actual revenue was \$110,000:
- $\text{Variance} = \$110,000 - \$100,000 = \$10,000$ (Favorable)
- $\text{Percentage Variance} = (\$10,000 / \$100,000) * 100 = 10\%$

3 ANALYZE VARIANCE

- **Identify Causes:** Determine why variances occurred by considering internal and external factors.
 - **Own Source Business Development Revenue:** Changes in demand, pricing, and market conditions.
 - **Funding:** Changes in agreements, carry forward funds prior year, clawbacks.
 - **Cost Variances:** Differences in material costs, labour rates, and operational efficiency.

4 REPORT FINDINGS

- **Summary:** Provide a concise summary of significant variances.
- **Visual Aids:** Use charts and graphs to illustrate variances clearly.
- **Recommendations:** Offer actionable insights or recommendations based on the analysis.

5 TAKE ACTION

- **Corrective Measures:** Implement necessary actions to address unfavourable variances.
- **Future Planning:** Use insights gained to improve future budgeting and forecasting.

TOOLS AND TECHNIQUES

Excel

- **Formulas:** Leverage Excel formulas to automate variance calculations.
- **Example Formulas:**
 - **Variance:** `=Actual-Budget`
 - **Percentage Variance:** `=(Actual - Budget) / Budget * 100`



PRACTICAL TIPS

For Finance Staff

STAY ORGANIZED

- **Consistent Data:** Ensure that data is consistently collected and recorded.
- **Documentation:** Maintain thorough documentation of all budget assumptions and actual results.

COLLABORATE

- **Departmental Input:** Work closely with other departments to understand the context of variances.
- **Seek Guidance:** Don't hesitate to seek help from more experienced colleagues or mentors.

CONTINUOUS IMPROVEMENT

- **Learn from Variances:** Use variances as learning opportunities to improve budgeting accuracy.
- **Training:** Engage in ongoing training and development to enhance your financial analysis skills.

CONCLUSION

Budget variance analysis is a vital skill for finance staff in Indigenous organizations, aiding in effective financial management and informed decision-making. By following these steps and using the right tools, you can conduct variance analyses that provide valuable insights and support the organization's financial health. Regular practice and collaboration will further develop your expertise in this area.



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