Revenue Is Up. Why Is Profit Down?

FP&A | Foundation | 45-60 minutes (estimate)

What you will learn

Build a profit bridge that reconciles budget to actuals; distinguish the effects of volume, price, unit variable cost and fixed cost; explain findings without presenting untested causes as facts.

A bridge explains the movement

For each product, contribution = units sold × (selling price per unit - variable cost per unit). Operating profit is total contribution less period fixed costs. Revenue growth can coexist with lower profit when the contribution per unit falls or fixed costs rise.

Choose an explicit attribution sequence. In this exercise change volume first, price second, and unit variable cost third. Then add the fixed-cost change. Using a different order moves interaction effects between drivers; do not combine formulas from different conventions.

Driver	Formula; positive = favorable to profit
Volume	(Actual units - Budget units) × (Budget price - Budget unit cost)
Price	Actual units × (Actual price - Budget price)
Unit variable cost	-Actual units × (Actual unit cost - Budget unit cost)
Fixed cost	Budget fixed costs - Actual fixed costs

Calculate the first three effects separately for each product, then sum them. The volume effect includes the effect of the product quantities changing in different proportions. It is not a separate pure-volume / mix decomposition. The bridge is an arithmetic attribution, not proof of causality.

Smaller worked example

A separate one-product business budgets 100 units at a $20 price and $12 unit cost, with $300 fixed costs. Actuals are 110 units at $19 and $13, with $320 fixed costs. Budget profit is $500; actual profit is $340. The bridge is +$80 volume, -$110 price, -$110 unit cost and -$20 fixed cost = -$160. Check: $500 - $160 = $340.

“Price reduced profit by $110” is supported by the numbers. “Discounting caused the price reduction” requires invoice or commercial evidence. A good question names the owner and the evidence that could confirm or reject a hypothesis.

Your assignment

You are the analyst at fictional Cedar Office Products. The CFO asks why September 2026 revenue exceeded budget while operating profit missed it. Use USD whole dollars. All units were sold in the period; ignore inventory timing, returns, tax, financing and foreign exchange. Fixed costs are period totals. The case operating-profit measure is simplified, not a full statutory income statement.

Product / measure	Budget	Actual
A - units	1,000	1,200
A - price per unit	$100	$95
A - variable cost per unit	$60	$65
B - units	500	450
B - price per unit	$200	$210
B - variable cost per unit	$120	$130
Total fixed costs	$30,000	$38,000

Comments from the business

Sales: “We ran a campaign for Product A.” Operations: “We used some expedited freight.” Finance: “Several overhead lines moved.” No customer-level pricing, usage, freight detail or recurring / one-off overhead split has been supplied. Treat these comments as leads to investigate.

Submit three things

1. A formula-based budget / actual P&L and reconciled profit bridge in the student workbook. Show product-level workings, totals and a residual check. Retain the source inputs.

2. Three questions: name an owner, specify evidence needed and explain the decision the evidence would inform.

3. A CFO email of no more than 200 words, including the numeric result, material drivers, evidence gaps and recommended next actions. The supplied workbook has space for all three deliverables.

Use the defined volume → price → cost convention. Round only displayed results, not intermediate calculations. Check amounts within $0.01; percentage displays within 0.1 percentage point. Do not type balancing plugs.

Optional extension

Recompute the bridge with price changed before volume, keeping unit cost last. Explain which driver allocations change and why the total must stay the same. This extension is outside the 100-point rubric.