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MATRIC NO: 16/SMS02/007

**SUMMARY OF THE NOTE ON INTERNATIONAL FINANCIAL STATEMENT ANALYSIS**

Financial statement analysis is a segment of business analysis. Business analysis evaluates a company’s business environment, strategies, financial position, and performance so as to enable decision making with respect to that company. Important decisions such as extend credit to a company or to invest in a company’s equity securities are taken based on business analysis. Relevant information needed to conduct an efficient business analysis are contained within the financial statements.

Financial statement analysis consists of the following steps:

 i. Accounting analysis;

ii. Financial analysis; and

 iii. Prospective analysis.

**Accounting analysis:** this analysis evaluates the extent to which a company’s financial statements reflect economic reality. The common sources of distortion in financial statements include:

 i. Accounting standards that are inconsistent with economic reality.

ii. Estimation errors made by managers in applying accounting standards.

iii. The intentional manipulation of financial statements by managers; often referred to as earnings management.

Accounting analysis also involves recognizing distortions in financial statements and making adjustments to the financial statements where possible. Moreover, the ability to make adjustments will be determined by whether a company discloses adequate information to allow an adjustments.

**Financial Analysis**: This analysis makes use of adjusted financial statement information to conduct:

i. Cash flow analysis: the analysis of how a company generates and uses cash.

ii. Profitability analysis: with a focus on return on invested capital.

iii. Risk analysis: including an evaluation of liquidity and solvency to assess a company’s ability to meet its obligations.

A bigger portion of the financial analysis is conducted through the use of ratios calculated from the financial statements. In order to determine a company’sability to generate cash flows, earn a return on invested capital, and so on, financial ratios are compared within a company over time.

**Prospective Analysis:** This analysis incorporates the result of financial analysis and accounting analysis and also the analysis of the business environment and company strategy, to predict future financial statement information, especially cash flows and income. A very crucial part of business analysis involves the preparation of forecasted future financial statements because decisions made in the present about a company are based on forecasts of the company’s future prospects.

**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