



## NL GAAP Focus

### Summary of changes to Dutch Accounting Standards for medium-sized and large entities effective for financial years starting on or after 1 January 2024

This overview outlines the main amendments to the 2024 edition of the Dutch Accounting Standards (DAS) for financial years beginning on or after 1 January 2024. Please note that industry-specific amendments are not addressed in this summary<sup>1</sup>. This publication contains the main amendments known as of October 31, 2023.<sup>2</sup>

For all amendments earlier application is recommended.

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#### Clarifications on reporting when there is uncertainty about the going concern assumption

The Dutch Accounting Standards Board (DASB) has reviewed the reporting requirements on going concern and incorporated several clarifications into DAS 170 'Cessation and material uncertainty about the going concern assumption' (see also [DASB Statement 2023-3](#) and [2023-13](#)).

The main clarification concerns the way in which the degree of uncertainty should be assessed in situations where an entity is no longer expected to be able to meet its obligations on its own. This is important for assessing the extent of uncertainty regarding the going concern assumption. In that case, it is important to determine whether additional cooperation can be obtained from interested parties. Think, for example, of being able to obtain financial support from a shareholder or making a payment arrangement with a creditor. If necessary additional cooperation is possible but not yet confirmed when the financial statements are prepared, there is an increased degree of uncertainty about the going concern assumption. In that situation, it should be assessed whether or not there is a material uncertainty. The judgment may then be that there are (1) concerns about the going concern assumption, but no material uncertainty, or (2) there is material uncertainty about the going concern assumption.

If it is sufficiently plausible that the necessary additional cooperation will be obtained, there is no material uncertainty about the going concern assumption. The degree of plausibility should be assessed based on all facts and circumstances. Therefore, if the degree of plausibility is high, there need not be a material uncertainty about the going concern assumption. This was not explicitly included in the standards and has now been added, including a description of the applicable disclosure requirements.

1. Specific industries in the DAS include banks, insurers, pension funds, premium pension institutions, investments institutions, cooperatives, commercial foundations and associations, not-for-profit organizations, housing corporations, fundraising organizations, health care institutions and educational institutions.
2. The Dutch Accounting Standards Board has announced that it will publish further amendments to the guidance on Pillar 2 income taxes and the amended Corporate Governance Code in autumn 2023. Those amendments have not yet been published at the time of finalising the texts of this publication and are therefore not included in this publication.

This results in four different going concern scenarios which are included in an overview in the appendix to DAS 170. For each scenario it is indicated which principles should be used and which disclosures are required. The scenarios concerned are:

1. no uncertainty about the going concern assumption;
2. concerns about the going concern assumption, but no material uncertainty;
3. material uncertainty about the going concern assumption; and
4. cessation of the entirety of the entity's operations is unavoidable.

The overview has been added on page 8.

Another clarification relates to the situation where an entity is established for a definite period of time (e.g., building societies) or it is decided to liquidate after establishment. In these cases, if the entity expects to meet all obligations, the financial statements are prepared on a going concern basis. The DASB has now clarified that in the event an uncertainty exists in the expectation that the entity can meet all obligations, similar disclosure requirements apply as in the case of uncertainty about the going concern assumption as in scenario 2 or scenario 3.

A final clarification concerns the harmonization of the conceptual framework. The law refers to "material uncertainty" and "reasonable doubt" about the going concern. The degree of uncertainty is the same in both cases. The standards now refer only to "material uncertainty."



### Cash flow statement - classification of bank overdrafts

The cash flow statement is a statement of cash inflows and outflows. Bank overdrafts are generally not classified as cash. Withdrawals and repayments from bank overdrafts are generally considered as cash flows from financing activities. Following IFRS, the DASB has indicated that bank overdrafts that are repayable on demand and form an integral part of an entity's cash management are included as a component of cash in the cash flow statement. Such current account positions are mostly characterized by the fact that the account balance often fluctuates between positive and negative. The word "mostly" is used, according to the DASB, to indicate that "the frequent fluctuation of an account balance between positive and negative" is an indication that a current account position is an integral part of an entity's cash management. Cash management refers to the management of cash for the purpose of meeting short-term obligations. When assessing whether the bank overdraft is an integral part of cash management, the facts and circumstances must be considered. In our opinion, this means that if the balance is always negative, it does not constitute cash management but should be classified as financing activities. The payments and receipts in the relevant bank account should be accounted for based on the nature of the cash flows (such as receipts from debtors). The overall balance of payments and receipts however, does not result in a movement in cash, but is a financing cash flow (withdrawal/repayment from the bank overdraft).

The term "cash" in the cash flow statement also differs in another respect from the definition of "cash and cash equivalents" as presented in the balance sheet. Cash is defined as liquid assets (cash in hand, balances in bank accounts, bills of exchange and cheques, deposits repayable on demand) and short-term highly liquid assets. The term "short-term highly liquid assets" has been replaced by "cash equivalents." This refers to investments that can be converted into cash without restrictions and without any material risk of impairment as a result of the transaction. If the term "cash" in the cash flow statement differs from the term "cash and cash equivalents" in the balance sheet, a numerical reconciliation between the two amounts already had to be included. A requirement has been added to the standards stating that the components of cash and cash equivalents must be disclosed in the notes to the cash flow statement. Those components can be (1) cash (2) cash equivalents, and (3) bank overdrafts that meet the aforementioned conditions.



## Clarification on the classification and presentation of financial instruments as equity or liability

In the consolidated financial statements, financial instruments should be classified as equity or liability reflecting the substance of the transaction, also known as the 'substance over form' principle. In the company-only financial statements, it is also permitted to classify financial instruments as equity or liability based on the legal form. This may result in a difference between the equity included in the company-only and consolidated financial statements (see also [DASB Statement 2023-4](#)).

The standards for the classification have changed in two respects:

1. for classification in accordance with the substance of the transaction: clarifying what should be understood as "profit-dependent distributions" for instruments to be classified as equity. This issue often arises with preference shares; and
2. for classification based on legal form: clarification of how instruments should be presented as equity if those instruments would classify as liability based on the substance of the transaction.

### *Re 1, profit-dependent distributions*

Preference shares can be profit-dependent: the payment of dividends depends on the availability of sufficient profits in a given financial year. Profit-based distributions are effectively features of equity. For this reason, the DASB gives an option to classify such financial instruments as equity or liability when classified in accordance with the substance of the transaction. However, it was not sufficiently clear what should be understood by "dependent on the availability of sufficient profit in any year". Or in short, what should be understood by "profit-dependent". Indeed, there are instruments where, although the payment of dividends is dependent on making profits in any year, the size of the dividend amount does not depend on the size of those profits. It is then possible that the mandatory dividend to be paid exceeds the profit for that year. In such cases, the instrument contains more characteristics of a liability compared to equity. The DASB has now clarified that profit-dependent payments are non-discretionary payments (i.e. payment obligations) that only occur if sufficient profit has been made in the financial year. This means that if there is an obligation to make a dividend payment when profits are realized, but this payment may be greater in size than the realized profits, the relevant financial instrument should not be classified as equity.



### **Example: classification of financial instruments as equity or liability (based on Appendix 6 to DAS 290 'Financial instruments'):**

#### **Cumulative preference shares with profit-dependent payments: choice to account for as equity or as liability**

On 1 January year 1, a company issues cumulative preference shares with a par value of 100,000 and a dividend of 5% per annum. When the shares are issued, the company has free distributable equity of 3,000.

In the first year after issuance of the cumulative preference shares, the company makes a profit of 6,000. Of this, 5,000 (= 5% of 100,000) is distributed as preference dividend on the cumulative preference shares and 1,000 is added to equity.

The second year after the issue of the cumulative preference shares, the company makes a profit of 1,000. The profit is insufficient to pay the preference dividend of 5,000. A dividend of 1,000 is paid on the cumulative preference shares and the holder retains the right to receive the remaining 4,000 in future realized profits.

In the third year, the company makes a loss of 5,000. No dividend is paid. The unpaid rights of the holder of the cumulative preference shares are 9,000. Shareholders' equity 1,000 negative.

In the fourth year, the company makes a profit of 6,000. There is insufficient free distributable equity to pay out the entire profit of 6,000 assuming the company cannot pay a dividend with negative equity. 5,000 is then paid as a preference dividend on the cumulative preference shares. The holder retains the right to receive 9,000 in the future on realized profits.

In the fifth year, the company makes a profit of 6,000. Now, however, the entire profit of 6,000 can be distributed because the freely distributable equity is sufficient. The unpaid rights of the holder of the cumulative preference shares are 8,000.



The dividend is always paid out of the realized profit in the financial year. The company therefore has the choice of recognizing these cumulative preference shares as equity or as a financial liability. When classified as equity, the amount paid concerns dividends and is charged directly to equity. If the instrument is classified as a liability, the amount paid out is accounted for as interest paid and is charged to income.

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Profit</b>		6.000.	1.000	-5.000	6.000	6.000
<b>Paid dividend/interest</b>		5.000	1.000	0	5.000	6.000
<b>Free distributable equity</b>	3.000	4.000	4.000	-1.000	0	0
<b>Unpaid dividend rights</b>		0	4.000	9.000	9.000	8.000

***Cumulative preference shares with payments independent of the realized profit: loan capital***

The fact pattern is similar to the previous example, except that there is an additional clause stipulating that if and to the extent that the profits are not sufficient for payment of the full preference dividend on the cumulative preference shares, the shortfall - to the extent possible - will be paid out of freely distributable equity.

This means that the distribution on the cumulative preference shares does not depend on future profits. Based on the fact pattern given in the previous example, this leads to different payments in the second year and the fourth year:

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Profit</b>		6.000.	1.000	-5.000	6.000	6.000
<b>Paid dividend/interest</b>		5.000	5.000	0	1.000	6.000
<b>Free distributable equity</b>	3.000	4.000	0	-5.000	0	0
<b>Unpaid dividend rights</b>		0	0	5.000	9.000	8.000

In year 2, insufficient profit has been realized to pay out the entire preference dividend. However, there is freely distributable equity in the amount of 4,000. So 4,000 dividend is paid independently of the realized profit, which after all is only 1,000. The preference dividend is not paid out of profits and is therefore a nonprofit payment. The company accounts for these cumulative preference shares as a financial liability and therefore treats the dividends as interest expense.

### ***A loan with profit-dependent payments: choice of accounting as equity or liability***

The fact pattern is again the same as in the first example however instead of a cumulative preference share, the company issues a loan with interest payable if sufficient profit is made in the financial year. The interest is 5% and is cumulative (it will still have to be paid if profits are made in a later year). In addition, the loan is perpetual and therefore has no mandatory repayment.

Since having sufficient freely distributable equity is not a necessity for making interest payments, the mandatory payments on such a loan may differ from the payments on a cumulative preference share. The example below assumes the same facts as previous examples. However, the payment now consists of 5% cumulative interest on a loan instead of 5% cumulative dividend on cumulative preference shares.

	<b>Year 0</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
<b>Profit</b>		6.000	1.000	-5.000	6.000	6.000
<b>Paid dividend/interest</b>		5.000	1.000	0	6.000	6.000
<b>Free distributable equity</b>	3.000	4.000	4.000	-1.000	-1.000	-1.000
<b>Unpaid interest</b>		0	4.000	9.000	8.000	7.000

Since having sufficient freely distributable equity is not a necessity for making interest payments, in the fourth year the entire realized profit can be paid out as cumulative interest. Since the interest payments are made only from the profit realized in the financial year, the payments are profit-dependent. The company therefore has the choice of recognizing this loan as equity or financial liability. When classified as equity, the amount paid out concerns dividends and is charged directly to equity. If the instrument is classified as a financial liability, the amount paid out is accounted for as interest paid and is charged to income.

#### *Re 2, presentation in the case of classification on the basis of legal form*

The standards already required that the total carrying amount of instruments that in accordance with the substance of the transaction should be recognized as a liability, but on the basis of the legal form are recognized as equity in the company-only financial statements, should be presented separately in equity. The standards now clarify at what amount such an instrument should be presented separately in equity. That is the amount that would be recognized as a financial liability according to the substance of the transaction. If there are different types of such financial instruments (e.g. preference shares and a written put option to buy back own shares), the amount per type should be shown. This can be done as a separate item per type of instrument under equity in the balance sheet, or in the notes.



## Treatment of profits or losses on intercompany transactions in the financial statements (DAS 260)

When measuring associates using the equity method, intercompany profits or losses must be eliminated. The DASB has included three clarifications in this respect in DAS 260 'The recognition of intercompany transactions in the financial statements', namely:

- elimination of losses;
- presentation of eliminated amounts; and
- elimination in the case of a negative net asset value.

### *Elimination of losses:*

A loss on an intercompany transaction should be eliminated in the same way as a gain on an intercompany transaction. This has not changed. What has been clarified is that such a loss may be an indication of impairment of fixed assets or inventories (lower net realizable value). If the indication results in the recognition of an impairment, it should be recognized in accordance with the standard on impairment of fixed assets (DAS 121) or the standard on inventories (DAS 220). The amount of an impairment does not necessarily correspond to the loss on the intercompany transaction.

### *Presentation of eliminated amounts:*

Previous guidance described the presentation of eliminated amounts in the balance sheet and income statement only for downstream sales. It was stipulated that the elimination could be made in the income statement by reducing net sales or by deducting the eliminated amount from the profit or loss of associates. In the balance sheet, the eliminated amount (i.e. the unrealized intercompany profit or loss) could be recognized as an accrual or accounted for in the participating interests item.

The new standard describes the presentation of the eliminated amounts for all types of intercompany transactions in general. The previous option which allowed an entity to deduct the eliminated amount from the profit or loss of the participation, in a downstream sale, has been removed in the new standard. This eliminated amount is now credited or charged to the item in the profit and loss account in which the intercompany transaction is recognized (e.g. net sales or other income).

In the balance sheet, under the new standard, the elimination can still be recognized as an accrual or included in the line-item participations. However, the latter is not possible if the value of the participation under the equity method is or becomes negative. In that case, the elimination must be recognized in the balance sheet as an accrual (see also the point below). With an upstream sale, the elimination can also be credited or debited to the value of the acquired asset.

### *Elimination in the case of a negative net asset value:*

If the net asset value of an associate is negative, the associate is in principle valued at nil. The question is to what extent eliminated amounts that are normally deducted from the participation value should be maintained, if that reduction leads to a negative net asset value of the participation. The previous standard did not specifically address this issue.

The new standard added that even if the value of the participation under the equity method is negative and the participation is therefore valued at nil, the elimination of intercompany profits or losses is required as long as the relevant assets have not yet been sold to third parties or otherwise realized. Even in this situation, the intercompany profit or loss is only realized upon transfer to a third party or by depreciation. The elimination is then recognized in the balance sheet as an accrual.



## Transactions that are not part of a business combination transaction

The standards did not contain explicit requirements for processing transactions that are agreed as part of an acquisition but are not part of the business combination transaction. Such as transactions that settle an existing relationship between the acquirer and acquiree. Another example concerns payments to employees or former owners of the acquiree for future services. The DASB has now determined that the acquirer assesses, based on the substance of the transaction, whether such transactions should be accounted for as separate transactions or as part of the business combination transaction. This can have a significant impact on the accounting for those separate transactions and on the amount of goodwill.



### Example: consideration not part of an acquisition

BV A acquires the business and related assets and liabilities of BV B. The selling shareholder remains a director of BV B. The acquisition contract provides that in addition to a cash price of 1,000,000, BV A will also pay an amount of 100,000 one year after the takeover date if BV B's profit for that year exceeds the budgeted profit for that year by at least 100,000, under the condition that the selling shareholder is still employed as a director of the company.

The additional amount of 100,000 is compensation for future services of the director and should therefore **not** be recognized as part of the business combination transaction. This amount represents compensation for labor performed by the director and should be accounted for as such, i.e. as salary expenses during the relevant year. The additional amount of 100,000 is therefore not part of the acquisition price paid by BV A for the acquisition of BV B. This amount of 100,000 is therefore also **not** taken into account when determining the amount of goodwill.



## Reverse dilution leading to obtaining control

Reverse dilution refers to the situation where a participating interest repurchases its own shares, increasing the relative importance of the remaining shareholders. As a result, a remaining shareholder may obtain control. The standards clarify that the acquisition of control as a result of reverse dilution is a step acquisition. This stepwise acquisition should be recognized in the consolidated financial statements in accordance with DAS 216 'Business combinations'.

### Contact information

For questions, comments or suggestions:

Corné Kimenai  
[ckimenai@deloitte.nl](mailto:ckimenai@deloitte.nl)

Lianne Suurland  
[lsuurland@deloitte.nl](mailto:lsuurland@deloitte.nl)

## Annex: Going concern scenarios and relevant reporting requirements

The overview below summarizes the different going concern scenarios and related reporting requirements. This overview should be read in conjunction with the full text of DAS 170, as well as the cited statements in DAS 110.129 and DAS 135.203.

	<b>Scenario 1: No uncertainty about the going concern assumption</b>	<b>Scenario 2: Concerns about the going concern assumption, but no material uncertainty</b>	<b>Scenario 3: Material uncertainty about the going concern assumption</b>	<b>Scenario 4: Cessation of the entirety of the entity's operations is unavoidable</b>
<b>Description</b>	No events or circumstances that may raise reasonable doubt as to whether the entity can meet its obligations.	Events or circumstances that may raise reasonable doubt as to whether the entity can meet its obligations, where there is <u>no material uncertainty</u> as to whether the mitigating measures are adequate.	Events or circumstances that may cast reasonable doubt on whether the entity can meet its obligations, where there is <u>material uncertainty</u> as to whether the mitigating measures are adequate. However, there is a real chance that the entity can meet its obligations (DAS 170.103 and 302-304).	There is no realistic chance that the entity can meet its obligations (DAS 170.103).
<b>Accounting principles</b>	Financial statements based on the going concern assumption			Financial statements prepared on a liquidation basis.
	(DAS 170.101 en 105).	(DAS 170.101 en 105).	(DAS 170.101, 105 en 301).	(DAS 170.102, 105, 201-205 en 207).
<b>Disclosure</b>	No specific disclosure on the going concern assumption.	Significant judgements and estimates (nature and assumptions) and uncertainties (nature and extent), if necessary for the required understanding (DAS 110.129 and DAS 135.203).	<p>Disclose that material uncertainty about going concern exists, together with an adequate explanation of the entity's circumstances (DAS 170.305).</p> <p>Key judgements and estimates (nature and assumptions) and uncertainties (nature and extent), if necessary for the required insight (DAS 110.129 and DAS 135.203).</p>	<p>Disclosure that the entity's entire business will cease to exist and the effects of the cessation on the financial position and the result (DAS 170.206).</p> <p>Usual disclosure requirements of Title 9 Book 2 of the Dutch Civil Code (DAS 170.207).</p> <p>Specific disclosure relating to cessation of operations (DAS 170.208).</p>
	<p>In case of cessation of operations as referred to in DAS 170.104, this fact should be disclosed including the effects of the cessation on the financial position and the result. In addition, the entity shall disclose the nature of its remaining operations and state, if applicable, that it was incorporated for a fixed period. (DAS 170.104).</p>			





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