

Developed over many years of experience, these **10 best practices** are useful tips you can apply when developing any **financial model**.

Keep it simple and transparent



- Make the calculations and logic easy to understand
- Break formula down into simple, logical, easy-to-follow calculations
- Keep calculations transparent – avoid hiding any rows, columns or sheets

1

Identify and separate inputs, calculations and outputs



- Separate input cells and format them so they are clearly identifiable
- Locate inputs in their own cells and do not have constants (hardcodes) within a formula
- Keep inputs, calculations and outputs separate from each other
- Treat any links to external workbooks as inputs and identify them with consistent formatting

2

Format in a clear and consistent manner



- Establish a format for cell color, font color and sheet tab color
- Include a format key to explain formats to model users
- Apply formatting consistently throughout the model

3

Use structured and descriptive labeling and units



- Ensure every row has an accurate and useful description
- Label each sheet clearly and consistently
- Clearly identify the units of every line item

4

Keep the flow natural- left to right, top to bottom



- Ensure every row has an accurate and useful description
- Label each sheet clearly and consistently
- Clearly identify the units of every line item

5

Use consistent column headings throughout the model



- Assign each column a clear purpose that is the same on every sheet
- Use the same columns on every sheet for time series headings
- Where multiple periodicities are used, do not mix them on a single sheet and ensure they always start in the same column

6

Use one unique formula per row that is copied across



- Logic is always in one place, and the same place, in each row
- Prevents errors that arise from copying over mid-row formula changes
- Makes reviewing/testing and future maintenance easier and safer

7

Make extensive use of error checks



- Use error checks frequently throughout the model to check that it is internally consistent and avoids illogical outputs
- Link all error checks to a central location that instantly alerts the model user on every sheet if an error occurs

8

Include table of contents, user instructions and explanations



- Include a description setting out the model purpose, functionality and limitations
- Make user instructions as clear and as simple as possible.
- Summarize the content of the model in a table of contents

9

Keep it simple and transparent



- Avoid circular references due to their risky properties and slow calculation speed
- Avoid INDIRECT and OFFSET. As volatile functions, they are very difficult to check and they slow calculation speed
- Ensure outputs do not contain value errors (e.g. #N/A, #REF!, #DIV/0!)

10

Our experience suggests that when models adhere to **best practices**, the likelihood of errors within the model is **significantly reduced**.

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Demystifying financial models

Top 10 modelling best practices

Inquire | Analyse | Simplify | Solve

