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ACC 406

INTERNATIONAL ACCOUNTING

**INTERNATIONAL FINANCIAL STATEMENT ANALYSIS**

Business analysis is a relevant process of evaluating a company's business environment, performance, financial position, and strategies. It is essential due to the fact that it helps business operations and adequate decision making in a company. Financial statement analysis is a part of business analysis.

Financial statement analysis takes a process of three steps which are as follows:

 1 Accounting analysis;

 2 Financial analysis; and

 3 Prospective analysis

Accounting analysis has to do with the evaluation of a company's financial statement with the aim of seeing if it reflects it's economic reality. It also has to do with the identification and adjustment of distortion found in the financial statement . The main sources of distortions of a financial statement are:

 i Accounting standards that lack consistence with the economic climate

 ii Estimation errors made by managers in applying accounting standards

 iii The international manipulation of financial statements buy managers

Differences and distortions also exist across countries with respect to the mount and type of disclosures required to be provided in financial statements.

Financial Analysis has to do with the use of adjusted financial statement information to conduct: Cashflow analysis, profitability analysis and risk analysis.

Much of financial analysis is conducted through the use of ratios, financial ratios are compared over time.

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.

 iv Evaluating the financial health of foreign suppliers.

 v Benchmarking against global competitors.

**Potential Problems in Analysing Foreign Financial Statements**

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

 i Data Accessibility

 ii Language

 iii Terminology

 iv Format

 v Extent of Disclosure

 vi Timeliness

 vii Differences in Accounting Principles