

Year End Closing

The annual financial statements



The year-end closing provides an overview of all the profit and losses of the past fiscal year.

When companies face the end of a financial year, it's time for them to disclose all gains and losses recorded in a fiscal year. It's time to look at accounts and make decisions on projects to be approached in the upcoming fiscal year.

What is the year-end closing?

The financial year-end closing is the calculated conclusion of a commercial fiscal year. It reflects the financial situation and the profit or loss of a company for that specific year. The year-end closing includes the closure of the accounts, the collection of documents for accounting and the audit as well as the confirmation and publication in the federal gazette (Bundesanzeiger).

Most companies have the obligation to keep records, the main components for the closing are the financial statements, the balance sheet and the income statement. Smaller businesses only need to provide an income surplus account, while medium-sized and large enterprises must submit their complete annual financial statements in Germany.

What function does the annual year-end closing have?

From the corporate perspective, the annual year-end closing has two functions: a payment calculation function and an information function.

As the payment calculation function, the financial statements serve as basis for taxation (e.g. corporate tax and trade tax) for the company and the determination of payments, such as profit-sharing or dividends to the shareholders.

In its information, however, the year-end closing is a reference point for the future. It serves as information basis for internal decisions that must be made regarding future projects and activities. On the basis of the financial statements, not only the company, but also its shareholders or creditors decide their strategic approaches for the upcoming fiscal year.

Why do companies have to do annual closing?

The general obligation to the financial year-end closing in Germany is positioned in the Commercial Code. These framework laws are supplemented by some other relevant laws in regard to the annual year-end closing. An example of this is the Disclosure Act, which prescribes the publication of the financial statements or the Income Tax Act, which contains most of the tax rules relating to the year-end closing. . In addition, there are still a few rules, e.g. the insurance company Accounting Regulation or the Pension Fund Accounting Regulation, which are tailored to the specific individual legal forms of businesses or affect only certain industries.

Is the annual year-end closing internationally required and accepted?

In addition to the German regulations, there are also several international regulations for the financial year-end closing. Especially for companies which operate globally (e.g. USA/Germany, India/Germany, UK/Germany), those international regulations are likely to be of importance for them. Also medium-sized and large enterprises are requested to commit their financial statements in accordance with the International Financial Reporting Standards (IFRS). Furthermore, companies that are active and listed in the U.S., are additionally required to submit annual balance sheets according to the local United States Generally Accepted Accounting Principles (US-GAAP). This makes a double-entry bookkeeping as well as several parallel financial statements necessary.

What does the annual financial year-end closing statement include?

The annual financial statements are based on the current accounts of a company and represent an annual summary of those accounts, plus the inventory of the company.

Thereby, at first the closing of accounts will be completed. This means that the balances of all major and minor accounts are listed and calculated to one sum followed by the final balance sheet. In this sheet, all account balances will be double checked, summarized and then broken down into profits and losses. Here, the revenue account includes all movements that have been conducted throughout the year of the company and will be broken down by expenses and revenues.

Then, the total annual financial year-end statement gets published in the Federal Gazette (Bundesanzeiger) according to the German regulations.

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