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**International Financial Statement Analysis**

Business analysis is the evaluation of a company to be able to make decisions with respect to that company and financial statement analysis is a part of business analysis. Investments and credit worthiness are important decisions based on business analysis and it’s conducted using relevant information about a company.

Financial statement analysis involves three steps which are;

Accounting analysis which is the beginning of the evaluation of the true and fair view of a company’s financial statements. There are three common distortions in financial statements which are accounting standards inconsistency with economic reality, estimation errors in applying accounting standards and intentional misstatement by managers. Accounting analysis involves identifying distortions in financial statements and adjusting where possible.

Financial analysis involves the use of adjusted financial statement information to conduct cash flow analysis, profitability analysis and risk analysis. Financial analysis is majorly conducted using ratios from financial statements. Ratios are used to compare within a company and between other companies in the same industry. Diversity of accounting principles hampers comparability between companies.

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 which is very important because decisions made by businesses today are based on forecasts of the company’s prospects.

There are several reasons to analyse foreign financial statements such as; foreign portfolio investment, international mergers and acquisitions, credit decisions about foreign customers, evaluating the financial health of foreign suppliers, benchmarking against global competitors.

Potential problems encountered in analysing foreign financial statements include data accessibility, language, terminology, format, extent of disclosure, timeliness, and differences in accounting principles.