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

Changes to annual edition 2020

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

Changes to annual edition 2020

The annual edition 2020 of the Dutch Accounting Standards (DASs) for micro-sized and small 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 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.

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

Accounting for acquisitions

An acquisition must be accounted for 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.

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 property interest that is classified as an operating lease by a lessee. Applying the same accounting policy for similar assets improves the comparability of financial statements.

Liabilities/debts

If after balance sheet date but before preparation of the financial statements (part of) a long-term debt is repaid early, it is now permitted (but no longer mandatory) to recognise that part of the debt as short-term. This is now consistent with the standards for medium-sized and large entities.

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

Example: Accounting for acquisition of '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 (separate) financial statements are as follows:

(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).

Added option for determining revaluation reserve for investment property at fair value
An alternative option has been added to determine the revaluation reserve for investment properties measured at fair value. The choice can now be made to take cumulative depreciation and impairments into account or not to do so. This is now consistent with the standards for medium-sized and large legal entities.

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 for micro-sized and small entities. It is expected that these draft standards will be published before year-end 2020. These forthcoming standards are expected to be effective for financial years starting on or after 1 January 2022. The impact is expected to be more limited for small legal entities than for medium-sized and large legal entities. The impact on this on micro-sized legal entities is expected to be zero to very limited.

The following changes are proposed:

- Separately identifiable components

In chapter 'The income statement' it is proposed that in certain cases it is necessary to apply the chapter to separately identifiable components of an agreement, or group of agreements, in order to reflect the economic reality of an agreement or group of agreements. This is in accordance with an existing comparable provision in the standard for 'Construction contracts'.

- Variable fees

At this time there are no specific provisions for the recognition of variable fees. Examples include performance bonuses, penalty clauses, volume discounts, refunds due to, for example, returns, price concessions or other similar elements. It is proposed that the amount of variable fees is determined by making a best estimate, taking into account a reasonable degree of caution. This is intended to prevent revenues from being recognised that have to be reversed later.

- Presentation of construction contracts in the income statement

It is proposed to no longer allow project revenues to be presented in the income statement as a separate item 'movement in construction contracts', as long as a project has not yet been completed. These must be presented as net turnover. The expectation of the Dutch Accounting Standards Board is that this proposal will provide a better insight into the project outcomes and will improve the comparability of financial

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

The carrying amount of the participation at net asset value and the goodwill are determined as follows:

Purchase price (including additional transaction costs)		13,300
Fair value vessel	12,000	
Less: deferred tax liability 25% * (8,000 – 12,000)	(1,000)	
Fair value inventories	500	
Fair value cash and cash equivalents	1,000	
Net asset value participation		12,500
Goodwill		800

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:

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

The breakdown of the carrying amount of the participation at net asset value is in this case as follows:

Fair value cash and cash equivalents (on the basis of DAS 290)	1,000
Allocation remaining purchase price to tangible fixed assets based on relative fair value ((13,300 – 1,000)* (12,000/(12,000 + 500)))	11,808
Allocation remaining purchase price to inventories based on relative fair value ((13,300 – 1,000) * (500/(12,000 + 500)))	492
Net asset value participation = the total purchase price (including additional transaction costs)	13,300

statements.

- Presentation of construction contracts in the balance sheet

When presenting construction contracts in the balance sheet, it is proposed to only allow to present an asset for contracts that show a net debit position, and to present a liability for contracts that show a net credit position. It is no longer considered acceptable to present the balance of all construction contracts as one total in the balance sheet. The reason is that this presentation method does not actually provide sufficient insight into the balance sheet positions and is also not in line with the general provisions regarding the netting of balance sheet items.

Guides

Guide tax valuation principles

The 'Guide for the application of tax valuation principles' included in the Dutch Accounting Standards for micro-sized and small legal entities has been amended in one sole item. In addition, some clarifications have been made. The clarifications relate in particular to making the starting point of the Guide more explicit, namely that the determination of the financial statements on tax valuation principles reconciles with the corporate income tax return as much as possible.

The amendment relates to the cost equalization reserve. It was and is the case that if a fiscal cost equalization reserve has been formed for major maintenance, this is an item that is part of equity. Previously, the additions to the cost equalization reserve were recognised within equity, out of the other reserves. If major maintenance was subsequently carried out in any year, the relevant expenses were charged to profit and loss and within equity, the cost equalization reserve for the part of the major maintenance carried out was transferred from the cost equalization reserve to the other reserves.
The amended Guide states that the additions to the cost equalization reserve are recognized in profit and loss (for example under other operating expenses). If major maintenance is subsequently carried out in any year, the relevant expenditure will be charged directly to the cost equalization reserve. If the costs exceed the balance of the cost equalization reserve, these (additional) costs are recognised in profit and loss. If the cost equalization reserve is higher than the costs incurred for which purpose the reserve was formed, when the purpose for which this reserve was formed has lapsed, the remainder of the reserve is released to income statement.

Since the Guide does not have the status of a standard, the changes took effect immediately upon publication. This means that they can be applied to all financial statements to be prepared.

Contact us:

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