



Changes to Dutch Accounting Standards for micro-sized and small legal entities Changes to annual edition 2021

Professional Practice Department

November 2021

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

Changes to annual edition 2021

The annual edition 2021 of the Dutch Accounting Standards (DAS) for micro-sized and small 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.

This factsheet outlines the main amendments to the DAS 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 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. The amendments are more limited for small legal entities than for medium-sized and large legal entities. The expected impact will therefore also be more limited for small legal entities. The impact of the amendments on micro-sized legal entities is expected to be very limited.

DAS B13 'The profit and loss account' (revenue recognition of goods and services) and DAS B5.3 'Construction contracts' (revenue recognition of construction contracts) for micro-sized and small legal entities have been amended.

In order to amend the standards for revenue recognition, the DASB explicitly considered IFRS 15 'Revenue from Contracts with Customers'. However, the DASB deliberately chose not to adopt IFRS 15 in full. The DASB considered the full adoption of IFRS 15 in the DAS undesirable due to the target group of the DAS in combination with the associated implementation costs. It has therefore been decided by the DASB, to make specific changes to the standards for revenue recognition and to supplement these standards with further explanations and examples. The DASB emphasizes that IFRS 15 (including further guidance for the application of IFRS 15) is not leading in the interpretation of the DAS. The already existing facility (option) to apply IFRS 15 'Revenue from Contracts with Customers' instead of DAS 270 and DAS 221 continues to exist. Entities that wish to remain as close as possible to the IFRS frameworks in their statutory financial statements under Title 9, Book 2 of the DCC (e.g. because IFRS must be applied for consolidation purposes on behalf of the ultimate parent) can continue to choose this option.

The choice of the DASB to not fully adopt IFRS 15 in the DAS means that the transfer of risks and rewards remains the conceptual basis for revenue recognition under NL GAAP. This in contrast to IFRS 15, where the transfer of control is the basis for revenue recognition. This not insignificant difference in the conceptual basis may lead to differences in the application of specific requirements.



The following changes have been implemented:

Separately identifiable components

In DAS B13 'The income statement' has been added, regarding revenue recognition of goods and services, that in certain cases it is necessary to apply the standards to separately identifiable components of an contract, or group of contracts, in order to reflect the economic reality of an contract or group of contracts. This is in accordance with an existing comparable provision in the standard B5.3 'Construction contracts'. The DAS for micro-sized and small legal entities do not specify when components should or can be identified separately based on the economic reality. The DAS for medium-sized and large legal entities can be used as guidance for this, but this is not mandatory.

Variable consideration.

The standards previously included no specific principles for the treatment of variable consideration. Examples of variable considerations are discounts, refunds, repayments, price concessions, performance bonuses, sanctions or other similar elements. The DAS now includes principles about the determination of variable consideration to be recognized. The entity must apply a reasonable degree of prudence here. The purpose of applying prudence is to ensure that only revenue is recognized of which there is little chance that it will have to be reversed in a later reporting period.

The estimation uncertainty with regard to a variable consideration can be so high that the amount of total revenue and the result cannot be determined reliably. This could, for example, be the case with a contract whereby a consideration is due only if a certain result is achieved ('no cure no pay'). If a contract includes both fixed and variable consideration, the size of the fixed fee can be so high that the amount of total revenue and the result can be reliably determined, despite the uncertainty about the size of the variable consideration

If a legal entity has chosen the accounting principle of recognizing results on construction contracts in proportion to the contract activities, similar principles apply. If the consideration for the services is fully or partially variable, the degree of uncertainty is included in the assessment of whether total project revenue can be determined reliably as part of the assessment of whether the result of an construction contract can be estimated reliably. If the result of the construction contract cannot be estimated reliably, no profit is being recognized. See on the right examples of situations in which the total amount of revenue can and cannot be determined reliably.

Example: The total amount of revenue cannot be determined reliably (based on example 25a in Annex 1 to DAS 270)

A law firm enters into a mediation contract in which it is agreed that a customer owes the law firm a fee that depends on the personal injury compensation awarded to the client ('no cure no pay'). As a result, the entire consideration is variable. The law firm considers the estimation uncertainty to be so high that the amount of the total revenue cannot be determined reliably and therefore the requirement for revenue recognition is not met.

The law firm only recognizes revenue to the amount of the costs incurred for the services that probably can be recovered.

Example: The total amount of revenue can be determined reliably (based on example 25b in Annex 1 to DAS 270)

A consultancy firm enters into a contract with a customer, it is agreed that the consultancy firm will prepare a report recommending energy-saving measures. The consultancy firm receives a fixed and a variable consideration. The fixed consideration of 105 results in a small margin of 5% compared to the budgeted costs of 100. The level of the variable consideration depends on a number of variable performance criteria relating to the energy saving measures realized by the customer. The probability that the variable consideration will be zero is estimated at 40%. The probability that the variable consideration will be 10 is estimated at 30%. The probability that the variable consideration will be 20 is estimated at 30%. As a result of the application of prudence, the consultancy firm estimates the variable consideration to be zero for the time being. If the consultancy firm did not do this (and included an amount of variable consideration in its revenue), the chance that this variable consideration would have to be reversed in a later reporting period would not be little.

Given the relative size of the fixed consideration compared to the transaction price, the consultancy firm concludes that total revenue of the project can be determined reliably. The criterion that revenue can be determined reliably is therefore met. The consultancy firm recognizes revenue in proportion to the services provided based on the fixed consideration.



Revenue from licenses

The DAS for micro-sized and small legal entities stipulated that royalties are accounted for on an accrual basis in accordance with the substance of the contract. Given the general nature of this principle, the DASB has decided to include more specific principles on the recognition of revenue from intellectual property licenses. The amended DAS now stipulate that the entity must determine whether the license is (1) the sale of a good or (2) the provision of a service. The entity takes into account whether the nature of the license establishes:

- a right to use of the entity's intellectual property as it exists at the point in time at which the license is granted. This means that the entity need not incur any costs in order to maintain or improve the intellectual property. Revenue from the license is then recognized as revenue from the sale of goods; and

a right to access the entity's intellectual property as it exists throughout the license period. This means that the entity will incur costs in order to maintain or improve the intellectual property. Revenue from the license is then recognized as revenue from the provision of a service.

Presentation of construction contracts in the income statement

Previously, it was stipulated that, in a categorial profit and loss account, as long as a construction contract was not completed, the contract revenue was presented in the profit and loss account by category as "net turnover" or as "change in work in progress on construction contracts". This option is no longer available. The DAS now stipulates that contract revenue must be presented as "net turnover" in the profit and loss account. The DASB expects that this will provide better insight into contract revenue and improve the comparability of financial statements. This amendment does not affect the application of the criteria in the assessment whether an entity is small, medium-sized or large. In the application of these criteria, the line item "change in work in progress on construction contracts" had to be included in net turnover.

It is emphasized that the item "Change in inventory of finished goods and work in progress" as included in the Decree on financial statements format ('Besluit Modellen Jaarrekening') does not relate to construction contracts. This line item relates to inventories.

The above provisions only apply if the legal entity presents the 'net turnover' separately in the profit and loss account. If the legal entity presents the aggregated item 'gross margin' in the profit and loss account (model I in the Decree on financial statements format), contract revenues are not presented as 'net turnover'.

Presentation of construction contracts in the balance sheet

The DAS previously allowed an alternative to present the net amount of all construction contracts as a single total in the balance sheet. This method of presentation, however, provides insufficient insight into the balance sheet items and is not in line with the general principles regarding the netting of balance sheet items. Therefore, the DASB no longer considers this method of presentation acceptable.

If the net amount of the construction contract is:

- a debit amount, the net amount is recognized as an asset; and
- a credit amount, the net amount is recognized as a liability.

This means that, where appropriate, two balance sheet line items 'work in progress on construction contracts' are presented in the financial statements: one line item under assets (for all

construction contracts with a net debit amount) and one line item under liabilities (for all construction contracts with a net credit amount). If previously all construction contracts were netted in one balance sheet line item, this will lead to higher total assets, with possible influence on the application of the criteria in the assessment if an entity is small, medium-sized or large. In addition, balance sheet ratios (especially solvency ratios) will change (decrease).

We also refer to DASB-Statement [2020-15](#) for an complete overview of the amended standards.

Example: Revenues from licenses (based on example 24 in Annex 1 to DAS 270)

Entity A grants a license to a customer, under which the customer has the right to make use of software developed by the entity for three years. The customer pays 100 annually for the license. A develops the software continuously, because the software is used in an environment in which technology plays an important role. During the contract term, the customer receives regular updates of the software, so that the customer always has the latest version of the software.

A accounts for this license as the provision of a service. This means that A recognizes revenue in the period that the service is provided in proportion to the services provided, in this case annually 100. The license concerns the granting of a right to access the entity's intellectual property as it exists throughout the term of the license.

If A were to grant a license for the software as it exists at the point in time the license is granted, and A has no significant obligation to maintain or improve the software, this performance obligation classifies as the sale of a good. In that case, revenue from the license is recognized upon delivery of the software.



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 overhead, 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 B5.3 'Construction contracts' for micro-sized and small legal entities, i.e. contracts relating to construction projects. Expected losses on construction contracts are recognized directly in the profit and loss account, when it is probable that the total contract costs will exceed the total contract revenues. 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; 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.

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.



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

Contact information:

For questions, comments or suggestions:
Corné Kimenai (ckimenai@deloitte.nl)

Jan-Willem Roelse (jroelse@deloitte.nl)





Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities (collectively, the "Deloitte organization"). DTTL (also referred to as "Deloitte Global") and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services. Our global network of member firms and related entities in more than 150 countries and territories (collectively, the "Deloitte organization") serves four out of five Fortune Global 500® companies. Learn how Deloitte's approximately 312,000 people make an impact that matters at www.deloitte.com.

This communication and any attachment to it is for internal distribution among personnel of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms and their related entities (collectively, the "Deloitte organization"). It may contain confidential information and is intended solely for the use of the individual or entity to whom it is addressed. If you are not the intended recipient, please notify us immediately by replying to this email and then please delete this communication and all copies of it on your system. Please do not use this communication in any way.

None of DTTL, its member firms, related entities, employees or agents shall be responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on this communication. DTTL and each of its member firms, and their related entities, are legally separate and independent entities.

© 2021. For information, contact Deloitte Global..