Deloitte.

Changes to Dutch Accounting Standards for medium-sized and large legal entities

Changes to annual edition 2016

Professional Practice Department – October 2016

Changes to Dutch Accounting Standards for medium-sized and large legal entities

Changes to annual edition 2016

Professional Practice Department – October 2016

The annual edition 2016 of the Dutch Accounting Standards (DASs) for medium-sized and large legal entities includes several new standards. The annual edition 2016 is effective for financial years starting on or after January 1, 2017. Some of the new standards, however, already became effective on January 1, 2016. Earlier application is recommended for all new standards. New draft standards have been included as well. Draft standards do not yet formally apply. However, anticipating the final standards, draft standards do provide the accounting practice with a certain extent of support and guidance (DAS 100.206).

This factsheet solely outlines the main amendments to the DASs. Please note that industry specific amendments (such as for banks, pension funds, investment institutions, educational institutions, health care institutions, fundraising organizations) are not addressed.

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

Amendments to Title 9 Book 2 Dutch Civil Code and Decrees

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

Current cost

The annual edition 2016 includes proposals in DAS 212 "Tangible fixed assets" for a more detailed interpretation of the concept of "current cost" and its practical application. This is relevant for legal entities that measure intangible or tangible fixed assets that are not investments at current value. These proposals had already been published in June 2016 (DASB Statement 2016-11), and are expected to become final in 2016. The term "replacement value" in the Decree on Current Value has been replaced by the term "current cost". This adjustment of the Decree on Current Value results from the Directive on the Annual Financial Statements (Implementation) Act.

Current cost, in short, refers to (1) the current purchase or manufacturing price of the related assets net of (2) cumulative depreciations. Application of "current cost" instead of "replacement value" constitutes a change in accounting policy that must be recognized retrospectively, in accordance with DAS 140 "Changes to accounting policies." Hence, in case of a change in accounting policy in the 2016 financial statements the current cost as at December 31, 2015 (the opening balance sheet) and as at December 31, 2014 (the opening balance sheet of the comparative figures) should be determined. The main standards for determining the current cost are the following:

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

Example: Current cost of property purchased

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

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

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

Example: Current cost of property manufactured in-house

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

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

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

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

New standards applicable to financial years starting on or after January 1, 2017

Transition payments
Under the Work and Security Act that became effective on July 1, 2015 transition payments are due upon termination of an employment contract that has lasted at least 24 months. DAS 271.502a includes examples of severance payments and of payments in exchange for professional performances. Examples of transition payments have been added to this. Transition payments due upon termination of an employment contract for an indefinite period of time are considered to be severance payments. The related costs are recognized (in one go) upon entering into the obligation to pay the severance payment. An example of transition payments that are considered to be payments in exchange for professional performances, are transition payments related to temporary employment contracts as regards which, upon entering into those contracts, it is highly likely that they will not be extended. Depending on the facts and circumstances this should either be considered at the level of an individual employee, or at a higher level of, e.g., a specific group of employees in a similar function. The related costs will be allocated to the period in which the professional performances are performed (in this case the term of the employment contract).

Draft standards

Split-up of compound financial instruments
A legal entity may have issued financial instruments with both a liability component and an equity component. This may be a convertible bond comprising a loan (liability component) and an option on a fixed number of shares (equity component). So far, DAS 290,813 (only) recommended (1) testing instruments for the existence of these components and (2) classifying the components separately as liabilities, assets, or equity. It is now proposed to make this mandatory, thus eliminating a conflict with the provisions for separating embedded derivatives. Classifying a component as either debt capital or equity also affects profit and loss and the recognition of taxes. Debt capital compensation is recognized in profit and loss (as an interest expense). Equity compensation, on the other hand, is debited to equity (as dividend). The recognition of taxes in respect of such compensation follows the recognition of the compensation involved, hence, either in profit and loss or in equity.

Disclosure requirements
The annual edition 2016 includes draft standards with proposals for a number of new disclosure requirements. They are:

- disclosure of opinions, estimates and uncertainties; the importance of disclosing opinions, estimates and uncertainties is emphasized, if this is necessary for providing the required understanding. Authoritative statements regarding some already existing requirements of disclosure in respect of opinions, estimates and uncertainties have been included to that end;
- disclosures regarding interests; the circumstances must be disclosed according to which the legal presumption is rebutted as to whether or not there is an associate company and whether or not significant influence in an associate company is exercised. Statutorily the existence of an associate company is suspected with an interest of at least 20%. Significant influence is suspected if at least 20% of the voting rights can be exercised;
- disclosures regarding consolidation; disclosures must be provided on:
  - the reasons for consolidating an interest or not if this is unclear based on the size of the interest. For example, why an interest of < 50% is consolidated or why an interest of > 50% is not consolidated;
  - the share of third parties in the group, e.g., by providing insight into the share of third parties in the nature and scope of the balance sheet items and the profit and loss account items.

Cash flow statement

Interest received and dividend received can be presented as cash flows from operational activities. This does not change. It is proposed, however, to offer the additional option to present them as cash flows from investing activities, and no longer as cash flows from financing activities.

Contact information

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