

An Introduction to the German Accountancy System

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The author does not claim that this book is complete. It should be a helping hand for newcomers to the German Accountancy System or also for trainees in the commercial sector. The book is not a benchmark for the design and implementation of your own business accounts. When in doubt, an accountant and/or tax advisor should be contacted.

Based on the German Accountancy Regulations in 2016.

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Wolf-Dieter Schellin

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Definition of the "Accountancy"

The accountancy of a company is divided into *different departments* and/or jobs. Depending on the size of the company this is done by entire workgroups, or by individual employees. This will include the following tasks:

- financial accounting
- cost accounting
- statistics
- planning

Basis of Financial Accounting

A company has limited freedom in the execution of its accounting system. The processes used by a company in preparing its financial accounts are regulated by law. The company's financial accounts will usually consist of:

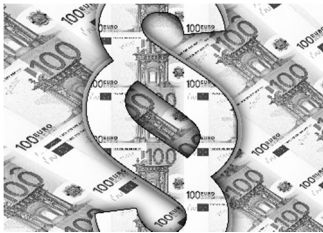
- Statement of assets and liabilities
- Document all changes in assets and debt
- Determination of the operational success (operating profit and success)
- Provides figures for the price calculation
- Is the internal control

Legislation

- Einkommensteuergesetz (Income tax)

The income tax law (EStG) regulates the taxation of the different forms of income, for example as an employee or someone self-employed or the owner of a business or the income from capital assets.

- Sales Tax Law and the Implementing Regulation
- Abgabenordnung (tax code)



The tax code regulates which tax payer has to deliver declarations at which time and when he has to make payments. More-over, the tax code fixes the penalties that apply if tax is unpaid or paid late.

- Gesetz für die Gesellschaften mit beschränkter Haftung (GmbH – Limited Liabilities Companies)

This law applies to Limited Liability companies (GmbH). All essential points are regulated there.

- Aktiengesetz (German Stock Corporation Act)
- Publikationsgesetz (publication law)

In this law is regulated, till what time enterprises, depending on their turnover and the balance sheet total, must publish their annual accounts. The publication itself occurs in the "Elektronischer Bundesanzeiger (eBanz)". This law governs the timetable companies must follow when publishing their annual accounts.

As in the UK, there are severe penalties if annual accounts are not published on time or are delayed.

- Grundsätze ordnungsgemäßer Buchführung [GoB] (Proper accounting principles)

Types of companies in Germany

In Germany there are different types of companies. On the one hand



German Industry

they differ by the liability of the companions, or the society towards her partners. On the other hand companions act in some enterprises only as a financier and are not integrated into the management. On the following sides I give you some basic

information about the most often seeming social structures.

So, let's start a compact digression on German company law:

GmbH – Limited Liability Company

The Ltd can be founded by at least one companion. Like a Limited in the U. K. the ordinary share capital must be a minimum of € 25,000.00. The registration of the society occurs in the commercial register, department B, at the place of the enterprise. A manager is to be appointed. The company can't be taken in recourse by the debt-holder. The liability of the enterprise is limited to his property. In case of an insolvency the debt-holder can't take the companion in recourse.

KG – limited partnership

At the limited partnership it concerns a personal society, so it has nothing to do with a no joint-stock company like an Aktiengesellschaft or a GmbH. The companions are on the one hand at least one full partner (s. c. Komplementär) and at least one limited partner (s. c. Kommanditist). The full partner sticks with his commercial insert and his private property, the limited partner only with his commercial insert. The full partner often carries on the business of the enterprise, the limited partner is a „quiet partner“



who has put on his money to reach a very high payment of interest. As an unincorporated firm the KG is put down in the department A of the responsible commercial register.

GmbH & Co. KG

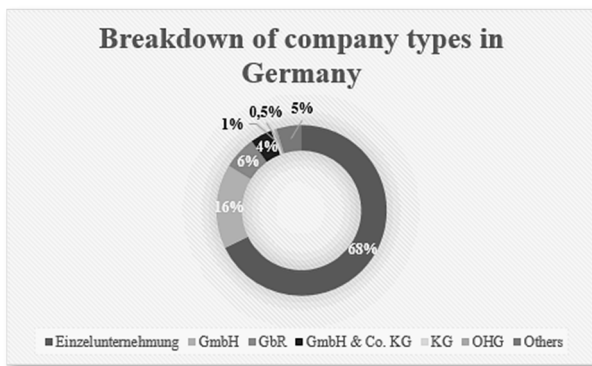
This society is an unincorporated firm. The full partner is the Ltd. whose liability is limited to the commercial inserts. The limited partners are natural people who stick only with their commercial insert, too. The GmbH & Co. KG is put down as a personal society in the department A of the commercial register.

OHG – Open trading company

The OHG exists of at least two companions who are natural people. All companions are involved in the management and stick compared with

creditor joint and several liability. No minimum capital has been fixed by the legislator. The profit distribution occurs with 4% of the insert, the rest is distributed to the number of the companions. The OHG is put down as an unincorporated firm in the department A of the responsible commercial register.

GbR – society of civil law



Source: Bundesamt für Statistik.
The figures are valid for 2013.

This society is a community of interests of natural people. There is no legal default for the number of the companions, the capital to be

inserted or for the profit payment. The society is not put down in the commercial register. The GbR is called in Germany „BGB-Gesellschaft“. The "BGB" (Civil Code) is the "civil law code".

Individual business

The most common form of business in Germany is the “Einzelunternehmung”. Individuals start up a business by registering at their local municipal authority and the local tax office. The individual sticks with his commercial insert and his private property.

The obligation to maintain account books

The requirement calls for the drawing up of financial statements according to the provisions of the German Commercial Code (HGB). The minimum requirements are for a profit and loss account and a balance sheet (→ *Page 28*).

Requirements of the commercial law

Merchants and voluntarily reporting business persons are subject to the directives of the Commercial Code (Handelsgesetzbuch/HGB).

Section 238 German Commercial Code (HGB) stipulates that every merchant in the sense of Section 1-7 German Commercial Code (HGB) is obliged to keep accounts of its assets and transactions, taking into account the situation and present accounting principles.

Also companies who have been entered voluntarily in the commercial register, shall be considered as merchants and must keep books.

Requirement after the tax law

From section 140 AO for all other than tax obligations, the obligation to keep books need this to do for tax as well.

Who is running no “businesses”? ¹

In section 241a of the German Commercial Code, entrepreneurs, who didn't reached more than € 600.000 sales revenue in two consecutive financial years and € 60,000 net income from the requirement. When exceeding the limits the tax office will inform the entrepreneur about the obligation to keep records - even if for other reasons there is no obligation to do so.

§ 141 AO exempt members of the so-called liberal professions of the requirement, unless the company is a limited company or a company and thus be considered as a s.c. “Formkaufmann” [merchant by a legal form].

Even if there is no obligation to keep book, it really makes sense to do this on a voluntary basis, because the entrepreneur can take a look at the financial situation of his company at any time.

The "books" for proper accounting records

In each accounting there are *two types of books*:

- The book of first entry records all postings in chronological order,
- The book of final entry relates all postings to the corresponding account headings.

¹ Exclaimed January 2016; legislative changes are to be taken into consideration

Book of first entry: All transactions are recorded in chronological order, that's why the land register is also called *diary or journal*. Each transaction is assigned a continuing number, and alongside the posting date, the amount in Euro, the accounting text, the voucher number, as well as the accounts affected.

Book of final entry: In this book data are collected in the general ledger ("posted"). In contrast to the book of first entry the book of final entry is organized to objective criteria; regular in accounts. Because the accounts were previously held on file cards, we talk about "account sheets".



Neither of these two books is particularly useful in day to day business life. This explains why subsidiary ledgers are needed.

Examples of “subsidiary ledger” (s.c. “*Nebenbücher*”)

Invoice: A separate account should be set up for each customer and supplier. Only in this way incoming and outgoing payments can be checked, and the liquidity of the company's assets and liabilities be calculated. So the entrepreneur has the chance to build up a reminder system.

Warehouse management: A separate account is set up for each item in the inventory. This ensures that the stocks of the company are updated at any time and the storage capacities are optimized.



Volkswagen Storage

Payroll system: The payments and deductions made for each employee must be traceable which means that more than one system can be required.

Fixed asset accounting: A separate account for each asset is created. Only in this way the different cost-carried usage times and depreciation can be taken into account for each asset.

Proper accounting principles

The term "generally accepted accounting principles" is a vague concept. According to Section 238 (1) of the German Commercial Code (HGB) all merchants are obliged to comply with these principles, but they are not fully defined in the law. The German law leaves a free space for the interpretation. There is no "one size fits all" system, but a number of principles. These arise from the following guiding principle.

"The accounts must be constructed in such a way that an expert of a third party can get - within a reasonable time - an overview of the business transactions and the condition of the business."

- The accounts must be clear and concise. This will include:
 - A proper organisation
 - A clear layout of the annual financial statements
 - A ban on offsetting assets and liabilities with income and expenses relating each other.
 - Postings must be legible
 - Entries must not be made in pencil
- All business transactions must be continuous, complete, correct, and be posted in a timely manner.
- Each booking must be based on a voucher.
 - External voucher (cash voucher, invoice, credit note, bank statement, ...)
 - Internal voucher (our invoice, our internal receipt, ...)
 - Makeshift voucher (if an external voucher got lost)
 - If you book such a voucher you must not claim the VAT!
- The accounting records must be kept in accordance to regularity.