

Task 4: Concise Written Communication: Variance Commentary

Task Overview

What you'll learn

- Best practices for writing variance commentary
- Write a concise statement of variance-based commentary upon an analysis of a financial statement

What you'll do

- Review a P&L analysis and write a set of concise statements of variance commentary
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Here is the background information on your task

One of the key forms of written communication in the financial and accounting world is variance reporting, also called variance commentary. Variances are simply differences between what was expected or planned for and what actually happened. The budget to actual analysis you did in the first two tasks is such a variance analysis.

Variances can be expressed in currency, percentages, time, or other operational metrics, but most often in currency. The variance itself is the difference between the planned or expected outcome and the actual outcome, and can be positive or negative. Positive variances are outcomes that are better than planned, like

revenue is higher than expected, or costs are lower than expected. Negative variances are just the opposite.

Variance commentary or reporting seeks to do the more important and useful job of answering why the variance occurred. What caused the number to be different? Why did that happen?

Best practices when writing variance commentary include:

- Order variances from largest to smallest
- Use clear, simple, straightforward language that is accurate and dispassionate (that is, not emotionally invested in the variance or its drivers)
- Use an active voice
- Be as concise as possible
- Explain the cause of the variance and the potential or actual effects that must be considered
- Don't just explain that the forecast or budget was wrong, explain why the forecast or budget was wrong.

Examples of some clear, concise variance commentary include:

- \$240K, food and beverage supplies, due to lower than budgeted sales of appetizers during Q1 driven by higher than expected poor weather
- \$1.3M, energy utility costs, unit cost for energy decreased 8% from budget due to unbudgeted purchase of energy cost hedge contracts
- \$(0.2)M, sales revenue for same-day box office ticket sales due to an overly optimistic sales forecast for Spring Break weeks

As you can see, these are very concise statements that convey a lot of key information very quickly. To be sure, not all variance commentary is quite that short, and variances often have more than one driver, but your goal is to be as clear and concise as possible.

See the links below for some further reading about variance commentary.

Here is your task

Your task is to review the profit and loss financial statement in Additional Resources below and analyze it for causes of variance, and then write a short set of very concise statements of variance commentary. Look for the major and likely most important sources of variance, and tell that story in a very concise way. Feel free to make up supporting details where needed to “explain” a variance; you won’t have much to go on from just an isolated P&L statement, and for this exercise, the details are not important, it is the practice in this form of very concise written communication that is key for this task.

Submit your variance commentary as bullet points of text in the text submission box below.