



Changes to Dutch Accounting Standards for micro-sized and small legal entities

Changes to annual edition 2016

Professional Practice Department – October 2016

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The annual edition 2016 of the Dutch Accounting Standards (DASs) for micro-sized and small legal entities includes several new standards. Normally the annual edition 2016 is effective for financial years starting on or after January 1, 2017. The new standards recorded in this annual edition, though, have already been effective as from January 1, 2016. The annual edition 2016 of the DASs for micro-sized and small legal entities does not include new draft standards.

This factsheet solely outlines the main amendments to the DASs for micro-sized and small legal entities. Please note that industry specific amendments (such as not-for-profit institutions and fundraising organizations) are not addressed.



New standards applicable to reporting years starting on or after January 1, 2016

Amendments to Title 9 Book 2 Dutch Civil Code and Decrees

As a result of the Directive on the Annual Financial Statements (Implementation) Act several sections of Title 9 Book 2 Dutch Civil Code were amended in 2015. Some Decrees have been amended, too, including the Decree on Current Value, the Decree on Financial Statements Formats and the Decree on Accounting Policies for Tax Purposes. These amendments apply to financial statements starting on or after January 1, 2016. This Implementation Act has resulted in many changes being made to the annual edition 2015 of the DASs for micro entities and small legal entities. The factsheet of January 2016 on the changes to the annual edition 2015 includes an extensive description of these changes. The annual edition 2016 includes a number of additions to these changes. Apart from a few technical changes, this particularly regards a clarification of the measurement of inventory of agricultural products, if they are measured at current value (in this case, at net realizable value).

Micro entities

The DASs for micro-sized and small legal entities include a new chapter called "Micro entities". This is why the name of the edition has been changed to DASs for micro-sized and small legal entities. Micro-sized legal entities (micro entities) solely need to prepare an abridged balance sheet and an abridged profit and loss account. Micro entities are not permitted to measure financial instruments and investment property at fair value (market value). They are, however, permitted to measure items such as tangible fixed assets that are not investments at current value. Solely the abridged balance sheet needs to be published. Just like small legal entities, micro entities are exempted from preparing a directors' report and exempted from an audit. They may also opt for preparing the balance sheet and profit and loss account according to tax principles.

A legal entity is classified in the category "micro" if during two consecutive years at least two of the following three criteria are satisfied on a consolidated basis:

- value of the assets \leq EUR 350,000;
- net revenues \leq EUR 700,000; and
- average number of employees $<$ 10.

Current cost

The annual edition 2016 includes proposals in DAS B2 “Tangible fixed assets and investment property” for a more detailed interpretation of the concept of “current cost” and its practical application. This is relevant for the measurement at current value of tangible fixed assets that are not investments. These proposals had already been published in June 2016 (DASB Statement 2016–11), and are expected to become final in 2016. The term “replacement value” in the Decree on Current Value has been replaced by the term “current cost”. This adjustment of the Decree on Current Value results from the Directive on the Annual Financial Statements (Implementation) Act. Current cost, in short, refers to (1) the current purchase or manufacturing price of the related assets net of (2) cumulative depreciations. Application of “current cost” instead of “replacement value” constitutes a change in accounting policy that must be recognized retrospectively, in accordance with DAS 140 “Changes to accounting policies.” Hence, in case of a change in accounting policy in the 2016 financial statements the current cost as at December 31, 2015 (the opening balance sheet) and as at December 31, 2014 (the opening balance sheet of the comparative figures) should be determined. The main standards for determining the current cost are the following:

- the choice for current purchase price or current manufacturing price must align with how the legal entity has obtained or manufactured the assets. This is because the method applied for determining the current purchase or manufacturing price must be in line with the original acquisition and the system applied by the legal entity, This likewise applies to whether or not determining the current cost for separate components, such as major maintenance costs and/or costs of restoring the site;
- cumulative depreciations must be adapted in proportion to the change of the current purchase or manufacturing price, based on the depreciation system of the legal entity.

Example: Current cost of property purchased

Company A purchased an existing industrial premises including land 10 years ago, which it measures at current value. The building was 5 years old when it was purchased. The purchase price amounted to EUR 2,000,000 - EUR 500,000 for the land and EUR 1,500,000 for the building. These amounts include the additional costs of the purchasing broker, notary fees and transfer tax. A depreciates the building linearly, over 25 years and without any residual value (4% per year). Hence, the cumulative depreciation on the building is 40%. The land is not depreciated.

The current cost is the price that would now have to be paid for the same 5-year old building, increased by the current additional costs and net of cumulative depreciation of 40% over the current purchase price of the building. The current purchase price is commonly determined on the basis of commercial data or on the basis of valuations by recognized valuers. The current purchase price of the land can be based on the market value of the related land (to be increased by the current additional costs).

Suppose the current purchase price of the building is EUR 1,750,000 and that of the land is EUR 700,000, to be increased by EUR 150,000 additional costs for the building and EUR 50,000 for the land. The current cost of the building would then amount to EUR 1,140,000 (= 60% of (EUR 1,750,000 + EUR 150,000)). The current cost of the land amounts to EUR 750,000 (= EUR 700,000 + EUR 50,000). The total carrying amount at current cost would then amount to EUR 1,890,000 (= EUR 1,140,000 + EUR 750,000). The revaluation is credited directly to the revaluation reserve, net of any provision for deferred taxes.

Example: Current cost of property manufactured in-house

Company A purchased a plot of land 10 years ago, after which it built an industrial premises on it. Hence, this asset has been manufactured in-house. Company A measures the land and the buildings at current value. The manufacturing price of the land amounted to EUR 505,000, comprising the purchase price (EUR 450,000), additional costs (EUR 50,000) and allocated interest (EUR 5,000). The manufacturing price of the land with the buildings erected on it amounted to EUR 2,000,000, comprising direct costs (EUR 1,500,000), allocated indirect costs (EUR 450,000) and allocated interest (EUR 50,000). A depreciates the building linearly, over 25 years and without any residual value (4% per year). Thus, the cumulative depreciation on the building is 40%. The land it is not depreciated.

The current cost is the current manufacturing price based on the costs had the building now been constructed by the legal entity itself, net of the 40% cumulative depreciation over the current manufacturing price of the building. In terms of allocating the indirect costs and interest this requires application of the system of the legal entity as applicable on the date of the revaluation, therefore according to the current standards and rates. The current manufacturing price of the land can be based on the market value of the land involved (to be increased by the current additional costs and allocated interest). The revaluation is credited directly to the revaluation reserve, net of any provision for deferred taxes.

Recoverable amount in the event of impairment and decommissioning

Since the introduction of the Directive on the Annual Financial Statements (Implementation) Act, as from January 1, 2016 there is no more difference between measurement under the cost model and the current value model if it regards a write-down to the lower recoverable amount in case of an impairment and in case of decommissioning. In both models the assets should be measured at the lowest of (1) the carrying amount based on historical or current cost and (2) the recoverable amount. The recoverable amount is the highest of the net realizable value and the value in use. In both models decommissioned tangible fixed assets should be measured at the

carrying amount or lower net realizable value. If it has been decided to sell the decommissioned tangible fixed assets, measurement at higher net realizable value through an incidental revaluation is also permitted. Such incidental revaluation is recognized directly in a revaluation reserve. Upon the actual sale the revaluation is recognized in the profit and loss account as a separate item.

Guidance for applying tax principles

The guidance for small legal entities applying tax principles in the DASs for micro-sized and small legal entities has been updated. In addition, guidance has now been included for micro entities applying tax principles. The updated guidances particularly state how to

measure associate companies that are part of the fiscal unity for corporate income tax purposes. Such associate companies are measured at “net asset value for tax purposes”, i.e., at the net amount of the assets and liabilities of the associate company measured according to the tax principles. In addition, some changes have been made to the disclosure requirements, as a result of amendments to the Decree on Accounting Policies for Tax Purposes. For example, the use of reinvestment reserves and the application of random depreciation no longer need to be disclosed.

Contact information

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