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COMPARATIVE CHARACTERISTIC OF BALANCE SHEET PRESENTATION ACCORDING TO THE IFRS AND GERMAN GAAP

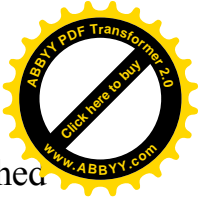
The main document of financial statements in all countries is the Company's Balance Sheet (Financial Statements Report), which is the main source of information on the financial and property status of the enterprise for all interested users. The basis of the Balance in any country is the main accounting equation, reflecting the relationship between assets, liabilities and own capital.

In this article the comparative characteristics of accounting of the International Financial Reporting Standards and German General Accepted Accounting Principles were analyzed. As a country for analysis Germany was chosen, by the reason it has been a member of the IFRS since 1973, and therefore most fully uses international accounting standards, but there are still some differences.

The structure of the balance sheet in Germany, unlike the Anglo-American balance model, in which priority is given to identifying the solvency of the enterprise and the line of the asset of the balance are classified according to the liquidity principle, and liabilities - according to the degree of debt repayment, also has its own characteristics and is built on the principle of ownership or ownership. Passive balance is divided into two large groups: equity (capital, reserves, the result of the reporting period) and borrowed funds (liabilities for loans for financing, debts to suppliers, dividends and social payments, fiscal debts). According to this scheme, debts are classified not in terms of recoverability, but in the nature of their origin. Information on the degree of repayment obligations German analysts preferred to place in the application, in order to present a more complete picture.

When reflecting in the German balance of individual indicators, the following features exist. The Commercial Code specifically regulates the accounting of concessions, licenses, patents, etc., on the one hand, and goodwill on the other. As a general rule, the reflection in the balance sheet of the main intangible assets is mandatory in case they are acquired from the third parties, but not in the case of their own creation. Goodwill arising on consolidation can either be written off directly from capital reserves (which is different), or amortized over a number of years, when it is supposed to be profitable. Negative goodwill is treated as accounts payable, which can be written off only under certain circumstances, for example, when profit is received from the resale of an enterprise or upon the occurrence of an event that was previously expected, taking into account which the purchase price was assigned.

Property, plant and equipment are accounted for at cost of acquisition or creation, net of systematic depreciation. The law does not prescribe any specific methods of depreciation (in practice, the straight-line method and the declining

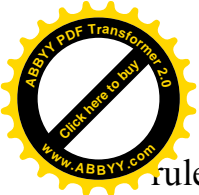


balance method are most often used.) The service life of assets is usually established by special industry tax tables. It should also be noted that in the statement of movements of property, plant and equipment in the line "Purchase cost", both the original value and the residual value, transferred from the last financial statement before the introduction of EU directives, may be reflected. This simplification turned to external users, but it became more difficult to assess the degree of depreciation of assets. Speaking about fixed assets, special attention should be paid to financial leasing. According to the Commercial Code, financial leasing is subject to capitalization on the accounts of the lessee, however, in practice, lease agreements are usually prepared in such way, that the asset remains on the lessor's balance sheet. Neither tenants nor landlords need detailed disclosure of information on leased assets.

Financial investments (participation in the capital of other companies) are considered according to the Commercial Code as long-term investments in other companies. There are two types of equity participation: investments and investments in subsidiaries. Like other financial assets, financial investments are generally accounted for at cost. In case of a decrease in the real value of financial investments, revaluation (write-off) is carried out, if there is an increase, revaluation is not required. Inventories like raw materials, unfinished production, finished goods and goods should be reflected in the balance sheet at the lowest value of the cost or market value. To estimate the cost price, the methods of average cost and FIFO are the most common at the moment, but for fiscal purposes, since 1990, the LIFO method has been adopted. In assessing the incomplete production, German companies enjoy great freedom of choice. Recall that the accounts of the General Ledger are divided into tax and commercial. So, the direct attribution to production costs in all cases is a subject to direct costs. In tax (but non-commercial) accounts, only wages, materials and depreciation of fixed assets are to be included in the debit of the "Main Production" account from overhead expenses. General business expenses and various social contributions of the company may, at their discretion, include or not include in the cost of uncompleted production. Interest may be included in the cost of production only if they are directly related to the creation of an asset (and only during its production). Costs associated with downtime of production capacities are excluded from the cost price. If the market price turns out to be lower than the cost price, it is necessary to reassess the inventories. At the same time for raw materials and materials, the purchase price (replacement) is usually taken as the market price, and for the finished product - the price of the possible sale.

A peculiarity of German accounting practice is that, if the replacement price is below the cost of acquisition, the reserves should be reflected at the replacement price, even if the net price of a possible sale exceeds the historical (actual) cost price, which follows from the principle of conservatism (prudence). In addition, German companies have the ability to create reserves for the expected future price growth. Thus, the methods of valuing, adopted in Germany, provide accountants with various ways of understating the value of inventories. The German practice of accounting for accounts receivable and payable corresponds to the European [1].

Special attention should be paid only to the approach to accounts receivable and payable in foreign currency. In the balance sheet, settlements with debtors, as a



rule, are reflected at a lower value from the original cost and the value at the exchange rate at the balance sheet date, to settlements with creditors the opposite rule is applied. Thus, losses from currency fluctuations are recognized, and profits are not. But this practice, although consistent with the principle of conservatism (prudence), can distort the real state of affairs, especially if the company has interconnected assets and liabilities in foreign currency (for example, forward contracts). According to the latest change in legislation, accounts receivable and accounts payable can be reflected in the balance sheet at the rate as at the date of its compilation, while in the explanatory note it is necessary to disclose the applied accounting methods. A feature of German practice is the reflection of deferred revenues and expenses by separate sections in the balance sheet. German companies are mainly inclined to debt financing (external - at the expense of bank loans, internal - through pension schemes). In recent years, the average for Germany share of own funds in the total amount of assets did not exceed 20%. This is mainly due to tax considerations, based on them, shareholders often seek to classify part of their investments in the company as loans, even if the return on such investments is limited. For joint-stock companies and limited partnerships, the law establishes the minimum amount of authorized capital, stipulates the rights to buy back its own shares. Rules for the formation of reserves are established only for legal entities. The reserves are primarily intended to cover possible losses or increase in the authorized capital. Special articles for tax purposes - this is one of the bright examples of tax-oriented German accounting.

The convergence of various countries around the world in relation to International Financial Reporting Standards (IFRS) is constantly influencing the development of generally accepted accounting principles in Germany. German commercial legislation requires the application of German GAAP, especially for the distribution of profits, taxation and statutory purposes of presentation and disclosure. Currently, German GAAP is an adequate, sustainable alternative to IFRS, and many similar ones with elements of international standards are implemented in the content of German standards of national standards [2]. The most common similarities and differences that are encountered in practice were described and compared. We can say that the process of convergence of German national reporting with IFRS is now developing. Therefore, the German government has promised to release companies, having made reports under IFRS, from preparing reports in accordance with their national standards. Now companies are released only from the publication of reports on German standards, but must do so in the case of publication of financial statements in accordance with IFRS.

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