NAME: BELLO AISHAT OPEOLUWA

MATRIC NO: 16/SMS02/017

COURSE: INTERNATIONAL ACCOUNTING

COURSE CODE: ACC 406

**INTERNATIONAL FINANCIAL STATEMENT ANALYSIS**

Financial statement analysis is the evaluation of the information presented in the financial statement. It is part of the process of business analysis. Business analysis is the appraisal of a company’s business environment, strategies, financial position, and performance to enable management make decisions with respect to the company’s growth and development. A financial statement is an important source of information for performance appraisal.

Analysis of financial statements consists of three steps namely accounting analysis, financial analysis, and prospective analysis. Accounting analysis starts with the evaluation of the extent to which a company’s financial statement reflects the economic reality. It also involves identifying distortions in the financial statements and making adjustments. Financial analysis deals with the use of the adjusted financial statement to conduct cash flow analysis, profitability analysis and risk analysis. Ratios are calculated from the financial statement to conduct the analysis.

The final step is the prospective analysis. It encompasses combining the results of accounting and financial analysis, alongside the business environment and company strategy analysis, to forecast future financial statement information e.g. cashflows and income. This is an essential step of the analysis as forecasts of the company’s future prospects are determined by the decisions made on the forecasted financial statement information.

There are several reasons that justify the analysis of foreign financial statements. It helps in international mergers and acquisitions, creating a foreign portfolio investment, making credit decisions about foreign customers, benchmarking against international competitors and evaluating the financial health of foreign suppliers. There are also problems that could arise from analysis. Differences in accounting principles, terminology, format, language, and extent of disclosure can pose as problems from conducting a foreign financial statement analysis.