



KEY BUSINESS PARTNERS LIMITED

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BEST PRACTICE GUIDE FOR SPREADSHEETING AND FINANCIAL MODELS

By Vincent Pooch October 2014

So many people settle for “just” a spreadsheet when they could reap substantial benefits from investing in building a financial model. Few use the full power of Excel.

What is a financial model?

A combination of:

- maths (formulae)
- text (formatting)
- graphics (efficient visual layout, including charts).

It is not “just” a computer program.

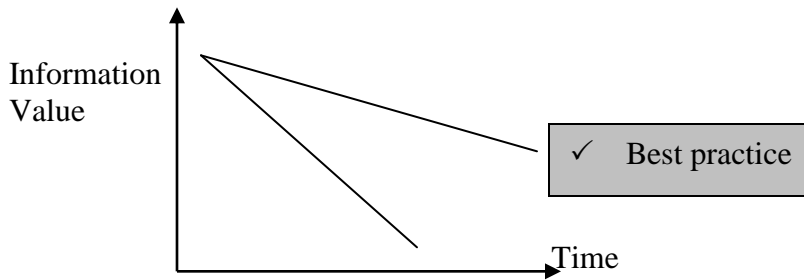
What are the benefits?

A financial model will produce reliable results quickly, on screen and hard copy - time and again. The results will be easily auditable. The effect of changing key variables or inputs will be readily discernable.

The model will be attractive and encourage people to learn.

You will find a financial model an easy to understand and effective record of current understanding of a business issue.

Best practice features will ensure that a model retains usefulness and information value for longer and benefits are maximised from the initial investment:



What is the best style?

To some extent, the style of your financial model is up to you. But all financial models should pass the “readability” test and efficiently impart information outputs from input data.

What are some specific “best practice” features?

1. Recognise that spreadsheets and models are not cross-checking like double entry accounting and can have errors. Even yours. Constant vigilance is essential as some errors only manifest themselves when new data combinations are included. Plan time for testing with several different users.
2. Models should flow left to right, top to bottom. Same as reading a book.
3. Formatting should be consistent across all worksheets.
4. Format numbers to help understanding. For example: t (tonnes), kg (kilograms) as well as \$. And, avoid mixing different classes
5. Keep formulae short and simple = easier to check.
6. Comments – use them frequently in cells. For example: Source of data, items to check, logic behind formula, check with John Smith etc.
7. Headers and Footers. For example: Printed on Date (and Time in some circumstances), Page Number, Filename, Sheet name, Draft/Final.
8. Style – separate formatting for inputs that are visibly different in hard copy. For example blue italics for inputs, back shaded. Be aware if your users only have black & white printers!
9. Instructions – a sheet setting out what this model is intended to do and general background comments. For example: Aspects that would benefit from further development at the next revision.
10. Index. List the sheets and what they contain and do.
11. Hyperlinks. Preferably in combinations with Named cells. Insert in Index to provide ease of forward navigation and buttons in sheets to provide backward navigation.
12. Worksheets. Use plenty of them. For example: relating to a particular business element - to help keep the model simple and understandable.

13. Sensitivity analysis. Can sensitivity testing be automated with a macro and a button or spinner?
14. Accountability. In File Properties ensure the author's name and contact details are included and current.
15. Charts. Pictures are powerful! Do the charts tell a clear story? I recommend that you change the Excel default colours.

Vincent's quick checklist:

- ✓ No problems opening?
- ✓ Fast, automatic recalculation? (not Manual – one day pressing F9 will be forgotten)
- ✓ No circular errors?
- ✓ Are cross add checks built in?
- ✓ Is the number of significant figures consistent and sensible?
- ✓ Are Chart scales sensible?
- ✓ Are Chart colours and markers attractive?
- ✓ No problems saving and closing?

In summary, never be overconfident about outputs. Always think about reasonableness. Invest time in best practice features to promote efficiency and reduce risk.

Services we can provide include:

- Customised modelling
- High-level training
- Review of your financial model
- Help desk – support on your models

More of Vincent's best tips:

- (i) **Auditing**
Use Auditing Toolbar – Tools, Customise, Toolbars.
- (ii) **Auditing**
Have a good hard look at formulae by using – Control + ` (grave accent) which is a toggle between formulae; and formula results. This can be printed.

Also print out with cell and row headings File Page Setup Sheet tick Row and column headings

- (iii) **Chart editing**
To change chart type click on the data series on a particular chart and click on chart type – will give a combination chart eg bar and area

(iv) **Data layout**

Set out data the way Excel likes it to maximise functionality:

- headings across columns
- data in rows
- headings in bold or similar so Excel knows it's a heading for sorting etc
- avoid blank rows and columns
- use real (actual, eg 28/6/12) dates in headings and format how you want them to look (eg Jun-12) as it makes formulae work easier later

(v) **Symbols**

Use symbols. To see what's available: Start Menu, Programs, Accessories, System tools, Character Map. It's much more complicated than just Insert Symbol in Word

(vi) **Conditional formatting**

Format – Conditional Formatting. A greatly underused tool to highlight exceptional values. Note that the object cell can be a formula which permits setting up an exception range bounded high and low

Last, but not least. Make sure it is backed up.

Questions? Comments?

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