



## THE CHART OF ACCOUNT SOLUTION FOR CONSOLIDATION

### USGAAP / IFRS / HGB: Practical Tip How to build the Structure

The balance sheet reporting must meet numerous valuation requirements:

USGAAP / IFRS / Local GAAP

Those who do not have "ledger accounting", such as that offered by SAP, usually develop their own solutions for this outside of the normal accounting systems, e.g. Excel. Here, a lot of time is spent on reconciling the figures, checking formulas and eliminating input errors. One plausibility check follows the other, usually at the expense of time that would be better spent on clarifying valuation methods or other, technically exciting questions.

The account solution for consolidation described below provides a very efficient method of meeting reporting requirements in a timely manner.

It enables balance sheet valuation differences to be posted immediately after clarification in the individual financial statements. The balance sheet reporting is thus always up to date. Reconciliation work with ancillary systems is no longer necessary; the documentation can be found and documented at any time via the posting documents.

The principle can be applied to any group accounting system. Integration into the consolidation according to the different balance sheet rules is thus conceivably simple.

#### Processual requirement

As is well known, the annual financial statement begins on the first day of each business year. If you follow this basic rule consistently, you will achieve a very high quality already in the monthly interim financial statements and considerably reduce the time-consuming work on the annual financial statements.

The booking of the monthly accruals or the formation of the intra-year provisions is carried out exclusively by the financial accounting department, of course in close cooperation with the controlling department, i.e. the bookings are made in the accounting department and not in the downstream controlling system.

In the logic described here, 8-digit account numbers are used.

#### Development of a modular structure using pool accounts (general ledger)

Without taking into account the accounts for the tax balance sheet, several account groups are needed to fulfil the requirements of financial reporting. The account groups are to be created as self-contained "control loops" consisting of balance sheet and P&L accounts. Cross-bookings between two control loops are not permitted.

The principle is very simple: set theory!

The company for which the author works belongs to the automotive supply industry, special machinery sector. The accounts are prepared in accordance with US GAAP and HGB, a conversion to IFRS is planned. Customer orders are processed in the form of projects. The valuation of projects according to POC (= percentage of completion) is applied as well as the determination of deferred revenue according to SAB101.





In this environment, a total of 6 account groups are structurally required. The account numbers used in the example have 8 digits and their structure corresponds as far as possible to the standard industrial chart of accounts.

#### Groups of accounts

Group 0 = starts with 00 = pool accounts (general ledger)

Group 1 = starts with 99 = adjustment according to HGB

Group 2 = starts with 55 = adjustments according to IFRS

Group 3 = starts with 66 = adjustment according to US GAAP in general

Group 4 = starts with 77 = adjustment according to USGAAP / POC

Group 5 = starts with 88 = adjustment according to US GAAP / SAB10

#### Implementation example "Work in progress (inventory)" account

<u>Account-No.</u>	<u>Account name</u>
00210000	Pool: Work in progress
55210000	IFRS: Work in progress
66210000	USGAAP: Work in progress
77210000	POC: Work in progress
88210000	SAB101: Work in progress
99210000	HGB: Work in progress

Group 0 contains the so-called pool accounts, where essentially the day-to-day business of the accounting department takes place. An important condition for the application of the account logic is that valuation differences according to US GAAP / HGB / IFRS are not posted on the pool accounts.

The group of pool accounts represents the largest account group and is included in every balance sheet report. The P&L accounts belong to the sub-ledger "P&L" from the point of view of the balance sheet. According to the before mentioned grouping, 6 sub-ledgers are needed for the carry-forward accounts:

<u>Account-No.</u>	<u>Account name</u>
00499000	Pool: Retained earnings general ledger
55499000	IFRS: Retained earnings Adjustments
66499000	USGAAP: Retained earnings Adjustments
77499000	POC: Retained earnings Adjustments
88499000	SAB101: Retained earnings Adjustments
99499000	HGB: Retained earnings Adjustments

There is no need to worry about inflating the chart of accounts, as the necessary adjustments are limited to a few sub-areas. Cross-bookings between the individual groups are not permitted.

In order to regularly check that this requirement is being met, a balance sheet report can be prepared that summarises the individual account groups, roughly subdivided into assets, liabilities and P&L in each case.





This balance sheet report also serves as the basis for the presentation of the equity reconciliation at balance sheet account level:

- 001 HGB-Adjustments
  - 001-A10 HGB-Assets
  - 001-B20 HGB-Liabilities
  - 001-C30 HGB-PnL
  
- 002 USGAAP-Adjustments allgemein
  - 001-A10 USGAAP-Assets
  - 001-B20 USGAAP-Liabilities
  - 001-C30 USGAAP-PnL
  
- 003 POC-Adjustments
  - 001-A10 POC-Assets
  - 001-B20 POC-Liabilities
  - 001-C30 POC-PnL
  
- 004 SAB101-Adjustments (Completed contracts)
  - 001-A10 SAB101-Assets
  - 001-B20 SAB101-Liabilities
  - 001-C30 SAB101-PnL
  
- 005 POOL-Accounts (General Ledger)
  - 001-A10 POOL-Assets
  - 001-B20 POOL-Liabilities
  - 001-C30 POOL-PnL





Two simplified examples in practical use:

Example 1: Partial retirement (block model):

There are valuation differences between US GAAP and HGB in the treatment of partial retirement (ATZ). Both accounting systems have in common that a provision has to be created for the amount saved by the ATZ participants and the severance payment due at the end of the ATZ (if contractually agreed). In the example, this is EUR 150,000.

General Ledger				
Assignment	Account-No.	Account name	Amount Debit	Amount Credit
PnL	00629000	Partial retirement	150.000	
B/S	00399100	ACC Partial retirement		150.000

In contrast to US GAAP, the probable utilisation by possible ATZ candidates must also be valued according to HGB. In the example, it is EUR 25,000

HGB Adjustment				
Assignment	Account-No.	Account name	Amount Debit	Amount Credit
PnL	99629000	HGB Partial retirement	25.000	
B/S	99399100	HGB ACC Partial retirement		25.000

Only the pool account is allocated to the US GAAP balance sheet, i.e. according to US GAAP there is a provision for partial retirement in the amount of EUR 150,000.

**Balance sheet USGAAP**

Assignment	Account-No.	Account name	Amount
B/S Liability	00399100	Partial retirement	(-) 150.000
B/S Liability	00499000	Balance sheet loss	(+) 150.000
			Balance scale = 0

The pool account and the HGB adjustment account are allocated to the HGB balance sheet, i.e. according to HGB there is a summary provision for partial retirement in the amount of EUR 175,000.

**Balance sheet HGB**

Assignment	Account-No.	Account name	Amount
B/S Liability	00399100	ACC Partial retirement	(-) 150.000
B/S Liability	99399100	HGB ACC Partial retirement	(-) 025.000
B/S Liability	00499000	Balance sheet loss	(+) 150.000
B/S Liability	99499000	HGB Balance sheet loss	(+) 025.000
			Balance scale = 0





Example 2: Work in progress (WIP) inventory

Production costs of EUR 440,000 were incurred for one project order.  
The contract value is EUR 1,000,000. The contract costs are EUR 750,000.

General Ledger				
Assignment	Account-No.	Account name	Amount Debit	Amount Credit
PnL	00610000	Costs of material	440.000	
B/S	00240000	Accounts payable		440.000

There is not yet a milestone invoice for these costs of material; the production costs are to be capitalised according to HGB.

HGB Adjustments				
Assignment	Account-No.	Account name	Amount Debit	Amount Credit
B/S	99210000	HGB WIP inventory	440.000	
PnL	99510000	HGB Change in WIP		440.000

Based on the POC method applied, the percentage of completion is 30%.

POC-Adjustments				
Assignment	Account-No.	Account name	Amount Debit	Amount Credit
B/S	77210000	POC WIP inventory	215.000	
PnL	77510000	POC Change in WIP		215.000
B/S	77461010	POC Deferred receivables	300.000	
PnL	77500000	POC Deferred Revenues		300.000

The HGB Financial Statements include the general ledger and the HGB adjustments:

**Balance sheet HGB**

Assignment	Account-No.	Account name	Betrag
B/S Assets	99210000	HGB WIP inventory	(+) 440.000
B/S Liability	00240000	Accounts payable	(-) 440.000
			Balance scale = 0

**Profit and Loss HGB**

Assignment	Account-No.	Account name	Betrag
PnL	00610000	Costs of material	(-) 440.000
PnL	99510000	HGB Change in WIP	(+) 440.000
			PnL Total = 0

The USGAAP Financial Statements include the general ledger and the POC Adjustments:

**Balance sheet USGAAP**

Assignment	Account-No.	Account name	Betrag
B/S Assets	77210000	POC WIP inventory	(+) 215.000
B/S Assets	77461010	POC Deferred receivables	(+) 300.000
B/S Liability	00240000	Accounts payable	(-) 440.000
B/S Liability	77499000	POC Balance sheet profit	(-) 075.000
			Balance scale = 0

**Profit and Loss USGAAP**

Assignment	Account-No.	Account name	Betrag
PnL	00610000	Costs of material	(-) 440.000
PnL	77510000	POC Change in WIP	(+) 215.000
PnL	77500000	POC Deferred revenue	(+) 300.000
			PnL Total = (+) 075.000





The original article was published in 2004 in Controllermagazin under the title "USGAAP / IFRS / HGB Practical Tip for Account Structure Organisation". Since many companies do not yet have ledger accounting, it has not lost its relevance. It has been slightly revised for the website.

