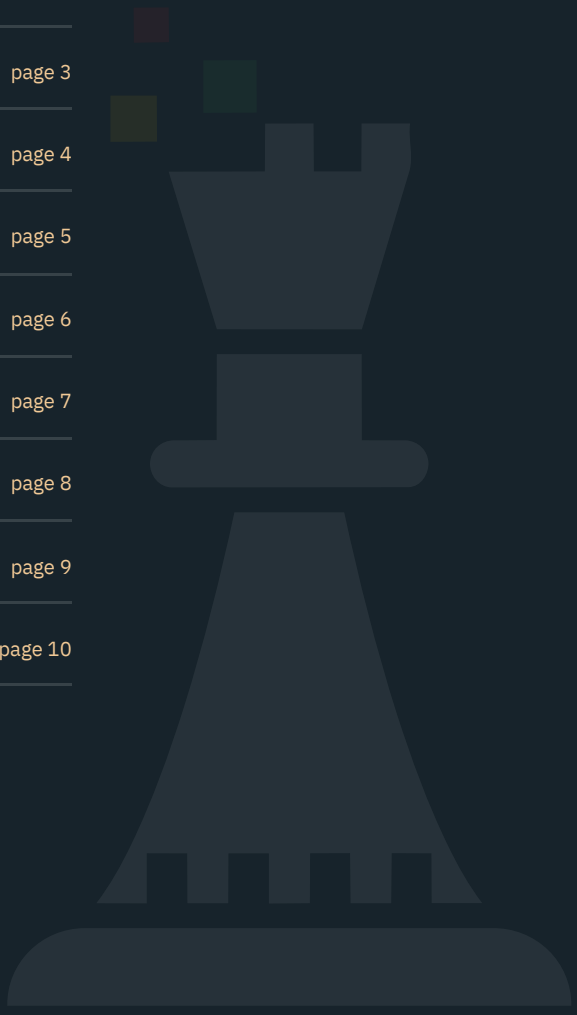
stratavor

Variance Analysis Framework

What changed, why it matters, and what to *do about it.*

Eight steps from budget against actual to a decision the board can take, worked through one month at Company A, where profit came in €50.0k under budget and the figure that mattered was not the biggest one.

1. Decide what is worth explaining — page 3
2. Flex the budget before judging costs — page 4
3. Split revenue into price and volume — page 5
4. Explain the margin: price, mix and cost — page 6
5. Split costs into rate and usage — page 7
6. Sort each cause: timing, one-off or lasting — page 8
7. Say what it does to the forecast — page 9
8. Write the note the board can act on — page 10



A free guide from Stratavor. Illustrative figures: Company A is not a real company.

November 2026
stratavor.com

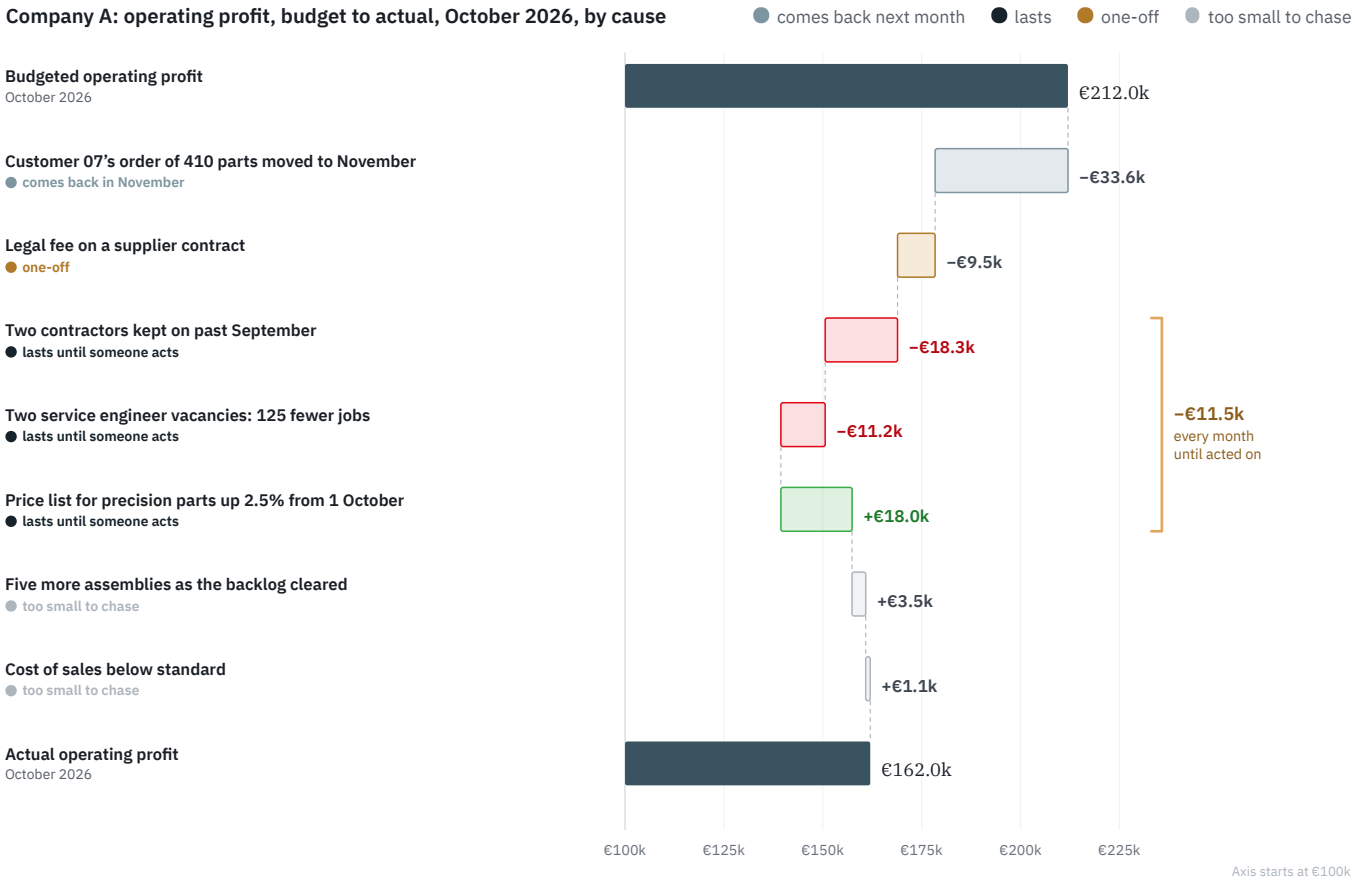
Profit came in €50.0k under budget. Most of it comes back in November. *€11.5k a month does not.*

–€11.5k

a month against budget from November, until two decisions are taken.

Company A's October pack said volumes were down and costs were up. Both were true and neither helped. **Taken cause by cause, the €50.0k splits four ways**: an order that slipped a month, a one-off legal fee, two small items not worth chasing, and three things that will repeat every month until someone acts.

Company A: operating profit, budget to actual, October 2026, by cause



–€33.6k

Customer 07's order, moved to November. Next month gets it back.

–€9.5k

a legal fee on a supplier contract. It will not repeat.

The rule behind the split

Explain what lasts; note what does not

Timing and one-offs need a line each. **The lasting causes** need a figure for every month they run and a name beside the fix.

The board's time belongs on the €11.5k a month, not on the €33.6k.

Price added €18.0k a month and two causes take €29.5k: **contractors kept on past September, and two service engineer vacancies.** The eight steps that find this start on the next page.

Illustrative figures; Company A is not a real company. October 2026 as in the Board Pack Template and the KPI Selection Guide.

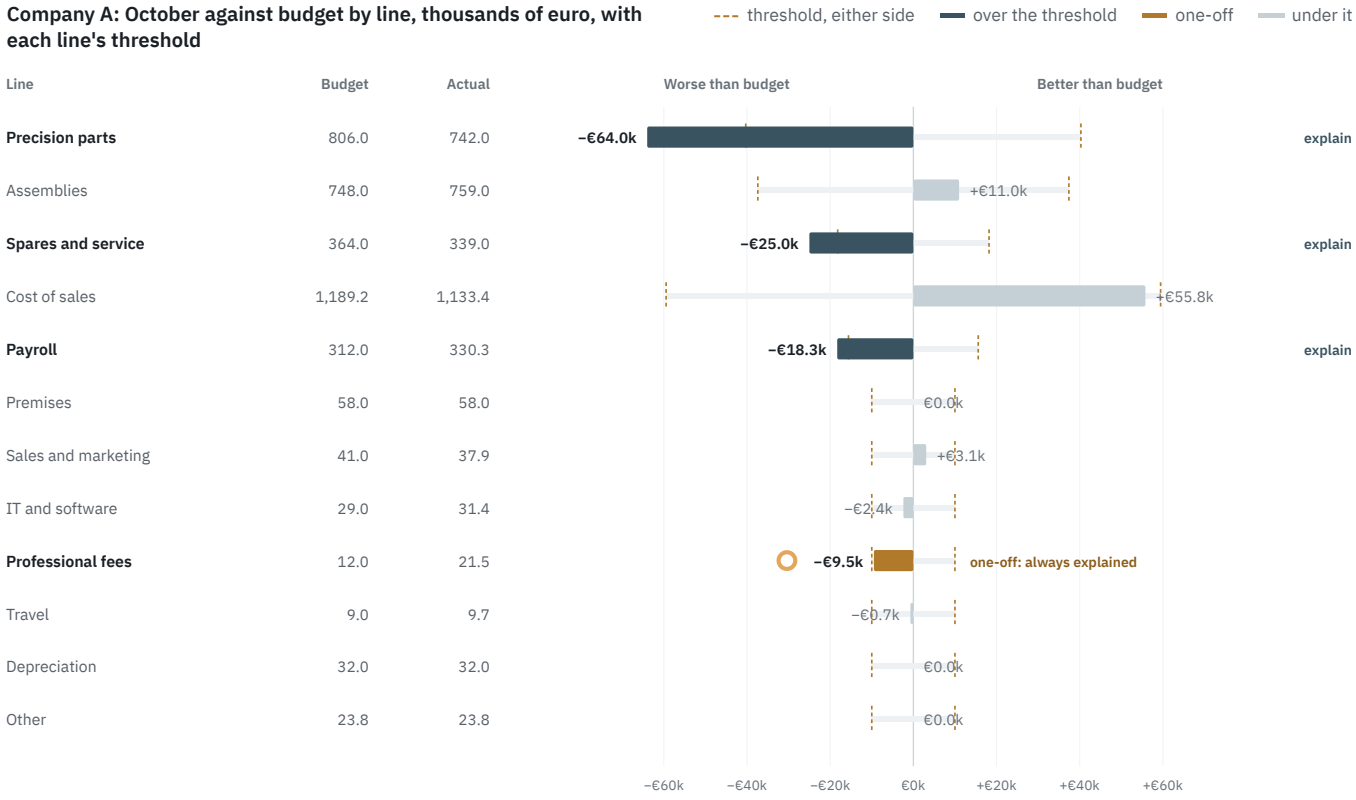
Twelve lines missed budget.
Four of them need a sentence.

4 of 12

lines over the threshold or one-off. The other eight get no commentary at all.

A materiality threshold is **the size of gap that earns an explanation**, agreed before the month starts. Without one, the pack explains every line a little and the important line not enough. Company A explains any line more than **€10k or 5% of its budget away, whichever is larger**, and every one-off whatever its size.

Company A: October against budget by line, thousands of euro, with each line's threshold



3

● lines over the threshold: precision parts, spares and service, and payroll.

+€55.8k

● on cost of sales sits just inside its €59.5k threshold, and is not a saving anyway (page 4).

How to set it

Larger of €10k or 5% of the line

About **5% of a month's budgeted profit** for the fixed part. Add three rules: every one-off, anything that moves the forecast, anything near a covenant.

A threshold is a promise to the board about what it will not be asked to read.

Set it once a year, and use it both ways. A line well under budget is explained as carefully as one over it: assemblies came in €11.0k ahead, inside its €37.4k threshold, so it gets no sentence this month.

Decide

Agree the threshold and the three rules with the board before the year starts, and print them on the variance page.

Illustrative figures; Company A is not a real company. October 2026 as in the Board Pack Template and the KPI Selection Guide.

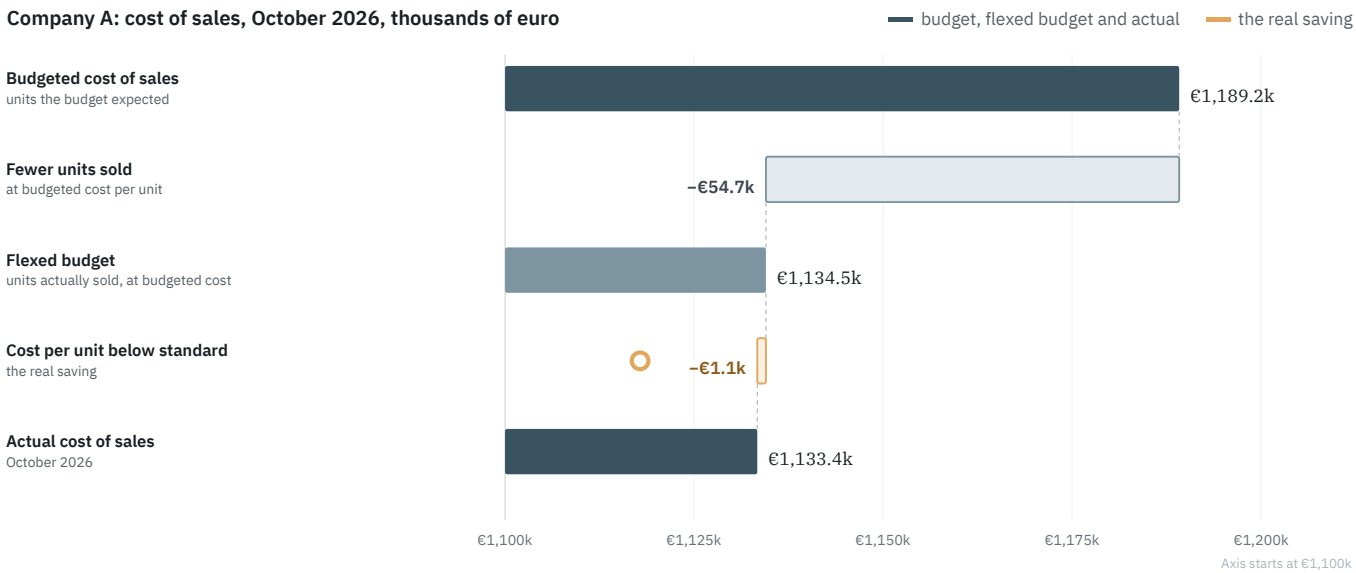
Cost of sales came in €55.8k under budget. *€54.7k of it was selling less.*

€1.1k

the real saving in the factory, once the budget is flexed to the units sold.

A flexed budget is **the budget redrawn for what was actually sold**: actual units at budgeted prices and costs. Compared with the original budget, every cost that moves with volume looks good in a bad month and bad in a good one. **Compared with the flexed budget, only real changes in cost are left.**

Company A: cost of sales, October 2026, thousands of euro



Line	Units, budget	Units, actual	Budgeted cost a unit	Flexed cost	Actual cost
Precision parts	4,030	3,620	€118.04	€427.3k	€426.2k
Assemblies	340	345	€1,507.44	€520.1k	€520.1k
Spares and service	1,820	1,695	€110.40	€187.1k	€187.1k
Total				**€1,134.5k**	**€1,133.4k**

€54.7k

lower cost because 410 fewer parts and 125 fewer service jobs were sold, at their budgeted cost.

€1.1k

below standard cost on precision parts: the only saving anyone earned.

How to flex

Actual units × budgeted cost a unit

For every cost that moves with volume. **Fixed costs stay at budget.** Do it by line when lines have different costs.

Decide

Report cost of sales against the flexed budget every month, and stop reading the original budget line as a saving.

Illustrative figures; Company A is not a real company. October 2026 as in the Board Pack Template and the KPI Selection Guide.

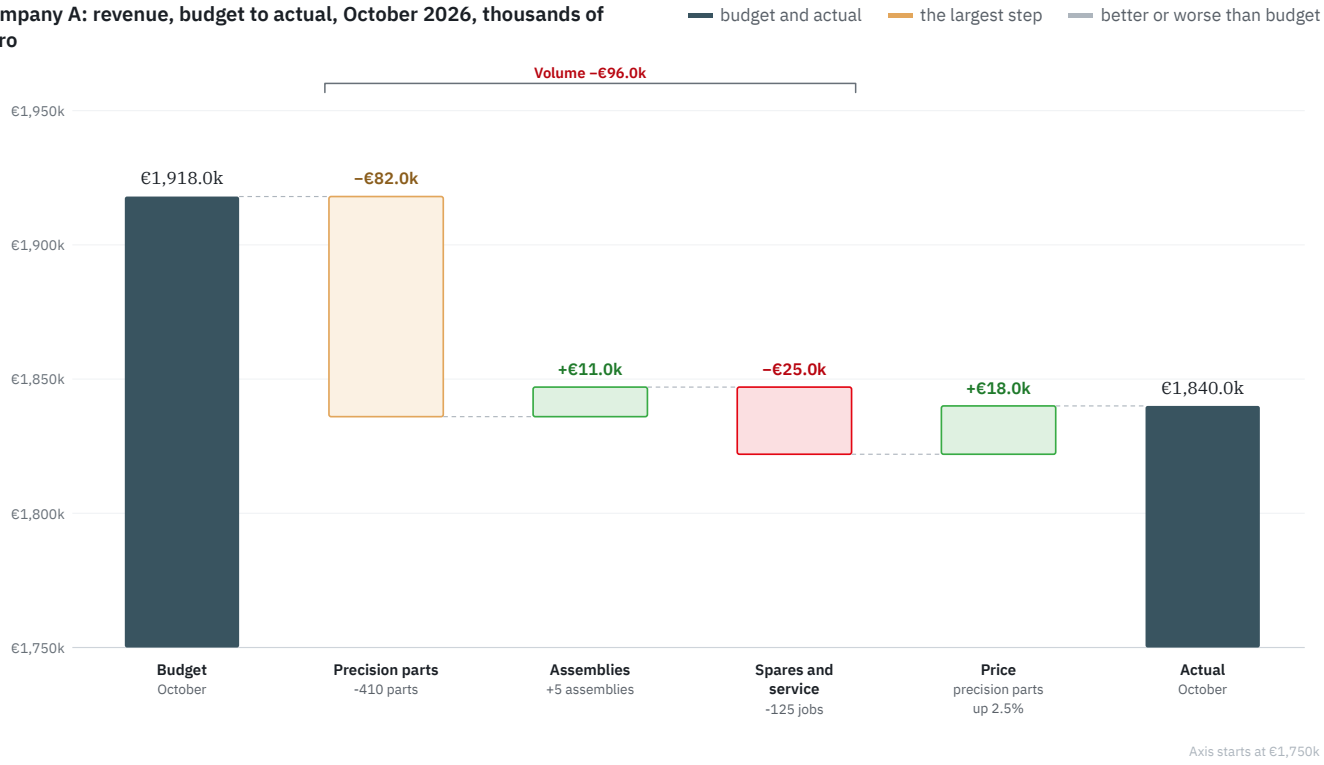
Revenue missed by €78.0k. Volume cost €96.0k, and *price gave €18.0k of it back.*

–€82.0k

from 410 fewer precision parts: one customer's order, moved to November.

Volume variance is **the change in units, at the budgeted price**; price variance is **the change in price, on the units actually sold.** Worked line by line, they add up to the revenue gap exactly, and each figure lands on someone's desk: volume on sales and operations, price on whoever sets the price list.

Company A: revenue, budget to actual, October 2026, thousands of euro



–125

● service jobs against 1,820 budgeted: two engineer roles are vacant, and the work is not being done.

+2.5%

● on the precision parts price list from 1 October: €18.0k on 3,620 parts, and it repeats.

How to measure it

Volume = (actual units – budgeted units) × budgeted price

Price = (actual price – budgeted price) × actual units. Use the units the line is sold in: parts, jobs, hours, seats.

"Volumes were down" is a description. "One order moved a month" is an explanation.

Ask what each volume figure is made of. Here the €82.0k on precision parts is a single order, 410 parts for Customer 07, delivered in November instead of October: it comes back. The €25.0k on service is two empty roles: it does not.

Illustrative figures; Company A is not a real company. October 2026 as in the Board Pack Template and the KPI Selection Guide.

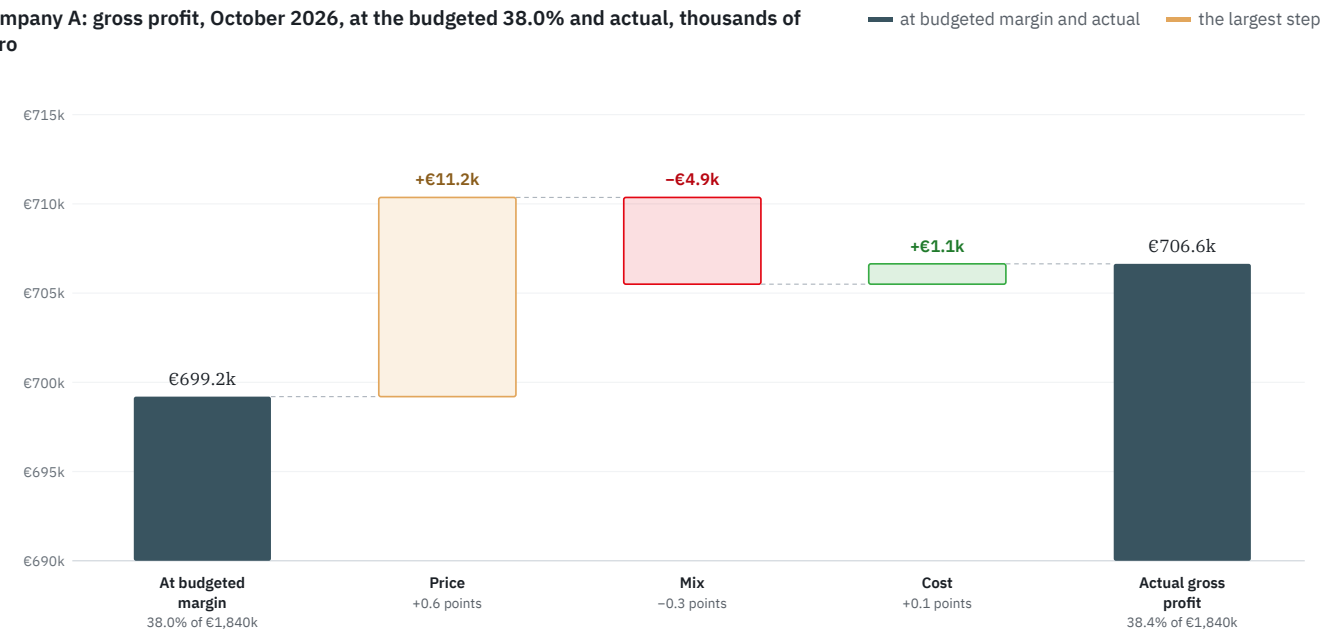
Gross margin rose 0.4 points to 38.4%. The price rise did it, *and the mix took some back.*

+€11.2k

from the precision parts price rise, beyond what the average margin would have given.

A margin moves for three reasons: **price**, which drops straight to gross profit; **mix**, when sales shift between lines with different margins; and **cost**, when making or buying each unit costs more or less. Company A's 0.4 points split into all three, and they add up to the €7.4k in its bridge.

Company A: gross profit, October 2026, at the budgeted 38.0% and actual, thousands of euro



Axis starts at €690k

Line	Share of revenue, budget	Share, actual	Margin, budget	Margin, actual
Precision parts	42.0%	40.3%	41.0%	42.6%
Assemblies	39.0%	41.2%	31.5%	31.5%
Spares and service	19.0%	18.4%	44.8%	44.8%
Total	**100%**	**100%**	**38.0%**	**38.4%**

−€4.9k

● from mix: fewer precision parts and service jobs, the two lines that earn above the average margin.

+€1.1k

● from cost: precision parts made slightly under standard. The flexed budget found it (page 4).

How to measure it

Mix = Σ change in units × (unit margin − average margin × price)

Price × (1 − average margin) is what price adds above the average. **Cost** is flexed cost less actual cost.

Decide

Keep the price list where it is, and read margin by line every month so a mix shift is seen before it costs points.

Illustrative figures; Company A is not a real company. October 2026 as in the Board Pack Template and the KPI Selection Guide.

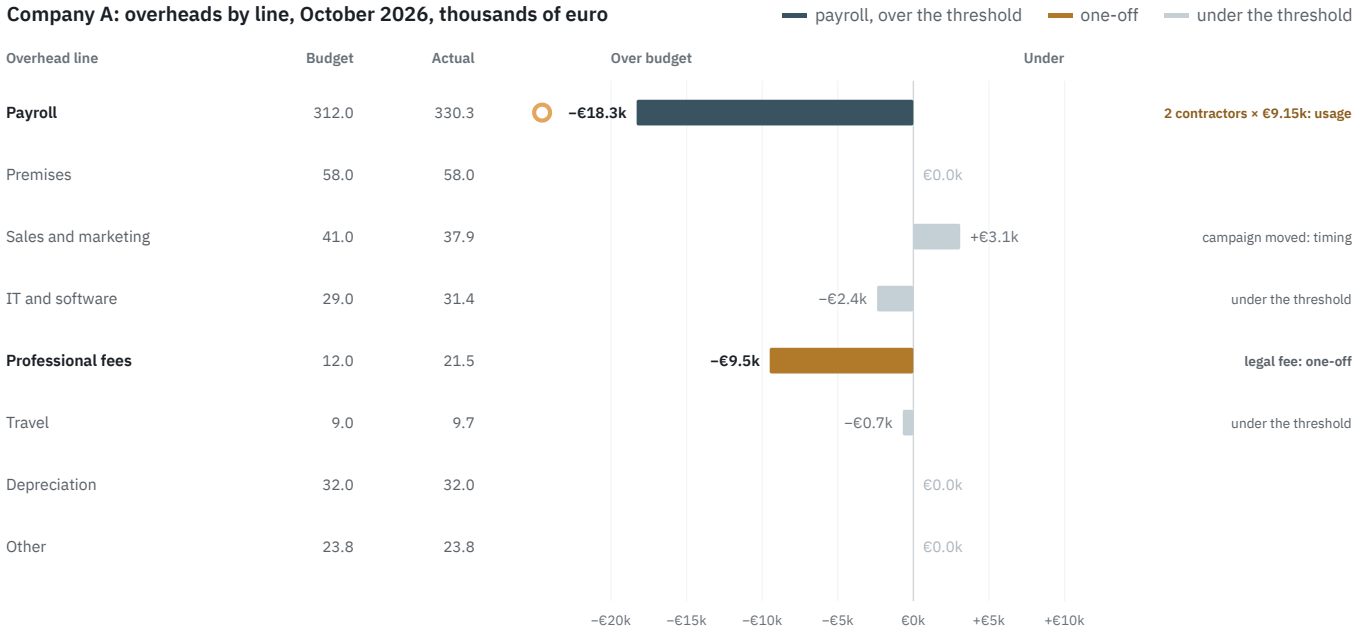
Overheads ran €27.8k over.
Two lines, two different stories.

−€18.3k

on payroll: two contractors kept on past September, when the budget had them leaving.

Usage variance is **more or less of something, at the budgeted price**: hours, heads, kilowatt hours. Rate variance is **a different price for what was used**: a pay award, a supplier's increase. Company A's payroll gap is all usage, two contractor months at €9.15k each, so the fix is a date, not a negotiation.

Company A: overheads by line, October 2026, thousands of euro



−€9.5k

● a legal fee on a supplier contract: one-off, explained under the one-off rule though under €10k.

€0.0k

● net on the other six lines: marketing's €3.1k is a campaign moved to November, the rest is small.

How to measure it

Usage = (actual quantity − budget) × budgeted rate

Rate = (actual rate − budgeted rate) × actual quantity. For people: hours or heads, and the cost of each.

Usage needs an end date. Rate needs a conversation with whoever sets the price.

The contractors stayed to clear the assemblies backlog, which is why assemblies came in five units ahead. The backlog clears in November; after that the €18.3k a month buys nothing.

Decide

Release the two contractors at 30 November, when the backlog is clear.

Illustrative figures; Company A is not a real company. October 2026 as in the Board Pack Template and the KPI Selection Guide.

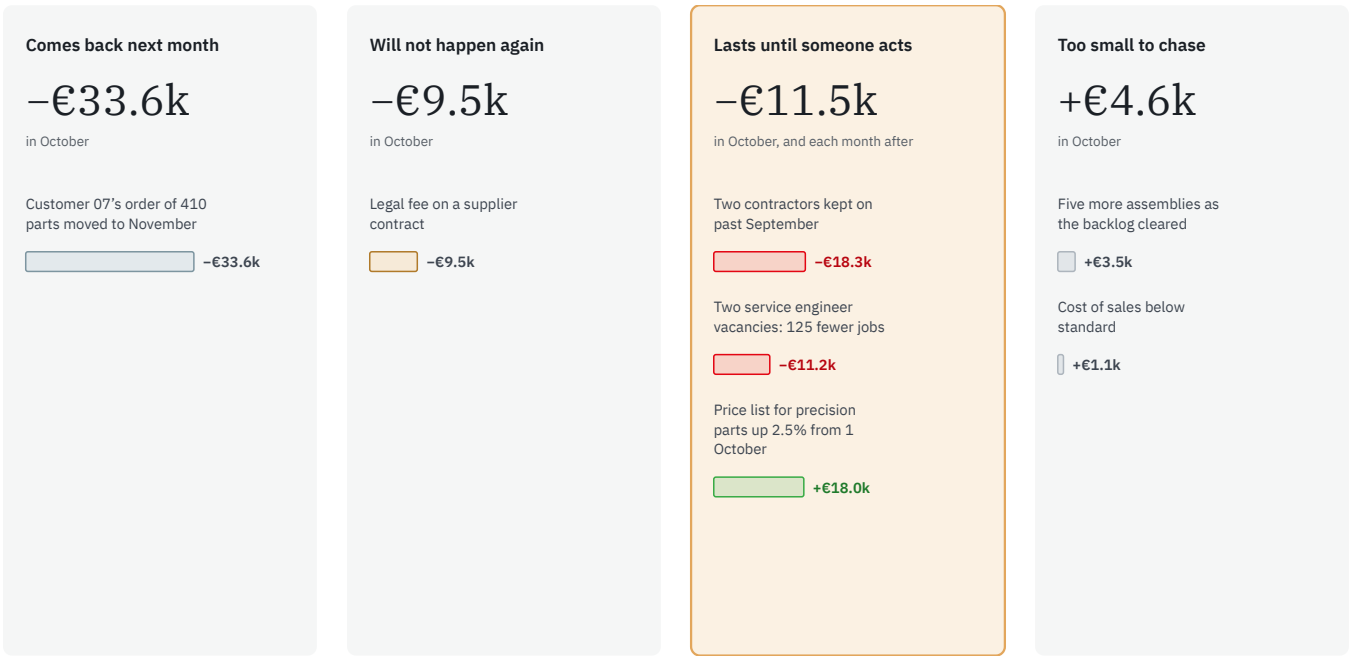
Of the €50.0k, €33.6k comes back next month. *€11.5k a month stays.*

−€11.5k

a month from November: price adds €18.0k, the contractors and the vacancies take €29.5k.

Every cause in the bridge is one of four things. **Timing** reverses: the sale or cost lands in another month. **One-off** will not repeat. **Lasting** repeats every month until something changes. **Noise** is real but too small to chase. Only the lasting causes change the year, so they get the board's time.

Company A: October's €50.0k, sorted by whether it lasts, thousands of euro



−€29.5k

● a month from the contractors and the vacancies together, every month until both are dealt with.

+€18.0k

● a month from the price list. It is lasting too, and the reason the net figure looks small.

How to sort them

Ask: will it be in next month's figures?

Yes, unchanged: **lasting**. Yes, reversed: **timing**. No: **one-off**. Under a tenth of the threshold: **noise**.

A net figure can hide a large problem behind a large piece of good news.

Report the lasting causes gross, not net. Shown as one figure, €11.5k a month looks like a rounding problem. Shown as €18.0k earned and €29.5k lost, it is two decisions waiting to be taken.

Illustrative figures; Company A is not a real company. October 2026 as in the Board Pack Template and the KPI Selection Guide.

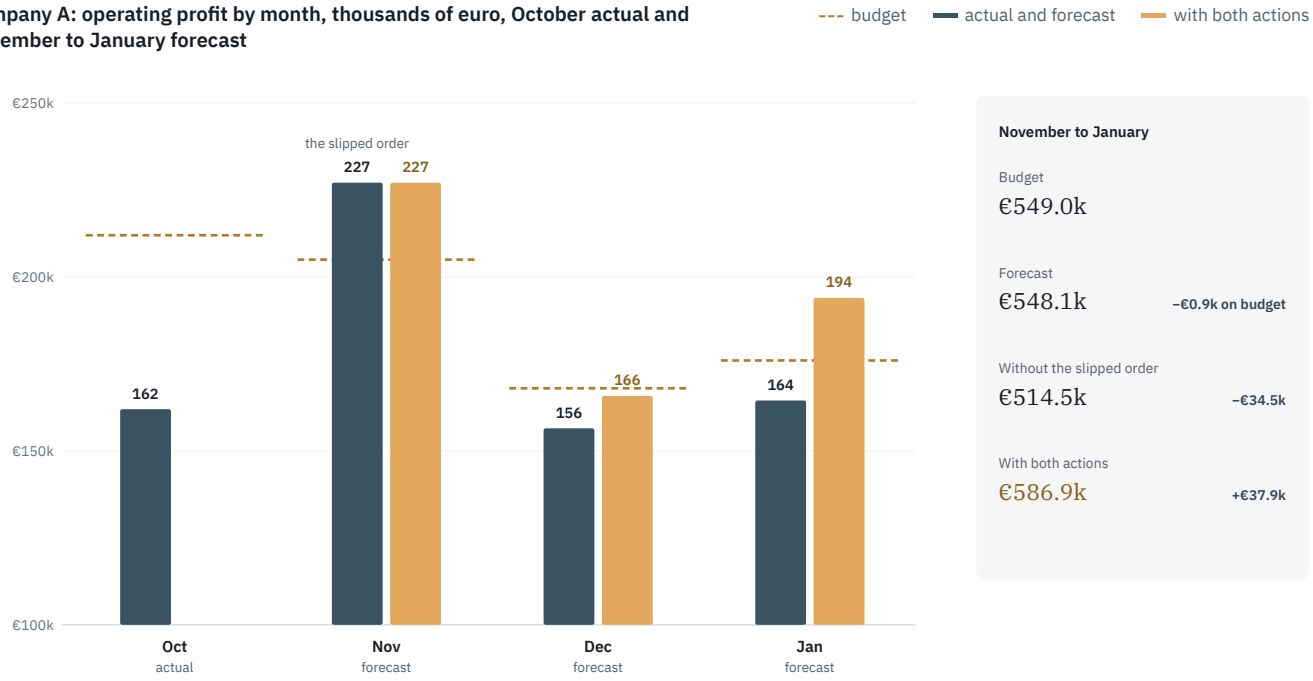
November will beat budget by €22.1k. *That is not good news.*

−€0.9k

the quarter against budget, and only because the slipped order lands in November.

The variance page ends with the forecast, because the board can still change the next three months. Company A's quarter to January lands within €0.9k of budget, which reads as fine. **Take out the slipped order and it is €34.5k short**: three months of the lasting causes.

Company A: operating profit by month, thousands of euro, October actual and November to January forecast



November to January

Budget
€549.0k

Forecast
€548.1k **−€0.9k on budget**

Without the slipped order
€514.5k **−€34.5k**

With both actions
€586.9k **+€37.9k**

+€38.8k

● on the quarter from the two actions: contractors released at 30 November, engineers hired for January, a €9.0k fee.

€29.5k

● a month once both are done: the €18.3k of contractors and the €11.2k of lost service jobs.

How to forecast it

Budget + lasting causes + timing reversals

Month by month for the next quarter. **Show it twice**: as things stand, and with the actions the page asks for.

A good month that is only a late order arriving should be reported as exactly that.

Decide

Approve the recruitment fee for the two service engineers this month, so they start in January.

Illustrative figures; Company A is not a real company. October 2026 as in the Board Pack Template and the KPI Selection Guide. The forecast assumes the engineers deliver a full month of service jobs in January.

The pack said volumes were down and costs were up. *The note says what to decide.*

4

sentences: what happened, why, what it means for the forecast, what the board is asked to decide.

A variance note is not a tour of the profit and loss account. It is **four sentences, each with a figure**: what happened, why, what it means, and the decision. The first version below is the kind most packs carry. The second is Company A's October, written with the seven steps before it.

Before: what most packs say

Revenue was below budget in October due to lower volumes, partly offset by improved pricing.

Gross margin improved to 38.4%.

Overheads were above budget, mainly payroll and legal costs.

Operating profit was €162.0k against a budget of €212.0k.

After: the four sentences

What happened

Operating profit was €162.0k, €50.0k under budget.

Why

Customer 07's order of 410 parts moved to November (€33.6k) and a one-off legal fee cost €9.5k; the 2.5% price rise added €18.0k, but contractors kept on past September and two engineer vacancies cost €29.5k.

What it means

The quarter to January lands on budget only because the order returns; underneath, we run €11.5k a month behind.

Decide

Release the contractors at 30 November and approve the recruitment fee, worth €38.8k this quarter.

The board cannot act on "due to lower volumes". It can act on "two roles are vacant".

Write the note last and the decision first. If a sentence has no figure, it is not finished. If the note asks for nothing, say so: "No decision is needed this month" is a useful sentence too. The CFO 12-Paragraph Board Commentary Template carries the same rules across the whole pack.

Decide

Put the four sentences at the top of the variance page, above the bridge, every month.

Illustrative figures; Company A is not a real company. October 2026 as in the Board Pack Template and the KPI Selection Guide.

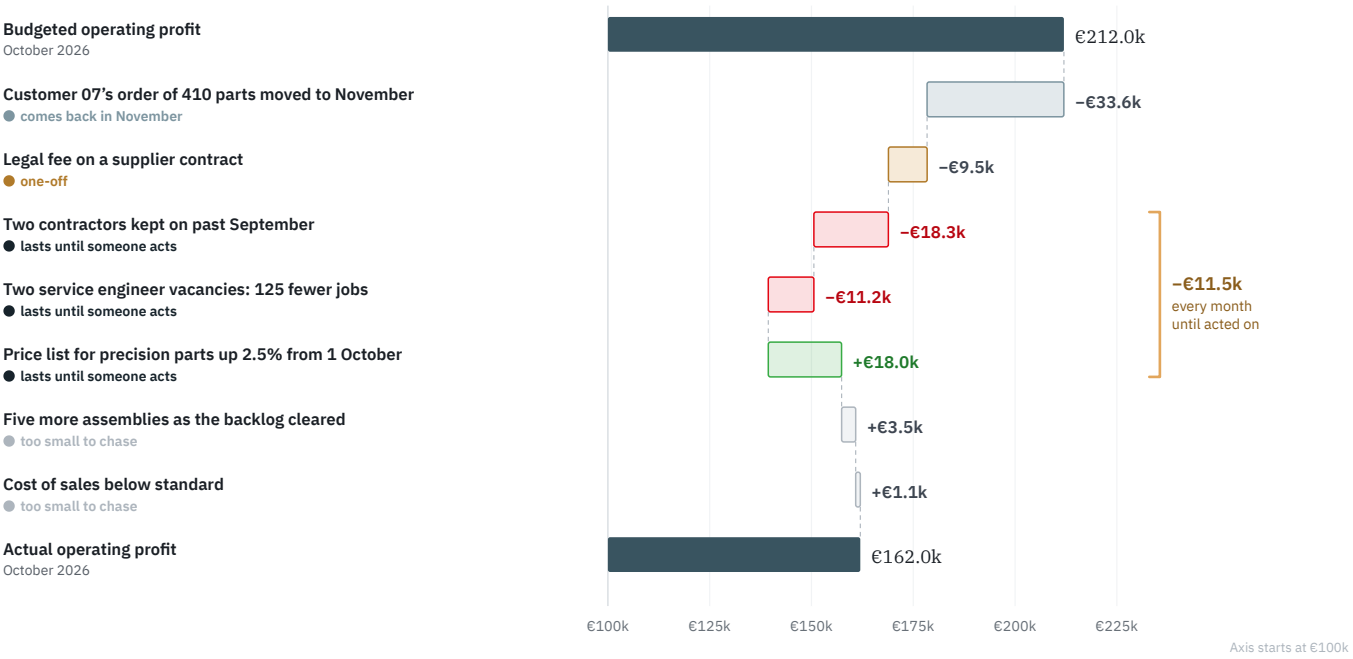
One page for the pack: the note, the bridge, four lines and *two decisions.*

+€38.8k

on the quarter to January if the board approves both actions this month.

Operating profit was €162.0k, €50.0k under budget. Customer 07's order of 410 parts moved to November (€33.6k) and a one-off legal fee cost €9.5k; the 2.5% price rise added €18.0k, but contractors kept on past September and two engineer vacancies cost €29.5k. The quarter to January lands on budget only because the order returns; underneath, we run €11.5k a month behind.

Operating profit, budget to actual, by cause, thousands of euro



Axis starts at €100k

Line over the threshold	Against budget	Cause	Lasts?	Owner
Precision parts revenue	−€64.0k	Order of 410 parts moved to November; price list up 2.5%	Timing and lasting	Sales director
Spares and service revenue	−€25.0k	125 fewer jobs: two engineer roles vacant	Lasting	Operations director
Payroll	−€18.3k	Two contractors kept on past September for the backlog	Lasting to 30 November	Operations director
Professional fees	−€9.5k	Legal fee on a supplier contract	One-off	Finance director

Decide

1. Release the two contractors at 30 November. 2. Approve a recruitment fee of up to €9.0k for two service engineers to start in January.

Threshold: any line more than €10k or 5% of its budget away, whichever is larger; every one-off; anything that moves the forecast or comes near a covenant. Cost of sales is reported against the flexed budget.

Illustrative figures; Company A is not a real company. October 2026 as in the Board Pack Template and the KPI Selection Guide.

Ten formulas, each with *Company A's October.*

10

formulas that take a month from budget against actual to a decision.

Each formula works on a ledger export and a budget by line. **Work them in this order**, and every figure on the variance page adds up to the one above it: lines to revenue, revenue and margin to gross profit, gross profit and overheads to operating profit.

Materiality threshold	Larger of €10k or 5% of the line's budget	Plus every one-off, anything that moves the forecast, anything near a covenant.
Flexed budget	Actual units × budgeted price, and × budgeted cost a unit	For costs that move with volume. Fixed costs stay at budget.
Volume variance	(Actual units − budgeted units) × budgeted price	Company A, precision parts: (3,620 − 4,030) × €200 = −€82.0k.
Price variance	(Actual price − budgeted price) × actual units	Precision parts: (€204.97 − €200.00) × 3,620 = + €18.0k.
Margin from price	Price variance × (1 − budgeted average margin)	€18.0k × 62% = +€11.2k.
Mix variance	Σ change in units × (unit margin − budgeted average margin × unit price)	Three lines: −€4.9k.
Cost variance	Flexed cost of sales − actual cost of sales	€1,134.5k − €1,133.4k = +€1.1k.
Usage variance	(Actual quantity − budgeted quantity) × budgeted rate	Payroll: two contractor months × €9.15k = −€18.3k.
Rate variance	(Actual rate − budgeted rate) × actual quantity	Payroll: none this month.
Run rate	Sum of the lasting causes, each month	+€18.0k − €18.3k − €11.2k = −€11.5k a month.

Signs: positive is better than budget, negative is worse, for revenue and costs alike. Round once, at the end, to one decimal of a thousand, and check that the parts still add to the whole.

Illustrative figures; Company A is not a real company. October 2026 as in the Board Pack Template and the KPI Selection Guide.

stratavor

Stratavor does these eight steps *every month, from your ledger.*

It reads your accounting system, finds what moved against budget and last year, says why in plain sentences, and puts the result in a board pack your directors can act on. Connect Xero, QuickBooks, Sage, NetSuite or Deltek and see your own month.

Start a free trial at stratavor.com

Board Pack Template	PowerPoint, free at stratavor.com/tools
CFO 12-Paragraph Board Commentary Template	Word, free at stratavor.com/tools
KPI Selection Guide	PDF, free at stratavor.com/tools
13-Week Cash Flow Forecast Template	Excel, free at stratavor.com/tools
Risk Register Template	Excel, free at stratavor.com/tools

