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**LEVEL: 400**

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**ASSIGNMENT: Summarise, in not more than 450 words, the note on 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. Business analysis is conducted using relevant information available about a company.

Financial statement analysis consists of the following steps:

* **Accounting analysis:** begins with an evaluation of the extent to which a company’s financial statements reflect economic reality.
* **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 Analyze Foreign Financial Statements**

i. Foreign Portfolio Investment

ii. International Mergers and Acquisitions

iii. Making credit decisions about foreign customers.

iv. Evaluating the financial health of foreign suppliers.

v. Benchmarking against global competitors.

**Potential Problems in Analyzing Foreign Financial Statements**

Some of the potential problems that may arise in analyzing foreign financial statements include:

i. Data Accessibility

ii. Language

iii. Terminology

iv. Format

v. Extent of Disclosure

vi. Timeliness

vii. Differences in Accounting Principles