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Practical Financial Modelling

A Guide to Current Practice

Jonathan Swan



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Contents

<i>Preface</i>	<i>ix</i>
<i>About the Author</i>	<i>x</i>
<i>Context</i>	<i>xi</i>
1 Model structure	1
Introduction	1
Two approaches	1
Purpose	3
Structure	3
Workbook structure	3
Inputs	4
Workings	5
Outputs	7
Variations	9
Documentation	10
Reporting	13
Reports	16
Model development	17
Navigation	20
2 Quality control	26
Introduction	26
Taxonomies of error	26
Audit tools	28
Error values	30
Audit sheet	32
Structural checks	34
Arithmetical checks	42
Financial checks	43
Model map	46
3 Mainly formulae	48
Introduction	48
Range names	49
Additional name functionality	60
BODMAS	71
Timing	71
Changing time periods	76

Circularities and iteration	79
Array formulae	88
Coercion	89
4 Mainly functions	90
Introduction	90
Logical	90
Lookup	99
Financial	109
Dates	111
Other useful functions	113
5 Model use	117
Introduction	117
Grouping and outlining	117
Data inputs	119
Conditional formatting	123
Custom formatting	126
Protection	131
6 Sensitivity analysis and scenarios	135
Introduction	135
Goal Seek	135
Data tables	136
Scenarios	138
Solver	147
Risk	147
Monte Carlo simulation	148
7 Automation	151
Introduction	151
Recorded macros	152
Iteration macro	153
Assigning macros	155
Written macros	157
Branching macros	158
Quarterly/annual macro	160
Error handling	160
User-defined functions	161
<i>Appendix: Keyboard shortcuts</i>	165
<i>Index</i>	170

Preface

Most of the books on financial modelling that I have come across tend to go long on the financial and short on the modelling. Most of them are full of genuinely useful financial calculations but they offer little insight into how to put them together in a robust and reliable model, in much the same way that a dictionary helps you with your spelling but does not help you to write good prose. To stay with this analogy for a moment, I would describe this book as a grammar that will provide you with a structural and conceptual basis for your financial modelling. I shall assume that you have a good working vocabulary, or the ability to refer to the appropriate dictionary, as required. This book sits between your Excel manual and your finance textbook.

I should state at the outset that there is no agreed 'best' practice in financial modelling – the methodology and techniques used are those which are best suited to the task at hand. In this book we will examine some of the common, generic, approaches you will encounter in financial models today, with a view to understanding the technical background and to appreciate that the same problem can often be solved in several ways, some of which appear better or more reliable than others, and some of which appear counter-intuitive and less satisfactory. The intention is to encourage you to reflect on your own practice in the light of these suggestions, and I am confident that you will be able to generate your own solutions to the problems and issues that follow. Even if you are not convinced by my arguments, by engaging with them you will have greater confidence in your own modelling abilities. You have picked this book from the shelf because at some point you have asked yourself the fundamental question – is this model right?

About the Author

Jonathan Swan is a director of Operis TRG Limited, the training arm of Operis Group plc. He has extensive experience in teaching the use of spreadsheets as a financial analysis tool. Over the past decade he has developed and delivered financial modelling training programmes to many investment banks, international financial institutions, management consulting and accounting firms, in the City of London and throughout Europe.

Jonathan holds an MBA from the East London Business School (University of East London) and is a member of the Securities Institute.

About Operis Group plc

Operis is a London-based project finance advisory firm, well known for its financial modelling expertise and experience. We:

- develop financial models of large transactions for a range of clients which includes financial institutions and project promoters in a variety of sectors and countries;
- advise government clients, companies and consortia in the PPP sector on project definition, bid strategy, funding routes, benchmarking, refinancing and project management;
- provide both formal and informal assurance advice for sponsors and funders in connection with financial models and project documentation developed by other firms;
- have a department of accountants and tax advisors in-house to provide additional advice in connection with such projects.
- are the largest provider of training in financial modelling, to over two thousand individuals in the last three years;
- market software valuable in the development and auditing of large financial models, which has been adopted by three out of four of the world's largest accountancy practices; and
- are currently the only European firm specifically accredited to ISO 9001:2000 for its financial modelling build, model audit and training activities.

The firm was established in 1990 and now has a headcount of 42, making it one of the largest teams devoted to its particular discipline.