Changes to Dutch Accounting Standards for small legal entities
Changes to annual edition 2015, including amendments to Title 9 Book 2 NCC

Professional Practice Department
January 2016
The annual edition 2015 of the Dutch Accounting Standards (DASs) for small legal entities includes several changes. The annual edition 2015 is effective for financial years starting on or after January 1, 2016. Most changes follow from amendments to Title 9 Book 2 of the Netherlands Civil Code and the related Decrees. The annual edition 2015 of the Dutch Accounting Standards for small legal entities does not include new draft standards.

This publication solely outlines the changes.

Amendments to Title 9 Book 2 of the Netherlands Civil Code and Decrees

Introduction
As a result of the new EU Directive on the Annual Financial Statements (Directive 2013/34/EU), several sections of Title 9 Book 2 of the Netherlands Civil Code have been amended. Some Decrees have been amended, too, including the Decree on Current Value, Decree on Financial Statements Formats and the Decree on Accounting Policies for Tax Purposes. These amendments became effective on November 1, 2015. The amendments apply to financial years starting on or after January 1, 2016.

Earlier application of new statutory regulations
The Act states that the new statutory regulations may already be applied to financial years that have started before January 1, 2016. Our interpretation is that the new regulations may solely be applied to financial years that have ended after December 31, 2014. Effectively, this means 2015 financial years and 2014/2015 non-calendar financial years. Our interpretation is partly based on the Explanatory Memorandum to the new Act. Our interpretation is also in line with the statements in NBA Alert 37 on this subject, published by the Netherlands Institute of Chartered Accountants. If earlier application of the new Act is opted for, all new regulations must be applied earlier. If so, both the new regulations of Title 9 Book 2 of the Netherlands Civil Code and the amended Decrees must be applied in the financial year.
Amendments to Title 9 Book 2 of the Netherlands Civil Code

Adjustment threshold amounts

The following size criteria apply under the new Act:

<table>
<thead>
<tr>
<th></th>
<th>Micro entity</th>
<th>Small entity</th>
<th>Medium-sized entity</th>
<th>Large entity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of the assets (euro)</td>
<td>≤ 350,000 (new)</td>
<td>≤ 6,000,000 (was ≤ 4,400,000)</td>
<td>≤ 20,000,000 (was ≤ 17,500,000)</td>
<td>&gt; 20,000,000 (was &gt; 17,500,000)</td>
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<tr>
<td>Net revenues (euro)</td>
<td>≤ 700,000 (new)</td>
<td>≤ 12,000,000 (was ≤ 8,800,000)</td>
<td>≤ 40,000,000 (was ≤ 35,000,000)</td>
<td>&gt; 40,000,000 (was &gt; 35,000,000)</td>
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<tr>
<td>Number of employees</td>
<td>&lt; 10 (new)</td>
<td>&lt; 50 (unchanged)</td>
<td>&lt; 250 (unchanged)</td>
<td>≥ 250 (unchanged)</td>
</tr>
</tbody>
</table>

A legal entity is classified in the micro, small or medium-sized entities category if at least two out of the three criteria of that category are met on a consolidated basis. A change of category (e.g., from medium sized to small) solely takes place if the legal entity meets the criteria of the other category on two successive balance sheet dates. When transferring to the new size criteria the adjusted threshold amounts may be used for application of the two-year period for the comparative financial year.

Micro entities

The new Act includes the new category of ‘micro-sized legal entities’ (micro entities). Micro entities solely need to prepare an abridged balance sheet and an abridged profit and loss account. They need not prepare notes. Micro entities are not permitted to measure assets and liabilities at fair value (market value). They are, however, permitted to measure items such as tangible fixed assets at current value, provided they are not portfolio investments. Solely the abridged balance sheet needs to be published. Just like small entities, micro entities are exempted from preparing a directors’ report and exempted from an audit. They may also opt for preparing the balance sheet and profit and loss account according to tax principles. If so, the balance sheet should include a note about the application of tax principles.

Goodwill

The new Act stipulates that goodwill must be capitalised. This abolishes the possibilities of taking goodwill directly to equity or profit or loss. Goodwill is written down over the expected useful life. If the expected useful life cannot be reliably estimated then the goodwill is written down over a period capped at ten years. Impairments may not be reversed later on.

If goodwill had not been capitalised before, a legal entity must apply a change in accounting policy. The Dutch Accounting Standards Board has introduced transitional provisions according to which a legal entity may opt for retrospective or prospective recognition of this change in accounting policy. If prospective recognition is opted for goodwill is solely capitalised for acquisitions taking place in or after the financial year in which the change in accounting policy is applied (2016 financial year or, in the event of earlier application, 2015 financial year). If so, no adjustments are recognised for acquisitions in earlier financial years. Under retrospective recognition the new policy may be applied to acquisitions that have taken place as from any prior date to be chosen by the legal entity itself. Under retrospective recognition the comparative figures must be adapted as well.

The goodwill amount may change following an acquisition. This may happen when the acquisition price changes on the back of an earn-out arrangement. Or following later changes in the identification or the value of identifiable assets and obligations. Later changes in the goodwill amount are recognised according to the same method as applied for recognition of the original goodwill of the related acquisition.

**Example: Change of goodwill amount**

Legal entity M has acquired legal entity D in 2014. M has charged the goodwill directly to equity. As M opts to solely capitalise the goodwill upon acquisitions as from 2016, it recognises the change in accounting policy prospectively.

An earn-out arrangement forms part of the acquisition price. This means that part of the purchase consideration depends on D generating certain minimum results over the years 2014 through 2016. D is not expected to achieve the related target results during 2014 and 2015. Hence, no obligation is recorded in the 2015 financial statements. However, based on D’s 2016 result a subsequent payment of 100 is due to the seller as at year-end 2016. This correction of the purchase consideration is recognised in 2016, as an adjustment of the acquisition price (DAS 216.242). Since the policy for capitalising goodwill is solely applied to acquisitions as from 2016 (prospectively), the adjustment of the goodwill in the amount of 100 is directly charged to equity. This is in accordance with the recognition of the goodwill upon the acquisition in 2014.

**Shortening of preparation and publication period**

Under the new Act, the preparation period for non-listed legal entities to prepare their financial statements is capped at ten months after the financial year. This used to be eleven months. The ultimate publication period has been shortened by one month, i.e., from thirteen months to twelve months subsequent to the financial year.
Other amendments to Title 9 Book 2 of the Netherlands Civil Code

Various less drastic amendments for small legal entities have been introduced in Title 9 Book 2 of the Netherlands Civil Code, too. This includes the following.

Recognition and measurement:
• if the useful life cannot be reliably estimated the depreciation period for capitalised development costs is capped at ten years; and
• the option to take into account a shortly-anticipated impairment upon the measurement of current assets has been abolished.

Presentation and disclosure:
• the category ‘extraordinary income and expense’ in the profit and loss account has been abolished;
• the obligation to disclose the events after balance sheet date in the financial statements (instead of in the ‘Other information’ section);
• new disclosure requirements:
  – disclosure of (1) the nature and size of income and expenses that should be allocated to a another financial year and of (2) the amount and nature of income and costs items whose size and occurrence are exceptional;
  – disclosure of the name, legal form, registered office and Chamber of Commerce number of the legal entity;
  – disclosure of contingent assets, contingent liabilities and non-recognised obligations; and
  – disclosure of amounts written down and loans and advances in respect of which a decision was made not to provide them with respect to managing and supervisory directors of the legal entity.
• cancelled exemptions from disclosure requirements. Small legal entities must include the following disclosures from now on:
  – disclosure of the balance of impairments per fixed assets item;
  – disclosure per category of liabilities of the part with a remaining term exceeding 1 year, and separately (for the aggregate liabilities) the part with a remaining term in excess of 5 years (disclosure of the interest rate is not required);
• new exemptions from disclosure requirements. The following disclosures no longer need to be provided:
  – the proportional figure showing the extent in which the net revenue has changed compared with the prior year;
  – information on issued shares, shares issued in the financial year, and shares and depositary receipts for shares held for one’s own account;
  – the amount in foreign currencies of the issued share capital (if applicable) and the exchange rate as at balance sheet date;
  – list of capital interests;
  – information on the shareholder(s) and the companies that consolidate the financial information regarding the small legal entity in their financial statements for publication purposes (the name and domicile of the ‘first’ parent company that consolidates the financial information regarding the small legal entity still need to be disclosed);
  – breakdown of the average number of employees and disclosure of the number of employees working abroad (the average number of employees still needs to be disclosed);
  – in the financial statements for filing purposes: events after balance sheet date;
  – if tax principles are applied: extraordinary value adjustments resulting from tax facilities (reinvestment reserve and random depreciation).

Other information:
• small legal entities no longer need to add an ‘Other information’ section to the financial statements.
Changes in Decrees

'Replacement value' replaced by 'current cost'
The term 'replacement value' in the Decree on Current Value has been replaced by the term 'current cost'. In short, current cost refers to the current purchase or manufacturing price of the related assets in a new condition, less depreciations.

According to the Memorandum of Explanation to this Decree, the current cost deviates from the replacement value. The current cost takes into consideration the asset owned by the legal entity. The replacement value, on the other hand, takes into consideration a replacement asset with a similar economic significance. In this respect corrections should be taken into account insofar as the economic significance of the replacement asset deviates from that of the current asset. One of the situations in which this may occur regards differences in the capacity of machinery. We expect this change to have little impact in practice.

Inventories no longer at current value
It is no longer permitted to measure inventories at current value. They will have to be measured at acquisition or manufacturing price (historical cost) from now on. This does not apply to agricultural inventories, which are still permitted to be measured at current value.

Other changes in Decrees
The other changes in the Decrees are mainly a direct consequence of the amendments to Title 9 Book 2 of the Netherlands Civil Code as described earlier. Furthermore, the models G and H for preparing the profit and loss account have been eliminated. Likewise, the Decree on Financial Statements Formats does not apply to micro entities.

New standards for small legal entities

Correction of errors
DAS for small legal entities A3.3 states that all material errors should be corrected retrospectively from now on, even if they are not fundamental. The term fundamental error is no longer used — ‘material error’ is the sole term left. An error is material if the error is such that the financial statements fail to provide the required insight as referred to in article 2:362(1) Dutch Civil Code.

Severance payments
The term ‘termination benefit’ in DAS for small legal entities B14 has been replaced by ‘severance payment’. Severance payments regard payments granted to an employee in exchange for the termination of the employment contract. Severance payments should be distinguished from remunerations in exchange for employee services. As such, a payment granted due to the dismissal, provided the employee continues to be employed for a certain period, is not a severance payment. Instead, it is a payment for services during the remaining term of service.

Severance payments are recognised in the profit and loss account as a liability when a legal entity demonstrably and unconditionally undertakes to pay a severance payment. One of the situations in which this occurs is when the legal entity has made an employee an unconditional offer, irrespective of whether or not the employee has accepted the offer (DAS for small legal entities B14.124). When measuring the obligation the chance of an employee not accepting the offer should be factored in. This is because obligations on account of severance payments should be measured at the best estimate of the amounts required to settle the obligations (DAS for small legal entities B14.125). If the dismissal is part of a restructuring, a legal entity should include the costs of a severance payment in a restructuring provision (DAS for small legal entities B14.124).
The annual edition 2015 of the Dutch Accounting Standards for large and medium-sized legal entities includes examples of severance payments and of payments for professional performances (DAS 271.502a). These examples likewise apply to small legal entities. A new draft paragraph now includes examples of transition payments too. 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. The draft paragraph explains that transition payments due upon termination of an employment contract for an indefinite period of time are considered generally to be severance payments. The related costs are recognised upon entering into the obligation to pay the severance payment. An example of transition payments that are considered to be payments in exchange for employee services, 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. The related costs will be allocated to the period in which the services are performed (in this case the term of the employment contract).

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