

Audit and accounting

Companies established in Germany are obliged by sec. 238 ff, 242 ff, 264 ff. Code of Commerce to establish a book keeping system, to prepare the Financial Statements, i.e. a Statement of Assets and Liabilities, a Statement of Profit and Loss, Notes to the Financial Statements, and a Management Report at the end of each twelve months' period of business; the financial year of a company may or may not be identical to the calendar year. The statements, the notes, and the report must be audited by a Wirtschaftsprüfer (chartered accountant), published in the Federal Recorder (Bundesanzeiger), and subsequently submitted to the local trade register. Depending on the size of the company as defined by the balance sheet sum, the turnover, and the average number of staff, the requirements of audit and of publication (NOT of submission to the trade register!) are eased for small companies.

Accounting rules in the EC-Member countries have been approximated by a series of EC directives and became part of German national law on 1st January 1986. The very essence of the European notion of the approximation of laws gives astonishingly great freedom to member states to conform with EC rules; this is even more true with regard to accounting rules which are the basis for the assessment of taxes. These rules have not been approximated, despite some recent attempts to do so, and each member state is free to adopt its own rules. Thus, major differences may be encountered from one EC-member state to another, not to mention differences to US-GAAP or IASC rules.

During the start up phase and pending the establishment of your own accounting department, accounting is usually assigned to a firm of accountants ("Steuerberater") most of whom are connected to the DATEV operating one of the biggest EDP installations in Europe for standard financial accounting. Unfortunately, despite the security and reliability of operations and the constant updating of legislation there is a certain lack of flexibility when it comes to the adaptation of the accounting plans of foreign parent companies; furthermore, German book keepers and accountants may not fully master the working language of the parent company. Thus, it may be advisable to refrain from any attempt of parallel book keeping and just to content yourself with the consolidation of the yearly (or monthly, if so desired) financial statements of the German subsidiary; otherwise, time and money will be spent on the constant and sometimes complicated reconciliation of accounts.