



## NL GAAP Focus

### Summary of changes to Dutch Accounting Standards for medium-sized and large legal entities in annual edition 2022

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#### Introduction

The annual edition 2022 of the Dutch Accounting Standards (DAS) for medium-sized and large legal entities includes amendments to several standards. The annual edition 2022 is effective for financial years starting on or after 1 January 2023. Some of the new standards, however, have become effective before that date. Earlier application is recommended for all new standards.

This summary outlines the main amendments to the DAS. Please note that industry-specific<sup>1</sup> amendments are not addressed in this summary.



#### 1. Amendments in accounting standards effective for financial years starting on or after 1 January 2023

##### 1.1 Components of fixed assets and (interaction with) provision for costs of major maintenance

The Dutch Accounting Standards Board (DASB) has made various clarifications in DAS 212 'Tangible fixed assets' regarding (1) the distinction between the replacement of significant components of an asset and costs of major maintenance, and (2) the identification of separate components of fixed assets in combination with the recognition of a provision for costs of major maintenance. In addition, it has been clarified that (3) the accrual of the provision for costs of major maintenance should take place per component of maintenance. We also refer to DASB-Statements [2021-14](#) and [2022-8](#) for the amendments and the DASB's considerations.

##### *1. The distinction between the replacement of significant components of an asset and costs of major maintenance:*

This distinction is important because significant components of an asset that will be replaced periodically should be capitalised and depreciated, whereas costs of major maintenance may also be recognised in a provision for costs of major maintenance. Therefore, the DASB has decided to define the terms 'significant components' and 'costs of major maintenance'.

- A significant component is defined as a part of a tangible fixed asset with a cost that is significant in relation to the total cost of that asset;

1. Specific industries in the DAS include banks, insurers, pension funds, premium pension institutions, investments institutions, cooperatives, commercial foundations and associations, not-for-profit organizations, housing corporations, fundraising organizations, health care institutions and educational institutions.

- Costs of major maintenance are defined as costs resulting from (periodic) activities after an extended period of use to maintain the current condition of an asset, which do not qualify as replacement of significant components of a tangible fixed asset or as recurring maintenance costs.

The DASB emphasises that, in practice, various combinations may occur for which an assessment should be made as to whether they are classified as costs of major maintenance or the replacement of significant components of an asset. These situations require a higher degree of judgement by management of the legal entity. Depending on the nature and specific facts and circumstances, it can be classified as a replacement of a significant component or as costs of major maintenance. In these situations it is important that a classification, once chosen, is applied consistently.

*2. The identification of separate components of fixed assets in combination with the recognition of a provision for costs of major maintenance:*

A legal entity should distinguish significant components of a tangible fixed asset with a useful life different from that of the tangible fixed asset and should capitalise and depreciate them separately. Even if a legal entity recognises costs of major maintenance in a provision, an asset should (where relevant) be differentiated at the time of acquisition in significant components that are depreciated over their own useful lives ('component approach'). If a significant component is replaced, the costs are capitalised again as a component and depreciated over its useful life. Such replacements of significant components of an asset are therefore no costs of major maintenance and cannot be recognised in a provision.

*3. The accrual of the provision for costs of major maintenance per component of maintenance:*

The DAS already stipulated that additions to the provision for costs of major maintenance shall be based on the estimated amount of the major maintenance and the period between the major maintenance takes place. It has been clarified that the provision for costs of major maintenance should be recognised per component of maintenance. The underlying principle is that at the moment the major maintenance takes place, the full amount of the major maintenance for that maintenance component has been accrued. If, when carrying out major maintenance, the actual cost of that maintenance turns out to be higher or lower than the amount recognised in the provision, the difference is recognised in profit and loss.

The DAS emphasises that the amendments are solely intended to clarify the current requirements; it is not intended to introduce new requirements. These clarifications are particularly important for legal entities that account for major maintenance costs through a provision and so far did not distinguish (the replacement of) significant components of tangible fixed assets and/or major maintenance.

*Treatment as a change in accounting policy*

If the clarifications give rise to adjustments (e.g. because, as a result of the clarifications, it appears that the provision for costs of major maintenance was not correctly determined), this is accounted for as a change in accounting policy. Through a transitional provision, the DASB has made it possible to recognise this change as follows:

1. retrospectively in accordance with the requirements for changes in accounting policies in DAS 140 'Changes in accounting policies';
2. retrospectively from the previous financial year; or
3. retrospectively from the current financial year.

This means, when choosing the second and third approach the recognition of significant components does not need to be applied retrospectively for assets already acquired before the previous and current financial year, respectively. When a significant component of a tangible fixed asset is replaced, the new component is capitalised and the carrying amount of the replaced component is derecognised, even if the component was not previously recognised as separate components of the underlying asset.

In all three approaches, the size of the provision for costs of major maintenance should be determined at the beginning of the financial year in the year of the change in accounting policy. A resulting release or addition is recognised in equity at the beginning of the financial year in which the change in accounting policy takes place.

When choosing the first and second approach, the comparative figures also have to be adjusted. Therefore, applying these methods, the size of the provision for costs of major maintenance should also be determined at the beginning of the comparative financial year. By applying the third approach, the comparative figures are not adjusted.



### Example: retrospective recognition from the previous respectively current financial year

A manufacturer (A BV) has a production facility containing cranes and lifting systems. The total cost of this facility amounts to 150. The production facility has a useful life of 30 years. The cranes and lifting systems are replaced (preventively) every 10 years. Until year 5, the costs of the production facility and cranes are not separated from the total cost according to the component approach. A provision for costs of major maintenance is recognised for the replacement of the lifting systems. The expenses for the replacement of the cranes are estimated at 30 and for the lifting systems at 20. At the end of year 5, the provision for costs of major maintenance amounts to 10 ( $= 20 \times 5 \text{ years accrual} / 10 \text{ years}$ ).

From year 6, A BV applies the clarified requirements of DAS 212 'Tangible fixed assets'. From that moment, the cranes and lifting systems are recognised as significant component because the cost of this is significant in relation to the total cost of the production facility. The replacement of the lifting system is recognised as a significant component of an asset and is therefore no costs of major maintenance. A BV decides to recognise the impact of this change in accounting policy retrospectively from the current financial year (year 6). This means the following:

- The identification of significant components does not need to be applied retrospectively for assets already recognised before year 6. This means that the existing cranes and lifting systems are not distinguished so that the book value of the production facility is not adjusted;
- When the cranes and lifting systems are replaced in year 11, the new cranes and lifting systems are capitalised and the (estimated) book value of the existing cranes and lifting systems is derecognised. The derecognition can be amounted to 33 ( $= 50 \times 20 / 30$ );
- The provision for costs of major maintenance should be nil. Therefore, the provision for costs of major maintenance at the beginning of year 6 amounting to 10 ( $= 20 \times 5 \text{ years of accrual} / 10 \text{ years}$ ) is released to equity. The reason is that the replacement of the lifting systems should be classified as a replacement investment and is not major maintenance;
- The comparative figures (of year 5) are not adjusted.

If A BV decides to recognise the effects of the change in accounting policy in year 6 retrospectively from the previous financial year (year 5), this means the following:

- The recognition of significant components does not need to be applied retrospectively for assets already recognised before year 5. This means that the existing cranes and lifting systems are not distinguished so that the book value of the production facility is not adjusted;
- When the cranes and lifting systems are replaced in year 11, the new cranes and lifting systems are capitalised and the (estimated) book value of the existing cranes and lifting systems (amounting to 33) is derecognised;
- The provision for costs of major maintenance should be nil. Therefore, in the opening balance sheet of year 5, the provision should be released, resulting in the following adjustments to the comparative figures:
  - The provision for costs of major maintenance at the beginning of year 5 amounting to 8 ( $= 20 \times 4 \text{ years accrual} / 10 \text{ years}$ ), is released to equity;
  - The addition to the provision charged to the result of year 5 of 2 ( $= 20 / 5 \text{ years}$ ) is reversed;
  - The provision for costs of major maintenance at the end of year 5 amounts to nil.

## 1.2 Measurement of the provision for costs of major maintenance and restoration provision

In DAS 212 'Tangible fixed assets', the DASB has clarified the requirements relating to the measurement of (1) the provision for costs of major maintenance and (2) the restoration provision, if the costs of restoration are caused by putting down an asset and these costs are recognised through the accrual of a provision over the useful life of the asset (this means that it has not been chosen to recognise the costs of restoration as part of the carrying amount of the asset).

According to DAS 252 'Provisions', if the effect of the time value of money is material, provisions should be measured at present value. The DASB has clarified that the provision for costs of major maintenance has the character of an equalisation provision, so this provision is usually measured at nominal value. The same applies to the restoration provision described above.

## 1.3 Provisions - measurement at present value

Provisions should be measured at present value if the effect of the time value of money is material. The DASB has clarified that when measured at present value, estimates of future cash flows and the discount rate should consistently reflect assumptions about price increases due to inflation. Estimates of future cash flows and the discount rate are therefore both expressed in nominal terms or both in real terms. See below an example to clarify this clarification.

**Example: estimates of future cash flows - impact of inflation**

A legal entity (A BV) has estimated that it will pay 1.000 per year (in current prices) in the next 3 years to settle a present obligation. Furthermore, A BV has established that inflation is 1,5% per annum and the nominal discount rate (which includes inflation) is 4% per annum. The present value of the liability can be calculated as follows:

	Year 1	Year 2	Year 3	Total
<b>Cashflows excluding inflation</b>	1.000	1.000	1.000	3.000
<b>Cashflows adjusted for inflation (cashflows excluding inflation x 1,5% ^ year x)</b>	1.015	1.030	1.046	3.091
<b>Present value cashflows (cashflows adjusted for inflation / (1 + nominal discount rate of 4%) ^ year x)</b>	976	952	930	2.858

In this example, the discount rate at real terms is 2,46% (= (1+4%) / (1+1,5%)). This rate has to be applied to the cashflows excluding inflation to reach the same present value. In real terms, the present value of the liability is then calculated as follows:

	Jaar 1	Jaar 2	Jaar 3	Total
<b>Present value cashflows (cashflows excl. inflation / (1 + discount rate at real terms of 2,46%) ^ year x)</b>	976	952	930	2.858

It would be incorrect to discount the cash flows that exclude inflation (1.000 per year) using the nominal discount rate of 4%, because this leads to an understated net present value (of 2.776).

**1.4 Presentation of Taxation of passenger cars and motorbikes ("Belasting personenauto's en motorrijwielen") (BPM)**

Before the amendments in the annual edition 2022, the DASB offered importers of cars and motorbikes, dealers and other car companies the option whether or not to include the amount of BPM in net turnover. This option relates to BPM for cars and motorbikes registered for the first time in the Netherlands.

In January 2022, the DASB decided (see also DASB-Statement [2022-1](#)) to no longer allow BPM to be presented as part of net turnover. The DASB considers presenting BPM as part of net turnover is not in accordance with the general requirements of revenue recognition. Net turnover should reflect what the legal entity performs for its own account and risk. Amounts that the legal entity receives for third parties (as an agent) should not be recognised as revenue. Since this BPM is received by importers and dealers for third parties (as agent of, in this case, the tax authorities), it should not be recognised as revenue.

The DASB is of the opinion that this amendment will not only result in a better representation of what legal entities perform for their own account and risk, but also leads to better comparability between legal entities.

The DASB also stipulated that if the payment of BPM takes place at a time prior to the delivery of the car to a buyer, the legal entity will recognise an accrued asset equal to the amount of BPM paid. This BPM is therefore not included in the measurement of inventory.

**1.5 Revenue – disclosure requirements for medium-sized legal entities**

Based on the disclosure requirements in DAS 270 'The profit and loss account' legal entities should disclose, among other things, the amount of each significant category of revenue recognised. However, medium-sized legal entities can apply the option to aggregate line items in the profit and loss account (including net turnover) into one line item 'gross operating result', which means that net turnover does not have to be presented separately.

In that context, the DASB has decided to allow medium-sized legal entities using this option to disclose each significant category of revenue recognised not in amounts but as a percentage of total net turnover.

The DASB also determined that medium-sized legal entities are exempted from disclosing the amount included in significant revenue categories that relate to the exchange of goods or services.

## 1.6 Management board report - target ratio of men to women

On 1 July 2022, an amendment to the 'Decree on the content of management board reports' came into force for large legal entities. The relevant requirements have been included in DASB 400 'Management board report'.

The amended decree requires that, as of financial years starting on or after 1 January 2022, large public and private limited liability companies (NV's and BV's) should set a target ratio to reach a more balanced ratio of men to women. The target ratio should at least apply to the management board and the supervisory board. In addition, the legal entity should decide for which subtop it sets a target ratio. For example, for a so-called 'executive committee' or (the first and second tier) senior management positions. In doing so, the legal entity will write a plan of action to achieve these targets. This plan may include, for example, creating or modifying a profile, setting up a transparent recruitment and selection process and explaining a preference policy.

The legal entity should report this information to the SER annually. The 'Decree on the content of management board report' now stipulates that this information should also be included in the management board report. The disclosures in the management board report enable shareholders of the legal entity to take notice of the results and, if necessary, request the legal entity to take action. Shareholders can also take the results into account when determining their voting behaviour on the (re)appointment of members of the management and supervisory board. In addition, considering the internal and external transparency, it is desirable when legal entities report to an external party (the SER), they are then also obliged to share that information with their shareholders.



## 2. Amendments in accounting standards effective for financial years starting on or after 1 January 2022

In the annual edition 2021 of the DAS draft standards were included regarding:

- the recognition of proceeds from selling items produced by an asset that is not at the location and in the condition necessary for it to be capable of operating in the manner intended by management; and
- disclosure requirements when applying the 'pooling of interest' method.

The DASB has adopted the above draft standards in December 2021 (refer to DASB-Statement [2022-2](#)). These standards are effective for financial years starting on or after January 1, 2022.

### 2.1 Tangible fixed assets – proceeds from selling produced items

Before the amendments, the DAS specified that, when an asset is not at the location and condition necessary for it to be capable of operating in the manner intended by management, the proceeds from selling any items produced by that asset are deducted from the cost of the asset (tangible fixed assets). An example is the proceeds from selling of produced samples when testing the asset. Similar to the amendments to IFRS, the DASB decided to add an option to recognize such proceeds and related expenses directly in the profit and loss account. If this option is chosen, the relevant amounts recognized in the profit and loss account should be disclosed.

In addition, a transitional provision is included, that the change in accounting policy should be accounted for retrospectively. Retrospective application in this case means that only those assets should be taken into account that are at the location and condition necessary for it to be capable of operating in the manner intended by management, at or after the start of the previous financial year.



#### Example: Proceeds from selling produced items - application transitional provision

A manufacturer of chemical products (A BV) has developed two production facilities. Facility X became operational in year 1 and facility Y in year 2. Part of the installation process of the facilities involves the production of samples. These samples were sold during the installation process to a third party for an amount of 100 (facility X, year 1) and 200 (facility Y, year 2) respectively.

In the financial statements in year 1 and year 2, A BV deducted these proceeds from the cost of the production facilities (tangible fixed assets). In year 3, based on the changes in the DAS, A BV decides to change its accounting policy in the financial statements year 3 and recognize these proceeds directly in the profit and loss account.

The impact of the change in accounting policy on the financial statements year 3 is as follows:

- A BV should apply the transitional provision. As a result, only the treatment of the proceeds of 200 from facility Y needs to be adjusted. This is because this asset was at the location and condition necessary for it to be capable of operating in the manner intended by management, at or after the start of the previous year (year 2). The capitalized proceeds of 100 in year 1 regarding facility X are not included in this change in accounting policy;
- Equity at the beginning of the previous year (year 2) is recalculated;
- The proceeds of 200 from facility Y are recognized in the comparative figures (year 2) of the profit and loss account in the financial statements year 3. The cost of production facility Y (tangible fixed assets) is increased by 200 in year 2. This also leads to higher depreciation costs as of year 2.

## 2.2 'Pooling of interests' method – disclosure requirements

DAS prescribes that for mergers in which the acquiring party can't be designated, the 'pooling of interests' method should be applied. In this situation information should be disclosed (amongst others) about assets and liabilities, and results regarding the period prior to the merger date of the entities involved in the merger. The DASB clarifies that the following items of information should be disclosed:

- amounts of the assets and liabilities at the beginning of the reporting period of the entities involved in the merger. In fact, this concerns the balance sheet of the entities involved in the merger at the beginning of the reporting period in which the merger took place; and
- Net turnover, other operating income, exceptional items and net result of the entities involved in the merger regarding the reporting period preceding the merger.

It is recommended that this information should also be disclosed as of the merger date (regarding assets and liabilities) and for the period between the beginning of the reporting period and the merger date (regarding the results). Of course, this can only be done if the relevant information is available, i.e. if the entities involved in the merger have prepared interim figures as at the merger date (either internally or externally).



## 3. Other changes

### 3.1 Sustainability reporting

Pursuant to the EU Non-Financial Reporting Directive (NFRD) large Public Interest Entities that on average have more than 500 employees (large PIEs) must include since several years a non-financial information statement as part of the management board report. In the Netherlands, this requirement is implemented in the Decree on the Disclosure of Non-Financial Information. In 2020 the EU Taxonomy Regulation has entered into force. On the basis of this directly applicable EU regulation and its delegated acts, entities in scope of the NFRD must include additional information in their non-financial information statement regarding sustainability. In DAS 400 'Management board report' a reference has been included to these additional requirements (without an explanation of the additional information to be provided). The requirements will take effect in phases from financial years starting on or after 1 January 2021.

#### *Future regulation*

In April 2021, the European Commission (EC) published the proposal for the Corporate Sustainability Reporting Directive (CSRD). This directive concerns the requirements for sustainability reporting and is a revision of the existing NFRD. The idea of the CSRD is to create a more uniform system for sustainability reporting, which will give stakeholders in particular a better insight into the sustainable activities of companies. Among other things, the CSRD, in addition to introducing more detailed sustainability reporting requirements and an audit requirement for this information, also extends its scope.

The current NFRD applies only to large PIEs with more than 500 employees. The new sustainability guidelines (CSRD) will apply to all large entities (BV's and NV's), regardless of whether they are PIEs or not and without the threshold of 500 employees, from the financial year 2025 onwards. For (small and) medium-sized listed companies, it is intended that the requirements will apply from financial year 2026. The DAS do not yet contain any provisions regarding this new regulation.

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