

**BUSINESS ACCOUNTS FRAMEWORK:  
BANK FOR THE ACCOUNTS OF COMPANIES HARMONIZED**

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## **Abstract**

This paper concentrates on the experiences, which have been obtained by providing BACH database (Bank for the Accounts of Companies Harmonized) with Finnish data. The database is maintained by the DGII of the European Commission. The paper gives the short description to the BACH data content and also the legislation governing the financial statements in Finland. Finally certain variables have been considered closer.

## **The BACH Project - a general description**

The Directorate General of the EU Commission on economic and financial matters DGII is in charge of analysing the financial structures of European companies. The information about the companies in the member states is also compared with corresponding data from the USA and Japan. Earlier, the Commission had only access to national accounts relating to the company sector. The macroeconomic approach, however, caused a number of problems, when detailed comparison between countries was required.

The BACH Project (Bank for the Accounts of Companies Harmonized) was initiated in 1985. The primary intention of the project was to build up a database based directly on information on financial statements as supplied by various countries. The database is maintained mainly for the demands of the Commission, but it is the intention to extend its use. In 1987, the European Committee of Central Balance-Sheet Data Offices was established on the initiative of the central banks of a number of countries. The Committee has today representation from the central banks of Belgium, England, Spain, Italy, Austria, Ireland, Portugal, France and Germany and from the statistical offices of the Netherlands and Finland.

Three work groups operate under the Committee:

- The first work group is in charge of the methodical analyses and, in particular, of the harmonization of the concepts and methods used in different countries.
- - The second work group is in charge of supplying national data to BACH database. The work group aims at achieving the highest possible comparability between different countries. It also prepares the "User Guide".
- The third workgroup deals with the consolidated financial statements and the application of the Seventh Company Law Directive in different countries.

In most countries, the data on financial statements are compiled and the analysis of company information is carried out by the Balance-Sheet Data Office of the national central bank. There is no such office in the Bank of Finland. Instead, the central statistical office, Statistics Finland, is responsible for company statistics and thus also of the compilation of financial statement data. In June 1995, Statistics Finland made a decision to join the European Committee of Central Balance-Sheet Data Offices and to participate in the work of the second work group.

The BACH database contains company data from eleven countries (Belgium, Spain, the Netherlands, Italy, Austria, Portugal, France, Germany, Finland, and Japan and the USA). The data are classified by activity sectors and size categories. They are not absolute levels, but rather structural information on the income statement and balance sheet, i.e. the variables' relative proportions of the turnover and the balance sheet total. Most countries have in the database a long time series extending over 15 years, some have a sequence back to 1971. Finland has supplied information covering the years 1989-1994.

### **Description of BACH data content**

The data content of the database is in compliance with the definitions of the Fourth Company Law Directive of the EU. As the project started, not many countries had implemented the Directive regulations in their national legislation. In order to improve the comparability between different countries, a specific BACH data content was created, which is less detailed than the income statement and balance sheet forms prescribed in the Directive. The balance sheet forms have, however, in the past years been modified in many countries, and the Directive regulations have been included in the national legislation. New countries have also been included in the database. So, in 1995, the Committee decided to renew BACH data content.

The groups of activity sectors in the database are formed by combining the sector specific data, as supplied by the countries. Some countries still apply the old NACE classification, some have introduced the NACE Rev.1 classification. In addition the industrial classification, which has been used in the national central bank is not always strictly in line with NACE classification. Thus, data in BACH data content are classified only according to the main groups:

- - manufacturing is described in more detail than the other sectors; partly complying with the NACE 3 -digit level
- - building and construction altogether
- - in trade, wholesale and retail trade are separated
- transportation altogether
- other services altogether.

The size categorization is implemented on national grounds. The division into small, medium-size and large companies is most often based on the number of staff. Since 1995, the categorization should comply with the definitions of the Fourth Directive, i.e. in future the data will also be broken down according to net turnover and balance sheet total.

The income statement and balance sheet forms of BACH data content are shown in the Appendix. The data content confirms with the forms and definitions given in the Fourth Company Law Directive. The layout of the balance sheet is based on Article 10 and that of the income statement on Article 23 of the Directive. A problem in achieving comparability is the fact that the Fourth Directive contains two different balance sheet forms and four

different income statement forms, out of which a member state may select one or more to be included in the national legislation. The situation is most difficult when the national legislation provides further options. Comparability between various countries is problematic also, because many regulations in the Fourth Directive contain an option allowing a member state to divert from the principal rule or to select out of more than one alternative principles stated in the Directive.

### **Legislation governing the financial statements in Finland**

The Accounting Act and Ordinance provide stipulations on bookkeeping and preparation of financial statements by companies. The Act are applied to all types of companies. Limited companies, however, are obliged to supply clearly more detailed information than other companies. Provisions relating to limited companies are included in the Companies Act. Furthermore, the Securities Market Act sets very strict information requirements to listed companies.

In Finland, the legislation on taxation has traditionally had a strong influence on the preparation of financial statements. The legislation on taxation provides the companies with possibilities to planning of results, i.e. possibilities to adjust the distribution of the profit over various financial periods. The legislation on taxation, for example, stipulates the maximum depreciations deductible in taxation. These are often more accelerated, as compared to the depreciations in bookkeeping. Before the profit of the year, two exceptional items are accounted for: the increase or decrease of the difference in depreciation and the increase or decrease in voluntary reserves. These items are not factually payable, but they are discretionary items entered in the bookkeeping for taxation reasons.

The Finnish Accounting Act dates from 1973. Later, some modifications have been made, but in the early 1990's a demand arose to renew the law because of increased international connections. Solutions included in the EU Directives on financial statements formed the primary basis for detailed amendments proposed by the Committee set up to prepare the reform of the Accounting Act. The revised Accounting Act and the new Accounting Ordinance came into effect in the beginning of 1993. The reform was carried out before it was certain that Finland would join the EU. The Act and Ordinance still contain a number of provisions which divert from the Fourth Company Law Directive. A proposition to amend these diversions and to modify our legislation on accounting to comply with the EU Directives on financial statements is under consideration at the present. It is the intention to enact the law to be effective from the beginning of 1997. This, like the previous reform, however, includes a transitional period of 18 months.

### **Remarks on certain variables**

As to the information, the main emphasis in the Fourth Directive is on the balance sheet. In the Finnish financial statement norms, the main interest is on the calculation of distributable

profit. The balance sheet is a secondary document.

Although most of the appreciation and periodization principles included in the Fourth Directive are not specifically stated in the Finnish legislation, they are generally accepted and a part of sound accounting procedure. The general appreciation principle in the Finnish legislation is identical to that in the Fourth Directive: the expenses are appreciated to original costs.

### **Major differences between the Fourth Directive and the Finnish legislation**

For Finland, the most difficult issues in supplying information to BACH database have been the following:

- - prior to the 1993 reform of the Accounting Act, the Finnish legislation diverted from the Fourth Directive both in form and in content
- lack of a definition of turnover
- the depreciations are made without a predetermined plan
- reserve practice.

The financial statement layout in accordance with the new Accounting Ordinance was in 1994 established as the basis for the data content of the statistics concerning the financial statements. A lot of adaptation has been needed, when information from earlier years has been entered into BACH data content. In the older practice, for instance, advance payments included in current assets and fixed assets could be presented as one single item in the liquid assets. Similarly, the item "loan receivables" in liquid assets contained receivables which in BACH data content should be presented separately as items in fixed assets and in other expenses covering several financial periods.

According to the Fourth Directive, turnover consists of the sales of products and services included in the actual business of the company from which discounts and value added tax, as well as other taxes directly determined on the basis of sales, are deducted. The concept of turnover is not defined in the accounting legislation currently valid in Finland. In practice, the turnover is calculated by deducting from sales a varying number of income corrections and expenses incurred directly or indirectly on the basis of the sales, as well as certain income transfer items.

According to the Fourth Directive, depreciations from fixed assets are made according to a predetermined plan. In Finland, it has since 1986 been permissible to present depreciations as planned in the income statement but, owing to the association to taxation, it has been necessary to present the difference of planned depreciations and depreciations in bookkeeping as a correction item of type "difference in reserve" in the income statement. Similarly, it has been optional in Finland to present the accumulated difference in depreciation in the balance sheet. Depreciations with predetermined plan became an obligatory item to be stated in financial statements for the financial year ending on December 31, 1995 or later.

Voluntary and obligatory reserves. The revised Accounting Act (as from 1993) prescribes,

on one hand, that the financial statements may include so-called voluntary reserves, and on the other hand, that they must include obligatory reserves as to allow for future expenses and incurred losses. Voluntary reserves in the financial statements are usually expense items aiming at equalization of results in compliance with legislation on taxation. Before the reform of the Act, reserves consisted almost without an exception of this type of result arrangement items which, due to the association between taxation and accounting, had to be entered in bookkeeping. The new concept of obligatory reserves moves the Finnish norms closer to the EU regulations.

### **Comparability between countries**

Although the regulations of the Fourth Directive have been implemented in the legislation in many countries, there are considerable differences between the countries as concerns BACH data content, in spite of the seeming comparability.

In the balance sheet, fully commensurate are only work in progress in the fixed assets, advance payments, and the profit (loss) of the previous years and the profit (loss) of the year. At comprehensive level, comparability usually prevails, but not any more in detailed specifications. In the income statement, commensurate items are the increase or decrease in product stock and the profit (loss) of the year.

Certain items, such as crediting of research and development costs, are governed by different regulations in various countries. For example, in Germany it is prohibited to credit these costs in the balance sheet. There is variability between countries in the allocation of accounts payable into short-term and long-term debts.

As to the income statement, the most significant differences between countries occur in variables which are interpreted in different ways by different companies, so also in Finland.

Other income from business operations: In Germany and Austria, this item includes gain on exchange, and profits on the sale of fixed assets. In other countries, these items are included in incidental profits. In Finland, the practice varies from company to another, sales profits may be included in other income from business operations or in incidental profits.

Gains and losses on exchange are in different countries included in varying items: other income from business operations, financing income or expenses, or incidental profits and costs.

Incidental profits and costs may contain very different items in different countries.

## ANNEX 1

## REGROUPEMENTS SECTORIELS REPRIS DANS BACH

Code	Nom du secteur	Sector	Anciens codes secteurs NACE	Nouveaux codes secteurs NACE
1	ÉNERGIE ET EAU	ENERGY AND WATER	11+12+13+14+15+16+17	10+11+12+23+40+41
2	INDUSTRIES MANUFACTURIERES	MANUFACTURING INDUSTRY		
21	Biens intermédiaires	Intermediate products		
211	Extraction minerais métalliques et premières transformations	Extraction of metalliferous ores and preliminary processing of metal	21+22	13+27.1+27.2+27.3+27.4
212	Extraction et industrie des produits minéraux non métalliques	Extraction of non-metalliferous ores and manufacture of non-metallic mineral products	23+24	14+26
213	Industrie chimique et production de fibres artificielles et synthétiques	Chemicals and man-made fibres	25+26	24
22	Biens d'équipement	Investment goods and consumer durables		
221	Construction métallique, machines et matériels mécaniques, mécaniques de précision	Manufacture of metal articles, mechanical and instrument engineering	31+32+37	27.5+28+29.1-6+33
222	Matériels électriques et électroniques, de bureau et de traitement informatique	Electrical and electronic equipment including office and computing equipment	33+34	30+31+32+29.7
223	Moyens de transport	Manufacture of transport equipment	35+36	34+35
23	Biens de consommation courante	Non-durable consumption goods		
231	Produits alimentaires, boissons, tabacs	Food, drink and tobacco	41+42	15+16
232	Textile, cuir, habillement	Textiles, leather and clothing	43+44+45	17+18+19
233	Bois, papier, imprimerie	Timber and paper manufacture, printing	46+47	20+21+22

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Code	Nom du secteur	Sector	Anciens codes secteurs NACE	Nouveaux codes secteurs NACE
234	Autres industries manufacturières, n.d.a.	Other manufacturing industries not elsewhere specified (n.e.s.)	48+49	25+36
3	BATIMENT ET GENIE CIVIL	BUILDING AND CIVIL ENGINEERING	50	45
4	COMMERCE	TRADE		
41	Commerce de gros, récupération, intermédiaires de commerce	Wholesale trade, recovery services	61+62+63	51
42	Commerce de véhicules automobiles, gros et détail	Sale of motor vehicles, wholesale and retail trade	n.a.	50.1+50.3+50.4
43	Commerce de détail	Retail trade	64+65	52.1-52.6+50.5
44	Hôtellerie-Restaurant	Hotels-Restaurant	66	55
5	Transports et communications	Transport and communication	71+72+73+74+75+76+77+79	60+61+62+63+64
6	Autres services n.d.a.	Other services n.e.s.	67+(83 à 98)	50.2+52.7+67+70+71+72+73+74+75+80+85+90+91+92+93+95

233 Bois, papier, imprimerie ne comprend plus 467 Meubles en bois (ancienne NACE), l'équivalent dans la nouvelle NACE n'existe pas.

234 Autres industries manufacturières ne comprend plus 493 Photodevelopment (ancienne NACE), cette activité est désormais dans le 44 Autres services (74 nouvelle NACE).

	SCHEMA BACH	SCHEME BACH	
Code	Intitulé	Description	
	BILAN - ACTIF	BALANCE SHEET - ASSETS	
<b>A.</b>	<b>Capital souscrit non versé</b>	<b>Subscribed capital unpaid</b>	
<b>C.</b>	<b>Actifs immobilisés</b>	<b>Fixed assets</b>	
C.1	Immobilisations incorporelles	Intangible fixed assets	
C.1.1	Frais d'établissement	Preliminary expenses	
C.1.5*	Autres immobilisations incorporelles	Other intangible fixed assets	
C.2	Immobilisations corporelles	Tangible fixed assets	
C.2.1	Terrains et constructions	Land and buildings	
C.2.2	Installations techniques et machines	Plant and machinery	
C.2.3	Autres installations, outillage, mobilier	Other fixtures	
C.2.4	Acomptes versés et immobilisations en cours	Payments on account and assets in construction	
C.3	Immobilisations financières	Financial fixed assets	
C.3.1/3	Parts et participations dans des entreprises liées	Shares and participating interests in affiliated undertakings	
C.3.8*	Autres immobilisations financières	Other financial fixed assets	
<b>D.</b>	<b>Actifs circulants</b>	<b>Current assets</b>	
D.1	Stocks	Stocks	
D.1.1	Matières premières et consommables	Raw materials and consumables	
D.1.4.	Acomptes versés	Payments on account	
D.1.5*	Autres stocks	Other stocks	
D.2	Créances	Debtors	
D.2.1	Créances résultant de ventes et de services	Trade debtors	
D.2.7*	Autres créances	Other debtors	
D.3	Valeurs mobilières	Current investments	
D.4	Avoirs en banque, chèques et encaisse	Cash at bank and in hand	
<b>E.</b>	<b>Comptes de régularisation</b>	<b>Prepayments and accrued income</b>	
<b>AE.*</b>	<b>Total de l'actif</b>	<b>Total assets</b>	
(*) Rubrique non conforme à la 4ème directive européenne / Item not in conformity with the 4th european directive.			

Code	Intitulé	Description	
	<b>BILAN - PASSIF</b>	<b>BALANCE SHEET - LIABILITIES</b>	
<b>F.</b>	<b>Dettes dont la durée résiduelle n'est pas supérieure à un an</b>	<b>Creditors : amounts becoming due and payable within one year</b>	
F.2	Dettes envers des établissements de crédit	Amounts owed to credit institutions	
F.3	Acomptes reçus sur commandes	Payments received on accounts of orders	
F.4	Dettes sur achats et prestations de services	Trade creditors	
F.10*	Autres dettes	Other creditors	
F.101*	Autres dettes financières	Other financial creditors	
F.102*	Autres dettes non financières	Other non financial creditors	
<b>I.</b>	<b>Dettes dont la durée résiduelle est supérieure à un an</b>	<b>Creditors : amounts becoming due and payable after more than one year</b>	
I.1	Emprunts obligataires	Debenture loans	
I.2	Dettes envers des établissements de crédit	Amounts owed to credit institutions	
I.4	Dettes sur achats et prestations de services	Trade creditors	
I.10*	Autres dettes	Other creditors	
I.101*	Autres dettes financières	Other financial creditors	
I.102*	Autres dettes non financières	Other non financial creditors	
<b>J.</b>	<b>Provisions pour risques et charges</b>	<b>Provisions for liabilities and charges</b>	
J.1*	Provisions pour fonds de pension et oblig. similaires	Provisions for pensions and similar obligations	
J.4*	Autres provisions	Other provisions	
<b>K.</b>	<b>Comptes de régularisation</b>	<b>Accruals and deferred income</b>	
<b>L.</b>	<b>Capitaux propres</b>	<b>Capital and reserves</b>	
L.1	Capital souscrit	Subscribed capital	
L.2	Primes d'émission	Share premium account	
L.3	Réserve de réévaluation	Revaluation reserve	
L.4	Réserves	Reserves	
L.5	Résultats reportés	Profit or loss brought forward	
L.6	Résultat de l'exercice	Profit or loss for the financial year	
<b>FL*</b>	<b>Total du passif</b>	<b>Total liabilities</b>	
(*) Non conforme à la 4ème directive / Not in conformity with the 4th directive.			

Code	Intitulé	Description
	<b>COMPTE DE RESULTATS</b>	<b>PROFIT AND LOSS ACCOUNT</b>
1.	Montant net du chiffre d'affaires	Net turnover
2.	Variation du stock produits finis et en cours fabrication	Variation in stocks finished goods and work in progr.
3.	Travaux portés à l'actif	Capitalised production
4.	Autres produits d'exploitation	Other operating income
<b>S.*</b>	<b>Produits d'exploitation</b>	<b>Total operating income</b>
5.	Consommation de biens et de services	Costs of materials and consumables
5.a	Charges des matières premières et consommables	Raw materials and consumables
5.b	Autres charges externes	Other external charges
8.	Autres charges et impôts d'exploitation	Other operatings charges and taxes
<b>T.*</b>	<b>Valeur ajoutée BACH ( S - 5 - 8 )</b>	<b>Added value BACH ( S - 5 - 8 )</b>
6.	Frais de personnel	Staff costs
6.a	Salaires et traitements	Wages and salaries
6.b	Charges sociales	Social security costs
<b>U.*</b>	<b>Résultat brut d'exploitation ( T - 6 )</b>	<b>Gross operating profit ( T - 6 )</b>
7.	Corrections de valeur sur actifs non financiers	Value adjustments on non financial assets
7.a	Amortissements sur immob. incorporelles et corporelles	Depreciation on intangible and tangible fixed assets
7.c*	Autres corrections de valeur et provisions	Other value adjustments and provisions
<b>V.*</b>	<b>Résultat net d'exploitation ( U - 7 )</b>	<b>Net operating profit ( U - 7 )</b>
9/11	Produits financiers	Financial income
12.	Corrections de valeur sur actifs financiers	Value adjustments on financial assets
13.	Intérêts et charges similaires	Interest and similar charges
13.a*	Intérêts versés sur dettes financières	Interest paid on financial debts
13.b*	Autres charges financières	Other financial charges
W.*	Résultat financier	Financial income net of charges
<b>X.*</b>	<b>Résultat net des activités ordinaires avant impôts</b>	<b>Profit or loss on ordinary activities before taxes</b>
16.	Produits exceptionnels	Extraordinary income
17.	Charges exceptionnelles	Extraordinary charges
Y.	Impôts sur les résultats	Taxes on profits
<b>21.</b>	<b>Résultat net après impôts</b>	<b>Profit or loss for the financial year</b>