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Assumptions Documentation Methods

I hope that I have instilled in you so far the importance of documentation of assumptions because it's critical that we make it very clear what our assumptions are in our financial model.

We usually have it on a separate page and we have it very clearly laid out, formatted and clearly labelled in such a way that we can see that these are the assumptions for our model. From a technical perspective there are a number of ways of documenting what those assumptions are. Let's go through some of those different methods.

There are a couple of in-cell comments that you can use. You can use footnoting, you can use hyperlinks and you can just use hard coded text. By hard coded, I mean that it's just typed straight into the cell, no linking. You can just type it out and that is sometimes the best way of doing assumptions documentation, writing it out exactly what you'd like to say. Lastly you can do linked, dynamic text using the ampersand which is quite a tricky and clever way of doing it. I will take you through how to do that as well.

You've got a file called Assumptions Documentation Methods. First let's go through how to do in-cell comments. Here we've got a growth amount so we want to make a comment about that. If you see a financial model and we just typed in 5%, you don't know where it came from. Did the modeller just make it up or did they get it from somewhere else? Let's go and put in an in-cell red corner cell comment. Right hand click and go insert comment. It usually comes up with your name and you can change that. You can just write we made this up or source and you can say you got it from someone or an educated guess. So that's one way of doing it. When you hover the mouse over the cell, it pops up like that. It's not my favourite way of doing it. It works quite well on the soft copy and for other modellers

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because they'll see it. I think it looks a little bit messy. They also don't print very well. You can print showing all your comments but then it hides other parts of the model.

Another method of in-cell commenting that I like is a data validation. Let's have look at how to do that. Go into data, data validation and the second tab on there is input message. You can put in a warning or you could say "note, enter number of customers here", so we click away and when you click on the cell, the note pops up. I like that because it's like your way of tapping the modeller on the shoulder and saying "don't forget to do this." You don't see it, it's quite subtle. You click away from the cell and you don't see it at all. That's another method of in-cell assumptions documentation in your model.

Next is footnotes. You can go into layout, go into page setup, header and footer and put in a footer into Excel. That is very rarely used as nobody is going to see that until you print it out. Most of the time when we're using a financial model, it's very much soft copy modelling. We're doing it online and in Excel. If you can't see it until you print it then I don't think there's a huge amount of point. You can't link to footnotes so we don't use it much in modelling.

I do tend to use footnoting in the way that I've shown it just here. You might just put it like that and put a comment underneath. You can do a bit of footnoting here. You could say this is number 1 and then you can just go into format cells, font, superscript and italic and that will make it look like a note and now we want to show where that refers to. We pop a 1 in there like that. That's a fairly manual way of doing footnoting in Excel.

Next we will look at hyperlinks. Whether it's a webpage or you're getting it from a report off the internet, you can just take the URL, copy and paste it straight into your cell.

Alternatively, you can go to insert, hyperlink and you can put the URL in here or you can link to other parts of the model which can also be quite useful.

Next you can just do hard coded text where you just type it out. A very simple, low tech way of doing it.

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Lastly, you can hard code the text but then you can link it into any of the inputs. Let's say here we've got the number of customer starts at 15,065 in 2016. Now when we're doing commentary or your assumptions or anything like that, I do try to avoid typing numbers directly into cells, I do try to link as much as possible making it dynamic so if the number changes, the commentary would change as well. Here, I'm going to put equals and make that into a formula. That's now exactly the same, it's just a formula. Instead of that 15,065, I'm going to put inverted commas, close inverted commas, ampersand 15065, ampersand and put some more inverted commas in there, enter like that. You can see I'm missing a few spaces in there so I can just put an extra space in there and there. Even the 2016 you could make that dynamic as well. Go in here, ampersand and link it through to there, so that if that number changes, my commentary will change as well. So that's another way of doing assumptions documentation in financial models.

Now that we know how to do this ampersand, we can actually add that back to our documentation on our footnoting. See here we have a note for 1 and we linked that through to there but now that may not be number 1. We might decide that something else is number 1 and we need to change that in the note and in the text and avoid this duplication. What you can do is make this one dynamic. We can say equals, link it to that one there, ampersand, open inverted commas, we want MB and then go to the end and close inverted commas. I think I'm going to put a dot at the end, so I'll go in and put a dot there, so then that becomes note 2. This is actually relating to the growth rate so I think it would be more appropriate if that footnote was up against the growth rate. So Ctrl X and cut and Ctrl V and paste. I can cut and paste it around the model and because of the way I've built it. I can change the inputs, I can move it around and it's going to save me quite a lot of time in the long run.

In summary, assumptions documentation is absolutely critical. You need to say where you got your numbers from. If there's anything that could be misinterpreted based on your inputs or your assumptions then put it down in black and white and there are lots of different methods that you can use to document your assumptions in your financial model.