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**INTERNATIONAL FINANCIAL STATEMENT ANALYSIS**

Financial statement analysis is a part of business analysis. 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.

Financial statement analysis consists of the following steps:

i. Accounting analysis;

ii. Financial analysis; and

iii. Prospective analysis.

**Accounting Analysis**

Accounting analysis begins with an evaluation of the extent to which a company’s financial statements reflect economic reality. Accounting analysis involves identifying distortions in financial statements and making adjustments to the financial statements where possible.

**Financial Analysis**

Financial analysis involves the use of adjusted financial statement information to conduct:

1. Cash flow analysis: the analysis of how a company generates and uses cash.
2. Profitability analysis: with a focus on return on invested capital.

Much of financial analysis is conducted through the use of ratios calculated from the financial statements

**Prospective Analysis**

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.

# **Reasons to Analyse Foreign Financial Statements**

1. Foreign Portfolio Investment

ii. International Mergers and Acquisitions

1. Making credit decisions about foreign customers.

# **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