



Revised standards on revenue recognition

RJ 221 and RJ 270 – The amendments will be effective for financial years starting on or after 1 January 2022

Contents

1. Introduction	4
1.1 About this publication	5
1.2 Summary of key changes	6
1.3 Key differences compared to IFRS 15	8
2. Key impacts	11
3. RJ 270 The Income Statement	12
3.1 Scope of RJ 270 <i>The Income Statement</i>	12
3.2 The five-step model	12
— Entering into and combining contracts	13
— Identifying performance obligations	14
— Determining the transaction price	17
— Allocating the transaction price to performance obligations	20
— Revenue recognition	21
3.3 Determining whether amounts received are part of revenue (agent-principal)	27
3.4 Contract modifications	28
3.5 Practical issues and examples	30
— Customers' unexercised rights	30
— Processing of sales transactions with buy-back/sale-back agreements	30
— Considerations for financial services	32
— Customer's options for additional goods or services	32
— Warranties	34
3.6 Presentation of net revenue and exceptional items	35
3.7 Disclosure	36
3.8 Transitional provisions	36
4. RJ 221 Construction Contracts	38
4.1 Scope of RJ 221 <i>Construction Contracts</i>	38
4.2 Definitions	39
4.3 Contract revenue	40
4.4 Contract costs	43

4.5	Recognition of contract revenue and contract costs	44
—	Reliable estimation of the result	45
—	Recognition of result if estimated reliably	46
—	Recognition of result if not estimated reliably	46
—	Property development	48
—	Recognition of losses on construction contracts	48
—	Other considerations	48
4.6	Determining project progress	49
4.7	Presentation and disclosures	50
4.8	Public-private concession contracts	52
—	Recognition and measurement	53
—	Allocation	54
—	Infrastructure	54
—	Disclosure	55
4.9	Transitional provisions	55
5.	Implementation process	56
5.1	Gap analysis	57
5.2	Taxation	57
5.3	Systems and processes	58
5.4	Internal control	58
5.5	Other considerations	59



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1

Introduction

The Dutch Accounting Standards Board (Raad voor de Jaarverslaggeving or DASB), has identified a practical need for further guidance on how to account for revenue under the Dutch Accounting Standards (further referred to as 'Standards'). This is partly due to the increasing complexity of contractual agreements and the variety and digitalisation of (bundled) products and services. The DASB has considered IFRS 15 *Revenue from Contracts with Customers* in its analysis of how best to meet this need.

The DASB has decided that the full adoption of the provisions of IFRS 15 in the Standards is not desirable due to the target group of the Standards and the associated implementation costs. Therefore, the DASB wishes to maintain the existing revenue recognition Standards as much as possible and to improve them by means of specific amendments, additions and examples.

The DASB emphasises that the provisions of IFRS 15 are not leading in the interpretation of the Standards.

The DASB has published two revised Standards, RJ 221 *Construction Contracts* and RJ 270 *The Income Statement*. Some important revisions relate to:

1. identifying the performance obligations contained in a contract;
2. processing variable consideration;
3. allocating the transaction price included in a contract to identified performance obligations; and
4. the presentation of construction contracts in the balance sheet and income statement.

These new Standards replace the existing RJ 221 and RJ 270.

The scope of the new Standards has not been changed. As a result, companies that currently apply RJ 221 and/or RJ 270 will continue to do so under the current Standards.

The DASB has included transitional provisions to simplify the implementation of the changes resulting from the new Standards. It is permissible for amendments that affect revenue recognition to be applied only to contracts entered into or modified on or after the effective date, or the relevant effective date on earlier application of the Standards.

The new Standards are effective for reporting years starting on or after 1 January 2022.

The option to apply IFRS 15 fully and consistently (RJ 221.102a and RJ 270.101a) remains in the new Standards.

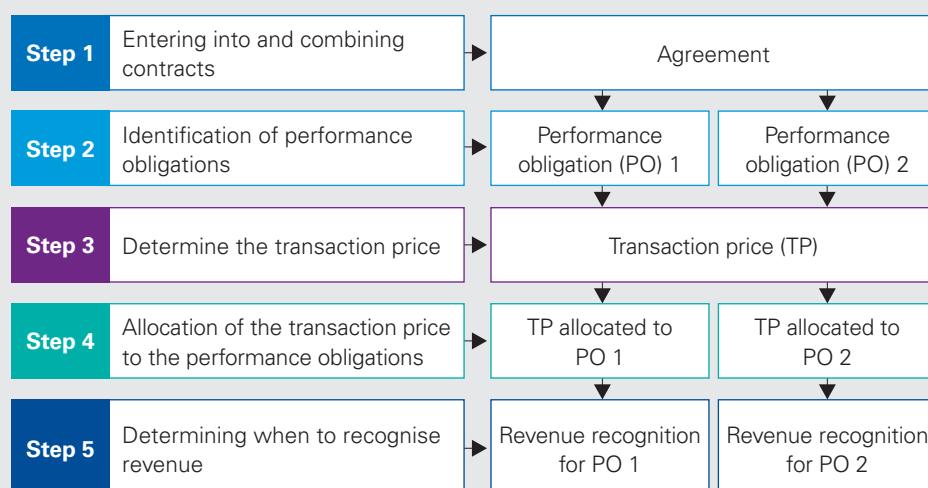
1.1

About this publication

The aim of this publication is to inform you about the coming changes with regard to the accounting of revenue recognition. The external reporting requirements for revenue recognition are part of RJ 221 *Construction Contracts* and RJ 270 *The Income Statement*. Both these Standards have been broadened by the DASB and also include reporting rules on the recognition of expenses and the presentation of the income statement based on the Dutch Accounting Standards Decree (BMJ). This publication focuses primarily on revenue recognition.

All references in the margin refer to the new Standards unless otherwise indicated. This publication is largely based on the new Standards.

This publication explains revenue recognition using a process-based approach, specifically a five-step model. This approach implicitly underlies RJ 221 and 270 but is not specified as such in the Standards. The five-step model provides a structured way to analyse and present a sales contract and therefore the revenue recognition. This analysis consists of the following five steps:



In addition, there are specific issues that require attention given the changes in the new Standards. These include contract changes and determining whether amounts received are part of revenue (agent-principal). See sections 3.3 to 3.5.

RJ 221 *Construction Contracts* is essentially a supplement to the five-step model. In addition, Standard 221 has specific definitions and reporting rules such as contract changes, claims and recognition of contract revenue and contract costs based on percentage of completion, which are a characteristic of contracting organisations. See chapter 4.

Finally, the new Standards have a broader impact than just external reporting. This includes the possible effects on ratios and KPIs, but also on IT systems, administrative processes and the company's internal management. What an implementation process of the new Standards might look like and the associated points of attention are explained in chapter 5.

1.2**Summary of key changes****RJ-Uiting 2020-15**

This section describes the main changes in the new Standards compared to the current Standards with the aim of enabling efficient navigation through this publication.

**RJ 270.105
RJ 221.110**

The new RJ 270 *The Income Statement* specifically emphasises that contracts may need to be combined to reflect the economic substance of the transaction (see section 3.2.1). This is important because it is at the level of the (combined) contract that the performance obligations are identified as well as the size of the transaction price. These are steps 2 and 3 in the five-step model, respectively. These provisions already existed in RJ 115 *Criteria for Recognition and Disclosure of Information* and RJ 221 *Construction Contracts*.

**RJ 270.109
RJ 221.112**

Performance obligations refer to the goods and services to be distinct within the context of the contract. The new Standards contain specific provisions on how to identify separately distinct performance obligations within a contract or combined contracts (hereinafter a contract also means a combined contract) (see section 3.2.2).

RJ 270.127**Non-refundable fees (step 2)**

For some contracts, the company charges a non-refundable fee at the time of closing. This includes, for example, registration fees and connection fees. The new Standards include specific provisions indicating that such fees are considered an advance payment for goods or services yet to be delivered (see section 3.2.2).

**RJ 270.106a
RJ 221.202a****Variable consideration (step 3)**

Part of the transaction price includes determining the amount of variable consideration. Management of the company should make a best estimate of the transaction price at the inception of the contract, and apply prudence in this respect. The aim of applying prudence is to ensure that only revenue is recognised of which there is a small chance of subsequent reversal (see section 3.2.3).

**RJ 270.107
RJ 221.202b****Significant financing component (step 3)**

The current Standards include specific reporting rules with respect to the accounting for financing received by the customer. The new Standards now also address the situation where the company receives pre-financing from the customer. Furthermore, the option is also given to not account for the effects of the time value of money if the period between the time of payment and the transfer of the promised goods and services is no more than one year (see section 3.2.3).

RJ 270.108**Consideration payable to a customer (step 3)**

In the new Standards, the DASB has included reporting rules for situations where the company pays consideration to its customers. A consideration payable to a customer for goods and services is recognised as a reduction of revenue, unless the payment to the customer is in exchange for a distinct good or service (see section 3.2.3).

RJ 270.109c
RJ 221.112

Allocation of the transaction price to the performance obligations (step 4)

The current Standards do not contain specific provisions for allocating the transaction price to the various goods and services promised within the contract. The new Standards state that the transaction price should be allocated to the identified performance obligations in proportion to the values of those performance obligations (see section 3.2.4).

RJ 270.123-126

Revenues from licences (step 5)

With respect to income from licences of intellectual property, the DASB has included new provisions on the accounting treatment of licences. The right to use an intellectual property, as it exists at the time the licence is granted, is processed as the sale of a product. If the customer has the right to access the intellectual property, as it exists throughout the duration of the licence, this is processed as the provision of a service (see section 3.2.5.3).

RJ 270.112

Sale with a right of return (step 5)

The new Standards include specific provisions regarding the processing of potential returns. The company determines the amount of consideration to which the company expects to be entitled using the same methodology as variable consideration from step 3 (see section 3.2.5.1).

RJ 270.105b
RJ 221.114

Acting for own account (as principal) or for third parties (as agent)

The control over the goods and services to be delivered immediately prior to the delivery to the customer has been added as an indicator for the receipt of amounts on the company's own account. The DASB emphasises that if the company does not (or did not) have this control, it may not be possible for it to act for its own account in the subsequent transaction (see section 3.3).

RJ 270.129-130
RJ 221.205

Contract modifications

Further provisions are included in the new Standards on how a contract modification should be accounted. The purpose of these provisions is to ensure that a modification to an existing contract is processed in accordance with the economic substance of that modification. The current Standards do not contain any provisions in this respect (see section 3.4).

RJ 270.128

Unexercised customer rights

The current Standards do not include any provisions on how the company recognises revenue from (as yet) unexercised rights held by the customer. These include loyalty cards, gift vouchers and tickets for events. Specific provisions have been included for this in the new Standards (see section 3.5.1).

RJ 270.109a

Options for additional products or services

The current Standards contain specific provisions on the accounting for loyalty programmes. These provisions are applied more broadly in the new Standards to all options that a customer has in order to obtain additional goods or services (see section 3.5.4).

RJ 270.109b
RJ 221.113

Warranties

Under the new Standards, specific provisions are included for assessing whether a warranty qualifies as a separate performance obligation (see section 3.5.5).

RJ 221.401
RJ 221.409

Presentation of projects in progress (construction contracts)

Under the new Standards, it is no longer permitted to present contract revenues as change in construction contracts in the income statement while the project is still ongoing.

The possibility of presenting all construction contracts with debit and credit balances as one total on the balance sheet is also no longer permitted (see section 4.7).

RJ 270.601

Disclosure

Under the new Standards, additional disclosures must be included, such as the nature and method of allocation to the reporting period of significant performance obligations and the amount of capitalised costs of obtaining a contract (see section 3.7).

1.3

Key differences compared to IFRS 15

The Standards allow for the application of IFRS 15, provided that there is a comprehensive and consistent application of IFRS 15. This option may be an important consideration for management when implementing the new Standards.

For companies that may already be reporting for group purposes or will be reporting under IFRS in the future, it is relevant to know the main differences compared to IFRS 15. Although the DASB has chosen to bring the reporting rules in line with IFRS 15 in many respects, a number of fundamental differences remain between the new Standards and IFRS 15. The target group and the associated implementation costs were the main considerations for not adopting IFRS 15 in full.

Exercising the option to apply IFRS 15 may be advantageous for companies to reduce the number of differences between the two reporting systems. The downside may be that more extensive disclosures are generally required when applying IFRS 15. The absence of reliable data or the disclosure of business-sensitive data may be an important consideration for not applying IFRS 15 in financial statements (based on the Standards for Annual Reporting and Title 9 Book 2 of the Dutch Civil Code).

RJ-Uiting 2019-15

The main differences between the new Standards and IFRS 15 are:

1. not adopting the *control-based* model;
2. maintaining comprehensive guidance regarding sales transactions with buy-back or sell-back agreements in RJ 270;
3. the loss provision;
4. maintaining a principle-based approach rather than the more rule-based approach in IFRS 15; and
5. the less extensive disclosures in the new Standards.

1. The control-based model

The new Standards retain focus on economic benefits and risks, the so-called '*risks and rewards*' model. This is in contrast to the '*control-based*' model of IFRS 15.

The '*risks and rewards*' model is very similar to the Incoterms (International Commercial Terms) used in practice to determine if and when the risks and rewards have been transferred to the customer.

Through the '*control-based*' model, the customer gains control (power of disposition) once the right and ability to determine the use of the product (or service) are obtained in order to obtain virtually all benefits.

In many cases, there will be no difference between the two models with respect to the timing of revenue recognition. However, this will not always be the case and usually requires further analysis of the contractual terms to understand if there is a difference.

An example is a distributor who delivers the new summer collection to retailers on the condition that these retailers may only sell the new collection, at the distributor's direction, once the summer season starts. Based on the '*risks and rewards*' model, the distributor can account for revenues once the goods have been delivered. Based on the '*control-based*' model, this can only be done once the restriction on sales no longer applies. The start date of the summer season then becomes the moment of revenue recognition for the distributor. This means that the point in time of revenue recognition can be earlier under the current and new Standards compared to IFRS 15.

IFRS 15.B64-76

2. Sales transactions with buy-back/sell-back agreements

The principles of the current RJ 270 Appendix 2 regarding sales transactions with buy-back/sell-back agreements remain unchanged. This means that sales transactions with buy-back/sell-back agreements are accounted for as a sales transaction or as a combination of financing and lease transactions (see section 3.5.2). IFRS has similar reporting rules. These are less detailed compared to the current and new Standards. Differences between RJ and IFRS can arise due to the different underlying models: the '*risks and rewards*' model versus the '*control-based*' model.

IAS 37.10

3. The loss provision

By retaining RJ 221 *Construction Contracts*, the DASB has chosen to retain the associated reporting rules of the so-called loss provision. As a result, the '*full cost approach*' must be used, whereby all expected losses are charged directly to the result. This has been dealt with differently in IFRS by using the broader definition of onerous contracts under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* for contracts in scope of IFRS 15.

Under IFRS, the concept of '*unavoidable costs*' for onerous contracts (including construction contracts) could be interpreted in different ways. As a result, the '*full cost approach*' and the '*incremental cost approach*' methods were both possible in the past. However, the amendment to IAS 37, effective for annual periods beginning on or after 1 January 2022, clarifies which cost components are

included in the term '*unavoidable costs*'. This effectively means that the '*full cost approach*' method must be applied under IAS 37 from that moment on.

Until then, possible differences existed between the Standards and IFRS regarding onerous construction contracts. However, the broader definition of onerous contracts means that differences will continue to exist between the Standards and IFRS regarding onerous contracts, i.e. for contracts that ultimately do not incur an overall loss.

The DASB has followed IFRS for the broader application of the '*full cost approach*' to all onerous contracts in scope of RJ 252 *Provisions, Contingent Liabilities and Contingent Assets*, effective for annual periods beginning on or after 1 January 2022.

RJ 270.106a
IFRS 15.56-58
IFRS 15.BC203-213

4. Rule-based approach

The DASB has not completely adopted the extensive reporting rules of IFRS 15, but applies more generic principles. This means that under the new Standards there are more choices and options to reflect the economic reality of transactions.

An example of this concerns the estimate to be made in step 3 with regard to variable consideration. IFRS uses the terminology: "*highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur*". In doing so, the IASB sought to set a clear lower limit.

The new Standards state that the company should make the best estimate using prudence, so that there is a small chance of revenue being reversed. With this, the DASB has not adopted the clear lower limit of IFRS 15 and the Standards can therefore be interpreted more broadly.

5. Number of disclosures

The disclosure requirements in the new Standards are extended compared to the disclosure requirements in the current Standards. Companies should take into account the additional disclosure requirements that may require new or additional data when implementing the new Standards.

The disclosure requirements of IFRS 15 are generally more extensive, depending on the nature of the business and the type of performance obligation.





2

Key impacts

Earlier or later revenue recognition

Compared to the current Standards, revenues can be recognised earlier or later due to, among other things, the existence of multiple performance obligations. The trending of key performance indicators (KPIs) may be affected by this. The effect of different methods, on the extent and timing of revenue recognition can lead to important issues regarding contractual agreements, such as:

- the impact on KPIs and compliance with financial covenants;
- the calculation of sales discounts and bonuses (e.g. volume discounts);
- employee benefits (bonus plans); and
- the impact on the determination of KPIs in earn-out agreements.

More judgement in estimating

The inclusion of more estimation elements in the determination of the transaction price, such as variable components of the transaction price, the treatment of options for additional goods or services and the extent of expected returns, will require more reliable data to make adequate estimates. This will require potential process changes and modifications to existing IT systems.

Internal control

Setting up new or adjusting existing processes and IT systems also raises issues concerning the internal control of these processes and IT systems. This means that companies may need to design and implement new (IT) controls.

New disclosure requirements

If the necessary information is not available, the preparation of disclosures can be a time-consuming process. This means that companies must ensure that they obtain timely insight into the necessary (system) adjustments in order to be able to provide the correct information and insight to the users of the financial statements.



3

RJ 270 The Income Statement

3.1

Scope of RJ 270 *The Income Statement*

RJ 270.101

Standard 270 details the recognition of revenue in the income statement in the case of the sale of manufactured or purchased goods, the provision of services and also the revenue from licences

RJ 270.103

Excluded from this are:

- leases (RJ 292 *Leasing*);
- the delivery of services or goods related to construction contracts (RJ 221 *Construction Contracts*), see section 4.1;
- the delivery of goods pursuant to agreements for the development of assets on behalf of third parties whereby assets do not create an alternative use for the legal entity (RJ 221 *Construction Contracts*), see section 4.1;
- dividends from capital interests which are accounted for under one of the variants of the equity method;
- insurance contracts, insurance companies;
- changes in the fair value of financial assets and financial liabilities or the disposal of such assets and liabilities (RJ 290 *Financial Instruments*);
- changes in the value of other current assets; and
- natural increases in livestock, agricultural or forestry products, or the extraction of mineral ores.

RJ 270.101a

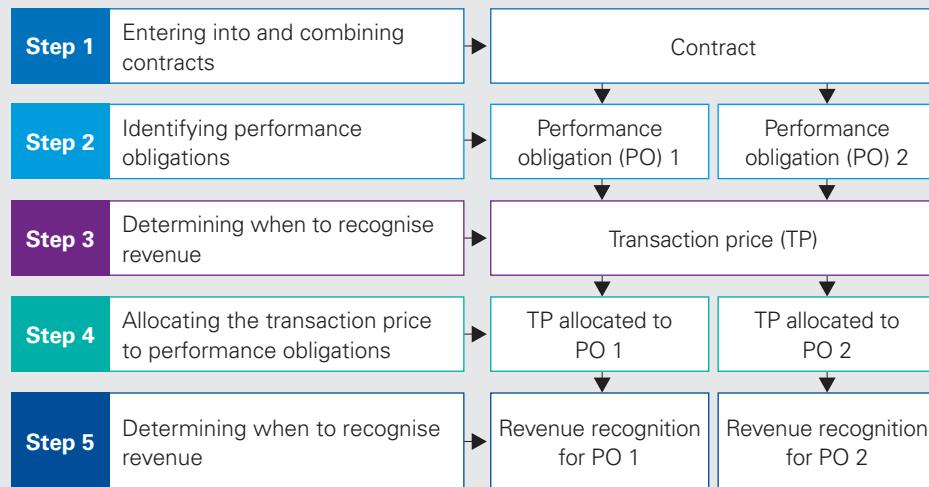
Companies are permitted to apply IFRS 15 as adopted by the European Union for revenue and related costs for sale of goods and the provision of services instead of section 1 of Standard 270, provided there is a full and consistent application of IFRS 15. This also means that IFRS 15 should be applied to revenue and related costs associating to construction contracts instead of Standard 221 *Construction Contracts*.

3.2

The five-step model

Revenue recognition is outlined in this publication using a process-based approach, the five-step model. This approach implicitly underlies Standards 221 and 270, but is not specified as such in the Standards. The following sections elaborate on the five steps of this model.

Sections 3.3 through 3.5 include topics closely related to the five-step model. These include changes in revenue and the processing of sales transactions with buy-back/sell-back agreements.



3.2.1

Entering into and combining contracts

RJ 270.105

A contract between parties results in enforceable rights and obligations to each other. A contract can be either oral or written. Usually, each individual contract serves as the basis for revenue recognition. However, in certain cases a group of contracts must be considered in order to reflect the economic substance of the transaction.

RJ 115.108

For example, a company may have entered into several separate contracts, negotiated as a single total, where individual contracts are closely related in terms of pricing and profit margin, and they are executed simultaneously or in immediate succession.

RJ 190.401

The totality of related transactions shall be taken into account when reflecting the substance of transactions. Related transactions are individual transactions that are jointly required to achieve the intended effect. The term 'related transactions' includes package deals but goes further: transactions may be related if there is a balance between performance and consideration in each individual transaction but two or more transactions are entered into together and with a specific aim.

Package deals are defined as interrelated contracts with one or more third parties as the counterparty in which goods or other rights and/or obligations are acquired and/or disposed of together, possibly with a supplementary cash payment to or from the counterparty. Indicators of package deals may include:

- the transactions were entered into at the same time or immediately follow each other and are complementary to each other;
- the transactions constitute essentially a single transaction that achieves or is intended to jointly achieve a business effect; and
- one or more transactions are not economically significant on their own, but they are significant in context.

If contracts are amended, new or amended enforceable rights and obligations may arise. See section 3.4 for an explanation of amendments to contracts.

3.2.2

Identifying performance obligations

RJ 270.109

The company recognises revenue by individual performance obligation within the contract. Identifying these performance obligations is one of the more complex steps within the five-step model.

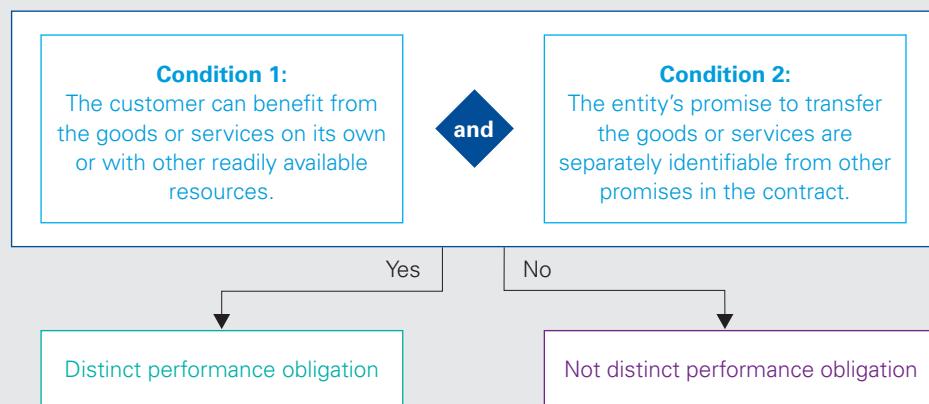
The process of identifying performance obligations requires a company to determine whether or not the promised goods and/or services should be treated as separate performance obligations. This requirement is typically applied to each individual contract.

A performance obligation refers to a promise in a contract to provide:

- a distinct good or service or a combination of goods or services that are collectively distinct from other promises in a contract; or
- a series of distinct goods or services that are substantially the same.

A promised good or service is distinct if the following criteria are met:

- The customer can benefit from the goods or service on its own or together with other readily available resources; and
- the entity's promise to transfer the good or service is separately identifiable from the other promises in the contract.



RJ 270.109

For example, the following indicators show that two or more promises by the company to provide goods or services contained in a contract are not separately identifiable:

- the company provides a significant service of integrating the goods or services with other goods or services promised in the contract into a bundle of goods or services that represent the combined output or outputs for which the customer has contracted. In other words, the company uses the goods or services as inputs to produce or deliver the output or outputs specified by the customer. An example of this is the construction of an office building.
- one or more of the goods or services significantly modifies or customises, or is significantly modified or customised by, one or more of the other goods or services promised in the contract. An example of this is the software installation work to be provided by the company that significantly alters the software to be provided by the company.

- the goods or services are highly interdependent on, or highly interrelated to, other goods or services promised in the contract. An example is the control software that is an integral part of a machine to be supplied by the company. Another example involves the development of a prototype on behalf of a customer. The design and production of the prototype are highly interconnected.

If two or more promises by the company to provide goods or services contained in a contract are not distinct, the promises should be combined into a combination of goods or services that are jointly distinct from other promises in the contract.

RJ 270 Appendix 1

Example 1. Free tablet with a subscription

A publisher provides a new customer with a free tablet if the customer enters into a subscription to obtain a magazine for a period of three years. The contract contains the following two promises to provide a good or service:

- the supply of magazines during the subscription period; and
- the delivery of a tablet at the beginning of the subscription period.

Both the promises to supply magazines for a period of three years and the promise to supply a tablet constitute a separate performance obligation. The reason is that the customer can independently enjoy the benefits of both promises and both promises can be distinguished from each other in the contract.

RJ 270 Appendix 1

Example 2. Software licence with other services

A software developer enters into a contract with a customer in which it is agreed to provide a software licence, perform installation work, provide unspecified software updates, and technical support (online and by on-call) for a period of two years. The software licence, installation work and technical support are also sold separately. The installation work involves customising the screen for each type of user (e.g. marketing, inventory management and information technology). The installation work can also be performed by other companies and does not significantly change the software. It remains functional without the updates and technical support.

In this case, the following four different performance obligations can be distinguished in the contract:

- the sale of the software through the granting of a licence;
- performing installation work;
- providing updates; and
- providing technical support.

The software provided remains functional without the updates and technical support. The customer can use the software and services independently (or jointly with the resources the customer has or can obtain).

Furthermore, the promises to provide the software and the services are distinguishable in the contract. For these reasons, the various promises are separate performance obligations.

RJ 270 Appendix 1

Example 3. Software hosting

A software developer enters into a contract with a customer to provide a software licence for a period of two years. The software developer does this in conjunction with hosting the software application.

The customer cannot use the software for technical reasons without the hosting of this particular software developer. As a result, the provision of the software licence does not constitute a distinguishable performance obligation. The promise to provide the software licence and the hosting of the software application together constitute a single performance obligation.

RJ 270 Appendix 1

Example 4. Software as a Service (SaaS)

A company offers customers Software as a Service (SaaS). The software is offered as an online service. The company enters into a contract to provide SaaS, where there is a monthly payment per user for the use of the software (including the software licence).

The user of the software accesses the applications, via the internet. This can be done independently of location and device.

The hardware needed to use the software is not installed at the customer's premises, but at the company. The company takes care of the management of the purchased applications by the customer. Furthermore, the company is responsible for updating the software, making backups, securing the applications and the data stored in the applications, and installing new versions. The user of the software does not have to purchase the software itself. Only the use of the software is paid for. The company concludes that the promise to provide the software licence and the promise to provide the hosting of the software application together constitute a single performance obligation. The reason for this is that customers cannot use the benefits of both promises independently.

RJ 270 Appendix 1

Example 5. Purchase/Contract agreement

A construction company concludes a sale and purchase agreement for a detached house with a customer. Under this agreement, a plot of land is sold and an order is received to build a detached house. The legal transfer of the land takes place when the deed of transfer is signed. The transfer of the house follows upon completion when the construction of the house is complete. In this case, two commitments can be distinguished

- the delivery of the land; and
- the construction of the house (construction work).

It must be determined whether the agreed construction work is a separate performance obligation from the transfer of the land. To this end, it must be assessed whether:

1. the customer can benefit from the land supplied and the construction work on its own or together with other readily available resources; and
2. the promise to transfer the land is separately identifiable from the promised construction work.

Condition 1 is met because the customer can independently utilise the benefits of the supplied land by, for example, engaging another party to perform construction work. In addition, the customer can also utilise the benefits of the construction work in conjunction with the supplied land.

For the purposes of condition 2, it should be assessed whether:

- the company provides an important service of integration between the two promises;
- the construction work significantly modifies the land supplied; and/or
- the land supplied is highly dependent on, or highly associated with, the construction work.

The situations mentioned above do not apply. The deliverables of the company with respect to the promise to perform construction work are the same regardless of whether the company transfers the land or not. In addition, although there is a functional relationship between the land to be transferred and the construction work to be performed, this does not mean that the company is providing a significant service of integration. The risks that the company takes in transferring the land to the customer are separable from the risks that the company takes in the construction work to be performed.

This example involves two separate performance obligations:

- (1) The transfer of the land; and
- (2) The execution of construction work..

RJ 270.127

Non-refundable fees at the time of the conclusion of the contract

In some contracts, the company charges the customer a non-refundable fee at the time of entering into a contract. Examples include registration fees to join a fitness club, activation or connection fees in telecommunications contracts, and start-up fees in certain service contracts. Although such a non-refundable fee refers to an activity that the company must undertake at or around the inception of a contract to fulfil the contract, that activity does not always directly result in the delivery of a promised good or service to the customer.

In such situations, the non-refundable fee is considered an advance payment for expected future goods or services. The company does not recognise revenue until those expected future goods or services are delivered.

For the purpose of identifying performance obligations, the Standards include specific reporting rules with respect to:

- options for obtaining additional goods and services (section 3.5.4); and
- warranties (section 3.5.5).

Both, if certain conditions are met, can qualify as performance obligations.

3.2.3

Determining the transaction price

RJ 270.106

The company recognises revenue for the amount to which the company expects to be entitled in exchange for transferring promised goods or services. The transaction price may consist of fixed fees, variable fees or a combination thereof.

Amounts collected on behalf of third parties are always excluded from the transaction price (see section 3.3).

Credit risk is not taken into account when determining the transaction price. Any write-downs due to credit risk are recognised as costs in the income statement.

In determining the transaction price, the company considers, among other things, the effects of:

- variable consideration;
- significant financing components;
- non-cash consideration; and
- consideration payable to customers.

Variable consideration

The company should estimate the amount of a variable consideration as part of the transaction price. In doing so, the company should exercise prudence so that there is a small chance that variable payments will subsequently have to be reversed.

Significant financing components

The transaction price should be adjusted for the effects of the time value of money. In doing so, the company may consider the financing component as insignificant under certain conditions.

Transaction price

Non-cash consideration

The company should measure noncash consideration at fair value.

Consideration payable to a customer

The company should deduct payments to customers from the transaction price, unless the payment is for a distinct good or service.

RJ 270.106a

RJ 270.110; 113

RJ 270.115;118; 121

Variable consideration

The transaction price may vary because of discounts, refunds, price concessions, performance bonuses, penalties or similar elements. The transaction price may also vary if the company's entitlement to the consideration depends on whether or not a future event occurs. Such consideration is referred to as variable consideration.

To determine the transaction price, the company estimates the amount of any variable consideration as part of the total transaction price. The company applies prudence in doing so. The purpose of applying prudence is to ensure that only revenue is recognised that have a small chance of having to be reversed later. For situations where the estimation uncertainty is so high that the amount of the total revenue and the result cannot be reliably determined, no revenue can be recognised.

At the end of each reporting period, the company updates the estimated amount of variable consideration.

An important consideration in determining variable consideration is that there is a small chance that the revenue will have to be reversed later. The estimates involved will need to be determined on a contract-by-contract basis.

Possible factors to consider include:

- the amount of consideration is highly susceptible to factors outside the entity's influence;
- the duration of the uncertainty to which the estimation element relates;
- past experiences regarding, for example, return rates for similar products; and
- a large number of possible scenarios and/or a wide range of possible outcomes.

RJ 270 Appendix 1
RJ 270.115a

Example 6. Variable consideration

A consulting firm enters into a contract with a customer to prepare a consulting report recommending energy conservation measures. The consulting firm receives a fixed fee and a variable fee.

The fixed fee of €105 results in a small margin of 5% compared to the budgeted cost of €100.

In addition, a variable fee can be realised. The amount depends on a number of variable performance criteria related to the energy savings to be realised by the customer. The probability that the variable fee will be zero is estimated at 40%. The probability that the variable fee will be €10 is estimated at 30%.

The probability that the variable fee will be €20 is estimated at 30%. Partly as a result of the application of prudence, the consulting firm estimates the variable consideration to be zero. Given the relative size of the fixed fee in relation to the transaction price, the consulting firm concludes that the total revenue of the project (fixed + variable fee) can be reliably determined. This allows the result of this service contract to be reliably determined at contract inception date.

RJ 270.107

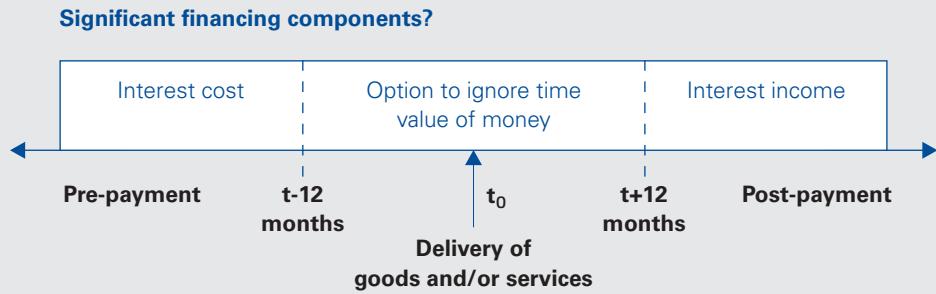
Significant financing components

If a contract contains a significant financing component, the company should adjust the transaction price for the effects of the time value of money. This may occur if, under a contract, the delivery of a promised good or service occurs earlier or later than the payment of compensation.

The interest rate to be used is determined by:

- the generally applicable interest rate for a comparable financing instrument of an issuer with a similar credit rating; or
- an interest rate that, when the transaction price is discounted, works out to the current cash sales price of the goods or services.

In any case, the company may classify the financing component as insignificant if the period between the conclusion of the contract and the time when the promised good or service is provided is no more than one year.

**RJ 270 Appendix 1**

In the case of sales where payment are made in instalments and in combination with a significant financing component, revenue is recognised at the time of the sale based on the selling price of the goods, excluding the interest surcharge. This selling price is the present value of the total fees paid in instalments.

RJ 270.108**Consideration payable to a customer**

The company treats a payment to a customer for goods and services as a reduction of the transaction price and therefore as a reduction of revenue. If the payment to the customer is made in exchange for a distinct good or service, then the fee is not deducted from revenue.

The consideration includes the amounts the company pays or expects to pay to the customer. Consider, for example, a fee provided that requires the customer to place a product sold by the company on a particular shelf in the store.

The consideration to be paid to the customer also includes other elements (e.g. a coupon or a voucher) which can be offset against amounts owed by the customer to the company.

RJ 270.106**Non-cash consideration**

Non-cash consideration is consideration in assets other than cash. Inventories and property, plant and equipment can be considered as consideration. The company measures non-cash consideration at fair value.

3.2.4**RJ 270.109c**

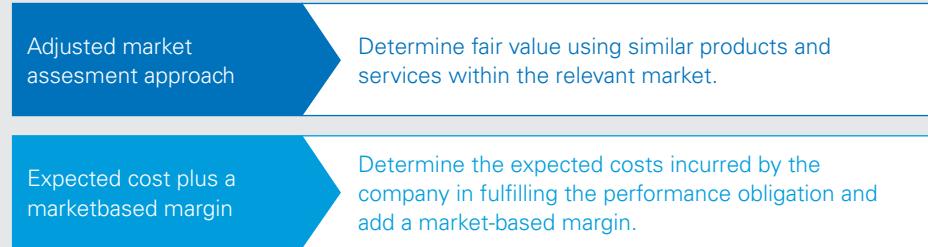
If there are multiple performance obligations in a contract, the total transaction price is allocated to the performance obligations in proportion to the value of those performance obligations. The company may base this allocation on the standalone selling price per performance obligation.

The standalone selling price is the price the company would charge if the goods or services were sold separately.

The best method for determining the standalone selling price is to use recent transactions for the same goods and services with similar customers.

Alternatively, the company can use fair value instead of the standalone selling price. This means that the company must make an estimate if a standalone selling price is not available.

In practice, the expected cost plus a market-based margin will usually be used for this. Another conceivable method could be the '*adjusted market assessment approach*'.



Example 7. Allocating the transaction price

A company and a customer agree on an annual contract whereby the customer receives a free tablet if the customer subscribes to a subscription platform that gives access to all quality newspapers (€420 per year). Based on historical data, the company concludes that the subscription without the tablet would be sold at a value of €300. For the tablet, the company conducted a market research and concludes that the fair value of similar tablets is €200.

The company identified the following performance obligations in the contract with the following independent sales prices:

- tablet voor € 200; and
- subscription for € 300.

Performance obligation	Stand-alone selling price	Ratio	Price allocation
Tablet	200	40%	*168
Subscription	300	60%	**252
Total	500	100%	420

* $420 \times 40\% = 168$

** $420 \times 60\% = 252$

Based on the above, the company recognises revenue of €168 upon delivery of the tablet (see section 3.2.5.1). The revenue allocated to the subscription of €252 is accounted for during the year in proportion to the services provided (see section 3.2.5.2).

In this example, the time value of money is not considered because the contract term of the subscription is just one year. Thus, the company may classify the financing component as insignificant.

3.2.5

Revenue recognition

3.2.5.1

Sale of goods

RJ 270.110

Revenue arising from performance obligations in respect of the delivery of self-produced goods or goods obtained from third parties is recognised as such if all of the following conditions have been satisfied:

- a) the company has transferred to the customer all significant rights to economic benefits as well as all significant risks related to the goods;
- b) the company does not retain a significant level of continued ownership or involvement over the property sold, such that the company could continue to have actual possession of that property and thereby decide on the use of that property;
- c) the amount of revenue can be reliably determined;
- d) it is likely that the economic benefits related to the transaction will flow to the company; and
- e) the costs already incurred and the costs (potentially) yet to be incurred in relation to the transaction can be reliably determined.

RJ 270.111

If all significant rights to economic benefits and all significant risks are not transferred to the customer, there is no sale (yet), and no revenue can be recognised in connection with this performance obligation. This may be the case in the following examples:

- the company retains an obligation in the event that performance is not satisfactory, which is not covered by the normal warranty provisions;
- the receipt of the proceeds from the sale of goods is conditional and depends on the proceeds that the customer himself can generate from the sale of those goods;
- the customer has the right to return the goods under circumstances described in the sales contract and the company cannot reliably estimate the volume of returns.

RJ 270.112

If only an insignificant part of the rights to economic benefits and risks remain with the company, there is deemed to be a sale and revenue is recognised (if the other conditions are also met). For example, the company may retain legal ownership solely to reduce the risk of uncollectability of the receivable. There may also be a sale in which the customer receives their money back if they are dissatisfied with the delivered goods. In that case, revenue is recognised in relation to this transaction if the company can reliably estimate the amount of the returns.

RJ 270.112

For all amounts received (or to be received) to which the company does not expect to be entitled, the company does not recognise revenue at the time the goods are delivered. The company accounts for these amounts received (or receivable) as a reimbursement liability.

RJ 270.112

The company determines the compensation to which it expects to be entitled using the provisions for variable consideration. An asset recognised for the company's right to recover goods from the customer in settlement of a repayment obligation is initially measured based on the last-used carrying amount of the good (e.g. inventory value) decreased by the expected costs to recover those goods including possible decreases in value for the company of the returned goods. The repayment obligation is the company's best estimate of its obligation to refund the purchase price. At the end of each reporting period, the company updates the valuation of the asset and of the repayment obligation as a result of any changes in expectations about goods to be returned.

RJ 270 Appendix 1**Example 8. Returns**

A company sells 1,000 products to various customers in a month for €100 each. The total consideration is therefore €100,000. Customers must transfer the amount in advance, but do have the right to return

unused goods within 30 days of receipt. In that case, customers will receive a full refund of the purchase price.

The cost of the product for the company is €60. Using the expected value method, the company expects 5% of the deliveries to be legitimately returned (50 products).

In addition, the company expects that the repair costs of the returns will be negligible and that the returned products can be (re)sold with a positive margin. The collection of the goods is not expected to incur material costs.

In this case, at the time of delivery of 1,000 products, the company will have realised €95,000 in revenue. After all, it is expected that 5% will be returned, which means that for these goods, all important rights to economic benefits as well as all important risks have not yet been transferred to the customer. The best estimate of the return obligation (€5,000) is deducted from the consideration (and revenue).

The journal entry states:

Bank	100,000	
A Revenue		95,000
A Return obligation		5,000

The return obligation represents the company's best estimate of its obligation to refund the purchase price if the right of return is exercised by the customer. This return obligation can be presented as an accrued liability, part of current liabilities (RJ 258 *Accruals*).

The cost accounting is as follows:

Cost of sales *	57,000	
Right to receive returns **	3,000	
A Inventories		60,000

* 950 products x 60

** 50 products x 60

If the return of goods is expected to incur material costs, these expected costs are deducted from the processed right to receive returns. This is because the goods to be returned have a lower value for the company. If the expected cost of return is €500, the cost accounting is as follows:

Cost of sales	57,500	
Right to receive returns	2,500	
A Inventories		60,000

In the end, 4% (40 products) instead of 5% (50 products) are returned. The cost of collection is €500 as expected. This results in an adjustment of the processed revenue of €1,000 (= 10 products x €100). The processing of the returns is as follows:

Return obligation	5,000	
A Bank		4,000
A Revenue		1,000

Inventories *	1,900	
Cost of sales **	600	
A Right to receive returns ***		2,500

* 40 products x 60 – 500

** 10 products x 60

*** 50 products x 60 - 500

RJ 270.113

Revenue from sales is recognised only when it is probable that the economic benefits associated with the transaction will flow to the company. Sometimes this is not probable until the compensation from the sale has been received or until some uncertainty has been removed. For example, it may be uncertain whether a foreign governmental authority will authorise the payment of the consideration. At the time the permission is granted, the uncertainty is removed and the revenue from the sale can be recognised.

RJ 270.114

Revenues and expenses that relate to the same transaction or event are recognised simultaneously in the income statement. This treatment is commonly referred to as the allocation of costs to revenues (matching). In the situation where the recognition criteria for revenue from the sale of goods are met, the costs, including those incurred after the delivery of the goods as well as warranty costs, can usually be determined with sufficient reliability. If this is not the case, the revenue from the sale cannot be recognised and is included in accruals and deferred income.

3.2.5.2

Rendering of services

RJ 270.115

If the outcome of an obligation to perform a service can be estimated reliably, the revenue relating to the service is recognised in proportion to the services provided. The following conditions must be met in order to determine that the result of a service can be estimated reliably:

- a) the amount of revenue can be reliably determined;
- b) it is likely that the economic benefits related to the performance obligation will flow to the company;
- c) the extent to which the service has been performed at the balance sheet date can be reliably determined; and
- d) the costs already incurred and the costs (potentially) still to be incurred to complete the service can be reliably determined.

In the case of revenue recognition on a pro rata basis, revenue is recognised in the period in which the service is rendered.

This method of accounting provides insight into the activity level of the service and the performance level of the company. RJ 221 *Construction Contracts* also requires the recognition of revenue on this basis.

The provisions of section 4.5 usually also apply to the acquisition of revenues and expenses related to the provision of services.

RJ 270.116**Example 9a. Revenue from services**

A law firm enters into a contract with a customer to prepare a consulting report on a fixed fee basis. The law firm concludes that:

- the revenue can be reliably determined;
- it is likely that the economic benefits will flow to the law firm; and
- by means of time registration, the degree of progress as well as the expected hours can be reliably determined.

At year-end, the law firm determines the hours incurred and recognises revenue, including margin in proportion to the hours incurred versus the hours expected.

RJ 270.117

Revenue is recognised only when it is probable that the economic benefits associated with the performance obligation will flow to the company. However, if uncertainty arises about the collectability of an amount previously recognised as revenue, the amount over which uncertainty has arisen is recognised as an expense in the income statement and not as a reduction of the previously recognised revenue.

RJ 270.118

A company is usually able to make reliable estimates if contract has been reached with the counterparty on the following matters:

- the rights and obligations of both parties with respect to the provision of the service;
- the compensation for the service; and
- the manner in which compensation will be made and the terms of payment.

RJ 270.119

The degree of completion of a service contract can be determined in various ways. The company applies the method based on which the degree of completion can be reliably determined. Depending on the nature of the service, this is done on the basis of:

- assessment of the work performed;
- the service provided up to that point as a percentage of the total service to be provided; or
- the costs incurred up to that time in connection with the provision of service in relation to the estimated costs of the total service to be provided.

Instalment payments and prepayments tend to be unrepresentative of the extent to which the service has been provided.

RJ 270.120

If the service consists of a non-predetermined number of acts over a defined period of time, revenue is recognised on a straight-line basis over this period, unless another method of allocation is more representative of the extent to which the service is performed under the specific circumstances. If a specific act is much more important than all other acts, the recognition of revenue is deferred until that important act is performed.

RJ 270.121

If the outcome of a particular service contract cannot be reliably determined, revenue should be recognised only up to the amount of costs incurred that are likely to be recovered.

RJ 270.122 In the early stages of a contract, it is frequent that the outcome of the contract cannot be reliably determined. Nevertheless, it may be probable that the company will be able to recover the costs incurred up to that point. Therefore, revenue is then recognised only up to the amount of the costs of the service performed that are likely to be covered by the revenue from the contract. If the result of the contract cannot be reliably determined, no profit is recognised.

RJ 270 Appendix 1

Example 9b. Revenues from services (no cure no pay)

A law firm enters into a mediation contract in which it is agreed that a client will owe a consideration that depends on the personal injury compensation awarded to the client ('no cure no pay'). As a result, the entire consideration is variable.

The law firm considers the estimation uncertainty to be so high that the amount of total revenue cannot be reliably determined. Therefore, the result of this engagement for services cannot be reliably determined. The law firm only recognises revenue up to the amount of the costs of service incurred that is likely to be recoverable.

3.2.5.3

Revenues from licences

RJ 270.123

A licence establishes a customer's rights to the company's intellectual property. Licences may include::

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

RJ 270.124

If the promise to grant a licence is not distinct from other promised goods or services in a contract, the promise to grant a licence and those other promised goods or services are accounted for together as a single performance obligation.

RJ 270.125

If the promise to grant a licence is distinct from other promised goods or services in a contract and therefore constitutes a separate performance obligation, the company determines whether the licence involves the sale of a good or the provision of a service. In doing so, the company considers whether the nature of the promise is:

- a) granting a right to use the company's intellectual property as it exists at the time the licence is granted. This means that the company does not have to incur any costs to maintain or improve the intellectual property. The revenue from the licence is then processed as the sale of a good; or
- b) granting a right to access the company's intellectual property as it exists throughout the term of the licence. This means that the company has a significant obligation to maintain or improve the intellectual property. The revenue from the licence is then accounted for in the same way as when providing a service.

RJ 270.126

Revenue from licences is recognised on a realised sales or use basis as the sale is made by the customer or as the use is made by the customer, taking into account the extent to which the performance obligation has been satisfied.

Revenue from licences:	
Sale of an asset	Sale of a service
Right to use the intellectual property of the company as it exists at the time the licence is granted.	Right to access the company's intellectual property as it exists throughout the term of the licence.

RJ 270 Example 1**Example 10. Revenues from licences**

A company grants a licence to a customer whereby the customer receives the right to use software developed by the company for three years. The company develops the software on an ongoing basis because the software is used in an environment where technology plays an important role. During the term of the contract, the customer receives periodic updates of the software so that the customer always has the most recent version of the software. The company treats this licence as the provision of a service. In fact, the licence concerns the granting of the right to access the company's intellectual property as it exists throughout the term of the licence.

3.3**Determining whether amounts received are part of revenue (agent-principal)****RJ 270.105a**

Amounts received by the company for its own account (as principal) are recognised as revenue. Amounts received by the company on behalf of third parties (as an agent) are not recognised as revenue. Revenue includes only the gross increases in economic potential received or receivable by the company for its own account.

RJ 270.105b

A company receives amounts for its own account if the company has significant rights to economic benefits and significant risks related to the goods or services provided. Indicators for this may be:

- the company is primarily responsible for the delivery or performance, for example, because the company is responsible to the customer for the goods or services delivered;
- the company has control over the goods and services to be supplied immediately prior to the supply of goods and services to the customer. However, legal ownership by the company immediately prior to delivery does not necessarily mean that the company has (had) control over the goods and services in question;
- the company has inventory risk;
- the company has freedom of action in setting the price, even if it is indirect by, for example, providing additional goods and services; and
- the company has significant credit risk on the amount owed by the customer.

No individual characteristic is decisive in itself.

RJ 270.105c

Amounts received by the company for third parties are not increases of economic potential and do not increase equity. Therefore, such amounts are not recognised as revenue.

A company receives amounts for third parties if the company does not have significant rights to economic benefits and significant risks with respect to the goods or services supplied. An indication that the company receives amounts for third parties is that the amount due to the company is predetermined, either as a fixed amount per transaction or as a percentage of the amount charged to the customer.

For example, when these indicators are applied to intermediaries who conclude transactions on behalf of third parties, only commission receipts are recognised as revenue. Amounts that the intermediary receives on behalf of those third parties and has to pass on do not increase the equity of the intermediary and therefore do not constitute revenue.

RJ 270.105d

For taxes other than taxes on profits, it must also be determined whether or not they are part of the income. The company will have to determine whether the taxes received are for its own account, using the same indicators as mentioned above. For example, amounts received by the company in respect of sales tax charged to customers are not treated as revenue.

For the processing of the tax on passenger cars and motorcycles (in Dutch: 'belasting van personenauto's en motorrijwielen' (BPMI)), see section 3.6.

RJ 270 Appendix 1

Example 11. Commissions to agents

Commissions received or receivable by agents, for which the agent does not need to perform any further services, are recognised as revenue by the agent at the time the contract is entered into or renewed. However, if it is probable that the agent will still have to perform certain work during the term of the contract, all or part of the commission will not yet be recognised as revenue but will be allocated to the period corresponding to the term of the contract. This will also depend on the distinct performance obligations in the contract.

3.4

Contract modifications

RJ 270.129

A contract modification may create new enforceable rights and obligations of the parties to a contract or modify existing rights and obligations. This can be done in writing or orally. Also, a change may be implied from customary business practices.

RJ 270.130

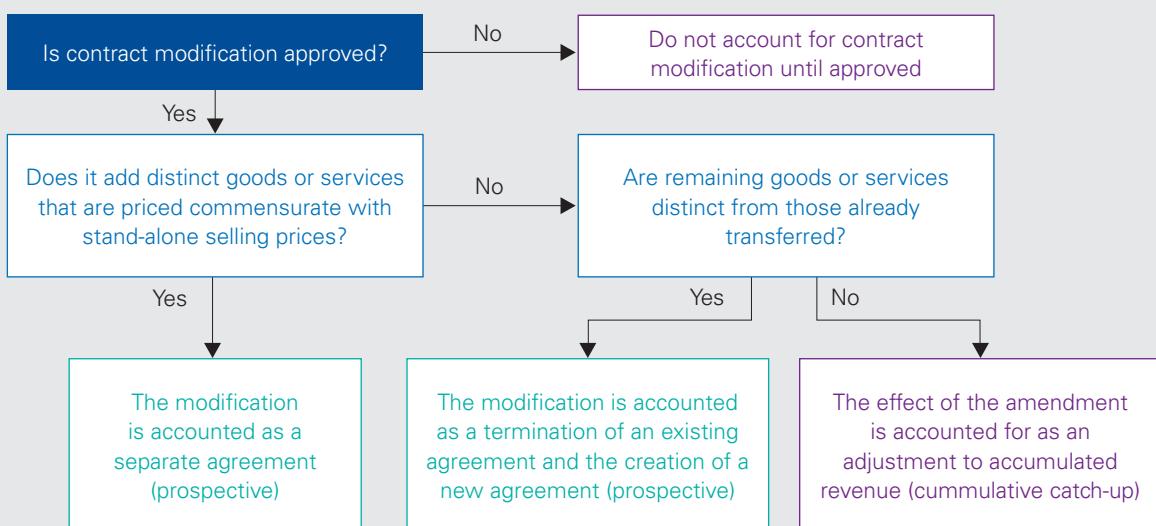
A contract modification is accounted for as a separate contract in the event of:

- a promise to deliver additional goods or services that are distinct (see section 3.2.2); and
- an increase in the originally agreed consideration by an amount that reflects the value of the additional goods or services promised, taking into account appropriate adjustments to that consideration in line with the circumstances of the specific contract. For example, the company may adjust the consideration for an additional good or service by a discount because the company does not have to incur the selling costs that the company would normally incur in selling a similar good or service to another customer.

If a contract modification is not accounted for as a separate contract, it is accounted for as follows:

- if the remaining goods and services are distinct from the goods or services transferred on or before the date of the contract modification, it is accounted for as a termination of the existing contract and the creation of a new contract. The consideration allocated to the remaining performance obligation consists of the consideration not previously recognised as revenue from the original contract and the consideration promised as part of the contract modification;
- if the remaining goods and services are not distinct from the goods or services transferred on or before the date of the contract modification, the modification shall be accounted for as if it was part of the existing contract. The effect of the contract modification on the transaction price and on the measurement of progress toward full performance obligation is accounted for as an adjustment to accumulated revenue (increase or decrease) at the time of the contract modification.

There may also be a combination of the aforementioned processing methods.



Example 12. Coffee machines

The company agreed with a customer to deliver two coffee machines. Even before the company has delivered the coffee machines, the contract is amended. Through this amendment, the parties agree to deliver an additional coffee machine on the same terms, only the product is delivered at a later date.

At step 1, the company concludes that there is a distinct product at the same price. As a result, the company accounts for the amendment as a separate contract, with revenue from the third coffee machine recognised (prospectively) when it is delivered.

Section 4.3 specifically addresses contract revenues from construction contracts including the treatment of the effect of additional work on cumulative revenues.

3.5 Practical issues and examples

3.5.1 Customers' unexercised rights

RJ 270.128 A non-refundable fee received from customers provides customers the right to receive goods or services in the future. Examples include gift cards, loyalty cards and non-refundable tickets. However, customers do not always exercise the rights granted to them.

RJ 270.128 Rights not exercised by customers do not result in a financial liability to which RJ 290 *Financial Instruments* applies. They represent an obligation of the company towards the customers to supply goods and/or services. Those granted rights shall be distinguished from options of customers for additional goods or services (see section 3.5.4).

RJ 270.128 If the company expects that customers will not exercise all of the rights granted, the amount related to those rights is recognised as revenue in accordance with the pattern of rights expected to be exercised by customers.

RJ 270 Appendix 1

Example 13. Value cards

A gym issues value cards to customers. This card costs €70 and can be used to exercise ten times. This card remains valid until ten credits have been used. The gym sells 100 cards at the beginning of the year. Based on experience, the gym can reliably estimate that customers use an average of 80% of these value cards spread over the first six months.

The remaining 20% is not expected to be utilised by customers. Based on this information, the gym recognises 20% of the advance payment received (€1,400) as revenue during the first six months (in line with the recognition of revenue from used value cards over the first six months amounting to €5,600). The recognition of the revenue of unused value of credits is thus in line with the pattern of the rights that are expected to be exercised by customers.

RJ 270 Appendix 1

Example 14. Tickets

A theatre sells 190 tickets for a performance at a price of €50 per ticket. The tickets can no longer be refunded. Customers must pay for their tickets in advance. Based on historical data, the theatre expects that only 180 customers will actually attend the performance. The theatre recognises the prepaid amounts of all customers (including customers who are not expected to attend) as an accrual (deferred revenue) until the time the performance actually occurs and the services are rendered. Despite the fact that the theatre expects 10 customers not to attend the performance, the theatre does not recognise the related income until the performance is completed. After all, it is only at that point that the service is rendered. The recognition of the revenue from unused tickets thus conforms to the pattern of the rights that were exercised by customers.

3.5.2

Processing of sales transactions with buy-back/sell-back agreements

RJ 270 provides, in Appendix 2, a more detailed explanation of the accounting for sales transactions with buy-back/sell-back agreements, paying attention to both the seller's and the buyer's perspective. The core issue is whether revenue can be recognised for such transactions and, if not, how to account for these transactions.

RJ 270 Appendix 2

For sales transactions with buy-back/sell-back agreements, it is particularly important whether the processing criterion is met that all significant rights to economic benefits and all significant risks relating to the items have been transferred to the buyer. This is assessed again for each transaction on the basis of the economic reality of the transaction, taking into account, among other things, the interpretation of the repurchase price (fixed and/or variable) and the nature of the repurchase right or obligation.

Repurchase options and obligations only play a role in revenue recognition where there is a significant residual value. In the case of an insignificant residual value, a repurchase agreement will not have a significant impact on the accounting for the sales transaction. The significance of the residual value must be tested against the quantitative indicators that also apply to the classification of lease agreements (RJ 292 *Leasing*).

A residual value is normally insignificant if at least one of the following conditions is met:

- the repurchase takes place after more than 75% of the economic life of the asset has expired; and/or
- the present value of the repurchase option is less than 10% of the fair value of the asset at the time of sale.

RJ 270 Appendix 2

From the seller's point of view, the transaction should take place as follows:

Determining buy-back price	Variable price: market price at buy-back date	Fixed price: expected market price at buy-back date	Fixed price: significantly lower than the expected market price at buy-back date	Fixed price: significantly higher than the expected market price at buy-back date
Nature of right or obligation to buy-back				
Right of buy-back (seller)	Sale	Sale	No sale	Sale
Right of sell-back (buyer)	Sale	No sale	Sale, with buy-back very unlikely or buy-back amount insignificant	No sale
Buy-back/ sell-back obligation	Depending on facts and circumstances	No sale		

A fixed price means that the price is already fixed at the initial sales transaction.

RJ 270 Appendix 2

From the buyer's point of view, processing should take place as follows:

Determining buy-back price	Variable price: market price at buy-back date	Fixed price: expected market price at buy-back date	Fixed price: significantly lower than the expected market price at buy-back date	Fixed price: significantly higher than the expected market price at buy-back date
Nature of right or obligation to buy-back				
Right of buy-back (seller)	Buy	Buy	No buy	Buy
Right of sell-back (buyer)	Buy	No buy	Buy	No buy
Buy-back/ sell-back obligation	Depending on facts and circumstances	No buy		

A fixed price means that the price is already fixed at the initial sales transaction.

RJ 270 Appendix 2

In situations where a transaction with a buy-back/sell-back agreement may not be accounted for as a sale/purchase, the transaction is generally accounted for as a combination of an operating lease (seller = lessor) and a financing transaction (seller = financed).

3.5.3**Consideration for financial services****RJ 270 Appendix 1**

The recognition of revenue in the context of financial services depends on what the consideration is obtained for as well as the accounting method of each financial instrument related to the service. The designation of such consideration need not necessarily be indicative of the nature and economic significance of the service being provided. Therefore, a distinction is made between:

- consideration that is directly related to the effective yield of a financial instrument. The consideration is accounted for as an adjustment to the effective yield unless the financial instrument is measured at fair value; in this case, the consideration is recognised as revenue at the time of initial measurement;
- consideration for the service that takes place. The consideration is recognised at the time of service delivery;
- consideration paid for performing a particular important act that is more important than all other acts (e.g. placement fees for placing a loan with a lender): the consideration is recognised at the time the relevant important act is performed (in the example: when the placement is realised).

3.5.4**Customer's options for additional goods or services****RJ 270.109a**

Customer's options to obtain additional goods or services for free or at a discount

can take many forms. Examples include loyalty programmes, sales incentives, renewal options or other discounts on future goods or services. In effect, in these cases, the customer pays in advance for future goods or services to be provided. If the company grants an option to obtain additional goods or services, that option gives rise to the identification of a separate performance obligation only if the value of the option is 'not insignificant' relative to the value of the sale in which that option was granted.

If these conditions are met, the revenue attributable to the option granted is recognised in the period in which the option is exercised.

If no separate performance obligation is identified when the option is issued, the revenue of the entire transaction is recognised at the time of the sale at which the option is granted. In this case, the costs of the options granted are recognised at the same time or in the same period.

The RJ has clarified the term 'not insignificant' by means of an example (see example 15). Central to determining whether there is a separate performance obligation are the following two questions:

1. Can the customer obtain the additional goods or services without entering into this specific contract?
2. Does the option give the right to obtain the additional goods or services at the standalone sales price (see section 3.2.4)?

If at least one of the questions is answered with yes, then there is a strong indication that the revenue of the entire transaction will be recognised at the time of the sale where the option is granted.

If both questions are answered with no, this is a strong indication that the option is a separate performance obligation.

RJ 270 Appendix 1

Example 15. Options for customers to obtain additional goods or services free of charge or at a discount

A machine manufacturer enters into a contract with a new customer for the sale of a machine. The transaction price of the contract is €100,000. As part of the contract, the manufacturer also grants the customer the right to buy a similar machine once in the future at a 30% discount. This right only relates to one machine. Other customers can negotiate such discount rates only when purchasing multiple machines. As a result, the machine manufacturer argues that the value of the option granted is 'not insignificant' relative to the value of the machine sold.

The machine manufacturer accounts for this option as a separate performance obligation.

The machine manufacturer expects that the probability of the option being exercised by the customer is 50%. The machine manufacturer estimates the value of this option at €15,000 ($= 30\% \times €100,000 \times 50\%$). The total transaction price (€100,000) is allocated to the machine and to the granted option in proportion to the value of both performance obligations:

- delivery of machine €87,000 ($= 100/115 \times €100,000$); and

- entitlement to a one-time discount for new machine €13,000
(= 15/115 x €100,000).

The revenue attributable to the option granted (€13,000) is recognised in the income statement as part of the revenue of an additional machine sold under the option granted. Until that time, this part of the transaction price is accounted for as accrued income (deferred income).

If no additional machine is sold under the option, the deferred revenue is recognised as revenue when the right under the option has expired, or earlier if it is highly unlikely that the right under the option will be exercised.

3.5.5 Warranties

RJ 270.109b

If a customer has the option to buy a warranty (guarantee) separately, the warranty is a distinct service. This is because the company promises to provide the service to the customer in addition to the delivered good. In that case, the company processes the promised warranty as a separate performance obligation.

If the customer does not have the option to purchase a warranty separately, the warranty will only be processed as a separate performance obligation if the warranty provides a service in addition to the assurance that the delivered good meets the agreed specifications. In assessing whether this is the case, the following factors, among others, may be considered:

- a) whether the warranty is required by law and is only a protection against the risk of buying faulty goods;
- b) the length of the warranty period; and
- c) the nature of the tasks that the company promises to perform.

If the warranty does not involve a distinct service, the company accounts for the expected warranty costs as a provision in accordance with RJ 252 *Provisions, Contingent Liabilities and Contingent Assets*.

Example 16a. Warranties (no separate performance obligation)

A manufacturer of dishwashers provides a two-year manufacturer's warranty when selling a new dishwasher. This warranty is intended to provide assurance to the customer that the dishwasher will meet the agreed specifications. Therefore, there is no warranty that is accounted for as a separate performance obligation. The company accounts for the expected warranty costs in accordance with RJ 252 *Provisions, Contingent Liabilities and Contingent Assets*.

Example 16b. Warranties (separate performance obligation)

The manufacturer of dishwashers also offers the possibility of extending the manufacturer's warranty. In this case, a warranty is provided up to five years after the delivery of the dishwasher. This additional three-year warranty constitutes a separate performance obligation. The manufacturer allocates the transaction price to this performance obligation in proportion to the value of that additional warranty. The portion of the transaction price allocated to this performance obligation is not yet recognised when the dishwasher is delivered. That part of the transaction price is recognised separately as revenue in the years in which the performance is achieved (years three, four and five).

3.6**Presentation of net revenue and exceptional items****RJ 270.201**

Revenue is income that arises from the performance of the normal activities of a company. They are referred to by a variety of names, such as (net) turnover, fees, interest, dividends, royalties, and rent.

The term net sales is interpreted to relate to the normal, non-incidental business activities.

The interpretation of the term net sales depends on the nature of the business. Systematically recurring sales of property, plant and equipment may also be included in net sales as part of normal business operations.

Dividend income is a component of net sales if it is part of investment income, and investments are characteristic of the company's activities. Examples of such companies are pension funds, insurance companies and investment entities. Furthermore, dividend income may be included in turnover in the case of private equity firms.

If interest income results from activities that are characteristic of a company's business, it constitutes a component of net sales.

For (intermediate) holding companies, dividend income and interest income on receivables that are actually an extension of the (intermediate) holding company's net investment in its participations are not treated as net revenue.

RJ 270.202

Discounts and similar, and taxes levied on sales, must be deducted from net sales. These 'discounts and similar' include:

- rebates, turnover bonuses and similar;
- payment discounts if they are used as a rule by the customers (in the case of occasional use, accounting these as interest expenses is more appropriate).

Not eligible for deduction are commissions to representatives employed by the company, costs of outgoing freight on free delivery and other direct and indirect selling expenses.

RJ 270.201a

For dealers and other car companies, it is recommended that the tax on passenger cars and motorcycles (BPM) be included in net sales. This recommendation is intended to promote mutual comparability.

If the recommendation is not followed, the financial statements must disclose that a different net turnover concept has been used as well as the content of the concept used.

There is no preference for importers of cars and motorcycles. However, their financial statements must show whether the presented net turnover includes or excludes BPM. The financial statements of both dealers and other car companies and importers must show the amount of BPM.

RJ 270.401

Exceptional items are income and expenses resulting from events or transactions that are part of the ordinary course of business but which, on account of their nature, size or incidental character, are explained separately, in order to give a proper insight into the result on ordinary activities of the company and in particular the development thereof.

RJ 270.404	Pursuant to Article 2:377(8) of the Dutch Civil Code, the company must state the amount and nature of the items of income and expenses that are of exceptional size or occur to an exceptional extent. Special items are disclosed separately and on an unweighted basis in the notes for the purpose of analysis and comparability of results.
RJ 270.405	Circumstances that may warrant listing as an exceptional item include: <ul style="list-style-type: none"> — the recognition of an impairment loss on inventories, or on certain intangible or tangible assets, as well as the reversal of such impairments; — charges resulting from reorganisations or associated with discontinuities, as well as the reversal of such charges; — gain or loss on disposal of property, plant and equipment or long-term investments; — results related to termination of business activities; — the financial consequence of a settlement in the context of legal proceedings; — the financial effect of a reversal of a provision that has not been used; — income and expenses to be allocated to another financial year; — disadvantages resulting from nationalisations or expropriations; and — disadvantages due to capital destruction caused by natural disasters, such as earthquakes and floods.

3.7 Disclosure

RJ 270.601	The company should include the following disclosures: <ul style="list-style-type: none"> — the nature of significant performance obligations; — by key performance obligation type, the method of allocating revenue to reporting periods, including how to determine the degree of completion of service orders; — the amount of each major revenue category recognised in the income statement in the period, including: <ul style="list-style-type: none"> - revenue from the sale of goods; - revenue from the provision of services; - revenue from licences; — the amount included in major categories of revenue that relates to the exchange of goods or services; and — the total capitalised cost of obtaining a contract.
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RJ 270.602	The company explains each contingent income and expense in accordance with RJ 252 <i>Provisions, Contingent Liabilities and Contingent Assets</i> . Contingent income also includes consideration not yet recognised as revenue as a result of not being able to reliably determine the amount of revenue.
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3.8 Transitional provisions

RJ 270.701	The principles that the company must apply on the basis of the new Standard 270 <i>The Income Statement</i> will apply to reporting years beginning on or after 1 January 2022. It is permitted to apply the new Standard earlier.
RJ 270.702	For the transition to the new RJ 270 provisions, the new Standard provides two options:

- A change in accounting policy in accordance with Standard 140 *Changes in Accounting Policies*, whereby the new RJ 270 is accounted for retrospectively (including comparative figures).
- Alternatively, it is permissible to apply the new RJ 270, except for the changes regarding presentation and disclosure, only to contracts entered into or amended on or after 1 January 2022 (or the relevant effective date if applied earlier). The comparative figures will then not be restated.

RJ 270.702

The alternative is a transitional method in which the changes as a result of RJ 270 are processed prospectively. The DASB intends this method to limit implementation costs, with the disadvantage that comparability between reporting years may be impaired.

Under the alternative method, companies may apply RJ 270 effectively from 1 January 2022, or from an earlier date chosen by the company. The transition date can therefore also be during the year.

RJ 270.702

If the accounting policies that the company applies change as a result of the new RJ 270 effective from 1 January 2022 (or the relevant effective date if earlier), the company explains in the notes how the transition has been accounted for.

Furthermore, in the case of retrospective accounting, the disclosure requirements of Standard 140 *Changes in Accounting Policies* apply.





4

RJ 221 Construction Contracts

This chapter relates to construction contracts and property development agreed upon with one (or more) third party (parties). The five-step model (section 3.2) also applies to construction contracts.

RJ 221 *Construction Contracts* essentially complements the five-step model with specific definitions and reporting rules that are characteristic of project organisations, such as contract changes and claims.

Contract revenue and costs of construction contracts are recognised as revenue and costs in the income statement in proportion to the progress of the project at the balance sheet date, where the outcome can be estimated reliably. This method is also referred to as the 'percentage of completion' method.

This method first requires further explanation regarding the definitions of construction contracts and property development (section 4.2), contract revenues (section 4.3) and contract costs (section 4.4).

The recognition of contract revenues and costs as well as the valuation of construction contracts are detailed in section 4.5. The reporting rules for determining project progress are elaborated in section 4.6. The presentation and disclosure requirements are included in section 4.7.

The treatment of public-private concession contracts in the financial statements of the concessionaire (the company) is discussed in section 4.8. Finally, the transitional provisions are included in section 4.9.

4.1

Scope of RJ 221 *Construction Contracts*

RJ 221.101

Standard 221 describes the recognition and measurement, presentation and explanation of revenue and expenses arising from construction contracts on behalf of third parties (hereafter referred to as construction contracts).

RJ 221.102

The accounting policies applied to construction contracts usually also apply to the recognition of revenues and expenses related to the provision of services.

Property development is defined as the development and construction of assets usually extending over more than one reporting period. If and to the extent that the resulting assets are subject to an unconditional sale contract prior to or during the development or construction, the income and expenses relating to these assets are accounted for as construction contracts (see also section 4.5.4).

In the new Standards, no changes have been made with respect to the scope of RJ 221. This means that most companies that previously applied this Standard will continue to do so under the new Standard.

A distinction should be made between performance obligations that fall within the scope of RJ 221 *Construction Contracts* and those that fall within the scope of RJ 270 *The Income Statement*. A performance obligation cannot fall within the scope of both Standards, but contracts can contain multiple performance obligations.

All performance obligations that are similar in nature to construction contracts are dealt with here. Any loss provision is formed for losses at the contract level and not for the individual performance obligations (see section 4.5.5).

4.2 Definitions

RJ 221.0

Construction contracts

A contract is an agreement whereby the execution of a project in progress is carried out at a fixed price, sometimes with price clauses. The fixed price applies to the entire project or to units performed within the entire project.

RJ 221.106

Construction contracts

A construction contract is a contract agreed with a third party to construct an asset or a combination of assets for which the performance normally extends over more than one accounting period. Due to the nature of construction contract activities, the date a project is started and the date it is completed usually fall into different accounting periods. Examples of construction contracts are the construction of a single asset such as a bridge, building, dam, pipeline, road, ship, tunnel, or custom software. Construction contracts may also involve the construction of assets that are closely related or interdependent in design, technology and function, or their ultimate purpose or use.

Examples of such projects include the construction of complex facilities (such as refineries), equipment and systems. Construction contracts also include agreements:

- for the provision of services directly related to the construction of the asset, for example, contracts for the services of project managers or architects;
- for the demolition and reconstruction of assets, or for restoration of the original environment after the demolition of assets; and
- for developing assets on behalf of third parties where the assets do not create an alternative use for the company.

Construction contracts can be agreed in various ways. According to the nature of the agreements, construction contracts can be distinguished into two contract types, namely building contracts and cost-plus contracts.

RJ 221.107

Construction contracts may have characteristics of both contract types, for example in the case of a directional contract with an agreed maximum price. All contractual terms and conditions are considered for the recognition of contract revenues and contract costs.

RJ 221.108

Property development

Property development refers to activities concerning long-term projects, for example, the construction of homes, offices, and shopping centres. Residential construction usually involves building plans, initiated and to be developed by the company. Property development does not initially take place for customers, as property development is initiated by the company itself.

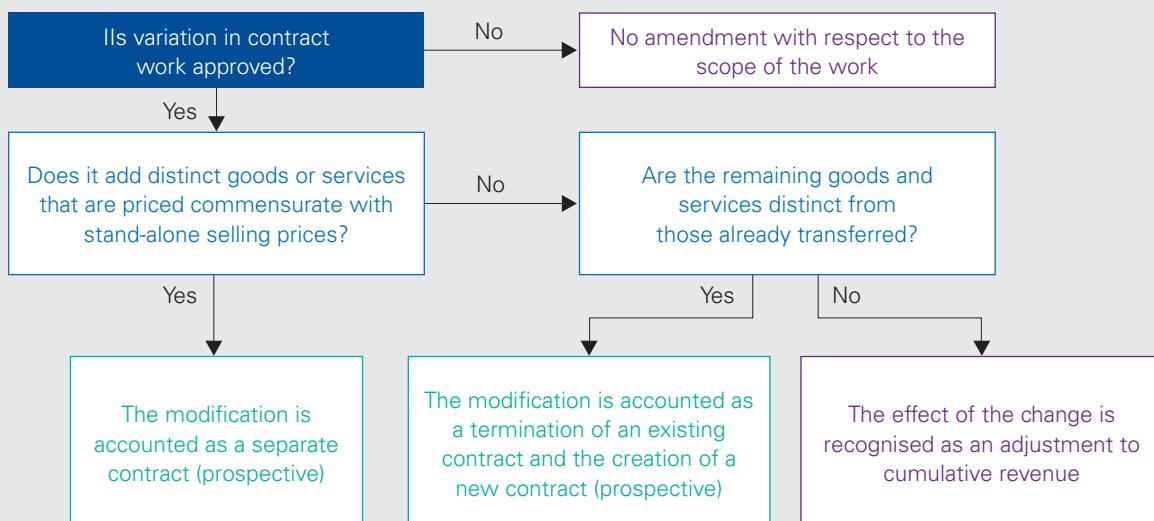
In these projects, potential customers have a choice of units available for development based on drawings, for example apartments or houses.

Changes in the construction or composition of the units to be realised are usually limited. The commencement of construction usually takes place if and when a significant portion of the units to be realised have been contracted for sale. Customers have hereby contractually committed to acquire units from the property development (for example, an apartment or a house). In terms of its nature, risk and execution, property development can be equated with construction contracts, insofar as one or more unconditional sale agreements have been concluded with one or more customers. In this situation, therefore, income and expenses are accounted for in accordance with the provisions on construction contracts.

RJ 221.0	Public-private concession contract
	A public-private concession contract is an agreement between the company (concessionaire) and the government (grantor) under which the company provides a public service through an infrastructure after it has constructed or upgraded it, and under which the government determines which services are to be provided with the infrastructure, to whom the services are to be provided and at what price.
RJ 221.0	Scheduled contract
	A scheduled contract is an agreement under which the execution of a project in progress is based on the payment of a fee for all or for certain defined costs, plus a certain percentage or a fixed amount.

4.3 Contract revenue

RJ 221.201	Contract revenues from a project consist of:
	<ul style="list-style-type: none"> — the revenue agreed in the contract (see section 3.2.3); and — revenues of variations in contract work, claims and incentive payments.
RJ 221.205	Contract modification
	<p>Variations in contract work are examples of an amendment to a contract. Variations in contract work are instructions from the customer to change the scope of work from the contractually agreed-upon performance. Variations in contract work can lead to an increase or a decrease of the contract revenues. For the accounting for amendments in contracts (including variations in contract work), see section 3.4.</p> <p>If the additional work is not a distinct performance obligation from the construction in progress, the additional work is accounted for as a modification to the construction in progress. The effect of the change on the transaction price and on the progress of the work in progress is accounted for at the time of the change as an adjustment to the cumulative revenue (increase or decrease).</p> <p>If the additional work represents a distinct performance obligation from the current work in progress, the additional work is processed as a separate contract.</p>

**RJ 221.205**

However, if the increase in contract revenue from the agreed consideration does not reflect the value of the additional work, taking into account appropriate adjustments to that consideration in line with the circumstances of the additional work, the additional work is accounted for as an amendment to the current work in progress. In this case, the additional work, together with the remaining part of the original performance obligation, is not economically distinct from the already-performed part of the original performance obligation. The effect of the modification on the transaction price and on the progress of the work in progress is accounted for at the time of the modification as an adjustment to the cumulative revenue (increase or decrease).

An agreed contract change (decrease) is accounted for as a variation in the contract work in progress. The effect of the decreased work on the transaction price and on the progress of the work in progress is accounted for as an adjustment to accumulated revenue (increase or decrease) at the time the reduced level of work is agreed.

Example 17. Additional work construction company

A construction company enters into a contract with the local government to build a road. The parties agree on a price of €10 million. The expected cost is €8 million, and the expected construction time is four years.

At the end of year two, the local government requests to extend a part of the road to a two-lane road. As a result of the additional work, the transaction price will increase by €2 million (expected increase in cost by €1.3 million). Furthermore, at the time the additional work was agreed upon, the construction company determined that the project progress was 50%.

Step 1

Under step 1, the construction company evaluates the contract modification and first determines whether the additional work will result in the addition of a distinct product at the relative initial consideration.

The construction company concludes that the additional work will not result in a distinct product. After all, the construction of additional lanes for a portion of the road remains an important service of integration (see section 3.2.2).

Furthermore, the construction company concludes that the fair value of the additional work is €2.2 million including customary selling costs of €200,000. Since the construction company does not need to incur these selling costs for the additional work, the construction company concludes that the compensation of €2 million corresponds to the relative initial consideration.

Step 2

In the second step, the construction company concludes that the work to be performed is not distinct from the goods produced before the date of contract for the additional work. Thus, the additional work becomes part of the existing performance obligation and the effect will be accounted for as an adjustment to accumulated revenue.

Step 3

The construction company accounts for the following contract revenues and costs:

Year (€m)	1	2	3	4
Contract revenues	2.5	2.5	-	-
Contract costs	2.0	2.0	-	-
Result	0.5	0.5	-	-

Incorporating the adjustment to cumulative revenues results in contract revenues at the end of year two being €5.16 million ($12 \times (\text{€}8\text{m} / (\text{€}8\text{m} + \text{€}1.3\text{m}))$). This is an increase of €160,000 that is directly recognised as result by the construction company in year two.

RJ 221.204

Claims

A claim is an amount that the company seeks to collect from the customer or another party as reimbursement for costs not included in the contract price. A claim may arise, for example, from customer-caused delays, errors in specifications or design and disputed variations in contract work. The estimate of the amounts of revenue arising from claims is subject to a long-term uncertainty and often depends on the outcome of negotiations. Therefore, claims are included in contract revenue only when:

- it is probable that the customer will accept the claim; and
- the amount that it is probable will be accepted by the customer can be reliably measured.

If so, the company makes an estimate of the (variable) revenue to be recognised. In doing so, the company applies prudence. The purpose of applying prudence is to ensure that only revenues are recognised that have a low probability of having to be reversed later (see also section 3.2.3).

4.4**Contract costs****RJ 221.206**

Contract costs generally comprise:

1. costs that relate directly to the specific contract;
2. costs that are attributable to contract activity in general and can be allocated to the contract; and
3. other costs that are specifically chargeable to the customer under the terms of the contract.

In addition, contract costs may include a reasonable portion of indirect costs and interest on debt over the period attributable to the manufacture of the asset. The inclusion of a reasonable part of indirect or overhead costs in contract costs is possible if these costs are generally attributable to project activities. These costs will often be allocated to individual projects via a mark-up.

RJ 221.207

Contract costs include the attributable costs from the date on which the contract is acquired until the final completion of the project. Costs that relate directly to the project and are incurred in acquiring the contract are part of the contract costs if it is probable that the contract will be acquired. These costs can be identified separately and reliably measured. If costs for the acquisition of a contract are recognised in the income statement in the period in which they arise, they must not be included in the contract costs if the contract is acquired in a subsequent period.

RJ 221.208**Ad 1. Costs that relate directly to a specific contract**

Costs that relate directly to a specific contract may include:

- site labour costs, including site supervision;
- costs of materials used in construction;
- costs of land (or its contribution);
- depreciation of plant and equipment used on the contract;
- costs of moving plant, equipment, and materials to and from the contract site;
- costs of hiring plant and equipment;
- costs of design and technical assistance that is directly related to the contract;
- the estimated costs of rectification and guarantee work, including expected warranty costs from warranties that are not recognised as separate performance obligation; and
- claims from third parties.

RJ 221.209

Incidental income realised by the company that is not part of the contract revenue is deducted from the contract cost. Examples are gains from the sale of residual materials and a book profit on the sale of plant and equipment at the end of the contract.

RJ 221.210**Ad 2. Costs that may be attributable to contract activity in general and can be allocated to specific contracts.t.**

Costs that may be attributable to contract activity in general and can be allocated to specific contract may include:

- insurance;

- costs of design and technical assistance that are not directly related to a specific contract; and
- construction overheads

RJ 221.211

Such costs are allocated using methods that are systematic and rational and are applied consistently to construction contracts having similar characteristics. The allocation is based on the normal level of construction activity. The normal level of construction activity is the average activity that may be expected to occur in normal circumstances over a number of periods or seasons, taking into account any loss of capacity as a result of planned maintenance. Construction overheads include costs such as the preparation and processing of the construction personnel payroll.

RJ 221.212**Ad 3. Other costs that may be contractually passed on to the customer**

Other costs that are specifically chargeable to the customer under the terms of the contract may include some general administration costs and development costs for which reimbursement is specified in the terms of the contract.

RJ 221.213

If the following costs cannot be attributed to contract activity or cannot be allocated to a contract, they are excluded from the costs of a construction contract:

- general administration costs;
- selling costs;
- research and development costs for which reimbursement is not specified in the contract; and
- depreciation of idle plant and equipment that is not used on a particular contract.

4.5**Recognition of contract revenue and contract costs****RJ 221.301
RJ 221.314**

Contract costs are recognised in the income statement in the period in which they are incurred. When the result of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract are recognised as revenue and expenses, respectively, by reference to the stage of completion of the contract activity at the reporting date (the 'percentage of completion' method).

RJ 221.314

When the result of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred are likely to be recoverable.

RJ 221.314

An expected loss on a construction contract is immediately recognised as an expense, regardless of whether or not the result can be reliably estimated.

RJ 221.306

However, when an uncertainty arises about the collectability of an amount already included in contract revenue and already recognised in the income statement, the uncollectible amount or the amount in respect of which recovery has ceased to be probable, is recognised as an expense in the income statement rather than as an adjustment of the amount of contract revenue.

This section is structured as follows:

- reliable estimation of the result. (4.5.1)
- recognition of result if estimated reliably (4.5.2)
- recognition of result if not estimated reliably (4.5.3)
- property development (4.5.4)
- recognition of losses on construction contracts (4.5.5); and
- other considerations (4.5.6).

4.5.1 Reliable estimation of the result

RJ 221.302

[Fixed-price contracts](#)

In the case of a fixed-price contract, the outcome of a construction contract can be estimated reliably when all the following conditions are satisfied:

- total contract revenue can be reliably measured
- it is probable that the economic benefits associated with the contract will flow to the company
- both the contract costs to complete the contract and the stage of contract completion at the reporting date can be reliably measured; and
- the contract costs attributable to the contract can be clearly identified and reliably measured so that actual contract costs incurred can be compared with prior estimates.

RJ 221.303

[Cost-plus contracts](#)

In the case of a cost-plus contract, the outcome of a construction contract can be estimated reliably when all the following conditions are satisfied:

- it is probable that the economic benefits associated with the contract will flow to the company; and
- the contract costs attributable to the contract, whether or not specifically reimbursable under the contract, can be clearly identified and reliably measured.

RJ 221.307

A company is generally able to make reliable estimates of the result of a construction contract after it has agreed to a contract which establishes:

- each party's enforceable rights regarding services to be provided including the asset to be constructed;
- the compensation for the performance; and
- the manner and terms of settlement.

RJ 221.307

If the fee for services is fully or partially variable, the degree of uncertainty about the extent of variable fees is considered in assessing whether the total contract revenue can be reliably determined, as part of the assessment of whether the result of a construction contract in progress can be reliably determined.

The uncertainty regarding the estimation of the amount of a variable fee may be so high that the amount of the total contract revenue and the result of a construction contract in progress cannot be reliably determined. When a contract consists of a fixed and a variable fee, the size of the fixed fee may be so high that the amount of the total contract revenue can be reliably determined despite the uncertainty about the size of the variable fee.

4.5.2**Recognition of result if estimated reliably****RJ 221.304; 305**

Contract revenues and costs are allocated to the period in such a way that the revenues and costs are recognised in the income statement in proportion to the progress of the project (the 'percentage of completion' method). This results in contract revenues and costs being recognised in the periods in which the work is performed.

RJ 221.308; 322

The method of accounting for contract revenues and contract costs in proportion to the services rendered is applied on a cumulative basis. In each successive period, actual estimates of contract revenues and costs are utilised. Revisions to estimates do not necessarily mean that the outcome of the project cannot be estimated reliably.

Changes in estimates relating to: (1) contract revenues; (2) contract costs; or (3) the result of a contract are accounted for prospectively.

The changed estimates are used to determine the revenues and expenses to be recognised in the income statement in the period in which the estimate was modified and in subsequent periods.

If a negative result is expected, the losses are immediately recognised in the income statement (see section 4.5.5).

4.5.3**Recognition of result if not estimated reliably****RJ 221.314**

When the outcome of a construction contract cannot be estimated reliably:

- revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable; and
- contract costs are recognised as an expense in the period in which they are incurred.

An expected loss on the construction contract is immediately recognised as an expense in the income statement (see section 4.5.5).

RJ 221.315

During the early stages of a contract, it is often the case that the outcome of the contract cannot be estimated reliably. Nevertheless, it may be probable that the company will recover the contract costs incurred. Therefore, contract revenue is recognised in the income statement only to the extent of costs incurred that are expected to be recoverable from the customer.

However, even though the outcome of the contract cannot be estimated reliably, it may be probable that total contract costs will exceed total contract revenues. Expected losses are immediately recognised as an expense in the income statement.

If the outcome of a contract in progress cannot be estimated reliably and it is also unlikely that the contract costs incurred up to that point will be recovered through income, no income is recognised. Contract costs incurred are recognised in the income statement in the period in which they are incurred.

In the event that it is probable that part of the contract costs incurred to date can be recovered through revenue, revenue is recognised to the extent of that part of the contract costs incurred.

Contract revenues and costs are recognised in accordance with the 'percentage of completion' method (see section 4.5.2) if no significant uncertainties remain with respect to the reliable estimation of the result.

Example 18. The bridge

A construction company has a contract to build a bridge at an agreed contract price of €80 million. It is estimated that the construction will take four years and the total contract cost will be €70 million. Thus, the expected profit on the project is €10 million. In the first two years of construction, the company cannot reliably estimate the results on the project. In the third year of construction, the uncertainties regarding this estimate are removed and the company must start accounting for the results of the project using the 'percentage of completion' method. The following data becomes available for this purpose:

Year (€m)	1	2	3	4
Contract costs per year	20	25	10	15
Contract costs cumulative	20	45	55	70
Project progress (%)	30%	65%	80%	100%

Then, assuming an output method (see section 4.6), the processing of the project in progress is as follows:

Year (€m)	1	2	3	4
Net contract revenue	20	25	19	16
Contract costs	-20	-25	-10	-15
Result	-	-	9	1

Application of the 'cost-to-cost' input method (see section 4.6) leads to the following treatment:

Year (€m)	1	2	3	4
Net contract revenue	20	25	18	17
Contract costs	-20	-25	-10	-15
Result	-	-	8	2

Explanation:

In years one and two, no result is recognised as it cannot be reliably estimated.

In year three, in the first example (output method), a turnover is determined that matches the cumulative degree of readiness, i.e. 80% of €80 million minus the cumulative costs of €55 million. This results in a result of €9 million in year three. The remaining result of €1 million is recognised in year four, after the project has been completed.

When applying the input method, a turnover is determined in year three that corresponds to the extent to which the contract costs have been spent, i.e.

55/70 of €80 million minus the turnover of €45 million already recorded in years one and two. This results in €8 million in year three and a residual result of €2 million in year four.

4.5.4

Property development

RJ 221.319

Property development revenues and costs are only classified as property revenues and costs if an unconditional sales contract has been entered into before or during construction. Property revenues and costs from property development are also accounted for using the percentage of completion method from the moment an unconditional sales contract is concluded.

The attributable part of property development in accordance with the percentage of completion method is recognised in the income statement based on the total of the expected revenue and costs for those units.

RJ 221.320

If and to the extent that no unconditional sales contract for units of the property has been entered into before or during construction, the costs related to those units have to be capitalised. The costs to be capitalised represent the attributable portion of the total contract costs incurred and related to work to be performed in subsequent periods. Such assets must be recognised and measured in accordance with RJ 220 Inventories.

RJ 221.321

When an unconditional sales contract has been entered into for additional units during the project, the capitalised costs attributable to those units must also be regarded as contract costs and processed in the income statement in accordance with the percentage of completion method.

4.5.5

Recognition of losses on construction contracts

RJ 221.323

When it is probable that the total contract costs will exceed total contract revenue, the expected loss is recognised immediately in the income statement.

RJ 221.324

The amount of such a loss is determined irrespective of:

- whether work has commenced on the contract;
- the stage of completion of contract activity; or
- the amount of profits expected to arise on other unrelated contracts.

4.5.6

Other considerations

RJ 221.312

Costs related to services yet to be rendered

Expenses associated with contract costs that relate to work to be performed after the reporting date are recognised as assets if it is probable that they will lead to revenue in a subsequent period. Examples include costs of delivered materials that have not yet been installed, used, or applied and prepayments for subcontracted work.

Such capitalised expenses represent an amount that will eventually be received from the customer or recovered through sales and are often recognised as inventories. Such capitalised expenses may arise from costs on property development (see section 4.5.4).

RJ 221.316	Flow of contracts
	<p>Where there is a flow of contracts, it is permissible for practical reasons to recognise contract revenue and contract costs as if the result cannot be estimated reliably (see section 4.5.2), even where the results on individual contracts can be estimated reliably. This treatment is possible if:</p> <ul style="list-style-type: none"> — project durations are predominantly less than 12 months; or — there is a steady flow of projects of stable size and the completion of the projects shows a pattern of regular spread. <p>Recognising revenue up to the amount of contract costs incurred during the term of the project is only permitted if this does not have a material effect on the company's equity and result.</p>
RJ 221.318	Commitment after project completion
	<p>If the company has obligations after the completion of a contract, including warranty obligations that are not accounted for as a separate performance obligation, the company determines whether a provision should be made in accordance with RJ 252 <i>Provisions, Unrecognised Liabilities and Unrecognised Assets</i>.</p>
4.6	Determining project progress
RJ 221.309	<p>The stage of completion of a contract may be determined in a variety of ways. The company must use the method that reliably measures the work performed. Depending on the nature of the contract, the methods may include:</p> <ul style="list-style-type: none"> — the contract costs incurred up to the balance sheet date in relation to the estimated total contract costs ('cost-to-cost' method); — inspection of the executed part of the project (output method based on 'survey'); or — the completion of a physically distinguishable project component (output method based on 'phasing').
	<p>Example 19. Railway</p> <hr/> <p>A company is constructing a railway line of 30 kilometres. The expected contract costs are €,000,000. At the balance sheet date, 6 kilometres of the railway line has been completed and €00,000 has been spent on contract costs.</p> <p>If work progress is determined on a cost-to-cost basis, 40% ($\frac{€00,000}{€,000,000}$) of the project is completed at the balance sheet date. If an output method is used to determine work progress, 20% (6/30 kilometres) of the project is completed at the balance sheet date (assuming each kilometre is equivalent).</p>
RJ 221.310	<p>These methods may be applied by measuring completed parts of the contract, on completion of a physically separate part of the project, by indicators stated in the contract (phase A, phase B etc.), by the number of hours incurred or by a combination of similar methods.</p>

The contract may sometimes explicitly include measurement dates, based, for example, on the above indicators, when the customer accepts the part of the project. The company then has almost no further risk on the phase of the project preceding the measurement date. If there are no such formal measurement dates, the company is responsible for the work performed throughout the contract until the entire project is completed. This does not necessarily indicate that recognition of revenue and costs in the income statement is not possible.

- RJ 221.311 Payments in proportion to the progress of the project and advance payments or (payments on) declared instalments from principals need not be representative of the extent to which performance has been completed.

RJ 221.313 When the stage of completion is determined by reference to the contract costs incurred to date, only those contract costs that reflect work performed are included in costs incurred to date. Examples of contract costs which are excluded are:

 - contract costs that relate to future activity on the contract, such as costs of materials that have been delivered but not yet installed, used or applied during the contract performance, unless the materials have been made especially for the contract; and
 - payments made to subcontractors in advance of work performed under the subcontract.

In view of their nature, the above expenses and prepayments are usually included in inventories (see RJ 220 Inventories). It is permitted to recognise these amounts under construction contracts as well, but this requires additional disclosures. Please refer to section 4.7.

4.7 Presentation and disclosures

- | | |
|-------------------------|---|
| RJ 221.401;
403; 405 | Presentation in the income statement |
| | <p>The company presents contract revenues as part of net sales in the income statement.</p> <p>If the categorical model is applied, contract costs are presented in the income statement according to the nature of the costs. If the functional model is applied, contract costs are presented in the income statement according to the function of the costs. Typically, in that model, contract costs are classified as cost of sales.</p> |

Example 20. Presentation in the income statement

The following example assumes one project with an expected revenue of €200, costs of €160 and a duration of two years.

The production is equally divided over both financial years, resulting in €100 in net sales and €80 in operating expenses annually. The presentation in the income statement, both when applying the categorical and functional model, is as follows:

Categorical model	Year 1	Year 2
Net revenue	100	100
Cost of raw materials and consumables	-30	-30
Cost of subcontracted work and other external costs	-50	-50
Sum of operating expenses	-80	-80
Operating profit	20	20

For illustration purposes, operating expenses are accounted for under two components; model E of the BMJ has multiple components.

Functional model	Year 1	Year 2
Net revenue	100	100
Cost of sales	-80	-80
Operating profit	20	20

If the categorical model is applied under the existing Standard 221, it is still permitted to present the revenue, as long as the project is not completed, on a separate line: 'Changes in construction contracts'. This option has been dropped in the new Standard 221.

This change does not affect the item 'Changes in stocks of finished goods and work in progress' as included in the BMJ. This item relates to inventories that fall under the scope of RJ 220 *Inventories*.

RJ 221.406

Presentation on the balance sheet

According to the Standards, the construction contracts item is presented as a separate item on the balance sheet. In practice, this presentation requirement means that a line item must be added in the financial statements model used, as the BMJ has not provided for this.

RJ 221.409; 412

The company presents a project in progress on the balance sheet as a netted item of the contract revenue realised per project, minus processed losses and declared instalments. Declared instalments are only recognised on the balance sheet from the moment the company or the customer has performed.

The balance of the project in progress at the balance sheet date can be a debit or a credit depending on the extent of the realised contract revenues, recognised losses and the instalments already declared. If the balance of the project in progress is a:

- debit, the net amount is treated as an asset under current assets presented between inventories and receivables;
- credit, the net amount is treated as a liability and presented under current liabilities.

For the presentation on the balance sheet, the level of individual projects becomes important under the new Standards. The practice of balancing the credit and debit positions of the entire portfolio is no longer permitted under the new Standards.

RJ 221.411	Expenditure for contract costs incurred for work to be performed is presented on the balance sheet as an asset, usually as part of inventories (work in progress or prepayments on inventories) or as accrued assets. If this capitalised expenditure is presented as part of construction contracts, the amount is stated in the notes. Recognition of these contract costs in the income statement takes place as soon as the project performance is delivered and realised.
RJ 221.414	<p>Disclosure</p> <p>The financial statements disclosures:</p> <ul style="list-style-type: none"> — the amount of contract revenue recognised as revenue in the income statement in the period; — the methods used to determine the contract revenue recognised in the income statement in the period; and — the methods used to determine the stage of completion of contracts in progress.
RJ 221.415	With respect to construction contract positions as at the balance sheet date, the following is disclosed:
RJ 221.416	— the aggregate amount of contract revenue recognised; — the amount of advances received; — in the situation where the company has been formally defaulted, the total of the amounts withheld by the principals from the declared instalments; and — the amount relating to capitalised expenditure for work not yet performed if and to the extent that it is presented as part of contracts in progress.
RJ 221.418	Retentions are amounts of progress billings that are not paid until the satisfaction of conditions specified in the contract for the payment of such amounts or until defects have been rectified.
RJ 221.418	The total capitalised costs of obtaining a contract included in the construction contracts item must be disclosed.

4.8

Public-private concession contracts

RJ 221.502;503 In this section, we examine the application of the company's (the concessionaire's) service provision under a public-private concession contract. The treatment of a public-private concession contract in the financial statements of the government ('grantor') is not addressed here.

Compared to the current Standards, no changes have been made to the provisions that specifically oversee public-private concession contracts (section 5 of RJ 221).

In a public-private concession contract, the grantor determines the services that the company will provide using the infrastructure, to whom the service will be provided, and at what price.

The grantor acquires control of a significant residual interest in the infrastructure at the end of the contract, or the infrastructure is entirely consumed during the contract.

RJ 221.501	Depending on the arrangements made between the company and the grantor, the company processes the grantor's consideration as a financial asset or as an intangible asset.
RJ 221.504	<p>Infrastructure refers to:</p> <ul style="list-style-type: none"> — infrastructure that the company constructs or acquires from a third party to perform the concession; and — existing infrastructure to which the grantor grants the company access to perform the contract. <p>Examples of infrastructure are roads, bridges, tunnels, prisons, hospitals, airports, facilities for water distribution and energy supply and telecommunication networks.</p>
4.8.1	Recognition and measurement
RJ 221.505	The company recognises and measures the revenue for the construction or improvement services it provides as construction contracts (see sections 4.3 up to and including 4.6).
RJ 221.513 RJ 221.517	Revenue and expenses from operating services are recognised by the company in accordance with the provision of services (see section 3.2.5.2).
RJ 221.506	The company determines the nature of the compensation to be received (from the grantor) based on the contract terms and the relevant legal provisions.
RJ 221.507	If the company provides construction or upgrade services, it recognises the compensation receivable at its fair value as: <ol style="list-style-type: none"> 1. a financial asset; or 2. an intangible asset.
	The company must recognise revenue and results during the construction or upgrade services since a financial or intangible asset is obtained for these services.
RJ 221.508	<p>Ad 1. Financial asset</p> <p>The company recognises a financial asset to the extent that it has an unconditional right to receive cash or another financial asset as compensation for the construction or upgrade services from (or at the direction of) the grantor.</p> <p>Normally, the right of receipt will be enforceable by law. This is the case when there are:</p> <ul style="list-style-type: none"> — specified or determinable amounts; or — a right of receipt of any shortfall between amounts received from users of the public service and specified or determinable amounts. <p>This is also the case if payment is contingent on the company ensuring that the infrastructure meets specified quality or efficiency requirements.</p>

RJ 221.509	The financial asset qualifies as a financial instrument in accordance with RJ 290 <i>Financial Instruments</i> . The company recognises borrowing costs attributable to the concession contract as expenses in the period in which they are incurred in accordance with RJ 273 <i>Interest Charges</i> .
RJ 221.510	
RJ 221.511	Ad 2. Intangible asset
RJ 221.512	Insofar as a company has the right to charge users of the public service, it recognises this as an intangible fixed asset (RJ 210 <i>Intangible Fixed Assets</i>). A right to charge users of the public service is not an unconditional right to receive cash because the amounts receivable are contingent on the extent to which the public uses the service.
RJ 221.514	In the case of (the right to) an intangible fixed asset, the company may capitalise the borrowing costs attributable to the contract, in accordance with RJ 273 <i>Interest Charges</i> , during the construction phase.
4.8.2	Allocation
RJ 221.515	If the company is paid for the construction or upgrade services partly by a financial asset and partly by an intangible fixed asset, it recognises and measures both components separately at their fair value.
RJ 221.516	If the company provides both construction or upgrade services and operational services under a single contract, it allocates the fee receivable for the operation of the infrastructure on the basis of the relative fair values of the services provided if these amounts can be determined separately. The nature of the fee must determine its further recognition.
4.8.3	Infrastructure
RJ 221.518	The company may not recognise the infrastructure as property, plant and equipment since the concession provisions do not provide for a transfer of control of the use of the infrastructure to the company. Under the terms and conditions of the concession, the company only has access to the infrastructure to operate it on behalf of the grantor to provide a public service.
RJ 221.519	The grantor may also make items available to the company that the company can keep or deal with as it wishes. If such assets form part of the fee payable by the grantor for the services, they are not government grants as defined in Standard 274 <i>Government Grants</i> . These assets are recognised as assets of the company, measured at fair value on initial recognition. The company must recognise a liability in respect of unfulfilled obligations it has assumed in exchange for the asset.
RJ 221.520	The company may have the following obligations under the concession: — the infrastructure must be maintained to a specified level of serviceability; or — the infrastructure must be restored to a specified condition before it is handed over to the grantor at the end of the contract.

The company recognises and values such obligations in accordance with RJ 252 *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the reporting date.

4.8.4

Disclosure

RJ 221.521

We refer to section 1 of RJ 390 *Other Information to be Disclosed in the Notes* for the information on the public-private concession contract to be included in the notes by the company.

4.9

Transitional provisions

RJ 221.601

The principles that the company must adopt under the new Standard 221 apply to reporting years beginning on or after 1 January 2022. It is permissible to apply the new Standard earlier.

RJ 221.602

For the transition to the new RJ 221 provisions, the Standard provides two options:

- a change in accounting policy in accordance with Standard 140 *Changes in Accounting Policies*, whereby the new RJ 221 is accounted for retrospectively (including comparative figures).
- alternatively, it is permitted to apply the new RJ 221, with the exception of the changes regarding presentation and disclosure, only to contracts entered into or modified on or after 1 January 2022 (or the relevant effective date if applied earlier). The comparative figures will then not be adjusted, with the exception of the presentation and disclosure requirements.

RJ 221.602

The alternative method is a transitional method in which the changes as a result of RJ 221 are processed prospectively. The RJ intends this method to limit implementation costs, with the disadvantage that comparability between reporting years may be impaired.

Under the alternative method, companies may apply RJ 221 effectively from 1 January 2022, or effectively from an earlier date chosen by the company. Thus, the transition date can also be during the year.

RJ 221.602

If the principles applied by the company change as a result of the new RJ 221 effective from 1 January 2022 (or the relevant effective date if earlier), the company must explain in the notes how the transition has been accounted for.

Furthermore, in the case of retrospective accounting, the disclosure requirements of Standard 140 *Changes in Accounting Policies* apply.

5

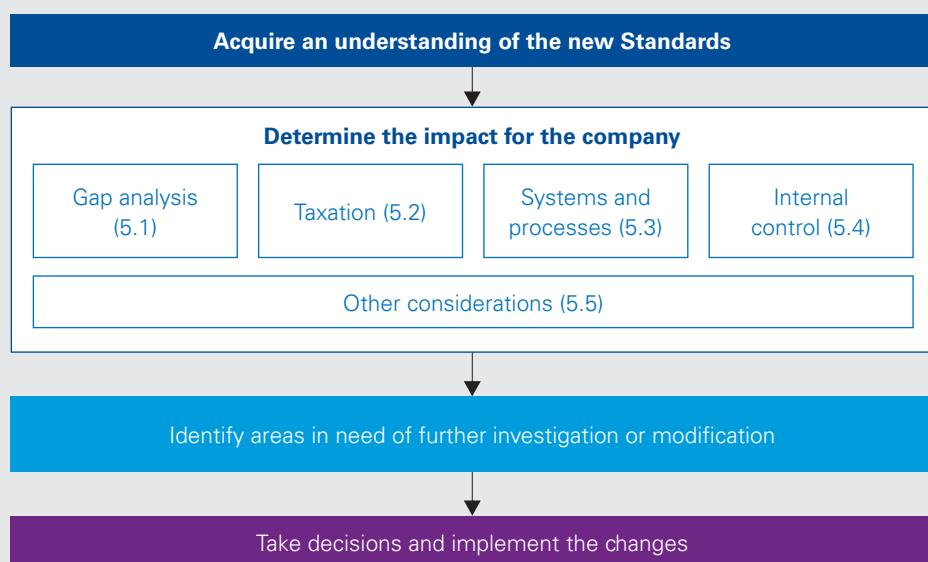
Implementation process

The new Standards 221 *Construction Contracts* and 270 *The Income Statement* may require changes to the amount and timing of revenue recognition. As a result, changes may be required in the company's primary accounting systems and processes. Companies may be required to adjust existing procedures and internal control measures. Furthermore, new revenue recognition may also have an effect on the calculation of income tax or on the ratios linked to financial covenants.

With the release of the new Standards in December 2020, the RJ has given companies one year to implement these Standards. This will be a challenging process for some companies. For example, for companies where the expected impact is significant, such as internationally operating groups or software, technology, telecom, media and construction companies.

The impact analysis and transition to the new reporting Standards will require the necessary attention of financial management. In addition, timely and sufficient attention from other relevant departments is important if they are involved in the formation of a sales contract, its execution and financial processing, such as lawyers, business control, commerce and IT.

Below are some important steps to consider when analysing and implementing the new Standards.



5.1

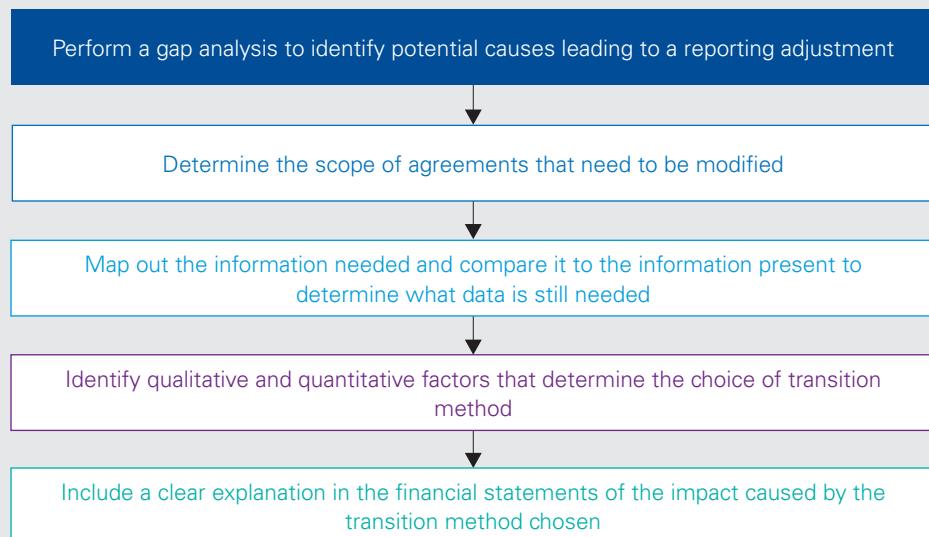
Gap analysis

On the basis of the knowledge and training of the new Standards, companies will have to perform an analysis of the main differences between the current and the new Standards for the main revenue streams and underlying sales contracts. In doing so, it will be necessary to examine in a timely manner whether sufficient information is available for the required disclosures. Some factors to consider:

- special and/or different conditions in contracts related to revenue recognition;
- the degree of differences between types of goods and services offered to customers;
- the extent to which contracts with customers contain different performance obligations and/or existing components meet the definition of a performance obligation; and
- disclosures as required for specific (target groups of) stakeholders.

The new Standards require professional judgement, estimates and possible adjusted calculations compared to current practice. Among other things, companies will have to make new estimates for variable components in the transaction price and the standalone selling price of goods and services.

In doing so, the following steps can be considered to understand the impact at the transition date:



5.2

Taxation

The new Standards may have an impact on financial accounting for taxes. Examples include:

- changes in the timing of revenue recognition that are not (yet) tracked for tax purposes, and may result in deferred tax liabilities;
- customised transfer pricing strategies and documentation; and
- adjustments to commercial policies, systems, processes and internal controls.

Based on the expected impact, it may be important to include tax specialists in the implementation team. Follow-up steps may include:

1. assessing the (possible) tax (reporting) aspects; and
2. determining the effects for tax reporting and legal and regulatory compliance.

5.3

Systems and processes

The (disclosure) requirements of the Standards may give rise to the need for new data that was not previously available. This may require systems and processes to be adapted to provide access to this data.

The identification of data and information needs is therefore a crucial step in the analysis phase prior to the implementation of the necessary system and process changes.

To determine the most cost-effective solution, companies can map the current information available and then determine what additional (previously unavailable) data and information is needed.

For existing processes, the impact of the new Standards on the design of processes will need to be determined. This includes how existing and new sales contracts must be accounted for and the estimates regarding variable components of the transaction price or standalone selling price.

5.4

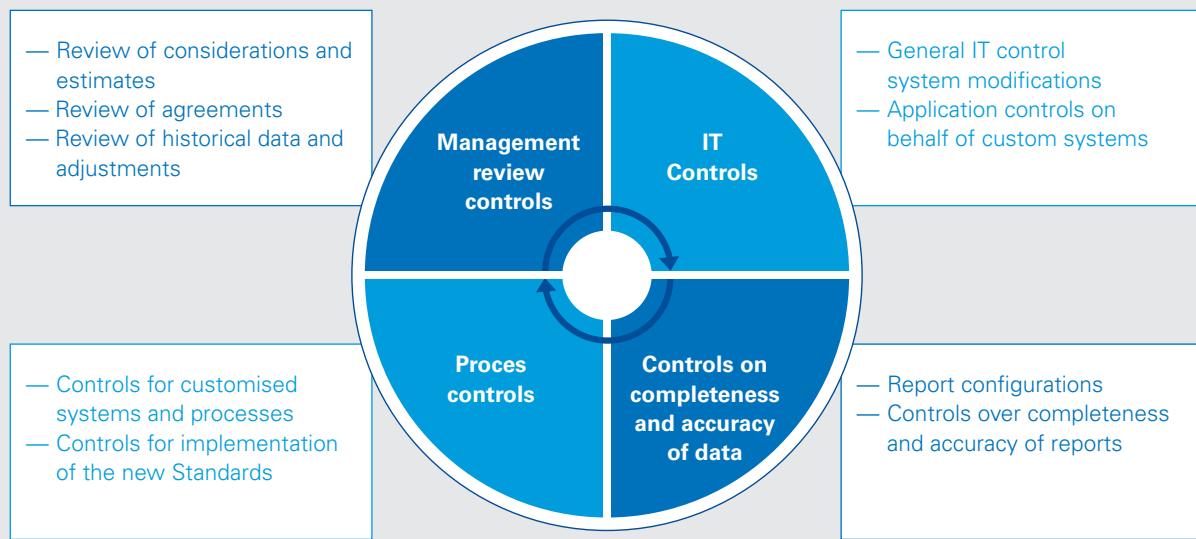
Internal control

Companies will need to evaluate the potential impact of the new Standards on IT systems and processes as well as internal control.

New risks can arise from changes in IT systems and reporting that provide the data on which new estimates and decisions are made. Examples include projections for financial planning (budgeting) and analyses to estimate variable components of the transaction price. For these estimates in particular, companies will need to consider whether:

- sufficient knowledge is present; and
- the available capacity is sufficient.

Training may be required for employees responsible for new and/or modified procedures and controls.



5.5

Other considerations

Companies will need to put the potential impact of the new Standards into a broader perspective. How will the company and the users of the financial information (financial statements) be affected by these changes?

Companies should consider:

- which new knowledge and skills are needed for financial and non-financial employees;
- the need to revise certain sales contracts that are driven by financial data measured by revenue (financial covenants);
- management compensation plans, such as bonuses and stock-based compensation plans, which may be affected by the new Standards; and
- changes in the financial planning process, such as budget and forecasts.

More information?

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