UNIT 6: BUDGETRY CONTROL

CHAPTER: VARIANCE ANALYSIS

WHAT:

In accounting, a variance is the difference between an actual amount and a budgeted, planned or past amount. Variance analysis is one step in the process of identifying and explaining the reasons for different outcomes.
Variance analysis is usually associated with a manufacturer's product costs. In this setting, variance analysis attempts to identify the causes of the differences between a manufacturer's 1) standard or planned costs of the inputs that should have occurred for the actual products manufactured, and 2) the actual costs of the inputs used for the actual products manufactured.

Variances may be favorable (F) or unfavorable (U) in terms of their effect on the profitability of the business.

Variance analysis makes it possible for owners and managers in the hospitality industry to make the correct strategic decisions needed to overcome problems before they cut into profits too much. If you don’t conduct a variance analysis when a significant variance occurs, you have nothing other than guesswork to guide you. You cannot know whether to address the variance by charging higher rates, finding a more affordable supplier, controlling labor costs or improving occupancy rates unless you do a variance analysis to find out exactly what happened and why.

WHAT ARE THE DIFFERENCE BETWEEN LABOUR & MATERIAL VARIANCES

WHAT IS VARIANCE ANALYSIS? EXPLAIN THE VARIOUS VARIANCES IN FOOD SERVICE OPERATIONS