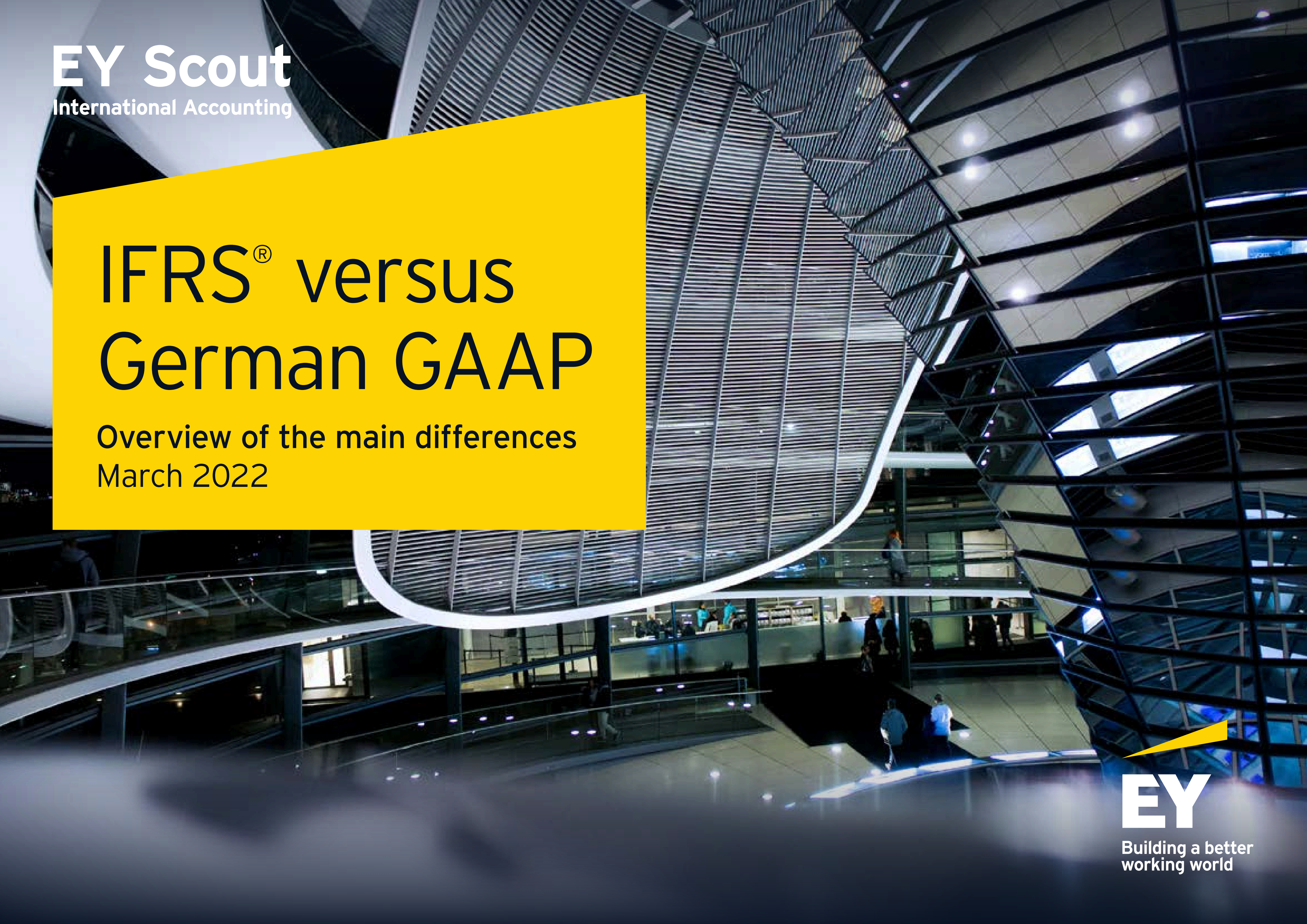


EY Scout

International Accounting

IFRS® versus German GAAP

Overview of the main differences

March 2022

EY

Building a better working world

Purpose – Disclaimer

IFRS® vs. German GAAP

- **This comparison aims to give a high-level understanding of the main differences between IFRS and German GAAP. It is not an exhaustive list of the differences between both sets of standards.**

- **Main addressees of this comparison:**
  - audit teams and clients wanting to have a high-level understanding of the main differences between IFRS and German GAAP
  - groups receiving reports from German entities in local GAAP and wanting to understand in which line items of the financial statements or for which transactions the differences in the accounting may be significant.

- **This comparison should not be seen as:**
  - an exhaustive analysis of differences between IFRS and German GAAP
  - a guide for clients or audit teams for preparing or auditing financial statements at the date of transition between IFRS and German GAAP.

- **Differences which in most cases have no significant impact may have not been included.**

- **The comparison is solely intended for use in Germany.**

Definitions and abbreviations

IFRS® vs. German GAAP

Abbreviations

AC	Amortised cost
AltTZG	German Phased Retirement Act
BGB	German Civil Code
BS	Balance sheet/statement of financial position
CFS	Statement of cash flows
CGU	Cash-generating unit
ECL	Expected credit loss
EPS	Earnings per share
ESOP	Employee stock options plan
DBO	Defined benefit obligation
DRSC AH	Implementation Guidance of the Accounting Standards Committee of Germany Committee
DTA	Deferred tax asset
DTL	Deferred tax liability
EGHGB	Introductory Law of the German Commercial Code
FIFO	First in first out
FS	Financial statements
FV	Fair value
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
GAS	German Accounting Standard (German: DRS)
GoB	German legally required accounting principles
HGB	German Commercial Code
IAS	International Accounting Standard

Definitions and abbreviations

IFRS® vs. German GAAP

Abbreviations

IDW	Institute of Public Auditors in Germany
IDW RS HFA/ ERS HFA	Accounting Principles issued by the IDW IDW's Auditing and Accounting Board or by another technical committee
IDW RH	IDW Accounting Practice Statements
IFRIC	Interpretation developed by the IFRS Interpretations Committee
IFRS	International Financial Reporting Standards
LIFO	Last in first out
OCI	Other comprehensive income
PL	(Statement of) profit or loss
PPE	Property, plant and equipment
PUCM	Projected unit credit method
ROU	Right-of-use asset
SOCE	Statement of changes in equity
VAT	Value added tax
WpHG	German Securities Trading Act

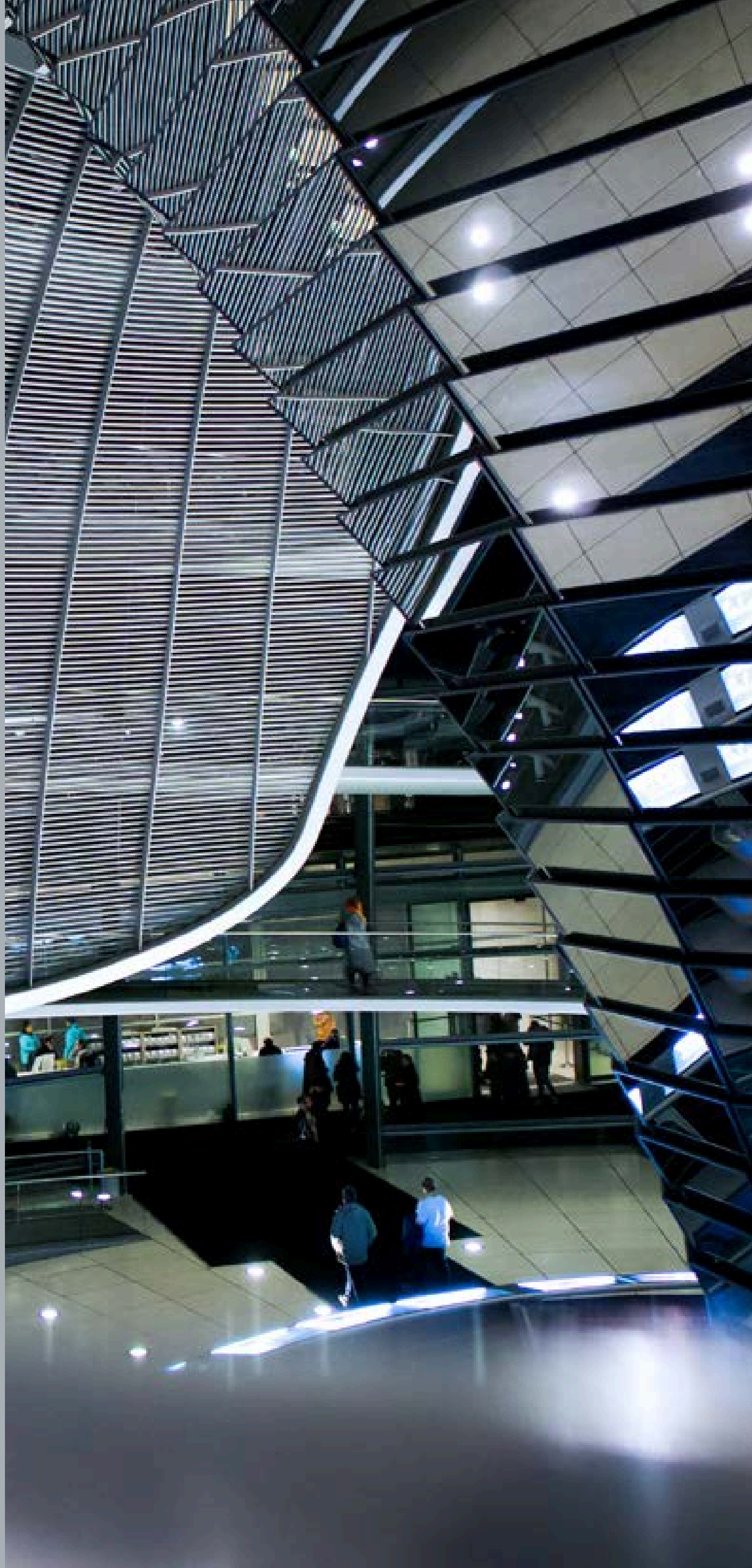
For the purposes of this comparison

Companies/entities mean corporations (Kapitalgesellschaft) and partnerships (Personenhandelsgesellschaft) pursuant to § 264a HGB.

"Public entity" means entity trading its issued securities on an organised market or which has applied for authorisation to trade its issued securities on an organised market (definition pursuant to § 2.11 WpHG).

Content

IFRS® vs. German GAAP



Conceptual framework

IFRS® vs. German GAAP

IFRS	German GAAP
General objective of financial statements	
To provide information about the financial position of a reporting entity, which is information about the entity's economic resources and the claims against it. This information is considered to be useful to a wide range of users in making economic decisions. The primary users are the owners/**investors** and capital markets.	Same as under IFRS. In addition, separate financial statements are considered as a basis for the determination of profits available for distribution. Predominance of prudence principle under German GAAP → **creditors'** interests are weighted higher.
Measurement bases	
The primary measurement basis is historical cost, but this is usually combined with other measurement bases such as current cost, realisable (settlement) value or present value depending on the type of assets and liabilities measured.	Historical cost basis is the primary measurement basis with only rare exceptions (e.g., assets exclusively held for coverage of pension liabilities, short-term assets and liabilities in foreign currency).
Ref: IFRS Conceptual Framework	**Ref: § 253 HGB**

Components of the financial statements

IFRS® vs. German GAAP

IFRS	German GAAP
Financial statements	
A complete set of IFRS financial statements (FS) consists of: ▸ Statement of financial position (BS) ▸ Statement of profit or loss (PL) and other comprehensive income (OCI): one or two-statement approach ▸ Statement of cash flows (CFS) ▸ Statement of changes in equity (SOCE) ▸ Notes; supplemented by segment reporting for public entities ▸ Comparative figures and narrative information, if applicable Optional: management report.	The required components of FS depend on entity type and differ for separate and consolidated FS: ▸ **Consolidated FS of public entities**: complete set of IFRS FS **and** management report are required. ▸ **Consolidated FS of non-public entities:** complete set of HGB FS consisting of BS, PL, CFS, SOCE, notes **and** management report are required. Segment reporting is optional. Option to prepare IFRS FS and management report instead. ▸ **Separate FS:** BS, PL, notes **and** management report are required. Other comprehensive income does not exist in the HGB. Less extensive information is required in the notes to the HGB FS. Comparative figures are required for each BS and PL item.

In order to focus on significant items, differences in the following areas have not been explained:
- Size-dependent exemptions in the HGB which allow some entities to not prepare a management report or notes
- Specific HGB requirements for separate FS of public entities not presenting consolidated FS (CFS and SOCE are required)
- Specific rules for comparative figures (e.g., third balance sheet or restatement of comparative figures).

Presentation of financial statements (1)

IFRS® vs. German GAAP

IFRS	German GAAP
Structure of the statement of financial position	
Some minimum items have to be presented in the statement of financial position.	Particular balance sheet format required. Very small and small entities are allowed to show a higher level of aggregation.
Offsetting of assets and liabilities only under restricted conditions (enforceable right and intention).	Similar to IFRS but enforceable right may suffice for offsetting.
Current/non-current distinction	
Breakdown by maturity (current/non-current) for assets and liabilities except if presentation based on liquidity provides reliable and more relevant information.	Presentation from less liquid to more liquid assets. Breakdown of assets into fixed and current assets is mandatory, but no such rule applies to liabilities.
Current = expected to be realised, or settled in the normal operating cycle or within 12 months after end of reporting period, held primarily for trading purposes, cash or cash equivalent or liabilities for which the entity does not have an unconditional right to defer settlement for at least 12 months after the reporting period (conditions existing at the end of the reporting period).	Fixed assets = assets which are intended to serve business operations on a permanent basis. Current assets = all other assets.
	Entities must provide a breakdown of receivables and payables according to certain maturities in the balance sheet and/or the notes.
Deferred tax assets and liabilities are presented as non-current items.	Deferred tax assets and liabilities are presented as separate line items in the balance sheet.
Ref: IAS 1	**Ref: §§ 247, 265, 266, 268 HGB**

Presentation of financial statements (2)

IFRS® vs. German GAAP

IFRS	German GAAP
Structure of the statement of profit or loss	
IFRS allows expenses to be classified based on either their nature or their function, whichever provides reliable and more relevant information. An entity classifying expenses by function shall disclose additional information on the nature of expenses including depreciation and amortisation and employee benefits expense.	Similar to IFRS. Entities can present the statement of profit or loss using the total cost method (expenses by nature) or the cost of sales method (expenses by function).
No detailed structure specifically required, only certain minimum items are required and all material income or expense should be presented in the statement of profit or loss or the notes.	A detailed structure of the statement of profit or loss for each presentation method is set out in the HGB and is mandatory. Size-dependent simplifications apply.
IAS 1 includes guidance on required items for the statement of (other) comprehensive income.	A statement of other comprehensive income does not exist.
Ref: IAS 1	**Ref: §§ 265, 275, 276, 277 HGB**

Consolidation (1)

IFRS® vs. German GAAP

IFRS	German GAAP
Preparation of consolidated financial statements	
Preparation is generally required, but exempted under certain conditions or for certain investment entities. For parent entities registered in Germany, the obligation to prepare consolidated financial statements and the exemptions are governed by national regulations.	Preparation usually required, but several size-dependent exemptions and exemptions from the preparation of subgroup consolidated financial statements apply.
There is no requirement for the parent entity to also prepare separate financial statements.	A parent entity is generally also required to prepare HGB separate financial statements and to publish them. A parent entity is exempted from preparation of consolidated financial statements under German GAAP if it prepares consolidated financial statements under IFRS.
Ref: IFRS 10, §§ 315e, 290 HGB	**Ref: §§ 290, 291, 293, 292, 315e HGB**

Consolidation (2)

IFRS® vs. German GAAP

IFRS	German GAAP
Control	
A controlling relationship between the investor and investee exists if all the following are fulfilled: 1. the investor has power over the investee; 2. the investor is exposed or has rights to variable returns (both positive and negative) from its involvement with the investee; 3. the investor has the ability to use its power to affect the amount of the returns.	An irrefutable presumption of control is created by each of the following four facts: 1. majority of voting rights; 2. right to appoint the majority of the members of the administrative, management or supervisory board with simultaneous status of shareholder; 3. controlling influence based on a control agreement or a provision in the articles of association; 4. majority of the risks and opportunities of a special purpose entity.
Control → parent-subsidiary relationship → consolidation.	Similar to IFRS. Exemption from consolidation if (i) exercise of controlling rights is significantly prejudiced or (ii) disproportionally high costs would be incurred to obtain information for consolidation or (iii) the investment is held for resale or (iv) the entity is of very minor significance.
In some cases, determining a controlling relationship is not straightforward. IFRS requires an analysis of, for example, the existence and impacts of de facto control, potential voting rights and any principal-agent relationship to determine who controls the entity.	No similar concepts in the HGB. But an analysis of other criteria may be required to determine if a controlling relationship exists.
Ref: IFRS 10	**Ref: §§ 290, 296 HGB**

Consolidation (3)

IFRS® vs. German GAAP

Joint arrangements

IFRS

IFRS 11 distinguishes joint arrangements between joint ventures and joint operations:

- A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.
- A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

Joint ventures are accounted for

- in the consolidated financial statements of a jointly controlling investor: using the equity method.
- in the consolidated financial statements of a party that participates in the joint venture, but does not have joint control: in accordance with IFRS 9 or, if it has significant influence, using the equity method.

IFRS 11 does not include specific accounting requirements for joint operations; hence, the requirements of other IFRSs relevant for the respective assets, liabilities as well as income and expenses need to be considered.

Ref: IAS 28, IFRS 11

German GAAP

There is an option to include joint venture in the consolidated financial statements either on the basis of proportionate consolidation or on the basis of the equity method.

The concept of joint operations does not exist.

Ref: §§ 310, 311, 312 HGB

Consolidation (4)

IFRS® vs. German GAAP

IFRS	German GAAP
Investments in associates (significant influence)	
Investments in associates are accounted for using the equity method.	Similar to IFRS.
When an entity has an investment in an associate, or a portion of an associate, which is held by, or indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities, the entity may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9.	No similar exemption in the HGB.
Ref: IAS 28	**Ref: §§ 310, 311, 312 HGB**

Business combinations (1)

IFRS® vs. German GAAP

IFRS	German GAAP
Acquisition method	
An entity shall generally account for each business combination by applying the acquisition method. A few exceptions apply, for example for business combinations under common control.	Similar to IFRS.
The acquirer measures the identifiable assets acquired and the liabilities assumed at their acquisition-date fair value, with some limited exceptions.	Identifiable assets acquired are measured at the acquisition-date fair value. Liabilities assumed are measured at their acquisition-date settlement value.
Acquisition-related costs are generally expensed.	Acquisition-related costs are generally part of consideration transferred and therefore generally increase the goodwill.
Ref: IFRS 3	**Ref: § 301 HGB, GAS 19, 23**

Business combinations (2)

IFRS® vs. German GAAP

IFRS	German GAAP
Goodwill	
Goodwill is measured as the difference between ▸ the sum of (i) the consideration transferred, (ii) the amount of any non-controlling interest and (iii) in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquire; and ▸ the net of the acquisition-date amounts (generally the fair values) of the identifiable assets acquired and the liabilities assumed.	Goodwill is the difference between consideration transferred and the acquirer's share of the fair value of assets and liabilities acquired.
Goodwill is an intangible asset which is not amortised but tested for impairment annually and whenever there is an indication of impairment.	Goodwill is considered an intangible asset, **but with a finite useful life** and is amortised over this life. The reason for the choice of useful life shall be disclosed in the notes.
Negative goodwill (gain from bargain purchase) is recognised immediately in profit or loss.	Negative goodwill is recorded in the balance sheet immediately after the equity section.
Ref: IFRS 3, IAS 36	**Ref: §§ 246, 253, 298, 301, 309 HGB, GAS 23**

Business combinations (3)

IFRS® vs. German GAAP

IFRS	German GAAP
Measurement of non-controlling interests	
At the date of a business combination, non-controlling interests are measured either at fair value including goodwill attributable to the non-controlling interests (full goodwill method) or at their proportionate share of the fair value of the identifiable net assets of the acquiree excluding goodwill. Subsequent measurement of non-controlling interests: an entity shall attribute the profit or loss and the total other comprehensive income partially to the non-controlling interests → non-controlling interests might become negative.	Similar to IFRS, except that the full goodwill method is not permitted.
Ref: IFRS 3, IFRS 10	**Ref: § 307 HGB, GAS 23**
Business combinations under common control	
Business combinations under common control not fall within the scope of IFRS 3. In practice, either the pooling-of-interests method or, if the transaction has economic substance, the acquisition method in accordance with IFRS 3 can be applied.	Also not specified in HGB.

Differences are also possible in the following specific areas, which are not addressed in this comparison: measurement of consideration transferred, acquisition of assets which do not constitute a business, recognition and measurement of contingent liabilities, deferred tax assets and liabilities, business combinations achieved in stages, loss of control, put options, investment entities, reverse acquisition, goodwill in HGB separate financial statements.

Assets – Property, plant and equipment (1)

IFRS® vs. German GAAP

IFRS	German GAAP
Initial measurement	
Items of property, plant and equipment that qualify for recognition as an asset shall be measured at cost (cost of acquisition or cost of production).	Similar to IFRS.
Restoration and dismantling costs are estimated and recognised at initial recognition as part of the cost of property, plant and equipment.	Unlike IFRS, restoration and dismantling costs are not part of acquisition cost. If dismantling/restoration is a legal requirement, provisions for the related costs are usually accrued on a regular basis over the period of use.
Borrowing costs directly attributable to the acquisition or construction of the asset are capitalised as part of acquisition or production cost of the asset.	Borrowing costs cannot be included in acquisition cost. There is an option to capitalise them as production cost to some extent and disclose this in the notes, but they are usually expensed.
Production costs include production-related administrative costs and production-related employee benefits cost.	Optional recognition for an appropriate share of general and administrative expenses and social costs as production costs.
Ref: IAS 16, IAS 23	**Ref: §§ 253, 255 HGB, IDW RS HFA 34**
Component approach	
The component approach for spare parts and maintenance equipment is applied if they meet the recognition requirements.	There is no requirement to use the component approach, but it is permissible for physically separable essential components.
Major repairs are recognised and depreciated separately if recognition criteria are met.	Components that are not separable or not significant in relation to the entire tangible asset are expensed.
Ref: IAS 16	**Ref: IDW RH HFA 1.016**

Assets – Property, plant and equipment (2)

IFRS® vs. German GAAP

IFRS	German GAAP
Subsequent measurement	
Accounting policy choice between cost model and revaluation model (if fair value can be measured reliably). The choice shall be applied for entire class of PPE.	Cost model has to be applied. Revaluation model prohibited.
Cost model	
▸ After recognition, items of PPE are carried at cost less any accumulated depreciation and any accumulated impairment loss.	Similar to IFRS.
▸ An entity shall depreciate the amount initially recognised in respect of an item of PPE on a systematic basis over its useful life.	
▸ Impairment recognised in the event of triggering event when recoverable amount below carrying amount (see section on impairment of long-lived assets).	Moderate lower of cost or market principle: write-down only in the event of probable permanent impairment.
▸ Depreciation and impairment losses are recognised in PL.	Similar to IFRS.
▸ Land and buildings are separable assets and accounted for separately. Land has an unlimited useful life and therefore is not depreciated.	Similar to IFRS.
Revaluation model	Not applicable.
▸ Revaluations shall be made with such regularity that the carrying amount of the asset does not differ materially from its fair value at the end of the reporting period.	
▸ Decrease in carrying amount recognised in PL or OCI up to any balance of revaluation surplus for that asset.	
▸ Revaluation surplus recognised in OCI or in PL only up to the previous revaluation decrease recognised in PL for that asset.	
Ref: IAS 16, IAS 36	**Ref: § 253 HGB**

Assets – Investment property

IFRS® vs. German GAAP

Definition

IFRS

Investment property is property (land or a building – or part of a building – or both) held (by the owner or by the lessee as a right-of-use asset) to earn rentals or for capital appreciation or both, rather than for:

a) use in the production or supply of goods or services or for administrative purposes; or

b) sale in the ordinary course of business.

German GAAP

There is no concept of investment property in the HGB.

Measurement

IFRS

Initial recognition: at cost, including transaction costs.

Subsequent measurement: choice between measurement at fair value (FV model) or cost less accumulated depreciation and less accumulated impairment losses (cost model).

- Consistent application of chosen model to all investment properties including right-of-use assets that meet the definition of investment property is requi-red. A few exceptions to this rule apply if the fair value cannot be measured reliably, e.g., for investment property under construction.
- Gains or losses arising from change in fair value (FV model)/depreciation (cost model) are recognised in profit or loss.

Specific rules exist for dual-use property (own use and for rental or capital appreciation).

Ref: IAS 40, IFRS 16

German GAAP

Land and buildings are recognised and measured in the same way as property, plant and equipment → cost model.

Ref: § 253 HGB


Ref: IAS 40, IFRS 16

Assets – Intangible assets (1)

IFRS® vs. German GAAP

IFRS	German GAAP
Definition, recognition criteria	
An intangible asset is an identifiable non-monetary asset without physical substance.	No legal definition of intangible assets in the HGB. They are categorised into four groups in the balance sheet: 1. Internally generated industrial and similar rights and assets 2. Purchased franchises, industrial and similar rights and assets, and licenses in such rights and assets 3. Goodwill 4. Advance payments on intangible assets
An intangible asset is initially recognised if: ▸ it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and ▸ the cost of the asset can be measured reliably.	Recognition criteria similar to IFRS.
Ref: IAS 38	**Ref: § 266 HGB, DRS 24**

Assets – Intangible assets (2)

IFRS® vs. German GAAP

IFRS	German GAAP
Internally generated intangible assets – Recognition	
Internally generated intangible assets are recognised if the recognition criteria are met.	German GAAP permits, but does not require such recognition. The amount of recognised internally generated intangible assets is generally not available for distribution to shareholders.
The following items are not recognised as intangible assets: ▸ Internally generated goodwill ▸ Intangible assets arising from research (or from the research phase of an internal project) ▸ Internally generated brands, masterheads, publishing titles, customer lists and similar items.	Similar to IFRS.
Development phase: Intangible assets arising from development are recognised if the entity can demonstrate all of the following: ▸ technical feasibility of completing the intangible asset so that it will be available for use or sale; ▸ intention to complete the intangible asset and use or sell it; ▸ ability to use or sell the intangible asset; ▸ how the intangible asset will generate probable future economic benefits; ▸ availability of adequate technical, financial and other resources to complete the development and to use or sell the asset; ▸ ability to measure reliably the expenditure attributable to the asset during its development.	Development costs may be capitalised if certain criteria similar to IFRS criteria are met.
Ref: IAS 38	**Ref: §§ 248, 255, 266, 268 HGB**

Assets – Intangible assets (3)

IFRS® vs. German GAAP

IFRS	German GAAP
Measurement of acquired and internally generated intangible assets	
Initial measurement: at cost. For internally generated intangible assets, some expenses cannot be included in cost (e.g., inefficiencies, training expenditures, certain selling and administrative expenses).	Similar to IFRS.
Subsequent measurement: choice between cost model and revaluation model (active market requirement) for an entire class of assets. Revaluation model: similar to property, plant and equipment. Cost model: Intangible assets with finite useful lives: similar to property, plant and equipment.	Subsequent measurement similar to property, plant and equipment: ▸ Regular amortisation over the expected useful life. ▸ In exceptional cases in which the useful life of internally generated intangible assets or goodwill from business combinations cannot be determined, the useful life is deemed to be 10 years. ▸ Write-down required if an intangible asset's value is likely to be permanently impaired
Intangible assets with indefinite useful lives: no amortisation. Annual impairment test in accordance with IAS 36 required.	There are only very few cases of intangible assets with indefinite useful lives in the HGB. In these cases, no regular amortisation takes place. Impairment testing has to be performed on a regular basis.
Ref: IAS 38, IAS 36	**Ref: §§ 248, 253, 255 HGB**

Assets – Impairment of long-lived assets (1)

IFRS® vs. German GAAP

IFRS	German GAAP
Impairment of individual assets and cash generating units	
An asset or a cash-generating unit (CGU) is impaired when its carrying amount exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use*. In this case, the carrying amount of the asset is reduced to its recoverable amount. The amount by which the carrying amount of an asset or a CGU exceeds its recoverable amount is defined as impairment loss.	An impairment loss (write-down of asset to its market value) on a fixed asset is recognised only in the event of probable permanent impairment or as an accounting policy choice for financial investments in cases of probable temporary impairment.
If it is not possible to estimate the recoverable amount of an individual asset, the impairment test** is performed for the CGU to which the asset belongs.	No CGU concept in the HGB. The impairment test is performed at individual asset level.
Allocation of the impairment loss in a cash generating unit	
An impairment loss for a CGU is allocated to reduce the carrying amount of the assets of the CGU in the following order: (a) first, to reduce the carrying amount of any goodwill allocated to the CGU; and (b) then, to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU.	The impairment test is performed at individual asset level.
Ref: IAS 36	**Ref: §§ 253, 255 HGB**

* Value in use is based on net present value of future cash flows.   ** Impairment test is the comparison of the carrying amount and recoverable amount of an asset or CGU.

Assets – Impairment of long-lived assets (2)

IFRS® vs. German GAAP

IFRS	German GAAP
Impairment test for goodwill	
The goodwill acquired in a business combination shall be allocated to each of the acquirer's CGUs that is expected to benefit from the synergies of the combination.	No CGU concept in the HGB. Essentially, the impairment test is performed at a individual asset level.
The goodwill is tested for impairment at the CGU level.	Goodwill is amortised over its useful life and tested for impairment if a triggering event exists.
Frequency and reversal	
For intangible assets with indefinite useful life, goodwill and intangible assets not yet ready for use: an impairment test shall be performed at least once a year (also in absence of a triggering event).	There are only very few cases of intangible assets with indefinite useful lives in the HGB. In these cases, there is no regular amortisation. An impairment test has to be performed on a regular basis.
For all other long-lived assets: at the end of each reporting period, an assessment whether there is an indication that an asset may be impaired (triggering event) shall be made. If such indication exists: performance of impairment test.	If, at the closing date, the carrying amount of an asset exceeds its market value, the asset shall be written down only in the event of probable permanent impairment. Financial investments may also be written down in the event of probable temporary impairment.
If reasons for the previous impairment no longer exist: reversal of impairment up to the cost less cumulated depreciation/amortisation. Exception: reversal of impairment is prohibited for goodwill.	Similar to IFRS.
Ref: IAS 36	**Ref: § 253 HGB, GAS 24**

Assets – Inventories

IFRS® vs. German GAAP

IFRS	German GAAP
Measurement and presentation	
Inventories are measured at the lower of cost and net realisable value. In some limited circumstances, borrowing costs may be added to the cost of inventories. Net realisable value is defined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.	Inventories must be measured at acquisition or production cost. Borrowing costs are not included, though there is an option to include them in production cost in some limited circumstances. Subsequent measurement at the lower of cost or market value (replacement or net realisable value) is required.
Techniques for measurement of cost for interchangeable goods or services: First-in, first-out (FIFO) or weighted average cost method. Last-in, first-out (LIFO) is prohibited.	Similar to IFRS, but LIFO also permitted. The HGB also permits measurement at a fixed price if certain specific conditions are met.
Previous impairment should be reversed (up to the extent of the impairment loss initially recognised) in the event of a subsequent increase in value.	Similar to IFRS.
Prepayments made are presented under other assets.	Prepayments made are a separate item within inventories.
Ref: IAS 2	**Ref: §§ 240, 253, 255, 256, 265, 266 HGB**

Assets – Financial instruments (1)

IFRS® vs. German GAAP

IFRS	German GAAP
Classification and measurement of financial assets	
IFRS 9 has the following measurement categories in which financial assets are classified: ▸ Debt instruments at amortised cost (AC) ▸ Debt instruments at fair value through other comprehensive income (FVOCI) with cumulative gains and losses reclassified to profit or loss upon derecognition ▸ Debt instruments, derivatives and equity instruments at fair value through profit or loss (FVTPL) ▸ Equity instruments designated as measured at FVOCI with gains and losses remaining in other comprehensive income (OCI), i.e., without recycling. The classification is based on both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.	No such classification. Financial assets are generally measured at cost, after deduction of any subsequent impairment. Exception applies for ▸ Assets which are solely held for fulfilling pension obligations: measurement at fair value ▸ Short-term financial assets in foreign currency.
Ref: IFRS 9	**Ref: §§ 253, 255, 340e HGB**

Assets – Financial instruments (2)

IFRS® vs. German GAAP

IFRS

Impairment

The impairment requirements are based on a forward-looking expected credit loss (ECL) model, which applies to financial assets at AC and FVOCI:

- Debt instruments measured at AC or at FVOCI
- Lease receivables, trade receivables, contracts assets
- Loan commitments and financial guarantee contracts that are not at FVPL

In applying the IFRS 9 impairment requirements, an entity needs to apply one of three approaches:

- The general approach, which is applied to most loans and debt securities
- The simplified approach, which is applied to most trade receivables
- The purchased or originated credit-impaired approach which is applied to receivables that are already impaired at the time when they are purchased or originated.

Presentation

For financial assets at amortised cost: impairment losses and reversals are recognised in PL.

For financial assets at FVOCI: impairment losses and reversals are recorded in OCI.

Ref: IFRS 9

German GAAP

No similar regulation.

Non-current financial assets: write-down mandatory in the event of expected permanent impairment and optional if the impairment is expected to be temporary.

Trade receivables are impaired by a valuation allowance on an individual basis, if they are doubtful. In addition, most entities recognise a general valuation allowance for trade receivables on an aggregate basis.

Other current financial assets are measured at the lower of costs or market value.

Requirement to reinstate original values up to the amount of amortised cost if impairment indications no longer exist.

Impairment losses and reversals are always recognised in PL.

Ref: § 253 HGB

Liabilities - Financial instruments

IFRS® vs. German GAAP

IFRS	German GAAP
Classification and recognition	
Two categories: ▸ Financial liabilities at amortised cost (AC) ▸ Financial liabilities at fair value through profit or loss (FVPL) Financial liabilities are measured at FVPL when they meet the definition of held for trading or when they are designated as such on initial recognition using the fair value option, provided certain criteria are met.	No such distinction.
They are recognised when the entity becomes party to a contractual provision.	Similar to IFRS.
Measurement	
Initial measurement at fair value (net of transaction costs in the case of financial liabilities at FVPL).	Measurement at settlement amount.
Subsequent measurement: AC: at amortised cost using the effective interest method FVPL: at fair value	
Ref: IFRS 9	**Ref: § 253 HGB**

Liabilities – Provisions and accrued liabilities (1)

IFRS® vs. German GAAP

IFRS	German GAAP
Recognition	
A provision shall be recognised only when: ▸ a present obligation (legal or constructive) as a result of a past event exists; ▸ it is probable (> 50%) that an outflow of resources will be required to settle the obligation; and ▸ a reliable estimation of the obligation is possible.	A provision shall be recognised for uncertain liabilities and for potential losses from pending transactions. Recognition criteria are similar to IFRS but required percentage to allow the recognition is generally lower than the 50% when referring to IFRS.
Ref: IAS 37	**Ref: § 249 HGB**
Restructuring expenses	
Recognition only when a detailed restructuring plan exists and implementation has commenced or been announced. Recognition in a business combination only if restructuring obligation already existed at the acquisition date.	A provision shall be recognised if as at reporting date, the management of the company has agreed the restructuring plan. No specific rules in the HGB, but interpretation guidance and tax regulations exist.
Ref: IAS 37, IFRS 3	**Ref: § 249 HGB**

Liabilities – Provisions and accrued liabilities (2)

IFRS® vs. German GAAP

IFRS	German GAAP
Measurement	
Best estimate of the expenditure required to settle the present obligation at the end of the reporting period.	Best estimate of the amount required for settlement based on reasonable commercial judgement, taking into account the prudence principle (as a result, amount may be higher than under IFRS).
Appropriateness test for insurance obligations.	
For business combinations, fair value on acquisition date of liabilities.	
Where there is a range of possible outcomes for a particular event within which the probability of each point is equal, the middle of the range is used to measure the commitment.	If different amounts are expected with the same probability, the highest of these amounts must be provided for.
Long-term provisions to be discounted if the effect of the time value of money is material: the discount rate to be used is a pre-tax rate reflecting current market assessments of the time value of money and the risks specific to the liability.	Same, but discount rate is an average market interest rate for the past seven financial years (except for pension obligations) for the equivalent term, as published monthly by the Bundesbank, Germany's central bank.
Ref: IAS 37, IFRS 3, IFRS 4	**Ref: §§ 252, 253 HGB**

Liabilities – Pensions (1)

IFRS® vs. German GAAP

Categories of pension commitments

IFRS

For post-employment benefits, IAS 19 distinguishes between defined contribution plans and defined benefit plans.

Under defined contribution plans the entity pays fixed contributions into a separate entity (fund), whereas defined benefit plans can be funded both internally and externally. In the case of defined contribution plans, the employer's obligation is limited solely to the payment of contributions.

In the case of defined benefit plans, the employer will have a legal or constructive obligation to make further payments if the fund does not hold sufficient assets to provide the agreed benefits to the pension beneficiaries.

German GAAP

The HGB distinguishes between direct and indirect obligations from pension commitments. The distinction is made according to who provides the benefit to the pension beneficiary. Benefits are provided either directly by the employer or indirectly through an external pension fund.

Indirect pension obligations can be both defined contribution plans or defined benefit plans when referring to IFRS definition.

Accounting treatment

IFRS

Defined contribution plans: the contributions are expensed. The amount recognised as an expense in profit or loss shall be disclosed in the notes. No balance sheet is recognised item unless for accrued expenses or prepaid expenses.

Defined benefit plans: a net liability (DBO) is recognised in the balance sheet (for measurement see next page).

Ref: IAS 19

German GAAP

Direct obligations from pension commitments must be recognised as a provision.
For indirect obligations there is a discretionary right not to recognise a provision, but to disclose the amount in the notes while expensing the current contribution to the pension plan.

Ref: § 249 HGB, Art. 28 EGHGB

Liabilities – Pensions (2)

IFRS® vs. German GAAP

IFRS	German GAAP
Measurement of defined benefit plans	
Initial measurement: the net liability (asset or liability) from a defined benefit plan is the difference between the actuarial present value of the DBO and the fair value of plan assets, with any net asset being limited to an asset ceiling.	In principle similar to IFRS (offsetting), but ceiling rule does not apply. If the fair value of assets exceeds the amount of liabilities, an excess amount has to be reported under a separate item on the assets side of the balance sheet. Recognised unrealised gains are not available for distribution.
The projected unit credit method is mandatory for determining the actuarial present value of the DBO.	No specific method prescribed. Projected unit credit method permitted alongside other actuarial techniques leading to reasonable amounts.
Subsequent measurement: ▸ Service costs are recognised in PL. ▸ Net interest (interest on pension obligation net of interest on plan assets) is recognised in PL. ▸ Remeasurements (actuarial gains and losses) are posted to OCI and are never recycled into profit or loss.	Service costs, interest and remeasurement effects are recognised in PL. When offsetting assets and liabilities, the related expenses and income resulting from discounting and from assets have to be offset.
Ref: IAS 19	**Ref: §§ 246, 253, 268 HGB**

Liabilities – Pensions (3)

IFRS® vs. German GAAP

IFRS	German GAAP
Definition of plan assets	
Plan assets must be held by an entity (fund) that is legally separate from the reporting entity and the fund must exist solely to pay or fund employee benefits. The plan assets are only used to pay or fund employee benefits and are not available to the reporting entity's own creditors (even in the event of bankruptcy), and the assets are returned to the employer only in the event of overfunding or to reimburse benefits already paid by the reporting entity.	Plan assets (assets exclusively held for coverage of pension liabilities) are assets that may not be accessed by other creditors and exclusively serve the purpose of fulfilling liabilities arising from obligations related to pension provisions. A legally separate entity as a fund is not mandatory.
Measurement of plan assets	
Measurement at fair value as of reporting date. Specific rules apply for qualifying insurance contracts.	Similar to IFRS. Specific rules apply for reinsurance contracts and differ from IFRS.
Ref: IAS 19	**Ref: §§ 246, 253 HGB, IDW RS HFA 30.IDW RH FAB 1.021**

Liabilities – Pensions (4)

IFRS® vs. German GAAP

IFRS	German GAAP
Discount rate	
The discount rate shall be determined by reference to market yields on high-quality corporate bonds at the end of the reporting period. The currency and term of the bonds shall be consistent with the currency and estimated term of the post-employment benefit obligation.	The discount rate is based on the average market interest rate of the past 10 financial years for the relevant remaining term, as published by the Bundesbank on a monthly basis; alternatively, a simplified flat rate for a 15-year remaining term may be used. Disclosure of the difference compared to a pension provision calculated using a 7-year average is required. That difference is only available for distribution to shareholders under certain circumstances.
Ref: IAS 19	**Ref: § 253 HGB**

Liabilities – Other long-term employee liabilities

IFRS® vs. German GAAP

IFRS	German GAAP
Jubilees	
Accounting for other long-term employee benefits is essentially similar to the accounting for pension liabilities. All expenses or income (including remeasurements) are recognised in profit or loss.	Accounting for a provision is essentially similar to the accounting for pension liabilities. The main difference is the discount rate: the average market interest rate of the past 7 years applicable to their remaining maturity shall be used (instead of the 10 years used for pension liabilities).
Ref: IAS 19	**Ref: §§ 249, 253 HGB**
Phased retirement arrangements under the block model of the German AltTZG	
For the unremunerated portion of the service rendered, a liability needs to be accrued and classified as other long-term employee benefits (outstanding settlement amount). Top-up payments are also other long-term employee benefits (not classified as termination benefits). They are earned by the employee as remuneration and need to be accrued. Plan assets required for the outstanding settlement amount are to be offset against the corresponding liability. All costs (including remeasurements) are recognised in profit or loss.	The accounting treatment differs from IAS 19 in terms of the treatment of the top-up payments. According to IDW RS HFA 3, the treatment of top-up amounts depends on whether they have the character of a severance payment (expensed immediately) or additional remuneration (obligation is accrued pro rata).
Ref: DRSC AH 1 (IFRS)	**Ref: IDW RS HFA 3**

Equity

IFRS® vs. German GAAP

IFRS	German GAAP
Equity	
To be classified as equity, an instrument should not include any obligation to transfer economic resources to another entity and should contain only a residual interest in the entity, after deduction of all liabilities.	There is no formal definition of equity in the HGB. The distinction between liability and equity is clearer compared to IFRS. In practice, the following three criteria must be fulfilled for classification as equity: ▸ Liability for losses up to the amount of subscribed capital and profit-related compensation ▸ Subordination ▸ Lending is of a long-term nature.
Equity shall be disaggregated into various elements such as paid-in capital, share premium, reserves and non-controlling interests.	Equity is disaggregated into subscribed capital, capital reserves, revenue reserves including legal reserves, profit or loss carry forward. The main difference compared to IFRS is that there is no other comprehensive income.
Uncalled outstanding capital generally does not fulfil the general recognition criteria.	Similar to IFRS.
If certain requirements are met, costs of capital transactions may be posted to retained earnings.	Costs relating to equity transactions are always expensed.
Ref: IAS 32, IAS 1, IFRS 9	**Ref: §§ 266, 272 HGB, IDW St/HFA 1/1994**

Hedging relationships (1)

IFRS® vs. German GAAP

IFRS	German GAAP
Hedging relationship	
The application of hedge accounting is optional even if all requirements for a hedge relationship are met.	Similar to IFRS with a small number of exceptions (e.g., regarding which items can be hedged).
IFRS 9 and IAS 39 include a broad description of requirements for a financial instrument to qualify as a hedging instrument or a hedged item.	Larger scope in the HGB. All assets, liabilities as well as other nearly firm transactions may qualify as hedged items if the risk to be hedged can be documented. All financial instruments and forward transactions may qualify as hedging instruments.
A hedging relationship qualifies for hedge accounting if following three criteria are met: ▸ Eligible hedging instrument and eligible hedged item ▸ Formal designation and documentation of the hedging relationship at inception ▸ Hedging relationship meets all of the hedge effectiveness requirements (prospectively + hedge ratio)	Similar to IFRS, but no method for the measurement of effectiveness and no intervals are defined in the HGB.
Large amount of disclosures required.	Smaller extent of disclosures, plus these can be made in the notes or in the management report.
Ref: IFRS 9, IAS 39, IFRS 7	**Ref: §§ 254, 285 HGB, IDW RS HFA 35**

Hedging relationships (2)

IFRS® vs. German GAAP

IFRS	German GAAP
Hedge accounting	
Three types of hedge relationships: ▸ Fair value hedge ▸ Cash flows hedge ▸ Hedge of a net investment in a foreign operation	Same accounting treatment for all types of hedging relationships.
Accounting for the hedge instrument and hedged item depends on the type of hedging relationship.	Two accounting methods are possible: ▸ Net method: the changes in the fair value of the hedge instrument and the hedged item are offset for the effective part of the hedge. ▸ Gross method: changes in the fair value of both the hedge instrument and the hedged item are recognised separately in the statement of profit or loss. For the ineffective part, the negative changes are posted to PL against a provision and the positive changes are not recognised (realisation and imparity principles).
Entities are permitted to hedge risk components (sub-risks) that cause changes in fair value.	Similar to IFRS, this is provided the respective sub-risks can be measured separately.
Ref: IFRS 9, IAS 39	**Ref: § 254 HGB, GoB**

Derivatives – Non-hedging

IFRS® vs. German GAAP

IFRS	German GAAP
Derivatives	
Recognition Derivatives are recognised as financial assets or financial liabilities when the entity becomes party to the contractual provisions of the instrument.	Recognition is only permitted if the general recognition criteria for assets or liabilities are met. Derivatives resulting from forward contracts concluded at fair value are generally not recognised. Upfront payments or consideration paid or received for an option (or any other derivative) are recognised as assets or liabilities. Provisions are recognised for unrealised losses, whereas unrealised gains are not recognised (realisation and imparity principles).
Measurement They are initially recognised at fair value. Derivatives (non-hedging) are subsequently measured at fair value through profit or loss.	When a derivative is recognised as an asset, it is carried at the lower of cost or market value (being "fair market value"). Time-related derivatives (caps, collars, floors) are in practice often regarded as deferred items which are amortised over time (but the lower of cost or market value is still considered).
Ref: IFRS 9, IAS 39	**Ref: §§ 252 HGB, GoB**

Leases (1)

IFRS® vs. German GAAP

IFRS	German GAAP
Lease classification	
Lessors distinguish between operating and finance leases. For **lessees** there is a single accounting model, which is to recognise a liability to make lease payments and an asset representing the right to use the underlying asset (i.e., the right-of-use asset) during the lease term for all leases. For short-term leases or leases for which the underlying asset is of low value, a lessee may, as an accounting policy choice, elect to recognise the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis. **Ref: IFRS 16**	No legal regulation; an asset is recognised in the balance sheet of the beneficial owner of the asset. The beneficial owner is usually deemed to be the party which bears most risks and rewards (this may include the right to direct the use or sell the asset, the risks and opportunities from changes of the asset's value, or the risk of loss from accidental destruction of the asset) from the ongoing use of the asset during its economic useful life. Special guidance to determine the beneficial owner of an asset is based on tax rules. **Ref: § 246 HGB, tax regulations, interpretations released by the IDW (IDW ERS HFA 13 n.F.)**

Leases (2)

IFRS® vs. German GAAP

IFRS	German GAAP
Lessee accounting – Initial measurement	
Recognition of a right-of-use (ROU) asset and a lease liability.	
▸ Lease liability = present value of the lease payments that have not been made at or before the commencement date, discounted using the interest rate implicit in the lease, if that rate can be readily determined. (If that rate cannot be readily determined, the lessee's incremental borrowing rate is used).	**If the lessee is not deemed to be the beneficial owner of the asset:** no ROU asset/lease liability is recognised in the balance sheet. Lease payments are recognised in PL as an expense.
▸ ROU asset = initial measurement of the lease liability + any lease payments made to the lessor at or before the commencement date, less any lease incentives received from the lessor + any initial direct costs incurred by the lessee + estimate of the costs to be incurred by the lessee in dismantling and removing the underlying asset, restoration costs, unless those costs are incurred to produce inventories.	**If the lessee is deemed to be the beneficial owner of the asset:** lessee recognises an asset and a lease liabilty (present value of the lease payments at commencement date).
If the exemption for short-term leases and low-value lease assets is applied: lease payments are recognised as an expense on either a straight-line basis over the lease term or another systematic basis if that basis is more representative of the pattern of the lessee's benefit.	No such exception in HGB.
Ref: IFRS 16	**Ref: § 246 HGB, tax regulations, interpretations released by the IDW (IDW ERS HFA 13 n.F.)**

Leases (3)

IFRS® vs. German GAAP

IFRS	German GAAP
Lessee accounting – Subsequent measurement	
ROU asset subsequently measured using a cost model, unless one of the other measurement models is applied (see below).	
Cost model: ROU asset is subsequently measured at cost less accumulated depreciation and accumulated impairment.	If the lessee is not deemed to be the beneficial owner of the asset: lease payments are recognised in PL as an expense.
Other measurement models: ▸ If a lessee applies the fair value model in IAS 40 Investment Property to its investment property, the lessee also applies the fair value model to ROU assets that meet the definition of investment property in IAS 40. ▸ If ROU assets relate to a class of property, plant and equipment to which the lessee applies the revaluation model in IAS 16, the lessee may elect to apply that revaluation model to all the ROU assets that relate to that class of property, plant and equipment.	If the lessee is deemed to be the beneficial owner of the asset: lease assets are depreciated over the useful life of the assets.
Ref: IFRS 16	**Ref: § 246 HGB, tax regulations**

Leases (4)

IFRS® vs. German GAAP

IFRS	German GAAP
Lessor accounting – Operating leases	
Initial recognition and measurement BS: Lessors continue to recognise the underlying asset on the balance sheet. **Subsequent measurement** The underlying asset continues to be accounted for in accordance with applicable accounting standards (e.g., IAS 16, depreciation over the asset's useful life). PL: recognition of lease payments over the lease term on either a straight-line basis or another systematic and rational basis if that basis better represents the pattern in which benefit is expected to be derived from the use of the underlying asset. Variable lease payments that do not depend on an index or rate (e.g., performance or usage-based payments) are recognised in PL as they are earned.	Similar to IFRS if lessor is deemed to be the beneficial owner of the asset. Otherwise accounting similar to IFRS lessor accounting for finance Lease.
Ref: IFRS 16	**Ref: § 246 HGB**

Leases (5)

IFRS® vs. German GAAP

IFRS	German GAAP
Lessor accounting – Finance leases	
Initial recognition and measurement BS: derecognition of asset and recognition of the net investment in the lease. **Subsequent measurement** PL: recognition of finance income over the lease term in an amount that produces a constant periodic rate of return on the remaining balance of the net investment in the lease (i.e., using the interest rate implicit in the lease). BS: reduction of the net investment in the lease for lease payments received (net of finance income calculated above). Income from variable lease payments that are not included in the net investment in the lease (e.g., performance or usage-based variable payments) are separately recognised in the period in which they are earned.	If the lessor is not deemed to be the beneficial owner of the asset: accounting similar to IFRS. If the lessor is deemed to be the beneficial owner of the asset: accounting similar to IFRS lessor accounting for operating lease.
Ref: IFRS 16	**Ref: § 246 HGB**

Leases (6)

IFRS® vs. German GAAP

IFRS

Sale and leaseback transactions

Because IFRS 16 requires lessees to recognise most leases on the balance sheet, sale and leaseback transactions **no longer provide lessees with a source of off-balance sheet financing.** Both the seller-lessee and buyer-lessor are required to apply IFRS 15 to determine whether to account for a sale and leaseback transaction as a sale and purchase of an asset.

If the transfer of the asset is a sale:

- Seller-lessee measures the ROU asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee.
  Accordingly, the seller-lessee recognises only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor.
- Buyer-lessor accounts for the purchase of the asset in accordance with other standards based on the nature of the asset (e.g., IAS 16 for property, plant and equipment).

Ref: IFRS 16

German GAAP

No explicit regulation.
Essentially, immediate recognition of gain/loss on sale if the new beneficial owner of the leased item is the buyer-lessor.
If the beneficial ownership is retained by the seller-lessee, generally no gain or loss is recognised.

Ref: Interpretations released by the IDW (IDW ERS HFA 13 n.F.)

Leases (7)

IFRS® vs. German GAAP

IFRS	German GAAP
Sale and leaseback transactions	
If the transfer is not a sale ▸ Seller-lessee accounts for the transaction as a financing transaction, keeping the transferred asset on its balance sheet and accounting for amounts received as a financial liability in accordance with IFRS 9. ▸ Seller-lessee reduces the financial liability by the payments made less the portion considered interest expense. ▸ Buyer-lessor does not recognise the transferred asset, but accounts for the amounts paid as a receivable in accordance with IFRS 9.	
Ref: IFRS 16	**Ref: Interpretations released by the IDW (IDW ERS HFA 13 n.F.)**

Revenue recognition (1)

IFRS® vs. German GAAP

IFRS	German GAAP
Framework and definition	
IFRS 15 applies to all contracts with customers, with the exception of contracts in the areas of leasing, insurance, financial instruments and certain non-monetary exchange transactions. A customer is a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. Revenue is defined as income arising in the course of an entity's ordinary activities. The term "ordinary activities" is not further specified in IFRS 15; the usual definitions apply.	The HGB does not contain any individual regulations on revenue recognition. Revenue is defined in the HGB as revenue from the sale, rental or leasing of products or from the provision of services net of sales deductions and value added tax. The time and amount of revenue recognition is determined by German legally required accounting principles. In particular, the realisation principle is decisive.
Ref: IFRS 15	**Ref: §§ 252, 277 HGB**

Revenue recognition (2)

IFRS® vs. German GAAP

IFRS	German GAAP
Core principles	
Revenue is recognised when a performance obligation is satisfied by transferring a promised good or service (i.e., an asset) to a customer and the customer obtains control of that asset. The transfer of significant risks and rewards is only to be considered as an indicator of the transfer of control. The core principle is that an entity recognises revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The recognition of revenue follows a uniform five-step model regardless of the industry and entity: 1. Identify the contract(s) with a customer 2. Identify the performance obligations in the contract 3. Determine the transaction price 4. Allocate the transaction price to the performance obligations in the contract 5. Recognise revenue when (or as) the entity satisfies a performance obligation	According to the realisation principle, profits are recognised if they have been realised at the balance sheet date. According to standard practice, revenue shall be recognised when the (price and performance) risk has passed to the buyer. The time of conclusion of the contract, provision of the consideration or of advance payments is irrelevant.
Ref: IFRS 15	**Ref: §§ 252, 277 HGB, GoB**

Revenue recognition (3)

IFRS® vs. German GAAP

IFRS

Revenue recognition for transactions with multi-components

The five-step model of IFRS 15 explicitly addresses the accounting for transactions with multiple components.

The identification of contractual performance obligations (step 2), the allocation of the transaction price to the performance obligations (step 4) and the recognition of revenue in accordance with satisfied performance obligations (step 5) reflect the conceptual design of the accounting for complex transactions with multiple components.

At contract inception, an entity is required to assess goods and services promised in a contract with a customer and to identify as separate performance obligations a good or service (or a bundle of goods) that is distinct.

Ref: IFRS 15

German GAAP

There are no legal regulations on the treatment of transactions with multiple components. The general realisation principle applies.

There are no specific regulations for identifying the components of the overall contract.

According to standard practice, when transactions have multiple components it is usually appropriate to realise revenue differentiated according to the individual components. For this purpose, the agreed total consideration is allocated in proportion to the fair values of the individual components. Revenue is then recognised for each individual component in accordance with the general principles. There are, however, no explicit legal requirements for this allocation.

If the fair values of the individual components cannot be determined with sufficient certainty, the total revenue can only be recognised when the requirements for revenue recognition are met for all individual components.

Ref: IDW

Revenue recognition (4)

IFRS® vs. German GAAP

IFRS	German GAAP
Collectability of the consideration	
Revenue can generally only be recognised if it is probable that the consideration promised in the contract will be received (collectability threshold). If receipt of the consideration is not probable, revenue recognition is only possible under the following conditions: ▸ the entity has satisfied all performance obligations and the customer has paid its non-refundable consideration in full; or ▸ the contract has been terminated and the consideration received from the customer is non-refundable. The assessment of collectability is based on the customer's ability and intention to pay at the time the consideration is due. If the ability or intention to pay changes significantly in subsequent periods, the assessment of collectability must be adjusted. This also applies if collectability becomes probable for the first time due to improved ability or intention to pay in subsequent periods.	Statutory regulations require consideration of credit risks for measurement of trade receivable but not revenue. Value adjustments on trade receivables because of credit risks are reported under other operating expenses. According to standard practice, these expenses are not sales deductions within the meaning of § 277 (1) HGB.
Ref: IFRS 15	**Ref: §§ 253, 277 HGB**

Revenue recognition (5)

IFRS® vs. German GAAP

IFRS	German GAAP
Amount of consideration (valuation)	
The amount of revenue is determined by the transaction price. This corresponds to the consideration to which an entity expects to be entitled in exchange for the transfer of promised goods or services to a customer, less any amount collected on behalf of third parties (e.g., sales taxes). When determining the transaction price, variable consideration (including constraining estimates), interest effects if the contract contains a significant financing component, non-cash consideration and consideration paid or payable to a customer are taken into account. If there is more than one performance obligation, the transaction price is to be allocated to these in proportion to the relative stand-alone selling prices.	According to § 277 HGB, revenue corresponds to the agreed consideration net of sales deductions (e.g., discounts, bonuses and rebates) and VAT.
Variable consideration	
Variable consideration may exist as a result of discounts, rebates, refunds, credits, incentives, bonuses, penalties, contingent payments, price concessions or similar items. The estimated amount of variable consideration is included in the transaction price if it is highly probable that a subsequent change in the estimated variable consideration would not result in a significant reversal of revenue.	There are no explicit statutory regulations on the treatment of variable components of the consideration.

Revenue recognition (6)

IFRS® vs. German GAAP

IFRS	German GAAP
Non-cash consideration	
For contracts in which the customer promises non-cash consideration: ▸ Transaction price shall be the fair value of the non-cash consideration. ▸ If the fair value of non-cash consideration cannot be reasonably estimated, consideration is measured indirectly by reference to the unit selling price of the goods or services promised to the customer in exchange for the consideration.	No legal regulation. According to the general accounting principles, non-cash transactions are measured at either: ▸ the lower of fair value of goods delivered or services rendered and the fair value of the non-cash consideration; ▸ the lower of the carrying amount of goods delivered or services rendered and the fair value of promised non-cash consideration; or ▸ a tax-neutral value which is the carrying amount of goods delivered or services rendered plus any tax expense arising from the transaction
Ref: IFRS 15	**Ref: GoB, IDW RS HFA 42**

Revenue recognition (7)

IFRS® vs. German GAAP

IFRS	German GAAP
Significant financing component	
In determining the transaction price, the time value of money must be considered if the contract contains (implicitly or explicitly) a significant financing component and there is a period of more than one year between the transfer of the goods or services and the payment by the customer. In assessing whether there is a significant financing component, all relevant facts and circumstances, including the following factors, should be considered: ▸ any difference between the amount of promised consideration and the cash selling price; ▸ the combined effect of (i) the expected length of the time between the entity's transfer of the promised goods or services and the payment date and (ii) the interest rates in the relevant market. The interest rate to be applied is that which would be agreed upon at the time of the conclusion of the contract in a separate financing agreement between the entity and the customer, taking into account the credit risk of the borrower and any collateral provided. Financing effects (interest expenses or interest income) must be reported separately from revenue and increase (e.g., advance payment by the customer) or decrease (e.g., extended payment period) this revenue.	There are no legal regulations for the consideration of financing components. The revenue corresponds to the present value of the agreed consideration. Income from the unwinding of the discount on the agreed consideration is recognised as interest income in subsequent periods.
Ref: IFRS 15	**Ref: § 255 HGB**

Revenue recognition (8)

IFRS® vs. German GAAP

IFRS	German GAAP
Timing of revenue recognition (1/2)	
IFRS 15 does not distinguish between revenue from the sale of goods and revenue from services. A distinction is made on the basis of whether control is transferred over time or at a point in time. Only when the criteria for recognition over time (see next page) are not fulfilled is control transferred at a point in time. Revenue from the sale of goods is recognised when control of the asset is transferred to the customer. A customer obtains control when it can direct the use of the asset and obtain substantially all of the remaining benefits from it, or is able to prevent others from directing the use of the asset and obtaining substantially all of the remaining benefits from it. If control is transferred at a specific point in time, the following indicators must be taken into account for revenue recognition: ▸ the entity has a present right to payment for the asset; ▸ the customer has legal title to the asset; ▸ the entity has transferred physical possession of the asset; ▸ the significant risks and rewards of ownership have been transferred to the customer; ▸ the customer has accepted the asset.	Revenue is recognised for the sale of goods when ▸ the supplier has handed over the asset in accordance with the contract and the risk has been transferred; and ▸ a claim to consideration has thereby arisen. The transfer of the asset can also be replaced by an agreement on transfer of legal possession.

Revenue recognition (9)

IFRS® vs. German GAAP

IFRS	German GAAP
Timing of revenue recognition (2/2)	
If the performance obligation under a service contract is satisfied at a certain point in time, the provisions on the sale of goods apply accordingly. If the service obligations are satisfied over a certain period of time, revenue is recognised over this period if at least one of the following criteria is met: ▸ the customer receives and consumes the benefits from the entity's performance while it is being provided; ▸ the entity's performance creates or enhances an asset over which the customer has control; ▸ the entity's performance does not create an asset with an alternative use; however, there is an enforceable right to payment for the performance completed to date. For the recognition of revenue over a certain period of time (measure of progress), the method that best reflects the transfer of the entity's performance must be selected. Both output and input-oriented methods can be considered.	Revenue from service transactions is considered to have been realised when ▸ the service provider has performed the service; and ▸ a claim to consideration has thereby arisen. Revenue from long-term construction contracts is usually accounted for using the completed contract method. The percentage of completion method is generally not allowed. Revenue from continuous obligations (e.g., rental or lease agreements) are generally recognised over time for the respective term of the agreement.
Ref: IFRS 15	**Ref: §§ 252, 277 HGB**

Revenue recognition (10)

IFRS® vs. German GAAP

IFRS	German GAAP
Licence revenue	
The recognition of revenue from licences takes place ▸ over the term of the licence if the underlying performance obligation is satisfied over a certain period of time. Satisfaction over a certain period of time applies when the licensee is promised access to rights that are significantly changed by the licensor over the licence period (e.g., access to research results of a licensor during the research phase). For revenue recognition over the licence period, the method that best reflects the satisfaction of the performance obligation is to be chosen; ▸ at the time the licence is granted or the rights can be used for the first time, if the underlying performance obligation is satisfied at a certain point in time. Satisfaction at a point in time applies when the licensee is assured the use of rights that remain unchanged over the period of the licence (e.g., right to distribute generic drugs). Variable consideration consisting of sales or usage-based royalties shall be realised after the later of the following events: ▸ the subsequent sale or usage occurs; and ▸ the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated is satisfied (or partially satisfied).	There are no legal regulations for the recognition of revenue from licences. The general realisation principle applies.

Ref: IFRS 15

Revenue recognition (11)

IFRS® vs. German GAAP

IFRS	German GAAP
Sales with a right of return	
Revenue is recognised for the amounts that are reasonably certain to be received by the entity by the end of the return period; no revenue is recognised for products that are expected to be returned. The amount for expected product returns should be recognised as a refund liability.	There are no special commercial regulations on the effect of rights of return. The general realisation principle under commercial law applies: Where the recipient has a right of return, revenue is only recognised after the expiration of the return period.
For the right to receive the returned products, a corresponding asset from the right of return should be recognised (and the cost of sales adjusted accordingly).	Separate recognition of an asset from right of return is not provided for.
Estimates of expected product returns and the corresponding refund liabilities and assets from recovery claims must be updated at each reporting date.	
Ref: IFRS 15	**Ref: § 277 HGB, general accounting principles**

Revenue recognition (12)

IFRS® vs. German GAAP

IFRS	German GAAP
Contract costs (1/2)	
IFRS 15 distinguishes between costs to fulfil a contract and incremental costs of obtaining a contract. Incremental costs to obtain a contract should be capitalised if they are expected to be recovered. Costs incurred to obtain a contract that are not incremental costs must be expensed as incurred, unless they are explicitly chargeable to the customer regardless of whether the contract is obtained. As a practical expedient, the standard permits an entity to immediately expense contract acquisition costs when the asset that would have resulted from capitalising such costs would have been amortised within one year or less. If costs incurred in fulfilling a contract are within the scope of another standard than IFRS 15, an entity accounts for those costs in accordance with those other standards. If those other standards preclude capitalisation of a particular cost, then an asset cannot be recognised under IFRS 15.	There are no legal regulations on the capitalisation of contract costs. The general capitalisation requirements apply.
Ref: IFRS 15	**Ref: § 277 HGB, general accounting principles**

Revenue recognition (13)

IFRS® vs. German GAAP

IFRS	German GAAP
Contract costs (2/2)	
If the costs incurred to fulfil a contract are not within the scope of another standard, an entity capitalises such costs only if they meet all of the following criteria: ▸ The costs directly relate to a contract or to a specifically identifiable anticipated contract. ▸ The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future. ▸ The costs are expected to be recovered. If all of the criteria are met, an entity is required to capitalise the costs. The rules on contract costs apply to all customer contracts within the scope of IFRS 15.	
Ref: IFRS 15	**Ref: § 277 HGB, general accounting principles**

Deferred taxes (1)

IFRS® vs. German GAAP

IFRS	German GAAP
Scope	
If the recognition criteria are met, deferred tax assets (DTA) and deferred tax liabilities (DTL) shall be recognised in separate and consolidated financial statements, irrespective of legal form and size of the entity.	If the recognition criteria are met, DTA in respect of consolidation adjustments and all DTL shall be recognised. Other DTA, including DTA arising from the carry forward of unused tax losses (including interest carried forward) and tax credits shall be recognised up to the amount of DTL. There is an option to recognise any excess of other DTA over DTL. No recognition of DTA and DTL for temporary differences that arise between the tax base of an investment in a subsidiary, associate or joint venture and the carrying amounts of the net assets recognised in the consolidated financial statements (outside basis differences). Otherwise similar to IFRS. Size-dependent recognition exemptions apply to separate financial statements. If DTA are recognised in separate financial statements, the amount of recognised DTA is generally not available for distribution to shareholders.
Ref: IAS 12, IFRIC 23	**Ref: §§ 268, 274, 274a, 298, 306 HGB, GAS 18**

Deferred taxes (2)

IFRS® vs. German GAAP

IFRS	German GAAP
Recognition of deferred tax liabilities (DTL)	
DTL shall be recognised for all taxable temporary differences except when they arise from: ▸ initial recognition of goodwill; ▸ initial recognition of an asset and a liability in a transaction which is not a business combination and affects neither accounting nor taxable profit/loss, and at the time of the transaction, does not give rise to equal taxable and deductible temporary differences*; ▸ taxable differences associated with investments in affiliates** where the entity is able to control the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.	Similar to IFRS, DTL shall be recognised for all taxable temporary differences. Exceptions: ▸ initial recognition of goodwill from consolidation; and ▸ DTL on taxable temporary differences associated with investments in affiliates***. They are never recognised in consolidated financial statements. No initial recognition exception for DTL arising from the initial recognition of an asset and a liability in a transaction which is not a business combination and affects neither accounting nor taxable profit/loss, and at the time of the transaction, does not give rise to equal taxable and deductible temporary differences.
Ref: IAS 12, IFRIC 23	**Ref: §§ 268, 274, 274a, 298, 306 HGB, GAS 18**

* Amendment applicable for annual reporting periods beginning on or after 1 January 2023
** Affiliates = subsidiaries, branches and associates, interests in joint arrangements
*** Affiliates = subsidiaries, associates, joint ventures

Deferred taxes (3)

IFRS® vs. German GAAP

IFRS

Recognition of deferred tax assets (DTA)

A DTA shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised and no recognition exception applies.

Sources of taxable profits against which an entity can utilise deductible temporary differences include:

- future reversal of existing taxable temporary differences;
- taxable profits in future periods; and
- tax planning opportunities.

The same recognition criteria apply for recognition of DTA arising from the carry forward of unused tax losses and tax credits. However, the existence of unused tax losses is strong evidence that future taxable profit may not be available.

Ref: IAS 12, IFRIC 23

German GAAP

DTA shall be recognised in respect of consolidation adjustments. This includes adjustments when applying the equity method.

DTA recognised in respect of consolidation adjustments do not result from adjustments to conform with uniform group accounting policies. DTA recognised in respect of adjustments to conform with uniform group accounting policies shall, consistent with all other DTA, be recognised up to the amount of DTL. There is an option to recognise any excess of other DTA over DTL.

Otherwise, recognition requirements are similar to IFRS. However, DTA arising from the carry forward of unused tax losses (including interest carried forward) and tax credits which are not recognised on the basis of sufficient taxable temporary differences can only be recognised to the extent of taxable profit expected over the next five years.

Ref: §§ 268, 274, 274a, 298, 306 HGB, GAS 18

Deferred taxes (4)

IFRS® vs. German GAAP

IFRS	German GAAP
Recognition of deferred tax assets (DTA) (cont.)	
Recognition exceptions for DTA arising from: ▸ initial recognition of an asset or a liability in a transaction which is not a business combination and affects neither accounting nor taxable profit/loss, and at the time of the transaction, does not give rise to equal taxable and deductible temporary differences*. ▸ deductible temporary differences associated with affiliates ** where it is not probable that they will reverse in the foreseeable future or that taxable profit will be available against which they can be utilised.	Unlike IFRS only two specific recognition exceptions: 1. DTA related to the initial recognition of goodwill from consolidation are not recognised. 2. DTA on deductible temporary differences associated with investments in affiliates*** are never recognised in consolidated financial statements. No initial recognition exception for DTA arising from the initial recognition of an asset and a liability in a transaction which is not a business combination and affects neither accounting nor taxable profit/loss, and at the time of the transaction, does not give rise to equal taxable and deductible temporary differences.
Ref : IAS 12, IFRIC 23	**Ref: §§ 268, 274, 274a, 298, 306 HGB, GAS 18**

* Amendment applicable for annual reporting periods beginning on or after 1 January 2023
** Affiliates = subsidiaries, branches and associates, interests in joint arrangements
*** Affiliates = subsidiaries, associates, joint ventures

Deferred taxes (5)

IFRS® vs. German GAAP

IFRS	German GAAP
Measurement	
The tax base is the amount attributed to an asset or a liability for tax purposes.	Similar to IFRS.
DTA and DTL are measured at the tax rate that is expected to apply in the period when the asset is realised or the liability settled, based on the tax rate enacted or substantively enacted at the reporting date. Neither shall be discounted.	Similar to IFRS.
The carrying amount of a previously recognised DTA is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to enable the asset to be recovered. Any such reduction should be reversed if is subsequently probable that sufficient taxable profit will be available.	Similar to IFRS.
Ref: IAS 1, IAS 12, IFRIC 23	**Ref: §§ 266, 274, 274a, 298, 306 HGB, GAS 18**

Deferred taxes (6)

IFRS® vs. German GAAP

IFRS	German GAAP
Presentation	
Deferred taxes shall be presented separately in the balance sheet within non-current assets or liabilities. Netting of DTA and DTL is required under certain conditions and is otherwise prohibited.	Option to present DTA and DTL on a gross or net basis.
Effects of changes in the carrying amounts of DTA and DTL are recognised either in PL, OCI or directly in equity in line with the recognition of the underlying item.	All changes in the carrying amount of DTA and DTL are recognised in the PL within the "income taxes" item.
Reconciliation of theoretical vs. actual income tax expense or income (effective tax-rate reconciliation) is required in the notes.	Not required.
Ref: IAS 1, IAS 12, IFRIC 23, SIC 25	**Ref: §§ 266, 274, 274a, 285, 306 HGB; GAS 18**

Foreign currency translation

IFRS® vs. German GAAP

IFRS	German GAAP
Individual financial statements	
Concept of functional currency.	No concept of functional currency. Financial statements to be prepared in euros.
Initial recognition of transaction in foreign currency: at spot exchange rate.	Initial recognition similar to IFRS.
Subsequent measurement: at closing rate for monetary items, historical rate for non-monetary items.	Subsequent measurement of monetary assets/liabilities at closing rate. For long term monetary assets and liabilities, realisation and imparity principles apply: unrealised translation losses are recognised, whereas unrealised gains are not recognised.
Recognition of changes in the statement of profit or loss or other comprehensive income in accordance with the accounting for other changes in the underlying item.	Gains or losses from currency translation are recognised in the statement of profit or loss and shall be disclosed separately.
Translation of foreign operations for consolidation	
For assets and liabilities: closing rate. For revenue and expenses: exchange rates at the date of the transactions (for simplification, average rate can be used if no significant fluctuations).	Modified closing rate method: assets and liabilities at closing rate, equity at historical rate, income and expenses at average rate.
Translation differences shall be recognised in other comprehensive income.	Translation differences are recorded in a separate item under equity.
Ref: IAS 21	**Ref: §§ 253, 255, 256a, 308a HGB, GAS 25**

Earnings per share

IFRS® vs. German GAAP

IFRS	German GAAP
Presentation requirements	
Disclosure of earning per share (EPS) is required for entities whose ordinary shares or potential ordinary shares are listed or in the process of being listed. Diluted and basic EPS (from continuing operations, if applicable) attributable to the ordinary equity holders of the entity for the period, for each class of ordinary shares that has a different right to share in profit shall be presented. Presentation in the statement of profit or loss (if separate), otherwise in the statement of comprehensive income. Presentation required for all periods presented, also applicable for entities that disclose EPS voluntarily. **Ref: IAS 33**	There is no legal obligation to disclose EPS in the financial statements. EPS is often voluntarily presented in accordance with the guidance issued by the German Schmalenbach Gesellschaft.
Interim reporting	
Disclosure also required in interim financial statements. **Ref: IAS 34**	No legal obligation, but standard accounting practice.

Share-based payment

IFRS® vs. German GAAP

IFRS

Principle and scope

According to the general principle set out in IFRS 2, an entity is required to recognise the goods or services received or acquired in a share-based payment transaction when it obtains the goods or the services. Goods or services received or acquired in a share-based payment transaction need to be recognised as an expense when the goods are acquired and services rendered.

The scope of IFRS 2 encompasses:
- equity-settled share-based payment transactions in which the entity receives goods or services as consideration for equity instruments of the entity (including shares or share options)
- cash-settled share-based payment transactions in which the entity acquires goods or services by incurring liabilities to the supplier of those goods or services for amounts that are based on the price (or value) of the entity's shares or other equity instruments of the entity
- transactions in which the entity receives or acquires goods or services and the terms of the arrangement provide either the entity or the supplier of those goods or services with a choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments.

Ref: IFRS 2

German GAAP

The HGB does not contain any specific provisions, nor is the topic covered by any official professional standard.

Share-based payment

IFRS® vs. German GAAP

IFRS	German GAAP
Equity-settled share-based payments granted to employees	
Grant-date fair value of such a transaction is recognised as personnel expense over the vesting period (accounting entry: dr. personnel expense, cr. equity). Specific provisions on how to reflect: ▸ different types of vesting conditions; ▸ choice of settlement with the entity or with the counterparty. Equity-settled accounting may apply in group scheme settings.	The HGB does not contain any specific provisions, nor is the topic covered by any official professional standard. Employee stock options plans (ESOPs) are covered by stock corporation law. Interpretive guidance distinguishes between various scenarios (issuance of new shares, ESOPs, etc.). Accounting in a way similar to IFRS 2 is possible but not required.
Cash-settled share-based payments granted to employees	
Liability is recognised over the vesting period in line with the vesting conditions and is remeasured up to the settlement date.	No specific rules. Requirements for provisions apply.

Ref: IFRS 2

Related party disclosures (1)

IFRS® vs. German GAAP

IFRS	German GAAP
Definition and disclosure requirements	
Definition: a related party is a person or entity that is related to the reporting entity.	No legal definition. Reference is made to the IFRS definition.
A related person is person or close family member of that person who has control, joint control or significant influence over the reporting entity or is member of the (key) management (personnel) of the reporting entity or a parent of the reporting entity.	
The definition of related entity is broad and includes all entities of the same group, joint ventures and their subsidiaries, jointly controlled entities, associates and their subsidiaries, post-employment benefit plans, providers of key management personnel services, etc.	
Disclosure requirement: nature of the relationship and information about the transactions and outstanding balances including commitments.	At least significant transactions not concluded at arm's length shall be disclosed (exemptions apply for transactions with and between directly or indirectly wholly owned entities). Small corporations and some medium-sized corporations are exempted from disclosure of related party transactions.
Ref: IAS 24	**Ref: §§ 285, 288, 314 HGB, IDW RS HFA 33**

Related party disclosures (2)

IFRS® vs. German GAAP

IFRS	German GAAP
Compensation of key management personnel	
Information on compensation of key management personnel is required to be disclosed only for active members. Key management personnel may be broader than a board. Compensation to be disclosed in total and by category in the notes.	Disclosure requirement covers both active and former members (or surviving dependents) of the management board, audit committee and other key personnel. Similar to IFRS. Public entities have to prepare a separate compensation report including individual information. Disclosure of total compensation to be made in the notes. Exemption applies to small corporations or other non-public entities with a very small number of board members.
Ref: IAS 24	**Ref: §§ 285, 286, 288, 314 HGB**

Segment reporting (1)

IFRS® vs. German GAAP

IFRS	German GAAP
Presentation of segment reporting	
Segment reporting is required for separate and consolidated financial statements of public entities.	Segment reporting is not required. A segment reporting can be voluntarily presented in consolidated financial statements and in separate financial statements of public entities which are not obliged to prepare consolidated financial statements. A breakdown of revenue into business lines and geographical markets is required in the notes.
Segment definition	
Irrespective of their organisational structure, entities shall use the so-called "management approach" when identifying segments, based on the internal reporting for decision-making and performance assessment.	The HGB does not contain any explicit provisions on reportable segments. According to interpretative guidance, the management approach (similar to IFRS) shall be used.
Ref: IFRS 8	**Ref: GAS 28, § 264, 297 HGB, Interpretative guidance issued by DRSC**

Segment reporting (2)

IFRS® vs. German GAAP

IFRS	German GAAP
Disclosure requirements	
The following information needs to be disclosed for each period for which a PL or statement of comprehensive income is presented: (a) general information on segments identified for reporting; (b) reported segment profit or loss, including information about specified revenues and expenses included in reported segment profit or loss, segment assets and segment liabilities (if reported to the chief operating decision maker) and the basis of measurement; and (c) reconciliations of the totals of segment revenues, reported segment profit or loss, segment assets, segment liabilities and other material segment items to the corresponding entity amounts in the financial statements. Reconciliations of amounts reported in the BS for reportable segments are required as at each date for which a BS is presented. Certain entity-wide disclosures about products and services, geographical areas and major customers are required even if the entity has only a single reportable segment. **Ref: IFRS 8**	If the entity presents voluntarily a segment reporting, the required disclosures are similar to IFRS. **Ref: GAS 28**

Discontinued operations (1)

IFRS® vs. German GAAP

IFRS	German GAAP
Classification	
A non-current asset (or disposal group) is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For an asset (or disposal group) to be classified as held for sale: ▸ it must be available for immediate sale in its present condition, subject only to terms that are usual and customary for sales of such assets; ▸ its sale must be highly probable; and ▸ it must genuinely be sold, not abandoned. A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale and (i) represents a separate or major line or geographical area of operations, (ii) is part of a single coordinated plan to dispose of a separate major business line or (iii) is a subsidiary acquired exclusively with a view to resale. **Ref: IFRS 5**	No specific rules for discontinued operations or assets held for sale. Classification as held for sale is not permitted.

Discontinued operations (2)

IFRS® vs. German GAAP

IFRS	German GAAP
Measurement and presentation	
Measurement At the lower of carrying amount and fair value less costs to sell. **Presentation** **Assets or group of assets held for sale** Assets and liabilities classified as held for sale are presented separately from other assets and liabilities. No offsetting. **Discontinued operations** PL: a single amount comprising the total of post-tax profit or loss of the discontinued operation and post-tax gain or loss on remeasurement to fair value less costs to sell or on the disposal is presented. Comparative figures shall be restated accordingly. BS: Assets and liabilities of the discontinued operation are presented separately from other assets and liabilities. No offsetting. No restatement of comparative figures. Several disclosure requirements: analysis of income and expenses, cash flows, etc. for the discontinued operation. **Ref: IFRS 5**	No specific rules for discontinued operations or assets held for sale. The regular presentation and measurement rules, including impairment, continue to apply.

Interim reporting

IFRS® vs. German GAAP

IFRS

Preparation requirements and content

IAS 34 regulates the content, but not the preparation requirements for interim financial statements.

Minimum components (condensed)

- Balance sheet as of end of current period and comparative balance sheet as of end of preceding financial year
- Statement of profit or loss and other comprehensive income for the current interim period and for the current financial year-to-date, with comparative statements for the same periods of the preceding financial year
- Statement of changes in equity for the current financial year-to-date with comparative year-to-date statement for the preceding financial year
- Statement of cash flows cumulatively for the current financial year-to-date with comparative year-to-date statement for the preceding financial year
- Selected notes pursuant to IAS 34
- Earnings per share for listed entities

Complete IFRS financial statements are permitted as interim financial statements but are rare in practice.

Ref: IAS 34, IAS 1

German GAAP

No provision in the HGB.
The German Securities Trading Act requires public entities to prepare half-yearly (consolidated) financial statements, which are mostly condensed IFRS financial statements **plus** a condensed management report.

If half-yearly HGB financial statements are prepared, they should include:

- Condensed balance sheet as of the reporting date and comparative balance sheet as of the end of the preceding financial year
- Condensed statement of profit or loss for the reporting period and comparative statement for the same period of the preceding financial year
- Condensed notes
- Condensed interim management report

Optional:

- Condensed statement of cash flows
- Condensed statement of changes in equity

Quarterly financial statements have to be presented by certain public entities (e.g., due to special listing requirements).

Ref: § 115 WpHG, GAS 16

Your Contacts

North/East

Martin Beyersdorff
Tel. +49 40 36132 20093
martin.beyersdorff@de.ey.com

Prof. Dr. Sven Hayn
Tel. +49 40 36132 12277
sven.hayn@de.ey.com

Dr. Robert Link
Tel. +49 30 25471 19604
robert.link@de.ey.com

Stefania Mandler
Tel. +49 341 2526 23583
stefania.mandler@de.ey.com

Christoph Piesbergen
Tel. +49 40 36132 12343
christoph.piesbergen@de.ey.com

Arne Weber
Tel. +49 40 36132 12353
arne.e.weber@de.ey.com

West

Andreas Muzzu
Tel. +49 231 55011 22126
andreas.muzzu@de.ey.com

Stefan Pfeiffer
Tel. +49 201 2421 21849
stefan.pfeiffer@de.ey.com

Henrik Pferdehirt
Tel. +49 211 9354 12070
henrik.pferdehirt@de.ey.com

Southwest

Dr. Stefan Bischof
Tel. +49 711 9881 15417
stefan.bischof@de.ey.com

Ulf Blaum
Tel. +49 711 98811 9294
ulf.blaum@de.ey.com

Helge-Thomas Grathwol
Tel. +49 621 4208 10132
helge-thomas.grathwol@de.ey.com

Prof. Dr. Steffen Kuhn
Tel. +49 711 9881 14063
steffen.kuhn@de.ey.com

Mid

Jörg Bösser
Tel. +49 6196 996 26944
joerg.boesser@de.ey.com

Ralf Geisler
Tel. +49 6196 996 27304
ralf.geisler@de.ey.com

Andreas Grote
Tel. +49 6196 996 26123
andreas.grote@de.ey.com

Jochen Kirch
Tel. +49 6196 996 24240
jochen.kirch@de.ey.com

Gerd Winterling
Tel. +49 6196 996 24271
gerd.winterling@de.ey.com

Bavaria

Dr. Christine Burger-Disselkamp
Tel. +49 89 14331 13737
christine.burger-disselkamp@de.ey.com

Christiane Hold
Tel. +49 89 14331 12368
christiane.hold@de.ey.com

Financial Services Organisation

Dr. Silke Blaschke
Tel. +49 6196 996 29244
silke.blaschke@de.ey.com

Imprint

Editorial:
Christiane Hold, Blandine Djeukou
Design and Layout: Sabine Reissner
Proofreading: Rowan Smith
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Address of the editorial office:
Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft
Elena Walton
Arnulfstraße 59
80603 Munich
Phone +49 89 14331 16187
Fax +49 181 3943 16187

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