IBAS Client Information
French Accounting Obligations for Subsidiaries of Foreign Companies
French accounting requirements must be met by subsidiaries of foreign companies

Subsidiaries belonging to an international group have the obligation to keep their accounts in accordance with French accounting regulations in addition to the established requirements of their foreign parent company.

Each accounting entry must be supported by a relevant document. The probative value of an accounting entry may be questioned by the French authorities should a foreign company fail to provide a supporting document.

A company has the obligation to keep supporting documents for entries and to establish a reliable audit trail. The company's managers, together with any controllers and auditors (notably the statutory auditor and the French tax authorities) must be able to:

- assess the validity and accuracy of a simple accounting entry by comparing it with the supporting document;
- cross check both the validity of accounting entries using the summary document(s) and the validity of the basic supporting documents used in establishing the summary document;
- ensure that the accounting operations entered in the journals and the accounts are consistent (reconciliation of movements recorded in the journals with those of the general ledger).

A company’s accounts must be kept in French and in accordance with both French accounting standards and the PCG (French General Chart of Accounts)...

And this to the exclusion of any other accounting framework. In practice this requires that:

- specific entries which have been recorded to meet foreign requirements (e.g. deferred taxes) be cancelled (and the corresponding accounts balanced);
- that French accounting (in relation to foreign accounting) be recorded (e.g. entries relating to conversion differences, tax provisions, etc.).

All operations must be recorded in a ledger on a daily and operation by operation basis:

- in French and in euros,
- in conformity with the French chart of accounts and French accounting rules,
- evidenced by a supporting document,
- be referenced by a sequential and chronological entry number.

However, if the company uses subledgers, the compact journal can be limited to a monthly summary (in addition to the account opening entries) of the debit and credit movements of each subledger.

All accounting entries must clearly mention the origin, content and allocation of each item and must be recorded in euros and in the French language. The general ledger, subledgers and documents all of which complete the understanding of a company’s accounts must also be established in French in order to provide clear and full information on individual accounting entries.

Each accounting entry of a company must provide a French account number. Operations allocated to a French account number can, however, be broken down into several accounting items corresponding to several foreign account numbers if the postings can be obviously identified as belonging to the same transaction. Individual accounts can in fact have subdivisions to enable international companies to record transactions specific to their business activity and parent company requirements.
From an operational point of view, and to be legally binding in the case of a tax control, foreign companies have the obligation to produce a FEC. This accounting tool should be configurable and configured:

- with a dual chart of accounts, where each account in the foreign accounting framework corresponds to a French account number (and vice versa);
- and where a foreign company has specific journals with local adjustments, these must relate both to operations in the current year and any retained / carried forward entries.

It is crucial that in the case of a control, a company’s processing system can be clearly understood and that it is compliant with the retention period of documents. Recourse to a “bridging approach” at the end of the fiscal year or manual changes to the French accounts at year-end are not acceptable in any way whatsoever.

The company risks the following in a case of non-compliance of the accounts with the French rules in force:

- a simple rejection of its accounting by the Administration for lack of accounting documents;
- a rejection of the deductibility of its expenses if insufficient supporting documents are provided;
- a minimum fine of €5,000 for failure to submit the accounting in electronic format or for the submission of non-compliant files. In the event of rectification and higher fines being incurred, an additional penalty of 10% of the taxes payable by the taxpayer will be applied;
- being unable to use its accounts in court and in any legal proceedings;
- being declared bankrupt for the keeping of incomplete or irregular accounts.

**Points to note from a Tax Perspective**

Taxpayers are required to provide the French tax authorities with all their accounting and non-accounting documents in order to demonstrate the accuracy of the financial results declared in their tax return. This not only concerns the actual accounting but also all related documents evidencing revenues and expenses.

In the case of a tax audit, foreign companies must be able to provide the Administration with:

- a certified translation by an official translator;
- their accounting records (FEC). Any accounting postings in a foreign language are not accepted;
- details of any adjustment entries that resulted in a transition from the foreign accounting version to the French accounting version;
- a permanent accounting and audit trail between the supporting documents and the accounting entries, with a detailed line-by-line entry of each accounting operation recorded in the various journals.

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