



## MODULE 2

# Understanding financial statements



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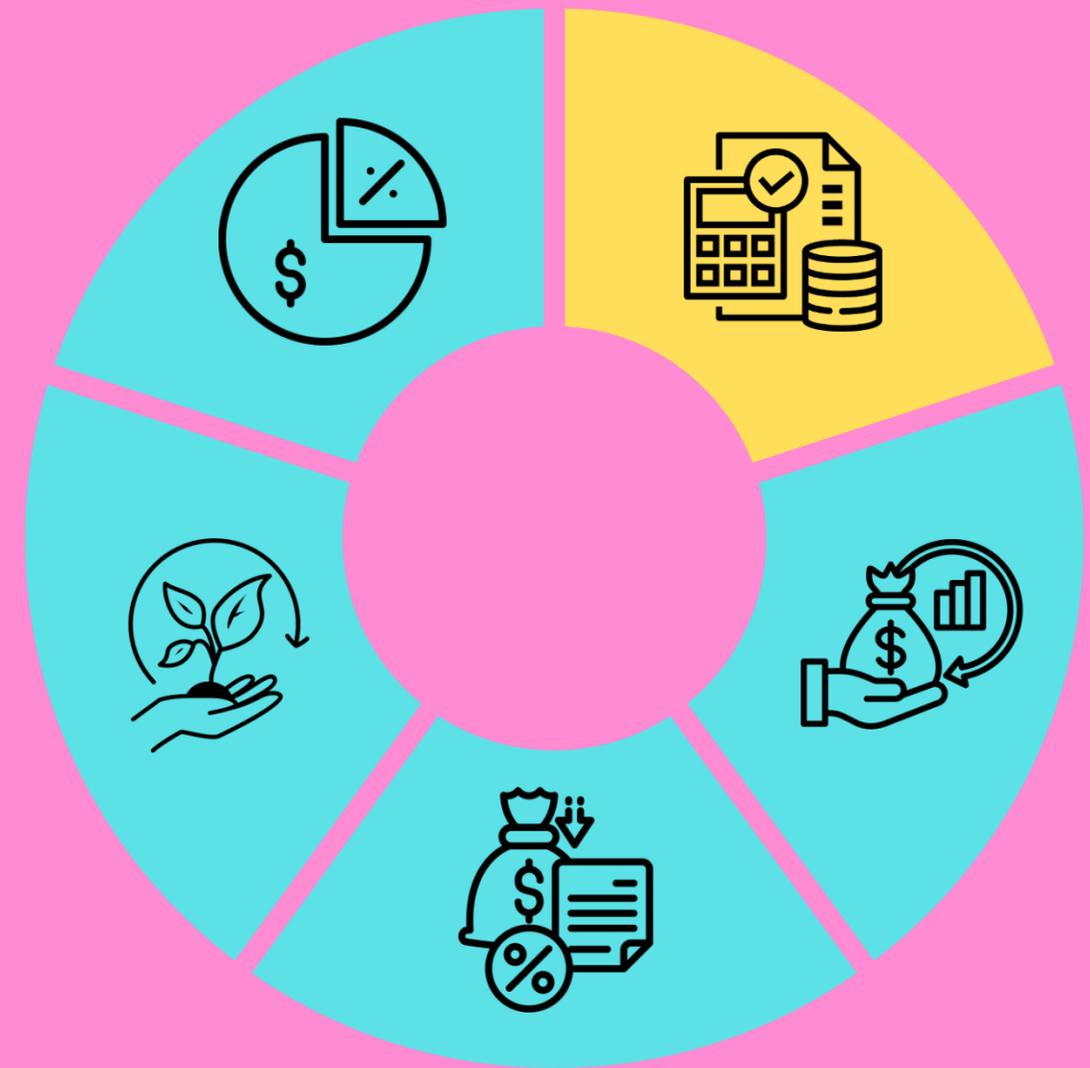
# How does this training programme works?

This training programme encompasses a set of 5 modules and it is designed to engage you in the topics, issues and activities that can help you acquire or improve your advanced financial skills for taking strategic business decisions.

It is a modular course, which means that you can pick up at where you feel you need training.

Right now, you are at **Module 2 –**

**Understanding financial statements.**



# Welcome to Module 2

- 1** In this module you will learn to recognise the structure and function of core financial statements, understanding how financial statements reflect business health, risks, and performance.
- 2** You will learn how to interpret and analyse financial statements to extract insights for strategic decision-making. Applying digital tools to assess financial data, identify and communicate key findings.
- 3** Ultimately, you will be empowered to take ownership in using financial statements to guide business model improvements and growth decisions, as well as to support others in interpreting financial data accurately and using it to inform business strategy.



# Module outline

In this module, you will find:



**Learning outcomes**



**Learning contents**



**Learning activities**



**Learning resources**

# Learning outcomes

At the end of this module, you are expected to:

1

Recognise the structure and function of core financial statements: balance sheet, income statement, and cash flow statement

2

Understand how financial statements reflect business health, risks, and performance

3

Interpret and analyse financial statements to extract insights for strategic decision-making

# Learning outcomes

At the end of this module, you are expected to:

4

Apply digital tools to assess financial data, identifying red flags and performance concerns and communicate key findings

5

Take ownership in using financial statements to guide business model improvements and growth decisions

6

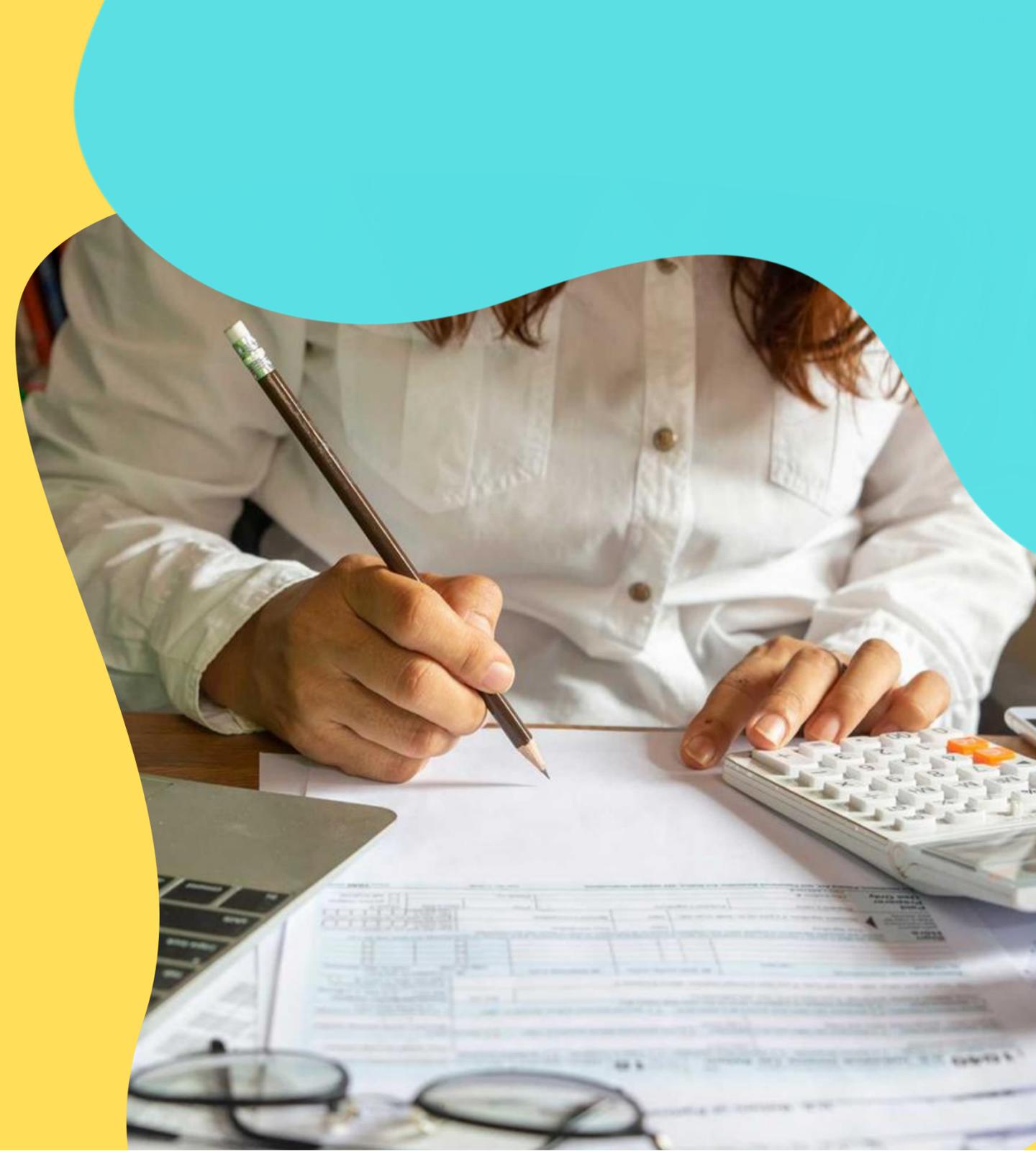
Support others in interpreting financial data accurately and using it to inform business strategy

# Learning contents

Theoretical and/or factual knowledge to help you get acquainted with budgeting and financial planning

# After completing this section, you are expected to:

- 1 Recognise the structure and function of core financial statements: balance sheet, income statement, and cash flow statement
- 2 Understand how financial statements reflect business health, risks, and performance



# Structure of the Balance Sheet

The balance sheet provides a detailed snapshot of a company's financial position at a specific point in time. It is divided into three main sections: assets, liabilities, and shareholders' equity. Assets are resources owned by the company that provide future economic benefits. They are categorized into current assets, such as cash, accounts receivable, and inventory, which can be converted into cash within one year, and non-current assets, such as property, equipment, and long-term investments, which are held for longer periods.

Liabilities represent obligations the company must fulfill, including current liabilities like accounts payable and short-term debt that are due within one year, and non-current liabilities like long-term debt. Shareholders' equity reflects the residual interest in the company's assets after deducting liabilities, encompassing common stock, retained earnings, and additional paid-in capital.



## Keeping updated



### **Balance Sheet: Simply Explained**

[www.munich-business-school.de/en/l/business-studies-dictionary/financial-knowledge/balance-sheet](http://www.munich-business-school.de/en/l/business-studies-dictionary/financial-knowledge/balance-sheet)



# Function of the Balance Sheet

The balance sheet serves several vital functions within financial analysis.

It helps stakeholders, including investors, creditors, and management, understand the company's liquidity, financial stability, and capital structure.

By comparing assets and liabilities, stakeholders can assess the company's ability to meet its short-term and long-term obligations.

The balance sheet also provides insight into how the company finances its assets, whether through debt or equity, and allows for the evaluation of the company's investment in assets.

This information is crucial for making informed decisions regarding lending, investing, and managing financial risks.



## Keeping updated



### What is the Purpose of the Balance Sheet?

[www.indeed.com/career-advice/career-development/purpose-of-balance-sheet](https://www.indeed.com/career-advice/career-development/purpose-of-balance-sheet)



# Structure of the Income Statement

The income statement, also known as the profit and loss statement, offers a comprehensive summary of the company's financial performance over a specific period, typically a quarter or a year.

It starts with revenue, which represents the total sales generated by the company, followed by the cost of goods sold (COGS), which includes direct expenses related to the production of goods or services sold. Subtracting COGS from revenue yields gross profit. Operating expenses, which encompass selling, general, and administrative expenses, are subtracted from gross profit to arrive at operating income.

The income statement also accounts for other income and expenses, including interest and taxes, ultimately leading to the net income, which indicates the company's profitability after all expenses have been deducted.



## Keeping updated



**Income Statement. Income, expenses, and profit/loss**

<https://corporatefinanceinstitute.com/resources/accounting/income-statement>



# Function of the Income Statement

The income statement's primary function is to demonstrate the company's profitability and provide detailed information about revenue generation, cost management, and expense control.

Stakeholders use the income statement to assess how efficiently a company is operating and how well it is generating profit from its core business activities.

It is also crucial for identifying trends in revenue and expenses, which can inform future business strategies and operational improvements.

The income statement allows for the evaluation of the company's ability to sustain growth, manage costs, and achieve profitability in a competitive market.



## Keeping updated



**Purpose of the income statement**  
[www.accountingtools.com/articles/the-purpose-of-the-income-statement.html](http://www.accountingtools.com/articles/the-purpose-of-the-income-statement.html)



**Income Statement: How to Read and Use It**  
[www.investopedia.com/terms/i/incomestatement.asp](http://www.investopedia.com/terms/i/incomestatement.asp)



# Structure and Function of the Cash Flow Statement

The cash flow statement shows a company's cash inflows and outflows over a period. It's divided into three parts:

- **Operating activities:** cash from core business operations
- **Investing activities:** buying or selling long-term assets
- **Financing activities:** borrowing, repaying debt, issuing shares, and paying dividends

This statement helps assess the company's liquidity, financial health, and ability to fund operations, grow, and meet obligations. It gives stakeholders a clear view of how cash is managed and how well the company can adapt to market changes.



## Keeping updated



**Cash Flow Statement. How to Prepare and Read One**

[www.investopedia.com/investing/what-is-a-cash-flow-statement](https://www.investopedia.com/investing/what-is-a-cash-flow-statement)



# Profitability

## What it shows:

Profitability indicates how well a company is generating earnings relative to its revenue, costs, and expenses.

## Where it's found:

Income Statement (also called the Profit & Loss Statement)

## Key indicators:

Gross Profit Margin =  $(\text{Revenue} - \text{Cost of Goods Sold}) / \text{Revenue}$   
For a given sale price, measures efficiency in producing goods/services.

Operating Margin =  $\text{Operating Income} / \text{Revenue}$   
Shows how well the company controls operating costs.

Net Profit Margin =  $\text{Net Income} / \text{Revenue}$   
Final measure of how much profit is made after all expenses.



## Keeping updated



### How to Read and Use Profitability Ratios in Business

<https://blog.tmetric.com/what-are-profitability-ratios>



# Liquidity

## What it shows:

Liquidity tells you whether a company can pay its short-term obligations — essential for daily operations and avoiding cash crunches.

## Where it's found:

Balance Sheet

## Key indicators:

Current Ratio = Current Assets / Current Liabilities

A ratio above 1 means assets cover liabilities.

Quick Ratio = (Current Assets - Inventory) / Current Liabilities

More conservative; excludes inventory since it's less liquid.



## Keeping updated



**Liquidity. Definition and Examples**

[www.wallstreetoasis.com/resources/skills/finance/liquidity](http://www.wallstreetoasis.com/resources/skills/finance/liquidity)



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# Solvency

## What it shows:

Solvency reflects long-term financial stability — whether the company can meet debt obligations over time.

## Where it's found:

Balance Sheet  
Sometimes supported by Cash Flow Statement

## Key indicators:

Debt-to-Equity Ratio = Total Debt / Shareholders' Equity  
A high ratio may signal overreliance on debt.

Interest Coverage Ratio = EBIT (Earnings Before Interest and Taxes) / Interest Expense  
Measures ability to pay interest on debt.



## Keeping updated



**What Is Solvency? Definition, How It Works With Solvency Ratios**

[www.investopedia.com/terms/s/solvency.asp](http://www.investopedia.com/terms/s/solvency.asp)



# Cash Flow

## What it shows:

Even profitable companies can fail if they don't manage cash properly. This concept focuses on the actual movement of cash, not just accounting profits.

## Where it's found:

Cash Flow Statement, divided into:

- Operating Activities (cash from day-to-day operations)
- Investing Activities (capital spending, acquisitions)
- Financing Activities (loans, dividends, issuing stock)

## Key indicators:

Free Cash Flow = Operating Cash Flow - Capital Expenditures  
Shows how much cash is left after investment needs.



## Keeping updated



### Cash Flow Management

[www.financestrategists.com/wealth-management/financial-statements/cash-flow-statement/cash-flow-management](http://www.financestrategists.com/wealth-management/financial-statements/cash-flow-statement/cash-flow-management)



# Risk Exposure

## What it shows:

Financial statements help uncover potential red flags or vulnerabilities, critical for risk management and strategic decision-making.

## Where it's found:

• Across all statements, plus **footnotes** and **MD&A** (Management Discussion & Analysis) in annual reports.

## Red flags to watch:

- Declining sales or margins over several periods
- High or growing debt levels
- Large receivables or inventory buildup (may signal poor sales)
- Repeated negative cash flow from operations



## Keeping updated



**What is Risk Exposure and How to Calculate It?**

[www.metricstream.com/learn/risk-exposure.html](http://www.metricstream.com/learn/risk-exposure.html)



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# Learning activities

A set of activities designed to provide you with real-world challenges and practical information on budgeting and financial planning, so you can apply the knowledge gained

# Module activities

In this module, you will find:



## Task cards

Practical problem-oriented case studies specifically designed to offer you real-world scenarios for you to apply budgeting/finance techniques and perform specific tasks



## Storytelling scenarios

Real or fictional narratives that reflect real-life budgeting/finance dilemmas or success stories, encouraging understanding through reflection and analysis



## Practical tips

Exploratory questions and answers presented as practical tips to help you better face budgeting/finance challenges through entrepreneurial judgement and independent thinking

# After completing this section, you are expected to:

- 1 Interpret and analyse financial statements to extract insights for strategic decision-making
- 2 Apply digital tools to assess financial data, identifying red flags and performance concerns and communicate key findings



# After completing this section, you are expected to:

- 1 Take ownership in using financial statements to guide business model improvements and growth decisions
- 2 Support others in interpreting financial data accurately and using it to inform business strategy



# Task cards

## Task card 1: Connecting Profit & Loss sheet with competitive strategy

In this task, you will explore how to integrate the Profit & Loss sheet with your competitive strategy. You will work with a business sector standard from your choice, defining a fictional case found online, or working with your own entrepreneurial idea - analysing data and financial ratios, to align your operations with profit, materializing a competitive strategy.

This task is useful because there are several P&L sheet lines affecting your chosen competitive strategy. Knowing how to turn these profit expectations into strategy gives your business a competitive and credible edge. Work through the three actions below to practice Profit & Loss management and enhance your financial leadership skills.



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Task card 1

# Action 1: Monitor Gross Margin to Cover Indirect Costs

**Step 1:** Choose a sector — ideally your own, or another relevant one from the internet.

**Step 2:** Compare that sector's typical profit and loss (P&L) with your business's P&L or a realistic example.

**Step 3:** Calculate your gross margin per unit, multiply by projected sales, and see if it covers indirect costs. Adjust pricing or sales targets to reach your desired profit.



## To help you further



**Profit and loss statements explained (templates and examples)**

<https://clockify.me/learn/business-management/profit-loss-statement>



**A Guide to P&L Analysis for Small Business Owners**

<https://paro.ai/blog/p-and-l-analysis-for-small-business-owners>



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Task card 1

## **Action 2:** Integrating Gross Margin with your Strategy

**Step 1:** Create a comparative table among your Gross Margin results (coming from Action 1), and your strategy for the mid-term. If the results doesn't meet your strategy, consider adopting one or more of the next steps.

**Step 2:** Analyse the option of increase Gross Margin by increasing the sales unit targeted price; or try to reduce indirect structural costs, both options could drive to reach the desired Net Profit.

**Step 3:** Choose your more viable strategy (through price increase or Indirect costs contention), or a mix of both of them, and project strategy application into a results table to check it out.



### **To help you further**



**Gross Margin: Definition, Example, Formula, and How to Calculate**

[www.investopedia.com/terms/g/grossmargin.asp#:~:text=Gross%20margin%20is%20expressed%20as,to%20get%20the%20gross%20margin.](http://www.investopedia.com/terms/g/grossmargin.asp#:~:text=Gross%20margin%20is%20expressed%20as,to%20get%20the%20gross%20margin.)



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Task card 1

## Action 3: Taking care of your competitors

**Step 1:** Complete your P&L Statement adding into it a column with comparative data (real or estimated) related to your main market competitor.

**Step 2:** Attending to the data content at the table, create scenarios and hypothesis related to your competitive actions and possible reactions of your competitors. For this exercise, focus on pricing strategy and indirect costs contention, as the main drivers of profit.

**Step 3:** Compare the data of the different scenarios and evaluate the impact on sales volume and the implementation feasibility of the strategy at the scenario. Chose one and project your competitor and your own figures.



### To help you further



#### How to Conduct a Margin Analysis

[www.vendavo.com/all/how-to-conduct-margin-impact-analysis](http://www.vendavo.com/all/how-to-conduct-margin-impact-analysis)



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# Task card 1:

## Connecting Profit & Loss sheet with competitive strategy

# In a nutshell

You have learned how to manage gross margin creation and its connection with unit gross margin and the impact of sales unit volume.

This task has shown how your gross margin creation connects with market competitive strategy, attending to sector and competitors values.

Outlook the sectorial and main competitors Profit & Loss statement to assure your competitive strategy it is still strong and capable to attract the desired demand levels to your company.

## Task card 2: Managing Sustainable Growth

In this task, you will learn how to evaluate the growth capability, and its limits and constraints, of a business. You will work with a fictional or case found online or with your own entrepreneurial idea.

This task is useful because there are several sources of the financial resources than a company needs to sustain its growth. In opposition, there are several drivers of the operative working capital consumption. Work through the three actions presented in this task to balance resource generation and consumption, looking for the right balance to properly support company's growth.



Task card 2

# Action 1: Analysing impact of sales mix on working capital

**Step 1:** Choose your own or an example business. Imagine you're selling through three channels:

- DIY stores
- Manufacturers (using your product in theirs)
- Hotels (using your product in decor)

**Step 2:** Forecast €1.5M in sales for next year, with this mix:

- 40% DIY
- 40% Manufacturers
- 20% Hotels

**Step 3:** Based on payment terms, assume working capital costs per €100,000:

- 15% for DIY
- 10% for Manufacturers
- 5% for Hotels

Build a table to calculate and compare working capital use per channel based on the forecast.



## To help you further



**How Customer Contract Terms Impact Net Working Capital**

[www.forvismazars.us/forsights/2024/09/how-customer-contract-terms-impact-net-working-capital](https://www.forvismazars.us/forsights/2024/09/how-customer-contract-terms-impact-net-working-capital)



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Task card 2

## **Action 2:** Cash flow generation by sales mix

**Step 1:** Using the table from Action 1, assume gross margin by channel:

- 20% for DIY
- 25% for Manufacturers
- 45% for Hotels

**Step 2:** You can borrow up to €150,000 in short-term debt for operations. Add this info to your table and analyze the impact.

**Step 3:** Test different sales mix scenarios to find the best balance — one that maximizes profit while reducing or optimizing working capital use across channels.



### **To help you further**



**10 Tips to Optimize Working Capital and Cash Flow**

[https://growthoperators.com/resources\\_insights/10-tips-to-optimize-working-capital-and-cash-flow](https://growthoperators.com/resources_insights/10-tips-to-optimize-working-capital-and-cash-flow)



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Task card 2

## **Action 3:** Other considerations in optimising working capital.

**Step 1:** Review the optimized table from Step 3 of Action 2. Create a fictional strategy for your company that includes factors beyond profit, like channel growth, future positioning, sustainability, competitive advantage, and innovation.

**Step 2:** Using this strategy and common sense, update the table from Step 1 to combine profit with strategic and tactical goals.

**Step 3:** Based on the new table, outline a roadmap to move from your current state to the desired one. List key actions such as adjusting channel sales, reallocating resources, or repositioning your company in certain channels. needs, etc.).



### **To help you further**



**Strategies for Optimising Working Capital Management: A Guide for Finance Leaders**

[www.linkedin.com/pulse/strategies-optimising-working-capital-management-guide-finance-nydbe](https://www.linkedin.com/pulse/strategies-optimising-working-capital-management-guide-finance-nydbe)



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# Task card 2: Managing Sustainable Growth In a nutshell

You have learned about sales growing financial capabilities based on cash flow generation, short term debt business context, and working capital consumption derived from the days to pay to providers and days to be paid from customers.

This task has shown a way to identify the maximized usage of working capital capabilities, the internal and external financial resources, that are available to support operations financial effort.

Periodically conduct negotiations with providers to optimize purchase terms impacting in use of working capital. Do the same to review and re-negotiate sales terms with your main customers reducing working capital usage.

# Storytelling scenarios

# Scenario 1: Outsource or not outsource, that is the question

Iris is a product designer who recently started a company making high-end home lighting. Her designs are popular, and orders are growing fast.

However, like many new businesses, she struggles to finance this growth.

Banks hesitate to lend large amounts because there's little collateral if she fails.

Her own funds and leftover cash after costs and debts are limited, restricting her ability to meet demand—giving competitors a chance to step in.



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# Scenario 1: Outsource or not outsource, that is the question

Iris has several options to boost her finances, with a current gross margin of €400,000:

- Outsource lamp assembly to a cheaper company, freeing €100,000 but losing 5% of sales growth margin.
- Outsource design work, saving €150,000 but losing 7% of sales growth margin.
- Or do both.

What do you think?



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## **Scenario 1:** Outsource or not outsource, that is the question

- 1** If you were in Iris's position, how would you balance the feeling of control loss of some of your business activities with the feasibility gain in your growth goals?
- 2** What would be a general criterion to decide in such kind of activities outsource or insource dilemmas?
- 3** How would you communicate to your team the criteria you use to outsource activities, keeping in mind that this has an impact on labour and staff?



After reading this story, you are now asked to reflect and answer the debriefing questions here presented. While doing it:

- ✓ Consider your market positioning and the attributes of your offer that are crucial for your customer segments.
- ✓ Consider that internal activities mean structural fixed costs, while outsourced activities are variable costs, where you pay for the work delivered. With externalized activities, you just pay for the well-done job, while with internalized activities, quality costs have to be assumed at your P&L as scratch costs.



# Scenario 1: Outsource or not outsource, that is the question



## TRY TO

Draw your Business Model Canvas (Ostewalder and Pigneur), and identify Key Activities and Key Resources related to your Value Proposal.



## TRY TO

Imagine the impact of losing total control of some of your key activities or resources in assuring your Value Proposal, and in your customer segments perception



## DO NOT

Use constrained resources to finance activities that are not crucial for your Value Proposal.



## DO NOT

Invest huge amount of money in research and development of non-critical activities. If you externalize them, the responsibility of doing so its from your provider, not you.

## Scenario 2: Pros and Cons of Product Parts Standardisation

Clara runs a modern furniture company. At the last board meeting, a major debate arose over the product portfolio:

- **Marketing** argues the portfolio is too limited and lacks customization compared to competitors.
- **Manufacturing** says it's still too complex for efficient production, making cost reductions hard.
- **Finance** warns the gross margin is below market average and needs urgent improvement.



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## Scenario 2: Pros and Cons of Product Parts Standardisation

Clara knows that a higher level of personalization could drive to a premium price, offering a theoretically better gross margin. But, as her manufacturing director says, higher levels of complexity could lead to:

- Lower manufacturing efficiency by low standardization.
- Lower components and materials purchase negotiation power due to a high distribution between providers and items.
- Higher quality non-conformity ratios due to the new materials not previously tested and with a learning curve at the starting phase.

How can Clara create a strategy that balances product personalization and parts standardization?



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## Scenario 2: Pros and Cons of Product Parts Standardisation

- 1 What should be the conditions for marketing to allow them to increase the level of product personalization? Could it be for all customers and all products?
- 2 What should the manufacturing product design criteria be to increase parts standardization while increasing product personalization perception?
- 3 Can finance expect the same gross margin for all the customers and all the portfolio parts? Which could be the rule to stress standardization or personalization in each part of our market?



After reading this story, you are now asked to reflect and answer the debriefing questions here presented. While doing it:

- ✓ Consider that the arguments coming from marketing and from manufacturing are real facts, not just opinions.
- ✓ Consider that product variations always lead to higher costs. This strategy should be accompanied by value recovery through higher prices or orders.
- ✓ Consider that two products could be 80% equal in terms of components but perceived as personalized with good product design.



## Scenario 2: Pros and Cons of Product Parts Standardisation



### TRY TO

Analyse what the market understands as personalisation in terms of product attributes and design.



### TRY TO

Understand which part of the product personalization process is more harmful to manufacturing and purchasing processes.



### DO NOT

Think that your goals as a process are the most important. Companies are economic systems: one action in one process resonates within other processes.



### DO NOT

Do not start a product variation or personalization without a plan for recovering, in the short or medium term, the extra costs that you will incur.

# Practical tips

## Practical tip 1: How to assure operation costs in Services?

Controlling service production costs is complex since they involve time, attention, and expertise, not just materials. Most costs come from staff and customer interactions, making it hard to track service-specific expenses.

A key challenge is managing employee time, as small inefficiencies can raise costs without showing up clearly in records. To improve control, companies should set standard procedures, use tools like timesheets, and train staff for efficiency.



### To learn more about

Consider the following resource, where this topic is explored in more depth:

The first step in managing and controlling your service costs and budgets is to identify the factors that influence your costs and revenues. These are called cost drivers, and they can be internal or external, controllable or uncontrollable, and fixed or variable. By analyzing your cost drivers, you can understand how they affect your profitability and performance, and how you can adjust them to optimize your outcomes.



#### **How do you manage and control service costs and budgets?**

[www.linkedin.com/advice/0/how-do-you-manage-control-service-costs-budgets?lang=en](https://www.linkedin.com/advice/0/how-do-you-manage-control-service-costs-budgets?lang=en)



## Practical tip 2: How to analyse value creation for all business parts?

To create a positive feedback loop across the business, we need data and tools:

- **For company performance**, use financial statements like the balance sheet and profit & loss (P&L).
- **For customer satisfaction**, track purchase volume, loyalty, and Net Promoter Score (NPS).
- **For employee satisfaction**, monitor work climate, engagement, willingness to recommend the company, and fairness and competitiveness of pay and conditions.



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### To learn more about

Consider the following resource, where this topic is explored in more depth:

Satisfied employees help produce satisfied customers. Satisfied employees are likely to assist customers with a more pleasant demeanor and a higher level of customer service. This creates a more satisfying customer experience, increases customer loyalty, and ultimately drives increased profitability.



#### **Satisfied Employees Leads to Satisfied Customers**

[www.snapsurveys.com/blog/satisfied-employees-leads-satisfied-customers](https://www.snapsurveys.com/blog/satisfied-employees-leads-satisfied-customers)



## Practical tip 3: Managing your compared value for fixing a competitive pricing?

The customer's perceived value compared to competitors is key to pricing and links directly to the P&L.

We invest in COGS to build that value. The price we set, minus COGS, gives us the gross margin. The company should:

- Avoid spending on COGS that don't increase perceived value. Focus on what customers truly value.
- Monitor competitors' average perceived value, as it affects how competitive our pricing can be.



### To learn more about

Consider the following resource, where this topic is explored in more depth:

Value-based pricing is a strategy of setting prices primarily based on a consumer's perceived value of a product or service. Value-based pricing is customer-focused, meaning companies base their pricing on how much the customer believes a product is worth.



#### **Value-Based Pricing: An Overview of This Pricing Strategy**

[www.investopedia.com/terms/v/valuebasedpricing.asp](http://www.investopedia.com/terms/v/valuebasedpricing.asp)



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## **Practical tip 4:** How to spread P&L approach among the whole organisation?

Extending P&L thinking across the organization means everyone understands how their actions affect financial results. Often, daily work feels disconnected from the bottom line. To fix this, we need to translate key P&L elements—like sales, costs, and profits—into clear, relevant KPIs for each team.

For example, customer service might track cost per issue resolved or how satisfaction drives repeated sales; logistics could measure cost per delivery.

When every team sees its financial impact and owns part of the outcome, it builds a culture focused on efficiency and long-term sustainability.



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### **To learn more about**

Consider the following resource, where this topic is explored in more depth:

Getting all the teams to buy into a shared goal of profitability has never been more challenging mostly in the cases when numerous stakeholders are involved.



**How do you ensure P&L alignment with all the stakeholders in an ecommerce organization?**

[www.linkedin.com/pulse/how-do-you-ensure-pl-alignment-all-stakeholders-matt](https://www.linkedin.com/pulse/how-do-you-ensure-pl-alignment-all-stakeholders-matt)



## **Practical tip 5:** How to assure business model and continuity through P&L?

Securing a company's future requires balancing two priorities: exploitation (generating revenue through current products and efficient processes) and exploration (investing in innovation and new opportunities). Exploitation boosts short-term profits, while exploration involves upfront costs with uncertain returns. To support long-term growth, accounting should treat exploration—like R&D, pilots, and training—as strategic investments, not just expenses.

This balance needs clear metrics and a long-term vision. Over-focusing on efficiency can lead to rigidity, while too much exploration risks losing direction and cash. Tracking both with tailored criteria helps guide smarter decisions.



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### **To learn more about**

Consider the following resource, where this topic is explored in more depth:

How can SMEs which operate with lean techniques handle the tension between exploration and exploitation in order to be successful in short and long term?



**Balancing between exploration  
and exploitation in a lean  
business environment**

[https://essay.utwente.nl/70844/1/van%20Oort\\_MA\\_BMS.pdf](https://essay.utwente.nl/70844/1/van%20Oort_MA_BMS.pdf)



## **Practical tip 6:** How we decide which should be internal and external activities?

The Business Model Canvas helps identify the key activities needed to deliver value, reach customers, and earn revenue. Not all of these must be done in-house. To decide, ask: Which activities set us apart or are critical to our quality and identity? These should stay internal—even if costlier—because they support our core strengths.

A simple tool is a two-axis matrix: strategic impact vs. internal capability. Activities with high impact and strong internal skills should be kept inside. Those with low impact and low capability are good candidates for outsourcing.



### **To learn more about**

Consider the following resource, where this topic is explored in more depth:

The core strategies regarding whether to internalize or externalize, and defining your approach to making this decision can be essential to building a successful company.



**Internalizing Versus  
Externalizing: How to Utilize Both  
for the Benefit of Your Company**

<https://shorturl.at/YASdP>



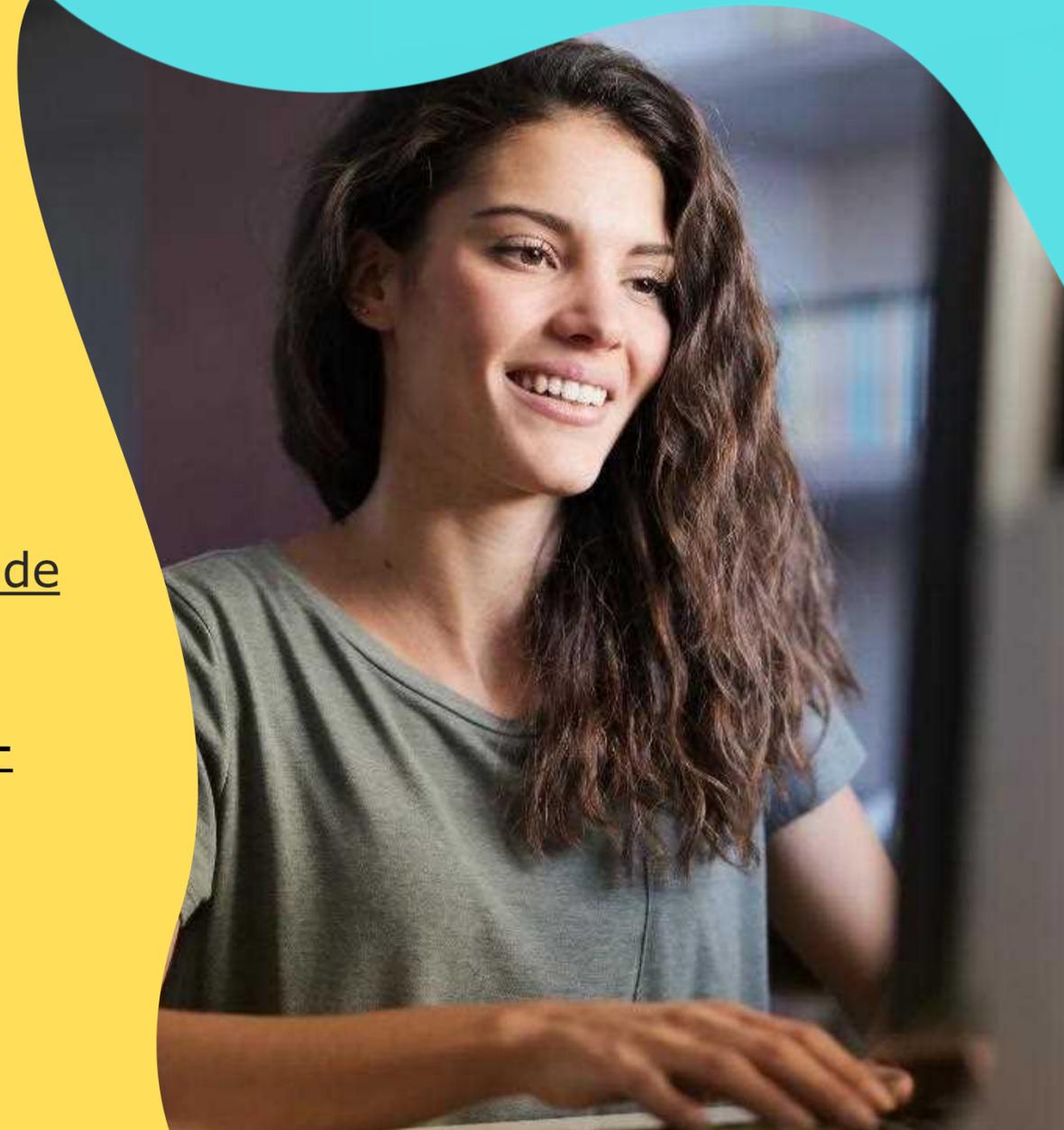
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# Learning resources

Additional online resources to help you broaden your understanding on budgeting and financial planning

# Useful resources

- 1 How to Read Financial Statements**  
<https://online.hbs.edu/blog/post/how-to-read-financial-statements>
- 2 The Three Major Financial Statements**  
[www.investopedia.com/ask/answers/031815/how-are-three-major-financial-statements-related-each-other.asp](http://www.investopedia.com/ask/answers/031815/how-are-three-major-financial-statements-related-each-other.asp)
- 3 Financial Statements: List of Types and How to Read Them**  
[www.investopedia.com/terms/f/financial-statements.asp](http://www.investopedia.com/terms/f/financial-statements.asp)
- 4 Beginners' Guide to Financial Statements**  
[www.sec.gov/about/reports-publications/investorpubsbegfinstmtguide](http://www.sec.gov/about/reports-publications/investorpubsbegfinstmtguide)
- 5 Financial Statement Analysis for Strategic Decision Making**  
<https://academyflex.com/financial-statement-analysis-for-strategic-decision-making/>
- 6 5 Key Methods to Master Financial Statements**  
<https://jeffreyhammel.com/5-key-methods-to-master-financial-statements>



# Useful resources

- 1 Innovative Ways Financial Analysts Use Digital Tools**  
<https://shorturl.at/XmmI5>
- 2 The Art of Communication in FP&A: Presenting Data with Impact**  
<https://shorturl.at/QGbBW>
- 3 How Financial Analysis Drives Smart Business Decision-Making**  
<https://btmgroupci.com/news/how-financial-analysis-drives-smart-business-decision-making>
- 4 How To Use Financial Data To Drive Business Decisions**  
[www.forbes.com/sites/melissahouston/2024/05/08/how-to-use-financial-data-to-drive-business-decisions/](http://www.forbes.com/sites/melissahouston/2024/05/08/how-to-use-financial-data-to-drive-business-decisions/)
- 5 20 Ways To Effectively Communicate Financial Reports To Stakeholders**  
[www.forbes.com/councils/forbesfinancecouncil/2023/08/04/20-ways-to-effectively-communicate-financial-reports-to-stakeholders/](http://www.forbes.com/councils/forbesfinancecouncil/2023/08/04/20-ways-to-effectively-communicate-financial-reports-to-stakeholders/)
- 6 What is Financial Analytics: Definition, Use Cases, and Impact**  
[www.knime.com/blog/financial-analytics](http://www.knime.com/blog/financial-analytics)



# Well done! What is next on your journey?

Go ahead and select a new module!

## Module 1

Budgeting and financial planning

## Module 3

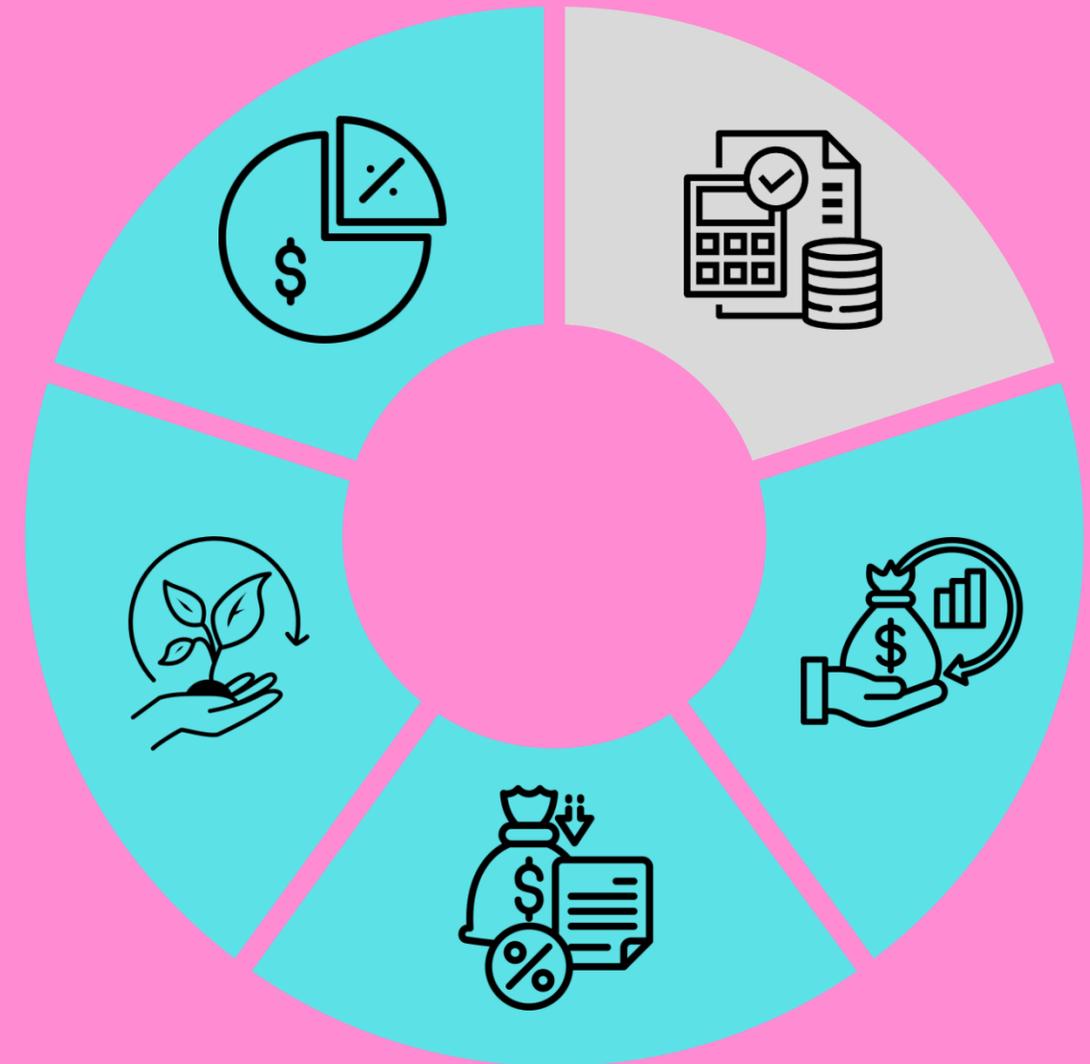
Investment knowledge

## Module 4

Debt and risk management

## Module 5

Sustainable finance for strategic financial decisions



# The partnership

Meet the partners



[excel-erasmus-project](https://www.linkedin.com/company/excel-erasmus-project)



[excel-erasmus.eu](https://www.excel-erasmus.eu)



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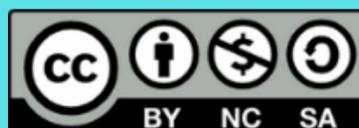
# ADVANCED FINANCIAL SKILLS AS A CATALYST FOR WOMEN ENTREPRENEURS' TRANSFORMATIVE POWER



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