



# Accounting Policy

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—  
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TUM



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# What is it all about?

Accounting Policy	Financial Statement Analysis
<p><b>Content:</b> Influence on the annual financial statements within the legal limits</p> <p><b>Purpose:</b> Judgment of the addresses of the information/legal consequences.</p> <p>→ Expectations must be anticipated</p>	<p><b>Content:</b> Analysis of published data (e. g. annual/ consolidated financial statements)</p> <p><b>Purpose:</b> Judgment on the economic situation and future development of the company</p> <p>→ Accounting policy must be decoded</p>
Module 03 AP	Module 02 FSA

“A good balance sheet is always better than the figures,  
a bad one is always worse.”

(unbekannt)

# Accounting Policy

1

**Basics of accounting policy**

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2

**Instruments of accounting policy**

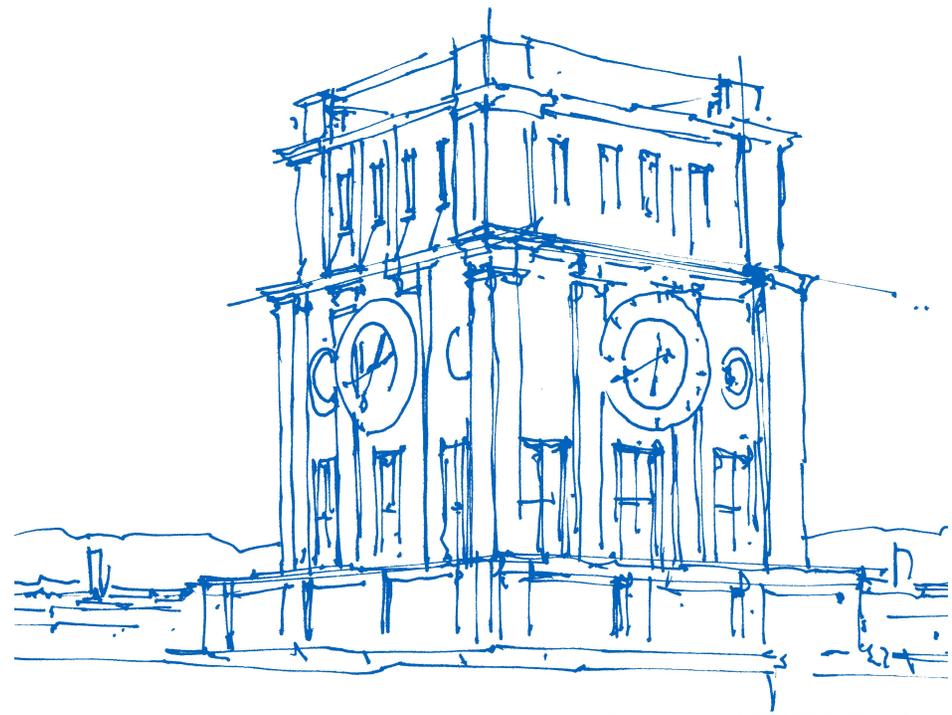
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3

**Conclusions**

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# 1 Basics of Accounting Policy



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## 1 Basics of accounting policy

# Overview

## Accounting Policy

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**Basics of accounting policy**

2

**Instruments of accounting policy**

3

**Conclusions**

## 1 Basics of accounting policy

# Accounting policy/Earnings management: Some thoughts about it!



- “Intentionally influencing the process of financial reporting to obtain some private gain”<sup>(a)</sup>
- Mislead stakeholders about the firm's underlying performance (“**earnings management**”)
- Influence contractual outcomes that depend on reported accounting numbers
- Not illegal (“within GAAP”) but a “slippery slope” to fraud

Note: (a) Schipper, Katherine. 1989. Commentary on Earnings Management.” Accounting Horizons (December): 91–102.

## 1 Basics of accounting policy

# Accounting policy / Earnings management: Incentives

### Performance-based compensation

Bonus payments are often linked to accounting numbers

### Raising capital

Window-dressing before Initial Public Offerings (IPOs), Seasoned Equity Offerings (SEOs)

### Meet/beat targets

Analyst forecasts, management forecasts, results of peers, results of last year, no loss to maintain/increase firm valuation and managerial reputation

### Avoid debt covenant violations

“At least 30% equity ratio”

### Quiet life

Smooth accounting performance is less burdensome to explain

Source: Prof. Dr. Ernstberger

## 1 Basics of accounting policy

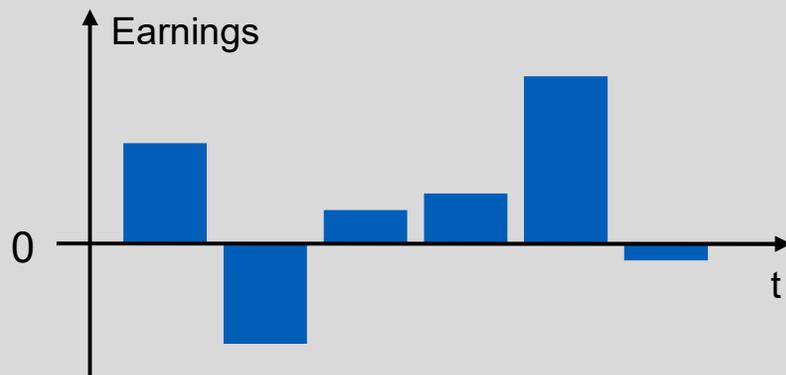
# Earnings management: Example I

The CEO of Jupiter wants to have a quiet life. The expected earnings (without earnings management) are as in the first figure. Thus, the CEO engages in earnings smoothing.

### No earnings management

Average earnings: 100

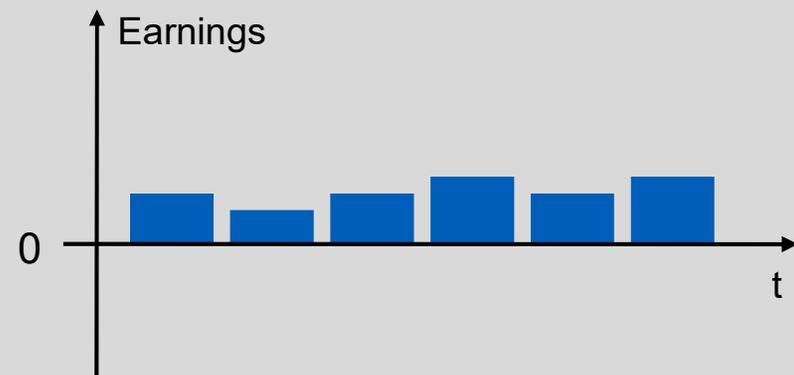
Volatility of earnings: 26%



### With earnings management

Average earnings: 100

Volatility of earnings: 12%



Source: Prof. Dr. Ernstberger

## 1 Basics of accounting policy

# Purpose and function

- 
- The accounting policy aims to present the **net assets**, **financial position** and **results of operations** of a company as positively as possible in the annual financial statements and management report **within the limits of legal possibilities**. The short-term accounting policy objectives must be coordinated with the strategic corporate objectives in the long term.
  - The **measures** of the accounting policy are **geared to the interests of the various users** of the financial statements, the so-called stakeholders.
  - The **instruments** of **material accounting policy** include:
    - **measures** taken to influence the structure of assets and capital positions **before the balance sheet date**.
    - **recognition** and **valuation** options given by the applicable accounting standards (IFRS, US-GAAP, HGB, ...) and the use of **discretionary margins in accounting estimates**
    - **appropriation of profits** during the preparation of the financial statements
    - **time-related measures**, such as the setting of the balance sheet date
  - In addition to material accounting policy, **formal accounting policy** using **structuring** and **presentation** options
-

## 1 Basics of accounting policy

# Groups of addressees

### External addressees

#### Stakeholders with contract income

Creditors  
Suppliers  
Employees

Focus on financial stability (credit risk)

#### Stakeholders with residual income

Shareholders  
Stock options eligible

Focus on profitability (income risk)

### Internal addressees

#### Management boards

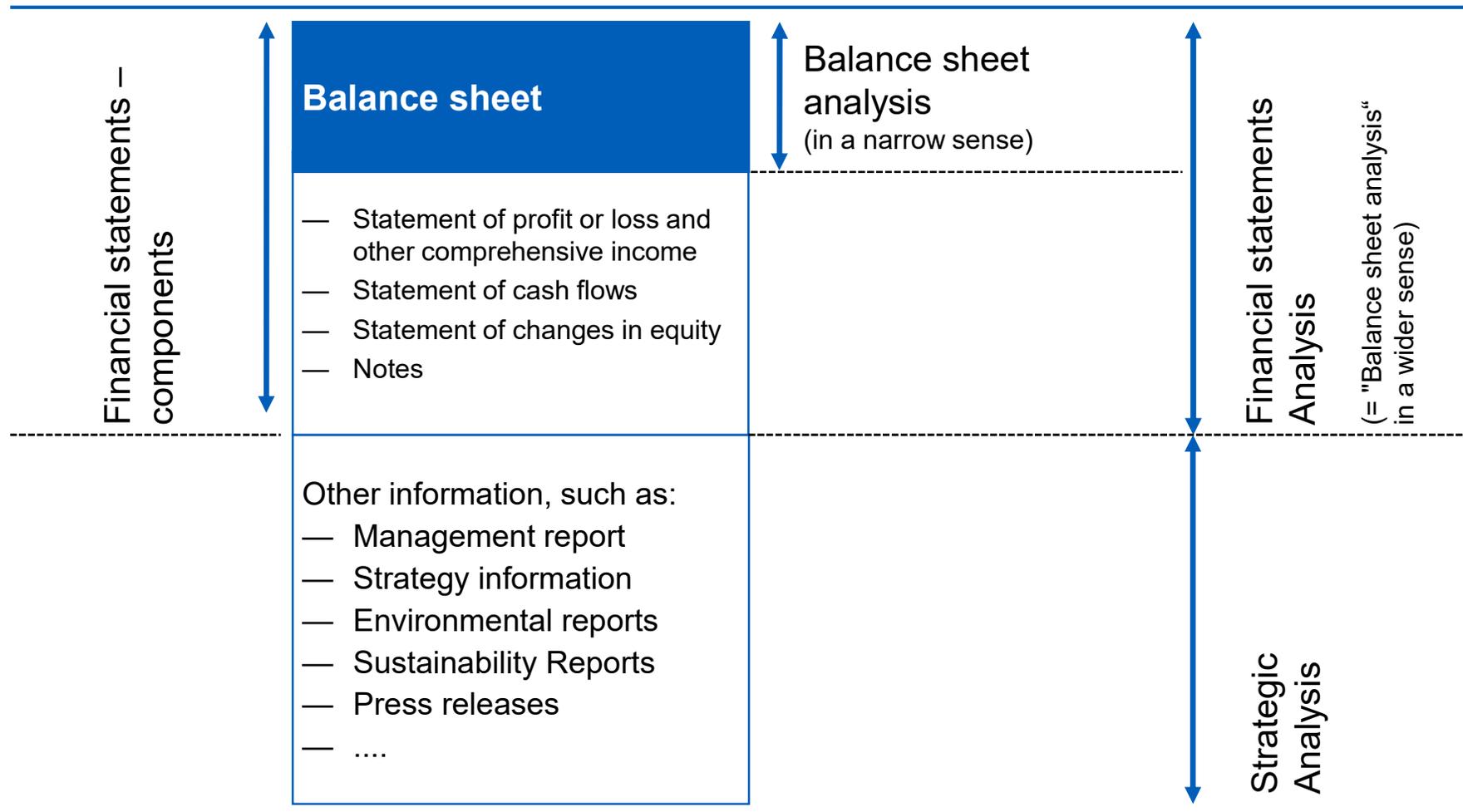
#### Supervisory boards

#### Advisory boards

Decision-making and behavioral control

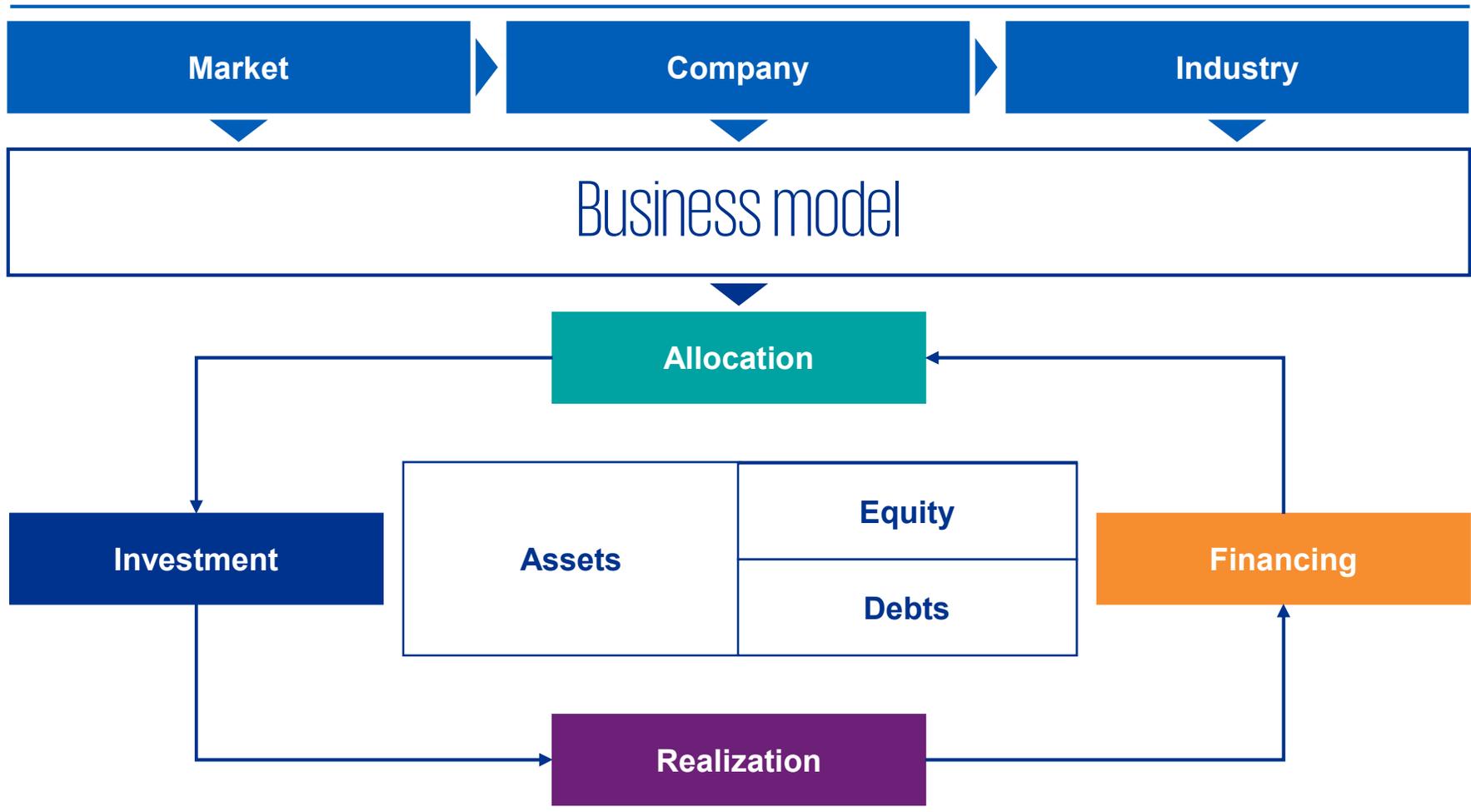
## 1 Basics of accounting policy

# Objects of accounting policy



# 1 Basics of accounting policy

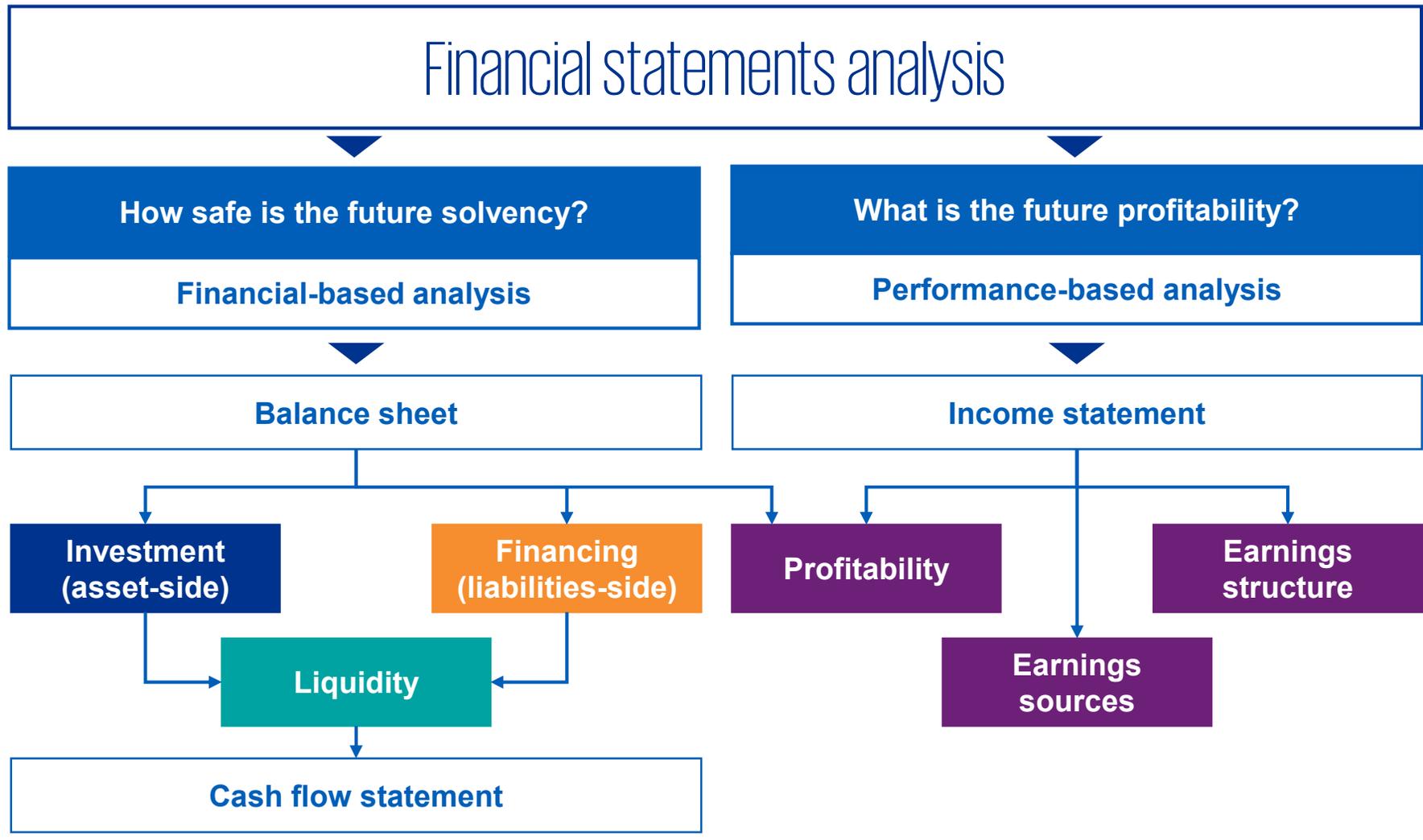
## General business cycle



Source: Based on Männel (2004), page 41

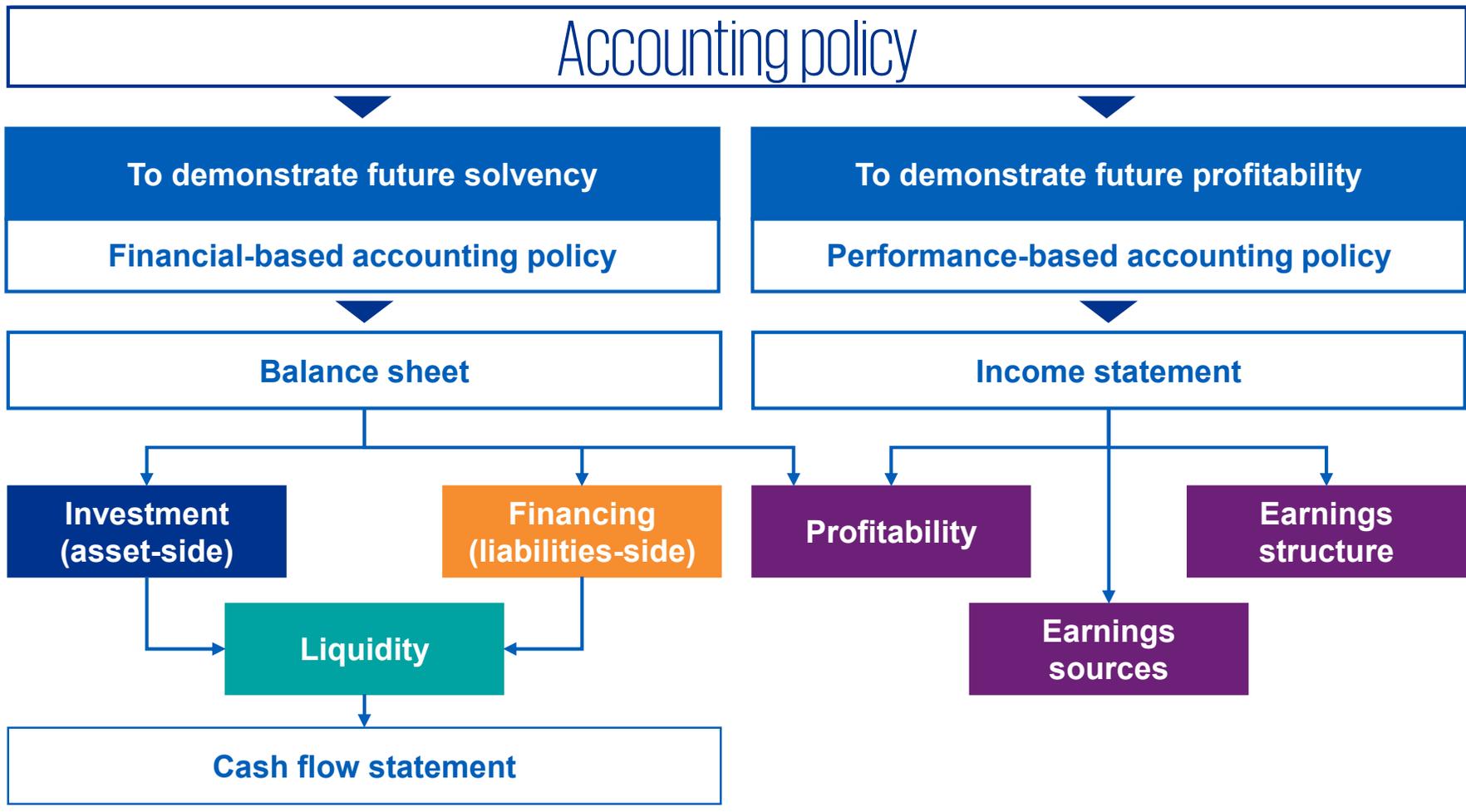
## 1 Basics of accounting policy

# Objects of financial statements analysis



## 1 Basics of accounting policy

# Objects of financial statements accounting policy



## 1 Basics of accounting policy

# Structure of the statement of profit or loss: Cost of sales method (simplified)

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### Revenues

– Cost of sales

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### = Gross profit

– Selling and distribution expenses(=S&D)

– Administrative expenses (=AdM)

– Research expenses

+ Other operating income

– Other operating expenses

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### = Operating result (=EBIT in a broader sense)

± Financial result

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### = Earnings before tax (EBT)

– Income taxes

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### = Net profit/loss (=net result)

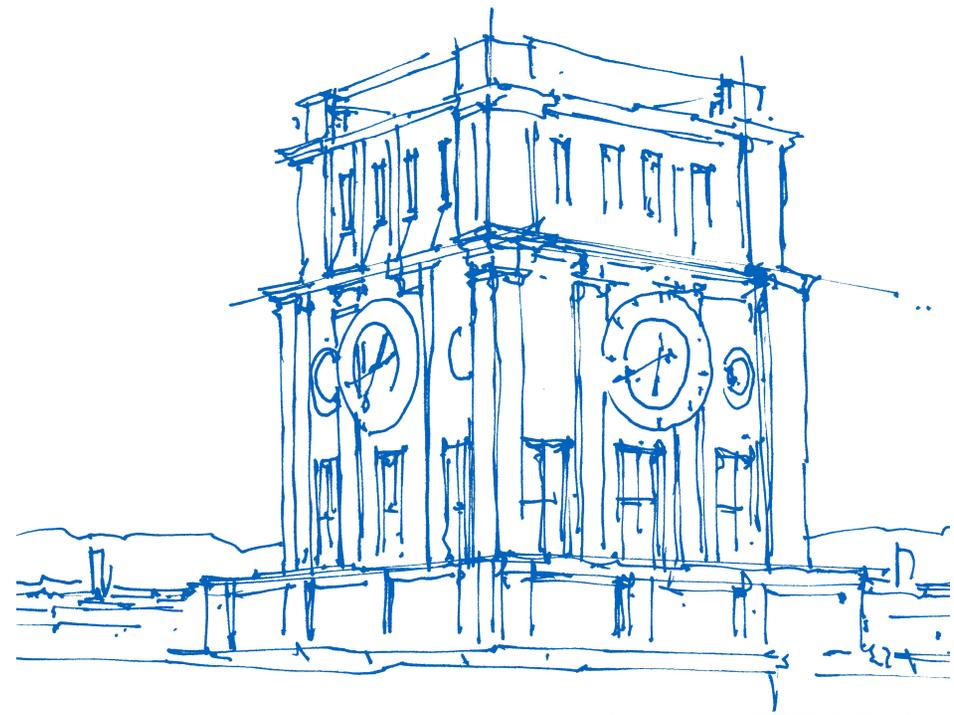
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## 1.1 Basics of accounting policy

### Example: Base case

Statement of profit or loss		Statement of financial position	
<b>Revenues</b>	<b>10,000</b>	<b>Non-current assets</b>	<b>4,000</b>
Cost of sales	-8,000	(of which: fixed assets: 3,000)	
<b>Gross profit</b>	<b>2,000</b>		
Operating costs (of which: S&D 500) (of which: AdM 200)	-1,000	<b>Current assets</b>	<b>16,000</b>
		(of which: inventories 5,000)	
		(of which: cash 4,500)	
<b>EBIT</b>	<b>1,000</b>		
Financial result	-450		
<b>EBT</b>	<b>550</b>	<b>Total assets</b>	<b>20,000</b>
Income taxes	-150		
<b>Net profit</b>	<b>400</b>		
<b>Additional information</b>			
<b>Depreciation/amortization</b>	<b>200</b>		
in cost of sales	150		
in operating costs	50		
		<b>Equity</b>	<b>5,000</b>
		(of which: profit 400)	
		<b>Non-current liabilities</b>	<b>6,000</b>
		(of which: interest-bearing: 5,000)	
		<b>Current liabilities</b>	<b>9,000</b>
		(of which: interest-bearing: 3,000)	
		<b>Total capital</b>	<b>20,000</b>

# 2 Instruments of Accounting Policy



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## 2 Instruments of accounting policy

# Overview

## Accounting Policy

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**Basics of accounting policy**

2

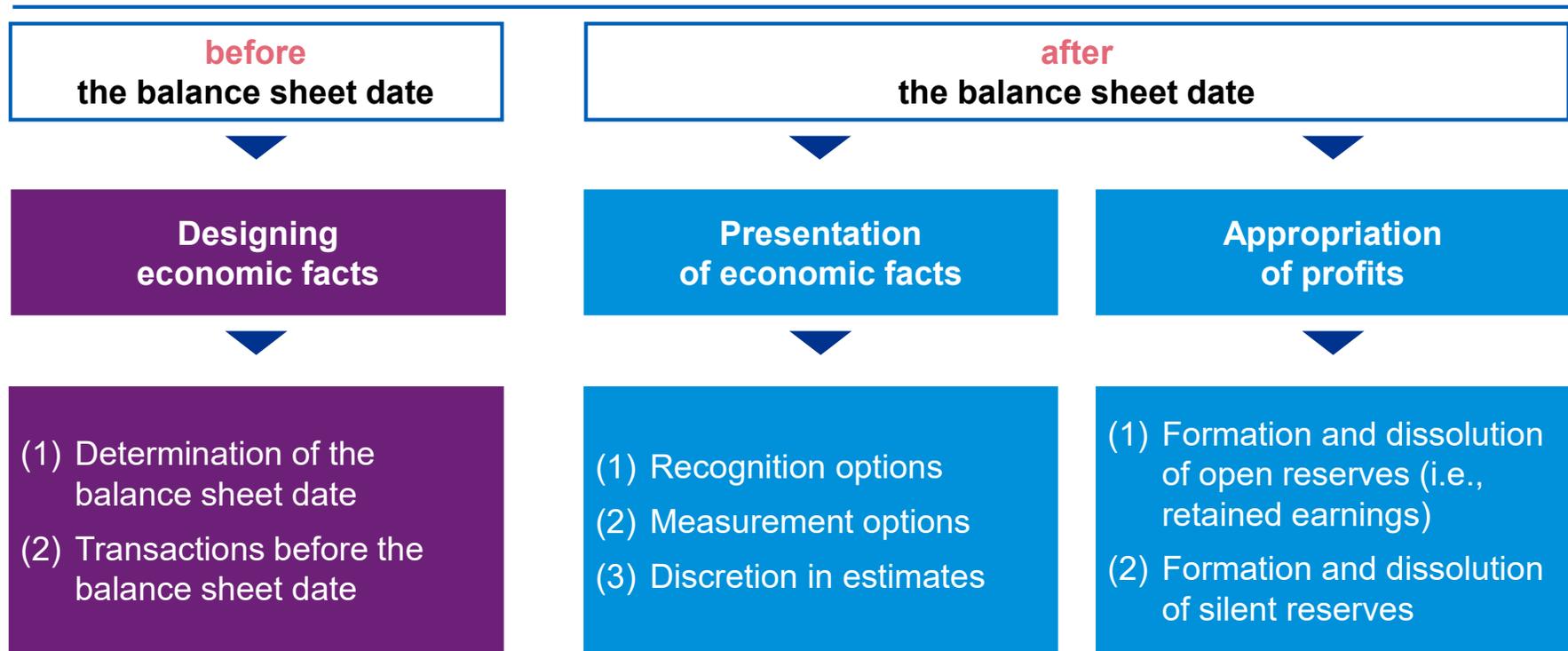
**Instruments of accounting policy**

3

**Conclusion**

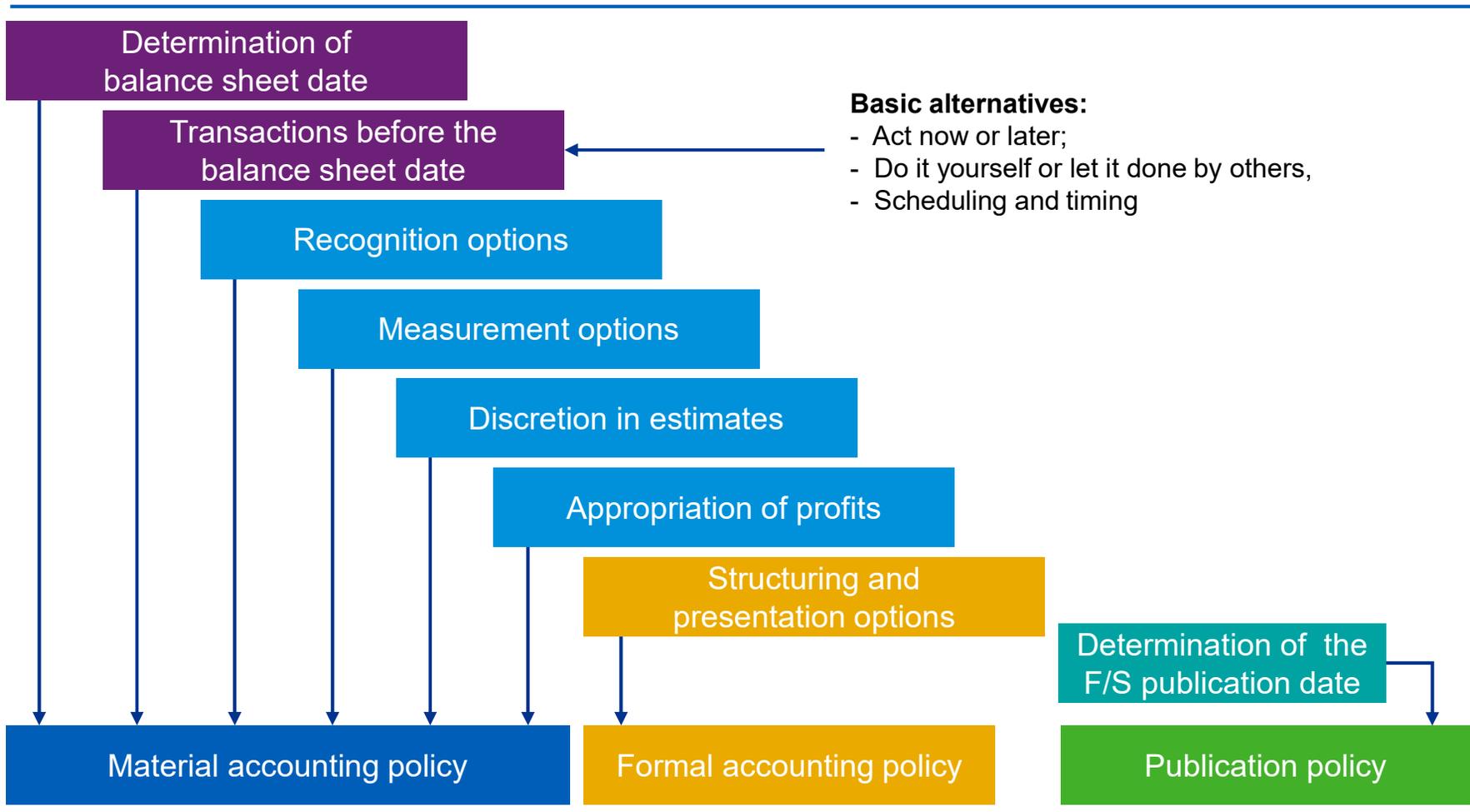
## 2 Instruments of accounting policy

# Instruments of accounting policy



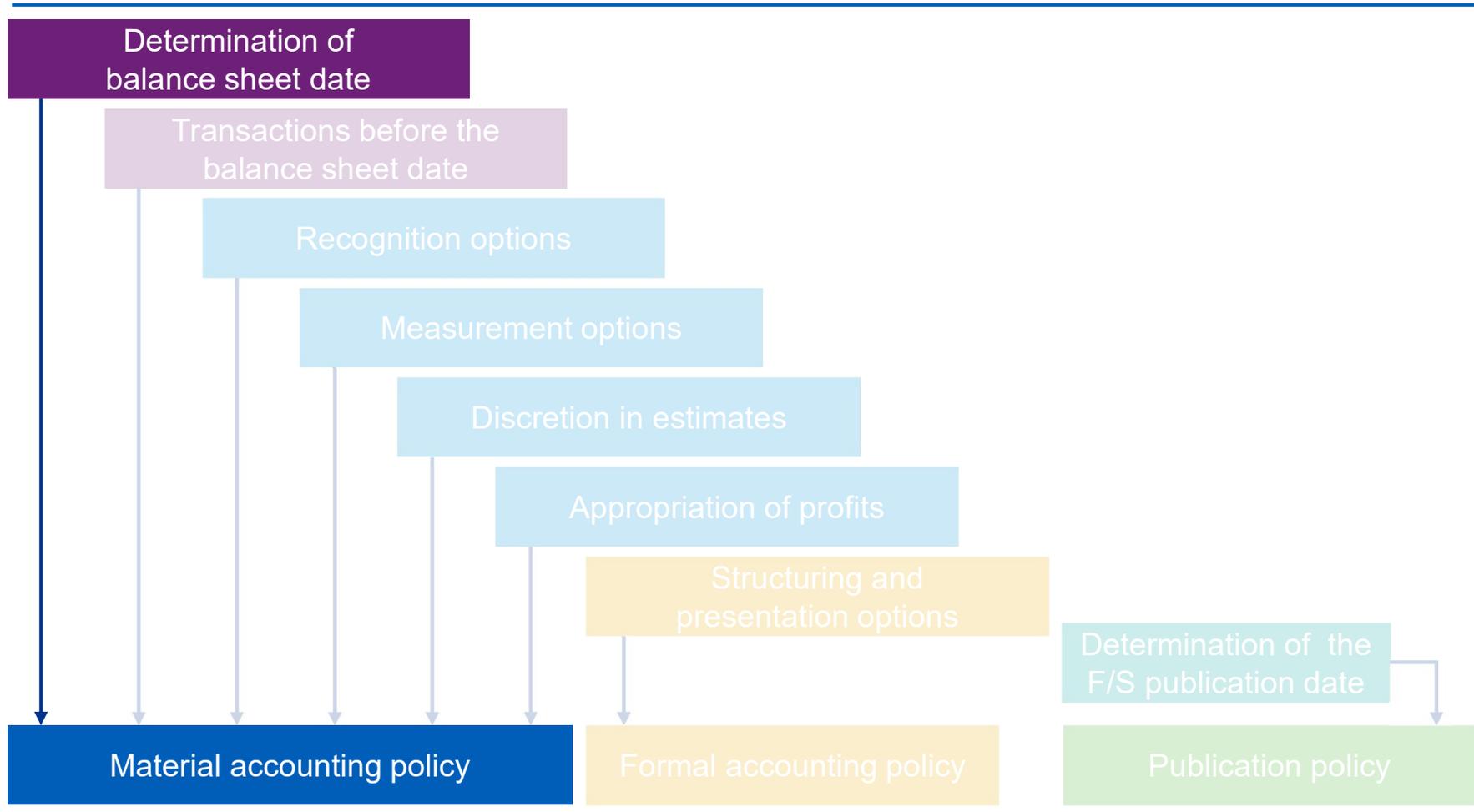
## 2 Instruments of accounting policy

# Assignment of the instruments to the types of accounting policy



## 2 Instruments of accounting policy

# Determination of balance sheet date



## 2 Instruments of accounting policy

# Reasons for a financial year that deviates from the calendar year

### Adjustment to the financial year of the parent company

For companies belonging to a group which is often based abroad

### Adaptation to seasonal processes in the agricultural, forestry and sports sector

i.e., soccer premier leagues, motorsport area, wine industry ...

### Adaptation to the competitive environment

i.e., audit companies, airlines

### Use of temporary production stops/reductions through regular maintenance and cleaning

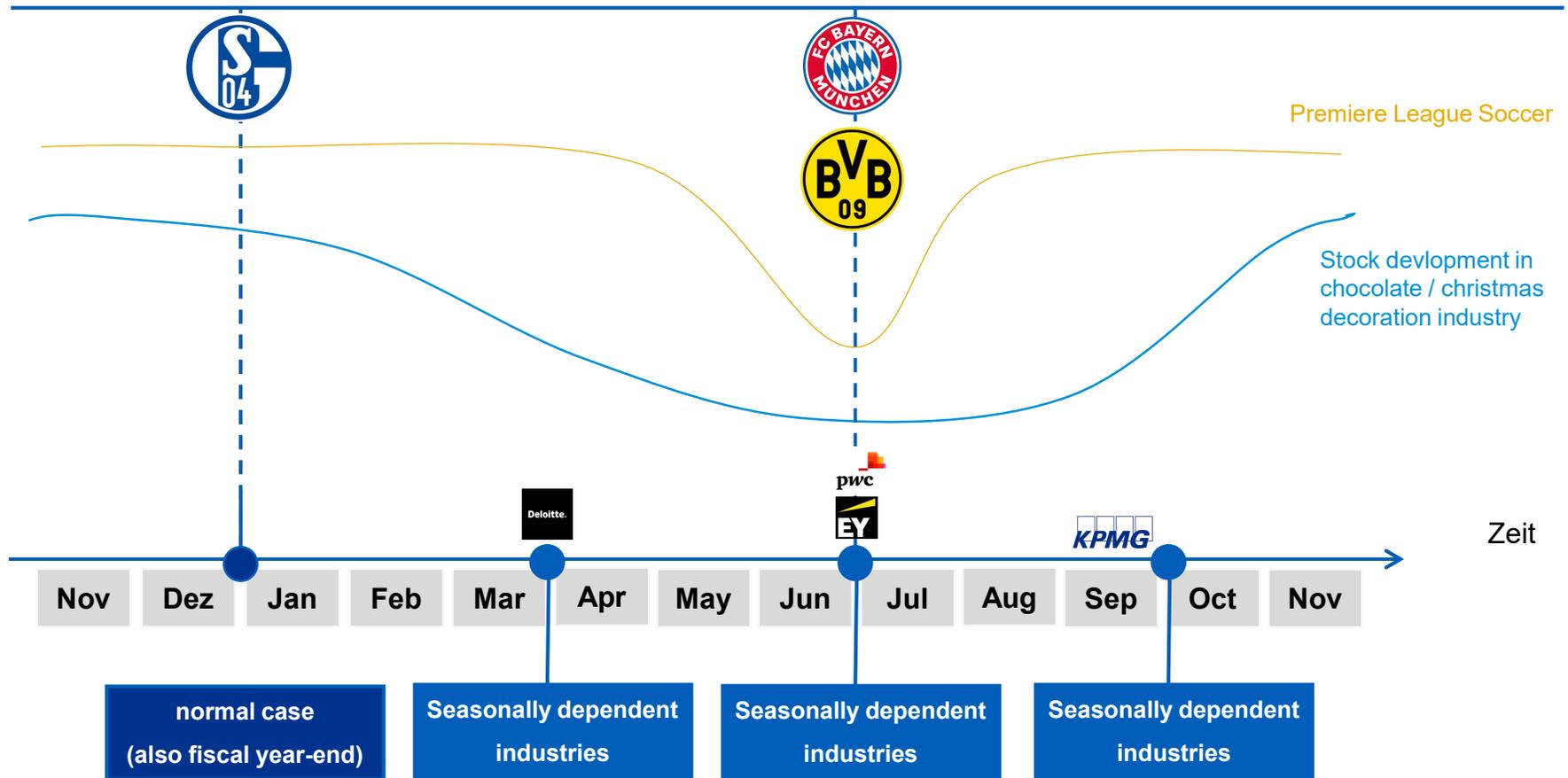
Inventories, finished goods, operating resources ... can then be recorded more easily

### Other adjustments to avoid seasonal peaks

i.e., Christmas industry, tax advisors ...

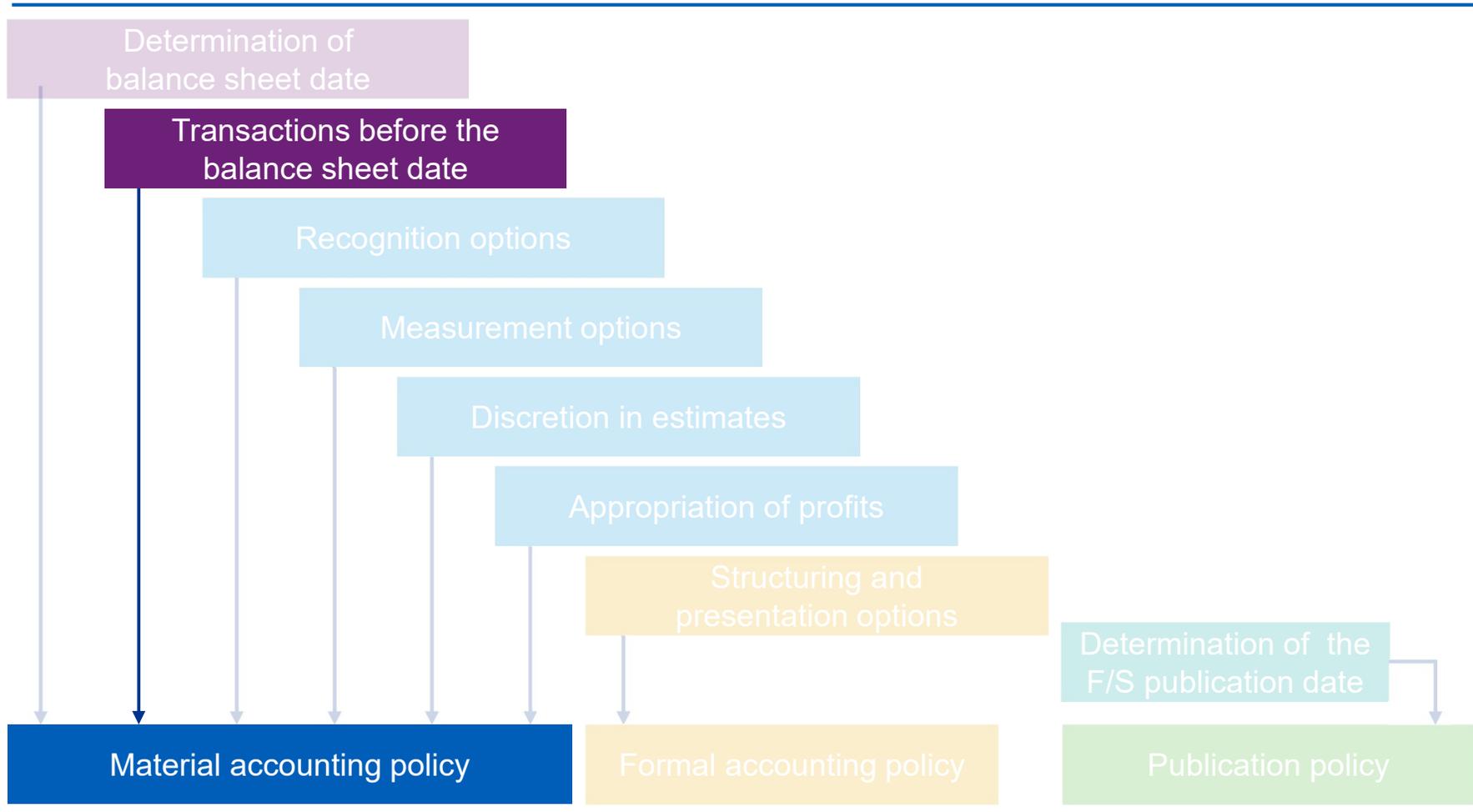
## 2 Instruments of accounting policy

# Determination of balance sheet date



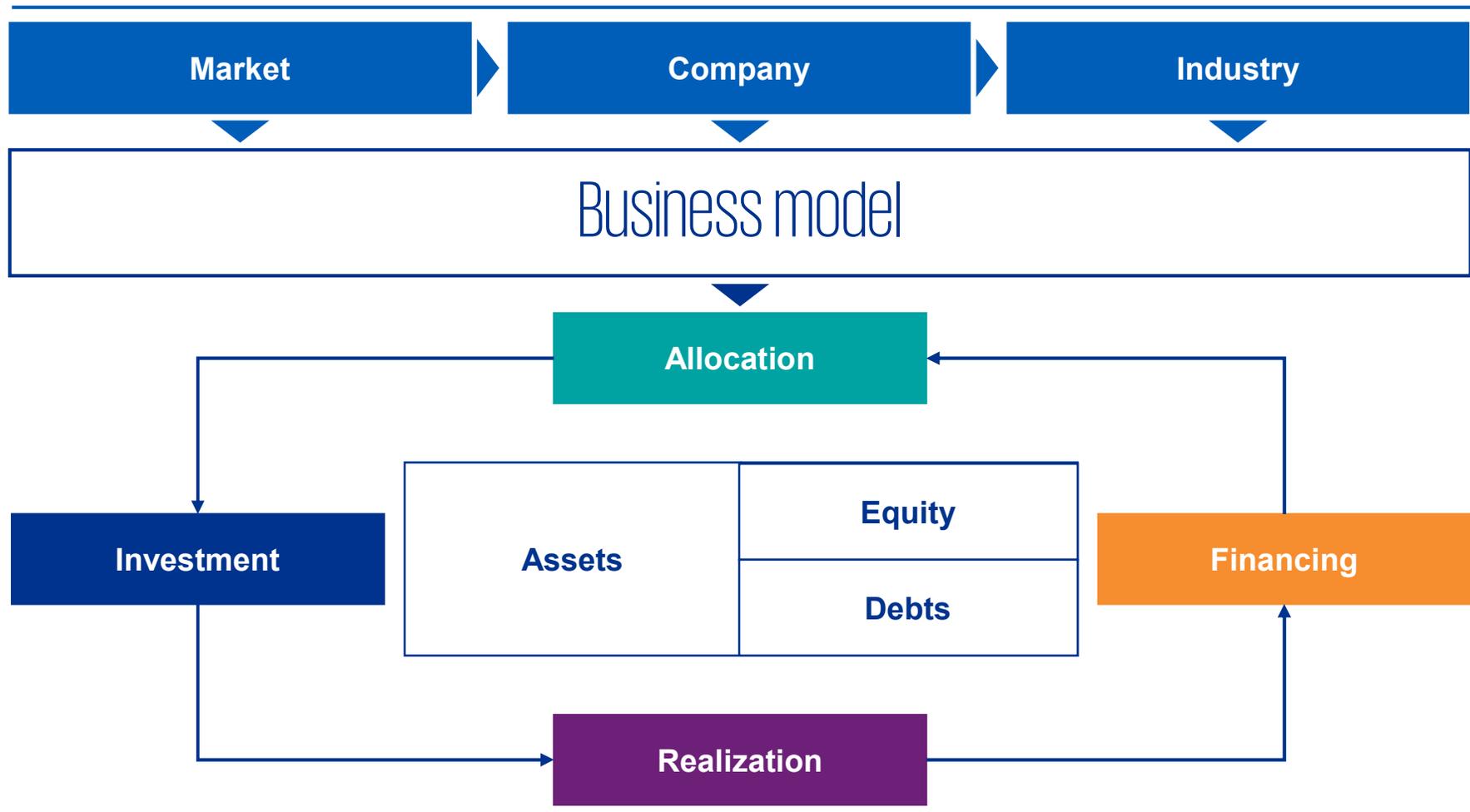
## 2 Instruments of accounting policy

# Transactions before the balance sheet date



## 2 Instruments of accounting policy

# Starting points for transactions



Source: Based on Männel (2004), page 41

## 2 Instruments of accounting policy

# Examples of transactions before the balance sheet date (1/2)

### Financing policy

- Determining the timing of capital increases
- Meaningful scheduling of borrowing
- Determination of the optimal level of indebtedness;
- Sale of receivables (factoring)

### Corporate structure policy

- Legal independence of business areas;
- Spin-off of production and service sectors;
- Outsourcing of research and development activities

### Innovation

- Pre-postponement of measures for the development of products as well as manufacturing and information technologies;
- Decision on in-house or external development

### Investment

- Investment in new manufacturing and information technologies;
- Logistical optimization of factories;
- Purchase, rent, leasing, sale-and-lease-back;
- Date of replacement investments

## 2 Instruments of accounting policy

# Examples of transactions before the balance sheet date (2/2)

### Procurement policy

- Date of purchase of raw materials, auxiliary materials and consumables;
- Agreement of longer payment terms with suppliers

### Production policy

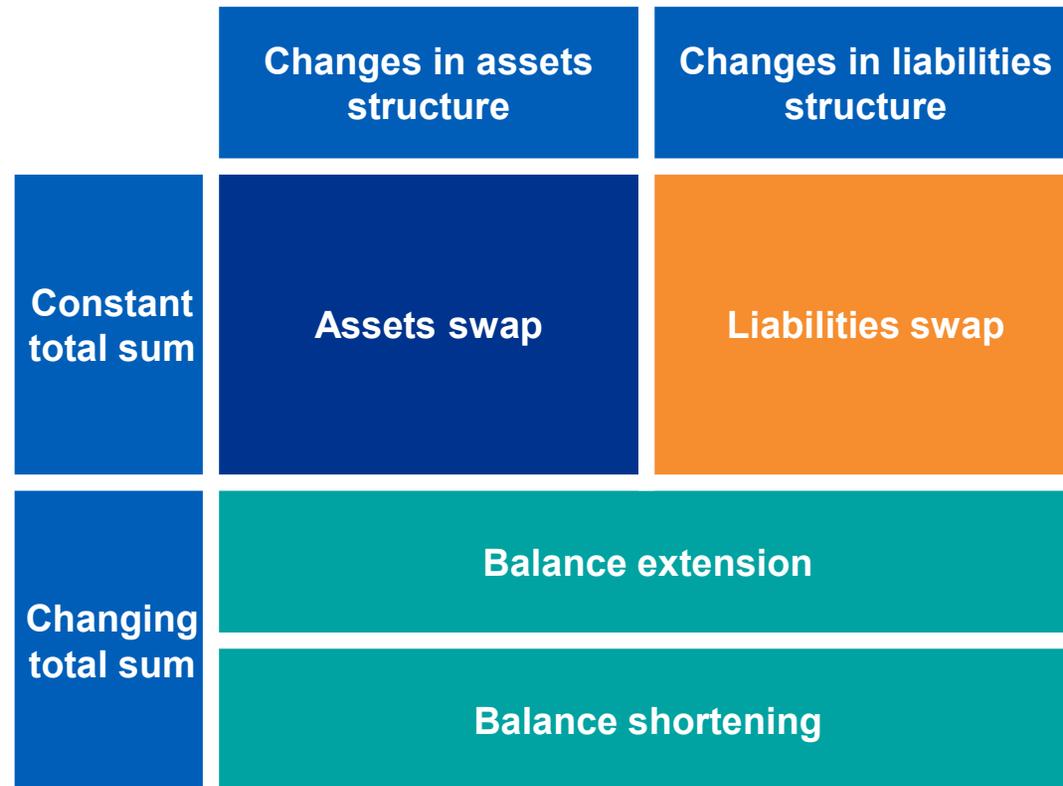
- Targeted production in stock;
- Accelerated completion of long-term contracts;
- Determination of the time of maintenance and repair work on production equipment

### Sales policy

- Acceleration of sales;
- Abandoning advertising in the old year;
- Granting shorter payment terms for customers;
- Sale of inventories at special conditions

## 2 Instruments of accounting policy

# Impacts of transactions to the financial position



## 2 Instruments of accounting policy

Example: Profit neutral assets swap  
 Buying a new machine for 1,500 MU in cash

Statement of financial position			
<b>Non-current assets</b>	<b>4,000</b>	<b>Equity</b>	<b>5,000</b>
(of which: fixed assets: 3,000)		(of which: profit 400)	
<b>Machinery</b>	<b>+1,500</b>	<b>Non-current liabilities</b>	<b>6,000</b>
		(of which: interest-bearing: 5,000)	
<b>Current assets</b>	<b>16,000</b>		
(of which: inventories 5,000)			
(of which: cash 4,500)		<b>Current liabilities</b>	<b>9,000</b>
		(of which: interest-bearing: 3,000)	
<b>Cash</b>	<b>-1,500</b>		
<b>Total assets</b>	<b>20,000</b>	<b>Total capital</b>	<b>20,000</b>

Impact on asset and capital structure			
Ratios	Calculation	before accounting policy	after accounting policy
<b>Fixed asset intensity</b>	Fixed assets x 100	$\frac{3,000 \times 100}{20,000} = 15,5\%$	$\frac{4,500 \times 100}{20,000} = 22,5\%$
	Total assets		
<b>Equity ratio</b>	Equity x 100	$\frac{5,000 \times 100}{20,000} = 25,0\%$	$\frac{5,000 \times 100}{20,000} = 25,0\%$
	Total capital		

## 2 Instruments of accounting policy

Example: Profit neutral balance extension

Buying a new machine for 1,500 MU on short-term credit

Statement of financial position			
<b>Non-current assets</b>	<b>4,000</b>	<b>Equity</b>	<b>5,000</b>
(of which: fixed assets: 3,000)		(of which: profit 400)	
<b>Machinery</b>	<b>+1,500</b>	<b>Non-current liabilities</b>	<b>6,000</b>
<b>Current assets</b>	<b>16,000</b>	(of which: interest-bearing: 5,000)	
(of which: inventories 5,000)		<b>Current liabilities</b>	<b>9,000</b>
(of which: cash 4,500)		(of which: interest-bearing: 3,000)	
		<b>Current bank loan</b>	<b>+1,500</b>
<b>Total assets</b>	<b>21,500</b>	<b>Total capital</b>	<b>21,500</b>

Impact on asset and capital structure			
Ratios	Calculation	before accounting policy	after accounting policy
<b>Fixed asset intensity</b>	Fixed assets x 100	$\frac{3,000 \times 100}{20,000} = 15,5\%$	$\frac{4,500 \times 100}{21,500} = 20,9\%$
	Total assets		
<b>Equity ratio</b>	Equity x 100	$\frac{5,000 \times 100}{20,000} = 25,0\%$	$\frac{5,000 \times 100}{21,500} = 23,3\%$
	Total capital		

## 2 Instruments of accounting policy

### Example: Profit neutral liabilities swap

Converting a current liability of 3,000 MU in a non-current liability

Statement of financial position			
<b>Non-current assets</b>	<b>4,000</b>	<b>Equity</b>	<b>5,000</b>
(of which: fixed assets: 3,000)		(of which: profit 400)	
<b>Current assets</b>	<b>16,000</b>	<b>Non-current liabilities</b>	<b>6,000</b>
(of which: inventories 5,000)		(of which: interest-bearing: 5,000)	
(of which: cash 4,500)		Non-current bank loan	+3,000
		<b>Current liabilities</b>	<b>9,000</b>
		(of which: interest-bearing: 3,000)	
		Current bank loan	-3,000
<b>Total assets</b>	<b>20,000</b>	<b>Total capital</b>	<b>20,000</b>

Impact on asset and capital structure			
Ratios	Calculation	before accounting policy	after accounting policy
Cash ratio	Cash x 100	$\frac{4,500 \times 100}{9,000} = 50\%$	$\frac{4,500 \times 100}{6,000} = 75,0\%$
	Current liabilities		
Equity ratio	Equity x 100	$\frac{5,000 \times 100}{20,000} = 25,0\%$	$\frac{5,000 \times 100}{20,000} = 25,0\%$
	Total capital		

## 2 Instruments of accounting policy

Example: Profit neutral balance sheet shortening  
 Repayment of current liabilities of 3,000 MU with cash

Statement of financial position			
<b>Non-current assets</b>	<b>4,000</b>	<b>Equity</b>	<b>5,000</b>
(of which: fixed assets: 3,000)		(of which: profit 400)	
		<b>Non-current liabilities</b>	<b>6,000</b>
		(of which: interest-bearing: 5,000)	
<b>Current assets</b>	<b>16,000</b>	<b>Current liabilities</b>	<b>9,000</b>
(of which: inventories 5,000)		(of which: interest-bearing: 3,000)	
(of which: cash 4,500)		<b>Current bank loan</b>	<b>-3,000</b>
<b>Cash</b>	<b>-3,000</b>		
<b>Total assets</b>	<b>17,000</b>	<b>Total capital</b>	<b>17,000</b>

Impact on asset and capital structure			
Ratios	Calculation	before accounting policy	after accounting policy
Cash ratio	Cash x 100	$\frac{4,500 \times 100}{9,000} = 50\%$	$\frac{1,500 \times 100}{6,000} = 25,0\%$
	Current liabilities		
Equity ratio	Equity x 100	$\frac{5,000 \times 100}{20,000} = 25,0\%$	$\frac{5,000 \times 100}{17,000} = 29,4\%$
	Total capital		

## 2 Instruments of accounting policy

### Example: Profit affecting balance extension

Cash sales of goods with production costs of 80 MU for 100 MU

Statement of profit or loss		Statement of financial position	
<b>Revenues</b>	<b>10,100</b>	<b>Non-current assets</b>	<b>4,000</b>
Cost of sales	-8,080	(of which: fixed assets: 3,000)	
<b>Gross profit</b>	<b>2,020</b>		
Operating costs (of which: S&D 500) (of which: AdM 200)	-1,000	<b>Current assets</b>	<b>16,000</b>
		(of which: inventories 5,000)	
		(of which: cash 4,500)	
<b>EBIT</b>	<b>1,020</b>	Inventories	-80
Financial result	-450	Cash	+100
<b>EBT</b>	<b>570</b>	<b>Total assets</b>	<b>20,020</b>
Income taxes <sup>*)</sup>	-150		
<b>Net profit</b>	<b>420</b>		
		<b>Equity</b>	<b>5,000</b>
		(of which: profit 400)	
		Profit	+20
		<b>Non-current liabilities</b>	<b>6,000</b>
		(of which: interest-bearing: 5,000)	
		<b>Current liabilities</b>	<b>9,000</b>
		(of which: interest-bearing: 3,000)	
		<b>Total capital</b>	<b>20,020</b>

Impact on asset and capital structure			
Ratios	Calculation	before accounting policy	after accounting policy
Return on Equity	$\frac{\text{Net profit} \times 100}{\text{Equity}}$	$\frac{400 \times 100}{5,000} = 8,0 \%$	$\frac{420 \times 100}{5,020} = 8,4 \%$
Equity ratio	$\frac{\text{Equity} \times 100}{\text{Total capital}}$	$\frac{5,000 \times 100}{20,000} = 25,0 \%$	$\frac{5,020 \times 100}{20,020} = 25,07 \%$

<sup>\*)</sup> Assumption: no tax impact

## 2 Instruments of accounting policy

Example: Profit affecting balance shortening

Selling short-term securities (aquisition cost: 100 MU) for 80 MU via cash

Statement of profit or loss		Statement of financial position	
<b>Revenues</b>	<b>10,000</b>	<b>Non-current assets</b>	<b>4,000</b>
Cost of sales	-8,000	(of which: fixed assets: 3,000)	
<b>Gross profit</b>	<b>2,000</b>		
<b>Operating costs</b>	<b>-1,020</b>	<b>Current assets</b>	<b>16,000</b>
(of which: S&D 500)		(of which: inventories 5,000)	
(of which: AdM 200)		(of which: cash 4,500)	
EBIT	980	Securities	-100
Financial result	--450	Cash	+80
<b>EBT</b>	<b>530</b>	<b>Total assets</b>	<b>19,980</b>
Income taxes <sup>*)</sup>	-150	<b>Total capital</b>	<b>19,980</b>
<b>Net profit</b>	<b>380</b>		

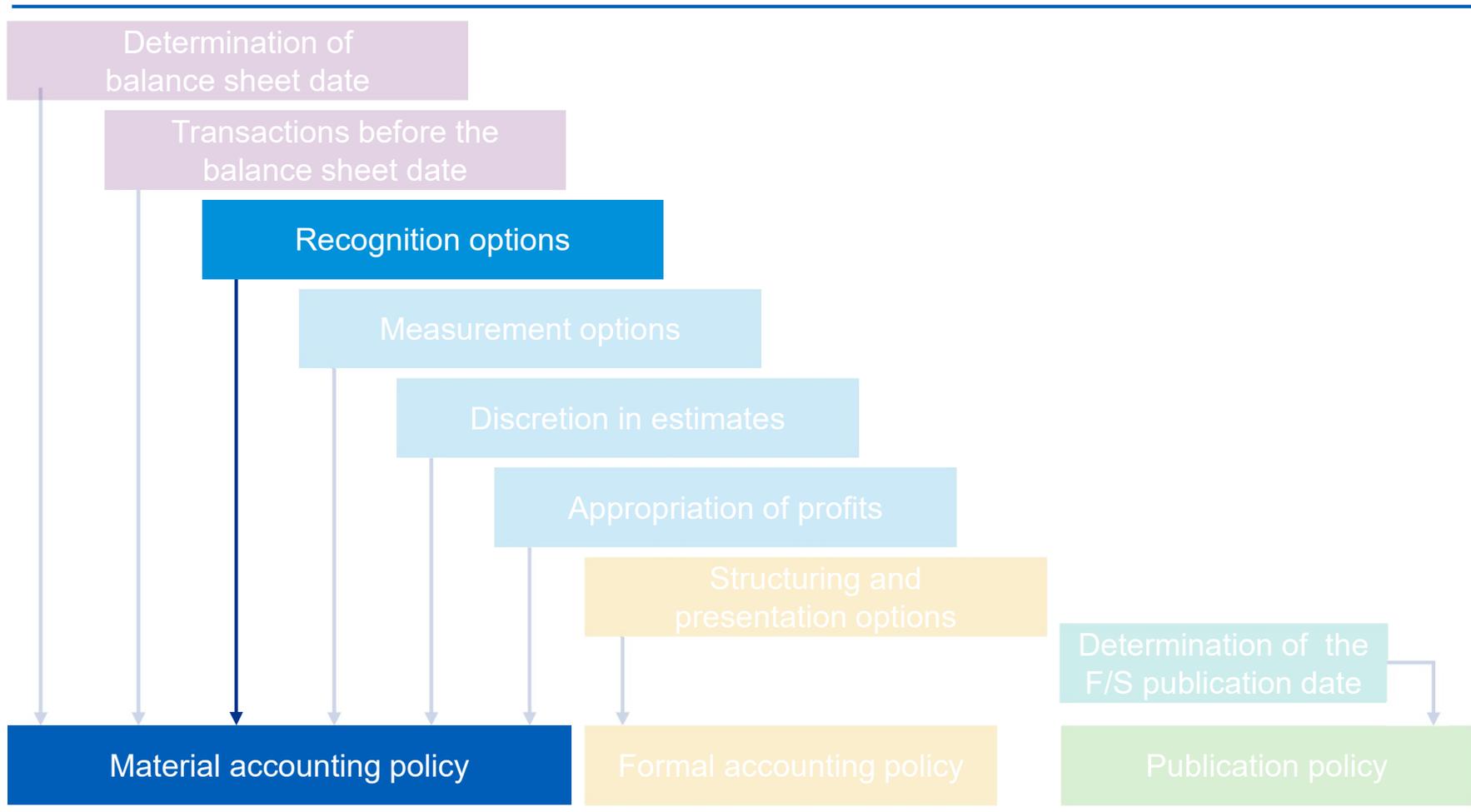
  

Impact on asset and capital structure			
Ratios	Calculation	before accounting policy	after accounting policy
Return on Equity	$\frac{\text{Net profit} \times 100}{\text{Equity}}$	$\frac{400 \times 100}{5,000} = 8,0 \%$	$\frac{380 \times 100}{4,980} = 7,6 \%$
Equity ratio	$\frac{\text{Equity} \times 100}{\text{Total capital}}$	$\frac{5,000 \times 100}{20,000} = 25,0 \%$	$\frac{4,980 \times 100}{19,980} = 24,9 \%$

<sup>\*)</sup> Assumption: no tax impact

## 2 Instruments of accounting policy

# Recognition options



## 2 Instruments of accounting policy

### Examples: Recognition options

Recognition options	HGB	IFRS
(1) <b>Development cost</b> (right to capitalize product-specific development costs)	§ 255 Abs. 2a	IAS 38 (factual option)
(2) <b>Disagio</b> (option to capitalize the difference between the repayment amount and the amount paid out of a liability)	§ 250 Abs 3 HGB	n.a.
(3) <b>Deferred tax assets</b> (in the case of corporations)	§ 274 Abs. 1 HGB	IAS 12

See example on following slides

§§ are not relevant for the exam!

## 2 Instruments of accounting policy

# Example: Development costs

## Capitalizing development cost of 200 MU

Statement of profit or loss		Statement of financial position	
<b>Revenues</b>	<b>10,000</b>	<b>Non-current assets</b>	<b>4,000</b>
Cost of sales	-8,000	(of which: fixed assets: 3,000)	
<b>Gross profit</b>	<b>2,000</b>	<b>Development costs</b>	<b>+200</b>
<b>Operating costs</b>	<b>-800</b>	<b>Current assets</b>	<b>16,000</b>
(of which: S&D 500)		(of which: inventories 5,000)	
(of which: AdM 200)		(of which: cash 4,500)	
<b>EBIT</b>	<b>1,200</b>	<b>Total assets</b>	<b>20,200</b>
Financial result	--450	<b>Total capital</b>	<b>20,200</b>
<b>EBT</b>	<b>750</b>		
Income taxes <sup>*)</sup>	-150		
<b>Net profit</b>	<b>600</b>		

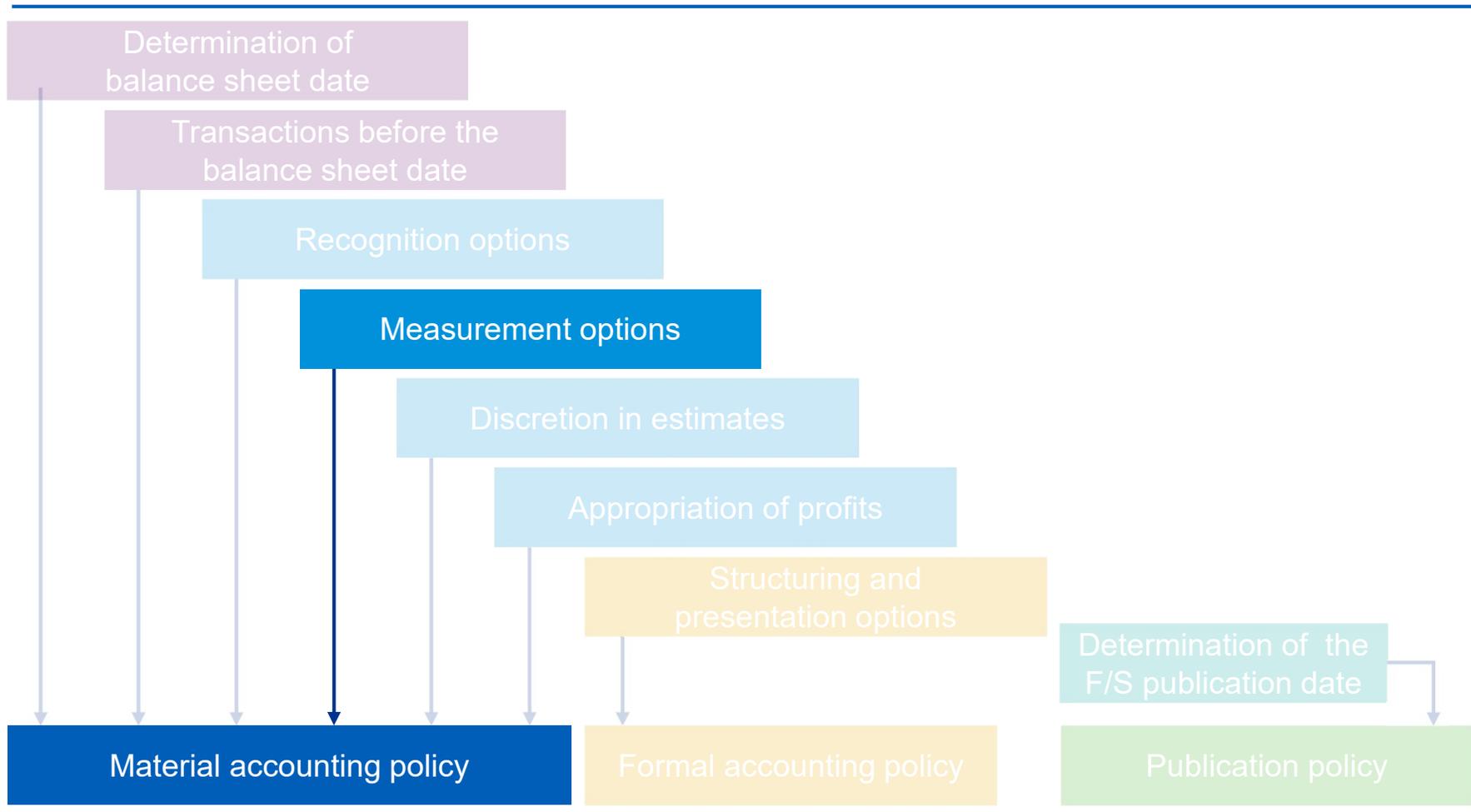
  

Impact on asset and capital structure			
Ratios	Calculation	before accounting policy	after accounting policy
Return on Investment	EBIT x 100	$\frac{1,000 \times 100}{20,000} = 5,0 \%$	$\frac{1,200 \times 100}{20,200} = 5,9 \%$
	Total capital		
Equity ratio	Equity x 100	$\frac{5,000 \times 100}{20,000} = 25,0 \%$	$\frac{5,200 \times 100}{20,200} = 25,7 \%$
	Total capital		

<sup>\*)</sup> Assumption: no tax impact

## 2 Instruments of accounting policy

# Measurement options



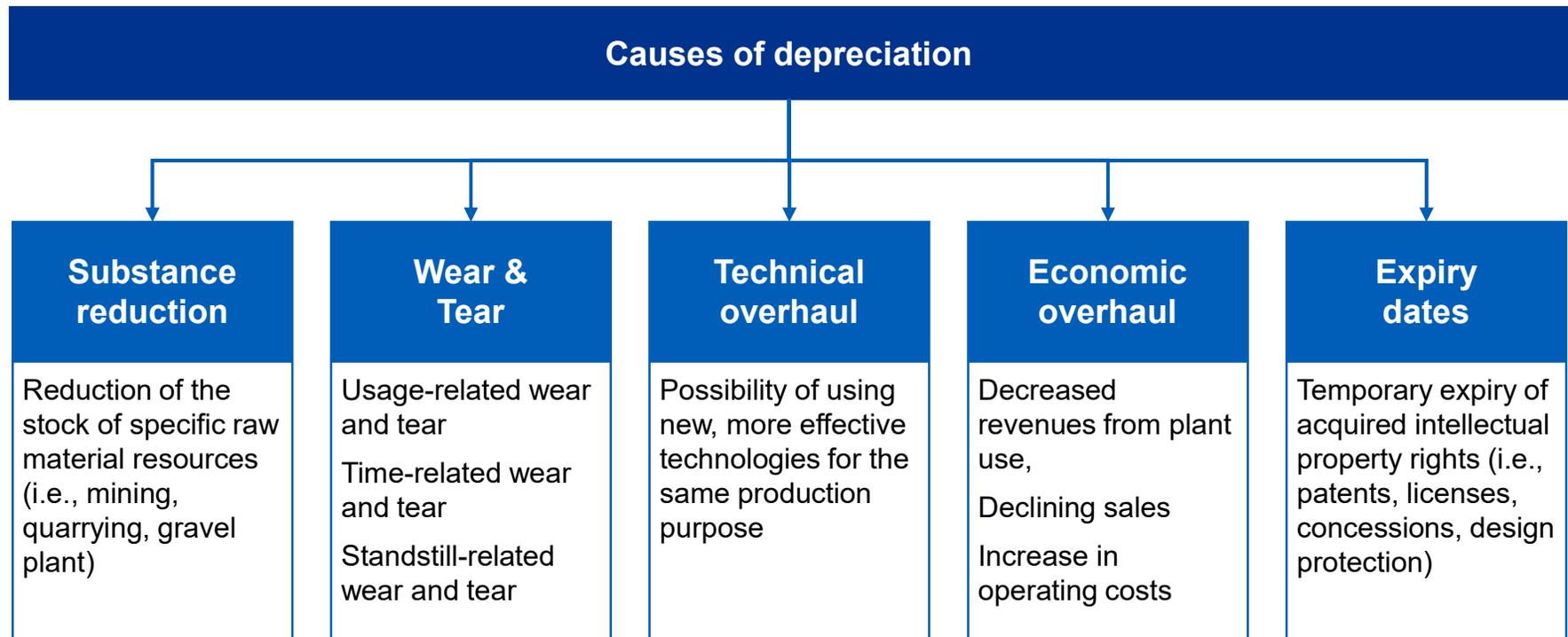
## 2 Instruments of accounting policy

# Examples: Measurement options

Measurment options	HGB	IFRS
<b>(1) Semi-finished and finished products</b> (right to activate administrative overheads in the context of production costs)	§ 255 Abs. 2	IAS 1, 2
<b>(2) Similar inventory items</b> (method selection in determining the notional acquisition cost)	§ 256 HGB	IAS 2
<b>(3) Pension</b> (right to vote in the discount interest rate reference period)	§ 253 Abs. 2	n.a.
<b>(4) Property, plant and equipment &amp; Intangible assets</b> (in the case of scheduled depreciation: right to choose linear, degressive, performance-related)	§ 253 Abs. 3	IAS 16 / 38
<b>(5) Financial assets</b> (depreciation choice according to a reduced principle of lower value in case of likely temporary impairment (HGB))	§ 253 Abs. 3 HGB	IAS 39, IFRS 7, 9
See example on following slides	§§ are not relevant for the exam!	

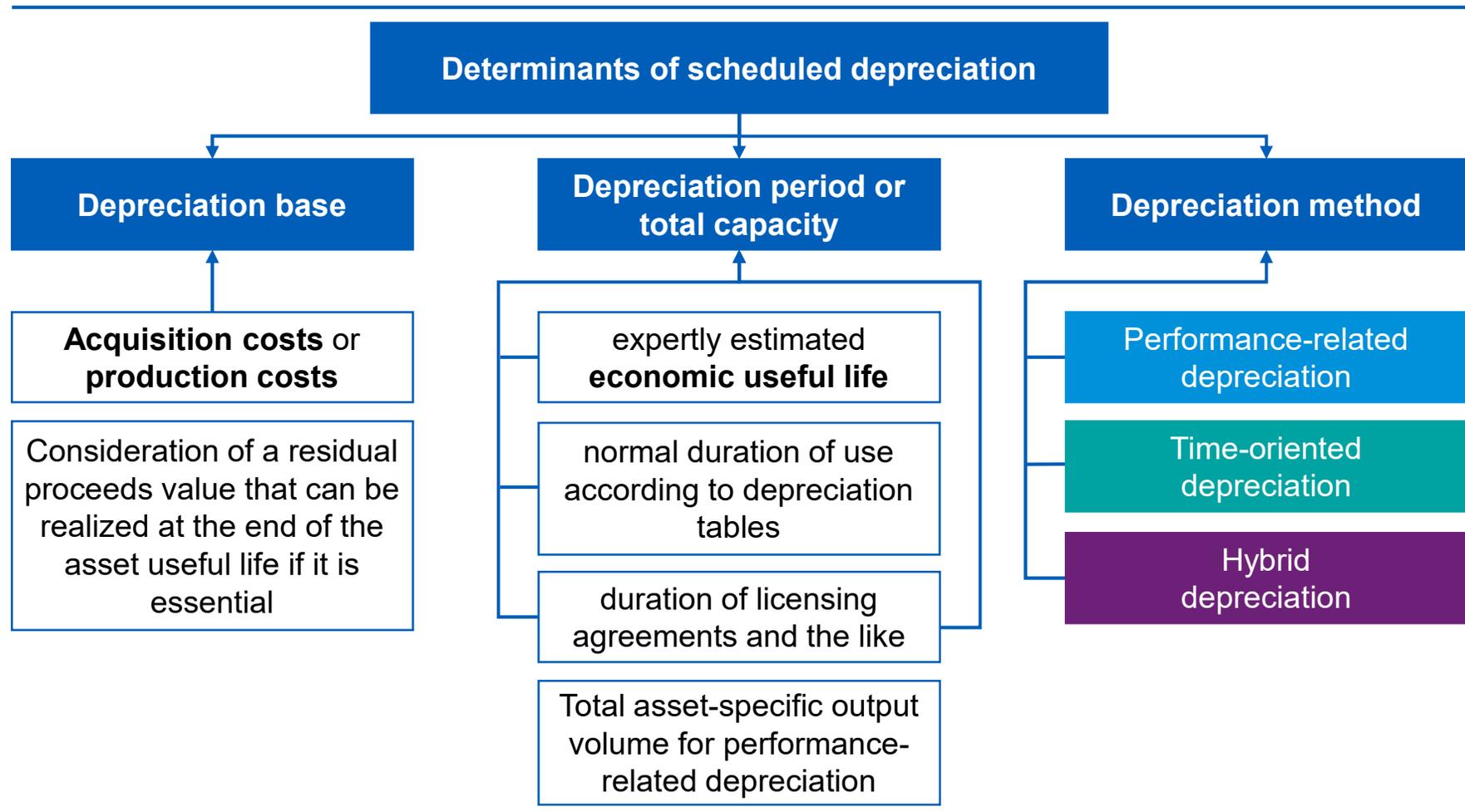
## 2 Instruments of accounting policy

# Ad (4): Types and causes of depreciation/amortization/impairment of fixed assets



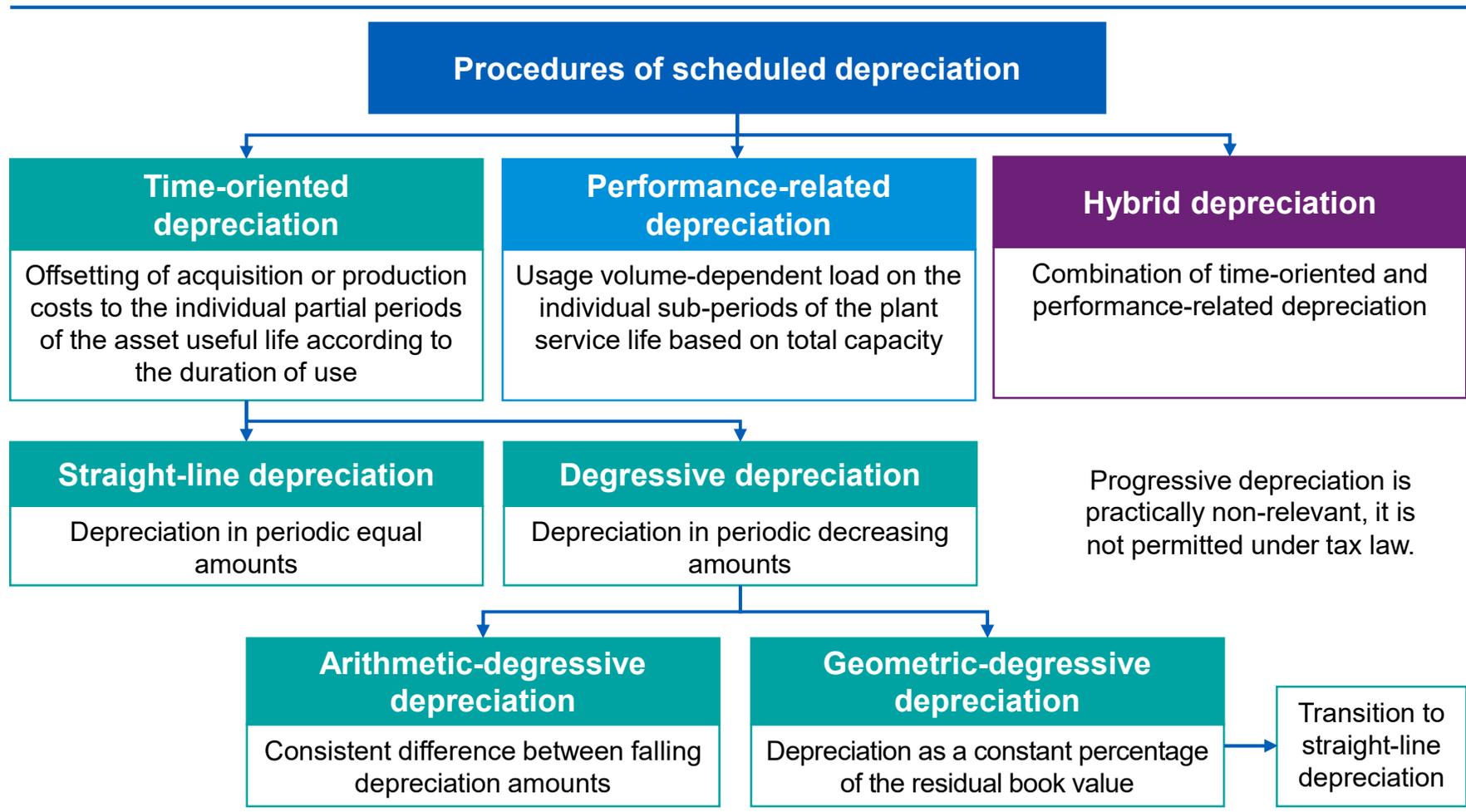
## 2 Instruments of accounting policy

### Ad (4): Determinants of **scheduled** depreciation (amortization)



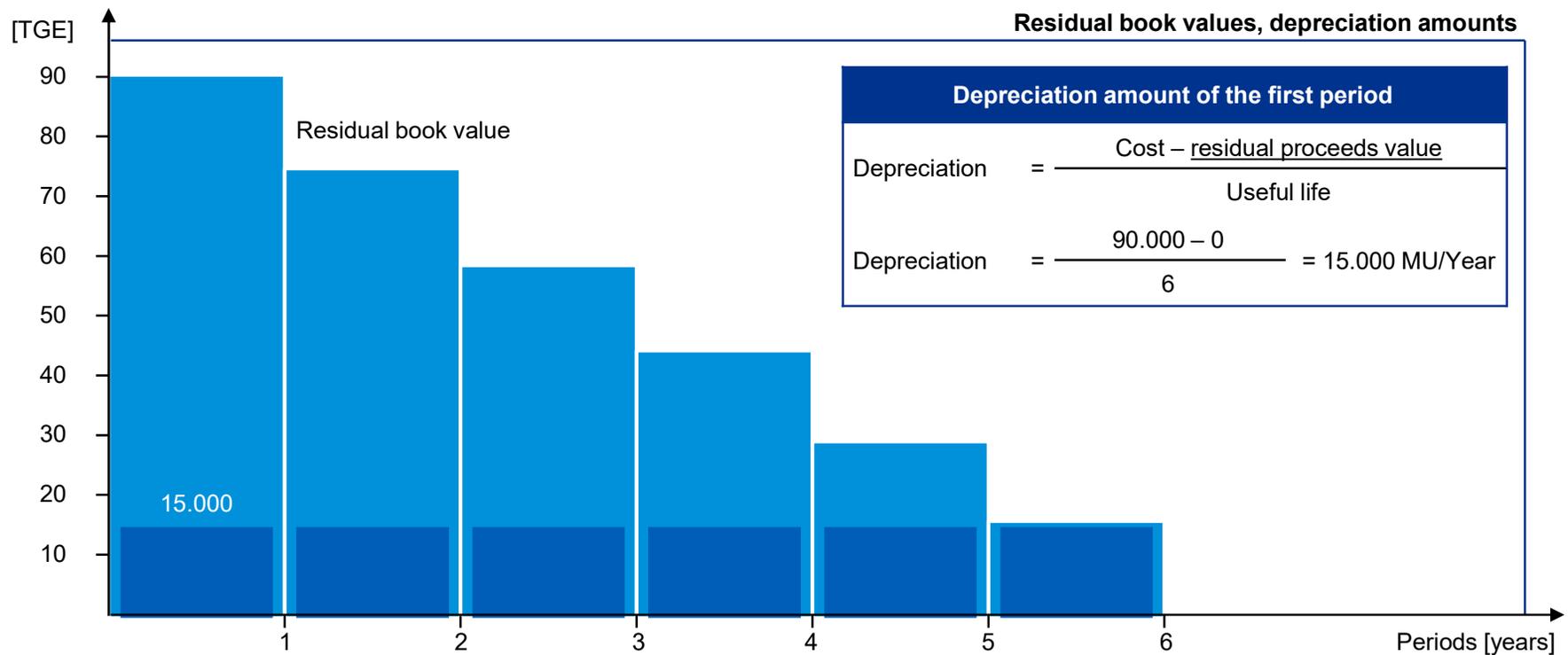
## 2 Instruments of accounting policy

### Ad (4): Procedures of **scheduled** depreciation



## 2 Instruments of accounting policy

### Ad (4): Linear depreciation

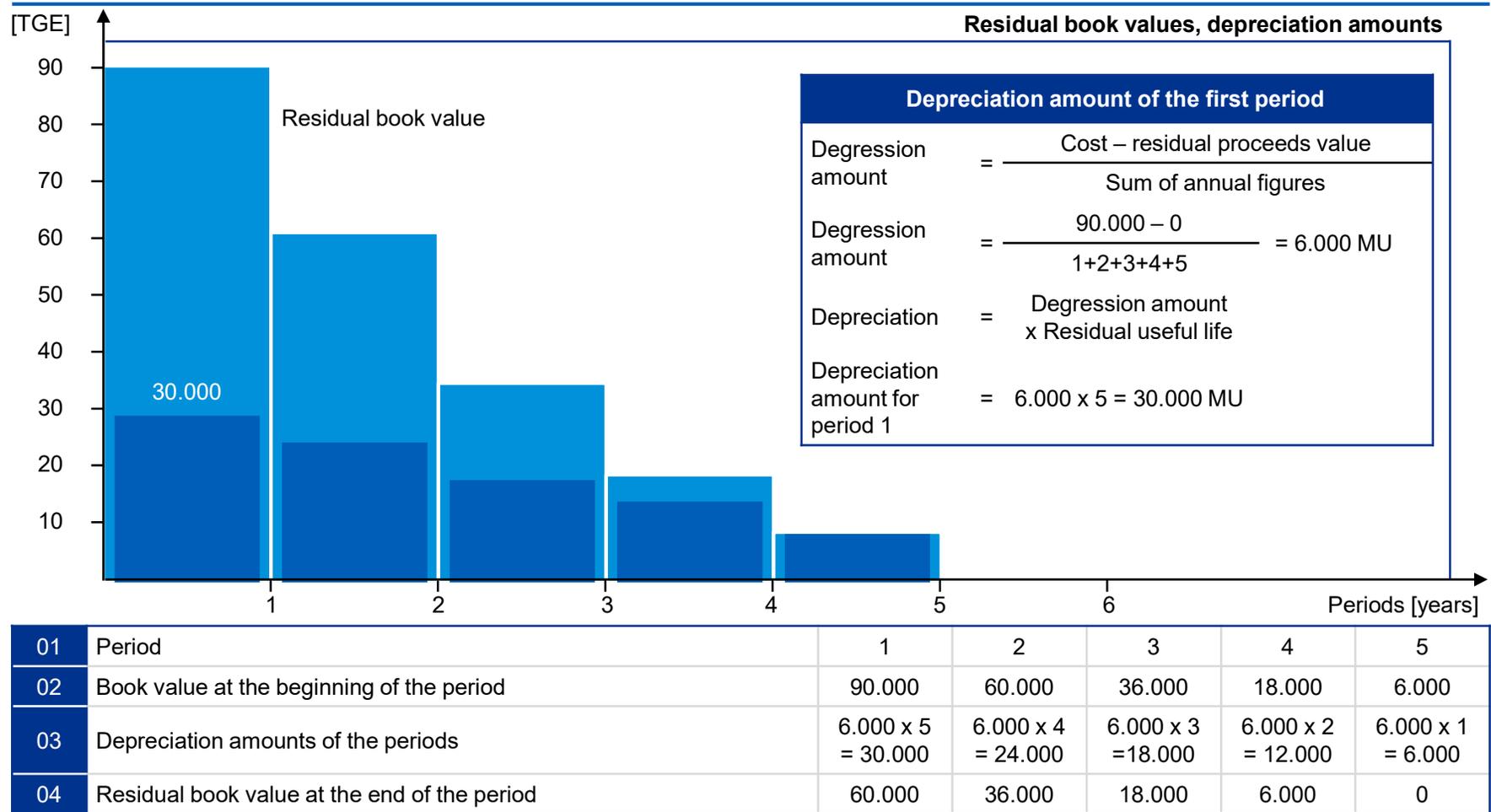


01	Periods	1	2	3	4	5	6
02	Book value at the beginning of the period	90.000	75.000	60.000	45.000	30.000	15.000
03	Depreciation amounts of the periods	15.000	15.000	15.000	15.000	15.000	15.000
04	Residual book value at the end of the period	75.000	60.000	45.000	30.000	15.000	0

Source: Männel, Wolfgang (2004), S. 114

## 2 Instruments of accounting policy

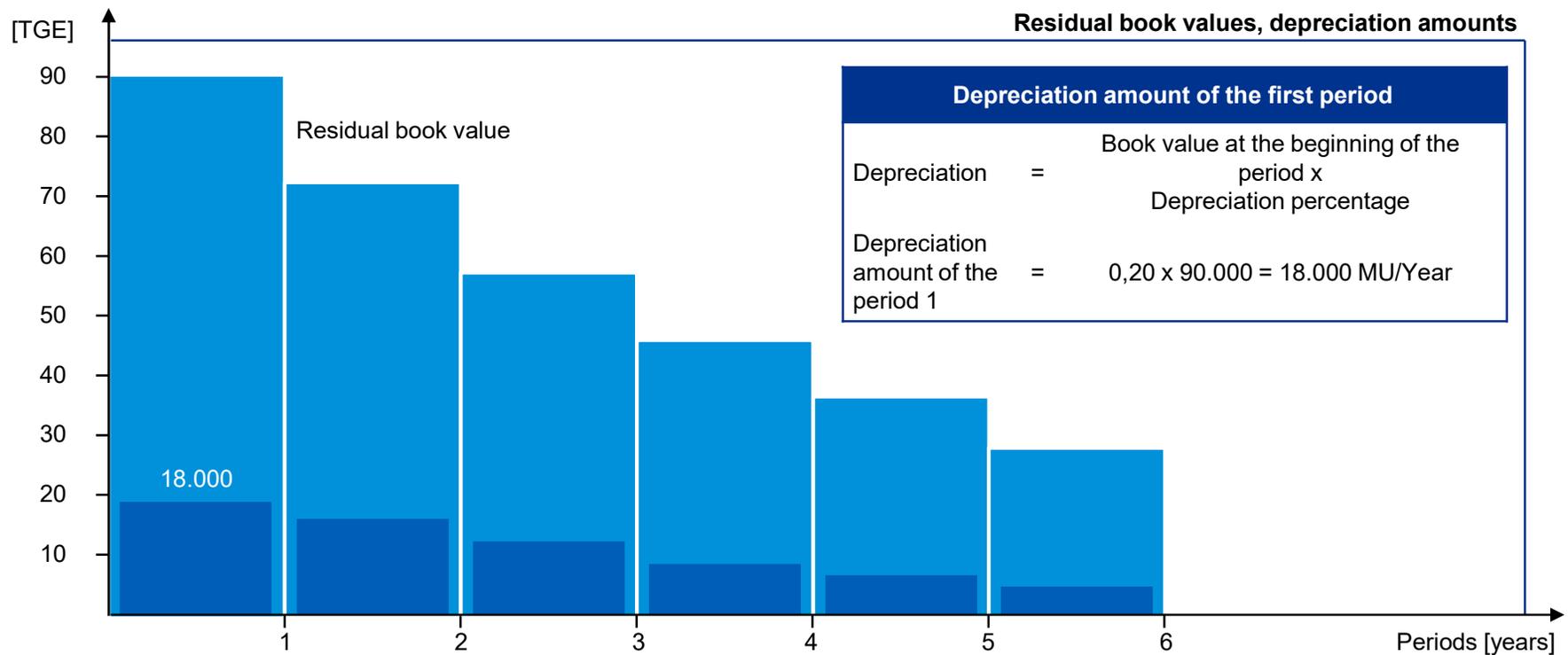
### Ad (4): Arithmetic-degressive depreciation



Source: Männel, Wolfgang (2004), S. 116

## 2 Instruments of accounting policy

### Ad (4): Geometric-degressive depreciation



01	Period	1	2	3	4	5	6
02	Book value at the beginning of the period	90.000	72.000	57.600	46.080	36.864	29.491
03	Depreciation amounts of the periods	18.000	14.400	11.520	9.216	7.373	5.898
04	Residual book value at the end of the period	72.000	57.600	46.080	36.864	29.491	23.593

Source: Männel, Wolfgang (2004), S. 115

## 2 Instruments of accounting policy

### Ad (4): Depreciation procedures in comparison

#### Scheduled depreciation

##### Example of scheduled depreciation:

Cost in  $t=0$ : 1.200

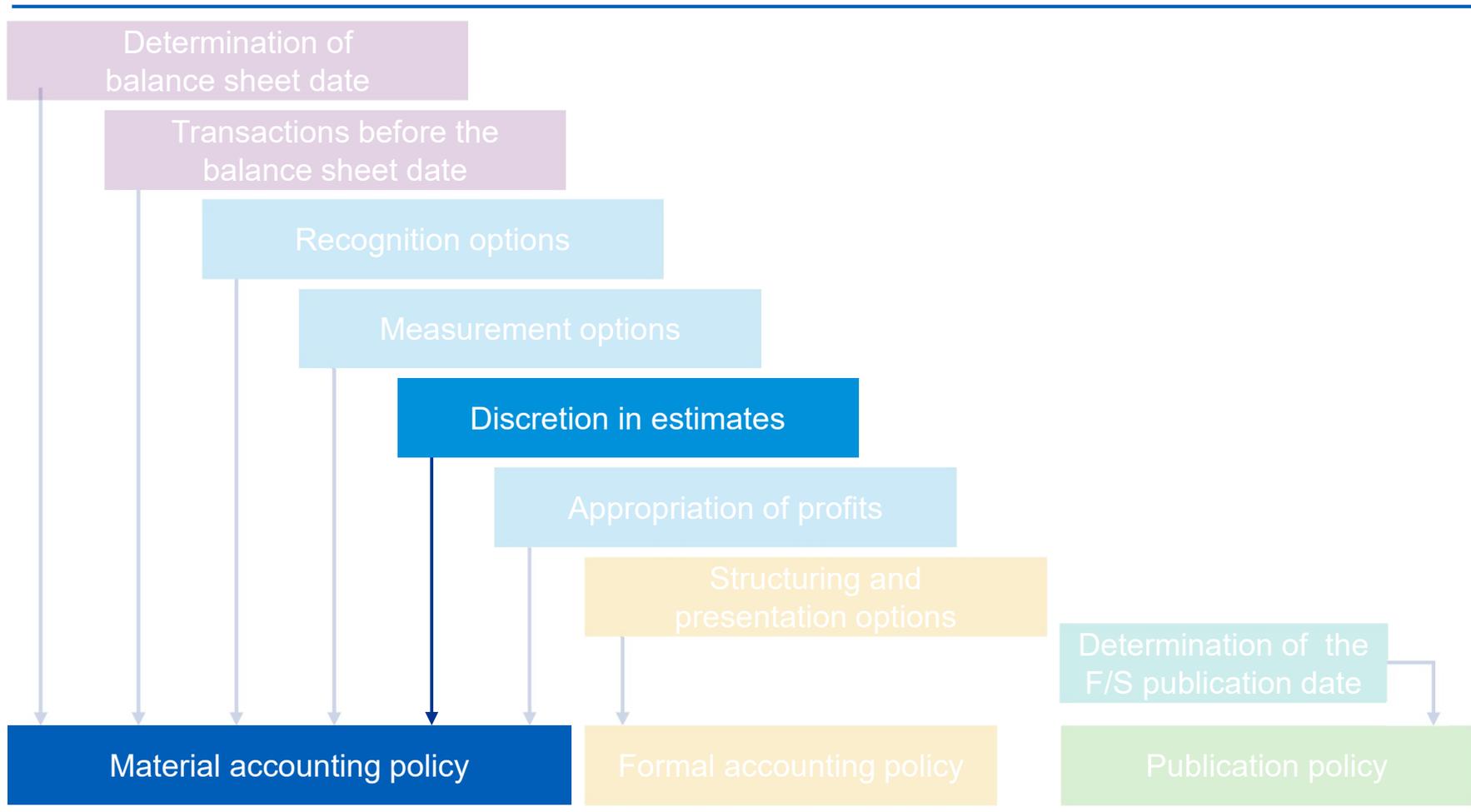
Scheduled useful life: 5 Years

RBV = Residual book value    A = Annual depreciation amount

Period	straight-line depreciation		geometric-degressive depreciation 40%		geometric-degressive depreciation 20%		arithmetic-degressive depreciation	
	RBV	A	RBV	A	RBV	A	RBV	A
0	1.200	240	1.200	480	1.200	240	1.200	400
1	960	240	720	288	960	192	800	320
2	720	240	432	172	768	154	480	240
3	480	240	260	104	614	123	240	160
4	240	240	156	62	491	98	80	80
5	0		94		393		0	

## 2 Instruments of accounting policy

# Discretion in estimates



## 2 Instruments of accounting policy

### Examples: Discretionary margins

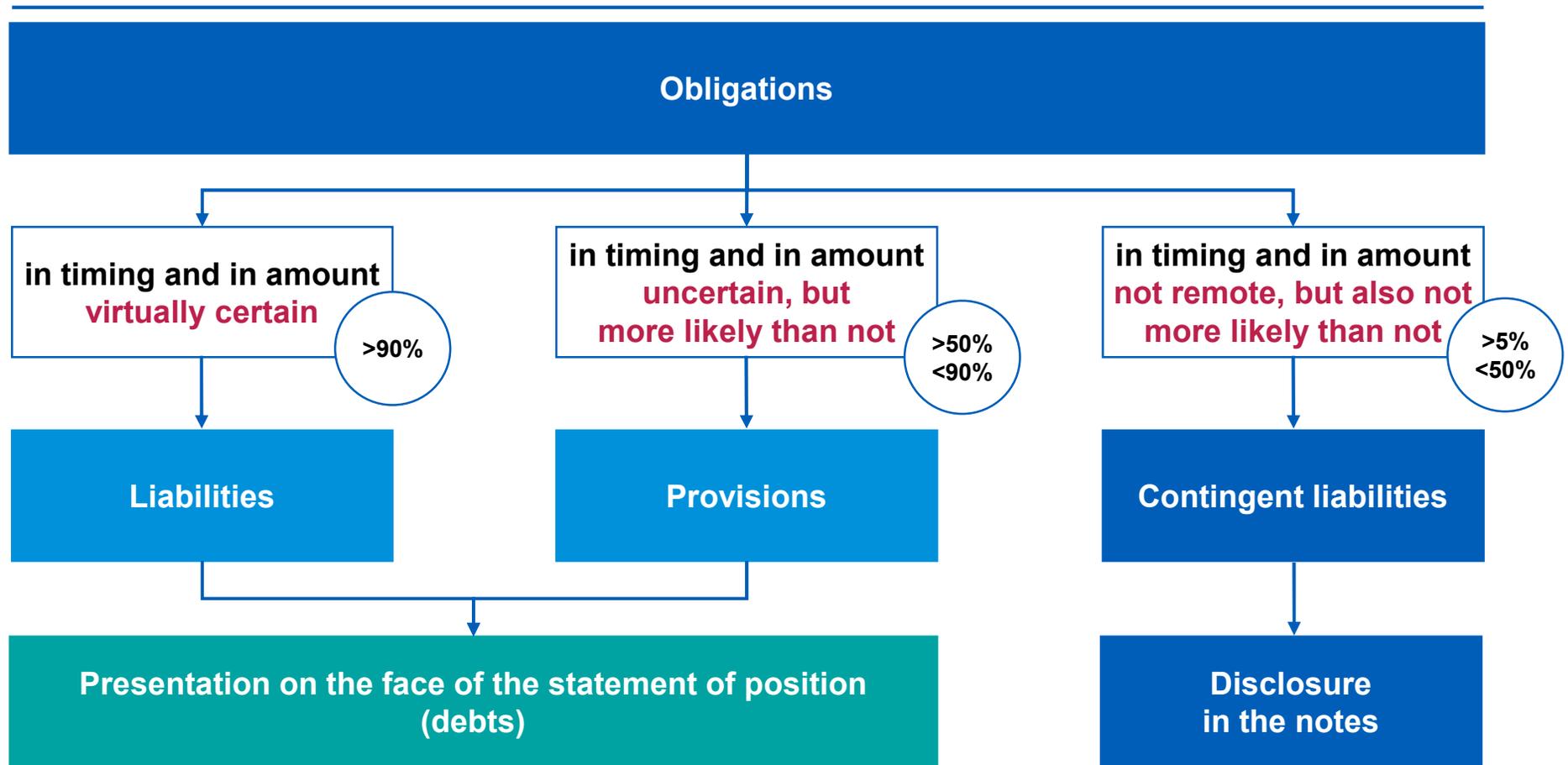
Discretionary margins	HGB	IFRS
<b>(1) Provisioning</b> (according to reasonable commercial assessment)	§ 253 Abs. 1	IAS 37
<b>(2) Scheduled depreciation</b> (distribution over expected useful life)	§ 253 Abs. 3	IAS 16, 38
<b>(3) Reduced lower value principle for financial assets</b> (depreciation requirement only in case of likely permanent impairment)	§ 253 Abs. 3	-
<b>(4) Impairment calculations (Unscheduled depreciation)</b> (to fair value)	§ 253 Abs. 3-4	IAS 36, 39 IFRS 9 / 13
<b>(5) Activation of production costs</b> (including appropriate parts of overheads)	§ 255 Abs. 2	IAS 2

See example on following slides

§§ are not relevant for the exam!

## 2 Instruments of accounting policy

# Ad (1): Systematization of obligations in the financial statements



Note: % are not legally defined

Source: Männel (2004), page 41

## 2 Instruments of accounting policy

### Ad (1): Significant examples of provisions

<b>Provisions</b> (some are under IFRS rather: accruals)		
<b>Tax provisions</b> expected, in the amount and timing uncertain tax repayments	<b>Disposal provisions</b> Obligations for reforestation, disposal of nuclear power plants or mining	<b>Pension provisions</b> Obligations arising from the company's direct pension commitments to its employees (occupational pensions)
<b>Warranty provisions</b> expected in the amount and timing of uncertain payments for warranty services	<b>Provisions for litigations</b> expected obligations arising from ongoing litigations	<b>Other provisions</b> Annual financial statements and audit costs Holiday obligations Social plan commitments

## 2 Instruments of accounting policy

### Ad (1): Example: Provision

Provisioning an estimated amount of 200 MU

Statement of profit or loss		Statement of financial position	
<b>Revenues</b>	<b>10,000</b>	<b>Non-current assets</b>	<b>4,000</b>
Cost of sales	-8,000	(of which: fixed assets: 3,000)	
<b>Gross profit</b>	<b>2,000</b>		
<b>Operating costs</b>	<b>-1,200</b>	<b>Current assets</b>	<b>16,000</b>
(of which: S&D 500)		(of which: inventories 5,000)	
(of which: AdM 200)		(of which: cash 4,500)	
EBIT	800		
Financial result	-450		
<b>EBT</b>	<b>350</b>	<b>Total assets</b>	<b>20,000</b>
Income taxes <sup>*)</sup>	-150	<b>Total capital</b>	<b>20,000</b>
<b>Net profit</b>	<b>200</b>		

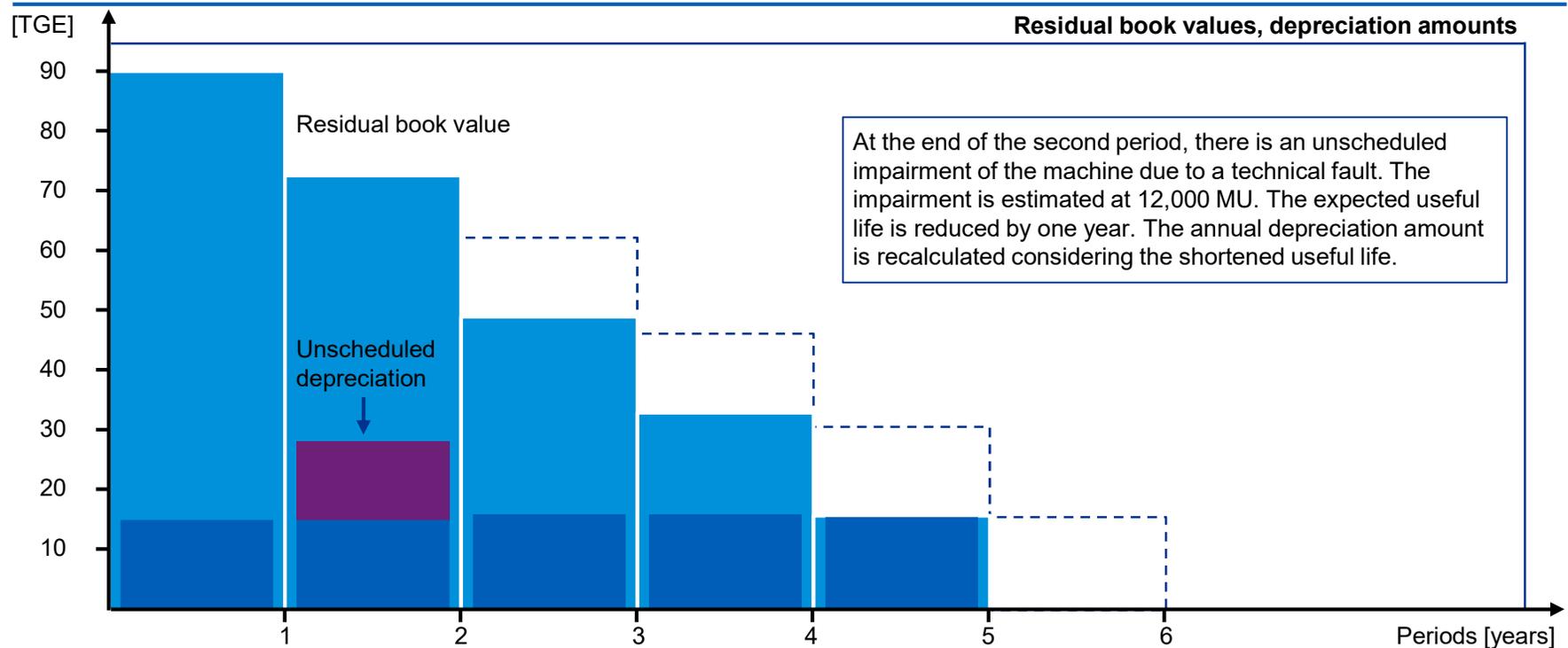
  

Impact on asset and capital structure			
Ratios	Calculation	before accounting policy	after accounting policy
Return on Investment	EBIT x 100	$\frac{1,000 \times 100}{20,000} = 5,0 \%$	$\frac{800 \times 100}{20,000} = 4,04 \%$
	Total capital		
Equity ratio	Equity x 100	$\frac{5,000 \times 100}{20,000} = 25,0 \%$	$\frac{4,800 \times 100}{20,000} = 24,0 \%$
	Total capital		

<sup>\*)</sup> Assumption: no tax impact

## 2 Instruments of accounting policy

### Ad (4): Impairment-related unscheduled depreciation



01	Period		1	2	3	4	5	6
02	Book value at the beginning of the period		90.000	75.000	48.000	32.000	16.000	0
03	Depreciation amounts of the periods	Scheduled	15.000	15.000	16.000	16.000	16.000	–
		unscheduled		12.000				
04	Residual book value at the end of the period		75.000	48.000	32.000	16.000	0	0

Source: Männel, Wolfgang (2004), S. 115

## 2 Instruments of accounting policy

Ad (4): Example: Impairment (i.e. Goodwill)  
 Provisioning an estimated amount of 200 MU

Statement of profit or loss		Statement of financial position	
<b>Revenues</b>	<b>10,000</b>	<b>Non-current assets</b>	<b>4,000</b>
Cost of sales	-8,000	(of which: fixed assets: 3,000)	
<b>Gross profit</b>	<b>2,000</b>		
<b>Operating costs</b>	<b>-1,200</b>	<b>Goodwill</b>	<b>-200</b>
(of which: S&D 500)		<b>Current assets</b>	<b>16,000</b>
(of which: AdM 200)		(of which: inventories 5,000)	
EBIT	800	(of which: cash 4,500)	
Financial result	-450		
<b>EBT</b>	<b>350</b>	<b>Total assets</b>	<b>19,800</b>
Income taxes <sup>*)</sup>	-150	<b>Total capital</b>	<b>19,800</b>
<b>Net profit</b>	<b>200</b>		
<b>Impact on asset and capital structure</b>			
<b>Additional information</b>		<b>Ratios</b>	<b>Calculation</b>
<b>Depreciation/amortization</b>	<b>200</b>		<b>before accounting policy</b>
in cost of sales	150	<b>Return on Investment</b>	$\frac{1,000 \times 100}{20,000} = 5,0 \%$
in operating costs	50		$\frac{800 \times 100}{19,800} = 4,04 \%$
<b>Equity ratio</b>			$\frac{5,000 \times 100}{20,000} = 25,0 \%$
			$\frac{4,800 \times 100}{19,800} = 24,2 \%$

<sup>\*)</sup> Assumption: no tax impact

## 2 Instruments of accounting policy

Ad (4): Example: Impairment (i.e. Goodwill)  
 Provisioning an estimated amount of 200 MU

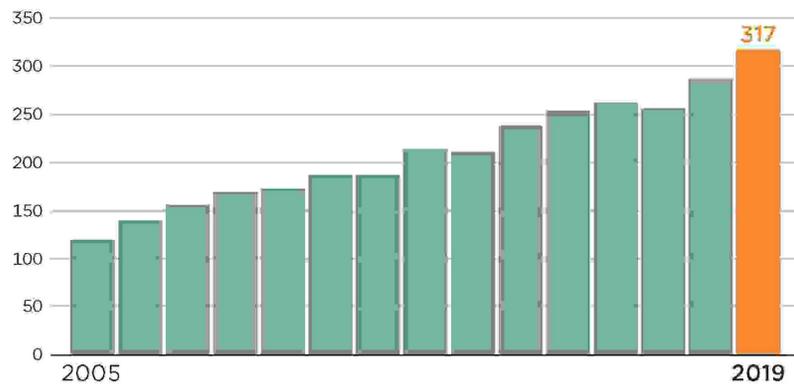
Statement of profit or loss		Statement of financial position			
<b>Revenues</b>	<b>10,000</b>	<b>Non-current assets</b>	<b>4,000</b>	<b>Equity</b>	<b>5,000</b>
Cost of sales	-8,000	(of which: fixed assets: 3,000)		(of which: profit 400)	
<b>Gross profit</b>	<b>2,000</b>			<b>Profit</b>	<b>-200</b>
		<b>Goodwill</b>	<b>-200</b>	<b>Non-current liabilities</b>	<b>6,000</b>
<b>Operating costs</b>	<b>-1,200</b>	<b>Current assets</b>	<b>16,000</b>	(of which: interest-bearing: 5,000)	
(of which: S&D 500)		(of which: inventories 5,000)			
(of which: AdM 200)		(of which: cash 4,500)		<b>Current liabilities</b>	<b>9,000</b>
<b>EBIT</b>	<b>800</b>			(of which: interest-bearing: 3,000)	
Financial result	-450				
<b>EBT</b>	<b>350</b>	<b>Total assets</b>	<b>19,800</b>	<b>Total capital</b>	<b>19,800</b>
Income taxes <sup>*)</sup>	-150				
<b>Net profit</b>	<b>200</b>				
<b>Additional information</b>		<b>Impact on asset and capital structure</b>			
<b>Depreciation/amortization</b>	<b>200</b>	<b>Ratios</b>	<b>Calculation</b>	<b>before accounting policy</b>	<b>after accounting policy</b>
in cost of sales	150	<b>EBIT</b>	EBIT	<b>1,000</b>	<b>800</b>
in operating costs	50	<b>EBITDA</b>	EBIT + depreciation/amortization / impairments	1,000 + 150 + 50 = <b>1,200</b>	800 + 150 + 50 + 200 = <b>1,200</b>
*) Assumption: no tax impact					

## 2 Instruments of accounting policy

# Ad (4): Goodwill: The billion risk of companies

### The risks are increasing

Total goodwill of DAX 30 companies in billion €



HADELNBLATT Quellen: Unternehmen, Bloomberg, Datastream, Flossbach von Storch

Handelsblatt Nr. 095 vom 18.05.2020

### Goodwill on the face of the balance sheet

Goodwill of DAX 30 companies in relation to equity 2019

Konzern	Goodwill in Mio. €	± zum Vorjahr	Eigenkapital in Mio. €	Quote Goodwill zum Eigenkapital
Eon	17 512	+753 %	13 085	1,34
Fresenius Medical Care	14 017	+15 %	13 227	1,06
Fresenius	27 737	+8 %	26 580	1,04
Merck	17 141	+25 %	17 914	0,96
SAP	29 162	+23 %	30 822	0,95
Bayer	39 126	+2 %	47 517	0,82
Deutsche Post	11 336	+3 %	14 392	0,79
Henkel	12 922	+5 %	18 611	0,69
Heidelberg Cement	11 783	+3 %	18 504	0,64
Siemens	30 160	+5 %	50 984	0,59
Deutsche Börse	3 471	+21 %	6 111	0,57
Linde	24 062	+3 %	45 984	0,52
Continental	5 114	-29 %	15 876	0,32
Wirecard*	726	+3 %	2 315	0,31
Deutsche Telekom	12 436	+1 %	46 231	0,27
BASF	8 105	-12 %	42 350	0,19
Volkswagen	23 247	±0 %	123 651	0,19
Adidas	1 257	+1 %	7 058	0,18
Allianz	13 207	+7 %	77364	0,17
MTU Aero Engines	392	0 %	2 421	0,16
RWE	2 386	+39 %	17 448	0,14
Infineon	909	+19 %	8 633	0,11
Munich Re	2 941	+1 %	30 576	0,10
Beiersdorf	492	+369 %	6 093	0,08
Lufthansa	736	0 %	10 256	0,07
Vonovia	1 493	-47 %	21 070	0,07
Covestro	264	+3 %	5 254	0,05
Deutsche Bank	2 881	-26 %	62 160	0,05
Daimler	1 217	+12 %	62 841	0,02
BMW	380	±0 %	59 907	0,01



Schlecht: Goodwill hoch im Verhältnis zum Eigenkapital

Gut: Eigenkapital hoch im Verhältnis zum Goodwill

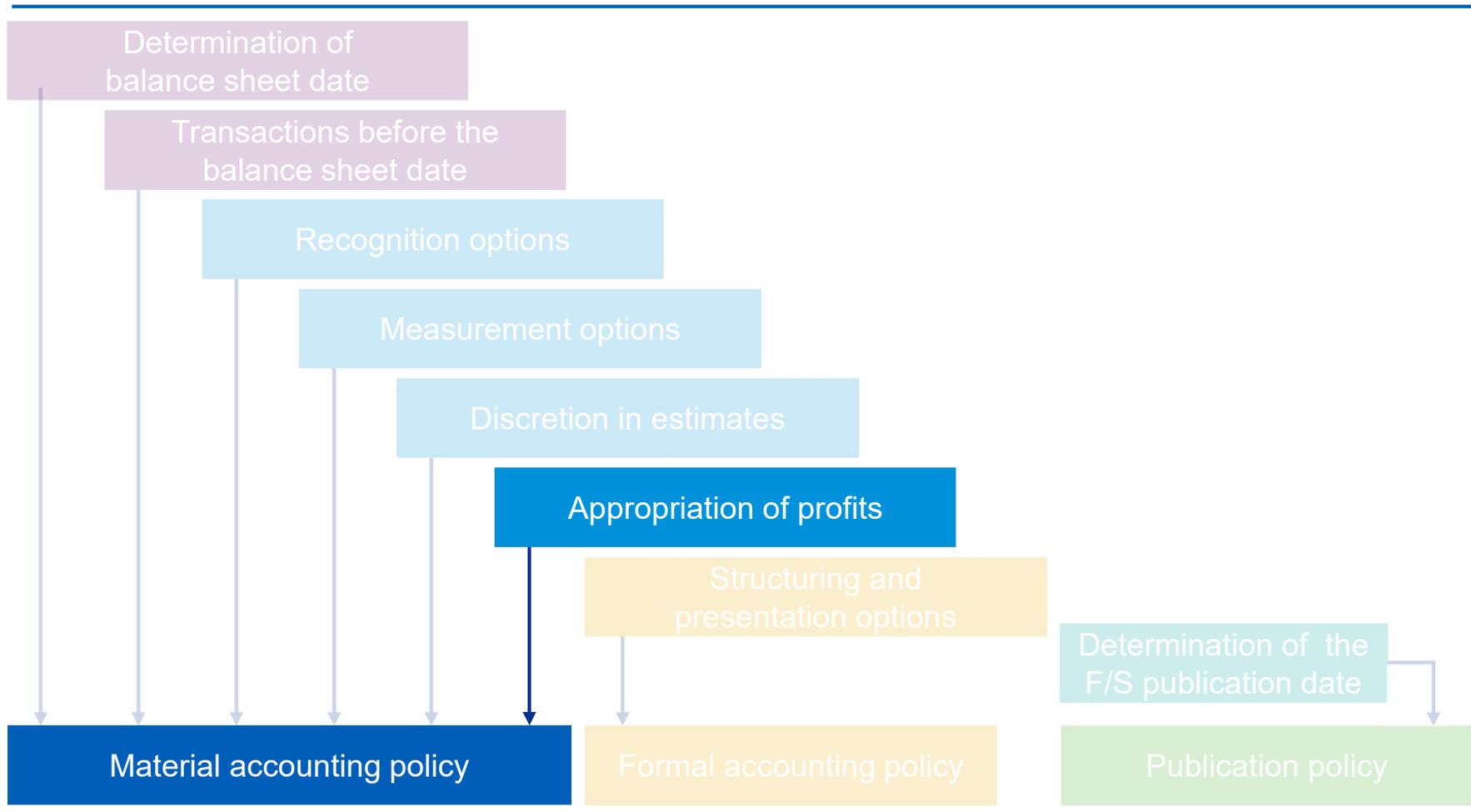


\*Jeweils zum Ende des Geschäftsjahres, \*Zum 30.9.2019  
HADELNBLATT

Quellen: Unternehmen, Bloomberg, Datastream, Flossbach von Storch

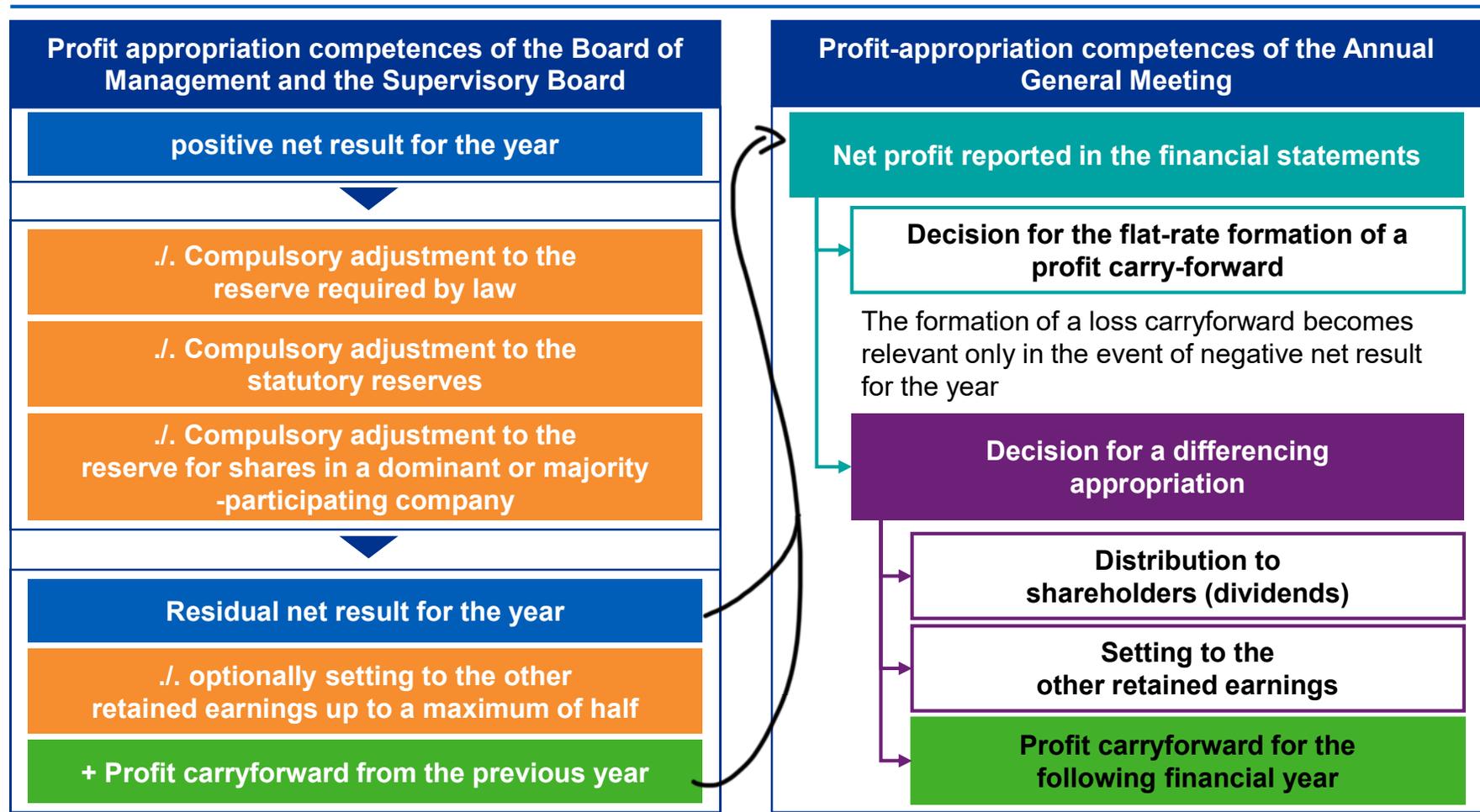
## 2 Instruments of accounting policy

# Appropriation of profits



## 2 Instruments of accounting policy

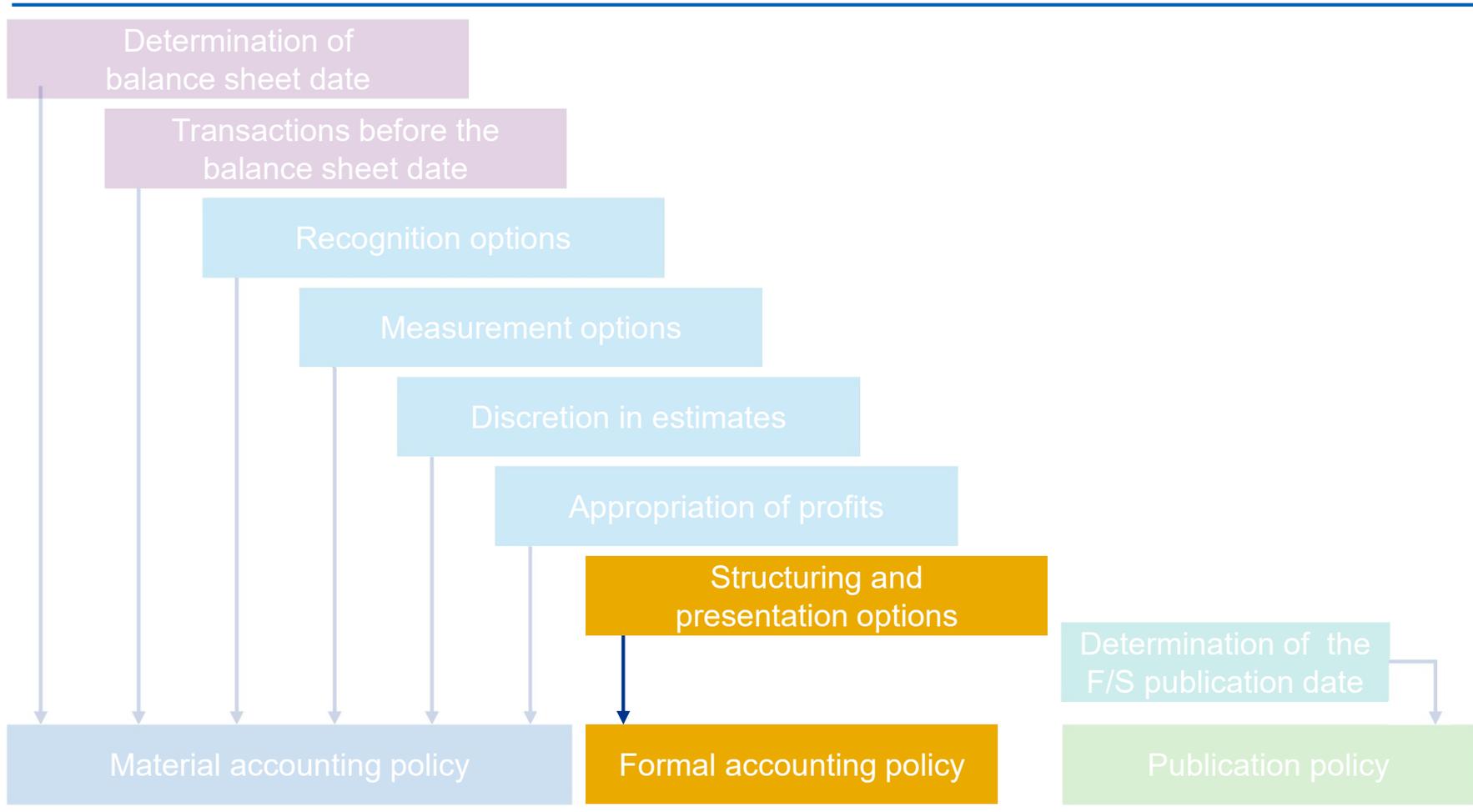
Appropriation of profit: Example according to HGB  
 In the case of a **profit carryforward** from the previous year



Source: Männel (2005), S. 83

## 2 Instruments of accounting policy

# Structuring and presentation options



## 2 Instruments of accounting policy

### Examples: Structuring and presentation options

Discretionary margins	HGB	IFRS
<b>(1) Structure of the profit or loss statement</b> (total cost method vs cost of sales method)	§ 275 Abs. 1	IAS 1
<b>(2) Company-size and -type dependent reliefs</b> (structuring/presenting the statement of financial position and the statement of profit or loss)	§ 265, 274a, 276	-
<b>(3) Special netting options</b> (i.e., deferred taxes, plan assets/pension liabilities, Prepayments received for inventories)	§ 274, § 268 Abs. 5	IAS 12, IAS 19
<b>(4) Formation of valuation units</b> (i.e., underlying and hedging transactions)	§ 254	IAS 39
<b>(5) Individual regulations for structuring/presentations</b>	§265	

Often used for accounting policy

§§ are not relevant for the exam!

## 2 Instruments of accounting policy

Ad (1): Options for the structure of the statement of profit or loss:  
total cost method vs cost of sales method

Total cost method	Cost of sales method
<b>Revenues</b>	<b>Revenues</b>
+/- Changes in the stock of unfinished and finished goods	- Production costs of the services sold
+ capitalized interest	<b>= Gross profit</b>
<b>= Operating income</b>	- Selling and distribution costs
- Operating expenses (material, personnel, depreciation/amortization)	- General administrative costs
+ Other operating income	+ Other operating income
- Other operating expenses	- Other operating expenses
Operating result (=EBIT in a broader sense)	Operating result (=EBIT in a broader sense)
+ Financial income	+ Financial income
- Financial expenses	- Financial expenses
Financial result	Financial result
EBT	EBT
- Income taxes	- Income taxes
Net profit/loss	Net profit/loss

Gross profit margin not visible!

## 2 Instruments of accounting policy

Ad (3): Example: **Netting options**

Plan assets/pension provisions (500 MU) and deferred taxes (100 MU)

Statement of financial position			
<b>Non-current assets</b>	<b>4,000</b>	<b>Equity</b>	<b>5,000</b>
(of which: fixed assets: 3,000)		(of which: profit 400)	
<b>Deferred tax assets</b>	<b>-100</b>		
<b>Plan assets</b>	<b>-500</b>	<b>Non-current liabilities</b>	<b>6,000</b>
<b>Current assets</b>	<b>16,000</b>	(of which: interest-bearing: 5,000)	
(of which: inventories 5,000)		<b>Pension provisions/deferred tax</b>	<b>-600</b>
(of which: cash 4,500)		<b>Current liabilities</b>	<b>9,000</b>
		(of which: interest-bearing: 3,000)	
<b>Total assets</b>	<b>19,400</b>	<b>Total capital</b>	<b>19,400</b>
Impact on asset and capital structure			
Ratios	Calculation	before accounting policy	after accounting policy
<b>Return on Investment</b>	EBIT x 100	$\frac{1,000 \times 100}{20,000} = 5,0 \%$	$\frac{1,000 \times 100}{19,400} = 5,2 \%$
	Total capital		
<b>Equity ratio</b>	Equity x 100	$\frac{5,000 \times 100}{20,000} = 25,0 \%$	$\frac{5,000 \times 100}{19,400} = 25,8 \%$
	Total capital		

## 2 Instruments of accounting policy

# Ad (3): Netting: BMW Group

### Plan assets/pension provisions

in € million	Total	
	31.12.2023	31.12.2022
Present value of defined benefit obligations	18,918	17,685
Fair value of plan assets	19,347	18,303
Effect of limiting net defined benefit asset to asset ceiling	799	894
<b>Carrying amounts at 31 December</b>	<b>370</b>	<b>196</b>
thereof pension provision	427	339
thereof assets	-57	-143

### Deferred taxes

in € million	Deferred tax assets		Deferred tax liabilities	
	2023	2022	2023	2022
Intangible assets	18	15	4,674	5,176
Property, plant and equipment	263	264	1,987	1,457
Leased products	394	378	2,895	3,686
Other investments	3	5	-	-
Sundry other assets	1,478	1,281	3,334	3,495
Tax loss carryforwards	182	212	-	-
Capital losses	461	464	-	-
Provisions	5,012	4,636	19	11
Liabilities	4,575	4,573	1,027	800
Eliminations	4,162	4,379	2,332	1,880
	<b>16,548</b>	<b>16,207</b>	<b>16,268</b>	<b>16,505</b>
Valuation allowances on tax loss carryforwards and temporary differences	-185	-245	-	-
Valuation allowances on capital losses	-461	-464	-	-
<b>Netting</b>	<b>-13,471</b>	<b>-13,740</b>	<b>-13,471</b>	<b>-13,740</b>
<b>Deferred taxes</b>	<b>2,431</b>	<b>1,758</b>	<b>2,797</b>	<b>2,765</b>
Net	-	-	366	1,007

**Netting Assets / Liabilities =  
Balance sheet shortening**

**On the face of the  
balance sheet**

Source: BMW Group Annual Report 2019

## 2 Instruments of accounting policy

# Ad (5): Different companies - different financial statements



In € million	2023
<b>ASSETS</b>	
Intangible assets	20,022
Property, plant and equipment	35,266
Leased products	43,118
Investments accounted for using the equity method	443
Other investments	1,197
Receivables from sales financing	50,517
Financial assets	1,387
Deferred tax	2,431
Other assets	1,537
<b>Non-current assets</b>	<b>155,918</b>
Inventories	23,719
Trade receivables	4,162
Receivables from sales financing	36,838
Financial assets	4,131
Current tax	1,199
Other assets	7,596
Cash and cash equivalents	17,327
<b>Current assets</b>	<b>94,972</b>
<b>Total assets</b>	<b>250,890</b>

Source: BMW Group Annual Report 2019



In millions of euros	At : 2023
<b>Assets</b>	
Intangible assets	17,593
Property, plant and equipment	26,090
Equipment on operating leases	41,712
Equity-method investments	13,104
Receivables from financial services	49,742
Marketable debt securities and similar investments	699
Other financial assets	4,340
Deferred tax assets	4,127
Other assets	1,583
<b>Total non-current assets</b>	<b>158,990</b>
Inventories	27,294
Trade receivables	7,281
Receivables from financial services	38,469
Cash and cash equivalents	15,962
Marketable debt securities and similar investments	6,159
Other financial assets	3,599
Other assets	4,473
Assets held for sale	795
<b>Total current assets</b>	<b>104,032</b>
<b>Total assets</b>	<b>263,022</b>

Source: Daimler Group Annual Report 2019

Comparable figures?

What to do?

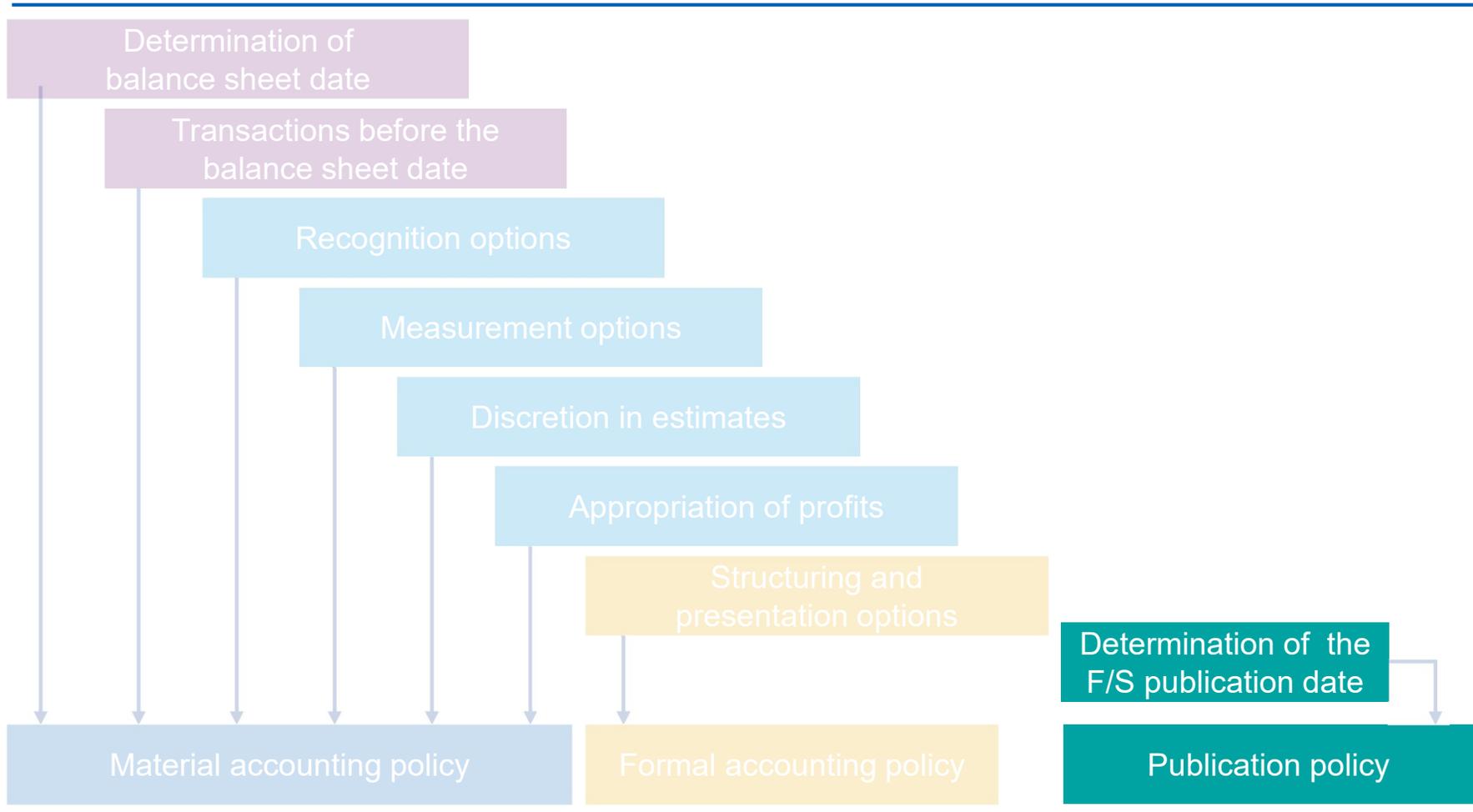
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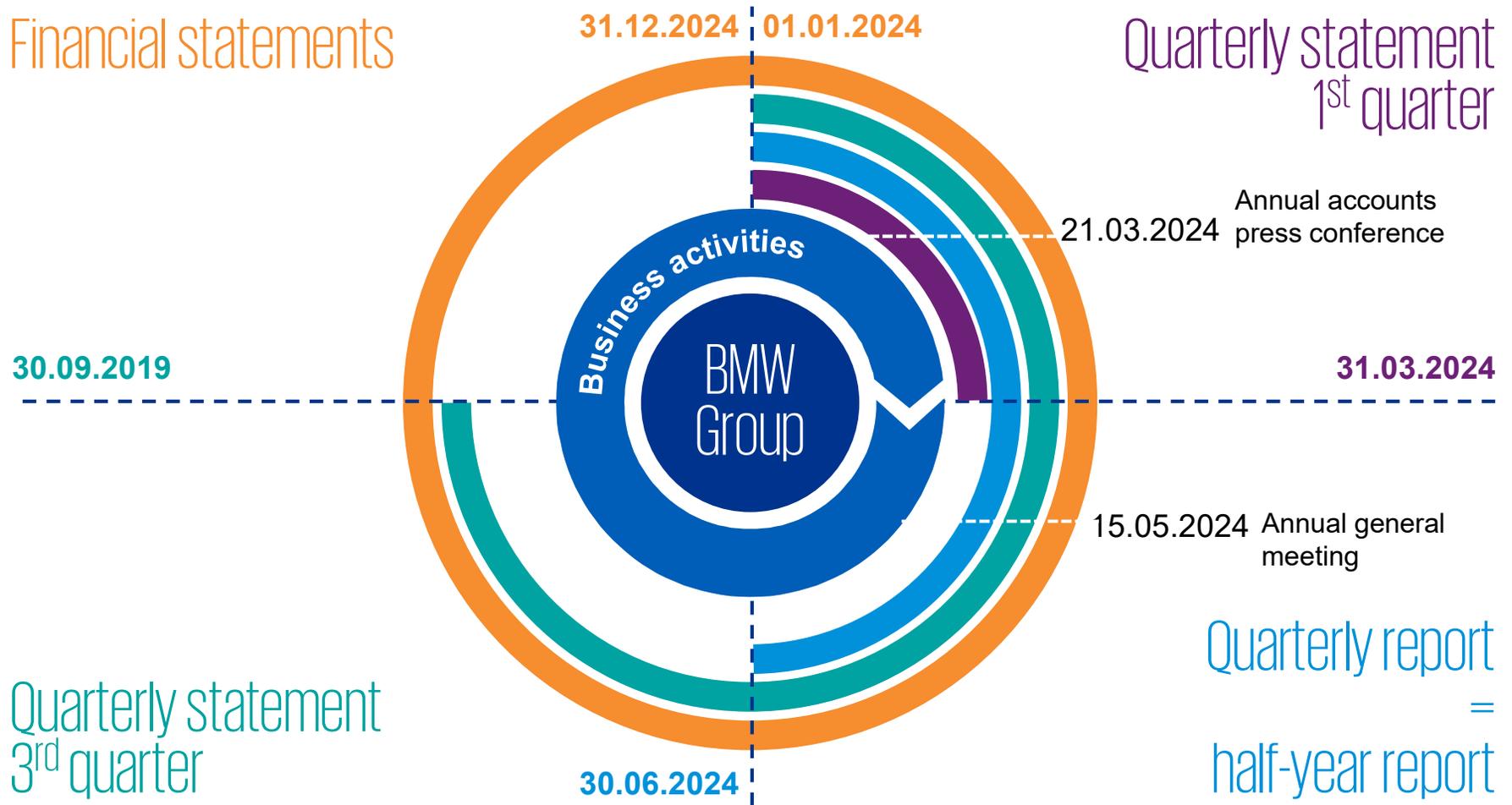
## 2 Instruments of accounting policy

# Determination of the F/S publication date

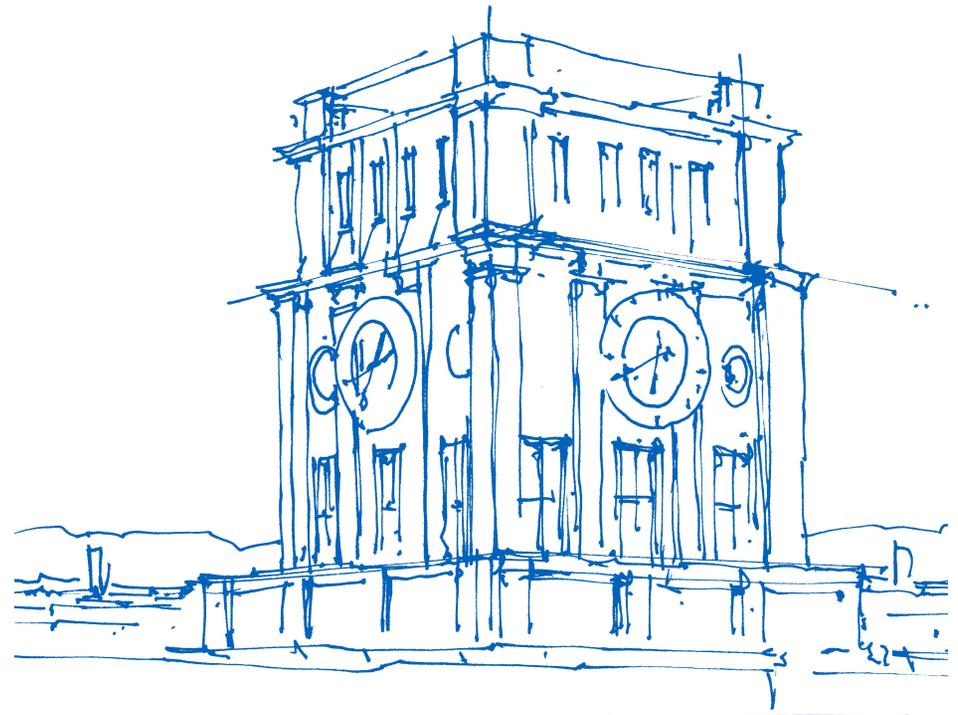


# The financial reporting cycle: BMW Group

Financial statements



# 3 Conclusions



*Uhrenturm der TUM*

### 3 Conclusions

## Overview

# Accounting Policy

1

**Basics of accounting policy**

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2

**Instruments of accounting policy**

3

**Conclusions**

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### 3 Conclusions

## Accounting policy: Counter measures

(Supervisory) board and audit committee

Must approve the financial statements

Financial Auditors

Independent evaluation of the financial statements whether they comply with rules/standards

Enforcement bodies

“Financial statement police”: DPR/BaFin in Germany or SEC in the US

Other corporate governance mechanisms

Internal audit function etc.

Source: Prof. Dr. Ernstberger

### 3 Conclusions

## Financials statement analysis: advantages vs disadvantages

### Advantages

- International and company comparisons are only possible with ratios
- Starting point to analyze a company and to ask further questions
- No better alternatives for controlling activities
- In a constant economic environment, the ratios can be a good base for a forecast
- Ratios and key figure systems clarify and explain economic relationships and dependencies of business activities
- Useful for a root-cause-analysis

### Disadvantages

- Ratios normally only meaningful when considered together with other ratios
- Ratios based on the past and mostly on static figures, that change very quickly
- Definition of ratios are not legally defined; variations are at the discretion of the company
- Ratios can be influenced by accounting policy of the company
- In a changing economic environment, it is difficult to derive a forecast based on past key ratios
- Time-lag between the year-end-date, the date of publishing the financial statements and the date of analyzing the financial statements

### 3 Conclusions

Accounting is the language of business - therefore you need to have ...

#### Technical skills

- Understanding of bookkeeping
- Understanding of accounting rules
- Understanding of impacts of business transactions to financial statements
- Understanding of relationships and differences between group and individual/annual financial statements
- Understanding of financial statement analysis techniques and key ratios
- Understanding of accounting policy instruments

#### Soft skills

- Understanding of the expectations of the stakeholders
- Understanding of the relationships of the company's activities and the (economic) environment and its impacts
- Communication and presentation skills in respect to financial figures
- “Story-telling” skills



# See you again?

**Prof. Dr. Bernd Grottel**

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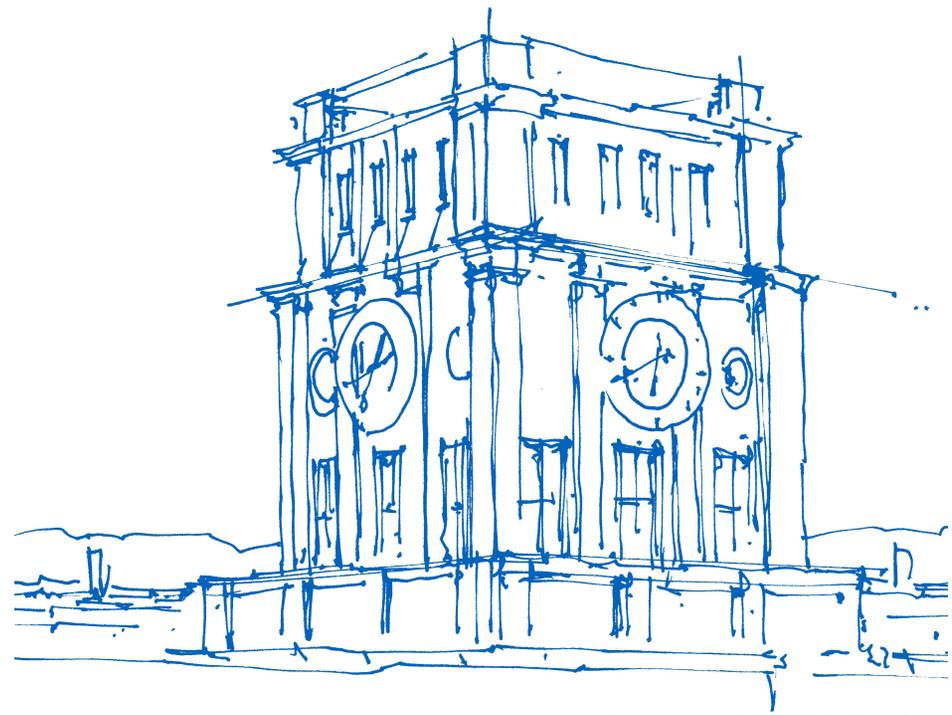
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