

The need for conducting international financial statement analysis essay example

[Business](#), [Company](#)



An international financial statement is a summary of the accounting data which provides clear perception of a company's operations in all the countries where it operates. It helps the firm to abide by both the local and international rules.

It is a requirement that companies prepare financial statements which are complete, correct, and conform to the domestic and the international accounting rules. The rules include the generally accepted accounting principles (GAAP) and the international financial reporting standards (IFRS). Global trade means that companies operate on global basis. The companies abide by the rules, regulations, and the industry practices that apply to both the domestic (local) country and the larger international economic regions. Changes in the trends in global trade, external finance, and investment imply that the users of financial statements (such as investors, financial managers, equity research analysts, vendors, bankers, etc) have to read and analyze the international financial statements.

When evaluating the financial soundness and promise of a foreign direct or portfolio investment, it is important to conduct cross-border financial comparisons. This calls for the analysis of the international financial statements.

As merger and acquisition activities become more international, there is growing need to understand and use the international financial statements. The steady growth of cross-border mergers and acquisitions means that the users of the international financial statements must analyze the statements and make appropriate decisions on which companies to acquire or merger with.

As the businesses become more global, there is need for competitive analysis. The international financial statements are the basis for conducting competitive analysis, business negotiations, credit decisions, and corporate control.

The continued reduction in trade barriers, the emergence of unified markets such as Europe, the convergence of consumer tastes and preferences, and the rising sophistication of companies in penetrating the international (nondomestic) markets have greatly intensified the multinational business competition. This has further created the need for conducting international financial statement analysis.

Difficulties in conducting international financial statement analysis

There is significant variation in the accounting and auditing practices of countries. Besides, the legal and regulatory systems, the quality of the disclosure, and the risks and nature of business vary from one country to another. Because of this variation, the analytical tools in one country may not be effective in another. There are also challenges in obtaining reliable information especially in emerging markets.

There are various contradictions in the analysis of international financial statements. Despite the quick rate of harmonization of the accounting standards, there remain vast differences in the financial reporting practices. Various reporting options are also permitted by some standards. Also, the information content of some measurements options vary.

In some cases, financial analysts undergo frustrations in their quest to gather information. Besides, many governments give information that is suspicious.

How multinational companies have attempted to facilitate these comparisons

Multinational companies are voluntarily disclosing more credible information. With the posting of companies' information on the Internet, the access no longer becomes a problem. The variations in the accounting and auditing practices call for strong international harmonization efforts. Multinational companies use the GAAP and IFRS in their reporting. Besides, standard currencies are adopted.

Choi, F. D., and Meek, G. K. (2010). International Accounting. 7th Edition. Prentice Hall.