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NL GAAP Focus

Revenue recognition in financial statements: changes for medium-sized and large legal entities for accounting periods beginning on or after 1 January 2022

Content

Introduction

DASB Statement 2020-15 was been published in December 2020. The previously published 'Draft Standards on revenue reporting' have been incorporated into this statement in its final form. DAS 270 "The profit and loss account' and DAS 221 'Construction contracts' have been amended by means of this statement. The amendments will become effective for financial years starting on or after January 1, 2022. Earlier application is permitted, for example, as of financial year 2021. If an entity applies the amendments early, DAS requires disclosure of this fact.

According to the Dutch Accounting Standards Board (DASB), 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). In order to amend DAS 270 and DAS 221, 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.

1. The basis: identifying performance obligations contained in a contract

1.1 Introduction
The DAS already in general required that the revenue recognition criteria must be applied to separately identifiable components of a transaction in order to reflect economic reality. The DASB notes that in practice this provision was applied differently and has now included more specific guidance for identifying separate components, referred to as "performance obligations". With this more specific guidance, the DASB aims to bring the accounting of contracts that contain separately identifiable performance obligations more in line with economic reality. In addition, according to the DASB, this promotes uniform application in practice and contributes to the comparability of the financial statements of different companies.

The principle of separately identifiable performance obligations is illustrated in the following example:

Example: 'Free' tablet in addition to subscription (based on example 1a in Annex 1 to DAS 270)
A publisher provides a new customer with a 'free' tablet if the customer purchases a magazine subscription for a period of three years. The contract for the subscription contains the following two promises to supply goods or services:
- the supply of weekly magazines during the subscription period; and
- the supply of a tablet at the start of the subscription period.

Both the promise to supply magazines for a period of three years and the promise to supply a tablet constitute distinct performance obligations. The reason is that the customer can benefit from both promises on its own and both promises in the contract are separately identifiable. The total transaction price is allocated to both performance obligations in proportion to the value of these performance obligations. The revenue from the supply of the tablet is recognized upon the delivery of the tablet. The revenue from the supply of magazines is recognized over the subscription period of three years.

It is no longer allowed to fully allocate the revenue to the supply of the magazines (and to allocate the costs of the tablet to the subscription period).

1.2 Performance obligations
A performance obligation is defined as a promise in a contract to deliver (DAS 270.109 and DAS 221.112):
- a distinct good or service or a combination of goods or services which are collectively distinct from other promises in the contract; or
- a series of distinct services that are substantially the same.

A performance obligation must be identified separately (i.e. is distinct) if both of the following criteria are met (DAS 270.109 and DAS 221.112):

a. the customer can benefit from the goods or services either on its own or together with other resources that the customer has obtained or can readily obtain; and

b. the entity's promise to transfer the goods or services to the customer is separately identifiable from other promises in the contract.

Example: Software license with other services, separate performance obligations (based on example 1b in Annex 1 to DAS 270)

A software developer concludes a contract with a client, in which the developer agrees to provide a software license, perform installation work, provide non-specified software updates and to provide technical support (online and by telephone) for a period of two years. The software license, installation work and technical support also are sold separately. The installation work concerns the adjustment of the screen for each type of user (e.g. marketing, stock management and information technology). The installation work may also be performed by other companies and does not significantly change the software. The software remains functional without the updates and the technical support.

In this case, the following four performance obligations can be distinguished in the contract:

- the sale of the software by means of the issuance of a license;
- the performance of installation work;
- the provision of updates; and
- the provision of technical support.

The software supplied remains functional without the updates and the technical support. The customer can use the software and the services on its own (or together with resources that the customer has obtained or can readily obtain). The promises to supply the software and the services also are separately identifiable in the contract. For that reason, the four promises are separate performance obligations.

The total transaction price is allocated to the individual performance obligations in proportion to the value of these performance obligations (see section 2.2).

The sale of the software by means of issuing a license concerns a right to use the legal entity's intellectual property rights as it exists at the point in time at which the license is granted. This performance obligation is classified as a sale of goods (see section 3.2). The revenue allocated to the supply of the software is recognized upon the delivery of the software (DAS 270.110).

The revenue from the performance of the installation work is recognized in proportion to the completed performance (DAS 270.115).

The revenue relating to the provision of updates and technical support is recognized over the agreed period of two years in proportion to the completed performance (DAS 270.115).

Example: Hosting of software, no separate performance obligations (based on example 1c in Annex 1 to DAS 270)

A software developer concludes a contract with a client, in which the developer agrees to provide a software license for a period of two years. The software developer does this in combination with the hosting of the software application. For technical reasons, the customer cannot use the software without the hosting by this specific software developer.

As a result, the provision of the software license does not constitute a distinct performance obligation. The promise to provide the software license and the promise to provide the hosting of the software application together are a single performance obligation. This performance obligation is classified as a promise to deliver services. The revenue from this performance obligation is recognized over the agreed period of two years in proportion to the completed performance (DAS 270.115).

Factors that indicate that two or more promises of the entity included in a contract to supply goods or provide services cannot be identified separately include, but are not limited to, (DAS 270.109 and DAS 221.112):

- the legal entity provides a significant service of integrating the goods or the services with other goods or services promised in the contract into a bundle of goods or services that represent the combined output or outputs for which the customer has contracted. In other words, the entity uses the goods or the services as a means to supply composite goods and/or composite services. An example of this is the construction of an office building ordered by the customer;
- one or more of the goods or the services significantly modifies other goods or services promised in the contract. An example is software installation work by the entity that significantly changes software to be provided by the entity;
- the goods or the services promised in the contract are highly interdependent or are highly interrelated. An example of this is the build-in software that forms an integral part of a machine to be supplied by the entity. Another example is the development of a prototype by order of a customer. The design and production of the prototype are highly interrelated.

Example: Purchase/construction contracts (based on example 1e in Annex 1 to DAS 270)
A construction company concludes a purchase/construction contract for a detached house with a buyer. With this contract, a piece of land is sold by the construction company and an order is received to build a detached house. The legal transfer of the land takes place when the deed of transfer is signed. The transfer of the house follows upon completion of the construction of the house. In this case, two promises can be distinguished:

- the delivery of the land; and
- the construction of the house.

It must be determined whether the agreed upon construction work constitutes a separate performance obligation from the delivery of the land. For this purpose, it should be assessed whether (DAS 270.109):

1. the customer can benefit from the delivered land and the construction work on its own, either jointly with resources that the customer has or can readily obtain; and
2. the promise to supply the land is separately identifiable from the promise to the construction work.

Condition 1 is met because the customer could independently benefit from the land supplied, for example by engaging another party to carry out the construction work. This must therefore be assessed separately from the contractual restrictions. In addition, the customer can also benefit from the construction work in combination with the land supplied.

In the consideration whether condition 2 is met, it must be assessed whether:

a. the entity provides an important service of integrating the two promises;
b. the construction work significantly modifies the land supplied; and/or
c. the land supplied and the construction work are highly interdependent or highly interrelated.

The aforementioned situations do not apply to this scenario. The performance obligations of the entity regarding the promise to carry out construction work are the same whether or not the entity delivers the land. In addition, although there is a functional relationship between the land to be delivered and the construction work to be carried out, this does not mean that the entity is providing an important service of integration as referred to in DAS 270.109. The risks the entity takes in delivering the land to the customer are separable from the risks takes by the entity in the construction work to be carried out.

There are two separate performance obligations (the delivery of the land and the performance of construction work). The total transaction price is allocated to both performance obligations in proportion to the value of the performance obligations (see section 2.2) and the revenue is recognized per separate performance obligation. The part of the transaction price that is allocated to the construction work is recognized as revenue, based on the percentage of completion-method (in line with DAS 221 'Construction contracts'). The part of the transaction price that is allocated to the delivery of the land is recognized as revenue when the conditions as stated in DAS 270.110 regarding the sale of goods are met.

In some situations, a high degree of judgement is required to identify separate performance obligations. This is illustrated by means of the following example:

Example: Installation of a machine (based on example 3a in Annex 1 to DAS 270)
If, in addition to the supply of a machine, installation work relating to this machine is also provided by the supplier, on the commencement of the contract for the machine to be supplied and the installation work to be provided, it needs to be determined whether these should be identified as separate performance obligations.

In this case the supplier must assess whether the following conditions are met:
- if there is a significant service of integrating the machine and the installation work;
- if the installation work will significantly modify the machine to be supplied; and
- if the machine and the installation work are highly interdependent or highly interrelated.

If all these conditions are not met, the machine to be supplied and the installation work are deemed to be separate performance obligations. The revenue allocated to the machine to be supplied is recognized upon the delivery of the machine (DAS 270.110). The revenue from the installation work is recognized over the period in which the installation work is performed (DAS 270.115).

If, for example, it is considered that the installation work to be provided would significantly modify the machine to be supplied, there would be no separate performance obligations. In that case, there would be a single performance obligation, i.e. for the supply of an installed machine. The revenue of this performance obligation is recognized upon the installation of the machine supplied, because the conditions of DAS 270.110 regarding the sale of goods are then met.

If two or more promises of the entity to provide goods or services contained in a contract are not separately identifiable, the promises shall be combined into a combination of goods or services which is collectively separately identifiable from other promises in the contract.

1.3 Warranties
The DAS previously did not include specific principles for the treatment of warranties. The DAS now specifies the situation in which a warranty provided may be classified as a separate performance obligation and when it may not.

A warranty provided is a separate performance obligation if the warranty (or part of the warranty) implies that the customer receives a service in addition to the warranty that the product meets the agreed specifications. A regular warranty that is intended to provide assurance to a customer that a delivered good will meet the agreed specifications does not qualify as a separate performance obligation.

If the warranty provided in a transaction is a separate performance obligation, part of the transaction price is allocated to this performance obligation and recognized as deferred income. If this is not the case, the expected warranty costs are recognized as a warranty provision. This provision is valued at the best estimate of the warranty costs to be reimbursed (DAS 252.408).

Example: Warranty that does not qualify as a separate performance obligation (based on example 12a in Annex 1 to DAS 270)
A manufacturer of washing machines grants a manufacturer's warranty for two years on the sale of a new washing machine. This warranty is intended to offer the customer an assurance that the washing machine complies with the agreed specifications. Consequently, there is no warranty that qualifies as a separate performance obligation.

The manufacturer recognizes the expected warranty costs as a provision. This provision is valued at the best estimate of the warranty costs to be reimbursed (DAS 252.408). In the profit and loss account, the expected warranty costs (the accrual of the warranty provision) are recognized separately as a cost item. The proceeds from the sale of the washing machine are simultaneously recognized as revenue in the profit and loss account.

Example: Warranty that qualifies as a separate performance obligation (based on example 12b in Annex 1 to DAS 270)
The manufacturer of washing machines also offers the option of expanding the manufacturer's warranty. In that case, a warranty is provided for up to five years following the delivery of the washing machine. This warranty for an additional three years constitutes a separate performance obligation.

The manufacturer allocates the transaction price to this performance obligation in proportion to the value of the warranty. The part of the transaction price allocated to this performance obligation is not yet recognized when the washing machine is delivered but is recognized as 'deferred income'. The additional warranty concerns the provision of a (warranty) service. The guidance on revenue recognition for services applies to this (DAS 270.115-122). This means that the part of the transaction price allocated to the additional warranty is recognized separately as revenue in the years in which the performance is completed (years 3, 4 and 5).

If a customer has the option of buying a warranty separately, the warranty is a distinct service, as the entity promises to provide the service to the customer in addition to the goods transferred. If the customer does not have an option to buy a warranty separately, the warranty is normally not identified as a separate performance obligation. However, a separate performance obligation is identified if the warranty offers a service in addition to the assurance that the goods supplied comply with the agreed specifications. For the assessment whether this is the case, factors including, but not limited to, the following can be taken into account (DAS 270.109b and DAS 221.113):
a. whether the warranty is a legal requirement and only provides protection against the risk of buying defective goods;
b. the term of the warranty period; and
c. the nature of the tasks that the legal entity promises to perform.

1.4 Significant financing components

The DAS previously only addressed the situation in which a customer receives financing from the entity. The DAS now also contain guidance concerning pre-financing received by the entity from a customer. In both situations the transaction price is adjusted for the effects of the time value of money if the contract contains a significant financing component. A contract may contain a significant financing component if the delivery of goods or services occurs earlier or later than the payment of the consideration. If there is a significant financing component, the time value of money is recognized as interest separately in the profit and loss account (as income or expense). This applies to both financing provided (income) and financing received (expense). For the goods or services supplied, revenue is recognized at the time of delivery based on the selling price excluding the interest premium. This selling price is the present value of the total consideration as paid (in advance or afterwards, possibly in installments).

Whether a financing component is significant depends on its relative size. A financing component may in any case be regarded as insignificant if, at the time of concluding a contract, the entity expects the financing period (i.e. the period between the time of delivery and the time of payment) to be no longer than one year.

The interest rate to be applied is set at (DAS 270.107 and DAS 221.202b):
- the prevailing rate for a similar instrument of an issuer with a similar credit rating; or
- a rate of interest that discounts the nominal transaction price to the current cash selling price of the goods or services.

Example: Deferred payment (1)
A company sells goods for an amount of 20,000. Although the usual payment term is one month, a payment term of thirteen months has been agreed with the customer. The generally applicable interest rate for a comparable financing instrument from a company with a similar credit rating is 4% annually.

At settlement date of this transaction, the seller recognizes revenue of 19,230, being the present value of 20,000 calculated with a discount rate of 4%, over a period of twelve months. The difference between the two amounts, 770, concerns interest. In accordance with DAS 290 'Financial Instruments', the receivable is initially valued at the fair value of 19,230. Until the receipt of the 20,000, the receivable is periodically increased by the interest income over this period, in total 770. After thirteen months, the book value of the receivable is 20,000.

Example: Deferred payment (2)
A company sells goods for an amount of 20,573, agreeing a payment term of thirteen months, whereas the normal payment term is one month. If the customer had paid within one month, the selling price would have been 19,500. Therefore, the selling price includes 1,073 interest. This interest corresponds to an interest rate of 5.5%.

At settlement date of this transaction, the seller recognizes revenue of 19,500, being the price that a customer would have to pay if he were to pay at the usual time. In accordance with DAS 290 'Financial Instruments', the receivable is initially recognized at fair value of 19,500. The difference between the fair value and the agreed selling price is recognized as interest during the agreed term (month 2 through month 13). Until the receipt of the 20,573, the receivable is periodically increased by the interest income over this period, in total 1,073. After thirteen months, the book value of the receivable is 20,573.

Example: Advance payment (based on IFRS 15 IE Example 29)
Entity A enters into a contract with a customer to sell a building. The asset will be transferred to the customer in two years (i.e. the performance obligation will be satisfied at a point in time upon transfer). The contract includes two alternative payment options: payment of 5,000,000 in two years when the customer obtains the asset, or payment of 4,000,000 when the contract is signed. The customer elects to pay 4,000,000 when the contract is signed.

The entity concludes that the contract contains a significant financing component because of the length of time between when the customer pays for the asset and when entity A transfers the asset to the customer, as well as the prevailing interest rates in the market.

The interest rate implicit in the transaction is 11.8%, which is the interest rate necessary to make the two alternative payment options economically equivalent. However, the entity determines that the rate that should be used in adjusting the promised consideration is 6%, which is the entity's incremental borrowing rate.

At the payment date entity A recognizes a contract liability for the 4,000,000 (advanced) payment received at contract inception. During the two years from contract inception until the transfer of the asset, the entity adjusts the promised amount of consideration and adjusts the contract liability by recognizing interest on 4,000,000 at six per cent for two years. Over the first year entity A recognizes an interest expense of 240,000 (=4,000,000 x 6%) and over the second year 254,000 (=4,240,000 x 6%). The contract liability at the end of the second year is then 4,494,000 (=4,000,000 + 240,000 + 254,400). When the building is transferred, entity A recognizes this amount as revenue in the profit and loss account.

When applying IFRS, the assessment of whether there is a financing component is not only based on the time value of money. The reason for an advance payment or deferred payment is also taken into account. For example, according to IFRS there is no significant financing component if the time value (i.e. the difference between the promised consideration and the cash selling price of the good or service) arises for reasons other than the provision of finance to either the customer or the entity, and the difference between those amounts is proportional to the reason for the difference. For example, the payment terms might provide the entity or the customer with protection from the other party failing to adequately complete some or all of its obligations under the contract (IFRS 15.62). We consider such an assessment, based on economic reality, of the presence or absence of a financing component also applicable under DAS 270 and DAS 221.

1.5 Customers' options to acquire additional goods or services
Loyalty programmes that provide loyalty points or bonus cards are examples of options granted to customers for additional goods or services. The DAS already required that certain loyalty programmes had to be identified as a separate component of a transaction (i.e. as a separate performance obligation). Those provisions have now been extended to all forms of options to acquire additional goods or services. For example, sales incentives, contract renewal options or other discounts on future goods or services are also covered by this guidance. In addition, it is no longer a condition that the right to additional goods or services should relate to goods or services of the entity's normal activities.

The amended DAS state that if an entity grants an option to a customer to obtain additional goods or services, that option only triggers the identification of a separate performance obligation if the value of the option is not insignificant in relation to the value of the sales under which that option was granted. In fact, in these cases the customer pays in advance for the goods or services to be delivered in the future. If this condition is met, a separate performance obligation is recognized for the option granted. The revenue attributable to the option granted is recognized in the period in which the options are redeemed for additional goods or services (DAS 270.109a). The part of the transaction price allocated to the option is included in the balance sheet as 'deferred income' or 'advance payments'.

If no separate performance obligation is recognized when the option is granted, the consideration of the entire transaction is recognized at the time of the sale at which the option is granted. In that case, the cost of the options granted is recognized, at the same time or in the same period, as a separate expense in the profit and loss account (DAS 270.109a), including, at the same time, the recognition of a liability (in the balance sheet) for the estimated amount of future goods or services to be provided or discounts to be granted. See also the accounting for regular warranty provisions in section 1.3.

Example: Customers' options to acquire additional goods or services free of charge or for a discount (based on example 11 in Annex 1 to DAS 270

A manufacturer of machines concludes a contract with a new customer for the sale of a machine for an amount of 100,000. As part of the contract of sale, the manufacturer also grants the customer the right to buy one identical machine with a 30% discount in the future. This right relates only to one additional machine. Other customers can get similar discounts only on the purchase of several machines. The manufacturer concludes that the value of the option granted is not insignificant in relation to the value of the machine sold.

The manufacturer recognizes the option to buy the same machine in the future at a 30% discount as a separate performance obligation (DAS 270.109a).

The manufacturer expects that the chance of the option being exercised by the customer is 50%. The manufacturer estimates the value of this option at 15,000 (= 30% x 100,000 x 50%). The total transaction price is allocated to the machine and the option granted in proportion to the value of both performance obligations:

Supply of machine	87,000 (= 100/115 x 100,000)
Right to a one-off discount for a new machine	13,000 (= 15/115 x 100,000)

Upon delivery of the machine, the machine producer accounts for the following journal entry:

Dr Cash	100,000	
Cr Net turnover		87,000
Cr Deferred revenue		13,000

The revenue attributable to the option granted of 13,000 is recognized in the profit and loss account as part of the revenue from an additional machine sold under the option granted. Until that time, this part of the transaction price is presented as a deferred revenue. If no additional machine is sold under the option granted, the deferred revenue is stated as revenue if:
- the right under the option has expired; or
- earlier if it is virtually certain that the right under the option will no longer be exercised.

2. Other amendments to DAS 270 'The profit and loss account' and DAS 221 'Construction contracts'

2.1 Determining the transaction price

2.1.1 General

The entity must recognize revenue for the amount to which the entity expects to be entitled in exchange for the transfer of promised goods or services - i.e. the performance obligations (DAS 270.106). This amount is referred to as the transaction price. This amount is exclusive of the amounts collected on behalf of third parties (see section 2.3). The transaction price may consist of a fixed fee, a variable fee or a combination of these. The credit risk is not taken into account in the determination of the transaction price. Any impairments resulting from the credit risk are presented as costs in the profit and loss account. For the determination of the transaction price, the entity assumes that the goods or services will be delivered in accordance with the relevant contract and that this contract will not be cancelled, renewed or otherwise modified. See section 2.4 for the accounting of contract modifications.

The entity must measure any non-monetary consideration, for example, compensation in kind, at fair value (i.e. market value).

In the determination of the transaction price, the entity takes account of the effects of matters including (DAS 270.106):
- variable consideration (see section 2.1.2);
- significant financing components (see section 1.4); and
- consideration payable to a customer (see section 3.3).

2.1.2 Variable consideration

The transaction price may vary due to discounts, refunds, repayments, price concessions, performance bonuses, sanctions or other similar elements. The transaction price may also vary if the entity's right to the consideration depends on whether a future event occurs. In this section, such consideration is referred to as 'variable consideration'.

The DAS previously included no specific principles for the treatment of variable consideration. The DAS now includes principles about the determination of variable consideration to be recognized. The entity must apply a reasonable degree of prudence here (DAS 270.106a). 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. It is not precisely prescribed at what point variable consideration must be included in the transaction price (and therefore results in revenue recognition). Only this principle is described.

The entity must update the estimated amount of variable consideration at the end of each reporting period (DAS 270.106a).

The DASB emphasizes that 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 (DAS 270.118).

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 (RJ 270.115a).

The law firm only recognizes revenue to the amount of the costs incurred for the services that probably can be recovered (RJ 270.121).

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.

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 (RJ 270.115a) is therefore met. The consultancy firm recognizes revenue in proportion to the services provided based on the fixed consideration.

Similar principles apply to construction contracts. 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 (DAS 221.307). If the result of the construction contract cannot be estimated reliably, no profit is being recognized (DAS 221.314).

2.2 Allocating of the transaction price to the performance obligations

The DAS previously did not include specific principles for allocating the transaction price to the separate performance obligations within a contract. The DAS now includes principles which require that the total transaction price must be allocated to the performance obligations in proportion to the value of the performance obligations (DAS 270.109c and DAS 221.112). The question arises on the basis of which value of the separate performance obligations this allocation can take place. The DAS provide two possibilities (DAS 270.109c):

- the entity can base this allocation on the individual sales price for each performance obligation. The individual sales price is the price that the entity would charge if the goods or services were sold separately. If the individual sales price is not known, the entity makes use of estimates.
- as an alternative, the entity can base the allocation on the fair value (i.e. the market value) of the performance obligations, instead of the individual sales price.

Example: Fees for developing customized software (based on example 23 in Annex 1 to DAS 270)

An entity concludes a contract for the development of customized software and for support following delivery of the customized software for a total consideration of 100. The entity determines that the development of the customized software and the support following delivery of the customized software are separate performance obligations (in accordance with DAS 270.109). The transaction price is allocated to both performance obligations in proportion to the value of both performance obligations (DAS 270.109c). The stand-alone selling price for the development of the customized software is 90. The stand-alone selling price for the support is 30.

A consideration of 75 (= 100 * 90 / (90 + 30)) is allocated to the development of the customized software. A consideration of 25 (= 100 * 30 / (90 + 30)) is allocated to the support services.

The development of customized software concerns services and consideration for these services is, in principle, recognized as revenue in proportion to the services provided (DAS 270.115), i.e. in line with the progress of the work. In a situation when the proper operation of the customized software is essential for the customer's acceptance and so for payment for the development and such acceptance is not certain, no revenue can be recognized before it has become probable that such acceptance will take place.

The part of the transaction price allocated to the support following delivery of the customized software is recognized in proportion to the support provided (DAS 270.115).

Given the wording: "as an alternative, the legal entity can use the fair value instead of the individual sales price", the DAS exclude any other alternative allocation methods. For example, attribution based on the relative stand-alone gross margins of the separate performance obligations (a variant of attribution based on stand-alone selling prices) does not seem to be allowed.

2.3 Acting as an agent or principal

The DAS already included indicators to determine whether the legal entity receives amounts for its own account (as principal) or for third parties (as agent). The amended DAS now include that the control over the goods and services immediately prior to their delivery is also an indicator for the receipt of amounts on its own account (DAS 270.105b). This also applies to revenues from construction contracts (DAS 221.114).

However, legal ownership by the entity immediately prior to delivery does not necessarily mean that the entity has (or had) control over the relevant goods.

Example: Arranging for the provision of goods (entity is an agent) (based on IFRS 15 IE Example 45)
A.com operates a website that enables customers to purchase goods from a range of suppliers who deliver the goods directly to the customers. Under the terms of the entity's contracts with suppliers, when a good is purchased via the website, A.com is entitled to a commission that is equal to 10 per cent of the sales price. A.com's website facilitates payment between the supplier and the customer at prices that are set by the supplier. A.com requires payment from customers before orders are processed and all orders are non-refundable. A.com has no further obligations to the customer after arranging the order for the products to be provided to the customer. The supplier is responsible for fulfilling the promise to deliver the goods to the customer.

To determine whether A.com's performance obligation is to provide the specified goods itself (i.e. A.com is a principal) or to arrange for those goods to be provided by the supplier (i.e. A.com is an agent), A.com identifies the specified good to be provided to the customer and assesses whether it receives amounts for its own account (as principal) or for third parties (as agent).

The website operated by A.com is a marketplace in which suppliers offer their goods and customers purchase the goods that are offered by the suppliers. Accordingly, the entity observes that the specified goods to be provided to customers that use the website are the goods provided by the suppliers, and no other goods or services are promised to customers by A.com.

To determine whether it is acting as agent or principal, A.com considers the indicators in DAS 270.105b and DAS 270.105c:
- the supplier is primarily responsible for fulfilling the promise to provide the goods to the customer. A.com is neither obliged to provide the goods if the supplier fails to transfer the goods to the customer, nor responsible for the acceptability of the goods;
- A.com concludes that it does not control the specified goods before they are transferred to customers that order goods using the website. A.com does not at any time have the ability to direct the use of the goods transferred to customers. For example, it cannot direct the goods to parties other than the customer or prevent the supplier from transferring those goods to the customer. The entity does not control the suppliers' inventory of goods used to fulfil the orders placed by customers using the website;
- A.com does not take inventory risk at any time before or after the goods are transferred to the customer. The entity does not commit itself to obtain the goods from the supplier before the goods are purchased by the customer and does not accept responsibility for any damaged or returned goods;
- the entity does not have discretion in establishing prices for the supplier's goods. The sales price is set by the supplier;
- because of the prepayment, credit risk does not apply;
- the amount due to A.com is predetermined as a percentage of the amount charged to the customer.

Consequently, A.com concludes that it is an agent and its performance obligation is to arrange for the provision of goods by the supplier. When A.com satisfies its promise to arrange for the goods to be provided by the supplier to the customer (which, in this example, is when goods are purchased by the customer), A.com recognizes revenue in the amount of the commission to which it is entitled. That moment is before the goods are delivered by the supplier to the customer.

Example: Promise to provide services (entity is a principal) (based on IFRS 15 IE Example 45)
C.com negotiates with major airlines to purchase tickets at reduced rates compared with the price of tickets sold directly by the airlines to the public. C.com agrees to buy a specific number of tickets and must pay for those tickets regardless of whether it is able to resell them. The reduced rate paid by C.com for each ticket purchased is negotiated and agreed in advance.

C.com determines the prices at which the airline tickets will be sold to its customers. C.com sells the tickets and collects the consideration from customers when the tickets are purchased. C.com requires payment from customers before purchases are unconditional and processed.

C.com also assists the customers in resolving complaints with the service provided by the airlines. However, each airline is responsible for fulfilling obligations associated with the ticket, including remedies to a customer for dissatisfaction with the service.

To determine whether the C.com's performance obligation is to provide the specified services itself (i.e. C.com is a principal) or to arrange for those services to be provided by another party (i.e. C.com is an agent), C.com identifies the specified service to be provided to the customer and assesses whether it receives amounts for its own account (as principal) or for third parties (as agent).

C.com concludes that, with each ticket that it commits itself to purchase from the airline, it obtains a right to fly on a specified flight (in the form of a ticket) that C.com then transfers to one of its customers. Consequently, C.com determines that the specified service to be provided to its customer is that right (to a seat on a specific flight). C.com observes that no other goods or services are promised to the customer.

To determine whether it is acting as agent or principal, C.com considers the indicators in DAS 270.105b and DAS 270.105c:
- each airline is responsible for fulfilling the obligations attached to the ticket, including redress for a customer dissatisfied with the service. C.com only assists customers in resolving complaints;
- C.com controls the right to each flight before it transfers that specified right to one of its customers because C.com has the ability to direct the use of that right by deciding whether to use the ticket to fulfil a contract with a customer and, if so, which contract it will fulfil. The entity also has the ability to obtain the remaining benefits from that right by either reselling the ticket and obtaining all of the considerations from the sale or, alternatively, using the ticket itself;
- C.com has inventory risk with respect to the ticket because C.com committed itself to obtain the ticket from the airline before obtaining a contract with a customer to purchase the ticket. This is because C.com is obliged to pay the airline for that right regardless of whether it is able to obtain a customer to resell the ticket to or whether it can obtain a favorable price for the ticket;
- C.com establishes the price that the customer will pay for the specified ticket;
- because of the prepayment, credit risk does not apply;
- the amount in which C.com is entitled to is not predetermined but depends on the sales price it is able to achieve.

Based on this, C.com concludes that it is a principal in the transactions with customers. C.com recognizes revenue in the gross amount of consideration to which it is entitled in exchange for the tickets transferred to the customers. C.com recognizes revenue when it delivers the tickets to the customer.

2.4 Contract modifications

The DAS previously did not include principles regarding the accounting treatment of contract modifications, including modification of construction contracts (for example: additional and reduced work). The amended DAS now include principles on how such modifications should be accounted for. The objective of these principles is to ensure that a modification to an existing contract is accounted for in accordance with the economic reality of that modification.

A contract modification may create new enforceable rights and obligations of the contractual parties or change existing rights and obligations. This can be done verbally or in writing. Furthermore, a modification may also arise implicitly in customary business practices (DAS 270.129).

Depending on the nature of the modification to an existing contract, the modification is accounted for as either (DAS 270.130 and DAS 221.205):

a. a separate contract in addition to the existing contract;
b. a termination of the existing contract and the creation of a new contract (where the new contract includes the unfulfilled performance obligations of the terminated contract); or
c. a modification to the existing contract.

There may also be a combination of these three accounting treatments.

Ad a.: a separate contract in addition to the existing contract

A contract modification is accounted for as a separate contract (in addition to the existing contract) in the event of:

- an addition of promised goods or services that are distinct (i.e., an addition of separate performance obligations as described in section 1.2); and
- an increase of the price of the contract by an amount of consideration that reflects the value of the additional promised goods or services and any appropriate adjustments to that price to reflect the circumstances of the particular contract. For example, the entity may adjust the stand-alone selling price of an additional good or service for a discount that the customer receives, because it is not necessary for the entity to incur the selling costs that it would incur when selling a similar good or service to a new customer. In that case, despite that discount, there is still an increase of the price of the contract that reflects the value of the additional promised goods or services.

Another example is additional work on a construction contract that is a separate performance obligation from the ongoing project in progress and for which an increase in the price of the total contract is agreed that reflects the value of the additional work. However, if the increase in the price does not reflect the value of the additional work, then the additional work, together with the remaining part of the original performance obligation, is economically indistinguishable from the part already performed. In that case the amendment will be accounted for as a modification to the existing contract (ad c).

Example: Modification of a contract for goods – additional products for a price that reflects the stand-alone selling price (based on IFRS 15 IE Example 5A)

A B.V. promises to sell 120 products to a customer for 12,000 (100 per product). The products are transferred to the customer over a six-month period. After A has transferred 60 products to the customer, the contract is modified to require the delivery of an additional 30 products (a total of 150 identical products) to the customer. The additional 30 products were not included in the initial contract.

When the contract is modified, the price of the contract modification for the additional 30 products is an additional 2,850, or 95 per product. The price for the additional products reflects the stand-alone selling price of the products at the time of the contract modification and the additional products are distinct (in accordance with DAS 270.109).

The contract modification for the additional 30 products is, in effect, a new and separate contract for future products that does not affect the accounting for the existing contract. A B.V. recognizes revenue of 100 per product for the 120 products in the original contract and 95 per product for the 30 products in the new contract.

Ad b.: a termination of the existing contract and the creation of a new contract

A contract modification shall be accounted for as a termination of the existing contract and the creation of a new contract if:
- the modification is not accounted for as a separate contract; and
- the remaining promised goods and services are distinct (i.e. are separate performance obligations in accordance with DAS 270.109) from the goods or services transferred on or before the date of the contract modification.

The amount of consideration to be allocated to the remaining promised goods and services is the sum of the consideration not previously recognized as revenue from the original contract (i.e. the remaining revenue from the original contract) and the consideration promised as part of the amendment.

Example: Modification of a contract for goods – additional products for a price that does not reflect the stand-alone selling price (based on IFRS 15 IE Example 5B)

During the process of negotiating the purchase of an additional 30 products, A B.V. and the customer from the previous example agree on a price of 80 per product (instead of 95). A B.V. provides an additional discount based on the expectation that the customer will purchase even more products.

The negotiated price of 80 per product does not reflect the stand-alone selling price (95) of the additional products. However, the remaining products to be delivered are distinct from those already transferred (in accordance with DAS 270.109). Consequently, the contract modification is accounted for as a termination of the original contract and the creation of a new contract.

Consequently, the amount recognized as revenue for each of the 90 remaining products is a blended price of 93.33 (= (100 × 60 products not yet transferred under the original contract) + (80 × 30 products to be transferred under the contract modification) / 90 remaining products).

Ad c.: a modification to the existing contract

A modification to a contract shall be treated as a contract modification to the existing contract if:
- the modification is not accounted for as a separate contract; and
- the remaining promised goods and services are not distinct (i.e. are not separate performance obligations in accordance with DAS 270.109) from the goods or services transferred on or before the date of the modification.

The effect that the modification has on the transaction price and on the measure of progress towards complete satisfaction of the performance obligation, is recognized as an adjustment to revenue (an increase or decrease) at the date of the contract modification. This is also referred to as 'cumulative catch-up'.

This concerns, for example, all additional work of a construction contract that is not accounted for as a separate contract. See the description under ad a.

Agreed contract reductions are similarly accounted for as modification to the ongoing project in progress. The effect that the reduction has on the transaction price and on the stage of completion of the construction contract is recognized as an adjustment to revenue (increase or decrease) at the date of the contract modification (i.e. 'cumulative catch-up').

Example: Modification resulting in a cumulative catch-up adjustment to revenue (based on IFRS 15 IE Example 8)

Construction company B B.V. enters into a contract to construct a commercial building for a customer for promised consideration of 1 million and a bonus of 200,000 if the building is completed within 24 months. B accounts for the promised bundle of goods and services as a single performance obligation. The revenues and costs associated with the construction contract are recognized in the profit and loss account by reference to the stage of completion of the contract activity at the reporting date (in accordance with DAS 221.301).

At the inception of the contract, B expects a profit of 300,000 (1,000,000 transaction price minus 700,000 expected costs). At contract inception, B excludes the CU200,000 bonus from the transaction price because it cannot conclude that the chance is small that the bonus will not be achieved. Indeed, only revenue is recognized of which there is little chance that it will have to be reversed in a later reporting period. Completion of the building is highly susceptible to factors outside B's influence, including weather and regulatory approvals. In addition, B has limited experience with similar types of contracts.

B determines that the costs incurred, provides an appropriate measure of progress towards complete satisfaction of the performance obligation (DAS 221.309a). By the end of the first year, B has satisfied 60 per cent of its performance obligation on the basis of costs incurred to date (420,000) relative to total expected costs (700,000). B reassesses the variable consideration and concludes that the amount is still constrained. Consequently, the cumulative revenue recognized for the first year is 600,000 (= 60% x 1,000,000). The cumulative profit at the end of the first year is therefore 180,000 (= 600,000 – 420,000).

At the beginning of the second year, the parties to the contract agree to modify the contract by changing the floor plan of the building. As a result, the fixed consideration and expected costs increase by 150,000 and 120,000, respectively. Total potential consideration after the modification is 1,350,000 (1,150,000 fixed consideration + 200,000 completion bonus). In addition, the allowable time for achieving the 200,000 bonus is extended by 6 months to 30 months from the original contract inception date. At the date of the modification, on the basis of its experience and the remaining work to be performed, which is primarily inside the building and not subject to weather conditions, B concludes that it is highly probable that the bonus will be achieved. So, there is only little chance that including the bonus in the transaction price will result in a reversal of cumulative revenue in a later reporting period. Therefore, B includes the 200,000 bonus in the transaction price.

In assessing the contract modification, B evaluates and concludes that the remaining goods and services to be provided under the modified contract are not distinct from the goods and services transferred on or before the date of contract modification; that is, the contract remains a single performance obligation.

Consequently, B accounts for the contract modification as if it were part of the original construction contract. The effect of modification in the transaction price and on the measure of progress is accounted for by means of a 'cumulative catch-up' of the revenue as at the date of the contract modification. B updates its measure of progress and estimates that it has satisfied 51.2 per cent of its performance obligation (420,000 actual costs incurred / CU820,000 total expected costs). Cumulative project revenue consequently is 691.200 (=51,2% x 1,350,000). At the end of the first year cumulative project revenue was 600.000. Therefore, at the date of the modification B recognizes additional revenue of 91,200 (=691.200 – 600,000) as a cumulative catch-up adjustment.

3. Amendments to only DAS 270 "The profit and loss account"

3.1 Returns

The DAS already included the requirement that revenue from the sale of goods is only recognized if all the conditions as per DAS 270.110 are met. These conditions have not been changed by the amendments. One of these conditions is that an entity has transferred all significant rights to economic benefits and all significant risks relating to the goods to the customer. If an entity retains only an insignificant part of the rights of economic benefits and risks, the transaction is a sale and revenue is recognized if the other conditions set out in DAS 270.110 also are met. The question is then whether all significant risks have been transferred if the customer has a right of return. And how these returns should be accounted for. The DAS previously did not include principles regarding the accounting treatment of returns. These now have been included in the amended DAS.

For example, there may be a sale where a refund is offered if the customer is not satisfied with the goods supplied. In that case, revenue is recognized in connection with this transaction if the entity can reliably estimate the expected returns. The entity should not recognize revenue for amounts received (or to be received) to which the entity does not expect to be entitled at the date when it supplies the goods. The entity must then recognize these amounts as a refund liability (DAS 270.112).

For the determination of the consideration to which the entity is expected to be entitled, the principles for variable consideration are relevant (see section 2.1.2).

The entity recognizes an asset for the right to recover goods from the customer in settlement of a refund liability. This asset is initially measured by reference to the former carrying amount used for the asset (e.g. the carrying amount of inventory sold) less the expected costs for the recovery of those goods and including potential impairments in the value of returned goods. The refund liability is the best estimate of the entity's obligation to repay the purchase amount. At the end of each reporting period, the entity updates the measurement of the asset and of the refund liability arising from changes in the expectations about goods to be returned.

Example: Returns (based on example 3b in Annex 1 to DAS 270)
Entity A sells 1,000 products to various customers in one month for 100 per item. Total consideration therefore amounts to 100,000. The customers must pay the amount in advance but do have the right to return unused goods within 30 days. In that case, the customers are refunded the full purchase price. The cost price of the product for the entity is 60 per item.

On the basis of the expected value method, A expects 5% of the deliveries to be lawfully returned (50 items). A also expects the repair costs of the return deliveries to be negligible and that the returned products can be sold (on) with a positive margin. The collection of goods is not
expected to involve material costs.

In this case, A will recognize revenue of 95,000 at the time of the delivery of 1,000 products. A expects 5% to be returned, as a result of which not all the significant rights to the economic benefits of these goods and all the significant risks will have been transferred to the customer yet. The best estimate of the refund liability (5,000) is deducted from total consideration.

The journal entry is as follows:

Cash	100,000 (= 1,000 items x 100)	
Revenue		95,000 (= 950 items x 100)
Refund liability		5,000 (= 50 items x 100)

The refund liability represents the best estimate of the entity's obligation to repay the purchase price if the customer makes use of the right of return. This refund liability can be presented as an accrued liability as part of the current liabilities.

The journal entry regarding the cost of sales is as follows:

Cost of sales	57,000 (= 950 items x 60)	
Right to recover returns	3,000 (= 50 items x 60)	
Inventory		60,000 (= 1,000 items x 60)

The right to recover returns is related to compliance with A's obligation to accept returned goods and to refund the purchase price. A then has the right to recover and resell the unused goods. This right therefore represents a value that is presented separately from the refund liability. The right to recover returns has the character of a non-financial receivable that can be presented as an accrual under current assets.

Material costs for collection of returns
If the collection of the goods is expected to be associated with material costs, these expected costs are deducted from the recognized right to recover and resell the returned goods. After all, the goods to be recovered have a lower value for the entity. If the expected costs amount to 500, the journal entry regarding the cost of sales is as follows:

Cost of sales	57,500 (= (950 items x 60) + 500)	
Right to recover returns	2,500 (= (50 items x 60) – 500)	
Inventory		60,000 (= 1,000 items x 60)

Suppose that ultimately 4% (40 items) instead of 5% (50 items) are returned. The cost of collection is 500 as expected. This results in an adjustment to the recognized revenue of 1,000 (= 10 items x 100). The journal entry regarding the returns is as follows:

Refund liability	5,000 (= 50 items x 100)	
Cash		4,000 (= 40 items x 100)
Revenue		1,000 (= 10 items x 100)
Inventory	1,900 (= (40 items x 60) – 500)	
Cost of sales	600 (= 10 items x 60)	
Right to recover returns		2,500 (= (50 items x 60) – 500)

3.2 Revenue from licenses
A license establishes the rights of a customer to the intellectual property rights of the entity. Licenses may relate to matters including software, films, music and other forms of media and entertainment, franchises, patents, trademarks and copyrights (DAS 270.123).

The DAS 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 (DAS 270.125):
- 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 (DAS 270.110); 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 (DAS 270.115)

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.

If the promise to grant a license cannot be distinguished from other goods or services promised in a contract, the promise to grant a license and those other promised goods or services shall be recognized together as a single performance obligation (DAS 270.124). See also section 1.2.

3.3 Consideration payable to a customer
Sometimes a supplier pays amounts to a customer of goods or services. For example, to compensate the customer for investments the customer has to make to sell the supplier's products. Another example is a consideration paid to a customer to put the supplier's products on a particular shelf in a shop. The DAS did not include how such consideration should be accounted for. The DAS has now included principles for this.

The main principle is that consideration paid to customers are deducted from revenue, unless the payment is made to a customer in exchange for a distinct good or service that the customer provides to the supplier (DAS 270.108). The treatment of the payment to customers therefore depends on whether or not the payment to the customer is in exchange for a distinct good or service. If the payment is in exchange for a distinct good or service, the payment is recognized by the supplier as the purchase price of the good or service that is supplied by the customer to the supplier.

Example: Consideration payable to a customer (based on IFRS 15 IE Example 32)
Entity A that manufactures bakery products enters into a contract to sell goods to a customer that is a large global chain of retail stores. The customer commits to buy at least 15 million of products during three year (at least 5 million annually). The contract also requires A to make a non-refundable payment of 1.5 million to the customer at the inception of the contract. The 1.5 million payment will compensate the customer for the changes it needs to make to its shelving to accommodate A's products.

A concludes that the payment to the customer is not in exchange for a distinct good or service that transfers to A. This is because A pays the consideration payable only because of its supplies of goods to the customer. A does not obtain any rights to the customer's shelves. Consequently, A determines that the 1.5 million payment is a reduction of the transaction price.

A accounts for the consideration payable as a reduction of the transaction price when A recognizes revenue for the transfer of the goods. Consequently, as A transfers goods to the customer, A reduces the transaction price for each good by 10 per cent (1.5 million / 15 million). Therefore, in the first year in which A transfers goods to the customer, A recognizes revenue of 4,5 million (5 million invoiced amount less 0,5 million of consideration payable to the customer).

3.4 Non-refundable upfront fees
In some contracts, the entity charges the customer a non-refundable upfront fee at or near contract inception. Examples include joining fees in health club membership contracts, activation fees in telecommunication contracts and set-up fees in certain services contracts. The DAS previously included no specific principles regarding the accounting treatment of such non-refundable upfront fees. However, these principles are now included in the amendments.

In many cases, even though a non-refundable upfront fee relates to an activity that the entity is required to undertake at or near contract inception to fulfil the contract, that activity does not result in the delivery of promised goods or the provision of promised services to the customer. In such situations, the upfront fee is an advance payment for future goods or services expected to be delivered. The entity does not recognize revenue until such time as those expected future goods or services are delivered (DAS 270.127).

Example: Fee for application and admission as member and membership fees (based on example 21 in Annex 1 to DAS 270)
When joining a health club, a fee must be paid for application and admission as a member. A non-refundable fee for application and admission as a member of a health club is not recognized immediately. Although a non-refundable fee may relate (partly) to an activity that an entity must undertake on or around the inception of the contract to fulfil the contract, that activity usually does not result in the delivery of promised goods or the provision of promised services to the customer. In such situations, the fee for application and admission as a member is recognized over the expected period in which the performance obligation to make the health club facilities available is met (DAS 270.127).

If, for example, an extensive intake takes place when joining a health club, on the basis of which a fitness programme is designed for the customer, this is a separate performance obligation in addition to the performance obligation to make the health club facilities available. In that case the transaction price is allocated on a pro rata basis to this performance obligation and recognized as revenue when the intake and the drawing up of the fitness programme takes place (DAS 270.109c).

3.5 Customers' unexercised rights
In some industries, an entity receives a non-refundable payment from customers entitling the customers to receive goods and services in the future. Examples are advance payments for theatre performances and voucher cards for a ferry or a tunnel. However, customers do not always exercise the rights granted to them. The DAS previously included no specific principles on the treatment of customers' unexercised rights. However, these principles are now included in the amendments.

Customers' unexercised rights do not result in a financial liability but do result in an obligation to deliver goods and/or services. The question is then how the liability for this obligation should be measured and when (and to what extent) revenue should be recognized, while at the same time the liability is decreased. The DAS distinguish two situations (DAS 270.128):

1. the entity expects that customers will not exercise all the rights granted. In this situation the amount related to those rights shall be recognized as revenue in accordance with the pattern of the rights that are expected to be exercised by customers;
2. the entity expects customers to exercise all the rights granted. In this situation the amount pursuant to non-exercised rights is recognized as revenue only at the date when it becomes highly improbable that the customer will still exercise its remaining rights.

Example: Theatre tickets (customers will not exercise all rights granted (based on example 13 in Annex 1 to DAS 270)
A theatre sells 190 tickets for a performance at a price of 50 per ticket. The tickets cannot be cancelled. Visitors must pay for their tickets in advance. On the basis of historical data, the theatre expects that only 180 visitors actually will visit the performance.

The theatre recognizes the amounts received in advance from all visitors (including those who are not expected to visit the performance) as deferred income until the date that the performance actually takes place and the performance obligation is fulfilled (DAS 270.128). Despite the expectation of the theatre that 10 visitors will not visit the performance, the theatre does not recognize the accompanying revenue until the performance obligation is fulfilled. After all, it is only at that moment that the performance is delivered and the requirements of DAS 270.115 on the provision of services are met. The recognition of revenue of unused tickets therefore follows the pattern of the rights that have been exercised by customers.

Example: Voucher cards at a health club (customers will not exercise all rights granted (based on example 13 in Annex 1 to DAS 270)
A health club sells voucher cards to customers. This card costs 70 and can be used to exercise in the health club ten times. The card remains valid until ten strips have been used. The health club sells 100 cards at the beginning of the year. From previous experience, the health club can reliably estimate that customers use an average of 80% of these voucher cards spread over the first six months. The other 20% is not expected to be used by customers.

Based on this information the health club recognizes 20% of the received prepayment (1,400 (= 20% of (100 x 70)) as revenue during the first six months (in line with the recognition of the revenue of used voucher cards over the first six months amounting to 5,600 (= 80% of (100 x 70)). The recognition of revenue for unused voucher cards is in accordance with the pattern of the rights that are expected to be exercised by customers (DAS 270.128).

If the health club expects customers to use the remaining unused strips, then revenue can only be recognized for the unused strips when it has become very unlikely that the customers will use these. For example, if historical data show that 12 months after the last visit of the customer, further use of the voucher card is very unlikely, the strips not used (the remaining balance on the voucher card) shall be recognized as revenue at that date.

3.6 Disclosure requirements
Compared to the existing DAS 270, the amendments require that the nature of significant performance obligations and the total of capitalized costs of obtaining a contract must be disclosed. In addition, it is now stipulated that the measurement of service progress (i.e. the method of determining the degree of completion of service orders) must be disclosed for each major type of performance obligation.

According to the new DAS 270, the following must be disclosed in the notes (DAS 270.601):
- the nature of major performance obligations;
- per major type of performance obligation, the method of attribution of revenue to the reporting periods, including the method for determination method of the degree of completion of service orders;
- the amount of each major category or revenue recognized in the profit and loss account in the period, including:
  - revenue from the sale of goods;
  - revenue from the provision of services;
  - revenue from licenses.
- the amount included in major revenue categories relating to the exchange of goods or services; and
- the total of capitalized costs of obtaining a contract.

4. Amendments to only DAS 221 'Construction contracts'

4.1 Presentation construction contracts in the profit and loss account
Previously, it was stipulated in DAS that 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. DAS 220 now stipulates that contract revenue must be presented as "net turnover" in the profit and loss account (DAS 221.401). 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 (formerly DAS 221.402).

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 in scope of DAS 221. This line item relates to inventories in scope of DAS 220 'Inventories'.

4.2 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 (DAS 221.409):
- 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).

5. Transitional provisions to simplify the implementation

A change in the basis for preparation as a result of the amendment of DAS 270 and DAS 221 as of January 1, 2022, or before that date if applied earlier, is a change in accounting policies in accordance with DAS 140. According to this standard a change in accounting policies shall be applied retrospectively, including adjustment of the comparative figures (DAS 140).

However, to simplify implementation the DASB had adopted transitional provisions. The DASB allows the following three options to account for policy changes related to the recognition and measurement of revenue (DAS 270.7 and DAS 221.6):
- prospective. In this case the amended standards only are to be applied to contracts entered into or modified on or after the beginning of the financial period in which these amendments are initially applied. In case of initial application as per January 1, 2022, the amended standards only apply to contracts entered into or modified on or after January 1, 2022. The previous standards are still be applicable for contracts entered into or modified before the initial application date;
- partially retrospective. It is also permissible to apply the amendments in this standards only to contracts entered into or modified on or after a date chosen by the entity itself, preceding January 1, 2022 or the relevant effective date on earlier application; or
- fully retrospective.

Example: Prospective
The health club from the example in section 3.4 must, under the amended standards, recognize the subscription fee (i.e. the consideration for application and admission as a member) as revenue over the expected subscription period (i.e. the period that the performance obligation to provide the health club facilities is fulfilled). Under the previous standards the subscription fee was recognized as revenue in the period the subscription was agreed. The health club applies the amended standards as of January 1, 2022 and opts for prospective accounting for the change in accounting policy.

The subscription fee recognized as revenue under the previous standards (up to the 2021 financial periods) remains unchanged. Only for subscriptions concluded on or after January 1, 2022 the subscription fee will be allocated to the subscription period. This means that the comparative figures for 2021 in the 2022 financial statements are not adjusted.

Example: Partially retrospective
As the previous example, but the health club now opts for partial retrospective accounting for the change in accounting policy as of January 1, 2022, for subscriptions concluded on or after January 1, 2021.

The subscription fee recognized as revenue under the previous standards up to the 2020 financial periods remains unchanged. Only for subscriptions concluded on or after January 1, 2021 the subscription fee will be allocated to the subscription period. This means that in the 2022 financial statements, the comparative figures for 2021 will be adjusted, but only for subscriptions concluded on or after January 1, 2021.

Example: Fully retrospective
As the previous example, but the health club now opts for fully retrospective accounting for the change in accounting policy as of January 1, 2022.

The 2022 financial statements will be drawn up as if the amended standards had always been applied. So, for subscriptions that ran during 2021 and 2022, the allocation of the subscription fee is recalculated. In the 2022 financial statements the comparative figures of 2021 are adjusted.

The disclosure notes must explain which transitional provision has been chosen. It is also to be disclosed how the previous and amended standards differ from each other, including the fact that the amendment of the standard is the reason for the change in accounting policy (art. 2:384-6 NCC). In addition, in case of (partly) retrospective accounting, the disclosure requirements of DAS 140 'Changes in accounting policies' are applicable. This means that in case of retrospective accounting, the adjustments to the comparative figures must also be disclosed (in accordance with art. 2:384-6 NCC).

Changes relating to presentation and disclosure may not be applied prospectively. Therefore, the comparative figures must be adjusted for these changes and the adjustments must be disclosed (art. 2:363-4 NCC). This relates to the changes as described in sections 3.6, 4.1 and 4.2.

Contact information
For questions, comments or suggestions:

Professional Practice Department

Ralph ter Hoeven
rterhoeven@deloitte.nl

Corné Kimenai
ckimenai@deloitte.nl

Lianne Suurland
lsuurland@deloitte.nl

Debby van der Veld
dvanderveld@deloitte.nl

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