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Accounting and Auditing
Investing in Switzerland
A guide for Chinese companies

Audit & Assurance

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Introduction

Since 2010 China has been Switzerland's most important trading partner in Asia. Following negotiations that began in 2011, a bilateral free-trade agreement was signed in Beijing in July 2013. After receiving approval from the National Council and the Council of States, this agreement between the People's Republic of China and Switzerland came into effect on 1 July 2014.

As a consequence of China's accession to the WTO, trading activities with and within China have been expanding at rapid speed. China understands fully that a sound financial reporting system plays a key role in this process of economic development. The Chinese Ministry of Finance (MOF), which has the responsibility for regulating accounting matters in China, has set itself the objectives of fostering investor confidence in financial information, increasing transparency in financial reporting and harmonising with International Financial Reporting Standards (IFRS). The development of Chinese Accounting Standards (CAS) is an important element in meeting this objective and an area where the MOF and has made significant progress. In 1993, with funding from the World Bank, the MOF began a project to develop about 30 accounting standards which would be appropriate to China's developing socialist market economy and aimed at harmonising accounting and financial reporting practice in China with international practice. Deloitte was engaged as the consultant on the project. Exposure drafts on 30 standards were published between 1994 and 1996. In 2000, Deloitte was reappointed as consultant for the second phase of the project to develop about 17 additional standards dealing with issues addressed by the IASC (now known as the IASB), as well as a number of industry-specific standards. To date, 16 standards have been issued as final standards and others are under development.

Given the importance of the relationship between China and Switzerland and the increasing flow of investments since the signing of the free trade agreement, we are pleased to present a guide specifically tailored to Chinese investors seeking investment opportunities in Switzerland. We have focused on the accounting and auditing frameworks in Switzerland and leveraged Deloitte's knowledge of CAS to provide a comparison between CAS, IFRS and Swiss Generally Accepted Accounting Principles (Swiss GAAP).

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Swiss accounting framework

Accounting regulations in Switzerland are contained in the Swiss Code of Obligations (the CO, also referred to as Swiss GAAP). The CO's main objective is to ensure that an entity presents its financial statements in a way that enables third parties to form a reliable judgement about its economic position. Financial statements governed by the CO and those produced according to a recognised standard (such as IFRS or CAS) have different objectives: financial reporting governed by the CO is oriented primarily towards protecting creditors and forms the basis for taxation and, where applicable, dividend payments. Unlike IFRS and CAS, financial statements prepared in accordance with the CO are primarily driven by the principle of prudence and cannot be described as true and fair, although assets in subsequent valuations can be valued at their market price if an observable market exists. Furthermore, overstatements of liabilities and understatements of assets are allowed but are usually limited to the boundaries permitted by tax legislation. Specific CO requirements vary according to the size of the company, with reduced reporting and disclosure requirements for smaller companies, as well as certain exemptions for larger companies that are included in the consolidated financial statements of a group.

The financial statements prepared by larger companies in accordance with CO consist of five elements: balance sheet, profit and loss account, cash flow statement, management report and notes. However, the cash flow statement, management report and certain other additional information in the notes to the accounts are not required if the undertaking itself, or a legal entity controlling the undertaking, prepares consolidated accounts in accordance with a recognised financial reporting standard (for example, IFRS as adopted by IASB).

For companies with a listing on SIX (the Swiss stock exchange) there are a number of regulatory standards available depending on the company's circumstance. Companies can choose between international recognised financial reporting standards (IFRS or US-GAAP) and the Swiss Reporting Standards (Swiss GAAP FER). In addition, there are specific admission standards for investment and real estate companies and for collective investment schemes. Swiss GAAP FER is a short but comprehensive accounting standard framework, suitable both for medium-size and large companies, including listed entities.

Financial reporting governed by the CO is oriented primarily towards protecting creditors and forms the basis for taxation and, where applicable, dividend payments.

Financial information requirement by size and type of company

The CO applies to all business entities, irrespective of their legal structure and reporting regulations, therefore is applicable to sole proprietorships, partnerships and other legal entities, as well as to companies. However the specific reporting requirements differ according to the size of the company. The requirements for small businesses are less than for larger legal entities.

	Economic significance	**Financial reporting requirements**	**Audit requirements**
Very small businesses (Art. 957 para. 2 CO)	Sole proprietorships and partnerships with annual revenue of less than CHF 500,000. Clubs and foundations that do not have to be entered in the commercial register. Foundations exempt from the requirement to appoint an auditor.	Income and expenditure account and financial position.	No audit required by law if: • Not more than 10 full-time jobs • Approval is obtained from every shareholder
	Sole proprietorships and partnerships with net annual proceeds from the sale of goods or services, or financial income, of less than CHF 100,000.	These entities may dispense with accruals based on time and instead adopt an expenditure and income method, similar to cash basis of accounting (Art. 958b Abs. 2 CO).	
Small and medium-size companies (Art. 957 para. 1 CO)	Sole proprietorships and partnerships with revenues of at least CHF 500,000 in the previous financial year. Legal entities, which are not required to undergo ordinary audits.	Obligation to prepare financial statements in accordance with standards (Art. 957a – 960e CO). The annual financial statements consist of: • Balance sheet • Profit and loss account • Notes.	Ordinary audits (in accordance with Art. 727 CO) are required if the following criteria are met for two successive years*: • Total Assets: CHF 20 million • Revenue: CHF 40 million • Full-time employees: 250 annual average * 2 out of 3 criteria must be met. In case the above threshold is not met, a limited statutory examination is required in accordance with Art. 729 CO (if more than 10 full time jobs).

	Economic significance	Financial reporting requirements	Audit requirements
Larger companies (Art. 961 CO)	Undertakings that are required by law to have an ordinary audit in accordance with Art. 727 CO.	Obligation to prepare financial statements in accordance with standards (Art. 957a ff. CO and additional Art. 961-961d CO). The annual financial statements consist of: • Balance sheet • Profit and loss account • Notes • Additional notes • Cash flow statement – supplemented by a management report.	Ordinary audit (Art. 728 CO)
Very large companies (Art. 962 CO)	Companies with shares listed on the stock exchange. Cooperatives with at least 2,000 members. Foundations that are required by law to undergo an ordinary audit.	The annual financial statements must be prepared according to a recognised standard. (Art. 962 f. CO).	Ordinary audit (Art. 728 CO)
Groups (Art. 963 CO)	Legal entities which control one or more companies with an obligation to prepare financial statements and not exempt from producing consolidated accounts (Art. 963 para. 1 CO).	Obligation to prepare consolidated accounts (Art. 963 para. 1, Art. 963b para. 3 OR).	Ordinary audit (Art. 728 CO)
Groups (Art. 963b para. 1 CO)	The following undertakings fall under Art. 963b para. 1 CO: • Companies whose equity securities are listed on a stock market, if the stock market so requires • Cooperatives with a minimum of 2000 members • Foundations that are required by law to have an ordinary audit.	Obligation to prepare consolidated accounts according to a recognised standard (Art. 963b CO).	Ordinary audit (Art. 728 CO)

Regular accounting requirements

The regular accounting requirements are mandatory for all legal persons, sole proprietorships and partnerships that are not allowed to apply the reduced accounting regulations for very small companies. The annual report must comprise a balance sheet, a profit and loss account and notes and must be approved by the responsible management body or the Chairman of the Executive Board within 6 months after the end of the financial year.

The financial statements must be written in a Swiss national language (German, French, Italian or Romansh) or in English and the reporting currency has to be either the Swiss franc (CHF) or another relevant currency. If another relevant currency is used, CHF values must also be presented and the foreign exchange rates that have been applied must be disclosed in the notes.

In general, financial statements are not published. Only companies with quoted securities or with outstanding bonds must publish their financial statements. There are recurring and event-driven disclosure requirements as required by the CO or SIX listing rules. In their financial reporting, companies listed on SIX are obliged to give a true and fair view, in accordance with a recognised standard, of their assets and liabilities, financial position and profits and losses. This includes publishing an annual report and an interim report. Furthermore, corporate governance rules require these companies to publish details, or provide reasons for not doing so, about their senior management and group organisational structure, including all subsidiaries and details of significant shareholders.

Requirements for larger companies

Companies that are required by law to have an ordinary audit must provide additional information in their annual reports. This includes additional information in the notes, a cash flow statement and a management report.

The additional notes and management report may be dispensed with by larger companies if the company itself, or a legal entity that controls the enterprise, prepares consolidated accounts in accordance with a recognised financial reporting standard (IFRS as adopted by IASB, US GAAP or Swiss GAAP FER). In the interest of protecting minorities, however, the law also stipulates that qualified minorities or certain entities may insist on inclusion of these additional notes in the annual report.

A legal entity is exempt from the duty to prepare consolidated accounts if it is controlled by an undertaking whose consolidated accounts have been prepared and audited in accordance with Swiss or equivalent foreign regulations (e.g. CAS), or if it has delegated the duty to prepare consolidated accounts to a controlled undertaking, or if (together with the controlled undertaking) it has not exceeded two of the following thresholds in two successive financial years: total assets of CHF 20 million, revenue of CHF 40 million or 250 full-time employees.

Financial reporting requirements: comparison between CAS, IFRS and Swiss GAAP

The following table compares the major requirements of CAS, IFRS and Swiss GAAP.

Table: Comparison between CAS, IFRS and Swiss GAAP

Area	CAS – PRC GAAP	IFRS	CO – Swiss GAAP
Intangible assets: General treatment	Generally recognised as an asset if recognition criteria (owned or controlled by the enterprise, probability of economic benefit flows and reliable measurement of cost, CAS 6.3 & 6.4) are met . Non-recognition of: • internally generated goodwill, brands and publishing titles, etc. (CAS 6.11) • internal research costs (CAS 6.8).	Generally recognised as an asset if recognition criteria (owned or controlled by the enterprise, probability of economic benefit flows and reliable measurement of cost, IAS 38.13, IAS 38.21 & IAS 38.22) are met. Non-recognition of: • internally generated goodwill (IAS 38.48) • internally generated brands, mastheads, publishing titles, customer lists and items similar in substance (IAS 38.63) • internal research cost (IAS 38.54).	Recognised if general recognition criteria for assets are fulfilled (past event, owned or controlled, probability of economic benefit flows and reliable measurement of cost) (Art. 959 II CO). Non-recognition of: • internally generated goodwill • internally generated customer lists, brands and publishing titles.
Intangible assets: Development costs	Recognised as an asset if the following conditions are met (CAS 6.9): • technical feasibility of completion • intention of completion for sale or internal use • demonstration of generating future economic benefits flowing to the entity • availability of adequate technical, financial and other resources for completion of development and ability to use or sell • ability to measure reliably expenditures during development phase.	Recognised as an asset if the following conditions are met (IAS 38.57): • technical feasibility of completion • intention of completion for sale or internal use • demonstration of generating future economic benefits flowing to the entity • availability of adequate technical, financial and other resources for completion of development and ability to use or sell • ability to measure reliably expenditures during development phase.	Swiss accounting law does not include any special rules on the treatment of development costs.

Area	CAS – PRC GAAP	IFRS	CO – Swiss GAAP
Intangible assets: Subsequent measurement	For intangible assets with a finite useful life: amortisation over useful life using a method which reflects the pattern of the economic benefits flow: • if not determinable: straight-line (CAS 6.17). For intangible assets with an indefinite useful life: impairment-only approach (CAS 6.19 & CAS 8.4). Reversals of impairment losses in subsequent periods are prohibited (CAS 8.17).	Cost model or option of revaluation model if the assets are traded on an active market (IAS 18.72). For intangible assets with a finite useful life: amortisation over useful life using a method which reflects the pattern of the economic benefits flow – if not determinable: straight-line. For intangible assets with an indefinite useful life: impairment only approach (review annually). Impairment losses must be reversed in subsequent periods if the reasons for the recognition do not exist anymore (exception: goodwill).	Amortisation in accordance with generally accepted commercial principles (Art. 960a III CO). 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. Swiss GAAP does not prescribe any specific amortisation method. Accepted methods are amortisation over useful life, straight line, digressive or immediate write-off. Furthermore, intangible assets do not have an infinite useful life. If it is not possible to determine the useful life, the intangible asset has to be amortised over 5 years and by exception over 20 years. Subsequent assessments for impairment are required.
Intangible assets: Acquired goodwill	Obligation to capitalise (CAS 20.13 for business combinations not under common control) and impairment-only approach for subsequent measurement with an annual review (CAS 8.23 – 25). Negative goodwill recognised as income in the current period after thorough reassessment (CAS 20.13 for business combinations).	Obligation to capitalise (IFRS 3.32) and impairment-only approach for subsequent measurement with an annual review. Negative goodwill recognised as income in the current period after thorough reassessment (IFRS 3.34).	Swiss accounting law does not include any special rules on the treatment of acquired goodwill.

Area	CAS – PRC GAAP	IFRS	CO – Swiss GAAP
Property, plant and equipment: General definition	Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and have useful lives of more than one accounting year (CAS 4.3).	Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used during more than one period (IAS 16.6).	Recognised if general recognition criteria for assets are fulfilled (past event, owned or controlled, probability of economic benefit flows and reliable measurement of cost) (Art. 959 II CO).
Property, plant and equipment: Initial measurement	Measured at acquisition or production cost including incidental and subsequent acquisition expenses which include: • the purchase price, related taxes and any directly attributable expenditures for bringing the asset to working condition for its intended use, such as delivery and handling cost, installation costs and professional fees • expected costs of dismantling and abandoning the asset at the end of its use (CAS 4.8 and 13) and • borrowing costs if certain criteria are met (CAS 17 qualifying asset). If a lump sum payment is made for purchasing several fixed assets that are not priced separately, the cost of each fixed asset shall be determined by allocating the lump sum payment according to the proportion of fair value of each asset to the total fair value of all assets acquired. Where payment for the purchase price of a fixed asset is deferred beyond normal credit terms, the cost of the fixed asset shall be determined based on the present value of the purchase price (CAS 4.8).	Measured at acquisition or production cost including incidental and subsequent acquisition expenses which include (IAS 16.16): • its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates • any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management • the initial estimate of costs of dismantling and removing the item at the end of its use and restoring the site on which it is located and • borrowing cost if certain criteria are met (IAS 23 qualifying asset). If payment for an item of property, plant or equipment is deferred, interest at a market rate must be recognised or imputed (IAS 16.23) over the period of credit, unless such interest is capitalised in accordance with IAS 23.	The maximum possible amount is acquisition or production cost (Art. 960a I CO).

Area	CAS – PRC GAAP	IFRS	CO – Swiss GAAP
Property, plant and equipment: Subsequent measurement	Depreciation over useful life, using a method which reflects the pattern of the realisation of the economic benefits (CAS 4.17). If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. This reduction is an impairment loss (CAS 4.20 with reference to CAS 8). Reversals of impairment losses in subsequent periods are prohibited (CAS 8.17).	Cost model, or option of revaluation model if the fair value of the asset can be measured reliably (IAS 16.29). Depreciation over useful life using a method, which reflects the pattern of the consumption of the economic benefits. If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. This reduction is an impairment loss. Impairment losses must be reversed in subsequent periods if the reasons for the recognition do not exist anymore.	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 (Art. 960a III CO). Therefore Swiss GAAP does not prescribe any specific depreciation method. Accepted methods are amortisation over useful life, straight line, digressive or immediate write-off.

The prohibition of reversals of impairment losses for property, plant and equipment under CAS 8.17 is the only GAAP difference officially acknowledged by the MOF.

Area	CAS – PRC GAAP	IFRS	CO – Swiss GAAP
Leases: Classification	A lease is defined as an agreement whereby the lessor conveys to the lessee, in return for a rent, the right to use an asset for an agreed period of time (CAS 21.2). A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred (CAS 21.5). An operating lease is a lease other than a finance lease. According to CAS 21.6 a lease is normally classified as a finance lease if one of the following criteria is fulfilled: • lease transfers ownership of asset to lessee by the end of the lease term • lessee has bargain purchase option • lease term is for the major part of the economic life of the asset • present value of minimum lease payments amounts to at least substantially all of the fair value of the leased asset at the inception of the lease • the leased assets are of such a specialised nature that only the lessee can use them without major modifications.	A lease is defined as an agreement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time (IAS 17.4). A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. An operating lease is a lease other than a finance lease. According to IAS 17.10 a lease is normally classified as a finance lease if one of the following criteria is fulfilled: • lease transfers ownership of asset to lessee by the end of the lease term • lessee has bargain purchase option • lease term is for the major part of the economic life of the asset • present value of minimum lease payments amounts to at least substantially all of the fair value of the leased asset at the inception of the lease • the leased assets are of such a specialised nature that only the lessee can use them without major modifications.	Swiss accounting law does not include any special rules on leasing.

Area	CAS – PRC GAAP	IFRS	CO – Swiss GAAP
Leases: Recognition of finance leases	Lessee records leased asset at the lower of the fair value of the leased asset and the present value of the minimum lease payments and recognises a long-term payable at an amount equal to the minimum lease payments. A difference between the recorded amounts of the leased asset and the payable is referred to as an unrecognised finance charge (CAS 21.11). An unrecognised finance charge is allocated to each period during the lease term using the effective interest method (CAS 21.15). Leased assets are depreciated or amortised over their useful life. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life (CAS 21.16). Lessors recognise the aggregate of the minimum lease receipts and the initial direct costs as finance lease receivables. The difference between (1) the aggregate of the minimum lease receipts, the initial direct costs as well as the unguaranteed residual value and (2) the aggregate of their present values, is referred to as unearned finance income (CAS 21.18). Unearned finance income is allocated to each period during the lease term using the effective interest method (CAS 21.19).	Lessees recognise finance leases as assets and liabilities at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments (IAS 17.20). Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability (IAS 17.25). Leased assets are depreciated or amortised over their useful life. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life (IAS 17.27). Lessors recognise assets (including minimum lease receipts and initial direct costs) in their statements of financial position and present them as a receivable at an amount equal to the net investment in the lease (IAS 17.36). The recognition of finance income shall be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease (IAS 17.39).	Swiss accounting law does not include any special rules on leasing.

Area	CAS – PRC GAAP	IFRS	CO – Swiss GAAP
Leases: Recognition of operating leases	Lessees recognise lease payments as an expense over the lease term, usually on a straight-line basis (CAS 21.22). Lessors present assets in their balance sheet according to the nature of the asset. Lease income is recognised in income over the lease term, usually on a straight-line basis (CAS 21.26).	Lessees recognise lease payments as an expense over the lease term, usually on a straight-line basis (IAS 17.33). Lessors present assets in their statements of financial position according to the nature of the asset. Lease income is recognised in income over the lease term, usually on a straight-line basis (IAS 17.49 and 50).	Swiss accounting law does not include any special rules on leasing.
		The International Accounting Standards Board (IASB) has issued a new standard on leasing contracts (IFRS 16). This standard will be effective for periods beginning on or after January 1, 2019. The basic rules in the new standard are as follows: Lessee accounting: Nearly all leasing arrangements have to be accounted for as a finance lease. Former operating leases need to be capitalised in the lessee's balance sheet. Exceptions apply only to short-term leases and leases of low-value assets. For capitalised leases, the asset and the respective liability comprise the discounted fixed lease payments, reasonably certain optional payments and residual value guarantees. Lessor accounting remains basically unchanged.	

Area	CAS – PRC GAAP	IFRS	CO – Swiss GAAP
Financial assets/financial instruments: General treatment	A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity (CAS 22.2). Financial assets include cash, equity instruments of another entity, contractual rights to receive cash or another financial asset from another entity and contracts that will or may be settled in the entity's own equity instruments and is a non-derivative (CAS 22.56). Financial instruments are measured as follows, according to their category: • Loan and receivables: Measurements based on contracted-for amounts using amortised cost and the effective interest method • Held-to-maturity: Measurements based on investment (acquisition) cost • Available-for-sale: Fair value through other comprehensive income • Held-for-trading as well as designated as at fair value (so-called fair value option): Fair value through profit and loss In contrast to IFRS, a reclassification of financial assets out of the 'available for sale' and 'held for trading' categories is not possible.	A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets include cash, equity instruments of another entity, contractual rights to receive cash or another financial asset from another entity and contracts that will or may be settled in the entity's own equity instruments and is a non-derivative (IAS 32.11). Financial instruments are measured as follows, according to their category (IAS 39): • Loan and receivables: Measurements based on contracted-for amounts using amortised cost and the effective interest method • Held-to-maturity: Measurements based on investment (acquisition) cost • Available-for-sale: Fair value through other comprehensive income • Held-for-trading as well as designated as at fair value (so-called fair value option): Fair value through profit and loss	No legal definition of financial instruments. Financial instruments are classified as financial assets if they are intended to be used on a continuous basis in the business operations of the entity. Financial assets are generally measured at acquisition cost including incidental and subsequent acquisition expenses. In the subsequent valuation, assets with a stock exchange price (or another observable market price in an active market) may be valued at market price as at the balance sheet date, even if this price exceeds the nominal value or the acquisition value. Any entity that applies the market value must value all underlying asset positions consistently, if an observable market price is available at 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 (Art. 960b I CO). If assets are revalued to their market price as at the balance sheet date, a valuation adjustment should be made to the profit and loss account. Under the principle of prudence, companies may elect to not recognise the full upward or recognise additional downward adjustments (in the form of 'fluctuation reserves'). This is not permitted, if it would result in the recognised value being lower than either the initial acquisition value or the lower market value (e.g. taking a larger impairment than the available market price).

Area	CAS – PRC GAAP	IFRS	CO – Swiss GAAP
			The total amount of fluctuation reserves must be shown separately on the balance sheet or in a note to the accounts (Art.w 960b II CO).
		The International Accounting Standards Board (IASB) has issued a comprehensive new accounting standard for financial instruments accounting (IFRS 9). This standard will be effective for periods beginning on or after January 1, 2018. The basic requirements of this new standard are as follows: Financial instruments are categorised into financial assets subsequently measured • at amortised cost • at fair value through other comprehensive income, or • at fair value through profit or loss based on the entity's business model and the contractual cash flow characteristics of the assets. In certain circumstances, there is an option to designate financial assets to the latter two categories (IFRS 9.4.1). The rules regarding the timing and extent of the recognition of impairment losses on financial assets is changed from the "incurred loss model" to the "expected loss model". Accordingly, prognostic information on future credit losses needs to be applied (IFRS 9.5.5).	

Area	CAS – PRC GAAP	IFRS	CO – Swiss GAAP
Inventories: Initial measurement	Acquisition cost comprises the purchase price, related taxes and transport, handling, insurance and other costs attributable to the acquisition of inventories. (CAS 1.7) Measured at acquisition or production cost, including incidental and subsequent acquisition expenses and other costs. According to CAS 1.5 – 8, production costs include: • material cost • manufacturing cost • manufacturing overheads based on a reasonable allocation according to the nature of the overheads • borrowing costs if certain criteria are met (CAS 17 qualifying asset). Other costs of inventories are other expenditures incurred in bringing the inventories to their present location and condition other than costs of purchase and costs of conversion (CAS 1.8).	Measured at acquisition or production cost, including incidental and subsequent acquisition expenses. According to IAS 2.11 – 2.17, production costs include: • material cost • manufacturing cost • fixed and variable indirect production overheads (e.g. depreciation, maintenance, indirect labour or materials cost) • borrowing costs if certain criteria are met (IAS 23 qualifying asset). Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition.	The maximum possible amount is acquisition or production cost (Art. 960a I CO).
Inventories: Valuation methods	Valuation methods to be used (CAS 1.14): • specific identification method • first in, first out • weighted average cost. The standard cost method and the retail method are not explicitly mentioned by the standard but are deemed acceptable as well.	Generally, individual cost per item (IAS 2.23). However, if specific identification of cost is inappropriate the following methods are allowed: • first in, first out (IAS 2.25) • weighted average cost (IAS 2.25). The standard cost method and the retail method are explicitly mentioned as techniques for the measurement of cost (IAS 2.21).	Swiss accounting law does not include any requirement about inventory valuation methods.

Area	CAS – PRC GAAP	IFRS	CO – Swiss GAAP
Inventories: Subsequent measurement	The lower of cost or market value must be applied. The applicable market is the sales market (CAS 1.15). Write-downs must be reversed in subsequent periods if the reasons for the write-downs do not exist anymore (CAS 1.19).	The lower of cost or market value must be applied. The applicable market is the sales market (IAS 2.9). Write-downs must be reversed in subsequent periods if the reasons for the write-downs do not exist anymore (IAS 2.33).	The lower of cost or market value must be applied. Inventories must generally be measured at the lower of cost and net realisable value taking into consideration expected costs to complete. In limited circumstances, the CO permits inventories such as trading inventories in active observable markets to be measured at fair value (article 960c CO).
Inventories: Presentation of advance payments received	Advance payments received have to be presented as a liability. For construction contracts only, advance payments are presented net of the gross amount due from customers.	Advance payments received have to be presented as a liability. For construction contracts only, advance payments are presented net of the gross amount due from customers.	Swiss accounting law does not include any special rules on the presentation of advance payments received.

Area	CAS – PRC GAAP	IFRS	CO – Swiss GAAP
Construction contracts	A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use (CAS 15.2). When the outcome of a construction contract can be estimated reliably at the balance sheet date, contract revenue and contract costs shall be recognised using the percentage of completion method (CAS 15.18). If the outcome of a construction contract cannot be estimated reliably, revenue shall be recognised only to the extent of contract costs incurred that it is probable will be recoverable. Costs shall be recognised as an expense in the period in which they are incurred (CAS 15.25). An expected loss on the construction contract shall be recognised as an expense immediately (CAS 15.27). The wording of CAS 15 requires direct costs incurred in securing a construction contract to be expensed as incurred (CAS 15.17). However, this difference with IAS 11 was eliminated by Interpretation No.1, Q&A 3 to CAS 15, so that inclusion as part of the contract costs is allowed if the cost can be separately identified and measured reliably and it is probable that the contract will be obtained.	A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use (IAS 11.3). When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract shall be recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period (percentage of completion method IAS 11.22). If the outcome of a construction contract cannot be estimated reliably, revenue shall be recognised only to the extent of contract costs incurred that it is probable will be recoverable. Costs shall be recognised as an expense in the period in which they are incurred (IAS 11.32). An expected loss on the construction contract shall be recognised as an expense immediately (IAS 11.36). IAS 11 allows direct costs incurred in securing a construction contract to be included as part of the contract costs if they can be separately identified and measured reliably and it is probable that the contract will be obtained (IAS 11.21).	Swiss accounting law does not include any special rules on construction contracts.

Area	CAS – PRC GAAP	IFRS	CO – Swiss GAAP
		The International Accounting Standards Board (IASB) has issued a new comprehensive standard: Financial Revenue from Contracts with Customers (IFRS 15). This standard will be effective for periods beginning on or after January 1, 2018. Its basic requirements are as follows: The entity shall recognise revenue when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer. The good or service (i.e. an asset) is transferred if the customer obtains control of such asset (IFRS 15.31). The necessary steps according to the standard for revenue recognition are: • identification of the customer contract • identification of each party's contractual performance obligations • determining the transaction price • allocating the transaction price to the respective performance obligations • revenue recognition upon satisfaction of a performance obligation. For performance obligations that are satisfied over a period of time (rather than at a point of time), revenues shall be recognised by measuring the progress towards complete satisfaction of the performance obligation (IFRS 15.39). Cost-based measures of progress are allowed (IFRS 15.B18).	

Area	CAS – PRC GAAP	IFRS	CO – Swiss GAAP
Provisions and accrued liabilities: Recognition	According to CAS 13.4 the recognition of a provision requires: • a present obligation (legal or constructive) as a result of a past event • probability of an outflow of resources embodying economic benefits to settle the obligation and • a reliable estimate of the amount of the obligation. If these conditions are not met, provisions cannot be recognised.	According to IAS 37.14 the recognition of a provision requires: • a present obligation (legal or constructive) as a result of a past event • probability of an outflow of resources embodying economic benefits to settle the obligation and • a reliable estimate of the amount of the obligation. If these conditions are not met, provisions cannot be recognised.	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 (Art. 960e II CO). 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 (Art. 960e III CO). Provisions that are no longer required need not be cancelled (960e IV CO).
Provisions and accrued liabilities: Measurement	Provisions are recognised at the best estimate of the expenditure required to settle the present obligation (CAS 13.5). CAS 13 and IG CAS 13 include detailed guidance on setting up provisions under different circumstances. The guidance is less detailed but similar to IAS 37. The key pronouncements are summarised below. Where the provision being measured involves a large population of items with a continuous range of possible outcomes and each point in that range is as likely as any other, the mid-point of the range is used (CAS 13.5). Provisions are recognised at the present value of the expected expenditures required to settle the obligation, if the effect is material. The discount rate to be used is market-based (CAS 13.6).	Provisions are recognised at the best estimate of the expenditure required to settle the present obligation (IAS 37.36). IAS 37 includes detailed guidance on setting up provisions under different circumstances (e.g. use of expected values or best estimates, costs to include setting up provisions for onerous contracts). Where the provision being measured involves a large population of items with a continuous range of possible outcomes and each point in that range is as likely as any other, the mid-point of the range is used (IAS 37.39). Provisions are recognised at the present value of the expected expenditures required to settle the obligation, if the effect is material. The discount rate to be used is market-based (IAS 37.45 to 47).	Swiss accounting law does not include any special rules on the measurement of provisions and accrued liabilities.

Area	CAS – PRC GAAP	IFRS	CO – Swiss GAAP
Provisions and accrued liabilities: Restructuring	A restructuring provision must be recognised if the enterprise has a detailed and formal plan identifying the main features with respect to locations, employees, timing and expenditures and a public announcement of the plan has been made (CAS 13.10).	A restructuring provision must be recognised if the entity has a detailed formal restructuring plan identifying the main features with respect to locations, employees, timing and expenditures and if it has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it (IAS 37.72).	Swiss accounting law does not include any special rules on the treatment of restructuring.
Provisions and accrued liabilities: Employee post-employment benefits	CAS 9 differentiates between defined benefit plans and defined contribution plans. Under defined contribution plans the entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by the entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions; all risks of the plan performance fall on the employee. The contributions to the plan are expenses of the current period. Except for provisions for under – or overpayments of contributions, there are no balance sheet items for these plans. For defined benefit plans, a liability (or asset) must be recognised equal to the net difference between the present value of the defined benefit obligation and the fair value of the plan assets. Further details about the measurement of the liability (or asset) are included in CAS 9.13ff.	IAS 19 differentiates between defined benefit plans and defined contribution plans. Under defined contribution plans the entity's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by the entity (and perhaps also the employee) to a post-employment benefit plan or to an insurance company, together with investment returns arising from the contributions; all risks of the plan performance fall on the employee (IAS 19.28). The contributions to the plan are expenses of the current period unless another IFRS requires or permits the inclusion of the contribution in the cost of an asset (IAS 19.51). Except for provisions for under or overpayments of contributions there are no balance sheet items for these plans.	Under the CO, it is generally assumed that the employer does not normally have any other obligation than to pay the contributions to the pension fund. Therefore, no pension liability is usually recognised in the company'saccounts, unless there is a legal obligation towards the pension fund or the employees (in cases of under-coverage).

Area	CAS – PRC GAAP	IFRS	CO – Swiss GAAP
	The following measurement principles are applied: • use of projected unit credit method (CAS 9.13) • discount rate based on market yield (CAS 9.15) • actuarial gains and losses as well as changes in fair value of plan assets arising from factors other than time value are recognised immediately in other comprehensive income (CAS 9.16).	For defined benefit plans, a liability (or asset) must be recognised equal to the net difference between the present value of the defined benefit obligation and the fair value of the plan assets. Further details about the measurement of the liability (or asset) are included in IAS 19.57ff. The following measurement principles are applied: • use of projected unit credit method (IAS 19.67) • discount rate based on market yield (IAS 19.83ff.) • actuarial gains and losses as well as changes in fair value of plan assets arising from factors other than time value are recognised immediately in other comprehensive income (IAS 19.120).	
Liabilities: Measurement	Initial measurement of the other financial liabilities is at fair value, which usually equals acquisition cost plus transaction costs that are directly attributable to the acquisition if the financial liability is not at fair value through profit or loss (CAS 22.30 & 31). Subsequent measurement is at amortised cost using the effective interest method (CAS 22.33). Foreign currency liabilities are translated using the spot rate at the balance sheet date (CAS 19.11 (1)).	Initial measurement of liabilities is at fair value, which usually equals acquisition cost, plus transaction costs that are directly attributable to the acquisition if the financial liability is not at fair value through profit or loss (IAS 39.43). Subsequent measurement is at amortised cost using the effective interest method (IAS 39.47). Foreign currency liabilities are translated using the closing rate at the balance sheet date (IAS 21.23 (a)).	Liabilities must be entered at their nominal value (Art. 960e I CO).

Area	CAS – PRC GAAP	IFRS	CO – Swiss GAAP
Deferred taxes	The recognition of deferred taxes is based on the temporary concept. Deferred tax assets and liabilities are recognised for all temporary differences between the assets and liabilities in the CAS balance sheet and their tax base, with the following three exceptions (CAS 18.11 & 13): • initial recognition of goodwill • initial recognition of an asset/ liability other than in a business combination which, at the time of the transaction, does not affect either the accounting or taxable profit • differences arising from investments in subsidiaries, branches and associates and interests in joint ventures, where the entity is able to control the timing of the reversal of the difference and it is probable that the reversal will not occur in the foreseeable future. A deferred tax asset is also recognised for unused tax losses and unused tax credits, to the extent that it is probable that taxable profits will be available against which the deductions can be utilised (CAS 18.15). The limitation with respect to the probability of taxable profits also applies to deferred tax assets for deductible temporary differences (CAS 18.13). Measurement of deferred taxes is at tax rates expected at period end to apply when the liability is settled or the asset is realised (CAS 18.17).	The recognition of deferred taxes is based on the temporary concept. Deferred tax assets and liabilities are recognised for all temporary differences between the asset and liabilities in the IFRS balance sheet and their tax base, with the following three exceptions (IAS 12.15 & 24): • initial recognition of goodwill • initial recognition of an asset/ liability other than in a business combination which, at the time of the transaction, does not affect either the accounting or taxable profit • differences arising from investments in subsidiaries, branches and associates and interest in joint ventures, where the entity is able to control the timing of the reversal of the difference and it is probable that the reversal will not occur in the foreseeable future. A deferred tax asset is also recognised for unused tax losses and unused tax credits, to the extent that it is probable that taxable profits will be available against which the deductions can be utilised (IAS 12.34). The limitation with respect to the probability of taxable profits also applies to deferred tax assets for deductible temporary differences (IAS 12.24). Measurement of deferred taxes is at enacted or substantially enacted tax rates at period end expected to apply when the liability is settled or the asset is realised (IAS 12.46).	Financial statements prepared in accordance with the CO are the basis for the tax calculation by the tax authorities, subject to any adjustments i.e. unjustified provisions or depreciation as defined by the tax authorities. Deferred taxes are not dealt with in the CO. Due to the principle of prudence, the CO does not permit the recognition of deferred tax assets.

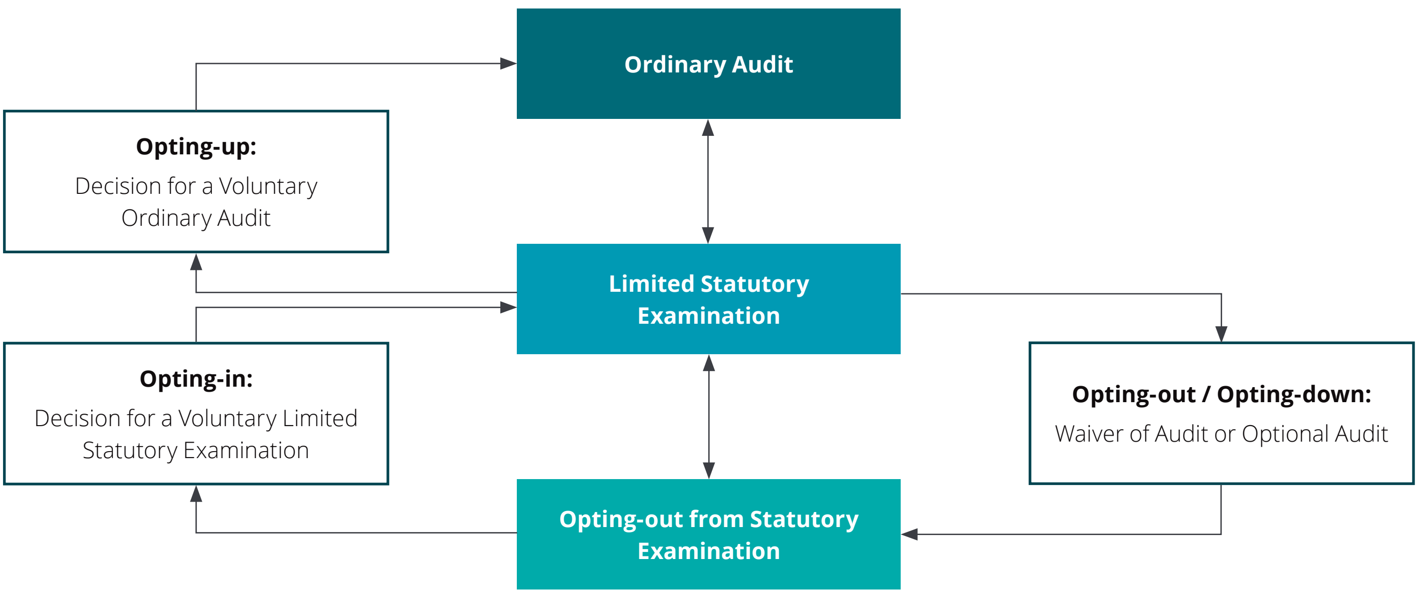
Area	CAS – PRC GAAP	IFRS	CO – Swiss GAAP
	Deferred tax assets and liabilities are not discounted (CAS 18.19) and are presented as non-current items in the statement of financial position (CAS 18.23). According to additional Explanation Guidance issued by MOFCOM (Version 2010) netting is required if the entity has a legally enforceable right to set off current tax assets against current tax liabilities and if the assets and liabilities relate to taxes levied by the same taxation authority.	Deferred tax assets and liabilities are not discounted (IAS 12.53) and are presented as non-current items in the statement of financial position. Netting is required if the entity has a legally enforceable right to set off current tax assets against current tax liabilities and if the assets and liabilities relate to taxes levied by the same taxation authority (IAS 12.74).	

Audit requirements

There are two main forms of statutory audit in Switzerland, the ordinary audit and the limited statutory examination. Other forms of audit may need to be conducted in specific scenarios, for example when a stock corporation decides to reduce its share capital. The CO specifies when an ordinary audit or a limited statutory examination must be performed. Changing to a more detailed audit (often known as 'opting-up') is possible, for example from a limited statutory examination to an ordinary audit. In some cases, it is possible to request an exemption from a limited statutory examination ('opting-out') when certain conditions are met.

Switzerland currently does not intend to adopt the EU audit reform or to change the existing legal requirements relating to auditor independence and mandatory audit firm rotation. However, Swiss parent companies may be affected through EU-domiciled subsidiaries that may meet the definition of a public interest entity and therefore need to assess the implications for their business.

The following table summarises the various audit requirements and opting possibilities:



Ordinary Audit

- Listed on a stock exchange/bonds outstanding
- Consolidated financial statements
- Substantial subsidiaries within group
- Economically substantial corporations

Limited Statutory Examination

Organisations below the following threshold

- Total Asset: CHF 20 million
- Revenue: CHF 40 million
- Full-time employees: 250 annual average

No audit required by law

- Not more than 10 full-time jobs
- Approval is obtained from every shareholder

Ordinary audit

An ordinary audit is a comprehensive form of an audit, which enables the auditors to state with reasonable assurance whether the annual report is free of material misstatements. The financial statements and the internal control system are tested. The auditor will provide a recommendation about whether the financial statements should (or should not) be accepted by the shareholders. Their opinion is stated in a final audit report, which is signed by the auditor in charge. The basis for an ordinary audit is the Swiss Auditing Standards. In addition, the auditor provides to the responsible management body or the Chairman of the Executive Board a comprehensive report with conclusions on the financial reporting, the internal system of controls and also the conduct and the results of the audit.

An ordinary audit may also be included as a requirement in the company's articles of incorporation, or may be decided at a shareholders meeting. Ordinary audits of public companies must be conducted by audit firms that are licensed and supervised by the Federal Audit Oversight Authority (FAOA). For other companies, the auditors must be a licensed Swiss certified public accountant according to the audit supervision law (FAOA).

Limited statutory examination

A limited statutory examination provides less audit assurance and is similar to International Standard on Review Engagements 2400. The extent of the auditor's testing is less than for an ordinary audit. Auditors are not required to provide a recommendation about whether or not the financial statements should be accepted by the shareholders. Auditor are only required to state whether they have detected any circumstances which lead them to the conclusion that the financial statements and the proposed appropriation of available earnings do not comply with Swiss Law and the company's articles of incorporation. Limited statutory examinations are less time-consuming and also less expensive than ordinary audits.

The basis for limited statutory examinations is the Swiss Limited Statutory Examination Standards. Companies that do not exceed the criteria of size for an ordinary audit must conduct a limited statutory examination. However, it is possible to obtain an exemption from a limited statutory examination if there are less than ten full-time employees in the company and if approval is obtained from every shareholder.

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