Name: Grace L. Uche-Ewule

Matric No: 17/sms02/070

Course Title and Code: International Accounting- Acc 406

**Summary of International Financial Statement 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. It helps to make decisions concerning extending credit to a company or invest in a company’s equity securities. Financial statement is a part and an important source of information for conducting business analysis.

Financial statement analysis consists of the following steps:

1. Accounting analysis;
2. ii. Financial analysis; and
3. iii. Prospective analysis.

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

1. Accounting standards that are inconsistent with economic reality
2. Estimation errors made by managers in applying accounting standards
3. The intentional manipulation of financial statements by managers

Furthermore, it involves identifying distortions and making adjustments to the financial statements where possible. Also, the extent to which accounting standards induce financial statement distortions will differ from country to country because of differences in national accounting rules. The amount and type of disclosures required create differences.

Financial Analysis involves the use of adjusted financial statement information to conduct:

1. Cash flow analysis: the analysis of how a company generates and uses cash.
2. Profitability analysis: with a focus on return on invested capital.
3. Risk analysis: including an evaluation of liquidity and solvency to assess a company’s ability to meet its obligations.

This analysis is carried through the use of ratios. Financial ratios are compared within a company and across companies which different aims.

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

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 Statements include:

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