

# A comparison between us gaap and german hgb



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List of Definition

of Terms

NYSE . New York Stock Exchange

GAAP General Accepted Accounting

## Principles

HGB	Handelsgesetzbuch
AICPA	American Institute of Certified Public Accountants
PCAOB	Public Company Accounting Oversight Board
GASB	Governmental Accounting Standards Board

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German HGB

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## Chapter 1

### 1. Introduction

When the multinational enterprises work with different accounting systems it might be possible to come with different results at the end of the year. This is the case of Siemens AG with the annual report from 2000. The German corporation's stock has been traded on the NYSE (New York Stock Exchange) and according to their report from US GAAP (General Accepted Accounting Principles) their net income was €8, 860 million while on German GAAP based on the same calculations their net income was reported as €7, 901 million. This means practically 14% more net income (Bruetsch 2003).

HGB and US GAAP are different accounting systems that companies use to organize their financial statements. HGB is primary used for companies in Germany and US GAAP in United States. Basically the financial reports of the multinationals are written according to the financial standards from the country they operate.

This research paper will give you an overview of the main differences between the both systems and will help you to better understand the practices used by the two important market leaders in the world.

## Chapter 2

### 2. 1 Literature review

### 2. 2 U. S. GAAP

The accounting standards in United States have been first set by the AICPA (American Institute of Certified Public Accountants). In 1939 AICPA created also the Committee on Accounting Procedure and after this in 1959 it was replaced by Accounting Principles Board. In 1984 the Public Company Accounting Oversight Board (PCAOB) and the Governmental Accounting Standards Board (GASB) determined the accounting standards in U. S (PWC.com, 2012). The US GAAP is influenced basically by the Common Law of United states.

## 2. 3 German GAAP

Different from US GAAP is the German HGB or Handelsgesetzbuch, a commercial code established first in 1897 and replaced in 1938 conform the European standards. The German accounting system was used also in Austria since 1938 (Investopedia.com). There are many differences between the German and U. S. accounting standards and it seems quite important for the financial employees to know them, mostly when they work in a multinational company. Some of the major differences consist in value-added tax, capitalization of software costs, personnel restructuring, employee share purchase plans, deferred income including derivatives, maintenance accruals, unrealized gains on marketable securities and share offering costs. The following section will analyse this differences and will offer a better understanding of the terms used in German GAAP and U. S. GAAP.

## Chapter 3

### 3. 1 General Analyses

### 3. 2 Value-added tax

In the German GAAP the value-added tax or VAT needs to be depreciated and the VAT recoveries recorded as other operating income. Under U. S. GAAP the capitalized VAT is considered a long-term receivable rather than plant and equipment or property. For that reason the depreciation and operating income are not recognized (Alexander et al. 2004).

### 3. 3 Personnel restructuring

Under U. S. GAAP, the estimated cost of employee separation are accrued in the period that the employee accepts the offer of termination while under German GAAP these costs are often financial on the basis of the Company when it announced the intention to reduce its workforce (Alexander et al. 2004).

### 3. 4 Deferred income including derivatives

According to U. S. GAAP the income of a company from a basic agreement is to be distributed over the duration of the agreement while under German GAAP this income is to be considered in accordance with the economic useful life (Alexander et al. 2004). “ Under German GAAP, gains and losses resulting from the termination of interest rate swaps are recognized in the year of termination while according to U. S. GAAP, gains and losses on interest rate swaps accounted for as hedges are amortized over the remaining outstanding period of the interest rate swap or the remaining life of the hedged position, whichever is shorter” (Alexander et al. 2004).

Under German GAAP, “ the foreign currency forward contracts and options used to hedge against the currency risk involved with a planned acquisition” are accounted as a hedge without affecting net income “ as an offset against the acquisition cost of the investment” while under U. S. GAAP may not be accounted for as a hedge (Alexander et al 2004).

### 3. 5 Maintenance accruals

The German GAAP requires that the cost of maintenance associated to the financial year and only the ones incurred within the first three months of the following year have been accrued at every end of the period while under U. S. GAAP, the cost of maintenance is considered in the periods incurred (Alexander et al. 2004).

### 3. 6 Unrealized gains on marketable securities

Under U. S. GAAP the marketable equity securities other than investments accounted for by equity method or marketable debt, are classified as either available for sale, or as trading, or held to maturity while under German GAAP they are generally carried at historical cost. “ Securities classified as trading or available for sale are reported at fair value at the balance sheet data and held to maturity securities are reported at historical cost.

Unrealized gains and losses on trading securities are recorded in net income while unrealized gains and losses on securities categorized as available for sale are recorded, net of income tax, in shareholders´ equity” (Alexander et al. 2004).

### 3. 7 Share offering cost



The share offering costs are written as extraordinary expenses in the income statement according to German GAAP while under U. S. GAAP are charged against the proceeds of the offering (Alexander et al. 2004).

Jürgen Kirsch, a professor of Finance at the University of Munster explain that the essential differences between German GAAP and U. S. GAAP are seen better at the capital markets and at investors. According to his paper in the financial structure of Germany the capital markets are less important than bank loans while in USA the capital markets are more important than banks. Furthermore the shareholder structure in USA is based on broad distribution of shares while in Germany the private investors are less important (Kirsch 2012). Looking at the basis for tax calculation and distributions we can see that USA has no influence on tax law and in Germany “ tax dictates financial accounting” was abolished.

The distribution rules are also different under German GAAP and U. S. GAAP. In Germany building of reserves and distribution constraints are controlled by law, and there are minimum distribution rules based on single accounts. However in USA there are almost no regulations to build reserves. The board determines the distribution and it is based on group accounts (Kirsch 2012).

Another significant differences between HGB and US GAAP according to KPMG, one of the biggest professional service companies in the world, are the provisions. The provisions have different recognition criteria, different measurement criteria and different selected specific areas.

### 3. 8 Provisions

## Recognition criteria

Under German GAAP the provisions are based more on the principle of prudent accounting while under U. S. GAAP are recorded for legal/contractual obligations or constructive obligations. The German HGB allows also provisions where no third-party liability exist for example expense accruals, planned repairs or internal costs of the year-end closing. Under U. S. GAAP a liability must exist to a third party at the balance sheet date (KPMG, 2005).

## Different measurement

The measurement criteria are also different. Under U. S. GAAP the amount of provision is based on best estimate while HGB allows greater flexibility and accruals could be substantially higher than under U. S. GAAP (KPMG, 2005).

## 3. 9 Foreign currency translation

The German GAAP requires that the financial statements must be recorded in the Euro currency and no other currencies are allowed. Under U. S. GAAP there is no specific currency underlined (KPMG, 2003).

## 4. 0 Tax influences on the Balance sheet

According to Grabowski's paper under the German GAAP the tax balance sheet and commercial balance sheet are closely connected to each other while under the U. S. GAAP there are no tax influences on the financial statement because the commercial balance sheet is separated from the tax balance sheet (Grabowski, 2012).

## Chapter 4

## 5. 1 Conclusion

This paper provided abroad understanding of the key differences between U. S. GAAP and German GAAP and offered a better analyse of the concepts. Even though both financial systems have some differences in the structure, the basic principles do not differ so much.

We can probably say that this differences are influenced by the different laws systems of the countries. Germany for example is based on civil code which has an extensive number of regulations that should be applied to as many special cases as possible and transferred to similar cases while USA is based on common law which implies a limited number of regulations. Here the rules are applied to special cases they were invented for and are decided for individual cases by jurisdiction.

After all we can say that U. S. GAAP and German GAAP are simply a combination of dependable standards and due to globalization it become necessary for multinational to understand the both systems in order to operate in this powerful economies. However in the future it might be possible that companies from both countries to report their financial data just according to one financial system.

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