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

Changes to annual edition 2021

Professional Practice Department
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The annual edition 2021 of the Dutch Accounting Standards (DAS) for medium-sized and large legal entities includes amendments to several standards. The annual edition 2021 is effective for financial years starting on or after 1 January 2022. 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 DAS. 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.

Amendments in accounting standards effective for financial years starting on or after 1 January 2022

Revenue recognition

The Dutch Accounting Standards Board (DASB) has published amended standards for revenue recognition. The reason for the amendments is the need in practice for more detailed requirements regarding the revenue recognition under Title 9, Book 2 of the Dutch Civil Code (DCC) and the Dutch Accounting Standards. DAS 270 'The profit and loss account' (revenue recognition of goods and services) and DAS 221 'Construction contracts' (revenue recognition of construction contracts) have been amended. We have issued a separate publication on these amended standards: NL GAAP Focus on revenue recognition. In addition to a description of the amendments, this publication also includes many examples. See also DASB-Statement 2020-15 for more background information and a description of the amendments.

Onerous contracts

The DASB has clarified how provisions for onerous contracts should be measured. The DAS already required that a provision for onerous contracts shall be based on the unavoidable costs of meeting the obligations under the contract. The unavoidable costs under a contract reflect the lower of (1) the cost of fulfilling it and (2) any compensation or penalties arising from failure to fulfil it. However, it was not clearly explained what should be understood by the cost of fulfilling the contract. See also DASB-Statement 2021-10 for the amendments and the DASB's considerations.

It is clarified that the cost of fulfilling a contract comprise:

- the incremental costs, i.e. the additional costs that would not have incurred without the contract;
- an allocation of other costs that relate directly to fulfilling a contract.

Examples of incremental costs include:

- direct costs for labor and materials;
- in case of an (onerous) lease contract designated as an operational lease: the remaining lease terms until the end of the non-cancellable contract period, also taking into account any income from sub-leases.

Examples of other costs that relate directly to fulfilling a contract include:

- an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling that contract among others;
- costs of contract management;
- costs of project administration;
- a specific part of the necessary maintenance and repair costs, cleaning costs and insurance costs.

This means that general costs, for example overheads, are not part of the cost of fulfilling a contract.

These requirements apply to all types of contracts, including contracts within the scope of DAS 221 'Construction contracts', i.e. contracts relating to construction projects. The DAS requires that a provision should be recognized when it is probable that the unavoidable costs of meeting the obligations for all performance obligations in a contract will exceed the economic benefits expected to be received under the contract. A provision for onerous contracts should therefore be recognized at contract level, not at the level of individual performance obligations.

Government grants

The DAS includes new standards regarding the presentation of grants related to income in the profit and loss account. Grants related to income can be presented as part of the:

- revenues, either separately or under a general heading such as 'other income'; or
- expenses, deducted from the expenses related to the grant.

The nature of the grants related to income should be taken into account in the determination of which method is appropriate. Relevant in this determination is to make a distinction between:

- grants related to expenses; and
- grants related to certain lost revenues or operating losses.

Grants related to expenses can be presented according to both methods.

Grants related to certain lost revenues or operating losses are presented under revenues.

We also refer to DASB-Statement 2021-4 which includes the amendments and the DASB's considerations.

Subsequent events and the going concern assumption

An entity shall not adjust the amounts recognized in its financial statements to reflect non-adjusting events after the reporting period, unless the going concern assumption is no longer applicable. In this situation, the financial statements should be prepared on a liquidation basis. It has been clarified that this also applies to events that have become known in the period between the preparation and the approval of the financial statements. See on the right an example of such an event and its impact on the financial statements.

Management board's report

The DASB has restructured DAS 400 'Management board's report in a policy neutral way. This means no new requirements have been included. The new structure is intended to increase the readability and accessibility of the standard.
The new standard has a new structure, which firstly contains the requirements applicable to all medium-sized and large legal entities, followed by the requirements for specific entities. The structure is as follows:

- Paragraph 1: requirements for all medium-sized and large legal entities;
- Paragraph 2: supplementary requirements for large legal entities;
- Paragraph 3: supplementary requirements for (certain) public interest entities;
- Paragraph 4: supplementary requirements for listed entities.

This structure makes it easier to determine which requirements apply to a specific entity.

Example: Subsequent events and the going concern assumption

A legal entity has prepared its financial statements 2020 on a going concern basis on 31 March 2021. The financial statements will be approved by the general meeting of shareholders on 31 May 2021. In between those dates, it has become clear that the legal entity will not be able to obtain the necessary financing for its activities after all. As a result, it can no longer meet its obligations and the prolonged continuation of the legal entity's activities as a whole has become impossible. As a result, the going concern assumption has become void. The consequences for the financial statements 2020 are as follows:

- this is an event that is an indicative of a condition that arose after the reporting period (non-adjusting event after the reporting period);
- However, because the financial statements 2020 have not yet been approved and the event gives rise to abandon the going concern assumption, this event should be accounted for in the financial statements 2020;
- This should be done by preparing the financial statements 2020 on a liquidation basis.

The DASB does not discuss the way in which this should be interpreted from a legal perspective, e.g. whether the event should be accounted for (1) in the financial statements already prepared or (2) in a new set of financial statements to be prepared. In (legal) practice, usually the second interpretation will be chosen. This means concretely that the financial statements already issued should be withdrawn and a new financial statements (on a liquidation basis) is issued, with adjustment of the date and - if applicable - a new auditor's report (according to the requirement in art. 2:393(7) NCC).

Amendments in accounting standards effective for financial years starting on or after 1 January 2021

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

The annual edition 2020 of the DAS included draft standards regarding the classification of real estate in the parent's separate financial statements. By means of DASB-Statement 2021-1 these standards became final in January 2021 without any changes.

Previously, it was stipulated in the DAS 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 could result in differences between the consolidated financial statements and the separate financial statements.

In order to avoid this, the DASB allows, if the parent entity owns the property and makes it available to a consolidated subsidiary for its own use, to classify the property for own use in the parent entity's separate financial statements. Moreover, this is in line with a longer time standing position of Deloitte as included the (Dutch language based) 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 a(n) (other) consolidated subsidiary for its own use. In line with the former example, it is permitted 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.

Amendments in accounting standards effective for financial years starting on or after 1 January 2020

Temporary rent reductions as a result of the covid-19 pandemic

Due to the unfavorable economic developments as a result of the covid-19 pandemic lessors have provided rent concessions to lessees by:

- rent reductions for a period of time;
- granting deferment of payment.

For the situation whereby a lessor and lessee have agreed to rent reductions for a period of time, the DASB has issued new standards describing how such reductions should be accounted for in the financial statements of both the lessor and lessee. These new standards initially applied only to lease payments originally due until 30 June 2021 (see DASB-Statement 2020-12 from October 2020). In June 2021, these requirements were extended for lease payments due until 30 June 2022 (see DASB-Statement 2021-9). The accounting treatment according to these new standards is as follows:

- in the case of an operational lease, both the lessor and the lessee:
  - may allocate the rent reduction to the period to which it relates; or
  - may allocate the rent reduction on a straight-line basis over the remaining lease term.
- In the case of a financial lease the lessee may:
  - Recognize the rent reduction directly as income at the time of the contract modification; or
  - Allocate the rent reduction to the period to which it relates.
- In the case of financial leases, the lessor shall recognize the rent reduction directly as an expense in the profit and loss account.

The DASB has not drafted new standards for the situation in which only a deferment of payment is granted. In case of deferred payments regarding operational leases, liabilities (lessees) and receivables (lessors) are recognized in accordance with the existing standards. In the case of financial leases, a deferment of payment may have an impact on the measurement of the lease receivables and payables, as the present value of the lease payments may change.

Example: Temporary rent reductions as a result of the covid-19 pandemic – operational lease in the financial statements of the lessee

A lessee enters into an operational lease contract to rent a building for a period of 15 years (180 months), starting on 1 January 2019. The agreed upon lease payment amounts 10,000 per month. The covid-19 pandemic has a negative impact on the lessee. As a result, on 30 June 2020 the lessor and lessee agree to temporarily reduce the lease payments to 1,000 per month for 9 months, from July 2020 until March 2021. This rent reduction can be recognized in the 2020 and 2021 financial statements of the lessee in two ways.

Method 1 – allocation to the period to which the reduction relates
The rent reduction relates to the period July 2020 until March 2021.
The lessee accounts for the following journal entry on a monthly basis during that period:

Lease expenses	1.000	
Cash		1.000

Method 2 - straight-line allocation over the remaining lease term
The remaining lease term on 30 June 2020 is 162 months (= 180 – 18). The total lease payment for the lessee during the remaining lease term amounts 1,539,000 (= (162 x 10,000) – (9 x 9,000)). From June 2020 onwards the lease payment amounts then 9,500 per month (= 1,539,000 / 162 months).

The lessee accounts for the following journal entry on a monthly basis during the period July 2020 until March 2021:

Lease expenses	9.500	
Advance rent reduction		8.500
Cash		1.000

After the period to which the rent reduction relates, the lessee accounts for the following journal entry on a monthly basis during the remaining lease term:

Lease expenses	9.500	
Advance rent reduction	500	
Cash		10.000

Transitional provision in DAS 122 'Measurement bases for foreign currency'
The annual edition 2019 of the DAS (effective for financial years starting on or after 1 January 2020) excluded the option (except for goodwill) to translate at transaction rate on the date of acquisition, adjustments to fair value of the carrying amounts of the identifiable assets and liabilities of the acquired foreign operations. Such adjustments may only be translated at the closing rate. A transitional provision determines that this change in accounting policy may be accounted for prospectively. It has been clarified that prospective application in this case means that this option is no longer permitted for acquisitions of foreign operations taking place on or after 1 January 2020. For more background information, we refer to DASB-Statement 2020-14.

Draft standards

Tangible fixed assets – proceeds from selling produced items
Before the amendments in the annual edition 2021, the DAS specified that, when an asset is not at the location and condition necessary for it to be capable of operating in the manner intended by management, the proceeds from selling any items produced by that asset are deducted from the cost of the asset (tangible fixed assets). An example is the proceeds from selling of produced samples when testing the asset. Similar to the amendments to IFRS, the DASB proposes to add an option to recognize such proceeds and related expenses directly in the profit and loss account. If this option is chosen, the relevant amounts recognized in the profit and loss account should be disclosed.

In addition, it is proposed in a transitional provision, that the change in accounting policy should be accounted for retrospectively. Retrospective application in this case means that only those assets should be taken into account that are at the location and condition necessary for it to be capable of operating in the manner intended by management, at or after the start of the previous financial period. See on the right an example regarding the application of this transitional provision.

'Pooling of interests' method – disclosure requirements
DAS prescribes that for mergers in which the acquiring party can't be designated, the 'pooling of interests' method should be applied. In this situation information should be disclosed (amongst others) about assets and liabilities, and results regarding the period prior to the merger date of the entities involved in the merger. The DASB proposes to clarify that the following items of information should be disclosed:

- amounts of the assets and liabilities at the beginning of the reporting period of the entities involved in the merger. In fact, this concerns the balance sheet of the entities involved in the merger at the beginning of the reporting period in which the merger took place; and
- Net turnover, other operating income, exceptional items and net result of the entities involved in the merger regarding the reporting period preceding the merger.

It is recommended that this information should also be disclosed as of the merger date (regarding assets and liabilities) and for the period between the beginning of the reporting period and the merger date (regarding the results). Of course, this can only be done if the relevant information is available, i.e. if the entities involved in the merger have prepared interim figures as at the merger date (either internally or externally).

Example: Proceeds from selling produced items - application transitional provision

A manufacturer of chemical products (A BV) has developed two production facilities. Facility X became operational in year 1 and facility Y in year 2. Part of the installation process of the facilities involves the production of samples. These samples were sold during the installation process to a third party for an amount of 100 (facility X, year 1) and 200 (facility Y, year 2) respectively.

In the financial statements in year 1 and year 2, A BV deducted these proceeds from the cost of the production facilities (tangible fixed assets). In year 3, based on the changes in the DAS, A BV decides to change its accounting policy in the financial statements year 3 and recognize these proceeds directly in the profit and loss account.

The impact of the change in accounting policy on the financial statements year 3 is as follows:

- A BV should apply the transitional provision. As a result, only the treatment of the proceeds of 200 from facility Y needs to be adjusted. This is because this asset was at the location and condition necessary for it to be capable of operating in the manner intended by management, at or after the start of the previous year (year 2). The capitalized proceeds of 100 in year 1 regarding facility X are not included in this change in accounting policy;
- Equity at the beginning of the previous year (year 2) is recalculated;
- The proceeds of 200 from facility Y are recognized in the comparative figures (year 2) of the profit and loss account in the financial statements year 3. The cost of production facility Y (tangible fixed assets) is increased by 200 in year 2. This also leads to higher depreciation costs as of year 2.

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