

NON OBLIGATORY BUSINESS ACCOUNTS FRAMEWORKS:
SITUATION AND EXPERIENCES IN GERMANY

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1. Development of business account frameworks in Germany

Business account frameworks as a plan for classification and organization of total business accounting have a long tradition in Germany. In 1937 they were made compulsory by a regulation of the minister for economic affairs. More than 200 individual account frameworks for industry branches were made up according to the so called Reichskontenrahmen (RKR). The obligation to use the RKR and the 200 frameworks derived from it was removed by the minister of economic affairs in 1953. Ever since no obligation exists to use an account framework. To facilitate business accounting the Bundesverband der Deutschen Industrie (BDI), a professional association of the manufacturing industry, has developed a so called Gemeinschaftskontenrahmen (GKR) as a recommendation. It forms a frame on the basis of which the individual enterprise develops its own plan of accounts. About 25 different industry branch frameworks were published on the basis of the GKR.

The account framework in general is built up according to a decimal system into 10 classes of accounts (0-9). Each class can be divided into 10 groups of accounts with 10 accounts each. Each account can be subdivided into 10 subaccounts with the result that 1 000 different account positions are theoretically possible.

Example

From the number 2002 (subaccount) you can recognize

the account class	2	Current assets
the account group	20	Raw and auxiliary materials
the account 200		Raw material/finished products
the subaccount	2002	rebates

Account classes and account groups are called **account framework**. The accounts and subaccounts form the so called **account plan** which is made up according to the special needs of the enterprise.

As a result of the development of the legislation on annual accounts (Aktienrechtsreform 1965, 4th EC-directive 1978 on business account frameworks) and especially cost accounting the GKR did not meet any more the full requirements of the enterprises. Therefore a new business account framework was worked out by the BDI the so called Industriekontenrahmen (IKR) and in 1971 published again as recommendation. The difference between RKR and GKR is that the GKR realises a two circle system that means that it makes a separation between financial accounting and cost accounting.

In circle 1 - the sphere of financial accounting - the account classes are classified according to the classification rules of the annual accounts of limited liability companies (§§ 266, 275 Handelsgesetzbuch - HGB - after transformation of the 4th EC-directive into German law). The account classes follow the positions of the annual accounts (Principle of result structure- Abschlußgliederungsprinzip). The following picture demonstrates this system of accounts.

Balance sheet positions according to § 266 HGB		Positions of the profit and loss account and closing balance positions according to § 275 HGB		
Assets account classes 0 - 2	Liabilities account classes 3 - 4	Income account class 5	Charges account classes 6 - 7	closing balance p. account class 8

Picture 1: Abschlußgliederungsprinzip in Circle I.

The individual account groups of the IKR are listed in enclosure 1

Beside the IKR there do exist special frameworks for wholesale and foreign trade, retail trade, craft trade (Handwork) and banking and insurance companies. In the manufacturing industries the IKR and GKR are in use with the tendency that the GKR is replaced by the IKR. The GKR has a structure similar to the IKR. It has also 10 account classes which can be subdivided according to the decadic system. The main difference compared with the IKR is that the GKR does not separate the accounts into two circles as the IKR does. The accounts for operational accounting (Betriebsbuchführung) and for financial accounting belong to the same account groups. Therefore you can easily lose control on accounting especially if the operational accounting is not done in form of accounts but in form of tables (Betriebsabrechnungsbogen).

The GKR classifies the account classes according to the so called Principle of process structure, that means that the account classes 0 to 9 reflect the process of production up to the sale of goods and services. The account classes of the GKR have the following meaning (the figures in brackets are the numbers of the account groups).

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class	content
0	Assets and capital accounts: fixed assets (00-05) long term capital (06-07) corrections to balance sheet and profit and loss account (08-09)
1	financial means - current assets (10-15) short term creditors (16-19)
2	prepayments and accruals (20-29)
3	Raw materials, finished products: raw and auxiliary materials (30-37) bought services etc. (38) goods for resale (39)
4	costs (kind of costs) (40-49)
5	costs (places where costs accrue) (50-59)
6	production costs for finished and semifinished products (60-69)
7	inventories (70-79)
8	Operating receipts (80-89)
9	closing balance accounts (90-99)

Picture 2: Account classes of the GKR

Summary

In Germany the following account frameworks are used as recommendations of business associations:

GKR in about 25 special forms for industry branches

IKR in 5 forms.

The two systems of account frame works (GKR and IKR) do not even correspond at the level of account classes (one digit level).

The IKR has been harmonized at the level of account groups (two digit level) to the classification rules of the 4th directive as far as the balance sheet and the profit and loss account is concerned.

For statistical surveys of the Statistische Bundesamt it is often necessary to ask at least partly for the detailed contents of the accounts and subaccounts (three and four digit level). These levels are not even harmonized among enterprises using the IKR. The details of the

accounts are not known to the statisticians so that they cannot refer to them in the questionnaires or when clarifying dubious data in contact with the enterprises.

2. Influence of the 4th directive 1978 on business account frameworks

The 4th directive aimed at making comparable the different national rules on annual accounts between the EC-countries. Part of it are the rules on the formal classification of the balance sheet and profit and loss account as well as the valuation rules of the positions therein (see enclosure 2). As the national traditions on accounting had to be respected the aim was not to make the accounting rules uniform but to harmonize them. The different national traditions should get the chance to converge slowly. But by applying the existing national and enterprise specific rights for a choice important differences continue in the accounting between the countries and within a country.

For example France has extended the companies to be audited to personal partnership while the 4th directive requires this only for limited liability companies. Germany has fulfilled the directive only in the smaller sense. The fact that national law goes further or national characteristics continue to exist (for example with respect to valuation rules) does not only refer to the formal classification of account groups (two digit level) from which the positions of the annual account are developed but also to the contents of the accounts which are dealt with later in this text.

The 4th directive refers to limited liability companies only. As a consequence of this the classification of the balance sheet and the profit and loss account as well as the valuation rules are only valid in Germany for enterprises in the legal forms of a public limited company and a private limited company. Further more the 4th directive has given in articles 11 and 27 exemption rules for small and medium sized limited liability companies to make the accounting easier. These companies are allowed to publish a gross profit or loss as saldo of turnover + variation in stocks of finished goods and in work in progress + work performed by the undertaking for its own purposes and capitalized + other operating income - raw material and consumables instead of the detailed classification of income. These exemptions require generally a less detailed classification of accounts as it is necessary for the bigger limited liability companies.

Considering the legal requirements in Germany with respect to the number of enterprises classified by legal forms and economic activity (see enclosure 3) one can see that the services sector consisted of only 9.6 % limited liability companies; 9,5 % of these enterprises were allowed to apply the exemption rules of the 4th directive. The rules of the 4th directive did not apply for nearly 90 % of all enterprises of the service sector.

What was the influence of the rules of the 4th directive on the German business account frameworks? An answer to this could only be given when asking the enterprises. The

following statements appear possible from the experiences of published annual accounts, reports from the economic press and especially from the experiences of the statistical work of the Statistische Bundesamt and the Statistische Landesämter:

a) There is an increasing tendency to use one of the existing versions of the IKR not only with limited liability companies. The use of the IKR leads to the positions of the annual accounts according to the 4th directive. But the account groups which are necessary to fulfill the 4th directive are often not sufficient to fulfill completely the requirements of statistical reporting for the different purposes. This refers in particular to the small and medium sized limited liability companies. The detail in the classification of accounts is very often smaller with these companies compared with the bigger ones.

As far as the GKR is still used - for which 25 versions exist - it is necessary to put together the positions of the balance sheet and the profit and loss account in the sense of the 4th directive. This reporting requires additional expenses so that it can be assumed that there is a tendency to adapt the account groups to the 4th directive.

b) When founding new firms in the past years the private limited company is the most popular legal form. But also enterprises in partnership must organize their bookkeeping according to the principles of "ordnungsmäßiger Buchführung". These principles result from the practice of the German Aktienrecht which was one of the models for the 4th directive. However for smaller enterprises in Germany which is characteristic for the services sector the accounting practice is that the Handelsbilanz (= balance sheet and profit and loss account according to the 4th directive) must be suitable at the same time to fulfill the requirements of the fiscal authorities (Steuerbilanz). This means at the end that these smaller enterprises apply first of all the rules of the Steuerbilanz with partly stricter valuation rules as in the Handelsbilanz, but principally no classification rules for the balance sheet and the profit and loss account. If the fiscal laws require a lower standard of bookkeeping which refers to all kind of liberal professions in Germany the state of accounting is rather poor. For those persons who are allowed to declare their income as difference between receipts and expenditure in a very simple form according to § 4 Nr. 3 Einkommensteuergesetz only very few data, for example the total receipts, can be surveyed statistically completely and exactly.

3. Evaluation of statistical results of enterprise statistics in the light of the existing accounting practice in service industries

As explained under Nr. 1 and 2 there is a big variety of business account frameworks with service enterprises in Germany. The degree of harmonization of account frameworks among service industries is most probably smaller than between manufacturing industries because the percentage of limited liability companies for which the 4th directive is binding only amounts to 10 %.

The voluntariness of the use of business account frameworks and the possibility for making a choice between different rights according to the 4th directive influence quality and

quantity of statistical data. This is to be explained with the help of two variables, the so called "Gesamtleistung" and the production value which belongs to the programme of variables for structural statistics of EUROSTAT (Module 1 of the planned EC-regulation concerning structural statistics).

The production value consists of

Net turnover

- ± Changes in stocks of finished and semifinished products and services
- + works effected by the undertaking for its own account and shown under assets
- = Gesamtleistung
- ± Changes in stocks of goods for resale
- purchases of goods for resale
- = production value

The following considerations refer first to the Gesamtleistung which is in German economic statistics the common variable, not the production value.

The turnover is for service enterprises by far the most important component of the Gesamtleistung. Changes in stocks of finished and semifinished services, for example for expert opinions and legal issues, are only relevant in some service industries; they are in general of small importance and must only be published in the accounts of limited liability companies. However work effected by the undertaking for its own account and shown under assets which belongs to the Gesamtleistung can play an important role for some service industries, for example for the production of cinema and TV-films. For film production the 4th directive concedes a national right for a choice. In Germany the national law does not permit film production to be recorded as assets. That means in the film production industry the Gesamtleistung can be by millions DM lower in the year of production for this reporting period compared with other states where national law permits film production to be recorded as assets, this is the case for France and England. By comparing international statistical data for this industry it is therefore absolutely necessary to know if the national law permits film production to be recorded as assets or not.

What holds for the Gesamtleistung is also valid for the production value. The production value differs from the Gesamtleistung only in so far as a possible trading activity is only taken into account with its value added, that means that the production value is always equal or smaller than the Gesamtleistung.

In service industries with trading activities - above all for computing industries - a special accounting on trading activities normally does not exist in Germany. This has been the result of pilot surveys which dealt with the prerequisites for collecting statistical data in service industries. It referred to sole proprietors, partnership and smaller limited liability companies. As a consequence it must be expected that the variable production value cannot be delivered sufficiently exact because questions on trading activities will, if at all, only be guessed in statistical surveys.

Completeness and quality of statistical data on trading activities will be much higher in

states where legal business frameworks exist and where more enterprises are organized in the legal forms of limited liability companies than in Germany. The table in enclosure 3 shows that only 15 % of all enterprises are organized in the form of limited liability companies, in the service sector even less than 10 %. When comparing the production value between EC-states the reliability of this variable will presumably be much higher with states where more enterprises are organized as limited liability companies - for which as we know the 4th directive is binding - than in Germany. In the following European countries the percentage of limited liability companies was remarkably bigger for enterprises in all economic sectors and also for enterprises of the service sector. The corresponding figures amounted to 50 (46) % for Sweden, 22 (18) % for Denmark and 31 (28) % for the Netherlands in 1992.

Enclosure 1

IKR-account classes and account groups

Class/Group/Name			Class/Group/Name		
0	00	Subscribed capital unpaid	5	50	Turnover of own products
	01	open		51	Turnover of goods for resale
	02	Concessions, patents etc.		52	Changes in stocks
	03	Goodwill		53	Work effected for own account
	04	open		54	Other operating receipts
	05	Land and building		55	Earnings from participating interests
	06	open		56	Earnings from other securities
	07	Plant and machinery		57	Other interest etc.
	08	Other fixtures, tools and equipment		58	Exceptional earnings
	09	Payments on account etc.		59	open
1	10	open	6	60	Cost of raw and auxiliary materials
	11	open		61	Cost of services received
	12	open		62	Wages
	13	Participating interests		63	Salaries
	14	open		64	Compulsory social security costs
	15	Securities ranking as fixed assets		65	Depreciation
	16	Other financial assets		66	Other social security costs
	17	open		67	Expenses for services and rights
	18	open		68	Expenses for communication
	19	open		69	Contributions
2	20	Raw and auxiliary material	7	70	Operating taxes
	21	Goods in course of production		71	open
	22	Finished products and stock in hand		72	open
	23	Payments on account for stocks		73	open
	24	Claims in respect of sales and services rendered		74	Value adjustments for financial fixed assets
	25	open		75	Interest etc.
	26	Other securities		76	Exceptional charges
	27	Securities forming part of the current assets		77	Taxes on the result
	28	Bank balances etc.		78	open
	29	Pre-payments		79	open
3	30	Subscribed capital	8	80	Opening/closing
	31	Legal reserve		81	Production costs
	32	Reserves out of profit		82	Distribution expenses
	33	Profit for distribution		83	Administrative expenses
	34	Profit/loss for the year		84	Other operating expenses
	35	Special position with reserve character		85	Corrections to account class 5
	36	Value adjustments		86	Corrections to account class 6
	37	Provisions for pensions etc.		87	Corrections to account class 7
	38	Provisions for taxation		88	Short term profit and loss account
	39	Other provisions		89	Pre-payments and accruals (for short term purposes)

Class/Group/Name			Class/Group/Name		
4	40	open	9	90	Enterprise specific delimitations
	41	Loans		91	Cost accounting corrections
	42	Debts to credit institutions		92	Kind of costs and output (Kostenarten)
	43	Payments received on account of orders		93	Places where costs arise (Kostenstellen)
	44	Debts in respect of purchases and services received		94	Products to which costs are attributed (Kostenträger)
	45	Debts represented by bills of exchange		95	Finished products
	46	open		96	Internal deliveries
	47	open		97	Cost caused by turnover
	48	Other creditors		98	Output belonging to turnover
	49	Accruals		99	Results of cost accounting

**Umsatzsteuerpflichtige mit Jahresumsätzen ab 25 000 DM nach Rechtsformen
und Wirtschaftsbereichen*) 1992**

Rechtsform	Land- und Forstwirtschaft, Fischerei	Produzierendes Gewerbe	Handel, Verkehr und Nachrichten- übermittlung	Kredit institute und Versiche- rungs- gewerbe	Dienst- leistungen, soweit von Unternehmen und freien Berufen erbracht	Zusammen (Sp. 1 bis 5)
	1	2	3	4	5	6

Prozent

01 Einzelunternehmen.....	73,4	65,5	75,5	62,0	76,7	73,5
02 Offene Handelsgesellschaften (OHG) 1)	14,0	6,5	5,2	2,1	10,8	8,0
03 Kommanditgesellschaften (KG) 2).....	1,6	5,9	3,7	2,5	1,7	3,3
04 Personengesellschaften zusammen (02 + 03)	15,6	12,4	8,9	4,6	12,5	11,4
05 Gesellschaften mit beschränkter Haftung (GmbH)	5,6	20,7	14,7	8,6	9,5	13,7
06 Aktiengesellschaften und Kommanditgesellschaften auf Aktien (AG und KGaA) 3)	0,1	0,1	0,04	1,3	0,1	0,1
07 Erwerbs- und Wirtschafts-genossenschaften.....	4,6	0,3	0,3	17,8	0,1	0,4
08 Kapitalgesellschaften zusammen (05 + 06 + 07)	10,4	21,1	15,0	27,5	9,6	14,2
darunter:						
09 Kapitalgesellschaften bis unter 10 Mill. Umsatz.	10,0	19,3	13,5	25,2	9,2	13,1
10 Kapitalgesellschaften bis unter 50 Mill. Umsatz.	10,3	20,7	14,7	26,9	9,5	14,0
11 Sonstige Rechtsformen 4) ..	0,7	0,9	0,6	6,0	1,2	0,9
12 Insgesamt (01 + 04 + 08 + 11)	100	100	100	100	100	100

Anzahl

13	Insgesamt (01 + 04 + 08 + 11)	54 701	619 423	846 104	14 433	1 085 827	2 620 488
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*) Ohne Organisationen ohne Erwerbszweck,
Gebietskörperschaften und Sozialversicherung.

1) Einschl. Gesellschaften des bürgerlichen Rechts u.ä.

2) Einschl. GmbH & Co. KG.

3) Einschl. bergrechtliche Gewerkschaften.

4) Einschl. Unternehmen gewerblicher Art von Körperschaften des öffentlichen Rechts.

Explanation of legal forms

01 Sole Proprietor

02 Partnership

03 Limited Partnership

05 Private Limited Company

06 Public Limited Company and Limited Partnership with Limited Company as General Partner

07 Cooperative