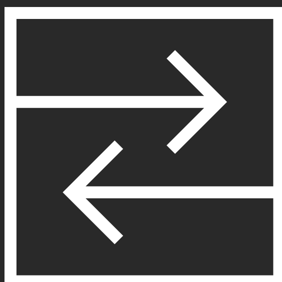


November 2021

What happened?
The annual 2021 edition of the Dutch Generally Accepted Accounting Principles (Dutch GAAP) for medium-sized and large companies includes several changes to existing accounting standards, which are applicable for fiscal years beginning on or after 1 January 2022. Early adoption of the new accounting standards is recommended, unless stated otherwise.

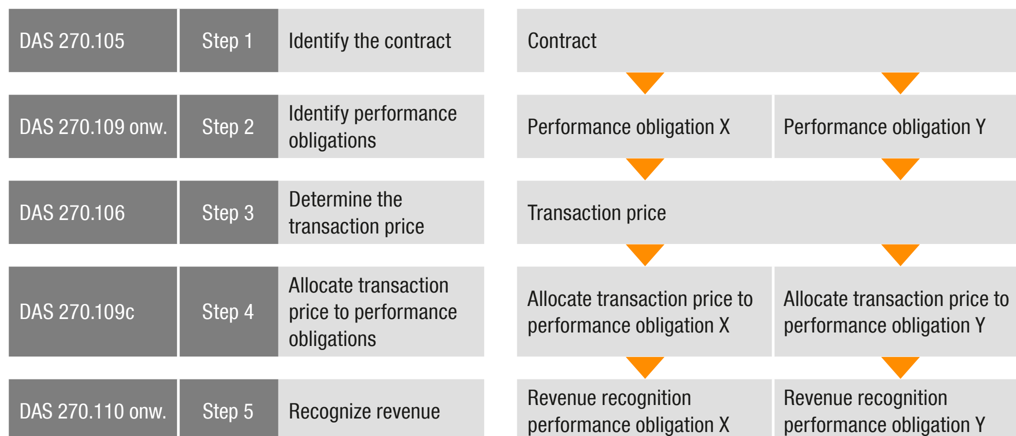
Dutch Accounting Standards: 2021 edition

What are the main changes for fiscal years beginning on or after 1 January 2022?

The most important changes are described below. These changes apply to all companies for which Dutch GAAP is the applicable accounting framework. Additional industry specific changes to standards (listed in the “600-chapters”) are not included.

Changes in Standards for revenue recognition and construction contracts
In response to the need from practitioners for further guidance on how revenue is recognised, the Dutch Accounting Standards Board (hereinafter: DASB) made changes to Dutch Accounting Standard (DAS) 270 ‘Revenue recognition’ and DAS 221 ‘Construction contracts’ at the end of 2020. The changes to the standards are effective as of 1 January 2022. Although not explicitly stated in the Standard, the process to recognise revenue is implicitly illustrated by five steps.. These steps are listed in table 1.

Table 1. ‘Five step approach’ revenue recognition



DAS	Step	Description		
DAS 270.105	Step 1	Identify the contract	Contract	
DAS 270.109 onw.	Step 2	Identify performance obligations	Performance obligation X	Performance obligation Y
DAS 270.106	Step 3	Determine the transaction price	Transaction price	
DAS 270.109c	Step 4	Allocate transaction price to performance obligations	Allocate transaction price to performance obligation X	Allocate transaction price to performance obligation Y
DAS 270.110 onw.	Step 5	Recognize revenue	Revenue recognition performance obligation X	Revenue recognition performance obligation Y

These new standards are more in line with International Financial Reporting Standards (IFRS) 15 ‘Revenue from Contracts with Customers’. The DAS are however more principle-based and the DASB therefore emphasizes that IFRS 15 guidance and examples are not leading for the application of the DAS.

The DASB has included transitional provisions to simplify the implementation of the changes. It is allowed to apply the new standards for revenue recognition only to contracts which are effective on or after 1 January 2022 or the first day of the financial year in which early adoption is applied.

The possibility to apply IFRS 15 integrally and consistently (DAS 221.102a and DAS 270.101a) remains available in the DAS.

Important changes included in the 2021 edition relate to the following subjects:

Principal or agent considerations

If another party is involved in providing goods or services to a customer, the company shall determine whether the company's promise to provide these goods or services is for its own account (i.e. the company acts as a principal) or the promise is to arrange for these goods and services to be provided by the other party (i.e. the company acts as an agent). A principal recognizes the gross amount paid by customers as revenue. In contrast, an agent only accounts the net commission as revenue, because it does not receive all revenue for its own account.
In order to assess whether a company acts as a principal or an agent, DAS 270.107b includes a number of indicators which are indicative of the situation in which a company acts as a principal. Examples of these indicators are: the company bears the inventory risk, the company is responsible for the determination of the sale price or bears the credit risk on the amount owed by the customer. A new indicator has been added in this new standard and specifies that, if a company has control over the goods and/or services before these are transferred to the customer, this is indicative that the company acts as a principal.

Significant financing component

If the delivery of the promised goods or services occurs earlier or later than the payment of the transaction price, there may be a significant financing component as part of this transaction. For example, a car dealer allows its customers to pay two years after delivery with a "drive now, pay later" campaign. A contract with a customer would not have a significant financing component in it if the time period between payment of the promised goods or services and delivery of the goods or services is one year or less.
If the company determines that there is a significant financing component in the contract, the transaction price is adjusted to reflect the time value of money. As a result, the transaction price reflects the price that a customer would have paid at the moment that the goods or services transfer to the customer. The new standard states that this not only applies to situations where the company agrees to deferred payment with the customer, but also in the case of advance payments made by customers.

Example 1. Significant financing component
A company enters into a contract with a customer with an effective date on 1 January 20x1. In the contract it is stated that the company will deliver a machine, with a sale price of € 10.000, on 31 December 20x2. The customer paid € 10.000 when they entered into the contract. With this prepayment, the company is able to finance the expected production costs of the machine. The interest rate for similar financing activities is 5%. The company concludes that there is a significant financing component in the contract.

Question:
What is the transaction price?

Elaboration and explanation:
The transaction price is € 10.000 x 1,05^2 = € 11.025.

Received in advance by the client:	€ 10.000
Interest costs for the company year 1:	€ 500
Interest costs for the company year 2:	€ 525.

The interest costs are recognised in the profit and loss account of the company during the prepayment term of two years. In this scenario, the interest charges are accounted for as an increase in the amount received in advance because the customer pre-finances the machine:

Interest costs (P&L)
@ Amounts received in advance (balance)

Subsequently, at the time the machine is delivered, the recognised revenue is higher (€ 11.025) than the actual payment (€ 10.000) that the company received from its customer.

Contract modifications

A contract can be modified by the company and its customer during the term of the contract. Depending on the economic reality of the modification, the modification shall be treated in one of the following three ways based on DAS 270.129:

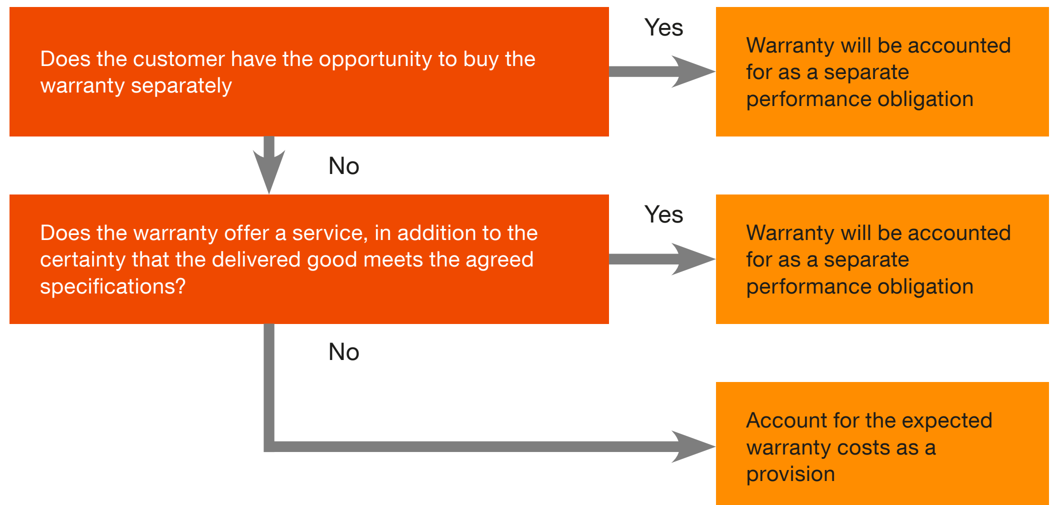
- as a separate contract from the the existing contract;
- as a termination of the contract and the creation of a new contract; or
- as a modification of the existing contract. The cumulative revenue shall be adjusted at the moment the modification is effective.

Warranties

DAS 270.109b now includes specific guidance on whether a warranty should be accounted for as a separate performance obligation or as a warranty provision. In the first case this will result in deferred income while in the latter this results in costs (recognition of a provision).

The flowchart (table 2) included below clarifies the new guidance per type of warranty in more detail:

Table 2. Warranties



Variable consideration

The company and its customer can agree on a variable consideration which results in a higher or lower transaction price. An example of a variable consideration is a volume discount based on the volumes bought by the customer. If there is a variable consideration in place, the company needs to estimate the amount of that variable consideration. The DAS does not prescribe a specific method in this respect, but requires companies to apply prudence to prevent revenue having to be reversed at a later stage. It is emphasized that the estimation uncertainty could be so high that revenue and the related result of a transaction cannot be determined reliably. Consequently, revenue cannot be recognised. An example of this could occur if a contract is in place where the customer only has to pay if a certain result has been realised (no cure, no pay agreement).

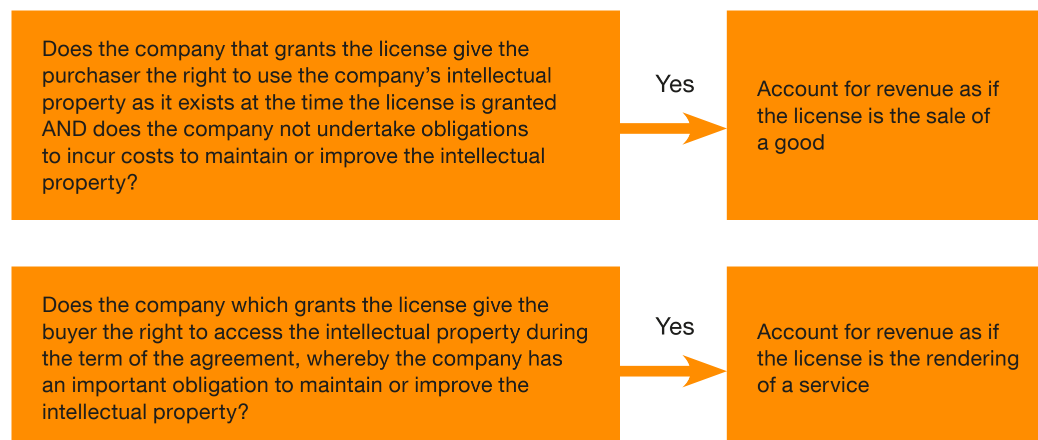
Revenue from licences

A license agreement establishes a customer's right to intellectual property and the company's obligation to provide those rights. Licenses may include:

- software and technology;
- franchises;
- patents, trademarks and copyrights; and
- movies, music and other forms of media and entertainment.

If the commitment to grant a license can be identified as a separate performance obligation, the company needs to determine whether the nature of the license is the sale of a good or the provision of a service (DAS 270.125). Table 3 shows when a license is accounted for as the sale of a good or the provision of a service.

Table 3. Revenue from licences



The table illustrates that when a company offers, for example, periodic software updates to its customer under a software license agreement, this license concerns the provision of a service. The revenue is therefore accounted for over the term of the license. If the nature of the license had been the sale of a good, then the revenue would have been recognised all at once at the time of the transaction.

Payments to customers

DAS 270.108 states that a consideration that a company pays to its customers is recognised separately or as a reduction in the transaction price. Imagine a company which supplies goods to its customer and recognizes this as revenue, but at the same time also makes a payment to the same customer for placing their products in a prominent place in their store. The question arises whether the payment needs to be recognised by the company as costs or as a reduction in revenue (i.e. a discount). If the company receives a distinct good or service in return for this consideration, this payment is accounted for in accordance with the guidance applicable to the good(s) or service(s) received. If the company does not receive a distinct good or service in exchange for this payment, it is recognised as a reduction of the transaction price and therefore deducted from revenue.

Customer options for additional goods or services

If a contract includes options to buy additional goods or services, this may affect the number of performance obligations in the contract. An option exists if the customer has the opportunity to buy additional goods or services at a later stage (for free or at a discount) by virtue of entering into the initial transaction with the company. Examples include savings programs at a supermarket or gym subscriptions that can be extended with a special discount. DAS 270.109a describes that a separate performance obligation exists if the value of the option is not insignificant relative to the value of the sale of goods or services in which the option was granted. For example: a € 20 discount coupon issued with the sale of a € 60 good is not insignificant and therefore a separate performance obligation.

Non-refundable upfront fees

Companies can charge their customers to pay an amount in advance at the time they enter into a contract without the immediate delivery of a good or service. An example includes administration costs when entering into a membership. Although the company is never required to repay the consideration received, it cannot be recognised as revenue at the time the consideration is received since no performance obligation has yet been satisfied. The non-refundable fee is therefore recognised as an advance payment on the future goods or services to be delivered (as in the example above relating to the administration costs for the gym membership) (DAS 270.127). Revenue from a non-refundable fee is recognised at the time of delivery of the goods or over the term of rendering the service.

Unexercised rights by customers

It is possible that a customer who has paid an amount in advance does not make use of all rights to future goods or services to which he is entitled based on the agreement. A well-known example is customers who apply for a gym subscription in January with ambitious intentions for a year and stop going to the gym after a few months. In this case, DAS 270.128 specifies that the company needs to allocate the value of the rights that are not expected to be exercised as revenue to the rights that are exercised. In the previous example, revenue should be allocated to the months in which the customer is expected to come. If the company expects that all rights will be exercised, in the case it has no historical data or other data to prove the contrary, the unexercised rights are only recognised as revenue at the moment when it is no longer highly probable that the customer will exercise their rights.

Returns

Situations exist where the customer has the right to return the delivered goods. The company may only recognize revenues for delivered goods which are expected not to be returned (DAS 270.112). The company has to recognize this revenue based on its best estimate. In addition to a refund obligation for any goods to be returned, the company recognizes an asset for the expected returned products that it can restock.

Presentation of construction contracts

Construction contracts included in the balance sheet represent the realizable value of services performed during the execution of the project which have already been recognised in the profit and loss account.

Construction contracts are presented as a separate line item in the balance sheet. In contrast to work in progress, construction contracts are therefore not part of inventory. The scope of these projects consists of, if applicable:

- ending balance of realised project revenues;
- recognised losses; and
- declared installments.

This also applies to losses already established on projects for which no performance has yet been performed.

The balance of construction contracts at year-end can be either a debit or credit balance. If the ending balance of the construction contract shows:

- a debit balance, the net amount is treated as an asset;
- a credit balance, the net amount is treated as a liability.

As of 2022 onwards, it is no longer allowed to net contracts with a debit balance with contracts with a credit balance.

Irrespective of the use of the categorical or functional model, revenue resulting from construction contracts is presented as net sales in the profit and loss account. The accounting treatment to present project income in the profit and loss account as ‘Change in projects in progress’ is no longer permitted.
The categorical model presents project costs based on the nature of the costs.
The functional model presents costs based on their function (usually cost of sales).

Change in disclosure requirements

Disclosure requirements relating to revenue recognition have also been extended.
The following needs to be disclosed as of 1 January 2022:

- the nature of significant performance obligations;
- the method used for allocation of revenue to reporting periods including the method used for determining the degree of completion of service contracts. This needs to be disclosed for each major type of performance obligation; and
- total of the capitalized costs for obtaining an agreement.

Further guidance relating to these new standards for revenue recognition and construction contracts can be found in our *Handboek financiële verslaggeving in Nederland, jaarrekening 2021*, chapter 12b "Opbrengstverantwoording (vanaf 2022)" (in Dutch only).

If you want to strengthen your knowledge regarding revenue recognition, you can apply for PwC's online training (charged) which covers the 'five-step approach' (module 1) and important elements for revenue recognition (module 2).

Module 1

Module 2

Clarification of costs to include in the provision for onerous contracts
The DAS clarified which costs can be included in determining the provision for onerous contracts. The current standards allow room for interpretation resulting in presentation differences under DAS 252 (provisions for onerous contracts) and DAS 221 (onerous construction contracts). With this clarification the DASB resolves these interpretation differences. In both standards the costs which can be included in determining the provisions for onerous contracts are:

a. the incremental costs of fulfilling that contract (e.g. direct labour and materials); and
b. an allocation of other costs that relate directly to fulfilling contracts (f.e. an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling that contract).

Example 2. Onerous contract
A company has a (onerous) rental contract, which is classified as an operational lease.

Question:
Which costs should be included in the provision related to this onerous contract?

Answer:
The company determines both the incremental costs and an allocation of other costs that directly relate to fulfilling the contract.

a. the incremental costs are the remaining rental terms taking into account any revenues from subletting.
b. the allocated other costs could consist of contract management expenses (due to subletting), repair costs and insurance expenses.

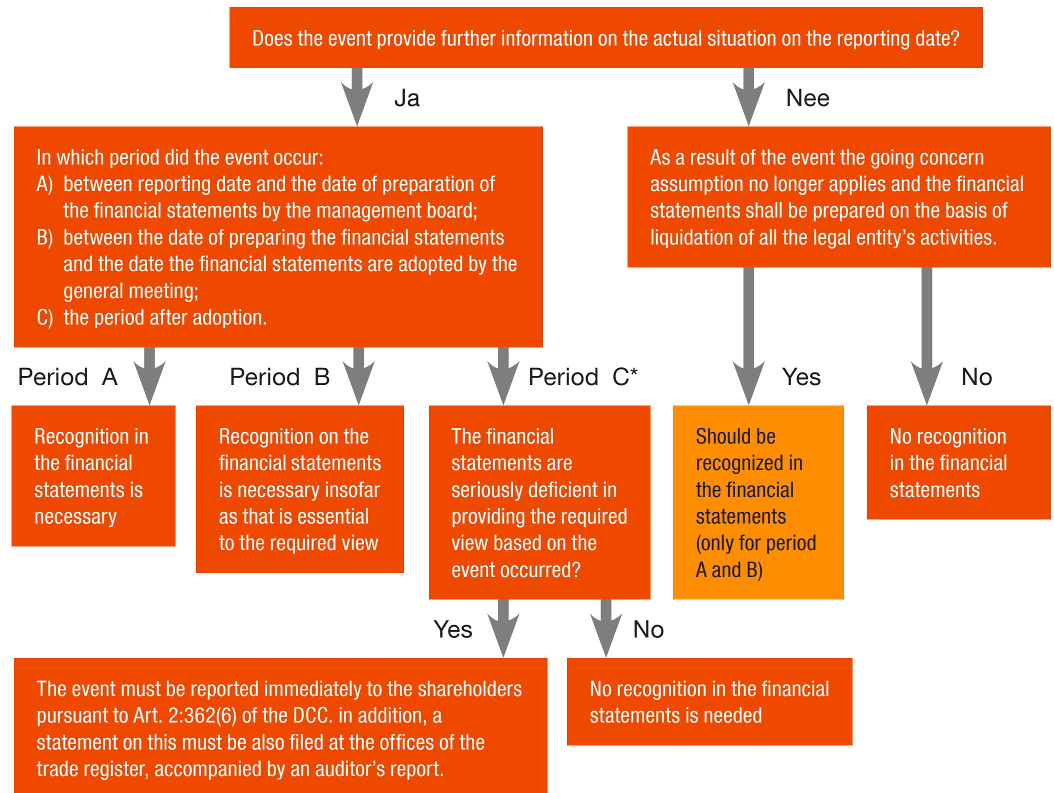
The total provision for the onerous contract consists of the sum of these costs.

Clarification in the presentation of subsequent events
The DASB has included two clarifications to DAS 160 'Events after the reporting date'. Events that do not provide further information on the actual situation on the reporting date and occur in the period between the reporting date and the date the financial statements are adopted, should only be recognised in the financial statements when they are of great significance to the company because they mean that the going concern assumption no longer applies and the financial statements shall be prepared on the basis of liquidation of all the company's activities.

Events that do provide further information on the actual situation on the reporting date, which occur in the period between preparing and adopting the financial statements, should only be recognised in the financial statements insofar as that is essential to the true and fair view.

In the flowchart (table 4) the clarification is visualized with the orange marked box.

Table 4. Flowchart 'Events after the reporting date'



* Financial statements that have been adopted can not be altered under any circumstances. The error can only be corrected by filing a statement at the offices of the trade register and should be accompanied by an auditor's report. The error will then be corrected in the next annual financial statements that has not yet been adopted.

Example presentation correction of errors and changes in accounting policies in the statement of changes in equity
In DAS 150 'Correction of errors' an example of how to process corrections (due to errors or changes in accounting policies) should be presented in the statement of changes in equity. The example can be found in the Annex to DAS 150.

Presentation of received government grants
The DASB analyzed the need for changes in DAS 274 'Government grants' as a response to RJ-Uiting 2020-13 on the presentation of government grants related to NOW schemes.

The DAS requires to present government grants for operations ("exploitatiesubsidies") in line with the presentation of granted NOW subsidies. This means that these grants should be presented in the statements of profit and loss as income or as a deduction of the related costs. When presented as income the grants should either be presented under other income or a separate specific line item.

Government grants received to cover missed income or operating deficits need to be presented as income following the first presentation option.

Clarification of disclosure requirements relating to functional model of the profit and loss account

Companies have two alternatives for the layout of the profit and loss account: the functional and the categorical model. Additional disclosure requirements apply to companies that use the functional model of the profit and loss account. The new DAS clarifies that, if a company applies the functional model, they additionally have to disclose the total amounts of depreciation and wages and salaries recognised in the profit and loss account. These need to be the 'gross' costs (i.e. without taking into account whether these costs have been partially capitalized).

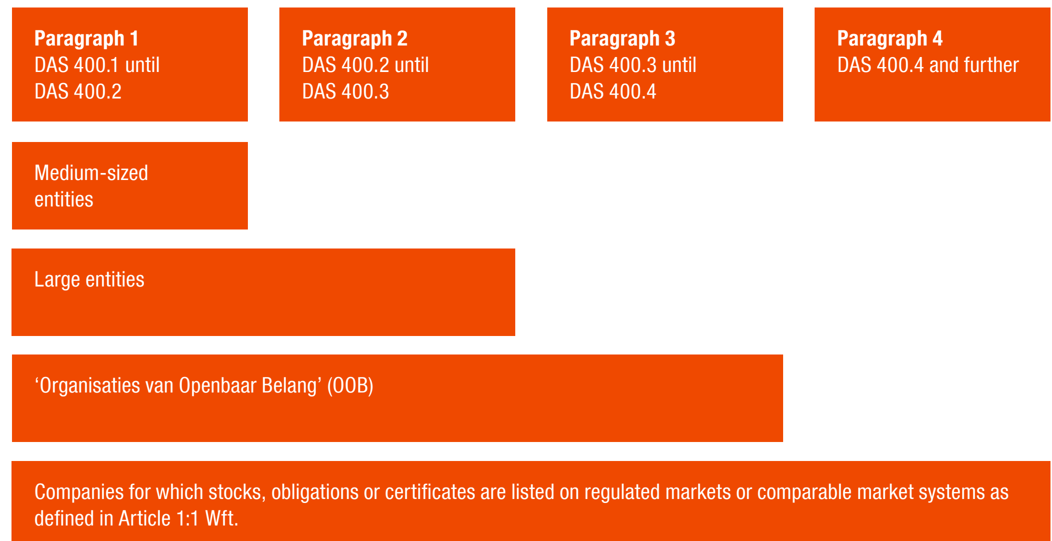
Restructuring of DAS 400 'Directors' report'

The DASB made changes to DAS 400 to improve the accessibility and readability of the standard. There have not been any additions, changes or removals to the content of the standard. The new standard is restructured using a concentric structure ('stapelstructuur') which contains four paragraphs that correspond with the company's scope. The directors' report should comply with the paragraph equal to their scope including all previous paragraphs.

The paragraphs and their related scopes are:

- DAS 400 paragraph 1: medium-sized and large companies.
- DAS 400 paragraph 2: large companies.
- DAS 400 paragraph 3: public interest organisations (OOB).
- DAS 400 paragraph 4: companies for which stocks, obligations or certificates are listed on a regulated market or comparable market systems as defined in Article 1:1 Wft.

Table 5. Structure of requirement for the management's board report



Paragraph 1 DAS 400.1 until DAS 400.2	**Paragraph 2** DAS 400.2 until DAS 400.3	**Paragraph 3** DAS 400.3 until DAS 400.4	**Paragraph 4** DAS 400.4 and further
Medium-sized entities			
Large entities			
'Organisaties van Openbaar Belang' (OOB)			
Companies for which stocks, obligations or certificates are listed on regulated markets or comparable market systems as defined in Article 1:1 Wft.			

Changes for companies applying IFRS in the consolidated financial statements

Clarification on applying combination 3
The DASB has clarified the conceptual application of “combination 3”. Combination 3 means that the consolidated financial statements have been prepared in accordance with IFRS, in combination with the separate company financial statements in accordance with Dutch GAAP. However, the valuation principles of the consolidated financial statements are applied in the separate financial statements.

The main reason for applying combination 3 is to prevent differences between equity in the consolidated and the separate financial statements.

Investment properties (DAS 213)
When applying combination 3 it is now allowed for a subsidiary which leases their investment property to a group company to account for this as tangible fixed assets in their separate financial statements, in line with the consolidated financial statements of the parent company, rather than accounting for this as investment property. Also for the parent company it is allowed to account for their investment property lease to a subsidiary as tangible fixed assets in the separate financial statements, which is in line with the consolidated financial statements of the parent company.

Table 6 includes an overview of the lessee/lessor relationship and the rented investment property and how it should be accounted for before and after the changes made to the standard.

Table 6. Combination 3 - Investment property

Presentation without new application of combination 3

Lessor / Lessee	Statutory financial statements lessor	Consolidated financial statements parent company
Parent company/ Subsidiary	Investment property	Tangible fixed assets
Subsidiary/ Parent company	Investment property	Tangible fixed assets

Presentation with new application of combination 3

Lessor / Lessee	Statutory financial statements lessor	Consolidated financial statements parent company
Parent company/ Subsidiary	Tangible fixed assets	Tangible fixed assets
Subsidiary/ Parent company	Tangible fixed assets	Tangible fixed assets

The table shows that under the new application of the standard the accounting policies for the consolidated and separate financial statements are the same and differences in valuation on these subjects between the financial statements should be resolved.

Financial fixed assets (DAS 214)
In DAS 214 ‘Financial fixed assets’ a reference is made for financial fixed assets that classify as investment property. When applying for combination 3 these financial fixed assets should be accounted for according to DAS 213 ‘Investment property’.

Changes for small-sized companies
Below an overview is included of modifications in the Dutch GAAP 2021 edition applicable to small-sized companies.

Changes for small-sized companies	
Clarification in the presentation of subsequent events	A4.103 A4.106 A4.111(a)
Changes in Standards for revenue recognition and construction contracts	B5
Clarification of costs to include in the provision for onerous contracts	B10
Presentation of received government grants	B17

The nature of these changes are similar to the descriptions of the paragraphs above for medium-sized and large companies.

When are these changes applicable?

The new standards included in the Dutch
GAAP 2021 edition are applicable to fiscal years beginning on or after 1 January 2022.
Earlier application of the new accounting standards is recommended.

One more moment of your attention

In addition to these changes in the Dutch Accounting Standards, we would also like to draw your attention to the following.

NBA: Fraud and going concern in the financial statements, directors' report and the auditor's report

Currently (November 2021) there is an ongoing *NBA-consultation* (in Dutch only) about fraud and going concern. In this consultation the NBA proposes that the auditor of an "OOB" is obligated to report in their auditor's report how they addressed the fraud risks, for audits starting on or after 1 January 2021. For the other audits, the additional reporting is advised and it is suggested in the consultation to make this mandatory for all audits starting on or after 1 January 2022.

The consultation also proposes that for all audits starting on or after 1 January 2022, the auditor is obligated to report on the procedures performed regarding the going concern assumption in their auditor's report. It is advised to start applying this already for the 2021 audits.

Management boards of companies are advised to incorporate a paragraph on fraud in their director's report (including fraud risks, bribery and corruption risk, internal control measures, etcetera).

It is advised to address the going concern assumptions in the director's report in:
- the financial paragraph;
- the risk paragraph; and
- the future developments.

This also includes the disclosures in the financial statements about the going concern assumption and its appropriateness.

After this, the auditor will be able to refer in their auditor's report to the information stated in the annual report about fraud and going concern. This results in consistency between the annual report of the client as prepared by management and the auditors report.

As stated before these are still proposed changes which currently are under consultation. Reactions on this consultation could possibly lead to changes. It is recommended to monitor this area in light of future developments that become publicly available.

This publication is prepared only as general guidance on relevant matters and should not be construed as professional advice. You should not act on the basis of the information contained in this publication without seeking further professional advice. Insofar as this newsletter or parts thereof have been provided to third parties with permission, we note that the legislation regarding reporting is sometimes extremely complicated and variable. We therefore do not accept any responsibility for what is undertaken without expert advice as a result of the content of this newsletter.
No representations, express or implied, are made or warranted as to the accuracy or completeness of the information contained in this publication, and to the extent permitted by law, PricewaterhouseCoopers, its affiliates, employees and representatives do not assume any liability, and disclaim any responsibility for the consequences of any act or omission by either yourself or any other person based on the information contained in this publication or for any decision underlying such information.

© 2021 PricewaterhouseCoopers.
All rights reserved.

More information?

Do you want more information regarding the subjects described above?
Your contact at PwC is happy to help you.

pwc