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Error Checking
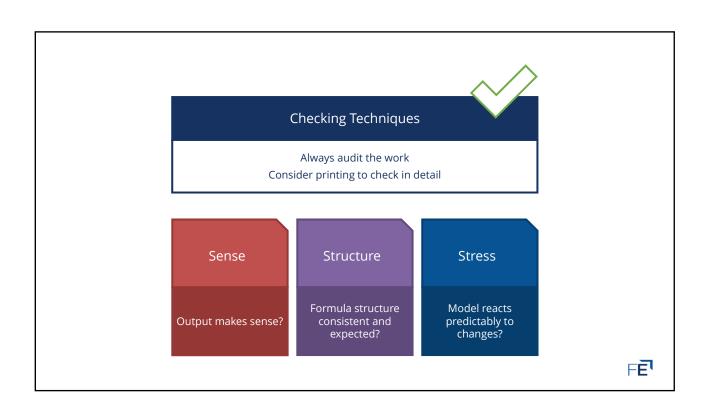
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Keyboard Shortcuts for Checking

Key stroke	What it does
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
F2 F9	Calculates what is selected, ESC to finish
ALT M P	Trace precedents
ALT M D	Trace dependents
ALT M K	Error checking
ALT M A	Removes all arrows
ALT M H or CTRL `	Show formulas (an on off switch)

Building to Avoid / Spot Errors

Speed	• Slow down • It is not a race • Integrity beats speed
Complexity	• Break down into steps • Avoid too much automation • Use formatting to help
Checking	• Narrow down the universe • Do it regularly • Do it before copying across

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Checking Techniques – Sense

	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

Check the time series:
Large sales growth caused by acquisition?

⬇

Check with peer group:
Sales growth way lower than competitors?

⬇

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

Checking Techniques – Structure

Consistent periods 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

Consistent row labels
Assumptions
Receivables
Inventories
Prepaids
Balance sheet
Receivables
Inventories
Prepaids

Inconsistent formulas more obvious

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

Checking Techniques – Stress

Change an assumption	Predict output change	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) | PP&E will go up and cash will go down

Debt will go up and cash will go up | 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

Balance Sheet out of Balance

Balance Sheet	
Cash and cash equivalents	83.3
Operating assets	80.8
Long term assets	68.9
Total assets	149.8
Operating liabilities	117.2
Total liabilities	117.2
Equity	115.8
Total liabilities and equity	233.0
Balance ?	83.3

ALWAYS calculate amount out of balance

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Check out of balance amount for consistency with any BS or CFS line item

⬇

Divide out of balance amount by 2 for a sign error on BS or CFS

⬇

Difference the same each period?
Beginning balance problem

⬇

Period 1 balances but not later periods?
Copy across again

Top 10 Errors – Prevention and Diagnosis

Faulty subtotals

Prevention
- Build for historicals – never hard code
- Check to source
- Copy across

Diagnosis
- F2 for visual reference
- Sense check over time series

Signs the wrong way around especially on cash flow statement

Prevention
- Use the rules of cash
- Use the structure (liabilities and equity one way, assets the opposite)
- Balance Sheet integration?

Diagnosis
- Structure check line by line
- Sense check over time series

Top 10 Errors – Prevention and Diagnosis

Historic balance sheet feeding forecast incorrectly

Prevention	• One feed rule – inputs hard coded once only • Use formatting for visual reference • Historic numbers never calculated – always input except subtotals
Diagnosis	• Balance sheet out of balance by same amount each year? • Visual check of historical back up calculations

Bad clicks – usually off by one year

Prevention	• Use the labels when formula building • Regular structure checks • Sense check over the time series
Diagnosis	• Final year shows zero? • Stress test by changing year 1 assumptions

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Top 10 Errors – Prevention and Diagnosis

Unnecessary circular references

Prevention	• Build with iteration turned OFF
Diagnosis	• Use the circular reference auditing tool

Interest calculated inconsistently

Prevention	• Build interest for first debt item • Check in detail • Copy to all other debt or cash items
Diagnosis	• Use F2 for visual check • Stress check interest rate or beginning and ending balances

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Top 10 Errors – Prevention and Diagnosis

Copy across failure

Prevention	• Do not copy across line by line • Ideally copy across at the very end or at least in blocks
Diagnosis	• Year 1 balances and then out of balance

Confusion between "flow" data and "point in time" data

Prevention	• Use accounting knowledge and rules of cash • BS or IS or CFS or BASE data? Pay attention
Diagnosis	• Sense check over time series

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Top 10 Errors – Prevention and Diagnosis

Missing cash flow statement line items

Prevention	• Build the CFS by using the BS • Each BS change needs a line in the CFS or CF reconciliation
Diagnosis	• BS integration? Does it balance? • Do a math check – change in BS line item = CFS line item?

Cash and / or Short term debt included in OWC

Prevention	• Use operating items only in OWC • Always build the subtotal – never link from BS
Diagnosis	• Circular message

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