Interim Financial Reporting according to Swiss GAAP FER

Manual

Version 2023

Introduction

The Swiss GAAP FER standards focus on small and medium-sized entities and groups with a national reach[1], but they are however also applied by larger groups with international operations. The increased use of Swiss GAAP FER, in particular by groups with a global reach, together with the accounting challenges arising from ever increasing complexity in business transactions and financial instruments, has led to more questions on how to apply the standards in practice – for example when preparing interim financial statements. This brochure describes questions that, in our experience, frequently arise in connection with preparing interim financial statements in accordance with Swiss GAAP FER. Entities preparing such interim financial statements must carefully assess whether the respective guidance is applicable to specific facts and circumstances.

This brochure does not reflect all provisions included in Swiss GAAP FER. It is rather a collection of questions that arose in practice and approaches how to solve those questions that are, in our view, in-line with the principles outlined in Swiss GAAP FER. We cannot fully eliminate the risk that we are mistaken, and it is possible that views expressed by other institutions differ from ours. For significant transactions or items, we highly recommend consulting the official Swiss GAAP FER standards as well as seeking professional advice. PwC does not accept any liability for damages arising in connection with the use of this brochure.

[1] Swiss GAAP FER – Accounting and Reporting Recommendations, Introduction 3.1

Scope

1. This manual outlines the requirements of Swiss GAAP FER regarding interim financial statements. With FER 31 'Complementary Recommendation for listed entities', Swiss GAAP FER provides guidance for interim financial statements prepared by entities whose equity rights are listed or who are preparing a prospectus for their listing. Previously, there was a separate standard for interim financial statements, FER 12 'Interim Reporting'. This standard has however been suspended when FER 31 became applicable. As a result, there is no mandatorily applicable guidance for the preparation of interim financial statements by non-listed entities. In our view, the guidance in FER 31/9 – 12 is also applicable for interim financial statements prepared by non-listed FER reporters. This does however not imply that all other aspects of FER 31 also have to be adopted by such entities.
[FER 31/1, FER 31/9]

2. FER 31 is silent on the timeframe in which an interim report shall be published. The report should be published in a timely manner in order to meet the users' information needs. Listed entities need to consider the requirements of the applicable listing rules. For example, SIX Swiss Exchange foresees a reporting deadline of three months, whereas BX Swiss Exchange allows for four months.

3. Even though this is not explicitly mentioned in the standard, interim financial statements in accordance with FER 31 should in our view be prepared as an update to the last published annual financial statements on the basis that they are read in conjunction.

FAQ 3.1 – Should accounting policies be included in interim financial statements?

Changes in accounting policies must be disclosed in the interim financial statements (see Ref. 9). However, further disclosures on accounting policies are not required.

In our view, interim financial statements should contain a statement, that they are prepared based on the accounting policies and methods applied in the most recent annual financial statements, as well as accounting policies for any new material transactions that occurred in the interim period.

Objective

4. The objective of interim financial statements according to Swiss GAAP FER is a quantitative presentation of the result of the interim period and a qualitative explanation of the course of business during the reporting period. It allows the user of the interim financial statements to form a well-founded opinion of the developments of the operational activities and the course of business.
[FER 31/9, FER 31/12]

Components

5. Interim financial statements in accordance with FER 31 contain at a minimum a condensed balance sheet, a condensed income statement, a condensed cash flow statement, a condensed statement of changes in equity and notes (hereinafter: ‘condensed financial statements’). They include all information necessary to meet the above objective.
[FER 31/10, FER 31/12].

FAQ 5.1 – How should additional information in interim financial statements be presented?

Information beyond of what is required by FER 31/9-12 should be presented consistently with the disclosures in the in the last annual financial statements. Additional disclosures allow *the reader to form a well-founded opinion on the development of the activities and the course of business of the entity* [FER 31/12].

6. Each element of the condensed financial statements should at least contain all headings and subtotals that were presented in the most recent annual financial statements.
[FER 31/10]

FAQ 6.1 – What headings and subtotals should be reported in the condensed primary statements?

Interim financial statements should at least contain all headings and subtotal presented in the most recent annual financial statements. In our view, condensing is however only appropriate, if the condensed financial information is not misleading, and still allows the interim financial statements to meet their objective (see Ref. 4).

Under certain circumstances it might in our view be appropriate to condensate the statement of cash flow to three lines, showing only a total for each of operating, investing, and financing cash flows. Management should however apply judgement in determining the appropriate level of disaggregation and ensure that all relevant information is available to the user of the interim financial statements. Items that are individually relevant for users of the financial statements should be disclosed separately, such as in the following example:

Cash inflow from operating activities (operating cash flow)	**CHF**	**689’346**
Cash outflow from investing activities	**CHF**	**– 326’613**
Thereof cash outflow for business combination	CHF	– 280'000
Cash outflow from financing activities	**CHF**	**258’602**
Thereof cash inflow from capital increase	CHF	200'000

7. FER 31 requires the presentation of comparative information. In the income statement (including information on earnings per share), the cash flow statement and the statement of changes in equity, comparative information is presented for the corresponding prior period. In the balance sheet, comparative information as per opening of the interim period must be presented. [FER 31/10]

In the half-year interim financial statements as per 30 June 20X2, we would expect the following primary statements to be presented:

Statement	Current	Comparative
Balance sheet	30.6.20X2	31.12.20X1
Income statement	6 months ended 30.6.20X2	6 months ended 30.6.20X1
Statement of changes in equity	6 months ended 30.6.20X2	6 months ended 30.6.20X1
Cash flow statement	6 months ended 30.6.20X2	6 months ended 30.6.20X1

FER 31 does not provide guidance on what comparative information should be included in the notes to the interim financial statements. However*, financial information contained in the interim reporting must be prepared on the basis of the same principles as the annual financial statement* [FER 31/11]. Based on the principles set out in framework 31, notes to interim financial statements must thus include comparatives for all quantitative information provided. In our view, comparative information must also be disclosed for qualitative disclosures. [framework 31]

8. The notes must include a statement that the interim financial statements comply with FER 31/9-12 and, if applicable, that they contain condensations in presentation and disclosure compared to the annual financial statements. Such statement may for example be phrased as follows: 'These financial statements have been prepared in compliance with the requirements in Swiss GAAP FER 31/9-12. Such requirements allow for condensations in presentation and disclosures compared to annual financial statements.'
[FER 31/12]

9. FER 31 requires interim financial statements to include disclosures and explanations on changes in accounting principles, corrections of errors, and effects from such circumstances. As no additional details are included in FER 31, the disclosures should be aligned with the principles set out in the framework.
[FER 31/12]

FAQ 9.1 – Dealing with errors that occurred in the second half of the previous financial year

Assume the following: In May 20X2, Entity A identifies a material accounting error in its prior year annual financial statements, which have already been approved: As at 31. December 20X1, provisions were materially overstated. Entity A concludes that the error occurred in November 20X1 and thus the interim financial statements as per 30 June 20X1 were correct.

How should Entity A present this fact in its interim financial statements as per 30.6.20X2?

As for annual financial statements, errors are corrected retrospectively in interim financial statements (framework 30). In the case at hand, the correction of the overstated provisions does neither affect the current-year figures reported in the income statement or the statement of cash flows nor any of the prior-year figures reported therein. In the balance sheet and the statement of changes in equity however, the prior-period figures must be corrected, and the resulting effect must be explained and quantified in the notes to the financial statements. The statement of changes in equity typically starts with the amounts as reported in the last annual financial statements. The effects resulting from the correction of the error are reported in a second line which is then followed by a third line showing the corrected opening balance for the current period. Listed entities should furthermore assess whether the error and its correction might be relevant under ad-hoc publicity rules.

10. Any facts and circumstances that significantly impact an entity's financial position, cash flows, or results of operations, must be described in the notes to the interim financial statements. Examples of such significant events are changes in the scope of consolidation or in liquidity as well as impairments.
[FER 31/12]

FAQ 10.1 – What *factors that have had a significant impact on the financial position, cash flows and the results of operations of the entity* [FER 31/12] should be disclosed?

The standard does not provide examples of such 'factors' to be disclosed. It however stresses the requirement to include explanations that *allow the reader of the interim financial statements to form a well-founded opinion on the development of the activities and the course of the business of the entity* [FER 31/12]. Such explanations might for example be required in the following circumstances:

- changes in accounting estimates
- issues, repurchases, and repayments of debt and equity
- dividends paid
- changes in the composition of the entity, i.e., business combinations, acquisitions and sales of subsidiaries and discontinued operations
- restructurings
- significant new sources of revenue
- changes in the entity's financing
- newly pledged assets or changes in the type of the pledge

11. Revenues and results according to the segment reporting used at the senior management level [FER 31/12] must be disclosed in interim financial statements. A reconciliation of the segment results to the income statement is not explicitly required but might be useful. Similar as in annual financial statements, economically similar divisions can be presented together as one segment and disclosing segment results can be waived if the respective justification is disclosed in the notes.
[FER 31/12]

12. Extraordinary income and expense are presented in the income statement and explained in the notes. In our view, such disclosures should allow the user of the financial statements to understand the underlying transaction as well as the nature and the amount of the resulting extraordinary income/expense item. It should particularly be explained, why the transaction is classified as 'extraordinary', in order to allow the user of the financial statement to gain a true and fair view of the result of the operations of an entity.
[FER 31/12, framework 5, framework 6]

13. Seasonality of income and expense must be disclosed and explained. If possible, the impact of such seasonal effects on the financial statements must be quantified. Recognising accruals or deferrals to compensate for seasonal effects is not permissible as the same principles as in annual financial statements are applicable for interim financial statements.
[FER 31/12].

14. The notes to the interim financial statements must include information on events occurring after the interim balance sheet date. This implies that the same principles as outlined in framework 28 for annual financial statements are relevant for the treatment of such event in the interim financial statements. Therefore, events after the interim balance sheet date must be recognised if the event was triggered on or before the interim balance sheet date. If on the other hand the event was triggered after the interim balance sheet date, it must be disclosed in the notes to the interim financial statements
[FER 31/12]

Principles

15. Financial information contained in the interim financial statements must be prepared based on the same principles as the annual financial statements. Simplifications are acceptable if they do not impair the presentation of the course of business for example by recognising inappropriate accruals and deferrals or refraining from revaluing investment property.
[FER 31/11]

FAQ 15.1 –Which simplifications might be applied to inventories?

Regarding inventories, for example, the following simplifications can be observed in practice:

- Refraining from full inventory counts at an interim date, but relying instead on continuous inventory records, or
- Applying simplified gross profit ratios when determining the cost of inventory.

Management needs to apply judgement when determining what simplifications are appropriate in the given circumstances. The simplifications above might be appropriate when preparing interim financial information if management expects only small inventory differences or small variances in margins.

No matter what simplifications have been applied, management should in our view explain them in the notes to the interim financial statements.

16. Simplified accounting principles not complying with the relevant standards are not permissible. Neither can they be justified by a corresponding disclosure in the notes to the financial statements.
[framework 4].

17. If accounting principles have been changed since the balance sheet date of the latest annual financial statements, the new accounting principles must be applied for the interim financial statements. Additionally, in line with framework 30, comparative information (for interim and annual financial statements) is restated as if the new accounting principles would always have been applied (retrospective approach). The changes in accounting principles are explained in the notes to the financial statements. Not applying the retrospective approach when changing accounting principles is only appropriate if new or amended standards specifically allow for other transition methods.
[framework 30, FER 31/12]

18. Generally, the same principles as for annual financial statements must be applied for the preparation of interim financial statements. Revenue and expenses should therefore not be anticipated or deferred at an interim date if such anticipation or deferral would not be made at the end of the entity's financial year. This principle is illustrated by the following examples.
[FER 31/12]

FAQ 18.1 – How should revenue and expenses be deferred at an interim date?

The following examples illustrate how this principle should be applied in interim financial statements:

A: Expenses incurred unevenly over the year

A travel operator prepares interim financial statements as per 30 June. Most of its customers go on holiday in July and August, but already book their travels in February and March. Therefore, the travel operator runs an annual TV advertising campaign each January and February.

Revenue from travelling services is generally recognised when the service is rendered in July and August. The advertising costs are however fully recognised in the income statement during the campaign in January and February. They cannot be deferred in the interim financial statements as they do not meet the definition of an asset. In the notes to the interim financial statements, the travel operator discloses the seasonality.

B: Planned periodic maintenance or overhaul

If periodic maintenance or an overhaul are expected to be undertaken after the end of the interim period, the respective costs should only be accrued in the interim financial statements, if there is a legal or a constructive obligation in terms of FER 23/2. The mere intention or necessity to incur such expenditures is not sufficient to give rise to a current obligation.

C: Bonuses

Even if they are only paid out at a later stage, bonuses should be accrued in the interim balance sheet in line with FER 23 'provisions' if the employer has a legal or a constructive obligation from which it cannot realistically withdraw (for example due to past practice). Consequently, when an employee has rendered services to the entity during the interim period (past event), the entity recognises the respective compensation owned in its interim financial statements.

D: Holiday and short-term paid absence

Employee balances for holiday and short-term paid absences are recognised in the interim balance sheet the same way they are in annual financial statements. Is it irrelevant whether the balances will be compensated in cash or effective absences are expected. If an interim financial statement is prepared as of 30 June, such accruals may be significantly higher compared to the ones at the end of the financial year as the summer holiday period falls into the second half of the financial year. Simplifications may be applied in determining the amount to be accrued for holiday and short-term paid absence, for example by applying average hourly rates.

E: Share-based payments

According to FER 31/3 liabilities for cash-settled share-based payment transactions are remeasured at each balance sheet date. In our view, such a remeasurement should also be performed at the interim reporting date. In line with FER 31/11, simplifications may be applied if they do not have *an adverse effect on the presentation of the course of business.* For example, if the remeasurement bases on a share price for which no reliable market price is available. As long as the general conditions for the valuation have not changed significantly, estimating the share's fair value internally instead of letting a third party conduct a costly valuation might be appropriate.

F: Pension costs

In line with FER 16 ‘Pension benefit obligations’, an entity recognises the pension expense of the current interim period as personnel expense. This includes all contributions due and accrued at the balance sheet date. Additionally, the pension expense for the interim period includes any changes in economic benefits or liabilities resulting from the entity’s pension arrangements. The change in economic benefits contains the use of any employer contribution reserves or similar assets.

With respect to economic liabilities, an entity must assess whether the conditions for recognising a provision under FER 23 ‘Provisions’ are met. This assessment is based on the pension institution’s most recent financial statements and material developments since the closing date of such financial statements.

G: Sales rebates

Manufacturer A with financial year end 31 December offers scaled rebates on sales to some of its customers.

up to 100’000 units/year	no rebate
100’000 – 250’000 units/year	5% rebate on all sales
over 250’000 units/year	10% rebate on all sales

The rebates are paid back to the customers in the first month after the end of the financial year.

On 30 June 20X1, customer B has purchased 140’000 units of the product. Thus, manufacturer A has a contractual liability to pay a rebate of 5% on all sales to date. In the past, customer B has always purchased more than 250’000 units per year – evenly spread over the entire year and there are no indications that B will buy substantially less during the second half of the current financial year.

The manufacturer concludes, that as per interim reporting date, a rebate of 10% should be assumed on all sales incurred during the first 6 months, because it is expected, that after the end of the financial year, 10% must be paid back on all sales of the current financial year.

H: Rent expense

A retailer has entered a rental contract with a fixed annual rent of CHF 1 million. Additionally, the rental contract foresees a variable consideration based on the amount of revenue for the year generated by the retailer:

up to CHF 40 million revenue	no variable consideration is due
CHF 40 - 60 million revenue	variable consideration of CHF 500’000
over CHF 60 million revenue	variable consideration of CHF 1 million

As per 30.6.20X1, the retailer generated revenue of around CHF 20 million. Based on experience from prior years, the retailer knows, that during Christmas time significantly more revenue is generated than in the rest of the year. Thus, the retailer forecasts a total annual revenue of CHF 50 million and expects an annual rent of CHF 1.5 million.

Per interim reporting date, the retailer should therefore recognise 50% of the expected annual rental expense, being CHF 750’000. Alternatively, the retailer could argue that the variable consideration should be recognised pro rata based on the revenue recognised compared to the expected annual revenue. This view would result in rental expense of CHF 700’000 for the period ending on 30.6.20X1 (50% of the fixed consideration of CHF 1 million plus 40% (20 Mio. actual sales /50 Mio. expected sales) of the expected variable consideration of CHF 500’000).

I: Impairments

FER 20 ‘Impairments’ states in paragraph 2, that *assets are subject to an impairment test at each balance sheet date,* if indicators exist that reflect a possible impairment. At the interim balance sheet date, management determines, whether such indicators exist and if so, conducts impairment tests. If the resulting recoverable amount is lower than the respective asset’s carrying amount, the asset is impaired.

In our view, the principle that impairments on goodwill cannot be reversed in subsequent periods as outlined in FER 30/24 is also applicable to impairments recognised in interim financial statements, even though in some cases no (or a smaller) impairment loss would have been recognised, if an impairment test was only conducted at the end of the financial year. Consequently, the annual results may be affected by the frequency of interim reporting.

J: Taxes for the current reporting period

In course of preparing interim financial statements, management must determine the basis on which it calculates current income tax expense. In our view, taxes should be accrued based on the expected tax rate applicable for the full financial year, meaning that for purposes of the interim financial statements, an estimated average annual effective income tax rate is applied to the pre-tax income of the interim period. In any case, the approach applied, and assumptions made should be disclosed in the notes.

K: Taxes for prior financial years

If effective taxes for prior financial years differ from the amounts estimated in the last financial statements, the respective difference is recognised in the current year (framework 30). In our view, impacts from such changes in estimates should be recognised fully in the income statement as soon as the need for an adjustment becomes evident. It seems inappropriate to distribute the resulting income/expense over the financial year.

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