FINANCIAL**EDGE**

Three Statement Model Editing
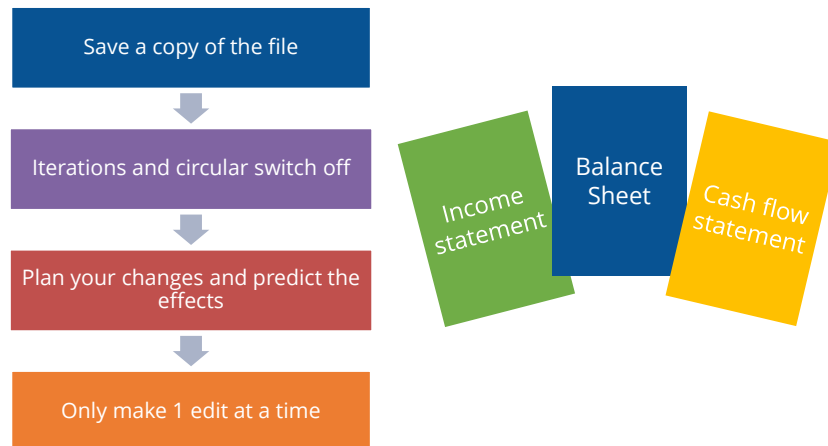
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Contents

- Before editing
- Inserting a new item
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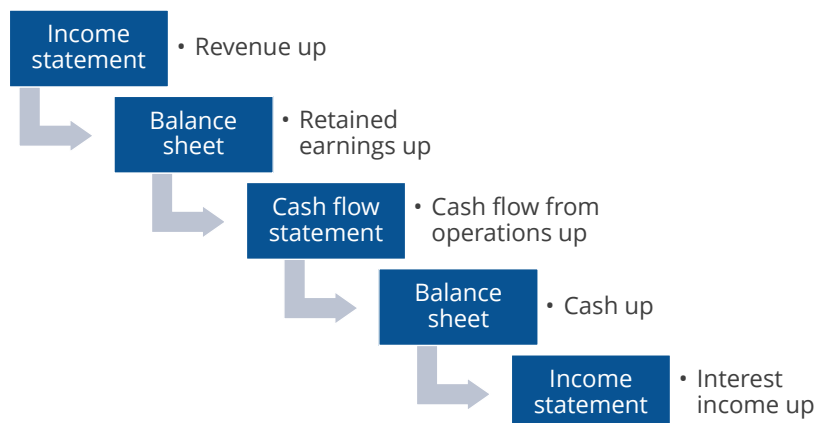- After editing
- Keyboard shortcuts

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What To Do Before Editing

Save a copy of the file

↓

Iterations and circular switch off

↓

Plan your changes and predict the effects

↓

Only make 1 edit at a time

Income statement

Balance Sheet

Cash flow statement

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Inserting a New Item – Predict Changes

Income statement — • Revenue up

Balance sheet — • Retained earnings up

Cash flow statement — • Cash flow from operations up

Balance sheet — • Cash up

Income statement — • Interest income up

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Inserting a New Item

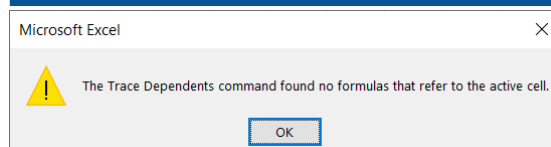|	
1	Predict where changes are needed
2	Insert new rows – assumptions, calculations, financial statements, outputs?
3	Label clearly and consistently, from assumptions through to output
4	New items get new rows. Try not to add onto another formula
5	Only add 1 new item at a time

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Removing an Old Item

Deleting rows means dependent cells return #REF

Trace dependent cells and edit these first
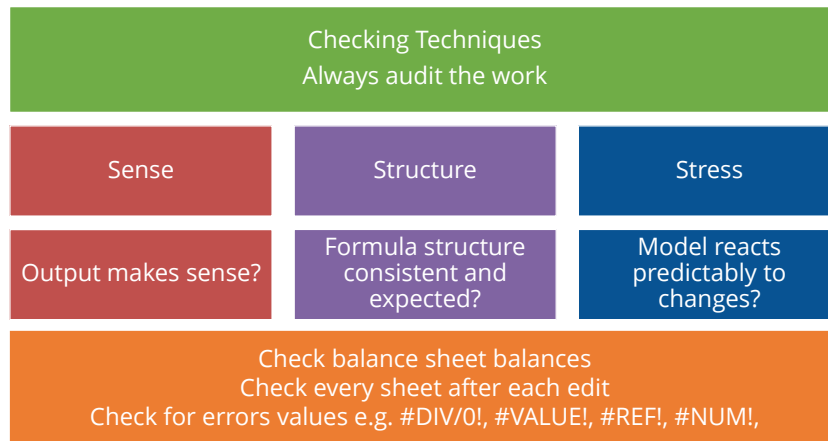
Only delete when trace dependents finds no links

Microsoft Excel ✕

⚠ The Trace Dependents command found no formulas that refer to the active cell.

OK

Trace precedents to find cells that may now be redundant

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After Editing

Checking Techniques Always audit the work	

Sense	Structure	Stress
Output makes sense?	Formula structure consistent and expected?	Model reacts predictably to changes?

Check balance sheet balances
Check every sheet after each edit
Check for errors values e.g. #DIV/0!, #VALUE!, #REF!, #NUM!,

After Editing – Sense Check

	Year 1	Year 2	Year 3	Year 4
Revenues	404.1	416.2	428.7	441.6
Operating costs	383.9	395.4	390.1	419.5
Operating profits	20.2	20.8	38.6	22.1
Tax expense	2.0	2.1	3.9	2.2
Net income	18.2	18.7	34.8	19.9

Unusual numbers
Negatives in wrong place
Downward trend when upward expected
Zeros

Check the "family" relationships:
Sales up, operating costs down?
Large debt repayment, cash up?

After Editing – Structure Check

Consistent period columns

Column reference	F	G
Balance sheet	Year 1	Year 2
Income statement	Year 1	Year 2
Operating statistics	Year 1	Year 2

Ensures consistency of formulas
% of formula have same column references
Growth % has this and last period references

Final period = 0.0?   Check for structure issue in period 1

Consistent row labels

Assumptions
Receivables
Inventories
Prepaids
Balance sheet
Receivables
Inventories
Prepaids

Inconsistent formulas more obvious

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After Editing – Stress Check

Change an assumption	Check model behaves as predicted	Undo stress test
Bigger changes are easier to see

Isolated changes are best (sales growth impacts too many line items) | Has PP&E gone up and cash gone down?

Have debt and cash gone up?

Does the model still balance? | Make any necessary changes

Recheck the changes |

Always stress test zero line items to ensure they work when populated

Always stress test line items which can be either positive or negative

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Keyboard Shortcuts

Key stroke	What it does
ALT M P	Trace precedents
ALT M D	Trace dependents
ALT M K	Error checking
ALT M A	Removes all arrows
ALT M H	Show formulas (an on off switch)
F2	Shows component cells
CTRL [	Jumps to first variable if formula is cross tab
Enter	Jumps from variable to variable if formula on the same tab
F5	Back to the start

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