**International financial statement analysis**

Financial statement analysis can be defined as the evaluation of a company’s environment, strategies, financial position and performance which enables them to make decisions in respect to the company. They are a very important source of information for conducting business analysis.

There are three steps in financial statement analysis which are accounting analysis, financial analysis and prospective analysis.

**Accounting analysis**: This involves the identifying of distortions in financial statements and making adjustments when possible, but making adjustments really depends on whether the company provides the adequate information which would allow room for adjustment.

There are three commons sources of distortions in financial statement which are when managers make estimation errors, when accounting standards are inconsistent with economic reality and when there is intentional manipulation of financial statements by the managers.

**Financial analysis:** this involves using financial adjusted financial statement info to conduct cash flow analysis, profitability analysis and risk analysis. This is conducted through the use of ratios calculated from financial statements. Financial ratios are used to check if there is improvement over time or regression in performance. The diversity of accounting principles and practices obstructs the ability to directly compare companies in the same industry located in different countries.

**Prospective analysis:** This involves combining the results of both accounting analysis and financial analysis together with an analysis of the business environment and company strategy so as to forecast future financial statement information such as cash flows and income.

**Reasons to analyze foreign financial statements**

* making foreign decisions about foreign suppliers
* benchmarking against global competitors
* evaluating the financial health of foreign suppliers
* international mergers and acquisitions
* foreign portfolio investment

**Potential problems in analysis foreign financial statements**

* Format
* Terminology
* Data accessibility
* Language
* Differences in accounting principle
* Timeliness
* Extent of disclosure