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INTERNATIONAL FINANCIAL STATEMENT ANALYSIS

Financial statement analysis is a part of business analysis. Business analysis is the evaluation of a company’s business environment, strategies, financial position, and performance to be able to make decisions with respect to that company. Business analysis is conducted using relevant information available about a company. Financial statements are an important source of information for conducting business analysis.

Accounting analysis, Financial analysis and Prospective analysis are the steps in financial statement analysis.

Accounting analysis begins with an evaluation of the extent to which a company’s financial statements reflect economic reality. The sources of distortion in financial statements include: Accounting standards that are inconsistent with economic reality, Estimation errors made by managers in applying accounting standards, The intentional manipulation of financial statements by managers also called earnings management.

Accounting analysis involves identifying distortions in financial statements and making adjustments to the financial statements where possible.

Financial Analysis involves the use of adjusted financial statement information to conduct: Cash flow analysis, profitability and risk analysis. Much of financial analysis is conducted through the use of ratios calculated from the financial statements.

Cash flow analysis is the analysis of how a company generates and uses cash.

Profitability analysis deals with a focus on return on invested capital.

Risk analysis includes an evaluation of liquidity and solvency to assess a company’s ability to meet its obligations.

Prospective Analysis involves combining the results of accounting analysis and financial analysis, along with an analysis of the business environment and company strategy, to forecast future financial statement information, especially cash flows and income.

**Reasons to Analyse Foreign Financial Statements**

1. Foreign Portfolio Investment
2. International Mergers and Acquisitions
3. Making credit decisions about foreign customers.
4. Evaluating the financial health of foreign suppliers.
5. Benchmarking against global competitors.

**Problems that may arise in Analysing Foreign Financial Statements**.

1. Data Accessibility
2. Language
3. Terminology
4. Format
5. Extent of Disclosure
6. Timeliness
7. Differences in Accounting Principles