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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. Whether to extend credit to a company or to invest in a company’s equity securities are important decisions based on business analysis.

Financial statement analysis consists of the following steps:

i. Accounting analysis;

ii. Financial analysis; and

iii. Prospective analysis

**Accounting analysis** involves identifying distortions in financial statements and making adjustments to the financial statements where possible. The ability to make adjustments will be determined by whether a company discloses adequate information to allow an adjustment to be made. The extent to which accounting standards induce financial statement distortions will differ from country to country because of differences in national accounting rules. Differences also exist across countries with respect to the amount and type of disclosures required to be provided in financial statements.

**Financial Analysis** involves the use of adjusted financial statement information to conduct:

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

ii. Profitability analysis: with a focus on return on invested capital.

iii. Risk analysis: including 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**

i. Foreign Portfolio Investment

ii. International Mergers and Acquisitions

iii. Making credit decisions about foreign customers.

**Potential Problems in Analysing Foreign Financial Statements**

i. Language

ii. Timeliness

iii. Differences in Accounting Principles