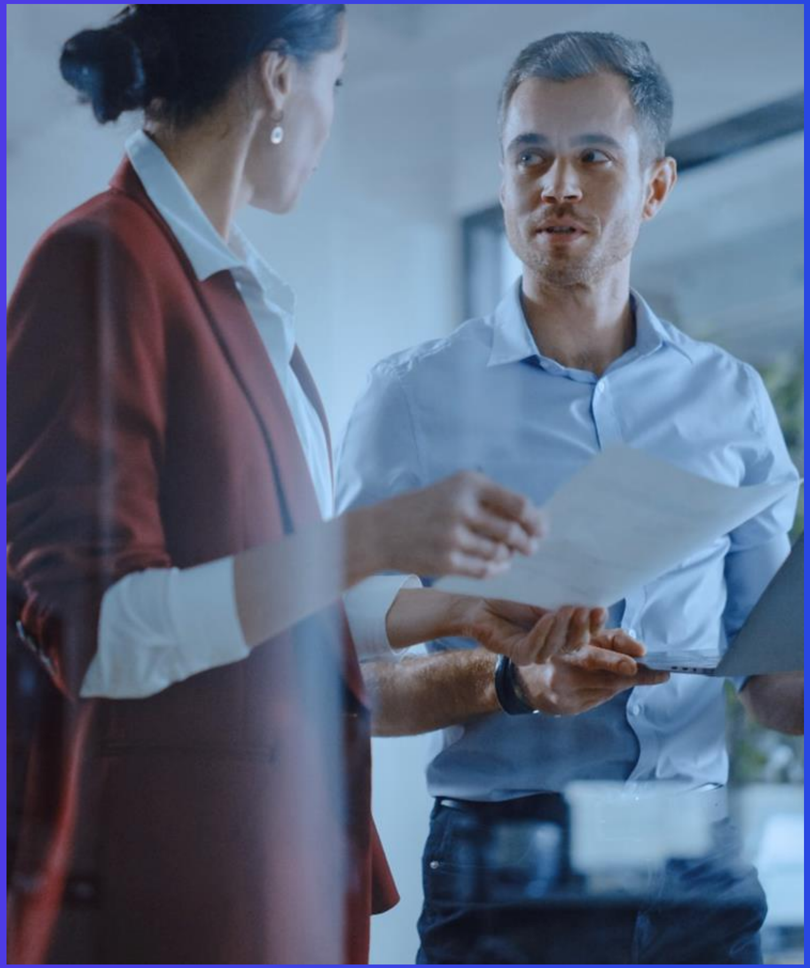
Webcast Actualia

Dutch GAAP Update 2022



Agenda

Dutch GAAP update

Book 2 DCC and DASB for 2022 and 2023

New standards on revenue recognition

RJ 221 and RJ 270 for 2022

Dutch GAAP update

Book 2 DCC and DASB for 2022 and 2023

New Dutch accounting standards (RJ)

2022

Main changes, excluding revenue recognition (financial year 2022)

RJ 100 — **Introduction - application of combination 3**

- General principle: equity in separate f/s = equity in consolidated f/s
- Additional guidance on elimination of intercompany transactions and positions: expected credit losses, hedges, leases, financial instruments, investment property
- However, differences may still occur (e.g. <100% interests, participating interests with negative equity value)

RJ 221 — **Construction contracts**

RJ 252 — **Provisions, contingent liabilities and contingent assets**

- Onerous contract: unavoidable costs > expected benefits
- Unavoidable costs: lowest of (1) costs of fulfilling the obligations and (2) fees or penalties for failing to fulfill the obligations
- Costs of fulfilling the obligations include costs that are directly related to the contract:
  - — incremental costs (such as direct labor and material costs)
  - — allocation of other costs that directly relate to fulfilling the contractual obligations (such as depreciation costs)
- Also applies to construction contracts

New Dutch accounting standards

2022

Main changes (financial year 2022) – 2/2

RJ 400

Management report

- Standard 'policy-neutral restructured' to improve readability and accessibility
- Application of stacking structure: large/medium-sized, large, PIEs, listed entities

RJ Statement 2022-2

Finalization of draft paragraphs in RJ edition 2021

- RJ 212 Tangible fixed assets: accounting policy choice introduced for proceeds and associated costs (from selling items produced) before intended use:
  - — to be deducted from cost of asset; or
  - — allowed alternative (new): to be recognised in profit or loss (IFRS method)

  If applying the allowed alternative:
  - — revenue and costs recognised in profit or loss must be disclosed (including the relevant line items)
  - — limited retrospective accounting of resulting change in accounting policy (i.e., as from beginning of prior FY)
- RJ 216 Business combinations: additional disclosures for pooling-of-interests:
  - — amounts of assets and liabilities from each party at beginning of FY
  - — revenue, other income, exceptional items and net result from each party over prior FY

New Dutch accounting standards

2023

Main changes (financial year 2023) – 1/1

RJ Statement 2022-6

Application of effective interest rate method under measurement at amortised cost

- Financial instrument measured at amortised cost with modified contractual cash flows that do not result in major change in economic substance: remains on-balance
- Major change in economic substance or not? ⇨ RJ 115.109
- Accounting policy choice regarding the effect of modified cash flows (if no major change in economic substance):
  - — recalculating carrying amount of instrument using original effective interest rate, recognise modification gain or loss in profit or loss (IFRS method); or
  - — recalculating effective interest rate, unchanged carrying amount of instrument, no modification gain or loss

RJ Statement 2022-8

Paragraphs RJ 212 Tangible fixed assets

- Major component = part of tangible fixed asset of which cost is significant compared to entire tangible fixed asset
- Major component must be depreciated separately in case of differences in useful life or expected use pattern (= component approach)
- Replacement of major component of tangible fixed asset is not major maintenance
- For major maintenance, accounting policy choice remains: component approach or provision for major maintenance
- Transitional provisions for any resulting changes in accounting policies: prospectively or (limited) retrospectively

Balancing men/women ratio in management

2022

Articles 2:166, 276, 142b DCC

- Large NVs and BVs: setting ambitious targets for improving balance of men/women in Board of Directors, Supervisory Board and categories of employees in other leadership positions (to be determined by company)
- Exempted: large NVs and BVs that are part of large group that applies the requirements itself
- Annual reporting to SER (< 10 months after balance sheet date) on actual numbers of men/women, targets, plan to meet those targets, reason(s) for not meeting targets
- Companies with listed (certificates of) shares: if Supervisory Board not composed of at least 1/3 men and at least 1/3 women ⇨ ban on appointment of new Supervisory Board members (with some exceptions) if an appointment would not improve the men/women ratio

Article 3d Bib

- Information to be reported annually to SER (see left) to be included as well in the management report of the financial year to which the information relates
- Effective as from financial years starting on or after 1 January 2022

Future legislation (1/2)

CSRD

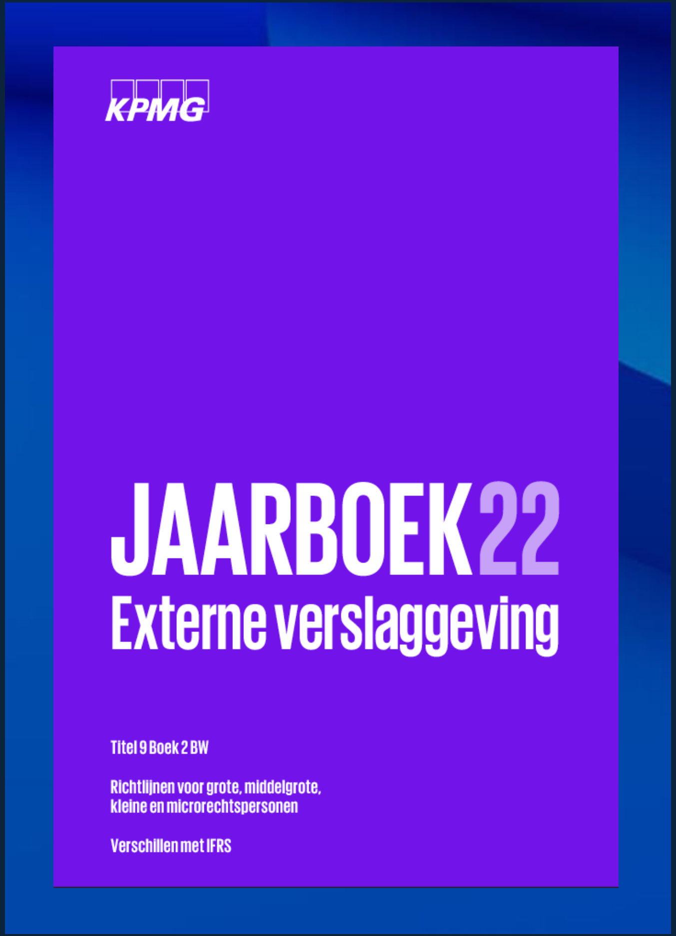
- EU Corporate Sustainability Reporting Directive (CSRD) ⇨ final text expected November or December 2022
- Scope: large PIEs with 500+ employees as from FY 2024, other large listed and non-listed companies as from FY 2025, medium-sized and small listed companies as from FY 2026
- Objectives:
  - — Reduce systematic risk to financial system from sustainability issues (e.g. climate-change)
  - — Make capital flow to companies that address the sustainability crisis more easily
  - — Make companies more accountable for their impacts on people and the environment
- Double materiality concept: impact on the company + impact by the company
- Value chain concept: own operations, products and services + business relationships + supply chain
- Reporting on wide range of topics (climate, workload, work-life balance, human rights compliance, anti-corruption, anti-bribery) in management report
- Limited assurance by auditor or independent assurance provider, possibly to be upgraded to reasonable assurance in future (2027?)

Future legislation (2/2)

ESRS

- European Sustainability Reporting Standards (ESRS)
- First set of 13 EDs (cross-cutting + E/S/G topical) published in April 2022, 750+ comments submitted, final ESRS to be approved by EU in first half 2023
- Second set of EDs (primarily sector-specific and SME) to be published in 2023
- ESRS address sustainability matters as per Article 19b of CSRD, i.e. provide further requirements on sustainability information to be disclosed in order to comply with CSRD objectives and high-level requirements
- Challenging points: coherence with EU policy objectives (content and timing) + compatibility with international initiatives (ISSB, SEC)

KPMG Year Book External Reporting



KPMG Year Book External Reporting 2022

Sets out Dutch reporting rules for FY 2022 (and changes compared to FY 2021), including exemptions and significant differences with IFRS

Dutch and English version at: **https://jev.kpmg.nl**

- Web version
- Progressive web app (on mobile devices)

Freely accessible to everyone

Login code (same for app and web version), required for one-time login, code can be requested via link on login screen

Released in August 2022 (Dutch version) and October 2022 (English version)

New standards on revenue recognition

RJ 221 and RJ 270 for 2022

New Dutch accounting standards

2022

Main changes (financial year 2022)

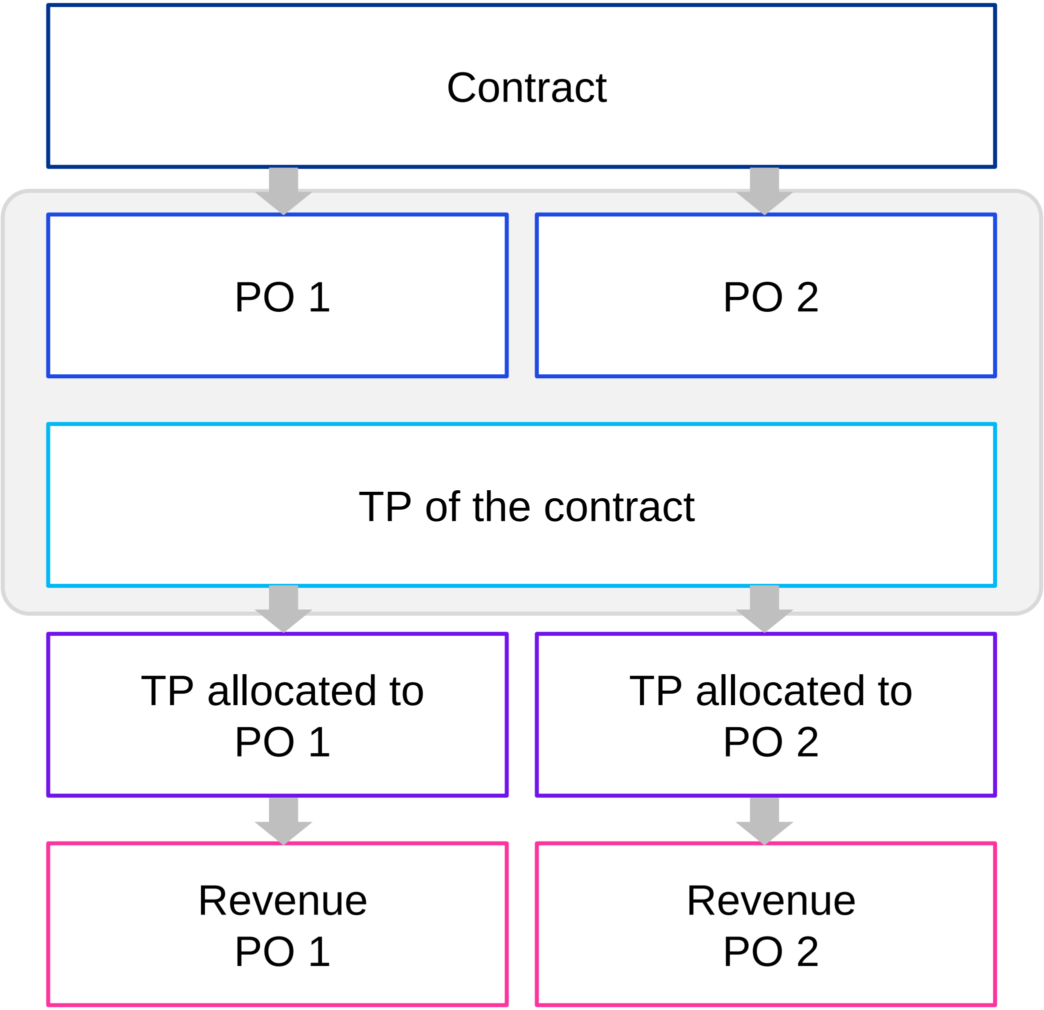
RJ 270	The profit and loss account
RJ 221	Construction contracts

- Based on IFRS 15, but IFRS 15 not implemented in full
- IFRS 15 provisions and guidance not leading when applying revised RJ standards
- Changes to existing standards on revenue recognition (RJ 270.1, RJ 221.1-4) + additional guidance and examples
- Applicable for reporting years starting on or after 1 January 2022, earlier adoption permitted
- Changes to be applied retrospectively (RJ 140), allowed alternative: prospectively for contracts from 1 January 2022 (or self-chosen earlier date of adoption)
- Option to apply IFRS 15 in full under NL GAAP remains

Impact of revised standards may vary considerably, depending on industry, transactions, current accounting policies

Revised Standards 270 + 221 – five-step model

Step 1	**Identify contract**
Step 2	**Identify performance obligations (PO)**
Step 3	**Determine transaction price (TP)**
Step 4	**Allocate transaction price to POs**
Step 5	**Recognize revenue per PO**



Step 2: identifying performance obligations

2022

Performance obligation

A performance obligation is the unit of account for revenue recognition, and is a promise to deliver:

- A good or service (or bundle of goods or services) that is **distinct**; or
- A series of **distinct** goods or services that are substantially the same and have same pattern of transfer to customer

Condition 1

Customer can use benefits of the good or service independently, whether or not jointly with resources that customer has or can obtain

and

Condition 2

Entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract

YES → **Distinct PO**

NO → **Non-distinct PO**

Non-distinct indicators

- *Entity provides significant service of integrating good or service with other goods or services*
- *Good or service significantly modifies or customizes other goods or services*
- *Goods or services are highly interdependent or highly inter-related with other goods or services*

Service work included in transaction price

2022

Case study

A product is sold, also with service work agreed upon
The service work could be provided by another party
The service work is considered to modify the delivered product:

1. To a significant extent; or
2. Not to a significant extent

Question

What are distinct performance obligations within the contract for each of the two scenarios?

	Product	Service work
1. Use benefits independently	✓ / ✓	✓ / ✓
2. Separately identifiable:		
• no service of integration	✓ / ✓	✓ / ✓
• not modify or customise others	✗ / ✓	✗ / ✓
• not inter-dependent or inter-related	✓ / ✓	✓ / ✓

Warranties

2022

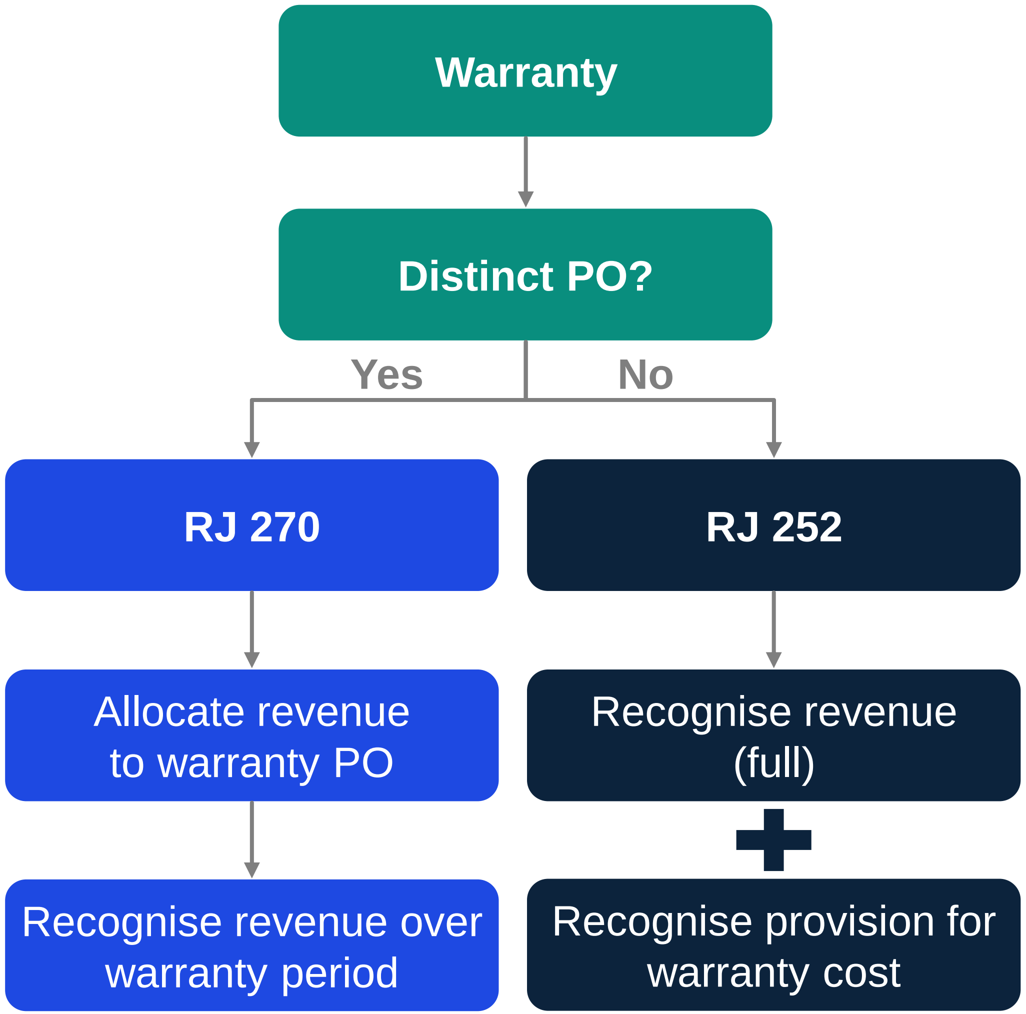
Warranty as distinct PO

Promised warranty is a distinct performance obligation if:
option to purchase warranty separately; or

- no option to purchase warranty separately,
- but entity provides services in addition to the assurance that product complies with agreed specifications

Indicators

- Warranty required by law
- Warranty offers only protection against risk of buying faulty goods
- Length of warranty coverage period
- Nature of tasks that entity promises to perform



Step 3: determining the transaction price

2022

Variable consideration

Apply prudence in estimating the amount

Significant financing component

Adjust transaction price for time value of money (if significant)

Transaction price

Non-cash consideration

To be measured at fair value

Consideration payable to customer

Reduction of transaction price, unless distinct good or service

Variable consideration

2022

Variable consideration

- Estimate to be made of amount of variable consideration (as part of total consideration)
- Prudence to be applied when making the estimate
- Underlying concept: only recognize revenue for which there is a **small chance of subsequent reversal**
- Possible impact: recognition of revenue to be deferred to later period(s)
- Estimate to be updated each reporting date

Variable consideration examples:

- Volume discounts
- Rights of return
- Incentives
- Performance bonuses
- Consideration contingent on occurrence of future events

Note: variable consideration can be positive or negative, has impact on the application of the 'small chance' concept

Possible guidance:
- factors over which entity has no control
- duration of uncertainty
- past experiences
- number of possible scenarios
- range of possible outcomes

Step 4: allocating transaction price to POs

2022

Basis for allocation

- Allocation in proportion to values of individual performance obligations
- Generally: based on relative stand-alone selling prices
  — If not available, apply estimates

Alternatively: relative fair values instead of stand-alone selling prices

Adjusted market assessment approach	Fair value of similar goods and services on the relevant market
Expected cost plus margin	Expected costs of satisfying PO, plus an appropriate margin for that good or service

Step 5: recognize revenue per PO

2022

At a point in time

Sale of goods
- RJ 270.110 conditions for revenue recognition (unchanged)
- Mix of risks-and-rewards and control (unchanged)

IP licenses (right-to-use)
- Only if distinct PO
- IP existing at the time of granting the license

Over time

Rendering of services
- RJ 270.115 conditions for revenue recognition (unchanged)
- Stage of completion: % costs, % services, surveys (unchanged)

IP licenses (right-to-access)
- Only if distinct PO
- IP existing throughout the term of the license

IP licenses (sale or usage-based)
- Only if distinct PO
- At time of sales or usage by customer

Return of goods ('retouren')

2022

Return of goods

- Only recognize revenue for the amount of consideration expected to be entitled to
- Apply guidance on variable consideration
- Recognize refund liability for amounts received/receivable not expected to be entitled to + return asset for goods expected to be returned
- Reassess amounts every reporting date

Example

- Entity A sells 1,000 goods at EUR 200 each
- Cost of goods is EUR 150 each
- Customers have right of return within 1 month, with full refund of consideration paid
- Based on experience, 10% of goods sold will be returned legitimately (no impairment)
- Eventually, actual return appears to be 9%

Journal entry for the sales

Cash	200,000	
@ Revenue		180,000
@ Refund liability (10%)		20,000

Journal entry for the cost of sales

Cost of sales	135,000	
Return asset (10%)	15,000	
@ Inventories		150,000

Journal entry for the actual return (9%)

Refund liability	20,000	
@ Cash		18,000
@ Revenue		2,000
Inventories	13,500	
Cost of sales	1,500	
@ Return asset		15,000

Presentation and disclosures

2022

Balance sheet presentation

Presentation of construction contracts (RJ 221) in balance sheet:

- Current assets: all contracts with debit balance
- Current liabilities: all contracts with credit balance
- No netting of debit and credit balances allowed anymore

P&L account presentation

Presentation of construction contracts (RJ 221) in profit and loss account:

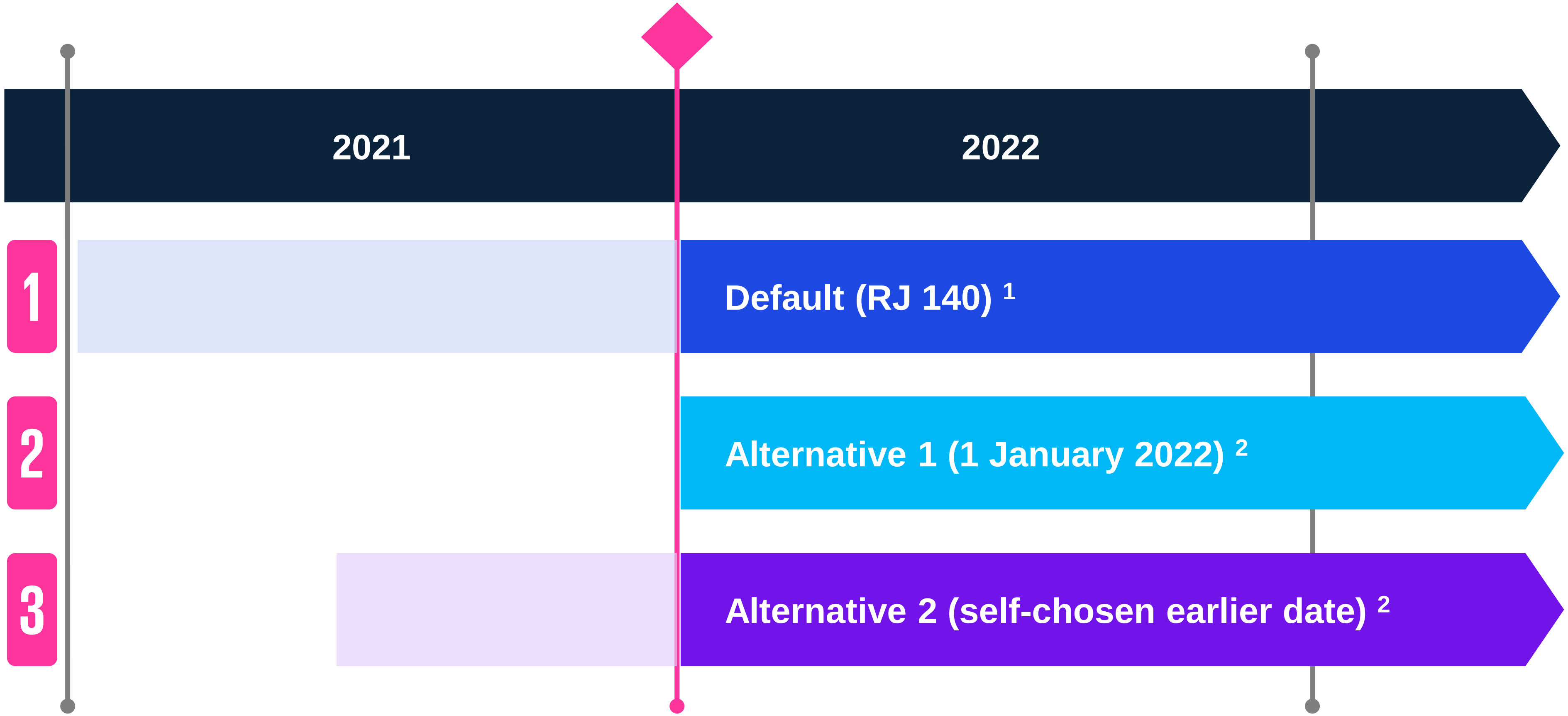
- Realized contract revenue presented as part of net turnover (‘netto-omzet’)
- No alternative presentation until contract completion as ‘Movements in construction contracts’ allowed anymore

Disclosures

New disclosure requirements on revenue recognition:

- Nature of significant POs
- Per significant PO: method used to allocate revenue to reporting years, including determination of stage of completion
- Total capitalized costs to obtain contracts

Transitional provisions



[1] Adoption new standards for reporting periods starting on or after 1 January 2022, earlier adoption permitted

[2] For contracts entered into/modified on or after date of adoption; not for presentation and disclosures changes

Key points to remember

- Limited changes in RJ and Title 9 for FY 2022, except for revenue recognition (RJ 270/RJ 221)
- Basis for revenue recognition will be the 5-step model: contract, performance obligations, transaction price, allocation and recognition
- Limited changes in RJ and Title 9 for FY 2023
- Sustainability reporting will result in a significant extension of reporting requirements for large listed and non-listed entities, applicable from financial year 2024 (large PIEs with 500+ employees), 2025 (other large entities) and 2026 (small and medium-sized listed entities)

Thank you!

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