Variance Analysis: Budget vs Actual Performance

Project Overview

This Excel project focuses on **Variance Analysis**, a critical financial tool used to compare a company's **Budgeted Values** against its **Actual Performance** over specific time periods. The key purpose of this analysis is to measure performance deviations, identify areas of concern or improvement, and enable data-driven decision-making.

The analysis is consolidated in the **Act vs Budget** sheet, where the **Monthly** and **Year-to-Date (YTD)** variances are calculated for key financial metrics. Color-coded insights (favorable/unfavorable) help highlight where actual performance deviates from the budget.

Purpose of Variance Analysis

The purpose of this project is to:

1. **Compare Planned vs. Actual Performance**:
   Identify whether the company met, exceeded, or fell short of its financial goals.
2. **Highlight Key Deviations**:
   Pinpoint areas of over- or under-performance, such as unexpected costs or revenue shortfalls.
3. **Enable Strategic Decision-Making**:
   Provide insights for management to take corrective actions, optimize resources, and improve future budgeting processes.

Key Components of the Analysis

The **Act vs Budget** sheet consolidates the comparison into three critical sections:

1. **Budgeted Values**:
   Planned financial performance for the month and cumulative YTD figures.
2. **Actual Values**:
   The company's real financial performance over the same time periods.
3. **Variance Calculation**:
   - **Absolute Variance**: Difference between Actual and Budgeted values.
     Formula: Variance = Actual - Budget
   - **Percentage Variance**: Relative deviation from the budgeted figure.
     Formula: % Variance = (Variance / Budget) × 100

Metrics Analyzed

The analysis covers the following key financial metrics:

- **Gross Sales**

- **Net Sales** (after Discounts)
- **Cost of Goods Sold (COGS)**: Includes Raw Material, Labor Costs, and Other Manufacturing Costs.
- **Overheads**: Administrative and Selling/Distribution Overheads.
- **Gross Profit**
- **Net Profit**

Insights from the Analysis

1. Revenue Performance:

- **Gross Sales**: Actual values slightly exceeded the budgeted values in the month (+0.9%), demonstrating strong sales performance.
- **Net Sales**: Favorable results driven by lower-than-expected discounts.

2. Cost Performance:

- **COGS**: Higher raw material and labor costs negatively impacted performance. For instance:
  - Raw Material Cost exceeded budget by **Rs. 1.0 Cr (2.7%)**.
  - Labor Costs also recorded an **unfavorable variance of 12.5%**.

3. Overheads:

- Administrative Overheads showed a **favorable variance of 33.3%**, indicating effective cost control.
- Selling and Distribution Overheads exceeded the budget by **16.7%**, requiring attention.

4. Net Profit:

- Monthly Net Profit remained unchanged at **Rs. 49.0 Cr**, but a small YTD shortfall of **-0.2%** was observed.
- This highlights cost pressures and revenue challenges impacting cumulative profitability.

Key Takeaways

1. **Revenue vs. Cost Balance**:
   While sales performance exceeded expectations, increased raw material and labor costs reduced profit margins.
2. **Cost Management Focus**:
   Overhead and manufacturing costs must be monitored to mitigate unfavorable variances and protect profitability.

3. **Strategic Action**:
   Variance analysis helps management prioritize corrective actions to optimize both revenue generation and cost efficiency.

Conclusion

This project demonstrates the importance of **Variance Analysis** in financial performance management. By consolidating **Budgeted vs. Actual values** in the **Act vs Budget** sheet, the analysis identifies key variances that impact the company's profitability. The insights allow management to take corrective measures, improve resource allocation, and enhance financial outcomes.