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ACC 406

INTERNATIONAL ACCOUNTING

SUMMARY ON INTERNATIONAL FINANCIAL STATEMENT ACCOUNTING

Business analysis is the evaluation of a company’s business environment, financial position and performance in order to be able to make certain decisions relating to that company. Financial statements are fundamental in conducting business analysis and this can be conducted using the following steps:

1. Accounting analysis: This is an analysis of financial statement which shows or reflects the economic reality. There are three common sources of distortion in financial statements which are: accounting standards that are inconsistent with economic reality, estimation errors made by managers in applying accounting standards and the intentional manipulation of financial statements by managers; often referred to as earnings management. Accounting analysis involves identifying distortions in financial statements and making adjustments to the financial statements where possible.
2. Financial analysis: This involves the use of adjusted financial statement to conduct cash flow analysis, profitability analysis and risk analysis. The majority of financial analysis is done using ratio. 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 on, is improving or deteriorating. Ratios also are compared across companies operating in the same industry to evaluate companies relative to their peers.
3. 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.

The following are reasons to analyse foreign financial statement

1. Foreign Portfolio Investment
2. International Mergers and Acquisitions
3. Making credit decisions about foreign customers
4. Evaluating the financial health of foreign suppliers
5. Benchmarking against global competitors.

Potential Problems in Analysing Foreign Financial StatementsSome of the potential problems that may arise in analysing foreign financial statements include:

1. Data Accessibility
2. Language
3. Terminology
4. Format
5. Extent of Disclosure
6. Timeliness
7. Differences in Accounting Principles