



A budget is a projection of future incomes and expenses of a business for a specified period. It equips a business to better plan and measure its progress.

How to analyze a Budget Report?

Here is a snapshot of a simple budget analysis report from the in-built Budget Manager used in Xero accounting software.

	Actual	Budget	Var USD	Var %
Income				
Sales	20,905.58	20,000.00	905.58 🔺	4.5%
Total Income	20,905.58	20,000.00	905.58	4.5%
Less Cost of Sales				
Purchases	3,547.34	5,000.00	(1,452.66) 🔻	-29.1%
Total Cost of Sales	3,547.34	5,000.00	(1,452.66)	-29.1%
Gross Profit	17,358.24	15,000.00	2,358.24	16.0%
Less Operating Expenses				
Advertising	9,657.05	10,000.00	(342.95) 🔻	-3.4%
Bank Fees	30.00	100.00	(70.00) 🔻	-70.0%
Cleaning	110.00	100.00	10.00 📥	10.0%
Consulting & Accounting	58.00	200.00	(142.00) 🔻	-71.0%
Entertainment	1,553.60	1,000.00	553.60 📥	55.4%
General Expenses	46.19	50.00	(3.81) 🔻	-7.6%
Light, Power, Heating	235.50	250.00	(14.50) 🔻	-5.8%
Motor Vehicle Expenses	274.36	300.00	(25.64) 🕶	-8.5%
Office Expenses	705.48	1,000.00	(294.52) 🔻	-29.5%
Printing & Stationery	94.41	100.00	(5.59) 🔻	-5.6%
Rent	3,273.66	3,270.00	3.66 🔺	0.1%
Repairs and Maintenance	1,896.70	1,500.00	396.70 🔺	26.4%
Telephone & Internet	84.75	100.00	(15.25) 🔻	-15.3%
Travel - National	32.24	500.00	(467.76) 🔻	-93.6%
Total Operating Expenses	18,051.94	18,470.00	(418.06)	-2.3%
Net Profit	(693.70)	(3,470.00)	2,776.30	80.0%

At the end of the period, the budget and actual figures are compared and analyzed. The variance is the difference between the company's planned (budget) financial figures and the final (actual) financial figures. The variance can be expressed in the form numbers and percentages.

Sales/revenue estimates for the specified period are compared with the actual figures.

Cost of Goods Sold (also called variable cost or direct cost) depends on the volume of sales. A variance here indicates the level of efficiency/inefficiency of the production process.

Gross Profit is the amount a business makes after deducting the costs of production. A loss here would mean that the primary activity of producing a product/providing a service is itself unprofitable.

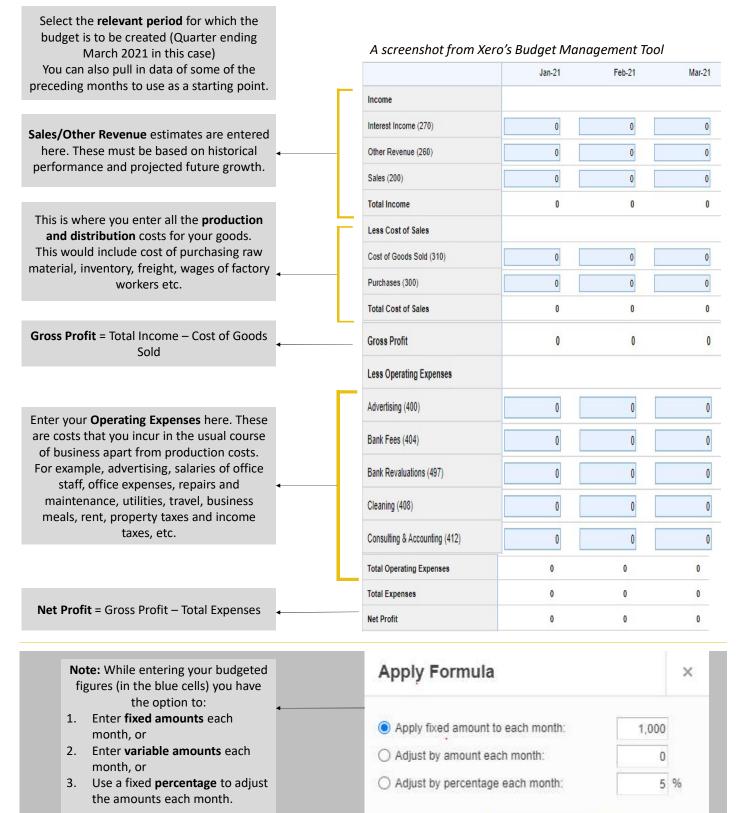
Operating Expenses are the costs that a business incurs to run in its day-to-day operational/administrative activities. If an expense exceeds the budget, then it is a red flag for the business.

Net Profit is the overall profitability of running the business. Total Income - Total Expenses (including depreciation, amortization and taxes)



How to create a personalized Budget?

Now that you know what a budget analysis report is and how to read it, let's see how to create one. Let's say you want to make a quarterly budget. Below are some key points to help you get started.



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