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Report on accounting in Germany

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Dr. Karl Red is a principal in TROBAS-Germany and has his headquarters in the Bielefeld Office. Among his other professional and social activities, Dr. Red finds time to be an active member in the Rotary Club of Bielefeld.

A Report on

IN THIS COUNTRY the profession of the auditor originated in the second half of the last century from two different sources. Unhampered by legal restrictions, the profession developed its own professional rules and placed itself from the very beginning under strict self-discipline in order to preserve independence, responsibility, and expert knowledge.

Public accountants were one of the sources. At first they were entered in court registers, but later were admitted and supervised by *Industrie- und Handelskammer* (chambers of industry and commerce). These chambers are public cooperatives and organs of self administration for the members. They are independent of the government although they perform some functions which in the United States are considered government functions.

The other source was *Treuhandgesellschaften* (trust companies one of whose functions was audit work) established by banks, which considered the formation of such companies advisable because the internal auditing departments of the banks did not seem to be independent

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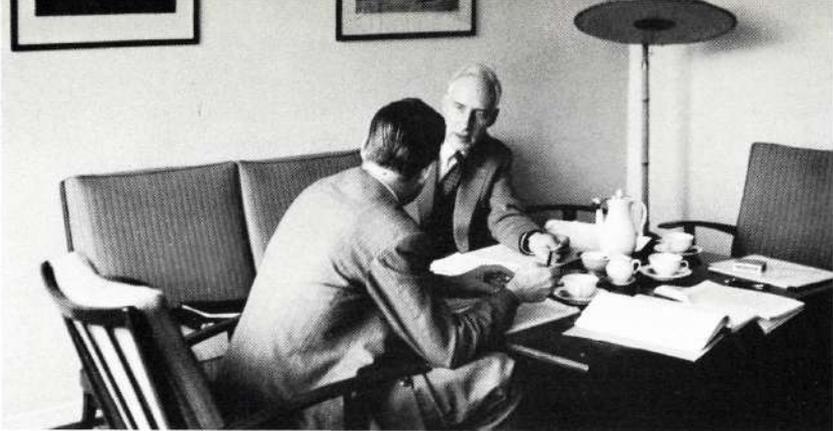
Accounting in Germany

by F. D. Möhle
TROBAS-Germany

enough from the management of the banks to give reliable information on the credit worthiness and solvency of the banks' debtors.

Next to the audit of the financial statements, of the credit and of the appraisal of enterprises, service in tax matters soon became another professional area, particularly after the first World War when the government had to increase its take of the national product owing to rising financial needs.

At that time, anybody could give advice in tax and economic matters and perform audits. About the turn of the century the name *vereidigter Buecherrevisor—vereidigter Buchpruefer* (like sworn accountant) was established as a professional name and legally restricted to persons operating as independent practitioners. Since the thirties professional service in tax matters presupposes that the advisor is admitted either as a *Steuerberater* (like tax accountant) on the basis of an examination he has passed or that he is registered at the Tax Offices as a *Helfer in Steuersachen* (like assistant in tax matters).



Over coffee in Bielefeld, R. Hess (1) and H. O. Schnitzler discuss the German translation of the TRB&S audit program.

Accounting in Germany cont'd...

Due to the economic crisis at the end of the twenties the law prescribed that certain enterprises such as corporations (*Aktiengesellschaft-AG*), cooperatives, government corporations, banks, insurance companies, building and loan associations, etc., have their financial statements audited in order to obtain an opinion by an independent auditor. Since the obligatory audits required a higher standard of auditing than before, and as it was necessary to make sure that each auditor was properly qualified, the group of the *Wirtschaftspruefer* (WP) was constituted. The *Wirtschaftspruefer* were selected from among the present *Buecherrevisoren* and the accountants of the trust companies established by the banks after passing an entrance examination and giving evidence of their irreproachable reputation. Later candidates had to submit to a strict procedure of admittance. They had to prove that they finished university study by a degree of a *Volkswirt, Betriebswirt, Jurist* or *Wirtschaftstechniker* (diploma in general economics, special economics, law, or as economic technician). They also had to pass a special examination for the *Wirtschaftspruefer*. A minimum age of 30 years was fixed.

Today, after some unimportant changes, the profession consists of the following groups which are more or less strictly organized into chambers with obligatory membership and subject to disciplinary jurisdiction either of their own or of the *Laender* (states), depending in law on regulations of the *Laender*:



Over tea in London, Mr. Riley (1), a supervisor in the London Office, considers same subject with Hans Shield of the United States firm.

- 1—*Wirtschaftspruefer* (WP), entitled to render opinions after making obligatory and non-obligatory audits and admitted to practice before all tax authorities and tax courts.
- 2—*Vereidigte Buchpruefer* (VBP), entitled to render opinions but not in respect of obligatory audits, and admitted to practice before tax authorities and tax courts.
- 3—*Steuerberater* (StB), admitted to practice before tax authorities and tax courts; they may not render opinions, but they may set up and audit financial statements.
- 4—*Helfer in Steuersachen* (HiSt), admitted to practice before the local tax offices, assisting smaller firms in the preparation of balance sheets, as well as auditing partially, but without being entitled to render opinions.

As the requirements are partially different, there are many *Wirtschaftspruefer* and *vereidigte Buchpruefer* who are *Steuerberater* at the same time.

Some accountants practice in the form of partnerships. Larger firms often organize in the form of a *Gesellschaft mit beschaenker Haftung* (G. mb. H., an organization which is for all practical purposes a corporation) or an *Aktiengesellschaft* (AG—corporation) because a partnership with a legal name and limited liability is unknown to the Ger-

man law. *Wirtschaftspruefer* and *vereidigte Buchpruefer* may only be active in companies which are admitted as WP-companies (*Wirtschaftspruefungsgesellschaften*) or accounting companies (*Buchpruefungsgesellschaften*) and are subject to the professional regulations and to the disciplinary jurisdiction of their fellow practitioners.

The training of the *Wirtschaftspruefer* requires at least: *Abitur* (like a higher secondary-school examination), final examination of a college or university, six years of practical experience (four of them with a *Wirtschaftspruefer*) and, after that, a difficult examination covering many subjects. Apart from the evidence of professional experience, a basic knowledge of economics, law and tax law is a necessity for this examination. A candidate of the other professional groups also has to pass an examination but of lesser difficulty, and equivalent practical training is required.

In Germany today there are about 1500 WP, 1200 VBP, 3000 StB, and 25,000 HiSt. Besides these, there are a group of people who—although they do not belong to any of the professional groups, have not gone through the strict steps of admission and are not subject to disciplinary proceedings—hold themselves out as being qualified to render similar services, especially in the management consulting field. Among them are some well qualified people, but also many who could not qualify for any of the established professional groups because of personal or professional shortcomings.

Observe the international standards

With respect to the members of the four professional groups, it may be presumed that they had to demonstrate their knowledge of accounting and tax and other laws and that they observe the international and generally accepted standards. The profundity of their knowledge and the extent of experience and of activity may sometimes vary depending on the individual qualification and on the scope of the various groups.

The activity of the *Wirtschaftspruefer* and the WP-companies is more extensive than of the other groups. The WP-companies have the advantage of a broader specialization than the individual *Wirtschaftspruefer*. The *Wirtschaftspruefer* deals, before all, with the audit of the financial statements, the balance sheet and the earnings statement, including analytical investigations into the changes of business, the solvency, profitability, etc. Especially, he is an expert for the examination of the credit and for the appraisal of enterprises. Investigations and

opinions may be limited in particular cases, as e.g., in the case of litigation, to limited areas of the whole accounting process.

The service in tax matters comprehends all current taxes, including the preparation of tax returns and all necessary documents to accompany the return, the examination of tax bills and advice regarding protests, advice at regularly recurring governmental audits, and representation of the client at appeal proceedings.

More activities of the Wirtschaftsprüfer

Tax advice in case of new firms, changes of corporate status, mergers, etc., usually includes questions of commercial law, the drafting of the necessary contracts, provision for the distribution in case of death, last wills, royalty agreements, holding company contracts, contracts for syndicates, etc. Experience has proved that the best results are obtained if a *Wirtschaftspruefer* and a lawyer or a notary public (the German notary public has a legal education) work together. The legal structure of a company is always an important factor in long-range planning in an accounting and tax sense.

Management service in the accounting field has always played an important role in the *Wirtschaftspruefers'* activity, because the formal audit may be performed with greater ease and with less risk if the accounting system is well organized. Many *Wirtschaftspruefer* have always advised their clients in the general questions of management: the appropriate flow of production, the adjustment of production to sales, the adjustment of purchases to sales, the planning of the work, etc., by means of production programs, standard costs, budgets, capital expenditure projects including the technical means for the preparation of statistical figures reaching to electronic computation (DP).

While these services, their extent and kind, depend rather on the individual abilities of the *Wirtschaftspruefer*, auditing shows a greater uniformity because of the accepted standards. Even the internal revenue examiners, in connection with the strict tax regulations and the strict and detailed legal rules in accounting matters, are satisfied when they reach the conclusion that their examination gave assurance as to the orderliness of the accounts. Consequently the actual examinations of formal orderliness of the accounts is, apart from random tests, not of major concern to the *Wirtschaftspruefer* unless some suspicion is raised by his general examination that some essential matter is incorrect, or

unless the course of accounting for the business transactions shows insufficient internal control. The audit is therefore as a rule concentrated on valuation problems, taking into consideration changes of business, and to investigations into cash flow, arrangement of the items in the balance sheet, solvency, profitability, etc. Without a special order, work directed toward the discovery of a defalcation is never included in the regular audit of the financial statements.

✓ The *Wirtschaftspruefer* generally do not restrict themselves to a short report on the results of their audit. As a rule, and always for obligatory audits, they render an opinion on the propriety of accounting principles, the arrangement of the financial statement, and the observance of the valuation rules and, in special cases, also an opinion on the report of the management and the conduct of the business. But beyond that, they think it necessary to submit a long-form report which gives details of the results of each examination and explains the more important items of the balance sheet. Indeed, there is at present a tendency to shorten the audit report, but it is thought that comments more detailed than just an opinion on the financial statements are necessary, so that the reader is able to form his own opinion and does not have to depend solely on the auditor's judgment.

Although the professional group of the *Wirtschaftspruefer* was created only 29 years ago, it is in high repute with the authorities, trade, and industry. The opinions of the *Wirtschaftspruefer* are respected as a standard.

The historic development was highly favorable to the development of this high status of the *Wirtschaftspruefer* because both constituent groups, the public accountants as well as the trust companies established by banks, had reached a high degree of professional acceptance even before the group of the *Wirtschaftspruefer* was created. There is generally good cooperation with the lawyers and there are *Wirtschaftspruefer* who have qualified also as lawyers and tax advisers.

From Rudyard Kipling...

I keep six honest serving-men
(They taught me all I knew);
Their names are What and Why
and When
And How and Where and Who.

—Submitted by John W. McEachren