Consolidated financial statements

Revised: 2022
Effective date: 1 January 2024
(Earlier application is permitted.)

Introduction

Basically all requirements regarding the financial statements of individual entities also apply to the consolidated financial statements. The requirements contained in this Recommendation comprise additional specifications for the consolidated financial statements.

Recommendation

Scope of consolidation

1 Consolidated financial statements are the financial statements of a group of entities as described by the scope of consolidation. The consolidated financial statements comprise the financial statements of the parent entity and its subsidiaries, as well as joint ventures and associated entities.

2 Subsidiaries are fully consolidated.

3 Joint ventures are proportionally consolidated or recognised using the equity method.

4 Associated entities are recognised using the equity method.

5 Equity interests in entities with a proportion of voting rights of less than 20 percent do, in principle, not belong to the scope of consolidation. They are recognised at acquisition cost less any impairment or at their fair value.

Consolidation method

6 Financial statements included in the consolidation (parent entity, subsidiaries and joint ventures) have to comply with uniform group accounting directives that conform with Swiss GAAP FER.

7 Inter-company assets and liabilities in the individual financial statements, and expenses and income from inter-company transactions have to be eliminated.

8 Inter-company profits resulting from inter-company transactions have to be eliminated.

9 The share of equity of consolidated entities is recognised using the purchase method of consolidation (see paragraph 14).

10 The minority interest in equity is to be disclosed separately under equity.

11 In the income statement, the share of the minority interest-holders in profit/loss is to be disclosed separately ("of which attributable to minority shareholders").

12 Equity and net result are to be recognised proportionally when using the equity method. The result is to be disclosed separately in the income statement.

13 Accounting-policy choices in this Recommendation are to be applied consistently.

Goodwill

14 In the event of an acquisition, assets acquired and liabilities assumed are to be recognised as of the date when control is obtained and measured at their acquisition-date fair values. Intangible assets which have not been recognised previously by the acquiree and are relevant to the decision to obtain control are also to be identified and recognised.

15 Any positive difference between the acquisition cost and the revalued net assets acquired is to be designated as goodwill and recognised under intangible assets. If the acquisition cost is lower than the revalued net assets acquired, this will result in negative goodwill ("badwill"). Negative goodwill is to be recorded as a liability and disclosed separately either in the balance sheet or the notes.

16 Goodwill is to be amortised on a pro rata basis (normally linearly) over its useful life. The estimated useful life may not exceed 20 years. If the useful life cannot be determined, amortisation shall take place over 5 years.

17 If goodwill is accounted for as an intangible asset and amortised, negative goodwill is to be accounted for as a liability and recognised in profit or loss within a maximum of 5 years.

18 Entities that account for goodwill as an intangible asset and amortise it and, respectively, recognise negative goodwill as a liability and release it to profit or loss, may decide not to identify intangible assets that have not been recognised previously and are relevant to the decision to obtain control, as set out under paragraph 14.

19 If goodwill is offset against equity, negative goodwill must also be offset against equity.

20 An offset of goodwill/negative goodwill against equity is only allowed at the acquisition date. In case of disposal, goodwill/negative goodwill offset against equity at the acquisition date is to be considered at original acquisition cost when determining the profit or loss related to the disposal.

21 If equity interests are acquired in stages, the positive or negative goodwill is to be determined as the difference between the acquisition cost and the pro rata net assets separately for each acquisition step. The net assets acquired are to be measured at their fair value at the date when control is obtained. Any resulting valuation differences (difference between the fair values and carrying amounts) on previously held equity interests are recognised in equity. Assets acquired and liabilities assumed are therefore included in the consolidated financial statements at their full fair value at the date when control is obtained.

22 For each disposal of an equity interest, the profit/loss is calculated on the basis of the disposal and recognised in profit or loss. If the stepwise disposal of an equity interest results in an associated entity or a financial asset (loss of control or loss of significant influence), the remaining equity interest is measured on the basis of the pro rata net assets taking into account the pro rata goodwill or negative goodwill.

23 Purchase price components contingent on future events are part of the acquisition costs at the acquisition date provided that cash outflows are likely. Conditional purchase price components are subsequently measured at each balance sheet date, with changes resulting in the adjustment of goodwill/negative goodwill recognised as an intangible asset or offset against equity. Purchase price components – both those recognised in the balance sheet and those not recognised – are to be disclosed in the notes.

Foreign currencies

24 Financial statements in a foreign currency that are consolidated must be translated into the currency of the consolidated financial statements. This translation has to take place according to the current rate method.

25 The loss of control of a subsidiary or the loss of significant influence over an associated entity whose financial statements are in a foreign currency requires the reclassification to profit or

loss of the accumulated foreign currency differences recognised in equity. In case of a stepwise disposal of a subsidiary which does not result in a loss of control, the accumulated foreign currency differences are to be proportionally allocated to minority interests (with no effect on the income statement). In case of other stepwise disposals, accumulated foreign currency differences are to be taken into account in profit or loss on a pro rata basis.

26 Foreign currency effects on long-term intragroup loans with equity character are to be recognised in equity (with no effect on the income statement).

Valuation

27 The same financial statement positions in the individual financial statements of the entities included in the consolidation are normally measured according to the same principles.

28 If an impairment loss concerning a group of assets needs to be recognised, it is first charged to any related goodwill.

29 In case of a partial or full reversal of an impairment loss, the reversal is allocated to the concerned assets – with the exception of goodwill – in proportion to their respective carrying amounts. However, the increased carrying amount of an asset must not exceed the lower of the recoverable amount (if ascertainable) and the carrying amount after ordinary depreciation. Any remaining reversal balance is to be allocated to the other assets – with the exception of goodwill.

Income taxes

30 Deferred income taxes are to be considered in the consolidated financial statements if

- on the level of an individual entity, other fiscally relevant values are applied than in the consolidated financial statements
- in the event of acquisitions, during the purchase price allocation, assets and liabilities are recognised at fair values which differ from the fiscally relevant values
- consolidation measures with impact on profit or loss (e.g. elimination of inter-company profits) lead, in the individual entity's financial statements, to a different result than the fiscally relevant result
- as a result of the retention of profits in subsidiaries, joint ventures and associated entities valued using the equity method, the distribution of profits is postponed but planned in the foreseeable future.

31 In the case of an acquisition, net assets acquired are recognised at their acquisition-date fair values. This generally results in valuation differences if the fiscally relevant values of the assets acquired and liabilities assumed are not or are only partially adjusted. Deferred income tax assets, where the recognition criteria are met, or deferred income tax liabilities are to be recognised for such valuation differences. Deferred income tax liabilities are not taken into account when goodwill is recognised for the first time as part of an acquisition.

32 For not yet distributed profits in group or associated entities whose distribution is planned, non-recoverable withholding taxes and income taxes to be incurred by the parent entity are to be considered.

33 For the calculation of the deferred income taxes on the level of the consolidated balance sheet, the effectively expected tax rate per tax subject is to be applied in principle. The application of an adequate and consistently used group average or an average expected tax rate is allowed.

Cash flow statement

34 In the cash flow statement, the following additional positions are to be disclosed under investing activities:
- – outflows for the acquisition of consolidated entities (less cash taken over)
- + inflows from the disposal of consolidated entities (less cash given)
- +/– inflows from the sale/outflows for the acquisition of minority interests

35 In the cash flow statement, the following additional positions are to be disclosed under financing activities:
- – dividend payments to minority shareholders (of subsidiaries)
- +/– payment or repayment of capital from/to minority shareholders (of subsidiaries)

36 In the cash flow statement, the following additional positions are to be disclosed if the indirect method is being used:
- +/– share of loss (profits) from the application of the equity method.

Statement of changes in equity

37 The goodwill or negative goodwill items offset against equity and the accumulated foreign currency differences are to be shown as separate components (column) in the statement of changes in equity.

Disclosure

38 The information to be disclosed in the notes comprises:
- details of the scope of consolidation
- consolidation principles
- valuation bases and principles
- other circumstances relevant to understanding the consolidated financial statements

39 The details of the scope of consolidation contain:
- treatment of the entities in the consolidated financial statements (applied method)
- name and domicile of the included entities (subsidiaries, joint ventures and associated entities)
- share of capital of these entities; if the proportion of voting rights differs from the share of capital, the proportion of voting rights is also to be disclosed
- changes in the scope of consolidation compared with the previous year as well as the date from which these changes are considered
- deviations from the balance sheet date of the group.

40 The details of the consolidation principles contain:
- consolidation method, especially capital consolidation
- method used for the translation of foreign currencies as well as treatment of the foreign currency differences
- treatment of associated entities and joint ventures
- treatment of inter-company profits.

41 Changes owing to foreign currency differences or changes in the scope of consolidation are to be separately disclosed in the statements of changes (e.g. statements of changes in assets or provisions).

42 Goodwill is to be disclosed separately in the balance sheet or the notes.

43 If goodwill or negative goodwill is offset against equity, the impact on the balance sheet and income statement of a theoretical recognition of the goodwill as asset or liability, with scheduled amortisation or release over the expected useful life, are to be presented in the notes for the current and previous reporting periods (acquisition cost, accumulated amortisation, theoretical carrying amount, amortisation or release, impairment losses, additions, disposals, foreign currency differences).

44 The valuation method of interests in entities with a proportion of voting rights of less than 20 percent is to be disclosed in the notes.

45 The following is to be disclosed in the balance sheet or in the notes:

- receivables due from and liabilities due to associated entities
- concerning financial assets: non-consolidated investments in entities and receivables due from non-consolidated investments.

46 Where there is no segment reporting pursuant to Swiss GAAP 31 or Swiss GAAP FER 40, the details of the income statement in the notes contain a breakdown of the net sales from goods and services according to geographic markets and business areas.

47 For acquisitions and disposals of fully and proportionally consolidated entities, the most important positions of the balance sheets of the entities acquired and disposed of are to be disclosed in the notes as per the date of the first consolidation or deconsolidation. In addition, the impact of the first consolidation or deconsolidation on the net sales is to be disclosed. The disclosures include the net sales since the acquisition date which are included in the consolidated income statement as well as the net sales until the acquisition date in the corresponding financial year. If the net sales until the acquisition date cannot be determined, the net sales according to the last available financial statements are to be disclosed. In the case of a disposal the disclosures encompass the net sales until the date of the deconsolidation included in the consolidated income statement as well as the net sales from the previous financial year.

Explanations

ad paragraph 1

48 Special purpose entities are to be consolidated. A special purpose entity is an entity that is not controlled legally, but whose economic contribution directly benefits the group (e.g. outsourced research activities, foundations for share-based remuneration).

ad paragraph 2

49 A subsidiary is an entity which is controlled by its parent entity.

50 Control is assumed if a parent entity directly or indirectly holds more than half of the voting rights of a subsidiary.

51 Even if a parent entity holds less than half of the voting rights, control can be obtained (for example through shareholder agreements, a majority in the supervisory board/management body or option rights).

52 Subsidiaries can be excluded from the full consolidation if they are also immaterial in the aggregate.

ad paragraph 3

53 A joint venture is a contractual agreement in which two or more parties accomplish an economic activity under a joint lead. Neither party disposes of the possibility to control the joint venture.

54 Under proportional consolidation, all positions of the balance sheet and the income statement of the joint venture are recognised to the extent of the share of capital.

ad paragraph 4

55 An associated entity is an entity over which an investor has significant influence. Significant influence is the possibility to participate in financial and operating policy decisions, but not to control or jointly manage an entity. Significant influence can be assumed if the share of the voting rights is at least 20 percent, unless it can be demonstrated that this is not the case. If the share of the voting rights is less than 20 percent, it can be assumed that there is no significant influence, unless this can be demonstrated to be the case.

56 When using the equity method, financial statements prepared in accordance with Swiss GAAP FER form the basis for the inclusion of the associated entity. If said entity does not prepare financial statements in accordance with Swiss GAP FER, at least the financial statement items considered material from a group perspective must comply with group accounting directives that conform with Swiss GAAP FER.

57 When significant influence is achieved, the assets and liabilities of the associated entity that are taken over must be measured in accordance with the provisions under paragraph 14. Such revaluation is only required for assets and liabilities whose fair value deviates significantly from the value that would have resulted had Swiss GAAP FER always been applied. Intangible assets which have not been recognised previously and are relevant to the decision to acquire the corresponding equity interest are also to be identified and recognised, with the exception set out in paragraph 18 to be applied mutatis mutandis.

58 Goodwill of associated entities is to be treated in the same way as that of entities which are fully or proportionally consolidated. If goodwill is recognised as an asset, it is to be reported

under the balance sheet item "Investments in associated entities". The amortisation of goodwill is part of the result from associated entities.

59 The foreign currency differences arising from the translation of the balance sheet item "Investments in associated entities" have no effect on the income statement and are offset against equity. If significant influence is lost, the corresponding accumulated foreign currency differences recognised in equity are to be reclassified to profit or loss.

ad paragraphs 6 and 7

60 For the purposes of consolidation, the financial statements of individual entities included in the consolidation are to be brought in line with the uniform directives of the group. These adjustments can lead to changes to those financial statements that are presented for approval to the unit-holders of the respective entity. The balance sheet date of the financial statements of the entities included in the consolidation and the balance sheet date of the group may not be more than three months apart.

61 In particular, the following eliminations are required in the case of fully and proportionally consolidated entities:

- receivables and payables between consolidated entities
- investments and corresponding equity
- inter-company expenses and income, such as those from sales of goods and services, interest, or royalties
- dividends.

62 Under full consolidation, all assets and liabilities and all expenses and income of the consolidated entities have to be fully included in the consolidated financial statements, also of those entities with a third-party minority interest.

ad paragraph 8

63 Due to group internal transactions (subsidiaries, joint ventures), assets such as inventory or non-current assets may contain profits not yet realised from the point of view of the group (inter-company profits) at year-end.

64 When calculating inter-company profits, the use of approximative techniques is allowed.

65 When applying the percentage-of-completion method (POCM), it has to be ensured that the inter-company profits are eliminated, also in the case of complex supply and performance conditions.

ad paragraph 9

66 The equity of consolidated entities is to be offset against the acquisition cost as per the acquisition date, or against the carrying amount of the investment at the parent entity as per the date of incorporation.

67 After the first consolidation, changes that are included in the net result of the period of the consolidated financial statements shall be recognised in retained earnings.

ad paragraph 13

68 This Recommendation requires accounting-policy choices to be exercised uniformly (for example, goodwill is either to be recognised as an asset and amortised over its useful life or offset against equity for all forms of acquisitions). Should there be any changes to the accounting principles, the corresponding provisions of the Framework are to be applied.

ad paragraph 20

69 Upon disposal of a part of the business, the profit or loss from the disposal is to be determined considering goodwill or negative goodwill that has been directly offset against equity at the acquisition date. In the event of a disposal, positive or negative goodwill offset against equity at the acquisition date shall be fully charged to profit or loss in order to achieve the same effect as for entities which recognised goodwill as an asset and amortised it (partially or fully) or recognised negative goodwill as a liability and released it (partially or fully) to profit or loss. The closure or liquidation of a part of the business is equivalent to a disposal.

ad paragraph 21

70 The acquisition of financial assets does not result in any goodwill. If the acquisition of an equity interest results in significant influence, such an acquisition is to be recognised in accordance with paragraph 57.

71 If equity interests are acquired in stages within the category of associated entities, goodwill is determined each time an equity interest is acquired without revaluing the underlying net assets.

72 For purchases of minority interests, goodwill or negative goodwill is calculated as the difference between the acquisition cost and the proportional carrying amount of the minority interest.

73 The useful life of the goodwill or negative goodwill is determined separately for each acquisition of an equity interest.

ad paragraph 22

74 The pro rata goodwill or negative goodwill being disposed of is calculated and recognised in profit or loss for each disposal of an equity interest. This principle is applied analogously to positive and negative goodwill recognised in the balance sheet or offset against equity. The pro rata goodwill or negative goodwill is calculated in proportion to the equity interest disposed of.

ad paragraph 23

75 Compensation for future employment of the seller does not count as a component of the purchase price.

76 Adjusted goodwill/negative goodwill is amortised over the remaining useful life.

ad paragraph 24

77 This provision applies exclusively to the translation of the financial statements of a group entity in a local currency into the currency of the consolidated financial statements and does not relate to the translation of transactions in a foreign currency within the financial statements of an individual entity.

78 All balance sheet items (with the exception of equity) are to be translated into the currency of the consolidated financial statements at the spot exchange rate at the balance sheet date.

79 The items of the income statement, cash flow statement and individual transactions are translated into the currency of the consolidated financial statements at the average exchange rate for the period or, respectively, at the spot exchange rate at the date of the transaction.

80 Foreign currency differences arising from the translation of the balance sheet items have no impact on the income statement and are recognised in equity.

81 The difference between the translation of the result of the period according to the income statement and the result according to the balance sheet is recognised in equity.

ad paragraph 26

82 In case control of a subsidiary or significant influence over an associated entity are lost, the corresponding accumulated foreign currency differences recognised in equity arising from loans with equity character are to be reclassified to profit or loss.

83 In the event of any repayment of intragroup loans with equity character, the accumulated foreign currency differences can either be reclassified to profit or loss on a pro rata basis or be left in equity.

ad paragraph 27

84 As an example, differing business activities of the various group entities to be consolidated could give rise to objectively substantiated deviations from the principle of uniformity. For example, work in progress at a construction company should be measured using different principles from that of a manufacturer engaged in mass production even if both use historical cost as a valuation basis.

ad paragraphs 28 and 29

85 The provisions of Swiss GAAP FER 20 – or if the core FER are applied, Swiss GAAP FER 2, paragraph 16 – are to be applied in conjunction with the impairment test.

ad paragraph 38

86 The valuation bases generally applied in the consolidated financial statements, such as valuation at historical cost (cost of acquisition or production) or at fair value must be disclosed. If necessary, the valuation principles for individual items shall be disclosed.

ad paragraph 46

87 A breakdown of net sales from goods and services by segments is only necessary when business areas differ significantly. Geographical markets may comprise more than one country.

First application of revised standard and transitional provisions

This standard is to be applied for the first time to reporting periods starting on or after 1 January 2024. In accordance with the Swiss GAAP FER Framework, paragraph 30, in the event that accounting principles are changed previous-year figures are also to be adjusted. The previous-year statement is therefore to be adapted (restatement) as if the new principles had always been applied (retrospective method).

I. For simplification purposes, paragraphs 14 to 23 (goodwill), paragraphs 25 and 82 (reclassification to profit or loss of accumulated foreign currency differences) and paragraph 31 (deferred taxes) do not have to be implemented retrospectively. The paragraphs listed are to be applied to acquisitions and disposals in reporting periods starting on or after 1 January 2024.

II. When it is impracticable to determine the existing accumulated foreign currency differences as per the start of the reporting period starting on or after 1 January 2024 for each subsidiary, associated entity and intragroup loan with equity character, the user may apply a one-off exemption. If the exemption is used:
   a) it is assumed that the accumulated foreign currency differences are zero for all subsidiaries, associated entities and intragroup loans with equity character at the time this revised Recommendation is first applied and
   b) the profit or loss from the disposal of a subsidiary or associated entity and the repayment of an intragroup loan with equity character may not contain any foreign currency differences prior to the first application of this revised Recommendation and must take into account any currency differences that have arisen after this date and
   c) it must be disclosed in the notes that this exemption has been used.

Early application of this Recommendation is permitted.