SERIOUS NUMBERS

Accounting for People

Who Have Other Things to Do

Understanding Your Business Numbers in Germany

An English-language guide to German accounting basics

SERIOUS STORIES

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Serious numbers

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You do not have to become an accountant

“If I had had this book 30 years ago, I would be an accounting superwoman by now.”

That was my first thought when the first chapters were finished.

Of course, I have been an accountant for a long time now. But I had to work out many of the connections for myself over the years, even though someone could have explained them clearly from the start.

That is exactly why this book exists.

We are not simplifying the subject. We are just removing the unnecessary confusion.

Perhaps you are wondering why you should still read a book about accounting today. You have a tax adviser or an accountant. You have software. And now you have AI as well.

So let them deal with it.

Absolutely.

Whether you advise customers, cut hair, sell goods, serve guests or make things, you have a profession and a business. You do not have to spend your evenings enthusiastically practising journal entries.

But if it is your business, there is one thing nobody can do for you:

You have to understand how your business is doing.

You can have someone do the bookkeeping. You have to do the understanding yourself.

Your accountant can tell you that you made a profit. Your software can produce a balance sheet. AI can explain what a receivable is. But none of them decides for you whether to invest, hire an employee or take on a particular job.

You do not need to know how to make the accounting entries yourself. But you do need to understand **what your numbers mean.**

Numbers do not get jobs done

Accounting does not cut hair, sell goods or finish a job. But it can show you why a lot of work sometimes brings in surprisingly little.

Perhaps you have money tied up in stock you hardly need. Perhaps a service regularly takes longer than planned. Or your revenue is growing and you wonder why there is no more left over at the end.

That is when numbers suddenly become quite productive. Because you can only change what you can see.

This book is not trying to turn you into an accountant. It wants to show you what is happening in your business. Once that is clear, we give it its technical name.

First you understand what happens. Then I tell you what accountants call it.

Perhaps you do not have a balance sheet at all

Not every business calculates its profit using a balance sheet and a profit and loss statement. Perhaps your tax adviser prepares an Einnahmenüberschussrechnung, or **EÜR**, for you. This is a German form of cash-based tax profit calculation. Broadly speaking, business receipts are set against business payments. Greater weight is placed on when money actually comes in and goes out.

Greater weight does not mean that cash timing is the only factor. There are tax rules and exceptions. A major purchase, for example, may also be taken into account through depreciation under an EÜR. So an EÜR is not simply a copy of your bank statement.

Receivables, inventories, provisions and other balance sheet items do not appear in an EÜR in the same way. When we say that a receivable appears on the balance sheet or that a provision reduces profit, we are

explaining **accrual accounting**. This does not automatically mean the same tax treatment applies under an EÜR. The balance sheet and P&L structure in this book follows German commercial law, principally the Handelsgesetzbuch (HGB). Tax profit calculations may differ. This English edition explains that German framework; it is not a guide to UK or US accounting rules, or to IFRS.

The underlying business story still concerns you. A customer may owe you money. Goods may sit unsold. And a loan instalment may cost you cash without reducing your profit by the full amount. Even without a balance sheet, you should understand where your money is tied up, what obligations you have and what your services really cost.

Before we start calculating

The examples are deliberately simplified. Unless expressly stated otherwise, we leave value added tax (VAT) out of the business calculations and use amounts excluding VAT. The actual amounts outstanding on receivables and payables may therefore be higher. We take a brief look at the distinction in Chapter 9.

Part I explains the transactions. Part II brings them together in a balance sheet and P&L. Part III shows how this understanding helps you ask better questions about your jobs and your business.

Part I – Understand what is happening in your business

1. Money spent. But is it an expense yet?

You buy a machine for your business for €60,000 excluding VAT. It could also be a vehicle or a major piece of technical equipment. For this example, we will stick with the machine. The invoice arrives, you pay it, and your bank account is then very clearly €60,000 lighter.

So that means €60,000 of expense this year.

Logical.

Unfortunately, the accountant says: **no.**

And for once, there is even a good reason.

The machine is still there

Your €60,000 has not simply vanished. You have received a machine in return. And hopefully it will last longer than next Tuesday.

For our example, let us assume you will use it for ten years. Those ten years are not a universal rule. A laptop, a vehicle and a machine can have very different useful lives. But we will stick with ten years here.

It would be rather odd to pretend in the first year that your business had used up the entire €60,000. After all, you will work with the machine again next year. And the year after that.

So accounting spreads the cost over the years in which you expect to be able to use the machine. In our example, we spread it evenly. With €60,000 over ten years, that comes to a very simplified €6,000 for each full year of use.

And now you understand depreciation.

Now we can introduce the technical terms. The machine is a **fixed asset**. The €60,000 is its **acquisition cost**. The ten years are its assumed **useful life** in our example. We call the €6,000 per year **depreciation**.

But my money is still gone!

Yes. And here is one of the most important rules for understanding accounting:

Spending money and incurring an expense are not the same thing.

Your bank account really is €60,000 lighter. But your business now owns a machine. Put simply, you have initially exchanged one form of asset for another:

€60,000 less cash, in return for a machine costing €60,000.

As you use the machine, its cost is gradually recognised as an expense. In our example, that is €6,000 each year. This €6,000 reduces profit.

The machine's cost therefore appears in the years in which it also helps your business earn money, rather than creating €60,000 of expense in the first year and apparently working for free for the next nine.

The balance sheet and P&L continue the story together

After the purchase, you have €60,000 less in the bank, but your business has a machine with an acquisition cost of €60,000.

After the first full year of use, its carrying amount in our simplified example is €54,000. The €6,000 of depreciation appears as an expense in the profit and loss statement and reduces profit.

For now, remember it this way:

Balance sheet: how much of the machine's value remains in the accounts?

P&L: what part of its cost has become an expense this year?

And after ten years?

In our example, the machine is then fully depreciated. That does not mean it falls apart the following morning. It may keep working for years.

It simply means that its original acquisition cost has been fully recognised as an expense in the accounts.

And when the machine leaves the business?

As long as it belongs to the business, it remains in the accounts at its remaining carrying amount. If you sell it, it leaves fixed assets. Its remaining carrying amount disappears from the balance sheet. At the same time, the sale proceeds are recognised.

Whether this produces a gain or a loss depends on the proceeds compared with the carrying amount. We will see this with a car in Chapter 9. If the machine is scrapped without any proceeds, a remaining carrying amount generally has to be recognised as an expense. If it is already fully depreciated, there is none of the original acquisition cost left to write off.

The story therefore runs from purchase through use to disposal. Depreciation describes the consumption of value in between.

What you need to remember

Paid for does not automatically mean used up.

If you buy something that serves your business for several years, the purchase price often does not become an expense in full straight away.

And if your accountant tells you at your next major purchase that the whole invoice cannot simply be treated as an expense, at least you know:

They are not trying to annoy you. The machine is simply still there.

Continue reading

This reading sample contains the introduction and Chapter 1 of *Accounting for People Who Have Other Things to Do: Understanding Your Business Numbers in Germany*. The complete book has 20 chapters in three parts, plus a conclusion.

About this book

An English-language guide to **German accounting** basics, written for international freelancers, self-employed people and founders who run a business in Germany. The explanations are based on business accounting in Germany, with the relevant German terms explained in plain English.

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