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## Budgeting Basics

### Test your knowledge of Budget Fundamentals – Variance Analysis

#### Questions

If actual income is greater than budgeted income, is this a favorable (good) or adverse (bad) variance?

If actual expense is greater than budgeted expense, is this a favorable (good) or adverse (bad) variance?

Include a small amount of \_\_\_\_\_ in your budget to help with unexpected changes in income or expense.

**See next page for Activity**

Activity

In this exercise you are not only required to calculate the variance in dollar terms but also in percent terms. Once you have identified the amount of the variance in dollar terms, you need to apply the formula below:

$$\text{Variance (in percent)} = \text{Variance (in dollars)} \div \text{Budget (in dollars)}$$

In other words, when calculating the variance in percent terms, you need to use the budget as your starting point. So the variance is how much the actual differs from the budget.

	<i>Budget</i>	<i>Actual</i>	<i>Variance</i>	<i>Variance</i>
	<i>1 Jan - 30 Mar</i>	<i>1 Jan - 31 Mar</i>	<i>\$</i>	<i>%</i>
<b><u>Income</u></b>				
Grants	14,000	18,700		
Sponsorship	1,900	2,700		
Membership Fees	5,100	3,098		
Events	2,900	3,002		
Product Sales	2,500	4,150		
Other Income	400	502		
<b>Total</b>	<b>26,800</b>	<b>32,152</b>		
<b><u>Expenditure</u></b>				
Advertising	1,000	1,765		
Logistics	1,650	2,600		
Interest	100	100		
Transportation	875	545		
Salaries	14,500	13,765		
Administration	7,800	8,900		
<b>Total</b>	<b>25,925</b>	<b>27,675</b>		
<b>Surplus/Deficit</b>	<b>875</b>	<b>4,477</b>		

**See next page for Answer Key.**

Answer Key

	<i>Budget</i>	<i>Actual</i>	<i>Variance</i>	<i>Variance</i>
	<i>1 Jan - 30 Mar</i>	<i>1 Jan - 31 Mar</i>	<i>\$</i>	<i>%</i>
<b><u>Income</u></b>				
Grants	14,000	18,700	4,700	34%
Sponsorship	1,900	2,700	800	42%
Membership Fees	5,100	3,098	-2,002	-39%
Events	2,900	3,002	102	4%
Product Sales	2,500	4,150	1,650	66%
Other Income	400	502	102	26%
<b>Total</b>	<b>26,800</b>	<b>32,152</b>	<b>5,352</b>	<b>20%</b>
<b><u>Expenditure</u></b>				
Advertising	1,000	1,765	765	77%
Logistics	1,650	2,600	950	58%
Interest	100	100	0	0%
Transportation	875	545	-330	-38%
Salaries	14,500	13,765	-735	-5%
Administration	7,800	8,900	1,100	14%
<b>Total</b>	<b>25,925</b>	<b>27,675</b>	<b>1,750</b>	<b>7%</b>
<b>Surplus/Deficit</b>	<b>875</b>	<b>4,477</b>	<b>3,602</b>	<b>412%</b>

Source: Kim Votta Consulting - [www.kvottaconsulting.com](http://www.kvottaconsulting.com)