

Hes·SO // VALAIS
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Accounting Module

Introduction to accounting



Company and its environment

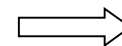
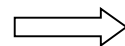
suppliers



company

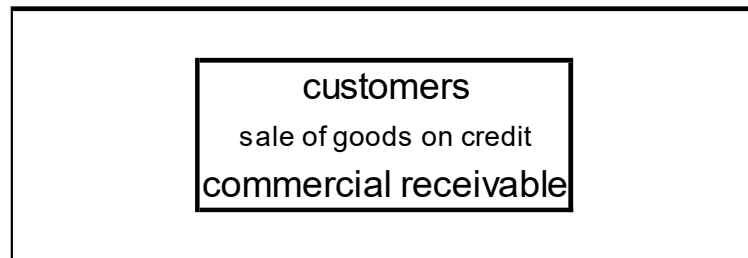


customers



Small clarifications!

Debtors



Receivables (invoice)

Right of claim: Someone who owes us money

category

- | | |
|-------------------------|---------------|
| - trade receivables | customers |
| - financial receivables | banks |
| - other receivables | other debtors |

Creditors



debt (invoice)

Payment obligation: someone to whom we owe money

category

- | | |
|--------------------|-----------------|
| - commercial debts | suppliers |
| - financial debts | banks |
| - other debts | other suppliers |

Interdependencies

Owners



Company



Banks



State

Collaboration between the different partners, economic agents



Definition of accounting

Accounting is a method of recording, classifying and presenting in numerical terms data and facts relevant to the life of a company.

These data and facts are expressed in monetary terms and reflect all the operations carried out by the company during a certain period, the accounting year, which most often corresponds to the calendar year.



Roles of Accounting

The company uses accounting as :

- Planning and decision-making instruments
- Control instruments
- Internal management instruments

Accounting provides the information for

- Internal instances
- External instances



Areas of accounting

Financial accounting :

- Entry of business transactions
- Income statement and balance sheet
- appendices

Cost accounting :

- By nature of charges
- By cost center
- By cost price



Areas of accounting

Financial analysis :

- Analysis of the annual accounts

Special accounts :

- Investment calculations
- Profitability calculations
- Price calculations
- Etc.



Accounting functions

- Presentation of assets and liabilities
- Presentation of the result
- Cash Flow Overview
- Control of the progress of business
- Legal basis
- Tax base
- Basis for other calculations



Legal bases

- Articles 957 and following.

Art. 957

A. Duty to keep accounts and file financial reports

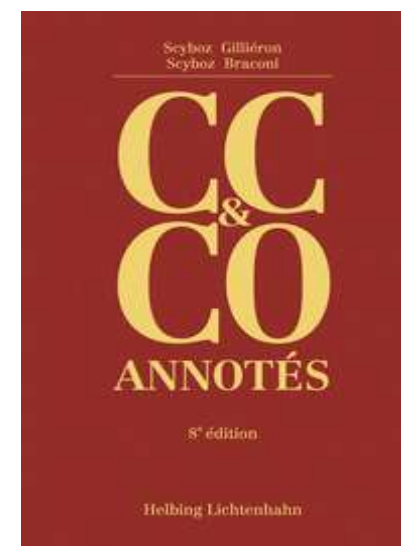
¹ The duty to keep accounts and file financial reports in accordance with the following provisions applies to:

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

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

- sole proprietorships and partnerships with less than 500,000 francs sales revenue in the last financial year;
- associations and foundations which are not required to be entered in the commercial Register;
- foundations that are exempt from the requirement to appoint an auditor under Article 83b paragraph 2 Swiss Civil Code⁵⁹⁶.

³ For undertakings in accordance with paragraph 2, recognised accounting principles apply mutatis mutandis.



Slide 12

PC1

https://fedlex.data.admin.ch/filestore/fedlex.data.admin.ch/eli/cc/27/317_321_377/20170401/en/pdf-a/fedlex-data-admin-ch-eli-cc-27-
Pontz, Catherine; 01.04.2022

Obligation to keep accounts

Annual accounts to be produced, the annual report must contain :

- Balance sheet
- Profit and loss account
- Appendix / Notes to the accounts

- Annual report
- Cash flow statement

- sole proprietorships and partnerships with turnover > 500,000.-

- Corporations

Size criteria :

- balance sheet total CHF 20 million.
- turnover CHF 40 million.
- full-time jobs 250

Simplifying accounting

- Revenue and expenditure accounting
- Balance sheet accounting

- sole proprietorships and partnerships with turnover $< 500,000.-$
- associations and foundations not to register in the commercial register

It follows the recognized accounting principles .

- Complete, truthful and systematic recording of transactions and circumstances
- documentary proof for individual accounting procedures
- Clarity
- Fitness for purpose given the form and size of undertaking
- Traceability, verifiability



Basic rules for the preparation of accounts

- Business continuity
- Periodic delimitation and linking of expenses and income

Financial reports must:

- Be clear and understandable
- Be complete
- Be reliable
- Include the essential information
- Be prudent
- The same rules must be applied in presentation and valuation
- Assets and liabilities and income and expenditure may not be offset against each other
- Currency and language etc.



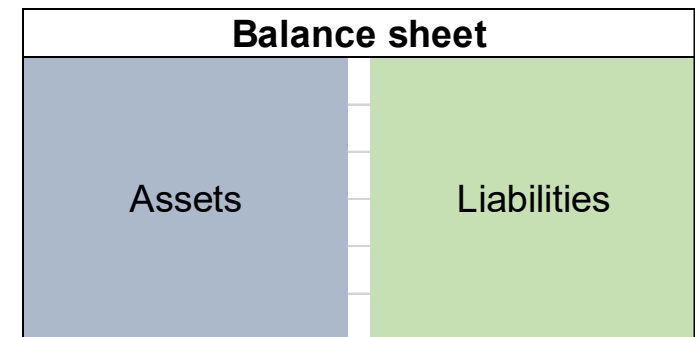
Annual accounts according to the CO

- Balance sheet
- Profit and loss / Income statement
- Appendix / Notes



Balance sheet

- The balance sheet reflects the state of the company's assets and financial position at the balance sheet date. It consists of assets and liabilities.
- The balance sheet can be presented in the form of a table (account) or a list



The asset includes assets that the company may have at its disposal as a result of past events, the value of which it expects to flow and the value of which can be estimated with a sufficient degree of reliability.

Foreign capital includes debts or liabilities arising from past events, which result in a likely flow of economic benefits to the company and whose value can be estimated with a sufficient degree of reliability.

Equity

represent the difference between foreign assets and funds (= residual quantity);
 departure investments of the owner(s);
 must be presented and structured according to the legal form of the company.

Assets

- **Current assets**
Cash and other assets that are likely to become cash within a year or will otherwise be realized. Elements part of the operation of the enterprise itself (eg. Stocks).
- **Fixed assets**
All other assets. Elements that are part of production.

Current assets
Cash and cash equivalents and current assets with a stock
Trade receivables
Other current receivables
Inventories and non-invoiced services
Accrued income & prepaid expenses
Fixed assets
Financial assets
Shareholdings
Tangible fixed assets
Intangible fixed assets
non-paid up basic, shareholder or foundation capital

INVESTMENTS

Liabilities

- Short-term debts
Liabilities including debts that are held for commercial purposes or that must be paid within 12 months from the balance sheet date
- Long-term debts
All other commitments.
- Equity
Business value or net worth.

Short-term debt	
	Trade payables/creditors
	Current interest-bearing liabilities
	other current liabilities/debt
	Deferred income and accrued expenses
Long-term debt / long-term borrowed capital	
	Long-term interest-bearing liabilities/debt
	other long-term debt/liabilities
	Provisions and similar items required by law
Shareholders' equity	
	common stock, basic, shareholder or
	Statutory capital reserves, retained earnings

FINANCING



Summary of the balance sheet

INVENTORY

INVESTMENTS

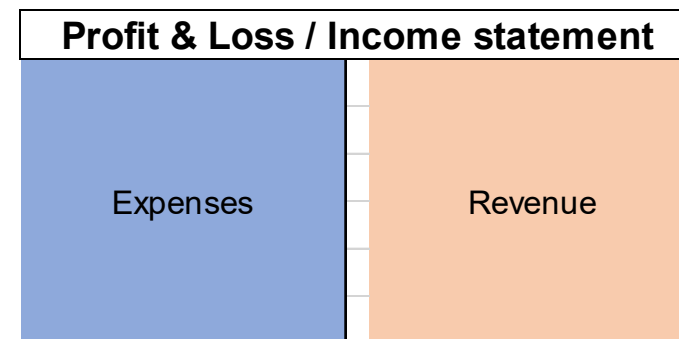
Balance sheet	
Assets	Liabilities

FINANCING

At SPECIFIC DATE

Income statement

- The income statement reflects the company's results.
- It can be represented as a table (account) or a list (report).



Expenses are realized during the reference period by the decrease in assets and/or the increase in debts that decrease equity without the owners receiving a distribution or repayment.

Revenues are realized during the reference period by increasing assets and/or decreasing debts that increase equity without the owners making a contribution.

Net income = difference between expenses and revenue

Margins – results – profit or loss

Change in the company's assets = > in equity

Different margins :

- Gross margin
- Net margin
- Net operating margin
- Corporate net margin
- EBIT margin
- EBITDA margin

Structuring the net result/income at three degrees

Net Income

expenses related to the goods	Revenue related to the goods
gross margin	
expenses related to the main activity	Revenue related to the main activity
net operating margin	
non-operating or ancillary expenses	non-operating or ancillary revenue
corporate net margin	

Minimum structure of income statement

Profit & Loss / Income statement

Cost of goods sold / Cost of material	Net proceeds from sales of goods and services
Gross margin	
salaries expenses / Labor cost Other expenses	Other revenue
EBITDA	
Provisions Depreciation	
EBIT	
Financial expenses Taxes	Financial revenue
Net operating margin (gain)	Net operating margin (loss)
Non operational costs or extraordinary, non recurring	Non operational income or extraordinary, non-recurring
Net profit	Net Loss

EBITDA = Earnings Before Interests Taxes Depreciation and Amortization

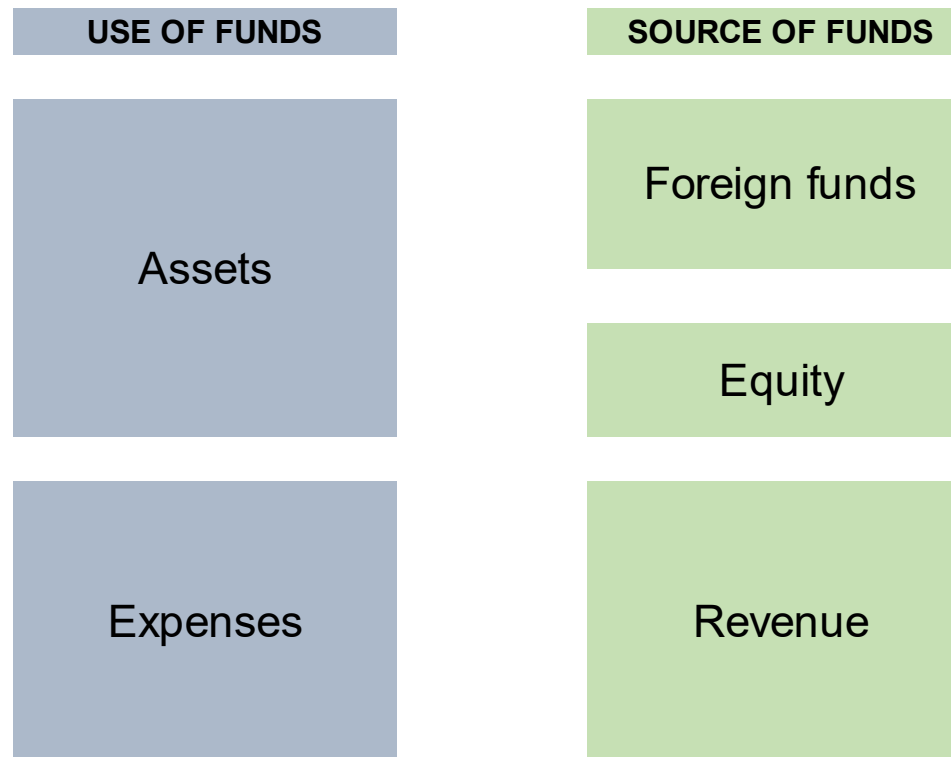
EBIT = Earnings Before Interests and Taxes



Examples of balance sheet and income statement



How does balance sheet & income statement work?



Margins in franc or %

In the income statement, the margin or profit is expressed in Swiss francs.

Often, it is also expressed as a percentage :

Gross Margin Formula

Gross Margin
(In Absolute Term) = Net Sales – COGS



Gross Margin
(In Percentage Form) = $\frac{\text{Net Sales} - \text{COGS}}{\text{Net Sales}} \times 100$

- Gross margin = percentage of turnover
- Revenue = turnover, sums of sales of goods and/or services
- Gross profit = difference between turnover and cost of good

Notes to the accounts / Appendix

The appendix completes and comments on the information given in the annual accounts. It contains:

- information on the accounting principles applied, where not prescribed by law (e.g. assets with an observable market price that are valued at the current market price; depreciation rate; chosen straight-line or degressive depreciation process) ;
- information, breakdowns and explanations relating to items on the balance sheet and in the income statement;
- The total amount of replacement reserves used and the additional hidden reserves, if this exceeds the total amount of new reserves of the same type where the result achieved thereby is considerably more favourable;
- other information required by law.

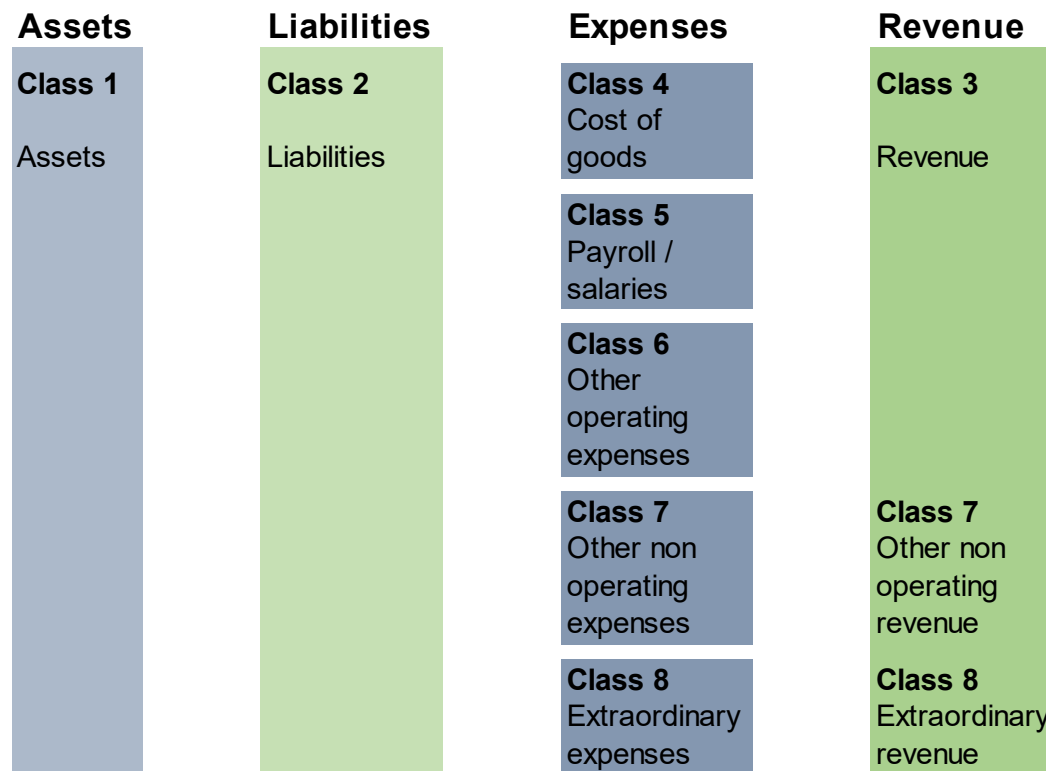
Additional information required:

The appendix / notes completes and comments on the information given in the annual accounts. It contains:

- Business name, legal form and registered office of the company
- Residual values of debts not shown on the balance sheet, such as leasings
- Debts owed to pension funds
- Amounts of security provided in favor of third parties (guarantee, etc.)
- Etc.

Chart of accounts

- The chart of accounts is a standardized structure enabling companies to present their accounts in a uniform and comparable manner



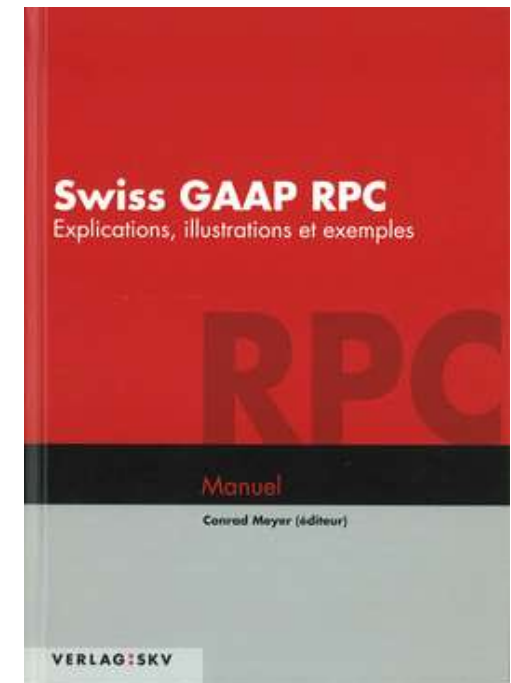
Preparation of financial statements

In addition to the annual accounts prepared according to the CO, companies are required to prepare the financial statements according to a recognized standard. :

- publicly traded companies ;
- cooperative societies (at least 2,000 members) ;
- some foundations

The main standards recognized by the Federal Council are :

- Swiss GAAP RPC
- IFRS



Relationship to tax law (direct taxes)

The annual accounts are decisive for the establishment of the tax base (taxes on income, profit and capital).

The tax authorities can only make changes if :

- unauthorized expenses were recognized and should not ;
- of taxable income was not recognized;
- foreign assets or items of funds were shown on the balance sheet below, respectively above the tax-allowed values.

Small "refresh... »

- Balance sheet accounts

Cash		Assets		Liabilities (Debt)	
In	Out	Increase	Decrease	Decrease	Increase
Cash / money	Cash / money	Value	Value	Value	Value

- Income statement, management accounts

Management		Expenses		Revenue	
Expense	Revenue	Increase	Decrease	Decrease	Increase
Loss / cost us money	Profit / make money	Value	Value	Value	Value