



February 2020



# Rechtstreeks

(English version)

## What happened?

The annual edition 2019 of the Dutch General Accepted Accounting Principles (Dutch GAAP) for medium-sized and large entities includes several new accounting standards which are applicable to financial years beginning on or after January 1, 2020. Earlier application of the new accounting standards is recommended.

## Dutch Accounting Standards: edition 2019

### Which additional changes of Dutch GAAP are effective for financial years beginning on or after 1 January 2019?

After publication of [Rechtstreeks](#) of last year, there is one additional change in the Dutch accounting principles for financial years beginning on or after 1 January 2019 which was not included in the Dutch GAAP edition of 2018 (and which is also not included in the Dutch GAAP edition 2019). This concerns [RJ-Uiting 2019-14: Richtlijn 212](#) (in Dutch only) 'Property, plant and equipment (additional transition guidance if major maintenance expenses were recognized in the profit and loss account in the past).

### Additional transition provision related to the recognition of major maintenance expenses

As discussed in [Rechtstreeks](#) related to the Dutch GAAP edition 2018, for financial years beginning on or after 2019 it is no longer allowed to recognize the major maintenance expenses of property, plant and equipment directly in the profit and loss account (P&L).

The transition to one of the two other options (capitalization as separate maintenance components or recognition of a provision) regarding accounting for the major maintenance expenses should be accounted as a change in accounting policy. In the Dutch GAAP edition 2019 in paragraph 212.805 a transition provision is included which allows to apply prospectively the change of accounting from 'recognition of major maintenance expenses directly in the P&L' to 'capitalization of major maintenance expenses in the book value of the asset', in deviation of chapter 140 'Stelselwijzigingen' (Changes in accounting policies). Prospective application implies application without

adjustment of the past, as if this accounting has always been applied. Next to this transition provision the Dutch Accounting Standards Board (DASB) has decided to include an additional transition provision in paragraph 212.807. This enables entities transitioning from 'recognition of major maintenance expenses via a provision' to 'capitalization of major maintenance expenses in the book value of the asset' in a prospective way from the previous financial year (in deviation on chapter 140 'Stelselwijzigingen' (Changes in accounting policies). This implies that the maintenance provision is recognised in the equity of the entity in the beginning of the financial year in which the accounting policy is changed.

In attachment G of [RJ-Uiting 2019-14](#) some examples are included which are related to the application of this transition guidance.

### What are the most important changes for financial years beginning on or after 1 January 2020?

The most important changes are described below. In principle, these are relevant for all legal entities for which Dutch GAAP is the applicable accounting framework. Additional sector specific changes of standards (described in the chapters in the '600-serie') are not included in this document.

### Measurement of provisions when time value of money is material

In paragraph 252.306 there was an option to measure provisions at nominal value or present value of the expected expenditures to settle the liability or loss. In the Dutch



GAAP edition 2019 this paragraph is modified: entities must consider the effect of time value of money in the measurement of the provision. When the effect of time value of money is material a provision should be measured at the present value of the expected expenditures to settle the liability. Whether the effect of time value of money becomes material depends on, amongst others, the size of the provision, the duration of the provision and the discount factor. Therefore, it is possible that in some circumstances a provision with a duration longer than one year does not have to be valued at present value. If the present value is based on one year expenditures the liability should not be measured at present value in any case. However, this is not applicable to deferred tax assets and deferred tax liabilities. These balances could still be measured at nominal or present value.

In relation to this, also paragraph 252.317 is adjusted. This adjustment concerns the following principle: if a provision is measured at present value, it is no longer allowed to present the mutation in the provision (as a result of the interest addition) as addition to the provision. Such an interest addition must be presented as interest expense in the P&L.

#### Adjusted presentation and disclosure requirements Income taxes

In the new Dutch GAAP edition, the DASB has further specified the presentation of deferent tax assets. In paragraph 272.602 is clarified that deferred tax assets should be presented on a separate line item under the Financial fixed assets when these are sustainable related to the legal entity. When a part of the deferred tax assets which is presented under the Financial fixed assets is expected to be deductible within 12 months after the balance sheet date, this balance should be separately disclosed and presented under the current assets (receivables).

Furthermore, multiple requirements regarding disclosure of income taxes are changed. A change concerns the disclosure on the relation between the income tax expense (or gain) and the result before income taxes which is mandatory for both large and medium-sized entities. Besides, some disclosure exemptions for medium-sized

entities are no longer applicable resulting in mandatory disclosures on the effective tax rate and the applicable tax rate for these entities. Also, large deviations of both the effective tax rate and the applicable tax rate in comparison with the previous fiscal period must be disclosed. So now these disclosure requirements are equal for medium-sized and large entities.

#### New standard regarding uncertain tax balances

Based on a design standard in Dutch GAAP edition 2018 the new paragraph 272.402a is added to Chapter 272 'Belastingen naar de winst' (Corporate Income Taxes). This paragraph relates to the measurement of uncertain tax balances. Uncertain tax balances arise when it is not probable that the tax authorities agree to (a part of) the tax declaration based on the applicable tax legislation. Measurement of these uncertain tax balances in the financial statements should be based on the best estimate of the deviating tax amount compared to the (intended) tax declaration. This measurement is applicable irrespective of whether an uncertain tax receivable or payable exists. When preparing the estimate, the entity needs to assume that tax authorities will test the viewpoint included in the tax declaration. If it's necessary for the required insight in the financial statements the entity must disclose the nature of the estimate, including the related assumptions (based on paragraph 110.129).

#### Modification criteria netting deferred tax balances

The DASB has simplified the conditions for netting deferred tax assets and liabilities as included in paragraph 272.607. The most important modification concerns the fact that for netting active and passive deferred tax balances simultaneous settlement is no longer a requirement.

One of the requirements of paragraph 115.305 is not applicable anymore. Now, there are two specific criteria applicable to netting deferred tax balances. Firstly, paragraph 272.106 states that netting a deferred tax asset and liability should take place when the entity has an enforceable right to offset these taxes at the time that the deferred taxes would have become current and when these taxes are related to the same





financial year.

The second criterium for netting deferred tax balances is that deferred taxes are related to taxes charged by the same tax authorities and are applicable to the same legal entity or fiscal unity.

#### Modification of standards regarding translation of foreign currencies

##### *Translation functional currency*

In paragraph 122.304 the possibility for medium-sized entities has expired to translate the revenues and expenses in a functional currency into another presentation currency at the closing rate as on balance sheet date. Now, for medium-sized entities the same requirements exist as for large entities (122.302):

- The assets and liabilities must be translated for each presented line item at the closing rate on that balance date;
- The revenues and expenses must be translated for each P&L at the exchange rate on the transaction date.

A change in accounting policies as a result of this adjustment can be applied prospectively for financial years on or after 1 January 2020 – refer to the transition provision as included in paragraph 122.601.

##### *Translation at acquisition of a foreign operation*

The option to translate goodwill, arising on the acquisition of a foreign operation, and the assets and liabilities of this foreign operation at the closing rate or exchange rate on the date of the transaction, is limited to goodwill (paragraph 122.310). This implies that the entire book value of an asset or a liability of a foreign operation as determined by the acquiring entity, needs to be translated at the closing rate on balance sheet date in conformity with paragraph 122.302. A change of accounting policy as a result of this adjusted standard could be applied prospectively, a transition provision is included in paragraph 122.602.

##### *Translation at disposal of a foreign operation*

Some standards related to translation of foreign currencies in case of a disposal or partial disposal are also revised. For example, the option to recognize the realized part of the legal reserve translation differences in the equity of the entity at (partial) disposal of foreign operations has expired. At the time

of the disposal, these translation differences must be recognized in the P&L as part of the total result on sale of the foreign operation (paragraph 122.311).

#### New practices director's report regarding diversity policies

Listed entities are obliged to include in their report regarding corporate governance some information about the diversity policy related to the composition of the board and the supervisory board. This legal requirement was already included in paragraph 400.204. Now, the European Commission has released some so called 'Richtsnoeren' (included in the attachment 910.20) regarding the non-financial information. This information includes amongst others non-binding advices on preparing the description of the company's diversity policies within the management bodies.

To reflect these principles regarding corporate governance reporting in the Dutch GAAP these EU 'Richtsnoeren' and the standards of (the description of) diversity from the Dutch Corporate Governance Code are included in chapter 400 'Bestuursverslag' (Director's report) – in respectively paragraph 400.204a and paragraph 400.402b.

#### Chapter 292 Leasing more in line with IFRS 16 'Leases'

In the beginning of 2019, the DASB has published some proposals for adjusting some existing standards in chapter 292 Leasing. These adjustments are related to two subjects: the assessment whether an agreement contains a lease and providing information about lease agreements. These proposals have become final later in this year. For medium-sized entities an exemption no longer exists for the assessment whether an agreement contains a lease. This indicates that for new contracts entered into such an assessment should be made.

For medium-sized entities also more disclosure requirements are applicable now than before.

#### Integral application IFRS and US GAAP standards

In chapter 100 'Inleiding' (Introduction) a new paragraph 100.104a is included.



In this paragraph, it is clarified what integral application entails when Dutch GAAP allows for specific chapters 'integral application' of an IFRS or US-GAAP standards. For example, when the IFRS 15 standard is applied in Dutch GAAP financial statements. This implies that, all principles of the specific IFRS 15 standard need to be applied, including all disclosure requirements. However, references in these standards to principles included in other standards within the IFRS (or US GAAP) framework which are not applied by the entity, are also not applicable to the entity unless this is explicitly stated otherwise in Dutch GAAP.

#### Clarification of the Statement of Comprehensive Income

Chapter 265 'Overzicht van het totaalresultaat' (Statement of Comprehensive Income) is applicable to large entities which prepare consolidated financial statements. The purpose of the Statement of Comprehensive Income is giving better insight in the performance of the entity in the financial year by presenting all revenues and expenses in one consolidated financial overview, irrespective of whether these transactions are recorded in the P&L or directly recognized in equity. The Statement of Comprehensive Income is part of the consolidated financial statements and is not presented as component of equity. In Dutch GAAP 2019, there are no modifications related to the content of chapter 265. However, some paragraphs are clarified as the practice shows that this standard is not always applied correctly. For example, paragraph 265.202 specifies which forms of presentation are possible (265.202):

- a. the Statement of Comprehensive Income as a consolidated overview in addition to the consolidated balance sheet, P&L and cash flow statement;
  - b. the Statement of Comprehensive Income combined with a movement schedule of equity in the notes of the consolidated financial statements;
  - c. the Statement of Comprehensive Income as extension of the consolidated P&L.
- In the attachment of chapter 265 examples are included regarding these different forms of presentation.

#### Clarification recognition of interim dividend

In alinea 160.210 of chapter 160 'Gebeurtenissen na balansdatum' (Subsequent events) in the Dutch GAAP edition 2019, the recognition of allocated interim dividend has been clarified. In this paragraph is mentioned that there is a situation of interim dividend allocation when based on a statutory decision during the financial year a payment is made at the expense of the result of the financial year as part of and in anticipation of the profit allocation. Also, in this chapter it has been clarified that paid interim dividend should be subtracted from the result after taxes of the financial year in the balance sheet before profit allocation (160.210), and not from the premium or other reserves. The remaining balance concerns unallocated profit.

#### New standard regarding disposals of property, plant and equipment

There is a new standard regarding the measurement of disposed property, plant and equipment. Disposed property, plant and equipment concern assets which are no longer used within the operations of the entity. Also, no future economic benefits are expected from the use of these assets other than disposing the asset. In chapter 212 'Materiële vaste activa' (Property, plant and equipment) the paragraph 212.501 is added. In this paragraph it is explained that in measurement of disposed property, plant and equipment impairment losses should be considered.

#### Changes for small-sized entities

Below an overview is included of modifications in the Dutch GAAP 2019 applicable to small-sized entities.

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





## As from when are these changes applicable?

The new standards included in the Dutch GAAP 2019 edition are applicable to financial years beginning on or after 1 January 2020. Earlier application of the new accounting standards is recommended.

In November 2019, a 'RJ-Uiting' regarding revenue recognition is expected to be published with important proposed amendments. We will separately inform you about this.

## More information?

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



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Modification	RJK-bundle
Translation of foreign currencies	A2.4
Disposals of property, plant and equipment	B2.126
Measurement provisions when time value of money is material	B10.106
Adjusted presentation and disclosure requirements Income taxes	B15.119



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