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**COURSE TITLE:** INTERNATIONAL ACCOUNTING

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**ASSIGNMENT TITLE:** SUMMARY OF INTERNATIONAL FINANCIAL STATEMENT ANALYSIS

**INTERNATIONAL FINANCIAL STATEMENT ANALYSIS**

Financial statement analysis is a part of business analysis in 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 invest in a company’s equity securities are important decisions based on business analysis financial statements are important source of information for conducting business analysis.

Financial statement analysis consists of the following steps:

i. Accounting analysis;

ii. Financial analysis; and

iii. Prospective analysis.

**Accounting analysis:** begins with an evaluation of the extent to which a company’s financial statements reflect economic reality. There are three common sources of distortion in financial statements:

i. Accounting standards that are inconsistent with economic reality.

ii. Estimation errors made by managers in applying accounting standards.

iii. The intentional manipulation of financial statements by managers.

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

Much financial analysis is conducted through the use of ratios calculated from the financial

statements. Financial ratios are compared within a company over time to determine whether the

company’s ability to generate cash flows, earn a return on invested capital, and so is improving or deteriorating. The diversity of accounting principles and practices that exists across countries hampers our ability to directly compare companies operating in the same industry but located in different countries.

***Prospective Analysis:*** combining results of accounting analysis and financial analysis, along with an analysis of the business environment and company strategy, especially cash flows and income. Preparing forecasted future financial statements is a very important part of business analysis because decisions made today about a company are based on forecasts of the company’s future prospects.

***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***

Some of these problems include:

i. Data Accessibility

ii. Language

iii. Terminology

iv. Format