Università
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Principles of accounting

04 – Regulatory framework of accounting

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Context of the Lesson

Chapter 4
Accounting standards and principles (implementation, presentation, evaluation)

Chapter 1

Business transactions → **Accounting system** identify classify summarize

Chapter 2

Financial statements → **Recipients** (decisions)

Chapter 3

Double-entry method
Chart of accounts → 4 classes (assets, liabilities, costs, revenues)
Giornale e Mastro → Dare e Avere

Objectives of this chapter

Understand the main principles and accounting standards according to the Swiss Code of Obligations

- **General provisions** and duty to keep accounts and file financial reports
- **Accounting** principles
- **Reporting** principles
- **Valuation** principles

Accounting norms (CO 957-963)

*The **Swiss Code of Obligations** (CO) outlines minimum principles and standards for accounting and presentation of accounts. It is divided into the following sections:*

1. ***General provisions** (duty to keep accounts, accounting principles, organization, publication and retention of records)*
2. ***Annual accounts** (aim, structure of balance sheet, income statement, notes, presentation and valuation principles)*
3. ***Financial Report for Larger Undertakings** (additional requirements for annual report, notes, cash flow statement)*
4. *Financial Statements in accordance with **Recognised Financial Reporting Standards***
5. ***Consolidated Accounts***

Comments:

Accounting and its financial statements are key for **informing and protecting the interests of the various stakeholders** related to the company: for managers it is vital for managing and controlling the firm; owners and investors need it to evaluae if the invested capital is safe and creates profit; for the state it is needed for tax imposition and social contributions, etc.

To achieve this, accounting **must provide reliable information** on the company's economic, asset and financial situation. A minimum **set of rules** is thus necessary to ensure proper accounting and presenta-tion of information of sufficient quality.

Duty to keep accounts and file financial reports (CO 957)

*1 The **duty to keep accounts and file financial reports** in accordance with the following provisions applies to:*

1. ***sole proprietorships** and **partnerships** that achieved sales **revenue of at least 500,000 francs** in the last financial year;*
2. ***legal entities**.*

*2 The following need **only keep accounts on income and expenditure** and on their **asset position**:*

1. *sole proprietorships and partnerships with less than 500,000 francs sales revenue in the last financial year;*
2. *associations and foundations which are not required to be entered in the commercial Register;*
3. *foundations that are exempt from the requirement to appoint an external auditor under Article 83b paragraph 2 Civil Code.*

*3 For undertakings in accordance with paragraph 2, **recogni-sed accounting principles apply** mutatis mutandis.*

Comments:

The duty to keep accounts applies to all firms **regardless of the legal form**: sole proprietorships & partnerships (general or limited by shares) with 500’000+ revenue, and all legal entities (companies limited by shares, limited liability companies, cooperatives, associations, foundations).

Small firms (sole proprietorships and part-nerships with less than revenue 500’000, associations and foundations exempt from commercial register and audit) have lower requirements: no notes to the account and, if revenue < 100’000, they may account on a cash basis rather than an accrual basis. They must still apply accounting principles.

Duty to keep accounts and file financial reports (examples)

Which of the following companies must keep accounts according to the Swiss Code of Obligations (CO)?

Migros Ticino
Legal form: Cooperative society
Share capital: 980,000
Turnover: 466 million

Alimentari da Scüter
Legal form: Sole proprietorship
Basic capital: 100,000
Turnover: < 500,000 (estimate)

Conprobio, Cooperative of Organic Producers and Consumers
Legal form: Cooperative society
Share capital: 84,000
Turnover: 3 million

Alimentari Bondì Sagl
Legal form: Limited liability company (Sagl)
Share capital: 20,000
Turnover: < 500,000 (estimate)

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Financial reporting (CO 958)

1 Financial reporting is intended to present the economic position of the undertaking in such a manner that ***third parties can make a reliable assessment*** *of the same.*

2 The accounts are filed in the ***annual report****. This contains the annual accounts (the financial statements of the individual entity), comprising the* ***balance sheet****,* ***the profit and loss account*** *and the* ***notes to the accounts****. The regulations for* ***larger undertakings*** *and corporate groups are reserved.*

3 The annual report must be prepared within six months of the end of the financial year and submitted to the responsible management body or the responsible persons for ***approval****. It must be* ***signed*** *by the chairperson of the supreme management or administrative body and the person responsible for financial reporting within the undertaking.*

Comments:

Being a key means for many stakeholders' decisions, accounting information must be reliable: valuations must follow established **economic criteria** and non be arbitrary.

The law defines **minimum requirements** for all companies (balance sheet, income statement, notes) and **additional requirements for large enterprises** that require an ordinary audit (cash flow statement, management report, additional notes).

Listed companies & **groups** have even more stringent requirement like following standards such as Swiss GAAP FER or IFRS and create consolidated statements.

A synthesis of accounting requirements by type & size

	Sole proprietorships, partnerships and legal entities ("undertakings")				
Size thresholds	Sole proprietorships and partnerships with sales revenue below CHF 500,000 Associations and foundations not entered in commercial register (small undertakings)	Sole proprietorships and partnerships	Legal entities **Required to have ordinary audit?** 2 out of 3 criteria in 2 successive years:[3] Balance sheet total: CHF 20 m; Sales revenue: CHF 40 m; Headcount: 250 full-time positions on annual average		Listed companies, cooperatives with 2,000 members or more, large foundations
			Not met	**Exceeded**	
Audit	No	No[1]	No audit or limited audit (Art. 729 CO)	Ordinary audit (Art. 727 CO)	Ordinary audit (Art. 727 CO)
Financial statements in accordance with CO	Simplified accounts of income, expenditure and asset position	Annual accounts • Balance sheet • P&L account • Notes[1, 2]	Annual accounts • Balance sheet • P&L account • Notes[2]	Annual accounts • Balance sheet • P&L account • Notes + additional information[4] – further details in notes – cash flow statement – annual report	

Source: Price Waterhouse Coopers, (2015) The new Swiss financial reporting law

Accounting (CO 957a)

1 Accounting forms the basis for financial reporting. It records the transactions and circumstances that are required to present the asset, financing and earnings position of the undertaking (the economic position).

2 It follows the ***recognised accounting principles****. Particular note must be taken of the following:*

1. *the* ***complete, truthful and systematic recording*** *of transactions and circumstances;*
2. ***documentary proof*** *for individual accounting procedures;*
3. ***clarity****;*
4. ***fitness*** *for purpose given the form and size of the undertaking;*
5. ***verifiability****.*

Comments:

Complete, truthful and systematic imply recording transactions without omissions or falsifications and methodically (double-entry, structured chart of accounts).

Proof and verifiability imply that each entry is supported by a document and can be traced back to the original transactions (allows audits and tax verifications).

Clarity implies that accounting is easy to understand by a specialist (using sensible account names and orderly registrations).

Fitness implies that the chart of accounts and accounting systems are suitable for the sector and size of the company.

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Accounting (CO 957a)

*3 An **accounting voucher** is any written record on paper or in electronic or comparable form that is required to be able to verify the business transaction or the circumstances behind an accounting entry.*

*4 Accounting is carried out in the national **currency** or in the currency required for business operations.*

*5 It is carried out in one of the official Swiss **languages** or in English. It may be carried out in writing, electronically or in a comparable manner.*

Comments:

Accounting vouchers are documents that provide evidence of a financial transaction. They are key for **documentary proof and verifiability**. They include invoices, notes, receipts, inventories, bank statements etc. They must be kept for 10 years in written or electronic form (must keep connection with transaction and be readable anytime).

To facilitate companies operating abroad, accounting can be kept in national or English languages, francs or foreign currency (in this case the presentation of accounts must indicate the corresponding values in Swiss Francs as for CO 958d).

Going concern principle (CO 958a)

1 *Financial reporting is based on the* ***assumption that the undertaking will remain a going concern*** *for the foreseeable future.*

2 *If it is intended or probably inevitable that all or some activities* ***will cease*** *in the next twelve months from the balance sheet date, then the financial reports for the relevant parts of undertaking must be based on* ***realisable values****. Provisions must be made for expenditures associated with ceasing activities.*

3 ***Derogations*** *from the going-concern assumption must be specified in the notes to the accounts; their influence on the economic position must be explained.*

Comments:

The going concern assumption means that **we expect that a business will continue to operate** and not go bankrupt or be liquidated in the foreseeable future. **Assets** are valued based on their intrinsic worth and not liquidation value. In accounting we use their **acquisition cost** (minus depreciations) or market value (see valuation).

In case **cessation** of activity is intended or unavoidable, valuation must be based on **realizable value**, which is the amount that can be reasonably obtained from the short term sale of assets. This information must also be given in the notes to the accounts.

Chronological and material distinction (CO 958b)

*1 Expenditure and income must be entered separately **depending on the date and nature** of the transaction.*

*2 Provided the **net proceeds** from the sale of goods or services or financial income does **not exceed 100,000 francs**, accruals based on time may be dispensed with and instead **based on expenditure and income**.*

3 If the financial reporting is not carried out in francs, the annual average exchange rate shall be applied to ascertain the value in accordance with paragraph 2.

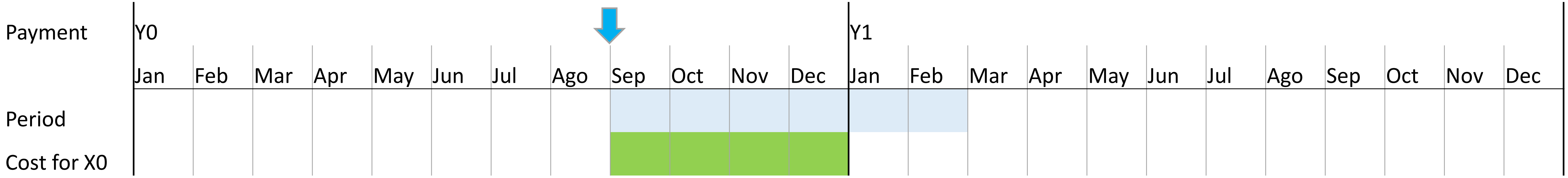
Comments:

Temporal distinction implies that **accruals based on time** are used: costs & revenues are allocated to the periods where the effects of transactions occur, not when payment is made or received. If attributable to multiple periods, they are delimited via accruals and deferrals. Under 100’000 CHF, firms can account **based on cash** (costs & revenue are recorded when paid/collected)

Material Correlation implies that all **costs** incurred to achieve revenues are included in the income statement to the extent that the revenues are recognized. **Revenues** are recognized at the time of delivery of a good or the provision of a service.

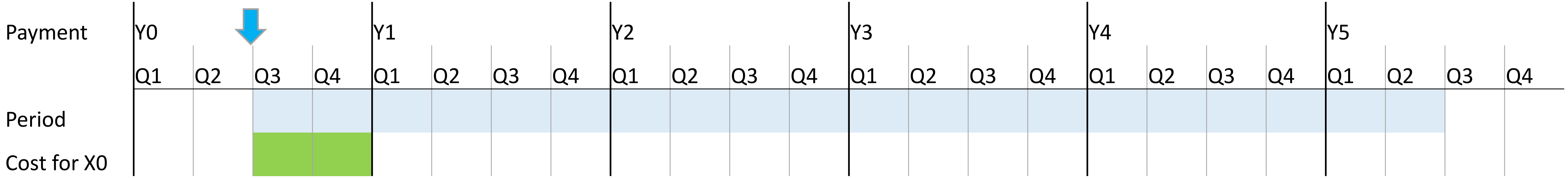
Chronological distinction (CO 958b)

Payment of a rent, CHF 6’000, for the September Y0 to February Y1 period



6’000*4/6 = 4’000

Payment of a vehicle, CHF 20’000, on 01.07.X1, expected lifetime 5 years



20’000 / 5 * ½ = 2’000

Material distinction (CO 958b) → Matching principle

Year 1
Beginning inventory: 0 pieces
Purchases: **1000** pieces at 10 CHF each
Sales: **600** pieces at 25 CHF each
Administrative costs: 5'000 CHF

Income statement

Revenues	15'000	(**600** * 25)
Cost of goods sold	6'000	(**600** * 10)
Administrative costs	5'000	
Net income	4'000	

Balance sheet

Inventories	4'000	(0+**1000**-**600** = **400** * 10)

Year 2
Beginning inventory: **400** pieces at 10 CHF each
Purchases: **1000** pieces at 10 CHF each
Sales: **1200** pieces at 25 CHF each
Administrative costs: 5'000 CHF

Income statement

Revenues	30'000	(**1200** * 25)
Cost of goods sold	12'000	(**1200** * 10)
Administrative costs	5'000	
Utile	13'000	

Balance sheet

Inventories	2'000	(**400**+**1000**-**1200**=**200** * 10)

Recognised financial reporting principles (CO 958c)

1 The following principles in particular apply to financial reports:

1. *they must be **clear and understandable**;*
2. *they must be **complete**;*
3. *they must be **reliable**;*
4. *they must include the **essential** information;*
5. *they must be **prudent**;*
6. *the **same rules** must be applied in presentation and valuation;*
7. *assets and liabilities and income and expenditure **may not be offset** against each other.*

*2 The sum entered for the individual items on the balance sheet and in the notes to the account **must be proven** by an inventory or by some other method.*

*3 Financial reports must be **adapted** to the special features of the undertaking and the sector while retaining the minimum content.*

Comments:

Clarity: accounts are well organized, with appropriate structure and account names.

Completeness: all relevant information (with no omissions) is given to assess the firm's situation (all debts, assets, costs, etc.).

Reliability: values are accurate, truthful, and not arbitrary, without errors or distortions.

Essentiality: unnecessary details not affecting the evaluation of the situation are avoided.

Prudence: see CO 960 (don't overestimate assets, don't underestimate liabilities,…)

Consistency: statements from different years use the same rules and are comparable.

No Offsetting: to show the real company asset, financial and economic position

Clarity principle (Example)

Bilancio	2017	
	Attivi	Passivi
CCP	7147.50	
Conto Corrente Raiffeisen	4589.85	
Conto Raiffeisen Lortobio	3564.85	
Consumatori fatture scoperte (- riserva 13000.00)	418309.20	
Inventario merce	51500.00	
Attivi transitori	422.45	
Istallazioni diverse	6760.40	
Automezzi	19000.00	
Produttori fatture scoperte		303164.54
Oneri assicurativi		9898.20
IVA		7556.25
Imposte		600.00
Passivi transitori		85203.80
Sottoscrizione furgone		3600.00
Capitale sociale		78160.00
Utile riportato		21350.20
	511294.25	509532.99
Utile 2017		**1761.26**
	511294.25	511294.25

Conto economico	2017	
	Ricavi	Costi
ricavi vendite (IVA + riserve dedotte)	3'031'896.89	
tasse sociali	67'210.00	
ricavi da capitale	0.00	
ricavi manifestazioni	23'991.30	
Altri ricavi	305.77	
acquisto merce		2'258'423.68
lavori eseguiti da terzi		51'051.80
costi personale		506'642.12
costi amministrativi		97'477.05
materiale ufficio / telefono		16'708.80
affitti		78'425.60
automezzi		28'504.85
ammortamenti/leasing		30'413.56
inserzioni, pubblicità, Bio in casa, sito		11'910.25
costi manifestazioni		22'120.10
capigruppo		3'031.80
comitato		702.50
altri costi		16'230.59
	3'123'403.96	*3'121'642.70*
utile 2017 (perdita 2016)		**1'761.26**
	3'123'403.96	3'123'403.96

Completeness principle (example)

Bilancio

	Attivi	Passivi
Liquidità	31'252'408	
Crediti	7'046'274	
Transitori attivi	17'136'860	
Sostanza fissa	23'034'333	
Debiti		8'718'659
Transitori passivi		31'131'034
Capitale da terzi a lungo termine		29'766'917
Capitale proprio		8'853'264
Totale	**78'469'873**	**78'469'873**

Conto economico

	Costi	Ricavi
dalla Confederazione		21'659'711
dal Cantone Ticino		54'436'108
da terzi		40'926'586
Personale	84'002'106	
Beni e prestazioni	13'016'791	
Costi diversi d'esercizio	7'225'521	
Ammortamenti	1'120'562	
Infrastruttura	9'530'335	
Risultato d'esercizio	2'127'090	
Totale	**117'022'404**	**117'022'404**

Essentiality principle (example)

	TOTALE ALTRI CREDITI	**18'031.05**	
	INVENTARI		
107000	SCORTE ALIMENTARI	8'750.77	
107050	SCORTE BIBITE	4'398.44	
107051	SCORTE TABACCHI/CARTOLINE		
107100	SCORTE MEDICAMENTI	27'644.73	
107105	SCORTE ARTICOLI TOILETTE	7'899.27	
107200	SCORTE MATERIALE SANITARIO	8'505.61	
107250	SCORTE PANNOLINI		
107300	SCORTE OLIO DI RISCALDAMENTO	9'836.10	
107400	SCORTE MATERIALE PULIZIA	12'053.57	
107500	SCORTE OPUSCOLI		
107600	SCORTE CASALINGHI	1'489.08	
	TOTALE INVENTARI	**80'577.57**	
	CONTI TRANSITORI		
109000	TRANSITORI ATTIVI	252'898.05	
109050	INDENNITÀ HELSANA DA INCASSARE		
109060	INDENNITÀ INFORTUNI DA INCASSARE		249.00
109070	INDENNITÀ IPG DA INCASSARE		2'326.75
109100	ANTICIPI PER OSPITI	58.90	
109110	ANTICIPI COIFFEUSE	1'230.00	
109120	ANTICIPI PODOLOGA	335.00	
109130	ANTICIPI BIBITE BAR	253.40	
109140	ANTICIPI CONTO DOTTORE		

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Prudence principle (examples)

Lower value principle: an asset must be valued at the lower value between its purchase / production cost and the potential selling price ()

- Example: purchase cost of inventories : 100 units at CHF 100 each = 10’000
  → If the expected selling price is CHF 120 → no adjustment required
  → If the expected selling price is CHF 60 → Cost of goods to Inventories 4’000

Imparity principle: revenues are recorded only when realized (good delivery or service fulfillment), but costs are recognized when probable even if they are not yet realized

Example: if a lawsuit may result in …
→ a potential compensation for the company → no registration (until certain: judgment)
→ a potential liability (the company might pay): Legal costs to Provisions

No offsetting principle (example)

Costi del personale		**-110'798'423**	**-112'849'126**	**-109'053'087**
Costi di locazione		-9'240'284	-9'145'587	-9'194'267
Manutenzione, riparazioni, sostituzioni, automezzi		-1'398'876	-1'443'114	-1'521'804
Assicurazioni cose/responsabilità del titolare		-407'360	-607'927	-629'099
Costi amministrativi	6	-6'642'057	-6'136'380	-7'320'808
Costi informatici		-13'413'463	-13'693'170	-12'162'474
Costi per il reclutamento		-3'830'504	-3'833'500	-3'125'736
Ulteriori costi d'esercizio		-566'027	-481'450	-548'472
Ammortamenti		-2'721'836	-2'381'743	-2'104'486
Altri costi d'esercizio		**-38'220'406**	**-37'722'871**	**-36'607'145**
Misure			2'120'000	
Risultato d'esercizio		**-19'794'866**	**-24'166'868**	**-20'212'458**
Costi e ricavi immobiliari	7	15'442'318	17'083'962	16'003'884
Interessi ipotecari		-2'143'405	-2'200'000	-2'057'413
Costi e ricavi finanziari	8	9'413'147	3'251'518	-789'392
Proventi e oneri straordinari	9	3'252'790	0	700'036
Risultato esercizio non operativo		**25'964'850**	**18'135'480**	**13'857'114**
Imposte dirette		-1'540'000	-1'847'000	-1'569'106
Risultato d'esercizio al lordo delle variazioni di fondi e riserve		**4'629'985**	**-7'878'388**	**-7'924'450**

Presentation, currency and language (CO 958d)

*1 The balance sheet and the profit and loss account may be presented **in account or in report form**. Items that have no or a **negligible value need not be shown separately**.*

*2 In the annual accounts, the **corresponding values of the previous year** must be shown alongside the figures for the relevant financial year.*

*3 Financial reports are presented in the **national currency or in the currency required for business operations**. If the national currency is not used, the values must also be shown in the national currency. The exchange rates applied must be published in the notes to the accounts and if applicable explained.*

*4 Financial reports are presented in one of the **official Swiss languages or in English**.*

Comments:

Account form is a T-shaped form (assets left vs liabilities & equity right, costs left vs revenues right); **report** has one column (first assets then liabilities & equity, first revenues then costs and partial results)

For **essentiality**, it is possible to omit null accounts and group insignificant ones into others of similar nature/function.

For **consistency**, the corresponding values of the previous year are also shown to help assessing the situation.

To help multinationals, accounting can be held in a **foreign currency** (the exchange rates must be indicated) and **english**.

Publication and inspection (CO 958e)

*1 Following their approval by the competent management body, the annual accounts and consolidated accounts together with the audit reports must either be **published** in the Swiss Official Gazette of Commerce **or sent as an official copy** to any person who requests the same within one year of their approval at his or her expense where the undertaking:*

*1. has **outstanding debentures**; or*

*2. has **equity securities listed** on a stock market.*

*2 **Other undertakings must allow creditors who prove a legitimate interest to inspect** the annual report and the audit reports. In the event of a dispute, the court decides.*

3 […]

Comments

The **obligation to publish** financial statements applies only to firms operating in the **stock exchange** market (listed on the stock exchange or issuing bonds).

For other firms, there is no requirement to publish financial statements. They must allow **creditors with a legitimate interest** to inspect the accounts. Jurisprudence is cautious in recognizing legitimate interest, not admitting it for the mere collection of generic information but only when the **recoverability of the credit** is likely at risk and the **credit is significant** in relation to the creditor's financial situation.

Keeping and retaining accounting records (CO 958f)

*1 The **accounting records** and the accounting **vouchers** together with the annual report and the audit report must be **retained for ten years**. The retention period begins on expiry of the financial year.*

*2 The **annual report** and the **audit report must be retained** in a written form and signed.*

*3 The accounting records and the accounting vouchers may be **retained on paper, electronically or in a comparable manner**, provided that correspondence with the underlying business transactions and circumstances is guaranteed thereby and provided they can be made readable again at any time.*

4 The Federal Council shall issue regulations on the accounting records that must be kept, the principles for keeping and retaining them and on the information carriers that may be used.

Comments:

To support the **verifiability & proof** principles, essential for **fiscal, civil and penal matters**, accounting records and annual financial statements must be retained for ten years (**prescription** period).

Annual and **audit reports** must be preserved in their original written and signed form (for **responsibility** matters).

Accounting records & documents (journal, ledger, auxiliary accounts and inventories) can be stored **electronically**, provided that **security** (integrity, non-modifiability, record date proof, readability) is ensured through appropriate technical measures.

Notes to the accounts (CO 959c cpv 1)

*1 The notes to the annual accounts **supplement and explain the other parts of the annual accounts**. They contain:*

1. *details of the **principles applied** in the annual accounts where these are not specified by law;*
2. ***information, breakdowns and explanations** relating to items on the balance sheet and in the profit and loss account;*
3. *the total amount of replacement reserves used and the additional **hidden reserves**, if this exceeds the total amount of new reserves of the same type where the result achieved thereby is considerably more favourable;*
4. ***other information required by law**.*

Comments:

CO prescribes a **minimum structure** for balance sheet and income statement. The notes provide **additional information** for assessing the company's situation that is not visible from the other statements.

Principles must be mentioned **if there is a choice** (e.g. cost or market price), is an **exception** to standard principles (eg. Go-ing concern) or other standards are used.

The notes give detail on important accounts like receivables/payables to related parties, fixed assets, provisions, personnel costs and depreciation if not in the income statement…

These are **not treated** in this course.

See the **next slide**, but there are also other rules related to various types of companies.

Notes to the accounts (CO 959c cpv 2)

2 The notes to the accounts must also include the following information, unless it is already provided on the balance sheet or in the profit and loss account:

1. *the business **name** or name of the undertaking as well as its **legal form** and registered office;*
2. *a declaration as to whether the number of **full-time positions** on annual average is no more than 10, 50 or 250;*

Useful to **determine applicable standards** for large companies on the presentation of accounts (CO 961) and auditing (CO 727a).

3. *the business name, legal form and registered office of **undertakings in which direct or substantial indirect shareholdings are held**, stating the share of the capital and votes held;*

Useful for **assessing possible risks** related to the participations held by the company.

4. *the number of its **own shares** that the undertaking itself or the undertakings that it controls **hold** (Art. 963);*
5. ***acquisitions and sales of its own shares** and the terms on which they were acquired or sold;*

Useful for applying **shareholders rights**: eg. to assess the number of voting rights, equal treatment of shareholders, and transactions on own shares (not treated in this course).

6. *the **residual amount of the liabilities** from sale-like **leasing** transactions and other leasing obligations, unless these expire or may be terminated within twelve months of the balance sheet date expiry;*

Useful for providing more comprehensive **information on the resources** employed by the company and the related **commitments** not visible from the balance sheet.

Notes to the accounts (CO 959c cpv 2)

7. *liabilities vis-à-vis pension schemes*;
8. *the total amount of **collateral for third party liabilities**;*
9. *the total amount of assets used to secure own liabilities and **assets under reservation of ownership**;*
10. *legal or actual obligations for which a cash outflow either appears unlikely or is of an amount that cannot be reliably estimated (**contingent liabilities**);*
11. *the number and value of shares or options on **shares held by management** or administrative bodies and by employees;*
12. ***explanations of exceptional, non-recurring or prior-period items** in the profit and loss account;*
13. ***significant events occurring after the balance sheet date**;*
14. *in the event of the **external auditor's premature resignation or removal**: the reasons therefor;*
15. *all the **capital increases and capital reductions** that the board of directors has made within a capital band.*

Useful for assessing **creditor risks** (like understanding what assess assets they may not rely on to recover their credit in case of liquidation)

Useful for indicating **potential risks** that are not sufficiently probable or estimable to create a provision.

Useful for providing information to **better evaluate the company's situation** and future outlooks.

Notes to the accounts (CO 959c cpv 3, 4)

3 ***Sole proprietorships and partnerships may dispense with notes to the accounts*** *if they are not required to file financial reports under the regulations for* ***larger undertakings****. If additional information is required in the regulations on the minimum structure of the balance sheet and profit and loss account and the notes to the accounts are dispensed with, this information must be shown directly on the balance sheet or in the profit and loss account.*

4 ***Undertakings with outstanding debentures*** *must provide information on the amounts concerned, interest rates, maturity dates and other conditions*

Comments:

There are **lower requirements for small sole proprietorships and partnerships** (their owner have unlimited responsibility). They can dispense with notes must still give some information that would go in the notes directly in the other statements (eg. credits and debts vis-à-vis related parties).

The law also has **higher requirements for larger companies.** See also CO 961a: the notes must also contain long-term interest-bearing liabilities, arranged according to due date within one to five years or after five years and the fees paid to the external auditor, with separate items for audit services and other services.

Valuation principles (CO 960)

*1 Assets and liabilities are normally **valued individually**, provided they are significant and not normally consolidated as a group for valuation purposes due to their similarity.*

*2 Valuation must be carried out **prudently**, but this must not prevent the **reliable** assessment of the economic position of the undertaking.*

*3 If there are specific indications that **assets have been overvalued or that provisions are too low**, the values must be **reviewed and adjusted** if necessary.*

Comments

Individual evaluation of asset and liabilities is key for ensuring an **accurate** presentation of a firm's financial position. A group evaluation is allowed for assets that are by custom valued as a group or insignificant (eg. auxiliary materials, receivables).

When assessing assets and liabilities, we must balance **prudence** and **reliability** principle: this requires not evaluating the situation too optimistically, **avoiding over-valuation of assets and undervaluation of liabilities.** There is some leeway to do the opposite (but there are limitations on how much tax authorities will accept).

Valuation: assets in general (CO 960a)

*1 When **first recorded**, assets must be valued no higher than their **acquisition or manufacturing costs**.*

*2 In any **subsequent valuation**, assets **must not be valued higher** than their acquisition or manufacturing costs. Provisions on individual types of assets are reserved.*

*3 **Loss in value** due to usage or age must be taken into account through **depreciation**, while other losses in value must be taken into account through **valuation adjustments**. Depreciation and valuation adjustments must be applied in accordance with generally recognised commercial principles. They must be deducted directly or indirectly from the relevant assets and charged to the profit and loss account and may not be shown under liabilities.*

*4 For replacement purposes and to ensure the long-term prosperity of the undertaking, **additional depreciation and valuation adjustments** may be made. For the same purposes, the cancellation of depreciation and valuation adjustments that are no longer justified may be dispensed with.*

Comments

Assets are recorded at acquisition or production (historical cost). It includes purchase price plus auxiliary costs to get the asset minus price reductions.

In **subsequent valuations**, the asset is valued at the **lower between real and historical value**. Except assets with a market price, an increase over its historical cost cannot be recorded.

Every decrease must be recorded through depreciation (fixed assets) or value adjustments (eg. receivables, inventory). Tax authorities allow some reductions like bad credit allowances (5% CH, 10% foreign) undervaluation of 1/3 of inventory, and depreciation rates recognized by the tax authority.

Valuation: assets with observable market price (CO 960b)

[1] *In subsequent valuations, **assets with a stock exchange price or another observable market price** in an active market **may be valued at that price** as of the balance sheet date, even if this price exceeds the nominal value or the acquisition value. Any person who exercises this right must value all assets in corresponding positions on the balance sheet that have an observable market price at the market price as of the balance sheet date. In the **notes to the accounts, reference must be made to this valuation**. The total value of the corresponding assets must be disclosed separately for securities and other assets with observable market price.*

[2] *If assets are valued at the stock exchange price or at the market price as of the balance sheet date, a value adjustment to be charged to the profit and loss account may be made in order to take account of fluctuations in the price development. Such valuation adjustments are not permitted, however, if they would result in both the acquisition value and the lower market value being undercut. The total amount of fluctuation reserves must be shown separately on the balance sheet or in the notes to the accounts.*

Comments

For assets listed on a stock exchange or other active markets (**listed securities, precious metals, commo-dities** etc.), the CO allows the **choice between historical cost** (CO 960a, by default) **or market price** (CO 960b).

If the market price is chosen, the choice must be indicated in the **notes** (the section on **principles applied** in the annual accounts)

Valuation: inventories and non-invoiced services (CO 960c)

1 If the ***realisable value*** *in the subsequent valuation of inventories and non-invoiced services taking account of expected costs* ***is less than the acquisition or manufacturing costs*** *on balance sheet date,* ***this value must be entered****.*

2 Inventories comprise raw materials, work in progress, finished goods and resale merchandise.

Comments

Upon initial recognition, inventories are recorded at acquisition cost (the purchase price plus auxiliary costs like shipping and non-recoverable duties minus reductions like discounts and rebates) or production costs (costs of materials plus labor, and common production costs).

If the realisable value (sale price less usual revenue reductions, marketing and distribution costs) **is lower, the inventory value must be reduced** to it.

Tax authorities allow (prudently) a further reduction of up to 1/3 of the inventory value.

Valuation: capital assets (960d)

[1] ***Capital assets*** *are assets that are acquired with the intention of using or holding them for the long-term.*

[2] *Long-term means a period of* ***more than twelve months****.*

[3] ***Shareholdings*** *are shares in the capital of another undertaking that are held for the long-term and confer a significant influence. This is presumed if the shares confer at least 20 per cent of the right to vote.*

Comments

In distinguishing between capital/fixed and current assets, the key is the intention to hold or use the asset for more than 1 year.

Upon **initial recognition**, the asset is evaluated at **acquisition cost** (price + incidental costs - reductions) or production cost (materials, labor and common costs).

In **subsequent valuations**, the loss of value due to wear and tear or the passage of time must be regularly recorded through depreciation based on duration or usage. Usual depreciation methods are straight-line and declining balance. It is useful to indicate the method in the notes and to adhere to it for the consistency principle.

Valuation: liabilities (CO 960e)

*1 Liabilities must be entered at their **nominal value**.*

*2 If past events lead to the expectation of a cash outflow in future financial years, the **provisions probably required must be made** and charged to the profit and loss account.*

3 Provisions may also be made in particular for:

1. regularly incurred expenditures from guarantee commitments;

2. renovations to tangible fixed assets;

3. restructuring;

4. securing the long-term prosperity of the undertaking.

4 Provisions that are no longer required need not be cancelled.

Comments

Liabilities like debt and loans are valued at their **nominal value** (the agreed amount).

Based on the principles of **prudence** and **imparity**, the company must make the necessary provisions (future commitments accrued in the current period but uncertain in amount or occurrence) by recording the related costs in the current period.

The reasons are not exhaustive: the most common reasons are provisions for taxes, legal cases and guarantees commitments.

For prudence, provisions must be enough, and it is even allowed not to dissolve those that are no longer justified

Accounting norms

Swiss code of obligations

The Swiss Code of Obligations (CO) is the **minimum legal requirement** that must be respected by every company.

- It provides some leeway in valuation (**prudence**)
- Some additional requirements for large companies

SWISS GAAP FER

More restrictive standards on a **voluntary basis**, minimum standard for **publicly traded** companies in Switzerland

- **True & fair view**: reflects the actual business situation
- Clarifies some accounting principles

IFRS
IAS

US GAAP

Required for publicly traded companies in Switzerland (main market segment) applied for companies based in EU and USA

- True & fair view
- **More complex and restrictive standards**