# Swiss GAAP FER

## ‘Cash flow statement’

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# Introduction

The cash flow statement is one of the primary statements required by Swiss GAAP FER and is often of particular interest to shareholders and other stakeholders. In practice, both preparation and interpretation of the cash flow statement can be challenging – especially when it comes to the presentation of cash flows from complex transactions such as business combinations, factoring or those involving foreign currencies.

This publication provides answers to questions that, in our experience, arise frequently when entities prepare a cash flow statement in accordance with Swiss GAAP FER. A special focus lies on examples to practical challenges that Swiss GAAP FER preparers might encounter.

Entities must carefully assess whether the guidance provided in this publication is applicable to their specific facts and circumstances. This brochure does not reflect all provisions included in Swiss GAAP FER. It is a collection of questions that arose or are likely to arise in practice and approaches how to solve those questions that are, in our view, in-line with the principles outlined in Swiss GAAP FER. For significant transactions or items, we 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.

# General concepts and terminology

## Purpose and structure of the cash flow statement

1. The cash flow statement is one of the primary statements required to be presented by Swiss GAAP FER. Its purpose is to provide a true and fair view of the reporting entity's cash flows. The cash flow statement reports changes in the (net) cash fund during a given period as a result of cash in- and outflows.
   [Framework 7, FER 4/7]

2. The cash flow statement provides, in addition to the balance sheet and income statement, complementary information about an entity's development of its financial position from operating, investing and financing activities.
   [FER 4/8]

3. FER 4 'Cash flow statement' as well as our considerations in this chapter apply to standalone and consolidated cash flow statements. Additionally, specific guidance on consolidated cash flows is included in FER 30/34-36. Practical application questions relating to consolidated financial statements are included in the section 'Specific considerations in consolidated financial statements'.

4. The cash flow statement reflects the changes in the reporting entity's cash and cash equivalents for the reporting period as a result of inflows and outflows from
   - operating activities
   - investing activities, and
   - financing activities.

   [FER 4/1]

5. Cash flows are defined as inflows and outflows of a defined fund during a period of time, which is usually the reporting period.
   [FER 4/7]

6. Non-cash investing and financing transactions must not be included in the cash flow statement. Such transactions should be explained in the notes to the financial statements. Examples of non-cash investing and financing transactions are:
   - purchase of assets against the issuance of own shares/own units of the capital of the entity or through an increase of capital (e.g. investment in kind)
   - purchase of an entity through the issuance of own shares/own units of the capital of the entity (e.g. merger)
   - issuance of bonus shares
   - conversion of financial liabilities into equity (e.g. convertibles or debt waivers)
   - acquisition of assets through finance leasing.

   [FER 4/6, 4/14]

## Cash and cash equivalents

7. Key to the preparation of the cash flow statement is the definition of cash and cash equivalents. According to FER 4/4, the cash fund comprises cash on hand and demand deposits with banks and other financial institutions. It also includes cash equivalents kept as a cash reserve which are short-term, highly liquid investments that are convertible to cash at any time, and which are subject to only an insignificant risk of changes in value.

8. To qualify as short-term, cash equivalents must have a remaining term up to 90 days from the balance sheet date as per FER 4/13. A literal interpretation of this paragraph results in a long-term investment that meets the other criteria (i.e. highly liquid, convertible to cash at any time, and subject to only insignificant risk of changes in value) becoming cash equivalent within the last 90 days before maturity because the maturity period is measured from the balance sheet date and not from the acquisition date. In practice, many entities classify only investments with an initial maturity period of 90 days or less from the acquisition date as cash equivalents. In our view, both approaches are acceptable, provided that they are applied consistently and, if relevant, disclosed in the accounting policies.

9. To meet the requirement of being a highly liquid investment convertible to cash at any time, cash equivalents must be convertible into cash without significant penalty and without an unreasonable notice period. Judgement may need to be applied to determine the appropriate classification of cash and cash equivalents.

FAQ 9.1 – Examples of instruments classified as cash and cash equivalents

FAQ 9.2 – Examples of instruments not meeting the definition of cash and cash equivalents

FAQ 9.3 – How is restricted cash classified?

10. As a policy choice, the standard allows defining the fund as ‘cash’ or ‘net cash’. The composition of the (net) cash fund is to be disclosed (refer to paragraph 42). Opening and closing balances of the funds are presented in the cash flow statement and must agree to the respective balance sheet line items. [FER 4/3]

11. When using a net cash fund as the basis of the cash flow statement, bank overdrafts (current accounts) are deducted from cash and cash equivalents [FER 4/5]. Bank overdrafts can only be included in the net cash fund if they are short-term and due at any time. In our view, a key characteristic of such bank arrangements is that balances often fluctuate between being positive and overdrawn and they are part of the entity’s regular cash management.

FAQ 11.1 – Presentation of bank overdrafts on the balance sheet

FAQ 11.2 – Composition and reconciliation of the (net) cash fund

## Foreign currencies

12. When an entity holds cash and cash equivalents in foreign currencies, changes in exchange rates increase or decrease their carrying value in the functional currency. The presentation of such foreign exchange movements in the cash flow statement is not specifically addressed in the standard. These effects should be presented separately from cash flows from operating, investing and financing activities in the cash flow statement as a reconciling item from cash and cash equivalents at the beginning to the end of the period. This position is also taken by SIX Exchange Regulation in its circular 2 'Financial Reporting'.

13. As per FER 2/17, transactions in foreign currency should be translated into the entity's functional currency at the exchange rate on the day of the transaction or at the average exchange rate of the month in which the transaction took place. As a result, the amount of additions to non-current assets might differ from the relating cash outflows.

14. A group may also maintain foreign operations through subsidiaries, joint ventures or associates whose functional currency is different from the group's presentation currency. As per FER 30/24, financial statements in foreign currencies to be consolidated must be translated into the presentation currency of the consolidated financial statements according to the current rate method. Consequently, individual items in the cash flow statement are translated to the group's presentation currency using the period's average exchange rate or using the spot exchange rate on the date of the transaction.
[FER 30/79]

# Cash flows from operating activities

15. Cash flows from operating activities relate to the entity's principal revenue-generating activities. This enables users to assess how much cash flows are generated by the operating activities and to what extent they sustain cash flows from financing and investing activities.

16. Cash flows from operating activities can be reported using the direct or the indirect method [FER 4/2]. The direct method shows actual cash inflows and outflows from the entity's operation. Alternatively, when using the indirect method, the profit or loss is adjusted for non-cash items, changes in working capital and other items that relate to investing and financing cash flows.

FAQ 16.1 – Direct versus indirect method

## Direct method

17. Operating cash flows reported using the direct method show the major classes of operating cash receipts and cash payments. This is consistent with the way cash flows from investing and financing activities are presented. The standard prescribes the following presentation of cash flows from operating activities when using the direct method:
+ inflows from clients for the sale of products, goods and services (deliveries and services)
– outflows to suppliers (goods and services)
– outflows to staff
+ other inflows
– other outflows
= cash inflow/outflow from operating activities (operating cash flow)
[FER 4/9]

18. If the direct method is used, a reconciliation of the profit or loss (or possibly the operating result) to the cash flow from operating activities must be disclosed in the notes. Such reconciliation is expected to contain line items similar to those used in the indirect method.
[FER 4/2]

## Indirect method

19. When using the indirect method, the operating cash flow is derived by adjusting the profit or loss for the period for non-cash income and expenses, changes in working capital and items relating to investing and financing activities. Common adjustments include depreciation and amortisation of property, plant and equipment and intangible assets as examples for non-cash transactions or a gain on the sale of a property, plant and equipment, for which the related cash flow will be reported under cash flow from investing activities.

20. The standard requires the following presentation of cash flows from operating activities when using the indirect method:
Profit/loss
+/– depreciation/amortisation resulting in profit of tangible and intangible fixed assets
+/– loss from impairment/(partial or full) reversal of impairment
+/– increase/decrease of provisions (including deferred income taxes) that do not affect the fund
+/– other expense/income that do not affect the fund
+/– loss/profit from the disposal of tangible and intangible fixed assets
+/– decrease/increase of receivables from goods and services

+/– decrease/increase of inventories
+/– decrease/increase of other receivables and prepaid expenses and accrued income
+/– increase/decrease of payables from goods and services
+/– increase/decrease of other short-term liabilities and accrued expenses and deferred income
+/– share of loss (profits) from the application of the equity method [FER 30/36]
= cash inflow/outflow from operating activities (operating cash flow)
[FER 4/10, FER 30/36]

FAQ 20.1 – Starting point for applying the indirect method

21. Payments received from government grants relating to income are part of the operating activities. They are either presented as separate line item in the cash flow statement or separately disclosed in the notes.
[FER 28/7]

# Cash flow from investing activities

22. Cash flows from investing activities include cash flows from additions and disposals of property, plant and equipment, financial assets and intangible assets as well as cash flows from acquisitions and disposals of consolidated entities.
[FER 4/11, FER 30/34]

23. Investing activities relate to the asset side of the balance sheet, as cash funds are exchanged for non-current or current (non-cash) assets (or vice versa). Cash flows from investing activities provide users of the financial statements with information about expenditures made to generate the entity's future cash flows and earnings.

24. The standard prescribes the following presentation of cash flows from investing activities:
*- outflows for investment (purchase) of tangible fixed assets*
*+ inflows from disposal (selling) of tangible fixed assets*
*+ inflows from government grants related to assets [FER 28/7]*
*- outflows for repayments of government grants related to assets [FER 28/7]*
*– outflows for investment (purchase) of financial assets (including loans, investments, securities etc.)*
*+ inflows from disposal (selling) of financial assets (including loans, investments, securities etc.)*
*– outflows for investment (purchase) of intangible assets*
*+ inflows from disposal (selling) of intangible assets*
*– outflows for the acquisition of consolidated entities (less cash taken over) [FER 30/34]*
*+ inflows from the disposal of consolidated entities (less cash given) [FER 30/34]*
*+/– inflows from the sale/outflows for the acquisition of minority interests [FER 30/34]*
*= cash inflow/outflow from investing activities*
[FER 4/11, FER 30/34]

25. Non-cash investing and financing transactions are not presented in the cash flow statement. They are disclosed in the notes to the financial statements.
[FER 4/6]

FAQ 25.1 – Separating non-cash elements when acquiring of property, plant and equipment

# Cash flow from financing activities

26. Cash flows from financing activities generally comprise receipts and payments from financial liabilities, paid-in equity and profit distribution. The financing cash flow is useful to the users of financial statements in assessing how operating and investing activities are financed and in anticipating future cash flows to the entity's capital providers.

27. The standard prescribes the following presentation of cash flows from financing activities:
*+ inflows from capital increase (including agio)*
*– outflows for capital reductions with release of resources*
*– distribution of profits to holders of units of the capital*
*–/+ purchase/disposal of own shares/own units of the capital of the entity*
*+ inflows from a bond issuance*
*– outflows for bond repayments*
*+/– issuance/repayment of short-term financial liabilities*
*+/– issuance/repayment of long-term financial liabilities*
*– dividend payments to minority shareholders (of subsidiaries) [FER 30/35]*
*+/– payment or repayment of capital from/to minority shareholders (of subsidiaries) [FER 30/35]*
*= cash inflow/outflow from financing activities*
[FER 4/12]

FAQ 27.1 – Transaction costs related to debt or equity financing

FAQ 27.2 – Gross vs. net presentation of items marked with '+/-'

# Practical questions

## Distinguishing between the cash flow categories

28. The classification into the three cash flow categories may in certain circumstances require judgement. We would expect such judgments to be made by considering the nature of the entity's business, the circumstances of the entity, the substance of the transaction, consistent with the treatment in other primary financial statements and consistently from period to period. Selected application questions are addressed below in FAQs 30.1-30.5.

29. The appropriate classification of cash flows as operating, investing and financing activities may be driven by the nature of an entity's business. This can include the type of operating activity, legal structure, entity and management and industry affiliation of the entity. For example, purchases of land and buildings are usually classified as cash flows from investing activities. However, a property developer usually classifies such purchases as cash flows from operating activities to the extent these relate to the entity's principal revenue-generating activities and represent inventory rather than property, plant and equipment. A holding company is likely to classify dividends received as cash flow from operating activities, as its business is mainly to earn a return on investments, whereas a manufacturing entity commonly classifies such dividends as cash flows from operating or investing activities.

30. A single transaction entered by an entity may give rise to several cash flows that can be classified differently. These should be split out according to their nature and in a manner that is most appropriate to the business and is presented under their respective headings. For example, it may be necessary to split payments under finance leases into the repayment portion of the lease, which is classified for the lessee as cash flow from financing activities, and the interest portion classified as cash flow from operating activities if the lessee has a policy to present interest paid within that category.

FAQ 30.1 – Classification of interest, dividends and taxes

FAQ 30.2 – Classification of internal development activities

FAQ 30.3 – Classification of factoring arrangements

FAQ 30.4 – Classification of lease arrangements (including sale and leaseback)

FAQ 30.5 – Purchase and disposals of current financial investments

## Specific considerations in consolidated financial statements

31. The accounting for acquisitions and disposals of businesses is addressed in a separate publication on Swiss GAAP FER 30 'Consolidated Financial Statements'. Below, challenges observed in practice related to the presentation in the cash flow statement are addressed.

32. Total cash flows relating to payment/receipt for acquisitions or disposals of subsidiaries (change in control) are presented separately under investing activities. The aggregate cash flows of cash paid/received must be shown net of cash taken over / given up.
[FER 30/34]

33. If the consideration consists of cash and non-cash elements, only the cash elements are reported in the cash flow statement, while the non-cash elements are disclosed in the notes to the financial statements. Typical non-cash elements of the consideration are the issuance of shares or the assumption of liabilities.
[FER 4/6]

FAQ 33.1 – Reconciliation example to explain the cash effect of a business combination

FAQ 33.2 – Classification of repayment of loan payables incurred in a business combination

FAQ 33.3 – Classification of contingent consideration

34. Where acquisitions or disposals happened during the period, their impact must be considered when determining the operating cash flow via the indirect method.

FAQ 34.1 – How are acquisitions/disposals of subsidiaries reflected in the indirect method?

35. Transaction costs incurred in a business combination are typically seen by Swiss GAAP FER preparers as part of the acquisition cost. Consequently, it is commonly classified within investing activities. If any entity has a policy to expense such transaction costs immediately, they are presented in the operating section of the cash flow statement.

36. The acquisition and disposal of minorities (without a change of control) is presented as cash flow from investing activities. However, any payment or repayment of capital from/to minority shareholders of subsidiaries that does not impact the ownership structure are presented within financing activities.
[FER 30/34]

37. Where a group consolidates joint ventures or associates applying the equity method [FER 30/3-4], only the cash flows between the group and these entities are presented in the cash flow statement, but not the cash flows of these investees themselves.
[FER 4/6]

38. Groups with equity accounted investments that use the indirect method shall present an additional reconciling item 'share of loss (profits) from the application of the equity method' in the cash flow statement.
[FER 4/6, FER 30/36]

FAQ 38.1 – Associates and joint ventures in the cash flow statement

# Presentation and disclosures

39. For each of the three cash flow categories, a subtotal of cashflows shall be presented. In our view, an entity should refrain from presenting other subtotals, such as free cash flow or change in net working capital, in the cash flow statement. Inclusion of additional sub-total would in any case only be acceptable if presented with less prominence than the required subtotals. Often, disclosure in a separate note, together with explanatory disclosures is the more appropriate option.
[FER 4/9-12]

40. The level of aggregation or disaggregation within each category of cash flows should not only comply with the standard but also consider the nature of the entity's business, materiality and the information needs of the users of the financial statements.

41. Comparative information is to be presented for items reported in the cash flow statement as well as for the supplementary notes.
[Framework 31]

42. FER 4/3 requires an entity to disclose the composition of the (net) cash fund, including its opening and closing balance. If the entity uses 'Cash and cash equivalents' as presented in the balance sheet, we consider that no further reconciliation is necessary. On the contrary, when the cash flow statement is prepared using a net cash fund, further disclosures apply. In our view, this information may either be presented directly in the cash flow statement or in the notes.

43. Non-cash investing and financing transactions must not be included in the cash flow statement. Such transactions are to be explained in the notes to the financial statements.
[FER 4/6]

44. FER 31/7, applicable to listed entities and those who are preparing a prospectus for a listing, requires disclosures of selected information such as the maturity, interest rate and currency for financial liabilities either separately per instrument or for groups of similar instruments. Such information is in our view not only helpful for entities within the scope of FER 31 as particularly the disclosure of maturities provides useful information on the timing of future cashflows.

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### FAQ 9.1 – Examples of instruments classified as cash and cash equivalents

Instruments typically classified as cash and cash equivalents include:

- petty cash
- demand deposits with banks and other financial institutions
- other accounts and term deposits with banks and other financial institutions accessible within a short period of time (refer to paragraph 8)
- certain money market instruments

Instruments qualifying as cash and cash equivalents may also be denominated in foreign currency.

### FAQ 9.2 – Examples of instruments not meeting the definition of cash and cash equivalents

SIX Exchange Regulation Circular 2 'Financial Reporting' states that WIR balances and vouchers do not meet the definition of cash equivalents. Further instruments typically not meeting the definition of cash equivalents include

- crypto currencies
- equity investments
- investments held for investment purposes rather than for the purpose of having a liquidity reserve
- short-term investments, where the counterparty faces financial difficulties

### FAQ 9.3 – How is restricted cash classified?

FER 4 is silent on restrictions in use or ownership restraints. We believe that management should consider whether the restricted cash meets the criteria of cash and cash equivalents or whether the funds are constrained in such a way that the definition is not met. Judgement is required to assess the economic substance of the restrictions. In practice, the following restrictions can occur:

- covenants require an entity to maintain a certain minimum cash balance
- cash is available for use by a subsidiary, but restrictions apply for the wider group
- a subsidiary operates in a country where the government restricts the transfer of cash abroad, such that the cash is not freely transferable around the group, or
- the cash is deposited in a group treasury function

In our view, the definition of cash and cash equivalents may still be met in these situations. Entities should, based on FER 6/2 and 6/7, disclose information about the restrictions, such as the amounts and characteristics.

By contrast, restrictions can be so severe that the definition of cash and cash equivalents is not met. This is the case, for example, if two signatures are required to access funds in a bank account, one of which is from an independent third party – such as in situations where a customer makes an advance payment for goods and services that will not be delivered until sometime in the future, to a secure escrow account, with the desire that the funds be kept separate until delivery. The entity should clearly distinguish these restricted funds from cash and cash equivalents and present them separately in accordance with FER 3 'Presentation and format'. Relevant information on restrictions and possible implications should be disclosed.

### FAQ 11.1 – Presentation of bank overdrafts on the balance sheet

FER 4/3 states that “the opening balance and the closing balance of the fund match the respective balance sheet items". If the entity presents its cash flows based on a net cash fund basis, it deducts bank overdrafts from cash and cash equivalents in the cash flow statement.

**How should bank overdrafts included in the net cash fund be presented on the balance sheet?**

Bank overdrafts are presented as liabilities on the balance sheet. The fact that bank overdrafts are deducted from cash and cash equivalents for the purposes of the cash flow statement, resulting in the net cash fund, does not imply that the bank overdrafts should be offset against cash and cash equivalents in the balance sheet. Based on the gross principle outlined in Framework 14, assets and liabilities should be presented separately. Balances may only be offset in factually justified cases, where offsetting is allowed or required by a standard and this reflects the economic substance of the arrangement.

### FAQ 11.2 – Composition and reconciliation of the (net) cash fund

What information should be disclosed on the fund’s composition and with regard to the reconciliation with the balance sheet line items?

The entity should disclose how it defines the (net) cash fund, for example, by the naming of the (net) cash fund in the cash flow statement or by describing it in the notes. The cash fund according to the cash flow statement is usually identical with cash and cash equivalents as presented on the balance sheet. If short-term bank overdrafts are included in the composition of the net cash fund, this fact and a reconciliation are to be disclosed. The reconciliation of the net cash fund to the balance sheet line items may be shown directly in the cash flow statement or separately in the notes.

### FAQ 16.1 – Direct versus indirect method

Is the direct or indirect method of determining the cash flow from operating activities preferable?

Both methods may be used to determine the cash flow from operating activities [FER 4/2] and they lead to the same total cash flow from operating activities, however, their derivation is different. In Switzerland, the use of the indirect method is most commonly observed. This also seems to be Swiss GAAP FER’s preferred method, implied by the additional reconciliation (from the result for the period to the cash flow from operating activities) required to be disclosed in the notes when using the direct method [FER 4/2]. In contrast, it could be argued that cash flow statements prepared following the direct method are easier to understand for the users of the financial statements, as the cash flows of the entity’s operating business are shown directly. Thus, the direct method could be seen as preferable from the perspective of providing information and good communication with investors.

Both methods are valid alternatives, and it is the entity’s policy choice which method to use.

### FAQ 20.1 – Starting point for applying the indirect method

According to FER 4/10 the starting point for the indirect method of deriving operating cash flow is the "result of the period" respectively the "profit/loss". "Profit/loss" refers to the net result after income taxes as referred to in FER 3/7 respectively FER 3/8. In practice, entities also use other subtotals presented in the income statement, such as profit before taxes. In our view, the starting point should be clearly identifiable, not exclude minorities and be accurately reflected in the cash flow from operating activities. The starting point will have an impact on the reconciling items. For example, if profit after taxes is used as starting point, it must be adjusted for income taxes recognised in the income statement.

### FAQ 25.1 – Separating non-cash elements when acquiring property, plant and equipment (PPE)

Non-cash investing and financing transactions are not included in the cash flow statement, but disclosed in the notes to the financial statements [FER 4/6]. This applies for example to unpaid purchases of PPE and other non-cash items such as assets acquired through finance leases. It would be rare for additions to PPE shown in the notes to match exactly the 'outflows for investment of property, plant and equipment' presented in the cash flow statement, as often some cash payments occur after the balance sheet date.

The cash flow statement must show the actual cash outflows for investing activities for the period, and not the changes in the balance sheet. Therefore, the cash flow from investing activities needs to exclude non-cash elements. In the example, the additions to PPE shown in the notes typically need to be adjusted for unpaid invoices recognised as liabilities, assets acquired via finance leases between the transaction date and payment date, and additions from the previous year paid in the current year.

To illustrate this, assume an entity discloses additions to PPE in the movement table in the notes of the financial statements of CHF 30 million. As of the balance sheet date, the entity recognised a liability for outstanding payments for acquisitions of PPE of CHF 15 million. As of the beginning of the year, that liability amounted to CHF 5 million. The entity entered into new finance leases of PPE of CHF 5 million. In practice, that amount of cash outflows is often derived through reconciliations. Such analysis could be as follows (amounts in MCHF):

| | |
|---|---|
| Additions to PPE | 30 |
| Less increase in liability for outstanding payments | -10 |
| Less additions from leases | -5 |
| **= Cash outflows for PPE** | **15** |

Further differences between the PPE note and the cash outflow shown in the cash flow statement may arise from the effects of foreign currencies. Assume that a Swiss company acquired the PPE from abroad and settles the purchase in EUR. As noted in paragraph 13, foreign currency transactions are accounted for using the exchange rate on the date of transaction or at the average exchange rate of the month. Assume that the entity recognised PPE for an amount of CHF 15 million upon delivery at the beginning of the month. Due to exchange rate movements, the CHF equivalent of the EUR amount payable increased to CHF 15.5 milllion. The relating payable is settled at the end of the month. The full amount of payment of CHF 15.5 million is presented as 'outflows for investment (purchase) of tangible fixed assets' within investing activities. The foreign exchange effect from the increase in the payable of CHF 0.5m is reflected in the income statement, it will need to be adjusted when using the indirect method.

### FAQ 27.1 – Transaction costs related to debt or equity financing

How should transaction costs related to debt or equity financing be presented in the cash flow statement?

As per FER 24/5, transaction costs of an equity transaction, insofar as they result in a procurement or repayment of equity (instruments), are recognised directly in equity as a reduction of capital reserves. In our view, equity transaction costs should be classified as cash flows from financing activities, as this is consistent with their deduction from equity which also follows the economic substance of the transaction. Furthermore, in accordance with the gross principle as per Framework 14, it might be appropriate to present such transaction costs separately from the proceeds of the equity instrument under financing activities.

With regards to transaction costs related to debt financing, entities should in our view present transaction costs as part of the financing activities as they are in direct relation to the financing cash flows received.

These considerations do not apply when acquiring or disposing of minorities of subsidiaries. According to FER 30/34, such transactions are to be presented as cash flows from investing activities. In our view, this also includes transaction costs incurred.

### FAQ 27.2 – Gross vs. net presentation of items marked with '+/-'

FER 4/12 uses the sign '+/–' for several items listed. Similar format is used by FER 30/34-35. In practice, questions arise whether these items are to be presented on a gross or a net basis.

Framework 14 and 29 refer to the gross principle as well as materiality considerations as fundamental considerations for the preparation of financial statements. Following these principles, significant cash flows should be presented gross to give the users sufficient information and clarity on the entity's cash flows. A gross presentation is in our view more meaningful for most items marked with both signs. This is particularly true for the issuance and repayment of non-current financial liabilities as these are typically significant transactions.

In practice, a few of these items such as 'purchase/disposal of own shares/own units of the capital of the entity' and 'issuance/repayment of short-term financial liabilities' are commonly presented on a net basis which is in our view acceptable based on the ambiguous guidance of the standard. Further, there are instances where a net presentation of cash flows may lead to meaningful information. For example, when the entity is acting as an agent or in case of frequent receipts and payments of current financial liabilities such as within a credit facility.

### FAQ 30.1 – Classification of interest, dividends and taxes

Swiss GAAP FER is silent on the classification of interest, dividend and tax receipts/payments as cash flows from operating, investing or financing activities. In any case, the chosen classification should be applied consistently. The following treatments can be observed in practice:

- FER 4 does not require interest received or paid to be separately presented or disclosed. Interest receipts and payments can be presented in the cash flow from operating activities, which is particularly common for financial institutions. It is also possible to classify interest received, for example on loans granted, as cash flow from investing activities. We also consider the classification of interest paid as financing cash flow appropriate, because interest payments typically relate to the financing of an entity. However, if interest paid is capitalised as borrowing cost, it should in our view be presented in the cash flow from investing activities.

- It is acceptable that dividends received are classified as cash flow from operating activities, which is particularly true for financial institutions or holding companies. Alternatively, dividends received may also be reported in cash flow from investing activities.
- Dividend payments are presented as cash flow from financing activities [FER 4/12]. FER 30/35 additionally specifies that dividend payments to minority shareholders (of subsidiaries) are classified as cash flow from financing activities.
- Tax payments are part of the cash flow from operating activities. If a tax payment is specifically attributable to an investing or financing activity, it may be reported within the corresponding cash flow category. These payments should however not be netted with the related cash flows to adhere to the principle of gross presentation (Framework 14).

### FAQ 30.2 – How are internal development activities presented in the statement of cash flows?

The presentation of internal development activities depends on whether they meet the recognition criteria for an intangible asset according to FER 10/4 or for property, plant and equipment as per FER 18/4.

If those criteria are not met, development activities are expensed in the income statement and cannot be classified as investing activities as they do not result in a recognised asset on the balance sheet. Such development activities reduce the entity's operating result and lead to a lower cash flow from operating activities.

If, on the other hand, the capitalisation criteria are met and development activities are capitalised, the cashflows from the related expenditures are classified as cash flow from investing activities.

### FAQ 30.3 – Classification of factoring arrangements

In practice, there are many different forms of factoring arrangements. Entities should consider the substance and characteristics of such arrangements to determine the treatment in the cash flow statement.

Under a factoring arrangement, an entity usually transfers some or all of its rights to collect cash flows from receivables to a factor, usually a bank or other financial institution, in exchange for an upfront cash payment.

Factoring arrangements commonly lead to the following situations:

| Accounting treatment | Impact on the cash flow statement |
|---|---|
| Factoring of trade receivables resulting in derecognition | Cash receipt from the factor is classified as a cash inflow from operating activities since the entity has received cash in exchange for trade receivables earned through the entity's operating business (oftentimes from principal revenue-generating activities). |
| Factoring of trade receivables that fail derecognition | Cash receipt from the factor is classified as a cash inflow from financing activities as this is in substance a financing arrangement.<br><br>Assuming the customer (debtor) pays the factor directly for the settlement of the transferred receivables, this would be a non-cash transaction from the standpoint of the reporting entity. Non-cash transactions for the entity are not presented in the cash flow |

statement but disclosed in the notes since the trade receivables are settled by the customer through the factor (and not the entity). The net impact of such factoring transactions on the cash flow statement is a financing cash inflow.

In practice, it is sometimes observed that entities argue that the factor is acting as a collecting agent on behalf of the reporting entity. If that reflects the substance of the transaction, it can be argued that, in addition to the cash inflow from financing activities, the receipt of funds by the factor represents an operating cash inflow for the reporting entity for the derecognition of the receivables and as well as a financing cash outflow for the settlement of the financial liability towards the factor. The net impact of this presentation in the cash flow statement would be an operating cash inflow, however also impacting the financing activities on a gross basis.

In our view, an entity should disclose the relevant elements of a factoring agreement and explain the implications on the financial statements including the cash flow statement.

### FAQ 30.4 – Classification of lease arrangements (including sale and leaseback)

Leases other than sale and leaseback transactions do generally not result in a cash flow at lease inception. Consequently, they are not reflected in the cash flow statement but disclosed in the notes as per FER 4/6.

Sale and leaseback transactions on the other hand usually result in a cash flow at the the point of sale/lease inception. An entity needs to apply judgement in classifying the proceeds and transparently disclose the method applied. In our view, there are multiple acceptable classifications under Swiss GAAP FER. An entity that regards such transaction to have primarily a financing nature, should rather classify the proceeds within the financing activities. Such a conclusion appears most reasonable when the lease meets the definition of a finance lease per FER 13/3. Where the financing nature is less apparent, such as in an operating lease, a classification of the proceeds received within the investing activities might provide more meaningful information to a reader of the financial statements. Given the complexity of such arrangements, disclosures are of particular relevance.

### FAQ 30.5 – Purchase and disposals of current financial investments

As per FER 4/11, cash flows from investing activities comprise, among others, additions and disposals of financial assets. The classification of current financial investments depends on the assessment of whether the investment meets the definition of a cash equivalent.

Investments that are a cash equivalent do not change the composition of the ‘Cash fund’ and purchaes as well as disposals are therefore not separately presented. On the contrary, purchases and disposals of investments not meeting the definition of a cash equivalent must be presented within the investing activities unless the entity trades in such short-term investments as part of their overall business purpose which would warrant presentation as operating activity.

The above view is also outlined by SIX Exchange Regulation in its circular 2 ‘Financial Reporting’.

## FAQ 33.1 – Reconciliation example to explain the cash effect of a business combination

To allow the readers of the financial statements to understand the cash and non-cash effects of a business combination, disclosure of a reconciliation of the transaction price to the amounts presented in the cash flow statements is often helpful.

Assume an entity acquired a target by:

- paying CHF 15 million cash upfront
- issuing new shares with a fair value of CHF 30 million
- receiving a loan from the selling shareholder of CHF 10 million (not repaid within the same period).

As of the acquisition date, the target had CHF 5 million of cash and cash equivalents. The acquirer incurred transaction cost of CHF 1 million. This might be illustrated as follows (amounts in MCHF):

| | |
|---|---|
| Consideration paid in cash | 15 |
| Consideration paid via a transfer of equity instruments | 30 |
| Loan incurred to the seller | 10 |
| Transaction cost | 1 |
| **= Total consideration transferred** | **56** |
| - Issued equity instruments (non-cash) | -30 |
| - Loan incurred (non-cash) | -10 |
| - Cash acquired | -5 |
| **= Outflow for acquisition of subsidiaries, net of cash acquired** | **11** |

## FAQ 33.2 – Classification of repayment of loan payables incurred in a business combination

Assume that an entity entered into a business combination. Parts of the transaction price are a loan payable to the selling party. Additionally, the acquired entity has several loan liabilities that are part of the net assets acquired.

**How does the entity classify the repayments of these balances in the cash flow statement?**

A loan incurred by the acquirer as part of the business combination is similar to a deferred consideration. In our view, the related payment is presented under Swiss GAAP FER as investing cash outflow as it relates to 'outflows for the acquisition of consolidated entities' as per FER 30/34.

The settlement of loan liabilities that existed in the acquired entity at the date of acquisition have typically rather a financing nature and should be classified accordingly. A classification within the investing activities might be appropriate where the repayment is triggered by the change in control, e.g., where the contracts with the banks stipulate such repayment when the ownership of the entity changes.

## FAQ 33.3 – Classification of contingent consideration

Assume that an entity acquired another business and that parts of the transaction price are in the form of an earn-out. Such contingent elements of a transaction price are also referred to as contingent consideration. As of the acquisition date, the entity records a liability for the contingent consideration expected to be paid and remeasures that liability subsequently.

For illustration purposes, we assume that

- the fair value of the contingent consideration at the acquisition date is CHF 10 million
- the settlement in a later period results in a cash outflow of CHF 15 million.

**How is such contingent consideration presented in the cash flow statement?**

As of the acquisition date, no cash outflow for the recognition of the contingent liability is recorded as no cash flow occurred yet. The contingent consideration payable shall be disclosed in the notes (FER 30/23).

At the settlement date, the entity presents the actual cash outflow of CHF 15 million in the cash flow statement. Any payment of contingent consideration is classified within the investing activities as any subsequent remeasurement of contingent consideration results in the adjustment of goodwill. Consequently, also payments exceeding the initially recognised contingent consideration liability are made for the acquisition of an intangible asset that meets the definition of a cash flow from investing activities as per FER 4/11. The same applies likewise to a lower settlement amount.

## FAQ 34.1 – How are acquisitions/disposals of subsidiaries reflected in the indirect method?

The cash flow statement reflects only the cash flows from working capital from the date of acquisition, respectively only until the disposal of the consolidated entities. For example, when deriving the cash flow from operating activities based on the indirect method, the acquired or sold inventories, receivables and payables would have to be added or excluded from the total change in the balance sheet.

To illustrate this, assume an entity acquired inventories of CHF 10 million as part of a business combination. Inventories as of the beginning of the financial year amounted to CHF 30 million and at year-end, they amount to CHF 45 million. Ignoring the impacts from foreign exchange, the entity would derive the line '+/– decrease/increase of inventories' in the indirect method to derive the operating cash flow as follows (amounts in MCHF):

| | |
|---|---|
| Inventories opening balance | 30 |
| Inventories acquired in business combinations | 10 |
| Less inventories ending balance | -45 |
| **= '+/– decrease/increase of inventories'** | **-5** |

The cash flow relating to the acquisition of inventories as part of the business combination is included in the net cash flow presented under investing activities.

## FAQ 38.1 – Associates and joint ventures in the cash flow statement

The following are examples of cash flows that will be reflected in the group's cash flow statement:

- sales to and purchases from the associate or joint venture, usually classified as cash flow from operating activities
- dividends received from the associate or joint venture, classified as cash flow from operating or investing activities consistent with the group's accounting policy (refer to FAQ 30.1)
- acquisitions or disposals of investments accounted under the equity method, classified as investing activities (refer to paragraph 24)

The shares in profit or loss of the investments accounted for under the equity method attributable to the group are non-cash transactions. Where the indirect method is applied to the operating cash flows, such shares in profit or loss are backed out when reconciling the result for the period to the operating cash flow.

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