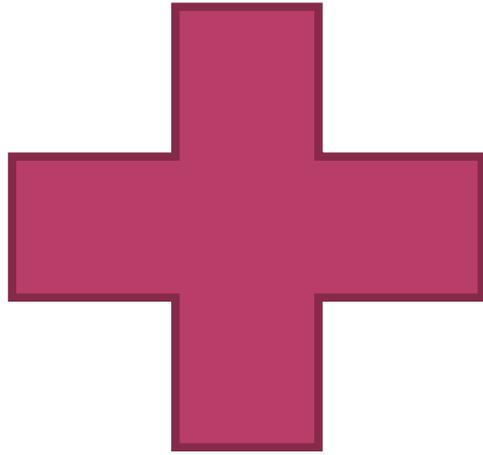


# INTERNATIONAL



# FINANCIAL ANALYSIS

**INTERNATIONAL**  It means involvement of, **interaction** between or encompassing **more than one nation**, or generally beyond **national boundaries**.

**FINANCIAL ANALYSIS**  It is a process of determining **strengths and weaknesses** of the enterprise by developing **meaningful relationship** between various items contained **in financial statements**.

# MEANING OF INTERNATIONAL FINANCIAL ANALYSIS

International financial analysis can be defined as the process of analyzing the accounts and figures present in the financial statements of the different branches of an organisation including those that are located in other countries.

It refers to the process of **evaluating** and **reviewing** the international financial statements of an organization with an aim of **understanding its current financial condition**, thereby ensuring that process of **decision making** is effectively carried out.

# Valuable

SHAREHOLDER

MANAGERS

INVESTORS



It is useful in  
identifying the  
**previous, present**  
**and future**  
performance of an  
organisation

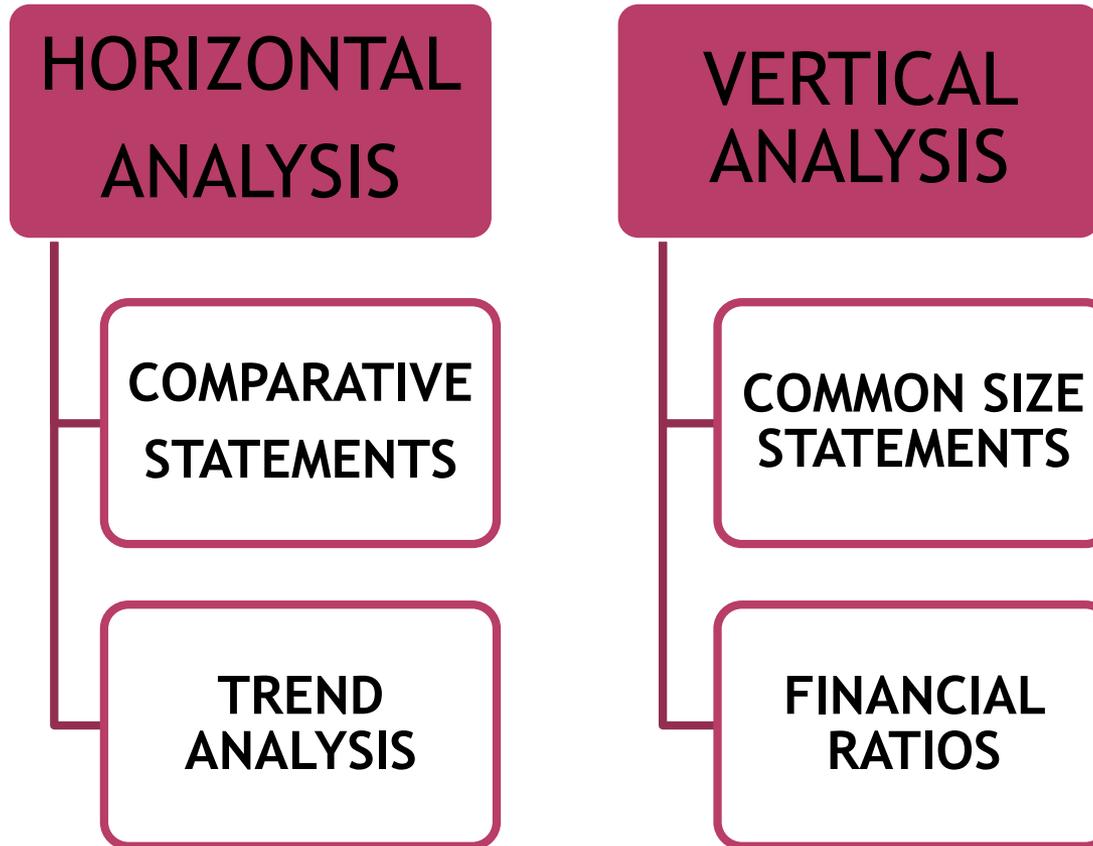
# PURPOSE

DIAGNOSE THE PROBLEM

INTELLIGENCE OF  
FINANCIAL ANALYST

APPLYING VARIOUS TOOLS  
OF FINANCIAL ANALYST

# TOOLS OF FINANCIAL STATEMENTS



➤ HORIZONTAL ANALYSIS- comparison of **two or more** year's financial data is known as horizontal analysis.

Horizontal analysis is facilitated by showing **changes** between years in **both** dollar and percentage form.

1. COMPARATIVE FINANCIAL STATEMENTS- It reveals not only the **balances** of the accounts as on **different dates** but also the extent of their **increase or decrease** between these dates. so, the analyst must therefore exercise caution in interpreting the trends expressed by comparative statements in situation where the **price level has fluctuated** substantially during the period under review.

**2. TREND ANALYSIS-** When comparative statements of several years are studied by determining the trend of sales ,profits and assets etc that analysis is called trend analysis.

➤ **VERTICAL ANALYSIS-** When a single statement is **converted into a common size** i.e. presented information after converting into percentage Form so as to establish relationship with other Components of the statement .This type of Analysis is vertical analysis.

1. **COMMON SIZE STATEMENT-**A Statement in which all items are expressed as a percentage of a **base** figure, useful for the purposes of analyzing **trends** and changing relationship among **financial statement items**.

**For example-** All items in each year's income statement could be presented as a percentage of net sales.

- 2. FINANCIAL RATIOS-** Ratios are a means of highlighting relationship between financial statement items. The numerous ratios which are calculated from financial data can provide the users of the statement with important information with regard to the liquidity, solvency and profitability of the business.
- **Short term creditors** are more interested in the **liquidity**.
  - **long term creditors** are more interested in the **solvency**.
  - **shareholders and other potential investors** are more interested in **profitability**.

**Following ratios are generally employed to analyse different aspects of a concern's financial position.**

**Current ratio, quick ratio, debt equity ratio, return on total assets and dividend payout.**

# DEFINITION

“Analysing financial statements is a process of **evaluating** relationship between components parts of financial statements to obtain better understanding of **firms position** and performance”.

**R.W.METCALF**

# TYPES OF FINANCIAL ANALYSIS

**ON THE BASIS OF  
CONCERNED  
PARTIES**

**INTERNAL  
ANALYSIS**

**EXTERNAL  
ANALYSIS**

**ON THE BASIS OF  
TIME PERIOD OF  
STUDY**

**HORIZONTAL  
ANALYSIS**

**VERTICAL  
ANALYSIS**

**TREND  
ANALYSIS**

# ON THE BASIS OF CONCERNED PARTIES:-

1. INTERNAL ANALYSIS- It is conducted by the management of the company for decision making or to monitor its financial and operating performance. As the analysis is done by the party who has access to the internal records and policies, it is expected to be more effective and reliable.
2. EXTERNAL ANALYSIS- It is made by those who do not have access to the detailed records of the company. Such analysis depends entirely upon published financial statements. The users in this category include investors ,creditors, government and bankers

# ON THE BASIS OF TIME PERIOD OF STUDY:-

- HORIZONTAL ANALYSIS- comparison of **two or more** year's financial data is known as horizontal analysis. Horizontal analysis is facilitated by showing **changes** between years in **both** dollar and percentage form.
- VERTICAL ANALYSIS- When a single statement is **converted into a common size** i.e. presented information after converting into percentage form so as to establish relationship with other Components of the statement .This type of Analysis is vertical analysis.
- TREND ANALYSIS- When comparative statements of several years are studied by determining the trend of sales ,profits and assets etc that analysis is called trend analysis.

# INTERPRETATION

- ❑ It means drawing conclusions. Process of financial analysis is fruitless unless and until it is followed by interpretation.
- ❑ Drawing conclusions largely depends upon intelligence of financial analyst.
- ❑ He has been rightly compared with financial surgeon.
- ❑ He can save the organization by advising at right time.

For example- W.T Grant a top most retail organization of America Just collapsed because of liquidity crises, the reason being to financial analyst could diagnose liquidity problem well in time.

# NEED OF INTERNATIONAL FINANCIAL ANALYSIS

1. SEARCH FOR HIGHER YIELD ON INVESTMENT-  
The desire to **earn higher** rates on the investments is often an important motivating factor for decisions to **invest abroad**, particularly **among investors from the developed countries**.
2. DIVERSIFICATION OF RISK- Investors can **minimize** their **risk** by spreading their capital **across** a range of investments. This is termed as the principle of diversification.

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## **3. INTERNATIONAL MERGERS AND ACQUISITION-**

The size and frequency of international corporate mergers has increased in recent years. The purchaser of an international company needs to analyse the target company's financial statements to determine the acquisition price.

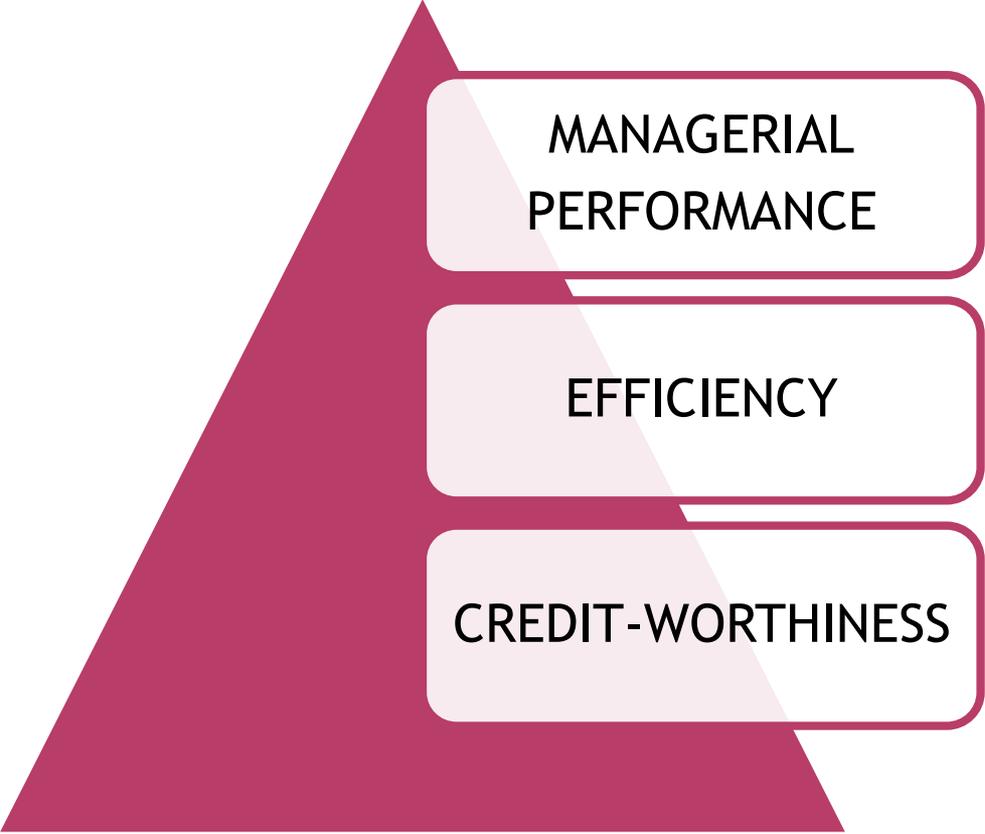
## **4. ASCERTAIN COMPETITIVE STRENGTH OF THE**

**COMPETITOR**-In this competitive era, it is important to have the potential to last till the end. Analysis of the competitor's strength helps an organization to compare its strengths and weaknesses with those of the competitors.

# Continue..

- 5. COMPETITIVE REASONS**- The main reason for having international operators is to gain access to cheap factors of production available in the country concerned. For doing such kind of investments, investors rely on financial statement analysis.
- 6. OTHER REASONS**- In order to reduce the national trade barriers a need for international analysis arise.

# SIGNIFICANCE



MANAGERIAL  
PERFORMANCE

EFFICIENCY

CREDIT-WORTHINESS

# SIGNIFICANCE

1. ASSESSING THE CREDITWORTHINESS- The creditors are the providers of loan capital to the company. Therefore, they may have **to provide loan to the company** or not. The financial statement analysis provides information to them for this purpose. Similarly, **creditors also assess the creditworthiness of foreign companies by analysing financial statements.**
2. ASSESSING THE EARNING CAPACITY- On the basis of financial analysis, the earning capacity of an enterprise can be assessed or computed. In addition, the earning capacity of the enterprise in coming years, may also be forecast. so, all the external users of financial statements (both domestic and foreign companies) are interested in knowing the earning capacity of the firm. The financial statement analysis provides information to them for this purpose.

3. DIVIDEND DECISION- The genuine expectation of the shareholder is to get dividend on their investment in shares. The **decision regarding the quantum of dividend can be taken when the books are systematically analysed**. So, if a company has to announce dividend which has its subsidiaries in many countries, then they have to analyse the financial statements of each subsidiary company for this purpose.

4. INTERFIRM COMPARISON- Inter firm comparison become easy with the help of financial analysis. It helps them to **assess their own performance as well as of others**. So, one can easily make comparison by analyzing the financial statements of **two companies**(domestic and foreign company).

5. INTRA FIRM COMPARISON- A business can have the comparison of its own performance of one period with another period of time. **It helps in knowing the strength and weaknesses at different period of time**. So, the task of preparing comparable internal information for the appraisal of the performance of subsidiaries in different countries becomes easier by analyzing the financial statements.

**6. PROGRESS OF THE BUSINESS**- The problems related to the reporting of Multinational companies and international financial analysis such as taxation, currency problem, language problem, exchange rate fluctuations, inflation, lack of comparability etc. If all these problems are solved and harmonisation is achieved, then the progress of the business can be easily measured through the analysis of financial statements.

**7. PLANNING AND BUDGETING**- Past financial statement analysis helps in assessing developments in future, especially in next years. so, it is possible to forecast next year's profits on the basis of earning capacity of the firm in the past years. Similarly, MNC'S assess their past performances on the basis of which they prepare future policies and forecast the profits of the firm.

**8. TEST OF SOLVENCY**- Solvency position is very significant as it ensures the debt paying capacity of the business. Analysis of financial statements helps in ascertaining the efficiency of business in discharging its debts which is made by both foreign and Indian companies.

**9. SECURITY ANALYSIS**- Investors and financial analysts need to be able to understand the financial statements of foreign companies whose shares they might wish to buy because they would like to know whether the firm is fulfilling their expectations with regard to payment of dividend.

**10. SIMPLIFIED PRESENTATION**- Analysis makes the financial statement more **simplified, readable and meaningful which makes the task of the users of financial statements**(both domestic and foreign companies) **easier**.

**11. HOLDING OF SHARE**- Shareholders are the owners of the company. They have to take decision whether they have to continue with the holding of company's share or sell them out. Therefore, financial analysis provides meaningful information to the shareholders of both foreign and domestic company in taking such decision.

# CONCLUSION

It is concluded that financial analysis helps the users (both domestic and foreign companies) of the financial statements to understand the complicated matter in a simplified manner and it can be made more comprehensive by charts and diagrams which can be easily understood.



*THANKYOU*