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New Requirements for Accounting and Auditing

All changes to the Swiss Code of Obligations at a glance

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A PwC brochure addressed to persons responsible for accounting and audits

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Amendments to the Swiss Code of Obligations (CO)

Summary

In 2011, the Swiss Parliament decided on various amendments to the Code of Obligations. In the future, neither book-keeping nor accounting will depend on a company's legal form. For SMEs, this revision is a relief. The new requirements made of the accounting and the preparation of the consolidated financial statements are much more in alignment with the needs of smaller and medium-sized companies. Furthermore, higher thresholds have been defined for ordinary audits. However, larger companies will have to accommodate the more stringent requirements in the future. Among other things, they will be required to prepare a cash flow statement, a director's report and possibly, use generally accepted accounting principles.

Looking back

At the end of 2007, the Swiss Federal Council presented a green paper on the revision of the company and accounting law. It stated the following goals: improved corporate governance, more flexible capital structure, modernising the rules for the general meeting and revising the accounting rules.

Due to the "gegen die Abzockerei" ("against excessive pay") referendum launched by the Swiss people, the bill was split into three parts:

- Swiss CO (company law)
- Accounting Act
- Auditing Act

Eventually, the part relevant to the Swiss CO (company law) was suspended.

Accounting Act

The revision will bring about a shift in the importance of certain accounting aspects. A company's accounting will depend on its financial size and no longer on its legal form (also see p. 4–5). At the time this brochure went into print it was not yet clear when the revised Accounting Law will enter into force. As the regulations will take at least one year to be implemented, it is not to be expected that the revised bill will be in force before 2013.

One of the explicit goals of the revised bill are the disclosures for minority shareholders. After heated arguments in Parliament, the following criteria will now apply to define the term, "qualified minority":

- shareholders who represent at least 10% of the capital stock, for consolidated accounts 20%
- 10% of all members of a co-operative,
- 20% of all members of an association,
- shareholders or members of an association liable for the company or who may be obliged to make further capital contributions.

Auditing Act

Whether a company is to be audited or not will now depend on its size. Companies which exceed two of the three thresholds mentioned below in two consecutive financial years are subject to an ordinary audit. Increasing these thresholds means that more SMEs will now be able to benefit from a limited audit. These stipulations will become applicable as at 1 January 2012.

In order to determine which type of audit a company will have to undergo in 2012, it will have to examine certain numbers for the financial years 2011 and 2012. The 2012 values will most likely be estimates.

Thresholds	*up to now:*	*from 1 January 2012 forward*
Total assets	>CHF 10 million	>CHF 20 million
Sales revenues	>CHF 20 million	>CHF 40 million
FTEs (yearly average)	>50	>250

Summary: relaxation of requirements for SMEs but more stringent ones for larger companies

Type of accounting¬	*Annual financial statements*		*Consolidated financial statements*	
	CO	*Generally accepted accounting principles*	*CO*	*Generally accepted accounting principles*
Scope of application for the following types of companies	• Legal entities • Individual companies and companies in sole proprietorship with a sales revenue of less than CHF 500,000 (art. E957 seqq. CO)	• Public companies, provided the stock exchange regulations prescribe this • Co-operatives with at least 2,000 members • Foundations who are obliged by law to be subject to an ordinary audit • For all organisations: if a qualified minority requires this (art. E962a para. 3 and 4 CO)	• Legal entities required to keep accounting records and which control other legal entities required to keep accounting records • Foundations: if a qualified minority or the foundation board require this • If consolidated accounts are necessary to obtain a reliable picture of a company's financial situation (art. E963a para. 1 CO, art. E963a para. 2 CO)	• Public companies, provided the stock exchange regulations prescribe this • Co-operatives with at least 2,000 members • Foundations obliged by law to be subject to an ordinary audit • For all organisations: if a qualified minority or the foundation board require this (art. E963b para. 1 CO)
Exempting companies from having to close their accounts	Individual companies and companies in sole proprietorship with a sales revenue of less than CHF 500,000 and foundations exempted from having to appoint an external auditing firm just need to keep a simplified accounting (i.e. income and expenses and financial situation, known as "milk-book accounting" in Switzerland). (art. E957a para. 2 CO)	If consolidated accounts are prepared. (art. E962a para. 5 CO)	• The thresholds have not been exceeded. • A controlling company prepares consolidated accounts subject to an ordinary audit and publishes these as per law in its own financial statements. • Associations, foundations and cooperatives may transfer their duty to prepare consolidated financial statements to a regulated company. (art. E963a para. 1, 2 and 3 CO)	• The thresholds have not been exceeded. • A controlling company prepares consolidated accounts subject to an ordinary audit and publishes these as per law in its own financial statements. • Associations, foundations and cooperatives may transfer their duty to prepare consolidated financial statements to a regulated company. (art. E963a para. 1, 2 and 3 CO)
Companies subject to being audited	Depending on the company size, a company can either go for a limited or an ordinary audit, or it can opt out of an audit all together. (art. 727 CO, art. 727a CO)	Ordinary audit (art. E962a para. 3 CO)	Ordinary audit (art. 727 CO)	Ordinary audit (art. 727 CO)
Additional information	If thresholds are exceeded and to protect the rights of minorities (art. E961 CO)	–	–	–

Selected amendments to the accounting as per CO

	Bilanz	*Erfolgsrechnung*	*Geldflussrechnung*	*Anhang*
Presentation and valuation	• Assets are recorded if the company actually has these at its disposal and if their value can be estimated reliably. • Assets with a market rate or other observable market prices may be recorded at those prices, provided this is disclosed in the Notes. Fluctuation reserves are allowed, provided they are accounted for at lower of cost or net realisable values. • Expenses related to incorporations, capital increases or organisations must be recorded immediately and reflected in the income statement. • Liabilities are recorded if they were caused by past events, an outflow of funds is likely and their amount can be estimated reliably. • Liabilities must be valued at nominal value. • Own shares must be disclosed as a minus in shareholders' equity.	Expenses and income must be accrued according to item and period.	If a company exceeds the thresholds, it must prepare a cash flow statement. It is not necessary for the financial statements if the company prepares consolidated accounts.	• Accounting principles must be described in the Notes • Additional data for companies which have exceeded the thresholds (extended Notes): - terms of the interest-bearing commitments - auditor's fees for the year-end audit and other services • No extended Notes are necessary if the company prepares consolidated accounts.
Directors' report	• Companies which exceed the thresholds must prepare a directors' report. It is not necessary for the financial statements if the company's consolidated accounts already contains one. • The directors' report not only contains an outlook of the company's future course of business but also data on the performed risk assessment. Companies that do not exceed the thresholds are not obliged to prepare such a report.			

What companies should do

The consequences vary, depending on a company's legal form and size (also see table below).

- Exceeding the thresholds: cash flow statement, extended Notes, directors' report
- Foundations, co-operatives and associations: Notes to the financial statements, consolidated accounts, provided the company fulfils the relevant criteria
- Co-operatives with more than 2,000 members: stand-alone or consolidated financial statements using generally accepted accounting principles
- Foundations in need of an ordinary audit: stand-alone or consolidated financial statements using generally accepted accounting principles.
- On request by a qualified minority: cash flow statement, extended Notes and directors' report, stand-alone financial statements using generally accepted accounting principles, consolidated accounts according to CO or generally accepted accounting principles

*Possible impact on public companies, limited corporations, co-operatives, foundations (excluding employee benefit schemes) and associations**	
Below thresholds but with more than CHF 500,000; no exemption from being audited	***Thresholds exceeded (additional requirements)***
Formulate valuation principles and disclose these in the Notes to the financial statements Check whether all assets and liabilities (as defined by law) have been recorded (e.g. presentation of non-invoiced services as current assets).	Prepare; • a cash flow statement • a directors' report Determine; • terms of the interest-bearing commitments • auditor's fees if applicable, the choice of GAAP
Only for public companies disclose own shares as minus in shareholders' equity	–
Only for co-operatives Notes to the financial statements	–

*if required to register in the commercial register

Swiss GAAP FER as a generally accepted accounting principle

The Swiss Federal Council will most likely consider at least Swiss GAAP FER and the International Financial Reporting Standards (IFRS) to be generally accepted accounting principles.

Swiss GAAP FER principles are explicitly addressed at smaller and medium-sized corporate groups which are mostly active domestically. These rules are fairly simple. The financial statements give a true and fair view of net assets, financial situation and results of operations. Due to the size criteria defined in the framework, corporate groups subject to consolidation must adhere to the core FER principles as well as any other relevant Swiss GAAP FER. In order to apply core FER, two of the following three criteria cannot be exceeded for two consecutive years: total assets: CHF 10m, annual sales revenue: CHF 20m, an annual average of 50 FTE.

Swiss GAAP FER deviate from the significant aspects amended in the CO as follows:

Parts of the financial statements: The financial statements not only include the balance sheet, the income statement and the Notes but also a cash flow statement and a statement of shareholders' equity. The Notes contain more detailed information.

Hidden reserves: Hidden reserves (e.g. a third of the value of goods, higher than allowed depreciations, excessive provisions) are not permitted as the published information should reflect the true financial situation of the company.

Goodwill: Goodwill should be recorded as an intangible asset and be amortised accordingly. As an alternative, it could be netted with equity at the time of the purchase.

Commitments for pension funds: The true financial impact of pension funds on the employer are reflected according to Swiss GAAP FER 26, based on the annual financial statement of the employee benefit scheme.

Deferred taxes: Deferred income tax is to be considered for valuation differences resulting from the significant values which will be taxed and the carrying values according to Swiss GAAP FER.

Depending on the company, other valuation differences could become evident when valuing income-producing investments, intangible assets, financial instruments, leasing transactions and own shares.

Consolidated financial statements

Swiss GAAP FER addresses the consolidated financial statements in a specific standard. These describe the consolidated group, the consolidation process, goodwill, the treatment of foreign currencies, as well as the rules for disclosure. (The CO requires the rules for consolidation and valuation to be disclosed in the Notes.)

Disclosure

In comparison to the CO, Swiss GAAP FER requires more detailed indications on the following important items:

- Classification and valuation provisions
- Excessive coverage or funding gaps in employee benefit schemes
- A fixed assets movement schedule for tangible fixed assets and intangible assets.
- A movement schedule of provisions with categories and changes.
- Disclosures on transactions with affiliated companies and persons
- Financial instruments.
- In the consolidated accounts, a break-down of net proceeds according to business area and geographic market.

The impact of a first-time use of Swiss GAAP FER on annual and consolidated financial statements

If a company uses Swiss GAAP FER for the first time, it must also disclose its last year's balance sheet in this standard. Any differences must be recorded in retained earnings.

It is a good idea to analyse the impact of these new rules on your company's accounting and audit as early as possible. PwC will gladly help you. Our technical and subject matter experts can provide made-to-measure advice and professional analysis tools. And of course, we will tailor your audit to your particular needs. As auditor we can also help you switch your accounting from a currently used standard to a generally accepted one.

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