LEXIS LANGUAGES

Explaining the End of Year Accounts (Business Documents)

Peter is the company's head of finance and is discussing the end of year accounts with Steve, the management auditor.

Peter – So Steve, let me just give you some back ground information. As you know, as a limited company we are bound by law to prepare accounts which must then be audited by a management auditor. We draw up our accounts according to the German Commercial Code (HGB), International Accounting Standards (IAS) and the German fiscal law.
Steve – OK, thanks. Firstly, I would like to reconcile an invoice with the corresponding SAP entry. Could you give me all the invoices from June of last year please?
Peter – Sure, there you go
Steve – Thanks. Here we are. I would like to reconcile this invoice number 3465 with the corresponding SAP entry. OK, the invoice number, the customer number, the total amount, the gross amount, the net amount, the value added tax and the dates all reconcile. Very good!
Peter – Thank goodness!
Steve – Now, let's talk about the profit and loss account. Sales revenue rose by 25% compared to last year. Why is that?
Peter – The company's new market last year was eastern Europe and our sales were unexpectedly high in that region in the first year of trading.
Steve – I see. The corresponding accounts receivable item in the balance sheet does not correspond to the sales figures. Why is that?
Peter – This is because we agreed new terms and conditions with our debtors where payment is made within 14 days. This meant our outstanding receivables were relatively small at the end of the year. In addition, we had to write off a number of receivables as bad debts due to bankruptcy.
Steve – Oh, I hope they weren't large outstanding receivables!
Peter – Yes, they were unfortunately.
Steve – OK, let's move on. Your depreciation costs were also very high compared to the prior year. What happened there?
Peter – Well, we had to write off a considerable proportion of our intangible assets. This was mainly computer software which was no longer compatible with our production machines.
Steve – Oh, why is that?
Peter – Our production machines broke down a lot last year and we were forced to spend a lot of money on external technicians who carried out the maintenance work. This accounts for the big increase in other operating expenses. Anyway, during the maintenance work the machines were fitted with new electronic equipment which required new computer software. The old software was consequently completely written off.

Steve – That must have cost a fortune!
Peter – It did – as you can see from our borrowed capital, we had to approach a number of banks to finance these measures.
Steve – I was wondering about that.
Now, can you explain the sharp rise in personnel costs compared to the previous year?
Peter – Yes, that's easy. Our pension's administrator recalculated our pension payments for all our employees and they discovered we were underfunded. As a result, we had to make additional accruals of 1.2 million Euros. The corresponding increase in pension accruals in the balance sheet illustrates this.
Steve – I understand. OK, why did the financial assets rise by 40% compared to the prior year?
Peter – We bought a 20% shareholding in a company which makes similar products to ours. Consequently we can outsource a number of our production processes which allows us more time to concentrate on research and development issues.
Steve – I see. What are you developing at the moment?
Peter – We are developing a new automated inventory rotation system. It is designed so that our stocks are issued on a last-in first-out basis.
Steve – That sounds good!
Peter – Yes, we hope it will be up and running in a few months.
Steve – Can you tell me why the interest costs were so high compared to the previous year?
Peter – Sure, that is related to the loan we took up to pay for the maintenance work on our fixed assets I mentioned earlier.
Steve – Yes, that makes sense. OK, now I have a few questions with regard to taxes. Your corporation tax accrual does not correspond to the profit for the year. Why is that?
Peter – I was afraid you would ask that! We were able to reduce our tax burden because of a number of tax credits available to us. For example, the tax office finally completed our outstanding tax receivables from 2005 and instead of transferring us the money they decided to deduct it from our current corporation tax liability. Also, the tax office took in to account our previous year losses and deducted this from our current year tax payment.
Steve – Thanks. Just a quick question relating to accounts receivables. Who is responsible for monitoring the timely payment of outstanding receivables?
Peter – The accounting department is responsible for that. They print out a maturity list every day and check all outstanding debtors. If receivables are overdue they are also responsible for sending out reminders to the customers in question.
Steve – And which department administers outstanding payables?
Peter – The accounting department does that too.
Steve – OK, thanks for your input, Peter. I will now go and write my report and send you a copy by the end of the week.
Peter – Thank you. Good bye.