**International Financial Statement Analysis**

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**International Accounting(ACC406)**

**Summary of international Financial Statement Analysis**

Financial statement analysis is the process of reviewing and analysing a company’s financial statement to make better economic decisions to earn income in the future or for decision making purposes. Business analysis is the evaluation of a company’s business environment, performance etc. to be able to make decisions with respect to that company, financial statement analysis involves understanding of an organization’s financial situation by reviewing its financial reports.

Financial statement analysis consists of the following steps:

* Accounting analysis
* Financial analysis
* Prospective analysis.

Accounting analysis involves identifying distortions in financial statements and making adjustments to the financial statements where possible. The ability to make adjustments will be determined by whether a company discloses adequate information to allow an adjustment to be made. It begins with an evaluation of the extent to which a company’s financial statements reflect economic reality. Past performance, future performance and comparative performance are the main methods adopted for accounting analysis.

Financial analysis involves the use of adjusted financial statement information to conduct cash flow analysis, Profitability analysis and Risk analysis. It refers to an assessment of the viability, stability, and profitability of a business, sub-business or project. It is performed by professionals who prepare reports using ratios that make use of information taken from financial statements and other reports. Financial ratios are compared within a company over time to determine whether the company’s ability to generate cash flows, earn a return on invested capital, and so on, is improving or deteriorating.

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.

Some of the reasons of analysing foreign financial statements include:

* Foreign Portfolio Investment
* International Mergers and Acquisitions
* Making credit decisions about foreign customers.

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

* Data Accessibility
* Language
* Terminology