

Reading & Using a Business Budget — Workbook

This workbook turns the course into a working budget you actually run. You will read your own profit-and-loss statement, classify your costs by behaviour, build a 12-month operating budget, and set up a monthly budget-vs-actuals review. Work through one section per module, then keep using the templates every month to control costs and protect your profit target.

Reading Your Numbers

Get fluent in your own profit-and-loss statement and classify every cost by how it behaves with sales volume.

Exercise: Three-Pass Read of Your P&L

Pull your most recent full-year or trailing-twelve-month profit-and-loss statement from your accounting software (QuickBooks, Xero, Wave, or a spreadsheet). Read it in the three passes taught in the course and answer the prompts in writing. Do not skip straight to line items.

- Pass one: what were total revenue and net profit, and did the period make money at all?

- Pass two: calculate your gross margin, operating margin, and net margin as percentages, and note which margin is weakest.

- Pass three: inside your weakest margin section, which two line items are the largest, and do they look reasonable against the benchmarks in the course?

- In one sentence, where is the most likely leak in your business: pricing, delivery cost, or operating expenses?

Worksheet: Cost Behaviour Classifier

List every recurring cost line from your P&L or bank statements. For each, decide whether it stays flat with sales (fixed), moves in proportion to sales (variable), or has both a base and a variable part (semi-variable). For variable lines, record the cost per unit or percentage of revenue. Leave the monthly and annual figures for you to fill from your own records.

Cost line name

Behaviour (fixed / variable / semi-variable)

Fixed base per month (if any)

Variable rate (per unit or percent of revenue)

Typical monthly amount

Annual amount

Checklist: Numbers-Literacy Readiness

- I can locate my revenue, COGS, gross profit, operating expenses, and net profit on my P&L
- I have calculated my gross, operating, and net margins as percentages
- I have compared at least my gross margin to an industry benchmark
- I have tagged every cost line as fixed, variable, or semi-variable
- I have expressed each variable cost as a per-unit rate or a percent of revenue

Building the Budget

Construct a driver-based 12-month operating budget, set a defensible profit target, and lay cash timing over the top.

Worksheet: Revenue Driver Tree

Identify your two or three core revenue drivers (units and price, or active customers and monthly fee, or billable hours and rate). Fill in the assumptions and let revenue fall out as volume times price. Build one row per month if you have seasonality. Leave the calculated revenue cells blank for you to compute.

Month

Opening volume (units / customers / hours)

New volume added this month

Volume lost or churned this month

Closing volume

Price or rate per unit

Calculated revenue (leave blank to compute)

Exercise: Set Your Profit Target with Contribution Margin

Using your classified costs, work out the numbers that turn a profit goal into a sales target. Show your working for each step.

- What is your contribution margin per unit (selling price minus variable cost per unit), and what percentage is that of the price?

- What are your total annual fixed costs, and how many units must you sell to break even (fixed costs divided by contribution margin)?

- Pick a profit target in dollars: how many units must you sell to reach it ((fixed costs plus target profit) divided by contribution margin)?

- What operating margin does that target represent, and how does it compare to your industry benchmark?

- What is your margin of safety: how far can sales fall below the budgeted level before you stop making a profit?

Checklist: Budget Build Completeness

- Revenue is built from drivers (volume times price), not a flat guess
- Seasonality is reflected month by month where it applies
- Variable costs are linked to the same volume figures as revenue
- Fixed costs are entered as flat monthly amounts
- A profit target is set deliberately and converted into a unit sales target
- A cash timing layer shifts inflows and outflows by real payment terms
- Every month has a projected closing cash balance and no month is silently negative

Analysing Variances

Compare actuals to budget, flex the budget to actual volume, and decompose each variance into price, volume, and efficiency.

Worksheet: Three-Column Variance Report

For one recent month, build a three-column comparison for each major line: original (static) budget, flexed budget at actual volume, and actual. Record the variances. Leave every variance and total cell blank for you to calculate, so no totals are pre-filled.

Line item

Static budget amount

Flexed budget amount (recalculated at actual volume)

Actual amount

Volume variance: static minus flexed (leave blank to compute)

Price/efficiency variance: flexed minus actual (leave blank to compute)

Favourable or adverse

Exercise: Decompose Your Biggest Variance

Take the single largest adverse variance from your three-column report and split it into its causes using the formulas from the course. Show each calculation.

- Is this a revenue line or a cost line, and what was the total variance in dollars and percent?

- Calculate the volume variance: (actual units minus budget units) times budgeted price or contribution margin.

- Calculate the price or rate variance: (actual price or rate minus budget) times actual quantity.

- If it is a cost, calculate the usage or efficiency variance: (actual quantity minus standard quantity for actual output) times the standard rate.

- Do your component variances add back to the total, and which single cause is the real driver to act on?

Checklist: Variance Analysis Discipline

- I flexed the budget to actual volume before judging any cost line
- I labelled each variance favourable or adverse by its effect on profit, not its arithmetic sign
- I expressed each variance in both dollars and percent
- I split my largest variance into volume, price, and efficiency components
- I confirmed the component variances reconcile to the total variance
- I separated volume effects (sales) from price and efficiency effects (operations)

Running the Monthly Cycle

Operationalise the budget into a monthly review, a rolling reforecast, and targeted cost-control actions tied to your profit target.

Worksheet: Monthly Budget-vs-Actuals Action Log

Use this after each month-end review. List only variances that breach your materiality threshold (for example over 5 percent and over 1,000 dollars). For each, record the cause, whether it is timing or permanent, the owner, the action, and the due date. Leave the dollar and percent figures for you to fill from your actuals.
Line item

Variance in dollars

Variance in percent

Cause (volume / price / efficiency / fixed-cost)

Timing or permanent

Owner

Corrective action

Due date

Exercise: Close the Gap to Your Profit Target

Assume your latest review shows you tracking behind your annual profit target. Build the smallest set of cost-control actions that closes the gap without starving revenue. Show your reasoning.

- How far behind your annual profit target are you forecast to finish, in dollars?

- List three to five candidate cost-control actions, matched to the variance type (rate, usage, or fixed-cost), with an estimated annual saving for each.

- For each candidate, is the cost a true overhead to trim or an investment that generates contribution and should be protected?

- Which combination of actions closes the gap with the least damage to revenue and capacity, and who owns each?

- How and when will you verify the effect in next month's variance report?

Checklist: Monthly Operating Rhythm

- [] Books are closed and a budget-vs-actuals review happens within ten working days of month-end
- [] A materiality threshold filters out trivial variances
- [] Every material variance has an owner, an action, and a due date
- [] Each variance is labelled timing or permanent before deciding to act
- [] The original budget stays frozen as the performance yardstick
- [] A rolling 12-month or quarterly forecast is updated from changed drivers, not by hand-editing totals
- [] Cost cuts protect revenue-generating spend and target overhead and overruns specifically

Your Action Plan

1. Export your most recent trailing-twelve-month P&L and complete the three-pass read to find your weakest margin.
2. Classify every cost line as fixed, variable, or semi-variable, and record each variable rate.
3. Build a driver-based revenue forecast for the next 12 months, with seasonality where it applies.
4. Calculate contribution margin and break-even, then set a deliberate profit target and convert it to a unit sales target.
5. Add a cash timing layer that shifts inflows and outflows by real payment terms and flags any negative-cash month.
6. Freeze this as your annual operating budget and lock the figures as your performance yardstick.
7. Each month-end, build a three-column report (static budget, flexed budget, actual) and decompose material variances.
8. Hold a 30-minute budget-vs-actuals review within ten working days, logging owners, actions, and due dates.
9. Update a rolling 12-month forecast from changed drivers while leaving the original budget untouched.
10. Size cost-control actions against the gap to your profit target, protecting revenue-generating spend, and verify the effect next month.

