



## NL GAAP Focus

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

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#### Introduction

The annual edition 2022 of the Dutch Accounting Standards (DAS) for micro-sized and small legal entities includes amendments to several standards. The annual edition 2022 is effective for financial years starting on or after 1 January 2023. Earlier application is recommended for all new standards.

This summary outlines the main amendments to the DAS for micro-sized and small legal entities. Please note that industry-specific amendments<sup>1</sup> 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 B2.1 '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.

Please note that the second and third clarifications are not explicitly included in the DAS for micro-sized and small legal entities. These (additional) clarifications are included in the DAS for medium-sized and large legal entities relating to requirements also included in the DAS for micro-sized and small legal entities. Therefore, these clarifications also apply to micro and small legal entities.

1. Specific industries in the DAS for micro-sized and small legal entities include small not-for-profit organizations, small fundraising organizations and small health care institutions.

*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;
- 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 A3.1 '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 (=  $20 \times 5$  years accrual / 10 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 (=  $20 \times 5$  years of accrual / 10 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 (=  $20 \times 4$  years accrual / 10 years), is released to equity;
  - The addition to the provision charged to the result of year 5 of 2 (=  $20 / 5$  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 B2.1 'Tangible fixed assets', the DASB has clarified the requirements relating to the measurement of (1) the provision for costs of major maintenance provision 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 B10.1 '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 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.

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