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Anatomy of a Model

Let's start out by talking about the anatomy of a financial model.

You need to work from right to left. Your details, assumptions and inputs will be at the back, your calculations will be in the middle and your output or summary will be at the front.

Here are some of the things that might be in your financial model.

Firstly, you may decide to have a cover sheet at the front, a log of the changes that have been made to the model, a table of contents, some instructions and often we put in some disclaimers. Don't rely on people reading the instructions, that's really just there as documentation and detail. If you choose to put in a cover sheet that probably would go at the front of your model.

Secondly you would have your output or summaries; what you need to communicate as your output of your financial model. It's a little bit like a board paper or an executive summary. The snapshot or output of your model goes at the front or second sheet.

Going back further into the financial model, you have got your calculations; you are often wanting to split those out. Don't put too much on a single page. If you are getting into a lot of detail, for example about staff calculations that will go on a separate page and don't be afraid to cut it into separate pages and to keep one lot of calculations together.

All of your detail, inputs and assumptions go at the back so that you're getting into more detail as you go further back through your financial model.

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Let's talk about a couple of golden rules for putting together the anatomy of your financial model. It's important that you should separate your inputs, calculations and your results. Don't put everything all on one sheet, separate them out into different tabs. Use each column for the same purpose and each row. Don't clutter it too much and make it very clear what each section entails.

Use one formula per row or column. Using consistency of formulas is important in best practice and wherever possible we do try to have the same formula all the way across and if possible down the block of data as well.

We should always refer to the left and above in a formula. For example, in this formula we are linking above and to the left. We generally do that without thinking about it. We do try to refer to the left and above in a formula.

Here's a layout of what a financial model might look like. You've got your cover sheet here, instructions perhaps then we link through to your output, you've got calculations and going back into your assumptions and we have the source data at the back.

That was just a couple of points on the anatomy of a financial model.

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