Variance Analysis, Reporting and Business Partnering

Interview preparation summary · FP track

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INT.FV.1.a · Variances

Split a revenue difference between budget and actual into price, volume and mix effects and present it as a bridge that adds up.

A revenue variance on its own says little, so analysts split it into the effects of price, volume and mix. The price variance is the difference between actual and budgeted price per unit, multiplied by the units actually sold. The volume variance is the difference between actual and budgeted units, multiplied by the budgeted price. Where a company sells several products, the volume effect can be split again into a pure volume effect, which applies the budgeted average price to the change in total units, and a mix effect, which captures a shift towards cheaper or dearer products. The components must add exactly to the total difference, and that is the test of a good bridge. Practice varies on the order of calculation and on whether mix is measured on revenue or on margin, so state your convention in the pack. Interviewers ask this to see whether you can explain what happened in plain words. The usual mistakes are multiplying by the wrong quantity, forgetting that the pieces must reconcile, and ignoring margin when the mix moves.

WORKED EXAMPLE: CORRIN FOODS: WHY REVENUE BEAT BUDGET BY 26,500

Corrin Foods is an invented bakery supplier. For the month, the budget was 6,000 Standard boxes at 10 each and 4,000 Premium boxes at 20 each. Actual sales were 5,000 Standard boxes at 10.50 and 6,000 Premium boxes at 19. Split the revenue difference into price, pure volume and mix effects. Convention: price is measured on actual units, volume and mix at budgeted prices, and amounts are in pounds.

Answer: Revenue is 26,500 above budget: price minus 3,500, pure volume plus 14,000 and mix plus 16,000.

> **Interview tip:** Say the total first, then the three pieces, then the so-what: we sold 10% more boxes, shifted towards Premium, and gave back some price, mostly on Premium. Offer to check whether the Premium discount was a decision. State that your price effect is on actual units.

INT.FV.1.b · Variances

Flex a budget to actual activity and split cost variances into price, usage, rate and efficiency effects.

A static budget is fixed at the planned level of activity, so comparing it with actual cost mixes two things: the cost of doing more or less work, and how well the work was done. A flexed budget restates variable costs at the actual level of output using the standard cost per unit, so that what remains is performance. For materials, the price variance is the actual price less the standard price, multiplied by the quantity bought or used (policy states which), and the usage variance is the quantity difference multiplied by the standard price. Labour works the same way, with rate and efficiency. Fixed costs are not flexed, because they do not move with output in the short run. A favourable variance is not always good news: cheaper material may raise scrap, and an efficiency gain may follow overtime. Interviewers like candidates who check what else moved. The usual mistakes are comparing actual cost with the unflexed budget and blaming a department for a volume effect.

WORKED EXAMPLE: HARROWGATE CABINETS: A 12,375 OVERSPEND, OF WHICH 7,200 IS VOLUME

Harrowgate Cabinets is an invented furniture maker. The budget was 2,000 cabinets, each needing 4 kg of timber at a standard 6 a kilo, which is 24 per cabinet. The firm actually made 2,300 cabinets, used 9,660 kg and paid 6.25 a kilo. Work out the materials variance against the static budget, the flexed budget, and then the price and usage variances. Assume the quantity bought equals the quantity used.

Answer: Of the 12,375 overspend, 7,200 is volume; the performance variance is 5,175 adverse, made up of price 2,415 and usage 2,760.

Interview tip: Say: most of the headline overspend is because we built 300 more cabinets. After flexing, 5,175 remains, about half price and half usage. Then ask whether the usage came from scrap, a new supplier's quality or a design change.

INT.FV.1.c · Variances

Judge which variances deserve attention and ask root-cause questions that separate timing, error and real change.

A report with fifty variances is not analysis, so finance teams set materiality tests, often an amount and a percentage together, so that a large line with a small percentage and a small line with a large percentage are both considered. Typical practice is to comment on variances above both thresholds, though practice varies and thresholds reflect the size of the business. Judgement still matters: offsetting items can net to a small total while hiding two material movements, and a small variance that grows every month may matter more than a one-off. Before explaining any variance, ask a short sequence of questions. Is the number right, or is it a coding or cut-off error? Is it timing that will reverse, or a permanent difference? What drove it: price, volume, mix, efficiency or a decision? Will it continue, and what does it do to the forecast? The usual mistake is to start with who is to blame, which stops people sharing the real cause.

WORKED EXAMPLE: WHICH OF FIVE OVERHEADS DESERVE A COMMENT?

An invented department has five cost lines (budget, actual in pounds): Travel 40,000 and 46,000; Software licences 400,000 and 412,000; Recruitment fees 90,000 and 150,000; Utilities 120,000 and 118,000; Marketing 300,000 and 345,000. Policy: comment on any variance that is both more than 25,000 and more than 10% of the line budget. Apply the test and say what you would ask about the flagged lines.

Answer: Recruitment (plus 60,000) and Marketing (plus 45,000) are flagged; Travel and Software fall below the tests but should be watched, and the 121,000 total overspend needs a forecast view.

Interview tip: Say the rule you applied, name the flagged lines, then ask the root-cause questions in order: error, timing, driver, persistence. Avoid asking who caused it.

INT.FV.2.a · Partnering

Build a management reporting pack that leads with the story: result, drivers, outlook and actions.

A management pack is read by busy people who want to know whether the business is on track and what to do. The first page should say the result against budget and forecast, the two or three drivers that explain most of the gap, the outlook for the year and the actions or decisions needed. Detailed tables sit behind it. Good commentary gives the number, the cause and the consequence in one or two sentences, and avoids restating the table. Show the month and the year to date, and separate one-off or timing items from underlying performance so the reader sees the trend. A bridge from budget to actual is usually the clearest picture. Interviewers ask this to test whether you can turn numbers into a message and whether you are honest about what you do not yet know. The usual mistakes are describing numbers rather than explaining them, burying the key point deep in the pack and leaving an unexplained other line that is larger than the drivers.

WORKED EXAMPLE: COLDWATER HAULAGE: TURNING A BRIDGE INTO A HEADLINE

Coldwater Haulage is an invented road freight company. For the first quarter, budget operating profit was 1,200 (thousand pounds). The drivers you have found are: extra volume plus 180, lower average rate per load minus 90, higher fuel cost minus 140, better driver efficiency plus 60 and overheads over budget minus 40. Build the bridge, write the headline and say what you would flag for the rest of the year. Assume fuel stays at the quarter's level for the next three quarters and no surcharge is agreed.

Answer: Profit is 1,170 against 1,200, 2.5% below budget: volume plus 180 is more than offset by fuel minus 140 and rate minus 90, and fuel is a 420 risk over the rest of the year.

Interview tip: Lead with the answer and the size of the miss, give the top three drivers with numbers, then the outlook and the ask. Do not read the table out.

INT.FV.2.b · Partnering

Support a decision with a quick analysis by clarifying the question, using incremental figures and stating assumptions and a range.

Business partners are often asked for a quick answer: should we discount for this customer, accept this order, run this promotion or close this line? A good quick analysis starts by asking what decision is being made and by when. It then uses only incremental effects, which means the extra revenue and the extra costs that change if the decision is taken, and ignores sunk costs and allocated overheads that stay the same either way. Contribution per unit and break-even volume are the usual

tools. State the assumptions plainly, test the one or two that matter most with a simple sensitivity, and give a recommendation with a range rather than false precision. Interviewers want a clear structure and sensible judgement under time pressure. The usual mistakes are judging a decision on full absorbed cost, forgetting that some volume would have been sold anyway, and presenting a single number with no assumptions.

WORKED EXAMPLE: A 10% DISCOUNT FOR A CUSTOMER WHO PROMISES MORE VOLUME

An invented industrial supplier sells a part at 50 each with a variable cost of 30. A customer who buys 12,000 a year asks for a 10% discount and promises to buy 18,000. Sales want to agree. Work out the break-even volume and test the promise. Assume spare capacity, no extra fixed costs and no knock-on effect on other customers' prices.

Answer: Break-even is 16,000 units. At 18,000 the deal adds 30,000; at 15,000 it loses 15,000; so tie the discount to delivered volume.

> **Interview tip:** Say: a 10% price cut on a 40% contribution margin needs a third more volume to break even. Give the break-even first, then the range, then the safeguard.

INT.FV.2.c · Partnering

Work with sales and operations colleagues as a partner: understand their drivers, challenge with evidence and agree how to disagree.

A finance business partner is trusted by sales and operations when they understand the business, explain numbers simply and challenge with evidence rather than opinion. Learn the drivers colleagues care about: pipeline and conversion for sales; output, scrap, overtime and downtime for operations. When asked for something finance cannot support, such as a forecast that counts the whole pipeline, do not simply refuse. Ask what evidence sits behind it, show history such as past forecast accuracy, offer an agreed method, and keep a separate finance view visible if the two differ. Pushing back works best when it is early, private and specific, and when you offer an alternative. Incentives matter too, because a bonus on revenue alone can reward discounting. Interviewers ask for a time you disagreed with a colleague, or how you would respond to a request. A strong answer shows respect, evidence, a clear route to escalate if needed and no promise of numbers you cannot stand behind.

WORKED EXAMPLE: RECONCILING A SALES DIRECTOR'S FORECAST WITH THE PIPELINE

An invented software reseller's sales director wants a quarterly forecast of 1,200 (thousand pounds). The pipeline holds five deals (value, stage probability): A 400 at 80%, B 300 at 50%, C 250 at 30%, D 600 at 20% and E 150 at 90%. Over the last four quarters the weighted pipeline has delivered about 88% of its value. Prepare the finance view and say how you would handle the conversation.

Answer: Finance view 704, sales ask 1,200, gap 496 which depends largely on deal D; present both with a named-deal bridge.

> **Interview tip:** Say what evidence would change your mind. Offer to move the forecast as soon as deals reach agreed stages, which shows you are not just defending a number.

Summary of the Charta interview-preparation topic. Companies and figures in the examples are invented. Draft content, not yet expert reviewed.