Level 1, Unit 34 - Assessor's Guide

Financial Modelling

Guidance

1. Understanding and planning using financial modelling

1.1 - I can understand the need to make a financial model for a company

Financial models are very important to understand and create.

Evidence: will be provided directly from the presentation of work that has clear statements showing understanding. Discussion with assessor.

Additional information and guidance

Most companies need to have a good idea of what their future might be like. If they are going to grow in the next 10 years, what money do they need to spend for that to happen? If they don’t have the money, they will have to borrow it. If so, what is the best way to borrow money and what impact will it have in terms of changes in interest rates.

These are the sort of questions that can be answered by creating a model that allows a user to enter various details such as initial borrowing, interest rates etc. to find out what it might do in 1, 2 or 5 years time. This allows a company to make some decisions based on more understood probabilities.

1.2 - I can gather information and details required to make a successful model

The effectiveness of the final model will depend on the quality of the information gathered about what it is supposed to do.

Evidence: will be provided directly from the presentation of work that has clear statements showing understanding. Discussion with assessor.

Additional information and guidance

To develop a financial model, the learner will need to investigate what is required, what resources are available and what the preferred outcomes are. The system will work as a classic input > process > output model, but each of these phases will need careful planning and design to make sure that they work as required.

They can investigate an existing system, if allowed, or do some internet or book based research.

1.3 – I can organise the materials and equipment I need to make the model effective

Once the materials are gathered, the learner can show how they will be used.

Evidence: will be provided directly from the presentation of work that has clear statements showing understanding. Discussion with assessor.

Additional information and guidance

Some type of plan and timeline would be useful to show that the learner knows how and why the collected material will be used in their design process. Some element of notes on the materials will show some of the reflective processes used.

1.4 – I can list the inputs, processes and outputs for the model

An overall list of what the different elements of the system are likely to be.

Evidence: will be provided directly from the presentation of work that has clear statements showing understanding. Discussion with assessor.

Additional information and guidance

The inputs are likely to be funds and assets that will be affected by future actions of a company. The learner could collect samples of possible loans or other borrowed monies and work on a sample companies overall incomes. The processing will be the affects applied to some of these inputs, for example changes in interest rates or variations of income such as sales peaks and troughs. The output will be the calculations or summaries of all these affects. These can be presented as raw numbers, percentages or visually using graphs.

At this stage, the materials will be in rough form and could include lists of accounts that are incomes, types of loans and interest rates as well as rough sketches of possible outputs such as graphs.

2. Planing and developing a financial model

2.1 – I can make a paper based workflow model of how my system will work

Preparing a model on paper is a good way to visualise each part and how it will work.

Evidence: will be provided directly from the presentation of work that has clear statements showing understanding. Discussion with assessor.

Additional information and guidance

Even a simple model will require some thought about how each section will work, what sort of data will be input, how it is to be processed and what the best output might look like. Planning it out on paper first as a flow diagram with notes is the best approach.

2.2 – I can transfer my model to a computer based system

Moving the paper based version onto the computer.

Evidence: will be provided directly from the presentation of work that has clear statements showing understanding. Discussion with assessor.

Additional information and guidance

The learner should be able to set up the model on the software they are using and create the different elements like fields, calculations, tabs, reports etc.

2.3 – I can use test data to make sure my system models accurately

The system needs to be tested with appropriate data.

Evidence: will be provided directly from the presentation of work that has clear statements showing understanding. Discussion with assessor.

Additional information and guidance

Once the system is set up and has the right structure, the learner will need to make sure there are no problems. They will need to enter some sample data and see that it works as intended so that when it finally goes to a customer it is not going to break. The learner should test it with extreme data as well, just in case. If the company only ever deals with amounts no larger than 4 digits, so x000, they should test it with 5 or 6 digit numbers just in case.

2.4 – I can modify my model to respond to problems encountered

Any pieces that don't work as expected, can be fixed.

Evidence: will be provided directly from the presentation of work that has clear statements showing understanding. Discussion with assessor.

Additional information and guidance

Once any problems are identified, for example it doesn't display negative numbers in red or formulae do not add up correctly, they can be fixed. Learners should keep notes of the issues to show their problem solving and management skills.

3. Appreciating the impact and importance of financial modelling

3.1- I can list the likely outputs from my model and their importance

Some basic description of what will be produced and why.

Evidence: will be provided directly from the presentation of work that has clear statements showing understanding. Discussion with assessor.

Additional information and guidance

These will come from the customer needs and the limits of the particular software used, but will include calculated numbers, charts etc.

3.2 – I can use graphical tools to display information more clearly

Most people learn more easily from visual presentations of information.

Evidence: will be provided directly from the presentation of work that has clear statements showing understanding. Discussion with assessor.

Additional information and guidance

Use of colours in the model for particular data, such as black and red for plus and minus amounts is useful for displaying points. The type of charts used as outputs is also important as specific graphs display results for conclusions better than others.

3.3 – I can explain the importance of the outputs from my model

Some basic idea of why particular outputs have been used.

Evidence: will be provided directly from the presentation of work that has clear statements showing

understanding. Discussion with assessor.

Additional information and guidance

Colours and types for charts can be justified with some evidence about why they were chosen and what advantages they have. If charts are used, the colours may be modified to show a particular number more clearly etc.

3.4 – I can present my model with sample data to some colleagues for feedback

A short presentation of the system and how it works.

Evidence: will be provided directly from the presentation of work that has clear statements showing understanding. Discussion with assessor.

Additional information and guidance

Once the system has been created and tested, it can be presented to an audience to display some of the design features and functionality.