Name: Muhammad Hajara Maji

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 **SUMMARY OF INTERNATIONAL FINANCIAL STATEMENT ANALYSIS**

A financial statement analysis is a part of business analysis, and 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 is conducted using relevant information available about a company. A financial statement consists of the accounting analysis, financial analysis, and prospective analysis.

Accounting analysis starts with evaluating the extent to which a company’s financial statement mirrors an economic reality. It involves identifying distortions in financial statement and making adjustments to the financial statement where possible. The three common sources of distortions in financial statement are: accounting standards that are non-consistent with economic reality (e.g. requires all research and development costs to be expensed immediately with no possibility recognizing an asset), errors in estimation made by managers in applying accounting standards (e.g. estimation of the cost of pension and other postretirement benefits), and the intentional manipulation of financial statements by managers usually referred to as earnings management (e.g. intentional overstatement of an occurred restructuring charge ).

Financial analysis involves the use of this adjusted financial statement information to conduct cash-flow analysis, profitability analysis, and risk analysis. Mostly, this is conducted through the use of ratios obtained from the financial statements. The financial ratios are compared within a company over time to determine whether the company’s ability to generate cash flows, earn returns on invested capitals, and so on is improving or deteriorating.

Prospective analysis then involves combining the results of accounting analysis and financial analysis, also with an analysis of the business environment and company strategy. This is to forecast future financial statement information, mainly the cash-flow and income. This is important because current decisions made about a company are based on the forecasts of the company’s future prospects.

The reasons for analyzing foreign financial statements are for foreign portfolio investment, international mergers and acquisition, making credit decisions about foreign customs, evaluating the financial health of foreign supplies, benchmarking against global competitors. Notwithstanding, some of the potential problems associated with analyzing a foreign financial statement include: data accessibility, language, terminology, format, extent of disclosure, timeliness, differences in accounting principles.