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**SUMMARY ON INTERNATIONAL FINANCIAL STATEMENT ANALYSIS**

Financial statement analysis is a component of business analysis where business analysis is the evaluation of acompany’s business environment, strategies, financial position, and performance to be able to makedecisions concerning that company.

Relevant information available about a company is used in conducting business analysis and financial statements are an important source of information for conducting business analysis.

Financial statement analysis comprises of the following steps:

1. Accounting analysis
2. Financial analysis
3. Prospective analysis
4. **Accounting analysis:** This commences with an evaluation of the extent to which a company’s financial statements reflect economic reality and this technique varies between countries due to differences in national accounting rules. There are three common sources of distortion in financial statements:

* Accounting standards that are inconsistent with economic reality
* Estimation errors made by managers in applying accounting standards.
* The intentional manipulation of financial statements by managers; often referred to as earnings management.

1. **Financial Analysis:** This analysis is conducted through the means of ratios calculated from the financial statements which are compared to a company’s overtime to determine if they generate cash flows and earn a return on capitals invested in. It also involves the use of adjusted financial statement information to conduct:

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

**C. Prospective Analysis**: This is a preparation of forecasted future financial statements which is an important part of business analysis for companies, to help them utilize the full potential prospects of the company while making decisions. It 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. Preparing forecasted future financial statements.

**Reasons to Analyze Foreign Financial Statements**

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

**Potential Problems in Analysing Foreign Financial Statements**

Some of the potential problems that may arise in analyzing foreign financial statements include:

* Data Accessibility
* Language
* Format
* Timeliness
* Differences in Accounting Principles
* Terminology
* Extent of Disclosure