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Changes to Dutch Accounting Standards for medium-sized and large legal entities

Changes to annual edition 2020

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Changes to Dutch Accounting Standards for medium-sized and large legal entities

Changes to annual edition 2020

The annual edition 2020 of the Dutch Accounting Standards (DASs) for medium-sized and large legal entities includes several new standards. The annual edition 2020 is effective for financial years starting on or after 1 January 2021. Some of the new standards, however, have become effective before that date. Earlier application is recommended for all new standards. New draft standards have been included as well. Draft standards do not yet formally apply. However, anticipating the final standards, draft standards do provide the accounting practice with a certain extent of support and guidance.

This factsheet outlines the main amendments to the DASs. Please note that industry-specific amendments (such as for banks, pension funds, investment institutions, educational institutions, health care institutions, fundraising organizations) are not addressed in this factsheet.

New standards effective for financial years starting on or after 1 January 2021

Accounting for acquisitions

An acquisition must be accounted for in the consolidated financial statements using the 'purchase accounting' method. It has been clarified that this only applies to the acquisition of an integrated set of activities, assets and/or liabilities capable of generating income. So as a matter of fact only to the acquisition of a 'business', i.e. a 'business combination'. If no 'business' is acquired, the acquiring party recognizes the acquired identifiable assets and/or liabilities in accordance with the accounting for the acquisition of individual assets and liabilities. The purchase price is then allocated to the identifiable assets and/or liabilities acquired on the basis of their relative fair value on the acquisition date. No goodwill arises in this case.

The Dutch Accounting Standards Board has not specified in which cases an integrated set of activities, assets and/or liabilities capable of generating income is acquired. This, in many cases, is clear without a doubt. In some cases, a higher degree of judgment is needed. If so and if the effect is material, the nature of that judgement including the associated assumptions must be disclosed.

Lapsed options

A number of options have been lapsed in the Dutch Accounting Standards. As a result, only one determination method is allowed for certain events and transactions. These concern:

- **Property interest**

There was and still is the option to recognise a property interest of a lessee classified as an operating lease (for instance land on a long lease) by the lessee as investment property. It was an option to use this alternative approach for each property interest, but this option has been lapsed. It is still possible to choose this as the basis for all property interest that are classified as an operating lease by a lessee. Applying the same accounting policy for similar assets improves the comparability of financial statements.

- **Hedge accounting**

When applying cash flow hedge accounting or cost hedge accounting, two options were available if the hedged item of a forecast transaction leads to the recognition of a non-financial asset or a non-financial liability. In that case, applying cash flow hedge accounting gains and losses related to the hedge accounting are recognised directly in equity. Applying cost hedge accounting these gains and losses are not recognised or included in the balance sheet as an accrual. Then, at the time of the transaction, there was the option to choose with respect to these gains and losses:

Example: Accounting for acquisition of a 'business' versus accounting for an acquisition of assets and liabilities.

BV A acquires 100% of the shares of BV B. The purchase price is 13,100 and the related transaction costs are 200, in total amounting to 13,300. BV B's activities consist of operating a vessel. BV B employs 20 staff. At the acquisition date BV B's balance sheet is as follows:

Tangible fixed assets (vessel)	8,000	
Inventories	500	
Cash and cash equivalents	1,000	
Shareholders' equity		9,500

The fair value of the vessel is 12,000 at the acquisition date. The fair value of the other identifiable assets and liabilities is equal to the carrying amount. The nominal tax rate is 25%.

If BV A accounts for the purchase of the shares of BV B as a 'business combination', the journal entries for the recognition in BV A's consolidated financial statements are as follows:

- to include them in the initial cost or other carrying amount of the non-financial asset or the non-financial liability that arises when the hedged future transaction takes place (the so-called 'basis adjustment'); or
- to transfer them to the profit and loss account in the period that the hedged item is recognised in the profit and loss account.

The latter option has been lapsed. This means that the 'basis adjustment' will be mandatory.

- **Cash flow statement**

In the cash flow statement, on the purchase or sale of group companies, the cash and cash equivalents available in the consolidated subsidiaries could be (1) deducted from the purchase or selling price, or (2) stated separately as part of the reconciliation between the net cash flow and the balance sheet movement in cash and cash equivalents. The latter option has been lapsed.

- **Share-based payments**

If the counterpart has the right to demand cash settlement, the fair value of this settlement alternative may be lower than on equity settlement by the legal entity. In that case it is required to recognise the equity component (the difference between the fair value of the total commitment less the fair value of the commitment on cash settlement) separately. Previously it was possible to only recognise a liability. This option has been lapsed.

Disclosure requirements for medium-sized legal entities

A number of exemptions of disclosure requirements for medium-sized legal entities have been lapsed:

- **Change in accounting policy or change in accounting estimate**

The exemption for medium-sized legal entities for providing a quantitative indication of the effect of a change in accounting policy or of a change in accounting estimate on one or more subsequent reporting periods has been lapsed.

- **Impairments**

Legal entities must provide information in the notes about material impairments at the level of the individual assets, the cash-generating units and segment information. The exemptions for medium-sized legal entities with regard to disclosures at the level of the individual assets and the cash-generating units have been lapsed. The segment-level information exemptions remained.

- **Investment property**

In situations where it has been chosen as a basis to measure investment property at fair value but this cannot reliably determined, an investment property must be measured at historical cost. A further disclosure must also be given on the measurement at historical cost (such as, for example, the depreciation method and percentages used and a movement schedule). Medium-sized legal entities were exempt from this. This exemption has been lapsed.

- **Liquidity, interest and cash flow risk**

The exemption for medium-sized legal entities for providing information on liquidity risk for financial assets and financial liabilities has been lapsed. The exemption for medium-sized legal entities to provide information on interest and cash flow risk remained.

New standards effective from 1 January 2020 as a result of legislative changes

Compensation statement and remuneration report (listed entities)

As of 2020, EU-Directive (2017/828/EU) 'Shareholder engagement' has been implemented in the Netherlands Civil Code. It prescribes that an entity whose shares or depositary receipts are listed on a regulated market (as meant in article 1-1 **Financial Supervision Act** ('Wft')) must prepare a compensation statement on the remuneration of the management board members and the supervisory board members. A new standard (DAS 404 'Compensation statement and remuneration report') includes the requirements for this new report. This also includes the provisions of the 'remuneration report' to be drawn up on the basis of the Netherlands Corporate Governance Code. For a substantive description we refer to DAS 404 'Compensation statement and remuneration report'.

Goodwill	800	
Tangible fixed assets (vessel)	12,000	
Inventories	500	
Cash and cash equivalents	1,000	
Deferred tax liability *		1,000
Banks (debt arising from acquisition)		13,300

*Deferred tax liabilty with regard to vessel: (12,000 - 8,000) * 25% = 1,000

If BV A accounts for the purchase of the shares of BV B as an acquisition of assets and liabilities, the journal entries for the recognition in BV A's consolidated financial statements are as follows:

Tangible fixed assets (vessel)	11,808	
Inventories	492	
Cash and cash equivalents	1,000	
Banks (debt arising from acquisition)		13,300

The allocation of the purchase price to the identifiable assets is calculated as follows:

Purchase price (including additional transaction costs)	13,300
Less: Cash and cash equivalents (on the basis of DAS 290 at fair value)	(1,000)
Remains for acquired assets	12,300
Tangible fixed assets based on relative fair value (12,300 * (12,000/(12,000 + 500)))	11,808
Inventories based on relative fair value (12,300 * (500/(12,000 + 500)))	492

The above also applies to the recognition of the acquired subsidiary at net asset value in the separate financial statements. There too, goodwill can only arise if an integrated set of activities, assets and/or liabilities capable of generating income is acquired.

Related party transactions (listed entities)

An entity whose shares or depositary receipts are listed on a regulated market (as meant in article 1-1 Wft) must, as a result of the implementation of EU-Directive (2017/828/EU) 'Shareholder engagement' make public disclosure of a related party transaction, which has not been entered into in the normal course of business or under normal market conditions (i.e. at arm's length), at the time the transaction is entered into.

New standards effective for financial years starting on or after 1 January 2019

Transitional provision for transition from the major maintenance provision to recognising major maintenance in carrying amount (componentization approach)

In October 2019 DASB Statement 2019-14 'Tangible fixed assets' (transitional provisions 'cost of major maintenance')' has been published. This statement contains a transitional provision for a change in accounting policy through which a transition takes place from (a) recognizing the costs of major maintenance through a major maintenance provision to (b) the recognition of the costs of major maintenance in the carrying amount of the asset. This transitional provision applies to such a change in accounting policy not only in the financial statements 2019, but also to such a change in accounting policy in later years. The transitional provision means that the transition to the componentization approach may not only be recognised retrospectively (as normally for changes in accounting policies), but that it may also be chosen to account for the transition (1) retrospectively from the previous financial year or (2) retrospectively from the current financial year (i.e. the financial year in which the change in accounting policy is adopted).

Draft standards

Revenue recognition

The Dutch Accounting Standards Board (DASB) already started a project in 2017, with the goal to determine how the provisions of IFRS 15 'Revenue from Contracts with Customers' can be included in the Dutch Accounting Standards. In November 2019, the Dutch Accounting Standards Board has published to this purpose draft standards (in DASB Statement 2019-15), which also are included in the annual edition 2020 of the Dutch Accounting Standards. It is expected that these draft standards will be finalised before year-end 2020. These forthcoming standards are expected to be effective for financial years starting on or after 1 January 2022.

We will issue a separate publication on the new revenue recognition standards. These concern both the revenue recognition of goods and services (DAS 270 'The income statement') and the revenue recognition of construction projects for third parties (DAS 221 'Construction contracts').

Classification of real estate in parent entity's separate financial statements

It has so far been determined that a parent entity that owns a property and makes it available to another group company, classifies this property as investment property in the parent entity's separate financial statements. In the consolidated financial statements, however, the property classifies as property for own use. This can result in differences between the consolidated financial statements and the separate financial statements.

In order to avoid this, it is proposed that if the parent entity owns the property and makes it available to a consolidated subsidiary for its own use, the property should be classified as property for own use in the parent entity's separate financial statements. Moreover, this is in line with the position that Deloitte has had for some time and is included as such in the Handbook External Reporting ('Handboek Externe Verslaggeving').

The same issue arises with the measurement in the parent entity's separate financial statements of a consolidated subsidiary that makes property available to an (other) consolidated subsidiary for its own use. In line with the foregoing, it is proposed to classify property held by a subsidiary as property for own use when applying the equity method, as is also applied in the consolidated financial statements.

This method of classification and measurement does not result in differences between equity according to the consolidated financial statements and equity according to the separate financial statements.

Building on the example of the consolidated financial statements above, here are the relevant journal entries for the separate financial statements.

If BV A accounts for the purchase of the shares of BV B as a 'business combination', the journal entry for the recognition in BV A's separate financial statements is as follows. The net asset value of the subsidiary in this case is 12,500 (= 12,000 + 500 + 1,000 – 1,000):

Goodwill	800	
Financial fixed assets (participation BV B)	12,500	
Banks (debt arising from acquisition)		13,300

If BV A accounts for the purchase of the shares of BV B as an acquisition of assets and liabilities, the journal entries for the recognition in BV A's separate financial statements are as follows. The net asset value of the subsidiary in this case is 13,300 (= 11,808 + 492 + 1,000):

Financial fixed assets (participation BV B)	13,300	
Banks (debt arising from acquisition)		13,300

Contact us:

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