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Ernst & Whinney in the Netherlands

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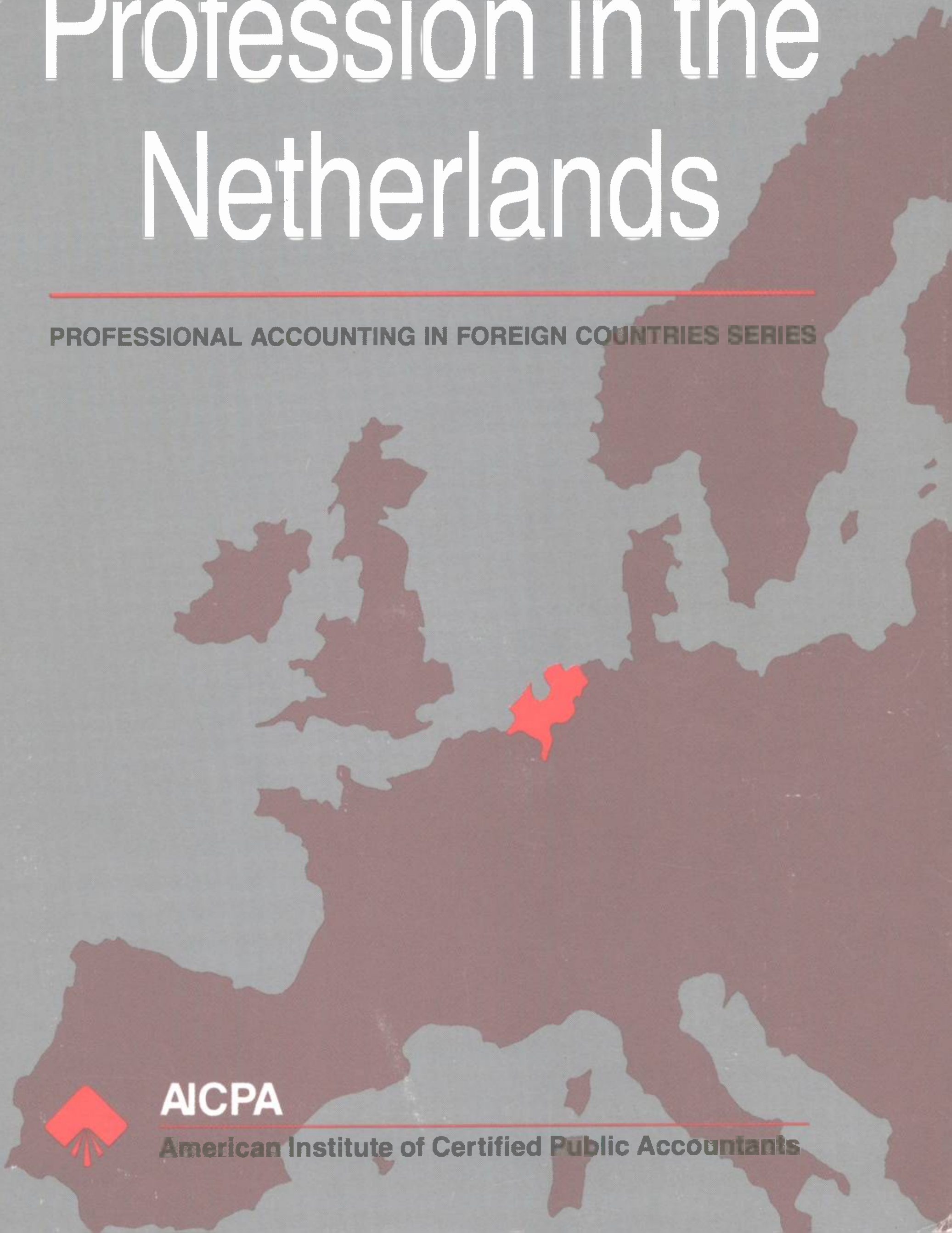
Susan Sgromo

The Accounting Profession in the Netherlands

PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES



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The Accounting Profession in the Netherlands
PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES
AICPA

The Accounting Profession in the Netherlands

PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES

Prepared by

Ernst & Whinney in the Netherlands
and
Ernst & Whinney International

SUSAN SGROMO, CPA
Series Editor

AICPA
American Institute of Certified Public Accountants

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The Professional Accounting in Foreign Countries series is designed to be educational and used as reference material for the members of the Institute and others interested in the subject. It is not intended to establish standards.

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1211 Avenue of the Americas, New York, N.Y. 10036-8775

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Preface

This booklet is one of a series on professional accounting in foreign countries. The material is current as of March 1987. Changes after this date in the standards of either the United States or the Netherlands may alter the comparisons detailed in this publication.

Included are descriptions of the accounting profession, auditing standards, and accounting principles in the Netherlands. The booklet also presents brief descriptions of the various forms of business organizations, taxes, and requirements for stock exchange listings and securities offerings. Checklists comparing the auditing standards and accounting principles in the Netherlands with those generally accepted in the United States are appendixes to the text.

This booklet is not intended to be a comprehensive discussion of auditing standards and accounting principles in the Netherlands but is designed instead to focus primarily on differences from those of the United States.

John Graves
Director
Technical Information Division

Contents

1

The Accounting Profession

REQUIREMENTS FOR ENTRY INTO THE PROFESSION

Domestic Functions and Licensing Requirements

1. The accounting profession in the Netherlands was officially established in 1895 with the foundation of the Netherlands Institute of Accountants. In 1967, the Registeraccountants Act (the Act) providing for the foundation of the Netherlands Institute of Registeraccountants (NIvRA) took effect. This Act governs the auditing function in the Netherlands and limits the public auditing function to members of the NIvRA or accountants with a foreign qualification who have been granted a license by the Minister of Economic Affairs (see paragraph 7).

2. The Act deals with (*a*) the internal organization of the NIvRA, including examinations and other requirements for entry into the members' register, (*b*) disciplinary aspects, and (*c*) control by the government of NIvRA regulations. Use of the title "registeraccountant" (RA), a title similar in meaning to "Certified Public Accountant," is protected by the Act. As in the United States, a RA need not necessarily be in public practice but can also act as an internal or governmental auditor or work in industry or education.

3. In the Netherlands, annual accounts can only be audited by an expert, as defined in the law, who is qualified to express an opinion thereon. The term "expert" refers to a RA as well as a person recognized as such by a license issued by the Minister of

Economic Affairs. Annual accounts may also be reported on by RAs who are employed as internal auditors, but effectively this is done only for internal purposes. In such cases, the external auditor may place significant reliance on the internal auditor's reports.

4. In addition to public auditing functions, RAs' reports are also issued on other financial statements (for example, in the context of prospectuses or investigations for special purposes, such as acquisitions). Consulting RAs commonly provide services for information systems, internal organization, financing, costing and cost control, and taxation. Such services may be performed either in conjunction with or distinct from the auditing function.

5. In 1974 the Act on Accountants-Administratieconsulenten (AA) came into force, regulating this second-tier segment of the Dutch accounting profession and containing provisions for the following services offered by these professionals:

- The set up and maintenance of accounting records, the review of the manner in which records are kept, and the preparation of financial statements,
- The analysis and interpretation, in explanatory reports, of the data extracted from a company's records and the supply of information and advice in connection with such data.

6. Accountants-administratieconsulenten are not authorized to certify accounts but, in the context of the introduction of expanded audit requirements of the European Economic Community (EEC), transitional measures have been introduced to facilitate the qualification of certain AAs as RAs.

Foreign Reciprocity

7. Accountants with foreign qualifications may operate in the Netherlands in the same capacity as RAs under a system controlled by the Minister of Economic Affairs (not the NIvRA). The license from the minister is issued on the grounds of proof of suitable qualifications obtained abroad and satisfactory moral standing. Further conditions may be attached to the license, such as demonstrating familiarity with Dutch company, tax, and accounting law.

8. There are no reciprocity requirements attached to the granting of a license.

ROLES AND RESPONSIBILITIES OF STANDARD-SETTING BODIES

Professional Standards Promulgated by Each Body

Accounting

9. Accounting principles in the Netherlands are not codified in the same manner or to the same extent as in the United States. The Dutch legislature is responsible for setting standards concerning annual accounts. The most important law in this regard was passed with effect from January 1, 1984, to introduce the requirements of the EEC Fourth Directive on annual reports into the Dutch Civil Code (Book 2, Title 8). This law regulates the form and content of annual reports, as well as the extent to which they should be audited and made available for public inspection. The courts, notably the "Enterprise Court," have exclusive jurisdiction in interpretation of the accounting laws. In addition, a committee, made up of representatives of the NIvRA and of organizations of information suppliers and information users, issues accounting and reporting guidelines deemed acceptable in the Netherlands. This committee is called the "Raad voor de Jaarverslaggeving" (or Council for Annual Reporting) and has issued pronouncements known as "Richtlijnen voor de Jaarverslaggeving" (Guidelines for Annual Reporting) on an increasing number of subjects. These guidelines should be regarded as authoritative pronouncements to be taken into consideration by producers of accounts in case of doubt or for general guidance purposes (for example, on matters of disclosure or interpretation of the law or in establishing a "true and fair" view). The guidelines have no legislative status but may be considered as an important frame of reference by the courts in arriving at their decisions.

10. Hence, the NIvRA itself does not issue codified accounting principles. However, as a member (founder) of the International Accounting Standards Committee (IASC), it endeavors to gain acceptance of the standards issued by the IASC in the Dutch business environment. The Raad voor de Jaarverslaggeving has reviewed several international accounting standards issued by the IASC and has incorporated these within its guidelines where appropriate.

11. In summary, the Netherlands has the following frames of reference for accounting:

- Dutch Civil Code and related governmental decrees
- Jurisprudence
- Richtlijnen (guidelines)
- Other authoritative sources such as literature, IASC standards, and generally accepted practice

Auditing Pronouncements

12. The Dutch profession is fully autonomous in setting auditing standards required to meet legal audit requirements. Historically, the Dutch profession has avoided detailed guidance to public accountants on auditing principles and procedures. Dutch audit philosophy was mainly to be found in literature. In the 1970s, however, the NIvRA started issuing ad hoc opinions on various topical subjects and interpretations on its Code of Conduct (the Code). (See appendix A for details.) It is working at present on a comprehensive set of auditing guidelines that are expected to be completed within the next two years.

Ethics Requirements

13. The NIvRA's Code of Conduct—which has legislative status—gives, *inter alia,* ethical guidance to its members in a broad sense on matters of principle, such as independence and due care, but also on matters of conduct, such as advertising, fees, and practicing rules. The NIvRA Board elaborates on the Code via so-called audit guidelines and interpretations. Generally, the same ethical rules apply in the Netherlands as in the United States; however, they have not been codified in such detail. Moreover, the advertising rules in the Netherlands are considerably more prohibitive for members in public practice than those in the United States.

PROFESSIONAL PUBLIC ACCOUNTING ORGANIZATIONS

Requirements for NIvRA Membership

14. Designation as a registeraccountant can only be obtained by someone who has passed a series of examinations, as described in

the Registeraccountants Act, and who is entered in the members' register. The educational qualifications of registeraccountants are demanding. These qualifications can be obtained through university courses or examinations organized by the NIvRA. NIvRA membership is granted only after qualification and subsequent entrance into the register (that is, after becoming a registeraccountant).

15. The university-based education is obtained by route of one of the universities in the Netherlands with an economics faculty. The first step—obtaining a business economics degree—requires a full-time course, which takes about five years. The final step is a part-time postgraduate course taking two to three years, during which time candidates are usually employed by public accounting firms.

16. The NIvRA courses are only available on a part-time basis. Candidates usually start working in the following ways: with a firm of public accountants, as internal or governmental auditors, or in industry after finishing normal high school or the higher economic and administration schools. They attend evening and day classes organized by the NIvRA. A candidate normally takes about nine years to complete the full program of courses to RA qualification.

17. There is currently no practical training requirement, but this is expected to change following acceptance of the EEC Eighth Directive. This law requires a training period of at least three years prior to being permitted to practice in public.

Rights of Membership

18. In the Netherlands, annual accounts can only be certified by an expert who is qualified, as defined in the law, to express an opinion thereon.

Number of Members

19. The NIvRA has about 5,500 members: about 40 percent are in public practice; 14 percent are governmental auditors; 6 percent are internal auditors; 18 percent are in industry in a financial executive function; 20 percent are retired; and the remainder are in various other functions (educators, consultants, and so forth).

CPE Requirements

20. Mandatory CPE requirements to replace existing recommendations are presently being contemplated that would introduce structured training for forty hours each year, or eighty hours in two years, on matters of relevance to the public accountant function.

Accountants-Administratieconsulenten (AAs)

21. There are about 2,500 AAs in the Netherlands. They have, together with the RAs, the exclusive right to call themselves "accountants." In addition to this second-tier category, there are various private accounting bodies that represent the interests of accounting practitioners serving basically small and medium-size companies or special (for example, agricultural) industries.

2

Auditing Requirements

STATUTORY AUDITING AND REPORTING REQUIREMENTS

22. In general, the financial statements of Dutch enterprises are audited to meet private or statutory requirements, to meet stock exchange requirements, or because companies are affiliates of international companies. Audits are also performed because audit opinions are requested by lending financial institutions and for special cases such as acquisitions and investment credit returns.

Purpose of the Statutory Audit

23. According to legislation enacting the EEC Fourth Directive (which took effect in 1984), companies whose annual accounts are required to be audited must appoint an auditor to examine the accounts and express an opinion about whether they present a "true and fair" view. In addition, the auditor is to examine—

a. Whether the accounts, including the list of investments, comply with legal requirements.

b. Whether the directors' report, insofar as this can be judged, complies with legal requirements and does not conflict with the annual accounts.

c. Whether other information required by law has been properly included in the annual report.

The auditor is required to report any departure in his audit report.

Entities That Are Required to Be Audited

24. Medium-size and large public companies with limited liability (NVs), cooperatives, banks, and insurance companies (includ-

ing mutual insurance companies) have a mandatory audit requirement.

25. Medium-size and large private limited-liability companies (BVs) do not currently have a mandatory audit requirement, unless they meet any of the following criteria:

- Share capital of Dutch florin (Dfl.) 500,000 or more
- Balance-sheet total in excess of Dfl. 8,000,000 and more than one hundred employees
- Engaged in insurance or banking
- Quoted or bearer shares or debentures are issued and outstanding

26. The audit provisions for BVs have been carried over from the pre-1984 law as a transitional measure. This transitional period is expected to end by 1990 when the full audit requirement will take effect for all medium-size and large BVs. There are, however, significant audit (as well as annual accounts-preparation and filing) exemption provisions for group companies with a Dutch or EEC-based parent company. (These exemptions are further explained in paragraph 73.)

Appointment and Qualifications of Auditors

27. The appointment of auditors for companies with an audit requirement is the responsibility of the general meeting of members or shareholders. If the appointment is not made by them, the board of supervisory directors is authorized to appoint an auditor; failing this, appointment rests with the board of executive directors (that is, management). The designation of an auditor is in no way restricted. It can, however, be withdrawn at any time by the general meeting of members or shareholders, or by whoever made the appointment. An appointment made by the management may be withdrawn by the supervisory directors. When an auditor is replaced, he has the right to address the general meeting of members or shareholders.

28. As noted earlier, the auditor must be a registeraccountant or a person with a foreign qualification who is recognized as such under a special license issued by the Minister of Economic Affairs.

Auditing and Reporting Responsibilities

29. The law requires that the auditor's examination shall determine whether the annual accounts furnish an insight that a reasonable judgment can be formed (*a*) regarding the financial position and results of operations and (*b*) as far as the nature of the annual accounts permits, regarding the solvency and liquidity of the company. The auditor's examination must also establish whether the annual accounts follow the provisions set down by law; whether the directors' report is prepared in accordance with the law and is consistent with the annual accounts; and whether the other information required by law has been included.

30. The auditor should present his findings to the supervisory board and management. The auditor should communicate the outcome of his examination in a certificate (that is, an auditor's report). In mandatory audit situations the annual accounts cannot be established or approved until the body responsible for doing this has seen the auditor's report. The report should be attached to the annual accounts or, if not, proper explanation is to be given about why the audit report has not been submitted.

Filing of Reports

31. A company is required to prepare its annual report within five months after the balance-sheet date. The annual report must be approved within six months after the balance-sheet date, and must be filed eight days after approval. A one-time filing extension can be obtained with a maximum period of six months. If the accounts are not approved within the (extended) due date allowed (that is, seven months after year-end, or, with extension, thirteen months at a maximum), the board of directors must file a draft set of accounts with the annotation that the accounts have not yet been approved.

32. The filing process is carried out by filing the annual report, containing the directors' report, annual accounts, and certain other information (including, if applicable, the audit report), at the office of the Trade Register. The accounts must be signed by all statutory and supervisory directors. The date of preparation and approval must be noted on the copy filed or, if the accounts have not yet been approved, that fact should be stated.

33. Certain parts of the report (the directors' report and certain other information) may be excluded from filing if held for inspection at the office of the company and if a copy is provided on request at a price not exceeding the cost of producing the copy. If the company decides to use this option, this fact must be reported to the Trade Register.

34. None of these requirements apply if the Minister of Economic Affairs grants, in exceptional circumstances, a filing exemption. In this case, a copy of the exemption must be filed with the Trade Register.

35. The documents filed are retained for a period of ten years at the Trade Register.

36. In addition to certain preparation exemptions, Dutch law provides for certain additional disclosure exemptions for filing purposes for medium-size and, in particular, for smaller companies. Small companies, for example, need only to file a condensed balance sheet and notes thereto.

37. If the annual accounts are made public in any manner other than the above, the auditor's report, if available, must still be attached. If not, the reasons for its absence must be given. If, however, the annual accounts are published in summary form, the company must report this, but it may not add the auditor's report. At the request of the company, the auditor must state whether his report was issued and, if so, its general contents. If the report was not issued, the reasons for this should be given.

38. If developments become known after establishing or approving the accounts that significantly affect the overall fairness of the accounts, the board of directors has the obligation to inform shareholders immediately in the next quarterly report or in another appropriate form. At the same time, a statement to that effect has to be filed at the Trade Register and sent to the "works council," which, for companies with a mandatory audit requirement, should be accompanied by an audit certificate.[1]

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[1] Every company with thirty-five or more employees is required to have a works council. The works council consists of the company's managing director (or his or her representative) and employees (the number of whom depends on the size of the organization).

39. In the Netherlands there is no body similar to the Securities and Exchange Commission. All interested parties (that is, users of financial statements, broadly interpreted) have *post factum* the right to challenge in court accounts issued.

SUMMARY OF SIGNIFICANT AUDITING STANDARDS AND COMPARISON WITH U.S. GENERALLY ACCEPTED AUDITING STANDARDS (GAAS)

Standards Issued

40. There are currently no regulations in the Netherlands that go into such detailed audit procedures as, for instance, the Statements on Auditing Standards in the United States. In practice, the Dutch accounting profession is not guided by a comprehensive set of codified audit pronouncements but by topical opinions and interpretations on ethics issued by the NIvRA and by extensive literature, both Dutch and foreign, on auditing topics. However, the NIvRA is at present in the process of producing a comprehensive set of auditing guidelines. In addition to the official Code of Conduct and related interpretations and guidelines, auditing opinions are drafted by various committees of the NIvRA and presented to the members for comments. After an exposure period and NIvRA Board approval, the standards are issued by the NIvRA and become authoritative pronouncements for registeraccountants and licensed foreign auditors practicing in the Netherlands. A detailed list of auditing guidelines, interpretations, and opinions is in appendix A. In addition, topical research studies are published.

41. Also, NIvRA has published the following: all auditing and ethics statements of the Union Europeénne des Experts Comptables Economiques et Financiers (UEC) issued to date (UEC Auditing Statements 1–20 and UEC Ethics Statements 1–6), as well as pronouncements of the International Federation of Accountants (International Auditing Guidelines, or IAGs, 1–24 and Ethics Statements of Guidance 1–12).[2] Although these statements and guide-

[2] In January of 1987, the UEC was replaced by the Fédération Europeénne des Experts Comptables (FEE).

lines do not form part of the NIvRA's official auditing pronouncements, the NIvRA's active role in the formulation of these international standards should be seen as an index of general agreement with the basic principles of the standards which may, or already have been, incorporated in the NIvRA's own "opinions." In only one case (IAG 13, *The Auditor's Report on Financial Statements,* requiring mandatory reference to generally accepted auditing standards in the audit report) has the NIvRA departed from these statements and guidelines.

42. No specific mechanism exists at the NIvRA level to ensure adherence to auditing standards other than by promulgation of general or specific standards of performance or conduct, as referred to above. However, the NIvRA has set up a committee that acts as a general monitor of the auditors' adherence to the reporting standards set. The powers and actions of this committee are of a consultative nature only. Also, any interested party can file a request or complaint to a Court of Ethics (consisting of independent lawyers and registeraccountants) to review a case.

General Standards

43. Dutch audit philosophy and practice is, conceptually, very similar to U.S. practice, despite being less regulated. The principal objective of the Code of Conduct is to preserve the integrity, impartiality, and independence required of registeraccountants in their work. The requirement of impartiality and independence is detailed in article 20. This states that members engaged in public practice may not perform a service for a person, corporate body, or institution if they have any interest therein that may affect their impartiality. Such interest may be a substantial financial interest in, employment with, or directorship of the enterprise under examination.

Standards of Fieldwork

Review and Evaluation of Internal Control

44. A review and evaluation of internal control is normally performed. The review is documented in the audit work papers, and adverse comments are usually communicated to the client,

either orally or in writing. Generally, the results of such a review would determine the extent of audit procedures to be carried out.

Detection of Errors and Irregularities

45. In principle, management bears responsibility for the financial statements and the introduction and maintenance of a proper system of internal control. Auditors are not responsible for irregularities (intentional distortions of financial statements) if they have performed their audit with due professional care. Auditors are, however, considered to be responsible for the detection of errors (unintentional mistakes in financial statements) to the extent normal audit procedures can be expected to reveal them.

46. If the auditor becomes aware of errors or irregularities, he should discuss them with the company's management, supervisory board, or both, and have the error corrected by pointing out management's responsibility and what action must be taken if the correction is not made.

Observation of Physical Inventories

47. Physical inventory counting by company personnel is normally performed and observed by the auditor at least once a year.

Communications With Third Parties

48. Communications with third parties to verify assets and liabilities is an increasingly common audit practice in the Netherlands, but is not as customary as in the United States.

Documentation of Evidence

49. Formal audit documentation requirements in the Netherlands are comparable to those in the United States, but, given the less aggressive legal environment, are not implemented in the same strict manner in practice.

Management's or Directors' Representations

50. Written representations from management confirming oral representations were not normally obtained by auditors in the Netherlands in the past, but, under influence of Dutch audit guidelines, the practice is becoming more common. Management and

the supervisory board acknowledge their responsibility for the annual accounts by signing them.

Reliance on Other Auditors or Specialists

51. When more than one audit firm is involved in the audit of a particular company (for example, when a subsidiary is audited by another firm in a foreign country), the primary auditor (that is, the parent company auditor) would normally issue instructions to the secondary (other) auditor. Due care is required on the part of the primary auditor in the acceptance of the work of the other auditor. The primary auditor has the option to review the basic audit and accounting standards applied; he can then refer to the involvement of the secondary auditor in his opinion, or perform additional audit procedures to the extent necessary and not refer to the secondary auditor in his audit report. However, in either event, the ultimate responsibility for the opinion expressed on the parent company always rests with the primary auditor.

52. Local firms of auditors have traditionally relied heavily on the work of internal auditors, which was principally of a financial audit nature. Until recently, many Dutch multinationals had large internal audit departments organized along the lines of a sizable accounting firm, which expressed an opinion, *for internal purposes only*, on the company's annual accounts. In such cases, the external auditor would review the work of the internal auditor and supplement this review with limited procedures to be able to express an opinion on the accounts for external purposes. Recently, there has been a strong tendency for internal auditors to drop the financial audit involvement and to focus primarily on operational auditing, a technique that is along U.S. lines.

53. The work of specialists is used, where required, in determining financial statement amounts. The auditor is required to ensure that any appraisal or opinion so used is valid by assessing the reputation of the specialist and by performing supplementary audit procedures. The specialist may not be referred to in the audit opinion unless (as in the case of actuarial assessments) his work is an indispensable and crucial element in deriving a conclusion on the fair presentation of the accounts.

Standards of Reporting

54. Generally, the structure of Dutch standards of reporting on annual accounts is similar to that in the United States.

Standard Form of Report

55. The standard unqualified report typically states the following:

"We have examined the annual accounts of ________ (company name) for the year ended ________ (month, day, year). Based on our examination, it is our opinion that the accompanying annual accounts give a true and fair view of the financial position of the company at ________ (month, day, year) and the results of its operations for the year then ended."

56. It should be noted that—

a. Audit reports need not be addressed, the assumption being that the report is meant for any potentially interested party.

b. Adherence to generally accepted auditing standards, accounting principles and the law is not explicitly referred to, only implied.

c. The report can be signed either by an individual in his name or in the firm's name, or both, if applicable.

Departures From an Unqualified Opinion

57. Limited but still significant departures, not affecting the overall fairness of the accounts, require a "clean opinion with a qualification." The qualification may indicate either a departure from GAAP ("except for") or an uncertainty ("subject to"), although the specific wording indicating the qualification ("with the reservation") will not make this specific distinction. In case the departure or uncertainty does affect the overall fairness, an adverse opinion or a disclaimer will be expressed. In going-concern situations a so-called conditional opinion is to be expressed. This opinion closely resembles a "subject to" opinion, but within Dutch reporting standards it is seen as a clean opinion. The opinion is conditional on the assumed validity of the underlying assumptions of going concern, which in turn, as described in the notes to the accounts, is threatened to a degree. Finally, formal (mainly disclosure) departures from the law must be referred to in the audit report. These depar-

tures, insofar as they do not necessarily effect the fairness of the accounts, do not have to lead to a qualification as such.

Piecemeal Opinions/Limited Review

58. Piecemeal opinions (that is, opinions on parts of financial statements) are not allowed in the Netherlands. Balance-sheet-only opinions can only be expressed at the acceptance of a new audit for a formerly unaudited company. Equally, an opinion on the basis of a limited review is not allowed. A disclaimer of opinion can only be expressed based on objective grounds (that is, after a full scope audit has been performed).

Small Business Opinions

59. Auditing Opinion No. 5 of the NIvRA addresses the opinion to be expressed in the context of a small enterprise that is economically too small to set up a proper system of internal control. The NIvRA has developed a special type of opinion for these companies that highlights the economic inevitability of the internal control deficiencies and gives a disclaimer of opinion in conjunction with negative assurance. As a general rule, negative assurance without a disclaimer is not allowed in the Netherlands but is, exceptionally, used in practice when there is no other possibility (for example, in the case of compliance audit of a price cartel).

Nonaudit Services

60. Auditors associated with financial statements who have not carried out a full audit are obliged to have these statements, or each part that can be independently used, clearly marked "unaudited." Otherwise, users may assume that they have been audited.

General

61. The NIvRA is presently reconsidering the structure and, possibly, the wording of its reporting standards. Not excluded are a possible relaxation of its prohibitive rules on less than full audits and the alignment of the present wording of the unqualified opinion with international practice.

3

Accounting Principles and Practices

SOURCES OF ACCOUNTING PRINCIPLES

62. With the introduction of legislation incorporating the provisions of the EEC Fourth Directive into the Civil Code, supplemented by the guidelines of the Council for Annual Reporting, a step has been taken toward more extensive codification of accounting principles.

63. The Council for Annual Reporting has now issued numerous pronouncements in the form of accounting and reporting guidelines. These guidelines are not mandatory, but they form an important, authoritative source of interpretation of the law for business and users at large, as well as for the Enterprise Court.

64. The NIvRA also participates in the International Accounting Standards Committee and endeavors to gain acceptance of its standards in the Netherlands. Most IASC standards have been incorporated in the guidelines of the Council for Annual Reporting.

FORM AND CONTENT OF FINANCIAL STATEMENTS

Presentation of Statements

65. The annual financial report includes a directors' report and annual accounts (financial statements) in the form of a balance sheet, an income statement, notes to the accounts, and other prescribed information. Where consolidated financial statements are prepared, this information is required for the parent company

only (primary legal accounts), as well as on a consolidated basis. Significant exemptions exist for intermediate holding companies with ultimate overseas parents. Such companies are exempted from providing their annual accounts if their own annual accounts and those of their subsidiaries have been included in the consolidated accounts of an (inter)national group of which they form a part. Use of these exemptions requires shareholders' consent, and the ultimate group accounts must meet International Accounting Standards Committee (IASC) standards or EEC Seventh Directive requirements.

66. Standard charts of accounts, predicated on Fourth Directive formats, have been established by governmental decree. These set out the main structure and details required to be disclosed in the balance sheet and profit and loss account. In addition, the law includes disclosure provisions for the footnotes; it also contains a special section for valuation principles.

67. The annual accounts must be expressed in Dutch florin. Consolidated accounts may be in a foreign currency, if justified by the international nature of the group.

68. The annual report, which includes the financial report, must be presented and filed in the Dutch language unless the general shareholders' meeting approves the use of another language before the beginning of the fiscal year and if no objections are made during the year by members or shareholders. The financial report filed must be in Dutch or in English, French, or German. It should be noted that certain interested parties have the right to receive the annual accounts and reports in the Dutch language even if they are prepared or published in another language.

Types of Statements Prepared

69. The extent of information required by the law to be included in the annual accounts as prepared for approval by shareholders and for public filing, respectively, depends primarily on the size of the company, as does the question of whether the accounts need to be audited. Companies are categorized for these purposes as being either small, medium, or large. Small and medium-size companies are defined as companies not engaged in insurance or banking (for

which there are special financial reporting provisions) and which satisfy at least two of the following three criteria.

	Small Company	Medium-size Company
	Amount not in excess of—	
	Dfl.	*Dfl.*
a. Value of assets (less legal reserves) according to balance sheet and notes	4 Million	17 Million
b. Net turnover (sales) for the year	8 Million	35 Million
c. Average number of employees during the year	49	249

70. The above criteria are based on consolidated amounts, including all subsidiaries irrespective of location, and are subject to periodic adjustment. A company moving up or down from one category to another continues to be subject to the requirements of the law for its previous category in the year in which its status changes.

71. All other companies, including those engaged in insurance or banking, and those with quoted or bearer shares or debentures, are defined as large companies.

72. The size requirements can be summarized as follows:

	Large	Medium	Small
Preparation	Directors' report; full balance sheet, income statement and notes thereto; full other information including audit report	Directors' report; full balance sheet, condensed income statement and notes thereto; full other information including audit report	Directors' report; condensed balance sheet and income statement and notes thereto; limited other information

Filing	Full, as above	Directors' report; condensed balance sheet and income statement and notes thereto; limited other information including audit report	Abridged balance sheet and notes thereto only
Audit	Yes*	Yes*	No

*Except for private limited companies (BVs), which under the transitional provisions of the law may have a temporary exemption.

73. Although in principle all Dutch companies referred to above have to prepare and file their (audited) annual accounts, it should be noted that exemptions exist for companies whose accounts have been included in the accounts of an EEC-based group, where these group accounts have been prepared in accordance with EEC Directives and the overseas parent company has guaranteed the liabilities of the company concerned, together with other formal conditions.

The Directors' Report

74. The directors' report should refer to (*a*) the results of operations of the year, (*b*) the position as at the balance-sheet date, and (*c*) developments of special significance that have arisen since the end of the accounting year. Furthermore, expectations about the future course of business should be reported, giving special attention to finance, investment, personnel, and developments that affect sales or profitability, or both, unless significant circumstances prevent their disclosure. In addition, activities in the area of research and development should be included. The information given in the directors' report should not conflict with the information given in the annual accounts.

Other Information

75. In addition to the directors' report, balance sheet, income statement, and related footnotes, the following information should, where applicable, be included with the annual accounts:

a. The auditor's report
b. A statement of regulations concerning the appropriation of profit or loss in accordance with the company's articles of association
c. A statement on the actual or proposed appropriation of profit or the treatment of losses
d. A statement of the statutory regulations concerning the contribution towards defraying the deficit of a cooperative association or mutual guarantee company, where these differ from statutory rules
e. A list of the names of those in whom a special right of control of the company is vested by the company's statutes and a description of those rights
f. Description of any third-party rights to a share in the profits or similar obligations
g. Full accounts, including the auditor's report, of subsidiaries that have not been included in the consolidated accounts of the company
h. A statement of any events with important financial consequences that have arisen after the fiscal year with indication of the size or extent of the consequences

The inclusion of a statement of source and application of funds in the annual accounts is recommended by the guidelines of the Council for Annual Reporting, but such an inclusion is not mandatory by law.

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES AND COMPARISON WITH U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

76. The Dutch legislature and guidelines on accounting and reporting speak about generally *acceptable*, rather than generally *accepted* accounting principles. This should be seen as an index of a somewhat less rigid, but more normative, conceptual, and interpretational basis of Dutch accounting and reporting. The major influences on acceptable accounting principles in the Netherlands have been the recent adoption of EEC Directives on company law in general and the historic development in business economics in

particular, involving issues of income measurement and recognition and valuation principles. These developments are the basis for the position of the Dutch accounting profession that current values, generally replacement values, provide an important measure of financial position, income, and rates of return in addition to—or as a substitute for—historic costs. Relatively few Dutch companies have adopted current values in their primary external reporting, but many now include such data as supplementary information.

Valuation Principles

77. Although Dutch law permits the choice between current value accounting and historical cost accounting, explanatory notes to the law enacting the requirements of the EEC Fourth Directive contain clauses that require accounts be prepared on a current value basis, if this is considered necessary for the presentation of a true and fair view of the financial position and results of the company. Whenever current value accounting is applied in the primary accounts, a legal requirement exists that supplementary information be given about the related revaluation accounts; this enables the user to assess historic cost values, which should always be supplied in the footnotes. Conversely, the guidelines of the Council for Annual Reporting press for supplementary current cost data—if advisable in the light of the overriding true and fair requirement—when the accounts have been prepared on an historic cost basis. The law does not allow current value application for intangible assets and for current assets other than inventories.

78. The most important criterion with respect to valuation of assets and liabilities is the stipulation to provide a clear insight based on overall fairness and consistency. In applying valuation principles, the prudence principle should be used as well as the continuity principle (or "going concern" assumption). If the latter is known to be incorrect or is seriously doubted, then this fact and the influence on equity should be reported in the notes to the accounts.

79. When determining the results of operations, the same basic principles should be used as when valuing assets and liabilities. In addition, the realization principle should be employed: Profits should only be included in the results when they are realized before the balance sheet date. Losses and risks that originate in the

accounting year should be reported as soon as they are known, whether or not they have been realized.

80. Valuation at historical cost means valuation at acquisition cost (that is, the purchase price and any accompanying costs) or manufacturing cost (that is, the procurement costs of raw and auxiliary materials used and other costs that are directly attributable to manufacture). In addition, a reasonable portion of indirect costs and the interest on debts during the period of manufacture may be included. In the latter case, the notes to the accounts should disclose that such interest has been capitalized.

81. As mentioned earlier, inventories as well as tangible and financial fixed assets can be valued at current values. Valuation at current value is discussed in a separate decree based on Article 384, paragraph 4, of the law of the Netherlands.

Inventories

82. Inventories are required to be stated at the lower of cost or market value, similar to the requirements under U.S. GAAP. The full costing method is generally applied and costs may include finance costs. The following features of accounting principles generally accepted in the Netherlands, however, contrast with those in the United States.

- Inventory may be valued at replacement cost, whereby the revaluation is included in a revaluation reserve (a legal reserve built up, normally after recognizing related tax effects). The replacement cost method is allowed for financial accounting purposes, but it is not allowed for tax purposes.
- Disclosure of historic cost is required if inventory is valued at replacement cost.
- It is strongly recommended to disclose replacement value in a footnote if inventory is valued at historic cost and the difference in value is material.
- The Last-In, First-Out (LIFO) method may be used to determine cost of sales, as in the United States, provided that balance sheet valuation is at replacement cost or that there is at least disclosure of replacement cost in the footnotes, if the difference is material.

- As for LIFO, the use of the base-stock method is allowed according to the guidelines in the Netherlands, provided that there is proper disclosure of replacement cost if materially different.

Property, Plant and Equipment, and Depreciation

83. Property, plant, and equipment are normally stated at historical cost, less accumulated depreciation or amortization. Operational property, plant, and equipment may be written up to replacement value, less possible provisions for permanent diminutions in value. If replacement is not contemplated, either value to the business or net realizable value will be applicable. The difference between historical cost and revaluation value is treated as a revaluation reserve. If a building has been revalued, depreciation for accounting purposes must be based on the revalued amount. This contrasts with U.S. GAAP, which do not allow the writing up of book values of property, plant, and equipment to reflect appraisal, market, or current values in excess of cost, except in connection with certain defined reorganizations or quasi-reorganizations, or in the context of acquisition accounting.

84. Depreciation methods in use in the Netherlands are similar to those in the United States.

85. Accounting principles in the Netherlands with respect to the capitalization of interest on property, plant, and equipment are similar to those in the United States.

Marketable Securities

86. Marketable securities held as current assets are stated in the balance sheet at the lower of cost and market value, similar to U.S. GAAP. In some cases, however, companies in the Netherlands also recognize (*a*) declines in the value of current marketable securities that occur subsequent to the balance-sheet date, or (*b*) realized losses on disposal of current marketable securities subsequent to the balance-sheet date, in income (loss) for the period.

87. Long-term marketable securities are generally stated at cost, reduced by any permanent diminution in their value, which should be charged to income. This contrasts with accounting principles generally accepted in the United States, under which long-term marketable securities are stated at the lower of cost and market value, with unrealized losses reflected in a separate compo-

nent of equity. However, some companies in the Netherlands also recognize in income temporary diminutions in the value of long-term marketable securities to the extent that they have occurred up to the balance-sheet date. Another exception to the basic valuation rule relates to mutual funds, which, under certain conditions, may value their investments at market value, changes in valuation being taken directly to reserves.

Research and Development Costs

88. Both the law and the guidelines for accounting and reporting in the Netherlands allow, but do not require, capitalization of research and development costs. The guidelines state that capitalization is only permitted when the following conditions are met:

a. A detailed description has been made of the product and process.
b. Costs to be allocated can be determined.
c. Proof exists of technical feasibility.
d. The new product or process will be introduced on the market.
e. There is a clear potential market or other beneficial use.
f. It is financially feasible to complete the development process.

89. The economic feasibility of the projects for which costs are capitalized must be assessed every year. Research and development costs capitalized must, by law, be amortized within five years. A shorter period is required if the related benefits accrue over a shorter period of time. A legal reserve for capitalized research and development costs has to be set up out of free reserves. This nondistributable reserve can be released to distributable reserves simultaneously with amortization of research and development costs. Full disclosure has to be made of the accounting policy applied, including the nature of the research and development costs capitalized, and of movements (changes) in the asset value during the year.

90. To the extent that research and development costs meet the above criteria and are capitalized, the accounting treatment would contrast with U.S. GAAP, which require research and development costs to be expensed as incurred. (However, U.S. GAAP allow the capitalization of research and development costs incurred on computer software development beyond the development phase when technological feasibility of the product has been demonstrated.)

Long-Term Construction Contracts

91. Accounting principles in the Netherlands with respect to long-term construction contracts are basically similar to those in the United States.

Accounting for (Deferred) Income Taxes

92. Deferred income taxes are, based on the guidelines, normally accounted for by the liability method and are predominantly based on the comprehensive allocation concept. Although not strictly forbidden by law, partial allocation or no allocation at all is not common practice. This contrasts with U.S. GAAP, which require income taxes to be accounted for by the deferral method and to be based on the "comprehensive allocation" concept. In the Netherlands no distinction is made in the income statement between deferred and current tax charges/credits.

Government Subsidies

93. In the Netherlands a wide variety of semi-governmental subsidies exists, which are not accounted for as tax credits but rather as deferred income or credits to the project costs incurred.

Pension Costs

94. Accounting principles governing the accounting for pension costs are not as extensive in the Netherlands as they are in the United States. The basic principle is that unconditional liabilities should be provided for and contingencies should either be provided for or fully disclosed. Hence, for a defined benefit plan, pension costs may be accounted for either as a function of income earned during the period or as a function of services provided by employees during the period. U.S. GAAP requirements, however, are more specific about the following: accounting for past service costs; plan changes and changes in plan assumptions; actuarial methods that may be permitted; and, in particular, a settlement-basis-discount assumption that must be used.

Inflation Accounting

95. In the Netherlands the law allows the presentation of primary financial statements on the basis of either historical cost or

current value. Current value applies mainly to inventories and, in particular, to fixed assets. If the primary financial statements are on a current value basis, historical cost information—including total revaluations made and depreciation—must be disclosed. If the primary financial statements are on a historical cost basis, the disclosure of equity, fixed assets, and inventories on a current cost basis is strongly recommended. U.S. GAAP require certain large, publicly held business enterprises to provide information about the effects of changing prices only as supplementary disclosures in their published annual reports.

Contingencies

96. Accounting principles in the Netherlands with respect to the treatment of contingencies are similar to those in the United States.

Leases

97. Accounting principles in the Netherlands with respect to leases are similar to those under U.S. GAAP; however, the distinction between capital and operating leases is not as clearly defined. In practice, leases are not capitalized to the same extent as in the United States.

Business Combinations or Acquisitions

98. There are no legal provisions or recommended accounting standards regarding the accounting for business combinations or acquisitions. Both the pooling-of-interests and the purchase methods are allowed. This method predominates because most situations are applicable to the use of the purchase method. The principles followed in applying either method are similar to U.S. GAAP.

99. In the Netherlands, goodwill must normally be amortized against earnings over five years, unless it can reasonably be attributed to a longer period, but not exceeding ten years. Alternatively, goodwill at date of acquisition can also be written off immediately against equity or against earnings. This contrasts with U.S. GAAP, which require the amortization of goodwill via the income statement over its estimated useful economic life, not exceeding forty years.

Equity Accounting

100. Accounting principles in the Netherlands for equity accounting are similar to U.S. GAAP except that cost accounting, with respect to majority-held investments, is (*a*) allowed in cases where management control is not exercised at the holding-company level and (*b*) is required in the case of minority interests when there is a certain degree of management control.

Segment Reporting

101. Dutch companies are required by the law to report net sales revenues and total staff size by nature or organization of business as well as by geographical areas. This can be done with a breakdown in percentages, rather than in terms of actual figures. Organization of business and geographical areas is not further defined by the law. These requirements are significantly less extensive than those under U.S. GAAP, which specify the criteria for the determination of reportable segments, the disclosure of revenue, operating profit, identifiable assets, depreciation, capital expenditures, export sales, major customers, and so forth.

Foreign Currency Translation

102. Accounting principles in the Netherlands with respect to foreign currency translation are not defined by law but are covered by the guidelines. The relevant guideline does not specifically address the concept of "functional currencies," as in Statement of Financial Accounting Standards (SFAS) No. 52, but this concept is implied. The categorization of a foreign operation as one that forms an integral part of the parent's operations, or otherwise, is based on the relationships between the cash flows of the foreign operations and the parent operations. This determination need not be made for all foreign operations. For practical reasons, it is acceptable to make the determination for the most significant foreign operation and to apply the resulting rules to the total group. This provision is not contained in U.S. GAAP.

103. Accounting principles in the Netherlands for foreign currency transactions, as outlined in the guidelines, are similar to U.S. GAAP, except (*a*) that exchange gains on long-term monetary

items may be deferred and amortized to income over the period of the item, and (*b*) that exchange losses on loans may be set off against deferred gains. Alternatively, they may be taken to income, as is required under U.S. GAAP.

Legal Reserves

104. In certain situations or for certain transactions legal non-distributable reserves have to be set aside out of current profits or distributable reserves. These legal reserves are important in the context of establishing the availability of profit distributions and also for entering into certain legal transactions, such as the purchase by a company of its own shares. Legal reserves have to be distinguished in the accounts as to nature and origin. Dutch law recognizes the following types of legal reserves:

- Legal minimum (revaluation) reserve
- Negative goodwill, when applying the equity method of accounting for investments
- Undistributed profits of subsidiaries, accounted for on the equity method
- Guarantee reserves for (unaudited) payment in kind of shares issued
- Capitalized share-issue costs
- Capitalized research and development costs
- Legal reserve in the context of loans supplied with the purpose of acquiring shares in a limited private company (BV)

Interim Reporting

105. In the Netherlands quoted public limited companies are required to publish half-year figures; most publish quarterly figures. There is currently no requirement for an auditor's involvement in interim reporting. The Amsterdam Stock Exchange (the Stock Exchange) regulations include some general guidance regarding the minimum contents of the interim report. Moreover, there is a legal requirement for listed companies that every material post-balance-sheet or post-report-issuance event must be reported immediately. For companies with a mandatory audit requirement, this report must be audited and filed at the Trade Register.

Other Matters of Importance

Transactions Resulting in Direct Charges or Credits to Equity

106. It should be noted that Dutch financial accounting and reporting guidelines allow, conditionally, certain specific, nonrecurring or exceptional accounting occurrences with a material effect to be charged/credited directly to equity, such as—

- Goodwill/negative goodwill paid or received on the acquisition of participating interests.
- The effect of nonrecurring improvements to an employee pension plan, if substantial.
- Exceptional gains or losses resulting from a financial reorganization.
- Deferred tax gains/losses resulting from a change in tax rate.
- Exceptional losses of property through nationalization or destruction of noninsurable assets.
- The effect of exceptional changes in valuation.
- Translation gains and losses on investments denominated in foreign currencies.

4

Business Environment

FORMS OF BUSINESS ORGANIZATION

Entities With Corporate Attributes

Legal Entities

107. An enterprise can operate in the Netherlands in the form of a separate legal entity or as an operation of entrepreneur(s). Enterprises with a separate legal entity are usually formed for purposes of limited liability. These may take the form of either a public limited company, known as "Naamloze Vennootschap" (NV), or a private limited company, known as "Besloten Vennootschap" (BV).

108. Both the NV and the BV are legal entities possessing many of the legal characteristics of a U.S. corporation and a U.S. "closed" corporation, respectively. They can sue, be sued, enter into contracts, and transact business. The stockholders have no liability for company debt beyond their capital subscriptions. There are no nationality requirements for shareholders or directors. Although two founders are required, all stock may be held by one stockholder after formation. Formation requires the founders to appear before a notary and to obtain Ministry of Justice approval of the articles of incorporation. The incorporated company must also be registered with the Chamber of Commerce. A BV cannot sell its shares on a stock exchange or offer them for public subscription. Transfers of shares can only take place in accordance with related clauses in the statutes. Share certificates of an NV may be registered or bearer. All bearer shares must be fully paid up. Preferred or common stock may be issued, and different par values are permitted for different classes of stock. Stock with no par value is not permitted.

109. The minimum paid-up capital of an NV is Dfl. 100,000; for a BV formed after January 1, 1985, it is Dfl. 40,000. BVs formed before that date require a minimum paid-up capital of Dfl. 35,000.

110. "Structure companies" are those with share capital and reserves of Dfl. 20 million or more, employing in the Netherlands, directly or indirectly, at least one hundred persons. Such companies must have a supervisory board of at least three members. The law has given such boards extensive powers that otherwise would be in the hands of shareholders. Structure companies controlled from outside the Netherlands, however, are different; the supervisory board is not empowered by law to appoint the management board or to approve the annual accounts. These functions remain with the general meeting of shareholders.

111. Although a smaller company is not required by law to have supervisory directors, the articles may require their appointment and must provide for the appointment of managing directors.

112. Many companies have a two-tier management structure with a supervisory board and a management board. The supervisory board is a collective body with joint powers usually contained in the statutes; its duties are supervisory and advisory except in areas where the company's statutes or the law give it additional powers. Supervisory board members are initially appointed by the shareholders. Vacancies are filled by appointment by the supervisory board from among nominations by shareholders, the works council, and the management board. The management board is responsible for the daily management of the company, and it represents the company in law. It is independent from the supervisory board and the shareholders, except insofar as approval is required for certain acts as stated in the company's statutes.

113. Each member of the management board can represent the company. The representation authority in the statutes may be restricted—

a. By setting the minimum number of management board members required to act jointly or

b. By specifying that only management board members with defined functions may act or

c. By both *a* and *b*.

The representation authority of the management board and its members cannot be limited to specific subject matters.

114. Every enterprise in the Netherlands with more than thirty-five employees must establish a "works council" ("Ondernemingsraad") with advisory rights on some labor matters (for example, training) and decision-making rights on other matters (for example, safety measures). The purpose of the works council should be seen in the context of the constructive cooperation spirit that the Dutch legislature aims to establish between what is referred to in the Netherlands as the "social partners"—employers and unions on the one hand, and employees and employees organizations on the other. The most penetrating right of the works council is its role in recommending candidates for the supervisory board and its right to object to nomination proposals by the shareholders or management board. The objection can be overruled, however, in an appeal procedure. The works council also has to be involved in case of proposed structural reorganizations.

Frequency of Shareholder Meetings

115. A general meeting of shareholders is required to be held annually. Additional meetings may be called as prescribed by the company's statutes.

Liabilities of Incorporators, Shareholders, and Board Members

116. The principle of the existence of a company separate from its incorporators, shareholders, and board members applies to the NV and the BV. Certain inroads into this principle have, however, been made or are currently in process. As far as the incorporators and shareholders are concerned, there are now obligations when shares have not been issued for cash. Safeguards have been instituted regarding the value of the assets exchanged for shares as at the date of the exchange. The following far-reaching liabilities exist or will soon exist for members of the supervisory boards and management boards.

a. When a company subcontracts to another company, the main contractor can be held liable under certain circumstances for the unpaid social security premiums and taxes of the subcontractor. This liability also evolves on the board members unless they can show that they have acted properly ("Wet Ketenaansprakelijkheid").

b. If a company cannot pay its social security premiums and taxes, management board members are liable unless they can show that they acted properly as board members. Failure to produce proper annual accounts is an indication of not properly performing one's duties as a board member. (Bill to be enacted in 1987.)

c. If a company is liquidated, board members are liable for deficits to creditors if the insolvency is caused by improper management, unless a board member can show that he has acted properly. (Bill to be enacted in 1987.)

Branch of a Foreign Company

117. A foreign branch must register with the Chamber of Commerce and file certain information on both itself and its foreign parent, including the parent's articles of incorporation. The foreign parent is responsible for all obligations of the Netherlands branch. (It is rare for a foreign company to operate as a branch in the Netherlands.)

Partnership Entities

118. General and limited partnerships in the Netherlands exist on similar bases as they do in the United States. In a general partnership, known as "Vennootschap onder Firma," all partners have unlimited liability, and there are no capital requirements. There are no nationality requirements for partners, who may be individuals or commercial entities. No partner can limit or avoid joint and several liability for partnership debts. The partnership agreement, which may be an informal document, need not be filed, although the name, purpose, and location of the partnership must be filed with the Chamber of Commerce. Partnerships are not required to publish or make available for public inspection their financial statements.

119. Limited partnerships, known as "Commanditaire Vennootschap," are governed by the same rules as, and are similar to, general partnerships, except that, in addition to general partners, they include limited partners who are liable only to the extent of their respective capital contributions. A limited partner's name cannot be included in the partnership's name, and he or she can take no part in its management. If these conditions are not met, the partner will be regarded as a general partner.

Other Forms of Business Organization

Sole Proprietorship

120. If the legal structure of a corporation is not used and the business is not conducted in the form of a partnership entity described above, business operations will be treated as part of the owner's assets and liabilities. These include all the claims, tangible, and intangible goods of the operations as well as its responsibilities and obligations. The owner is the ultimate employer and manager, whether or not he lives or is represented locally. The business must be registered with the local Chamber of Commerce. There are no requirements regarding audit or filing of annual accounts. For tax return purposes the operations are included in the tax return of the sole proprietor.

REQUIREMENTS FOR PUBLIC SALES OF SECURITIES AND REQUIREMENTS FOR LISTING SECURITIES ON STOCK EXCHANGES

Registration Requirements for Public Sale

121. All security transactions including public sales must be executed through the intermediary of a stockbroker, unless an exemption has been obtained from the Ministry of Finance. An exemption is always granted for acquisition by means of a take-over of shares. Nonexempt transactions in securities executed through the intermediary of a broker are subject to Stock Exchange tax of 0.12 percent.

Requirements for Listing Securities on Major Stock Exchanges

122. The Amsterdam Stock Exchange is organized by the Association for Securities Trading ("Vereniging voor de Effectenhandel"). Persons entitled to be engaged in the brokerage of securities can be members of the Association.

123. A company wishing to have its shares quoted on the Amsterdam Stock Exchange usually does so with the assistance of one of the General Banks, who are all members of the Association for Securities Trading. The requirements regarding disclosure and

documentation are contained in the Stock Exchange Regulations ("Fondsen-reglement"). With regard to introductions or new issues, the Amsterdam Stock Exchange stipulates that a prospectus shall be published which fairly presents the state of affairs of the issuing organization as of the balance-sheet date of the last financial year for which annual accounts have been published. The prospectus shall also contain information on events of special significance that have taken place after the balance-sheet date. In addition, prospective information comparable with that required for the directors' reports accompanying annual accounts shall be included.

124. The prospectus must further include at least the following information:

- The company's history
- Name and address of company
- Names of members of the Supervisory Board and Management Board
- Date of formation of the company
- Authorized issued capital and changes in capital accounts since formation
- The latest annual accounts
- Three years of comparative figures for the balance sheet and income statement
- Preferably, the consolidated and unconsolidated accounts. (One of the two can only be omitted by special permission of the Stock Exchange regulatory authorities.)
- Earnings and dividends per share and a statement of source and application of funds for the last three years
- Relevant data on significant subsidiaries
- Various other information of relevance to the ultimate assessment of solvency, liquidity, earnings, and earning capacity of the company/group

125. Information must also be supplied about the company's auditors for the last three years, including the nature of their reports and of any qualifications therein. Other extensive informational and procedural requirements, and possible exemptions thereto, are set out in the Stock Exchange Regulations.

126. Similar information—but somewhat less extensive—is to be supplied for companies seeking quotation on the "Parallel Market," the near equivalent of the "over the counter" market.

127. The issued share capital of a company intending to be quoted must be at least Dfl. 2,500,000. Shares must be fully paid up and be issued to bearer. For quotation on the parallel market, a company must list a minimum of 10 percent of its issued share capital.

128. The accounting and auditing provisions stipulate that the issuing organization will make available to the public its annual accounts, directors' report and, where applicable, first half-year results on an ongoing basis. The accounts should conform with EEC requirements or, if not, supplementary information should be supplied to conform with overall EEC accounting provisions. As a rule, consolidated and unconsolidated data should be supplied. The annual accounts must be audited. The semiannual accounts do not need to be audited but, if an audit has been carried out, the certificate should be included in the publication.

129. Quoted companies are obliged to keep the public informed of any major developments affecting the solvency of the organization.

TAXES

Principal Types

130. The principal taxes in the Netherlands are corporate and personal income tax, value added tax (VAT), real estate transfer tax, capital tax, wealth tax, and dividend withholding tax. There are also national and employment social security contributions.

Corporate Tax

131. Resident corporations, both NVs and BVs, are taxed on worldwide income. In calculating taxable income, deductions are permitted for the following: necessary operating expenses, management fees paid, interest paid, royalties paid, license fees paid, all domestic taxes except corporate income tax, contributions to pension funds, insurance premiums, depreciation of fixed assets,

contributions to bona fide charities, and amortization of intangible assets. Resident taxpayers are—

- Limited liability corporations (both NV and BV).
- Mutual insurance companies.
- Certain other associations carrying on a trade or business.

Such entities are always deemed to be corporate taxpayers if they are established in the Netherlands.

132. Nonresident corporate taxpayers are those entities with capital wholly or partly divided into shares that are not established in the Netherlands but receive Dutch domestic income. The location of management of a foreign incorporated company operating in the Netherlands is a determining factor as to whether or not a foreign legal entity is considered to be established in the Netherlands. A subsidiary incorporated in the Netherlands and wholly owned by a foreign legal entity is in principle (depending on treaties) deemed to be a Dutch-resident corporate taxpayer, irrespective of where its management is located. However, a corporation incorporated abroad is also deemed to be such if its management is in fact carried out in the Netherlands. Nonresident corporate taxpayers are liable for corporate income tax on specific source income, which is—

a. Business income from a permanent establishment or

b. Real property and mortgages on such property located in the Netherlands.

133. The tax rate for profits on income is 42 percent. The Netherlands uses the classical system of corporation tax. Therefore, all profits are taxed at the same rate, irrespective of whether or not distribution takes place. The shareholders do not receive any credit for corporation tax levied on profits from which they receive dividends. There is a withholding tax of 25 percent on dividends. Dividends paid to stockholders in countries with which the Netherlands has double-tax treaties are either exempt or subject to a reduced withholding rate. There are no withholding taxes on interest, royalties, or technical assistance fees.

134. In order to avoid double taxation between corporate entities, benefits derived from participations by a Dutch corporate taxpayer of at least 5 percent in another domestic or foreign

corporation are not taxed by virtue of the "participation exemption." The participation exemption exempts not only the dividends received from subsidiary companies, but also the possible capital gains on sale of the shareholdings; on the other hand, the capital losses that may result from a sale of the investments will not constitute a tax-deductible item. In case of foreign participation, the relevant corporation must be subject to a tax on its income.

135. The filing of a consolidated tax return (fiscal unity) is available to corporations within one group upon application to the tax authorities. The advantages are that profits and losses of companies within the group incurred during the existence of a fiscal unity can be offset. The requirements to form a fiscal unity are—

- The parent company and the subsidiaries must be resident limited liability companies incorporated in the Netherlands.
- The parent company must hold at least 99 percent of the issued shares in the subsidiaries.
- The fiscal years of the companies must be the same.
- The companies must fall under the same tax regulations.

136. The income of foreign branches of Dutch corporations is not ordinarily subject to Dutch income tax.

137. Branches of foreign corporations are taxed as corporations but only on their Netherlands source income. There is no withholding tax on remittances to home offices.

138. A limited partnership in which the interest of a limited partner may be transferred without the consent of other partners is taxed as a corporation, and partnership distributions are considered dividends. If the transfer of ownership interest does require the consent of other partners, the partnership is treated as a general partnership for tax purposes. A general partnership is not a taxable entity; each partner is taxed on his or her share of the partnership profits, whether or not distributed.

Value Added Tax (VAT)

139. The Dutch VAT, a multistage and noncumulative tax, is levied on all services rendered and on sales of goods, with each seller crediting taxes paid against taxes due. Although the VAT does not apply to exports, all imports are subject to VAT upon

arrival in the Netherlands. VAT is levied generally at 20 percent, with a special 6 percent rate for basic foodstuffs and basic services. In addition to VAT, a special consumption tax is levied on private automobiles at rates ranging from 16 percent to 21.5 percent.

Real Estate Transfer Tax

140. A transfer tax of 6 percent is levied on real estate sales. In addition, there are annual municipal real estate taxes.

Capital Tax

141. Corporations are subject to a capital tax of 1 percent of paid-up capital upon issue. The tax is levied on the value received by a company on the issue of its shares. Share premiums, therefore, are usually also subject to this tax; dispensations and exemptions exist in cases of mergers and reorganizations.

Income Taxes on Individuals

142. Residents of the Netherlands are taxed on worldwide income, but nonresidents are taxed only on Netherlands source income. Resident status depends on the circumstances, such as the nature and length of an individual's stay in the Netherlands, whether he or she has established a dwelling place in the country, and whether he or she has registered with the Civil Registry. Foreign employees transferred to the Netherlands may apply for tax to be levied only on 65 percent of their salary for the first five years of residence in the Netherlands. Husbands and wives are taxed separately on earned income.

Wealth Tax

143. An annual 0.8 percent wealth tax is levied on all assets of an individual with the following exemptions:

- Dfl. 56,000 for a single individual under thirty-five years of age who has not been married and has no right to a dependent children allowance
- Dfl. 88,000 for all other single individuals
- Dfl. 112,000 for married couples
- Dfl. 7,000 for each dependent child younger than eighteen years of age

- Dfl. 35,000 for each dependent child between eighteen and twenty-seven years of age.

144. Residents are taxed on their entire net worth; nonresidents are taxed only on properties owned in the Netherlands. Not included in taxable assets are household furnishings, clothing, food, art objects, jewelry up to Dfl. 5,000 in value, scientific objects, and certain insurance and annuity benefits. The wealth tax is payable at the same time as income tax.

Dividend Withholding Tax

145. Dividend withholding tax is applied at a standard rate of 25 percent, which for resident individuals is a prepayment on income tax due. Tax treaties concluded between the Netherlands and other countries reduce this rate on dividend payments to nonresidents. There are no withholding taxes on interest, royalties, or technical assistance fees.

Social Security Contributions

146. There are very extensive social security schemes operative in the Netherlands covering almost all basic needs in the event of old age, spousal death, unemployment, illness, and so forth. A distinction must be made between schemes intended to cover all residents, the National Insurance Schemes ("Volksverzekeringen") and the schemes intended for employed persons only—the Employed Persons Insurance Schemes ("Werknemersverzekeringen").

147. The premiums/contributions for these schemes are sometimes paid by all income earners (for example, State Old Age Scheme) or paid by employers only (for example, General Family Allowance) or jointly by employers and employees (Employed Persons Insurance Schemes). The premiums/contributions are based on percentages of incomes with varying maximum levels built in.

Tax Returns

148. A provisional tax of 85 percent of the prior year's tax is payable annually by corporations unless it can be shown that the current year's income will be less than that of the prior year. Annual returns must be filed within six months after the end of the company's fiscal year. Extensions for filing may be granted. Final

payment (the current year's tax less the provisional tax paid) must be paid within one month after receipt of the final tax bill, which is issued after the return has been filed.

149. Individuals must file tax returns for each calendar year before April 1 of the subsequent year. For persons whose income consists only of salaries or wages not exceeding an indexed amount (1986 Dfl. 57,700), the wage-tax withheld by the employer generally constitutes the final tax levy. Extensions for filing may be granted. Tax due per the final assessment must be paid within two months from the date of the assessment. Most other taxes (VAT, capital tax, dividend withholding tax) must be paid when the return is filed by the taxpayer.

Use of Forms and Related Schedules

150. Special forms are used for the returns to be filed for all major taxes. In general, there are no rules or formalities about the manner in which related schedules are prepared.

Requirements for Preparing Accompanying Financial Statements

151. There are no regulations concerning the layout and content of financial statements submitted with tax returns. Tax accounting may, and often does, differ from commercial/legal accounting. The legal accounts accompany the returns together with reconciliations to the tax accounts and explanatory comments for the differences.

APPENDIX A

Pronouncements of the NIvRA

CODE OF CONDUCT—GUIDELINES AND INTERPRETATIONS

The NIvRA Board has issued auditing guidelines and interpretations and audit opinions on its ethical and behavioral Code of Conduct. The following is a list of the translated titles.

Guidelines

1. *General Conditions for Practicing as a Public Accountant in the Employment of a Corporation*
2. *Policy Guidelines About the Acceptance of Requests for Associations Between RAs and Foreign Qualified Accountants*
3. *Policy Guidelines About the Acceptance of Requests for Associations Between RAs and Member(s) of Other Discipline(s)*

Interpretations

1. *Tendering by Public Accountants*
2. *Due Care to Be Exercised by the Public Accountant Regarding the Publication of His Audit Report When Filing Accounts at the Trade Register*
3. *The Interpretation of the Words "Each Independently Usable Part of the Document" as Per Article 6 of the Code of Conduct*
4. *The Acting of a RA as Accountant in the Service of an Economic Entity*
5. *The Limits of Acceptable Publicity for the Public Accountant*
6. *Practicing Under Common Name of a RA and Acting as a Public Accountant With a Member of Another Discipline Employed by One Who Is Not a RA*
7. *Obtaining and Supplying Information for the Acceptance and in the Execution of Engagements (Articles 29 and 30 of the Code of Conduct)*
8. *The Application of Article 31 of the Code of Conduct, in Particular in Cases Where Assistance Is Given to a Party in a Procedure Before the Enterprise Court or to a Complainant in a Court of Ethics Procedure*

9. *The Registeraccountant and Management Functions*
10. *The Wording of the Audit Opinion in Situations Other Than Statutory Audits*

Audit Opinions

NIvRA is in the process of preparing a comprehensive set of audit guidelines in the form of audit opinions (or "Meningsuitingen"). Such opinions are authoritative pronouncements by the Dutch Institute for general guidance for members when acting in the capacity of public accountant. The Institute has already issued audit opinions on the following topics.

1. *The Audit Report in Respect of Companies With Going-Concern Problems*
2. *Quality Control in Auditing*
3. *Post-Balance Sheet Events, Dating of the Audit Report, and the Letter of Representation From Management*
4. *Working Papers for Audit Engagements*
5. *The Audit Report in Situations of Uncertainty*
6. *The Engagement Letter*
7. *Permanent Education for Registeraccountants*

Draft opinions are currently in the exposure draft stage on the subjects of continuing professional education, advertising, and initial planning of audit engagements.

PILOT Series

The NIvRA also publishes English language reports or translations on legislation, regulations, or professional viewpoints of potential importance or interest to the international accounting and business community. The following PILOTs have been published so far.

Rules of Conduct and Professional Practice of Registeraccountants

Statistical Sampling in Auditing

The Impact of EDP on Auditing

The Nature of the Auditor's Opinion on the Financial Statements of Companies With Going Concern Problems

Sincerity in Financial Reporting

Quality Control of Audit Work

Management Audit

Challenges to Financial Reporting in the Netherlands. (How corporate reporting is monitored by social pressure groups)

The Tripartite Accounting Standards Committee

Post-Balance Sheet Events, Dating of the Audit Report, and Management Representations

Internal Audit in the Netherlands
Dutch Accountancy: a Managerial Economics-based Approach
A Dutch View on Audit Fieldwork
The Auditor's Opinion on Financial Statements in Situations of Uncertainty
The Annual Report in the Netherlands
Requirements for Qualification as a Registeraccountant in the Netherlands

Study Reports

The NIvRA has issued some eighteen study reports on various topical matters of educational relevance to the practicing accountant or of an exploratory nature on matters the Dutch profession has yet to make final decision on, such as—

- The Auditor and Financial Forecasts and Projections
- The Auditor and Interim Financial Statements

APPENDIX B

Illustrative Auditors' Report and Financial Statements

The following financial statements are intended for illustrative purposes only. They may not include all the information that the law of the Netherlands requires.

We have examined the annual accounts of ABC BV for the year ended 31 December 1985.

Based on our examination, it is our opinion that the accounts give a true and fair view of the financial position of the Company at 31 December 1985 and of the results of its operations for the year then ended.

XYZ Auditors
Rotterdam
The Netherlands

27 April 1986

ABC BV
CONSOLIDATED BALANCE SHEET AT 31 DECEMBER
(After proposed appropriation of the result for the year. Expressed in millions of Dutch florins)

Assets	1985	1984
Fixed Assets		
Intangible fixed assets	12	24
Tangible fixed assets	873	945
Financial fixed assets	90	92
	975	1,061
Current Assets		
Stocks	591	611
Accounts receivable and prepayments	541	423
Cash and bank	73	49
	1,205	1,083
Total Assets	2,180	2,144

Liabilities and Shareholders' Equity	1985	1984
Share Capital and Reserves		
Share capital	418	418
Share premium	600	600
Cumulative translation adjustments	8	22
Other reserves	196	124
	1,222	1,164
Deferred Investment Grants	87	91
Provisions		
Pensions	32	31
Deferred taxation	45	51
Major maintenance	31	7
	108	89
Long-Term Debt	110	141
Current Liabilities	653	659
Total Liabilities and Shareholders' Equity	2,180	2,144

ABC BV
CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER
(Expressed in millions of Dutch florins)

	1985	1984
Net Turnover	11,878	9,987
Cost of turnover	11,632	9,801
Gross Profit	246	186
Selling expenses	122	118
General and administrative expenses	30	31
	152	149
Operating Result	94	37
Interest and similar income	6	4
Income from investments	5	3
Interest and similar expense	(12)	(13)
Result of Financial Income and Expenditure	(1)	(6)
Result Before Taxation	93	31
Taxation	21	10
Net Result	72	21

ABC BV
SIGNIFICANT ACCOUNTING POLICIES
31 DECEMBER 1985

General

The accounts have been prepared in accordance with the provisions of the Dutch legislation enacting the Fourth Directive of the European Economic Community, which became effective from 1 January 1984.

Net result and shareholders' equity are determined based on historic cost. Income and expenses are, based on the above fundamental basis of reporting, allocated to the reporting year to which they relate. Balances in the annual accounts, whose valuation is not otherwise explained, are stated at nominal value.

Intangible Fixed Assets

Goodwill, which represents the excess of cost over the underlying net value of businesses acquired, is amortized over five years using the straight-line method.

Debenture issue costs and formation expenses capitalized are amortized in five years on the straight-line basis.

Tangible Fixed Assets

Tangible fixed assets are stated at the lower of cost or economic value to the business as determined by management. Depreciation is calculated using the straight-line method, based on the expected economic lives of the assets. Cost includes interest capitalized during construction of certain major installations.

Investment grants received are deferred and amortized to the profit and loss account based on the depreciation period of the related assets.

In calculating annual depreciation the following economic lives of fixed assets are generally used:

Category of asset	Estimated economic life
Buildings	Thirty-three to forty years
Installations	Ten to thirty-three years
Other	Four to twenty-five years

Financial Fixed Assets

Minority investments (interest of less than 50 percent) are valued at their net equity value. These primarily make up joint ventures with other oil companies.

Stocks

Stocks are valued at the lower of cost using the first-in, first-out method or net realizable value. Stores stocks are valued at average cost less allowance for obsolete items.

Taxation

Taxes are calculated in accordance with tax legislation of the various countries in which the group operates.

Deferred income tax is provided, using the liability method, in respect of timing differences arising primarily from the different accounting and tax treatment of depreciation and valuation of oil stock in reporting income and expenditure for financial and fiscal purposes.

No provision is made for any taxation that might arise should the retained earnings of foreign subsidiaries and minority interests be distributed.

Pension Provisions

Pensions are funded with an insurance company. The annual increases in backservice (past service) provisions arising from insured pension schemes operating within the group are charged to income.

Provision for Major Maintenance

Every two or three years on average, a major maintenance, which results in a shutdown of the refinery, is carried out on refinery processing units. The maintenance cost is provided during the intervening period using the straight-line method.

Currency Translation

Transactions in foreign currencies are translated into florins at the exchange rate prevailing at the transaction date. At balance-sheet date all assets and liabilities denominated in currencies other than florins are translated into florins at year-end rates of exchange.

The resulting exchange gains or losses are recognized in the profit and loss account.

Principles of Consolidation

The consolidated accounts comprise the accounts of ABC BV and its wholly owned subsidiaries as shown in the list of subsidiaries in "Other Information." All significant intercompany balances and transactions are eliminated on consolidation.

Except for shareholders' equity, the annual accounts of the foreign subsidiaries have been translated from the local currency into Dutch florins at the rate of exchange ruling at the balance sheet date. Exchange differences arising on translation of the net investments in subsidiary companies into Dutch florins is included as a component of shareholders' equity.

ABC BV
NOTES TO THE CONSOLIDATED ACCOUNTS
31 DECEMBER 1985
(Expressed in millions of Dutch florins)

1. General

ABC BV (the "Company") together with its subsidiaries ("ABC Group") are engaged in trading and refining crude oil, and the marketing and distributing of finished oil and gas products.

2. Intangible Fixed Assets

The movements during the year in intangible fixed assets can be summarized as follows:

	Debenture issue costs and discounts	Formation expenses	Goodwill	Total 1985	Total 1984
Cost					
Opening balance	10	15	38	63	53
Additions	—	—	—	—	15
Elimination of fully amortized goodwill	—	—	(5)	(5)	(5)
Closing balance	10	15	33	58	63
Accumulated amortization					
Opening balance	6	12	21	39	36
Charge for the year	2	3	7	12	8
Elimination of fully amortized goodwill	—	—	(5)	(5)	(5)
Closing balance	8	15	23	46	39
Net book amount at 31 December 1985	2	—	10	12	
Net book amount at 31 December 1984	4	3	17		24

3. Tangible Fixed Assets

The movements during the year in tangible fixed assets can be summarized as follows.

	Land and buildings	Installations	Other	Assets under construction	Total 1985	Total 1984
Cost						
Opening balance	99	1,399	58	6	1,562	1,556
Additions	6	14	5	9	34	6
Transfers	—	10	3	(13)	—	—
Closing balance	105	1,423	66	2	1,596	1,562
Accumulated depreciation						
Opening balance	41	546	30	—	617	522
Charge for the year	4	97	5	—	106	95
Closing balance	45	643	35	—	723	617
Net book amount at 31 December 1985	60	780	31	2	873	
Net book amount at 31 December 1984	58	853	28	6		945

Installations consist primarily of a refinery.

The refinery site has been leased for a period of fifty years (commencing 1st January 1955) from the Municipality of Rotterdam. On expiration of this period the lease can be extended for further periods of twenty-five years up to 2055. Under the terms of the agreement, the muncipality cannot terminate the lease before that year.

The current cost of properties and operating assets is estimated at Dfl. 2,200 million (1984: Dfl. 2,166 million). The accumulated depreciation on a current cost basis is estimated at Dfl. 1,296 million (1984: Dfl. 1,159 million).

4. Financial Fixed Assets

These make up a loan to and investments in minority interests.

The movements in financial fixed assets can be summarized as follows:

	1985	1984
Investments		
Opening balance	30	25
Translation adjustment	(2)	2
Equity share in results for the year	5	3
Closing balance	33	30
Loan		
Opening balance	62	58
Translation adjustment	(5)	4
	57	62
Total financial fixed assets	90	92

The loan comprises a U.S. dollar loan, bearing interest at an annual rate of 1/8 percent above the rate of interest paid in respect of the relating Debentures 1980/89. Repayment of the loan will be made in amounts corresponding to all payments the subsidiary company may be required to make or elect to make to the holders of the Debentures (see Note 14).

5. Stocks

These comprise—

	1985	1984
Crude oil	246	308
Finished oil products	317	276
Stores and materials	28	27
	591	611

6. Accounts Receivable and Prepayments

These comprise—

Trade debtors	504	386
Long-term receivables due within one year	6	6
Investment grants	5	7
Other receivables	26	24
	541	423

7. Cash

Cash includes bank, giro, and cash balances. There are no restrictions on these accounts, other than in respect of Dfl. 5 million located in a country with severe exchange regulations.

8. Share Capital

The authorized share capital comprises 600,000 common shares of Dfl. 1,000 (one thousand) each. The issued share capital comprises 418,000 shares, each of which is fully paid.

During 1985 and 1984 there were no changes in issued share capital.

9. Share Premium

Share premium consists of premium received on shares issued. During 1985 and 1984 there were no changes in share premium.

10. Cumulative Translation Adjustment

The movements in the reserve are as follows:

	1985	1984
Opening balance	22	—
Net result for the year	(14)	22
Closing balance	8	22

11. Accumulated Profits

The movement in the reserve is as follows:

	1985	1984
Opening balance	124	103
Net result for the year	72	21
Closing balance	196	124

12. Pension Provisions

The provision represents the backservice liability, which is not vested, based on the proportionate premium method, discounted at 8 percent and is regarded as long-term.

13. Deferred Taxation

Deferred taxation relates mainly to differences in valuation of oil stock for fiscal and commercial purposes and is regarded as long-term.

14. Long-Term Debt—Amounts Falling Due After More Than One Year

This comprises—

	1985	1984
12% U.S. dollar Debentures 1980/1989	57	62
8% Dutch florin Debentures 1970/1986	10	16
7¼% Dutch florin Debentures 1970/1987	22	28
8½% Loan 1976/1987	26	35
	115	141
Other debts (average interest 7¾%)	20	29
	135	170
Less: Due within one year	25	29
	110	141

The redemption scheme of the remaining long-term debt can be summarized as follows:

Repayable within one to two years	27	27
Repayable within two to three years	17	24
Repayable within three to four years	58	17
Repayable within four to five years	2	64
	104	132
Repayable within five to ten years	6	8
Repayable ten years and over	—	1
	6	9
	110	141

15. Current Liabilities—Amounts Falling Due Within One Year

These comprise—

	1985	1984
Current portion of long-term debt	25	29
Suppliers	553	548
Taxes and duties	62	65
Pensions	3	3
Loan interest	4	6
Other liabilities	6	8
	653	659

16. Commitments and Contingent Liabilities

The major lease commitments of the Company and its subsidiaries at 31 December 1985 (excluding indexation) can be summarized as follows:

1986	18
1987	18
1988	26
1989	15
1990	15
1991 up to and including 2005 (annually)	15

17. Net Sales by Geographical Area

Net sales of the Company and subsidiaries by geographical area can be summarized as follows:

	1985	1984
The Netherlands	3,567	2,582
United Kingdom	2,414	1,872
West Germany	2,416	1,924
France	1,237	936
Italy	823	723
Spain	781	802
Other	640	1,148
	11,878	9,987

18. Salaries, Social Charges, and Pension Cost

These comprise—

	1985	1984
Salaries	75	74
Social charges	12	12
Pension cost	3	3
	90	89

Included in these amounts are remuneration and pension costs for management and former management of Dfl. 510 thousand and for the supervisory directors of Dfl. 52 thousand.

The average number of persons employed during the year is as follows:

	1985	1984
Refining	412	410
Marketing	774	738
Other	82	64
	1,268	1,212

19. Taxation

Differences between the effective tax rate and the statutory tax rate are caused by tax deductible items of a permanent nature.

ABC BV
BALANCE SHEET AT DECEMBER 31
(After proposed appropriation of the result for the year. Expressed in millions of Dutch florins)

	1985	1984
Assets		
Fixed Assets		
Financial fixed assets	1,033	1,042
Current Assets		
Stocks	560	550
Accounts receivable and prepayments	16	43
Amounts due from ABC Subsidiaries	249	131
Cash and bank	37	4
	862	728
Total Assets	1,895	1,770

Liabilities and Shareholders' Equity	1985	1984
Share Capital and Reserves		
Share capital	418	418
Share premium	600	600
Cumulative translation adjustment	8	22
Legal reserve	22	—
Other reserves	174	124
	1,222	1,164
Provisions		
Pensions	3	3
Deferred taxation	40	45
	43	48
Long-Term Debt	19	28
Current Liabilities		
Creditors and accrued expenses	435	348
ABC Subsidiaries	176	182
	611	530
Total Liabilities and Shareholders' Equity	1,895	1,770

ABC BV
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER
(Expressed in millions of Dutch florins)

	1985	1984
Net Turnover	8,321	7,459
Cost of turnover	8,247	7,405
Gross Profit	74	54
General and administrative expenses	11	9
Operating Result	63	45
Interest and similar income	4	—
Income/(loss) from investments	22	(15)
Interest and similar expenses	(2)	(3)
Result of Financial Income and Expenditure	24	(18)
Result Before Taxation	87	27
Taxation	15	6
Net Result	72	21

ABC BV
SIGNIFICANT ACCOUNTING POLICIES
31 DECEMBER 1985

General

The methods used to determine the result and the equity as well as the separate components of the balance sheet and profit and loss account are those used in the consolidated accounts.

As a result of the implementation of the legislation noted in the consolidated significant accounting policies section, it became necessary from 1 January 1984 for the Company to transfer from retained earnings to a nondistributable legal reserve an amount equal to any undistributed results arising from 1984 onwards in respect of investments and included in its profit and loss account.

Investments

The investments in ABC Group Companies are included in these accounts at their net equity value. Dividends are recognized when declared.

ABC BV
NOTES TO THE ACCOUNTS
31 DECEMBER 1985
(Expressed in millions of Dutch florins)

1. Financial Fixed Assets

These comprise investments in and amounts due from ABC Subsidiaries.

The movements in investments and amounts due can be summarized as follows:

	1985	1984
Investments		
Opening balance	175	180
Translation adjustment	(6)	10
Equity share in results for the year	22	(15)
Closing balance	191	175
Amounts due		
Opening balance	867	917
Translation adjustment	(8)	12
Repayment	(17)	(62)
Closing balance	842	867
Total financial fixed assets	1,033	1,042

The amounts due are noninterest bearing.

2. Stocks

These comprise—

Crude oil	280	308
Finished oil products	280	242
	560	550

3. Accounts Receivable and Prepayments

These comprise—

	1985	1984
Investment grants	5	7
Prepaid expenses	8	16
Other receivables	3	20
	16	43

4. Cash and Bank

Comprises bank balances which are unrestricted.

5. Reserves

The movements in the reserves are as follows:

	Cumulative translation adjustment	Legal reserve	Other reserves	1985 Total	1984 Total
Opening balance	22		124	146	103
Translation adjustment	(14)	—	—	(14)	22
From 1984 net result	—	22	50	72	21
Closing balance	8	22	174	204	146

The legal reserve comprises the amount of undistributed earnings of subsidiary companies included in the Company's 1985 profit and loss account as a result of equity accounting. The legal reserve is not available for distribution until such time as the subsidiaries distribute their income.

6. Long-Term Debt—Amounts Falling Due After More Than One Year

This comprises—

	1985	1984
8.5% loan 1976/1987	26	35
Other debts (average interest 7.75%)	3	3
	29	38
Less: Due within one year	(10)	(10)
	19	28

The redemption scheme of the remaining long-term debt can be summarized as follows:

Repayable within one to two years	10	10
Repayable within two to three years	9	10
Repayable within three to four years	—	8
	19	28

7. Creditors and Accrued Expenses—Amounts Falling Due Within One Year

These comprise—

Current portion of long-term debt	10	10
Suppliers	363	277
Taxes and duties	58	53
Pensions	3	3
Loan interest	1	1
Other liabilities	—	4
	435	348

8. Contingencies and Commitments

The Company has, under article 403, Title 8, Civil Code, Book 2, guaranteed the liabilities of the following subsidiaries:

ABC Raffinaderij BV
ABC Marketing BV

9. Net Sales

Net Sales of the Company are substantially to ABC group companies.

10. Salaries, Social Charges, and Pension Cost

These comprise—

	1985	1984
Salaries	3.0	2.8
Social charges	0.5	0.5
Pension cost	0.1	0.1
	3.6	3.4

The average number of persons employed during the year is as follows:

	50	49

27 April 1985

Managing Directors	Supervisor Directors
A. Wit, Chairman	H. Lang, Chairman
B. Zwart	J. Kort
C. Rood	K. Wijd
D. Blaauw	

APPENDIX C

Checklist for Comparison of Generally Accepted Auditing Standards (GAAS) in the United States to Auditing Standards in the Netherlands

General Information	Answers	Comments
1. Is a primary purpose of an audit—		1. Historically, the audit function in the Netherlands has been predicated on protection of shareholders as well as any other potential user of financial statements in general. This underlying philosophy has been taken over by the legislature when mandatory audit requirements were first introduced in 1972 and reconfirmed with the introduction of the Fourth Directive into Dutch national law. This explains why Dutch audit reports are often not addressed to any specific party.
a. To attest to information used by investors, creditors, and so forth?	Yes	
b. To satisfy statutory requirements (for example, the Companies Act)?	Yes	
c. For tax purposes?	No	

2. A. The United States has ten generally accepted auditing standards including general standards, standards of fieldwork, and standards of reporting. Those standards and their interpretations constitute U.S. generally accepted auditing standards that have been published in *Codification of Statements on Auditing Standards*. Do generally accepted auditing standards exist in the Netherlands?	Yes	2A. As far as professional pronouncements (opinions) are concerned, they are still on a piecemeal basis, but an all-out effort is presently being made to produce a comprehensive set of auditing guidelines.
B. If so, are they published?	Yes	2B. See appendix A.
C. If auditing standards exist in the Netherlands, are they similar to U.S. standards?	Yes	2C. Conceptually they are similar but less prescriptive in their procedural details.
D. If not, what are they?		
3. Who is responsible for promulgating auditing standards (for example, the profession, a governmental body, and so forth)?		3. Overall responsibility rests with the "Commissie Beroepsvraagstukken (CBV)," which delegates the production of standards to technical subcommittees within NIvRA, in particular the "Commissie Controlevraagstukken (CCV)," the Audit Practice Committee.

Notes:

Checklist was completed from the perspective of performing a local audit, *not* a referral audit.
AU section numbers refer to sections in the *Codification of Statements on Auditing Standards*, unless otherwise noted.

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
4. Do auditors confirm receivables? (AU sec. 331)	No		✓		4. This is increasingly becoming practice.
5. Do auditors observe inventory counts? (AU sec. 331)	No	✓			
6. Do auditors receive written representations from management? (AU sec. 333)	Strongly recommended. (Opinion 3)	✓			6. Practice is increasing.
7. Do auditors receive written representations from management's legal counsel? (AU sec. 337)	No		✓		
8. A. Do auditors prepare and maintain working papers? (AU sec. 339)	Yes. (Opinion 4 and Code of Conduct, article 18)	✓			
B. If so, do they include a written audit program outlining procedures to be performed? (AU sec. 339)	Yes. (Opinion 4)	✓			
9. Do auditors study existing internal controls as a basis for reliance thereon in determining the nature, extent, and timing of audit tests to be performed? (AU sec. 320)	Yes. (Opinion 5)	✓			9. Based on authoritative literature

10. A. Do auditors communicate material weaknesses in internal accounting control to senior management or the client's board of directors? (AU sec. 323)	Yes. Civil Code, Book 2, Title 8, article 393.4	✓	10A. Less than material weakness may also be communicated in a management letter.
B. If so, is the communication documented? (AU sec. 323)	Yes	✓	
11. In obtaining evidential matter, does the auditor apply either statistical or nonstatistical procedures? (AU sec. 350)	No	✓	11. Both are used.
12. Is the auditor responsible for planning his examination to search for errors or irregularities that would have a material effect on the financial statements? (AU sec. 327)	Yes. Code of Conduct, article 11, by inference only	✓	
13. A. Does the auditor perform procedures to identify related party transactions and their effect on the financial statements? (AU sec. 334)	Yes. Civil Code, Book 2, Title 8	✓	13A. Awareness of the possible risks of group-related transactions is a base postulate in the audit; legal disclosure requirements are less rigorous than in the United States.
B. If so, list the procedures.			13B. Responsibility for identification primarily rests with company; auditor will evaluate and test adequacy of procedures so established and the results.

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
14. Does the auditor consider the adequacy of cut-off procedures to insure that movements into and out of inventories are properly identified in the accounting records? (AU sec. 313)	No	✓			
15. A. Are specific auditing procedures applied to transactions occurring after the balance sheet date? (AU sec. 560)	Yes. Opinion 3; Civil Code, Book 2, Title 8	✓			
B. Are other auditing procedures applied to ascertain the occurrence of subsequent events that require adjustment to or disclosure in the financial statements? (AU sec. 560)	Yes. Opinion 3; Civil Code, Book 2, Title 8	✓			
16. The concept of "joint auditors" in certain countries (for example, the United Kingdom, Canada, and Australia) is that two auditors or audit firms jointly audit the financial statements of a company and issue a single report signed by the two firms. This practice is not generally followed in the United States. Does the concept of "joint auditors" exist in the Netherlands?	No		✓		16. Two large Dutch/U.K. multinationals, Shell and Unilever, have joint audits.

17. When a principal auditor is reporting on financial statements that include one or more subsidiaries, divisions, branches, or investees (AU sec. 543)—				
A. Must the principal auditor assume responsibility for the work of the other auditor as it relates to the principal auditor's opinion?	Yes. Code of Conduct, article 15	✓		
B. May the principal auditor decide not to assume that responsibility by making reference to the other auditor and indicating the division of responsibility?	No. Code of Conduct, article 15		✓	
18. A. Is there a standard form of auditor's report? (AU sec. 509)	Yes. Recommendation NIvRA Board 1972; Code of Conduct, article 13, by inference	✓		18A. See appendix B.
B. List the circumstances that require a departure from the standard report and indicate the type of report required. (AU sec. 509)				18B. See paragraph 57 of text.
19. A. Does the auditor's report express an opinion on the consistency of application of accounting principles? (AU sec. 420)	No			19A. Only by implication

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
B. If not, does it imply that either consistency exists or the financial statements disclose the inconsistency?	Yes. Civil Code, Book 2, Title 8, article 363.5				
20. A. Is the auditor's report dated as of the last day of fieldwork? (AU sec. 530)	No		✓		
B. If not, what date is used?					20B. Per Opinion 3, report is dated when annual accounts are approved by directors.
21. To express an opinion, must the auditor be independent? For the purpose of this checklist, independence is defined as being free of financial interest in the client (Code of Professional Ethics, rule 101).	Yes. Code of Conduct, article 9 (impartiality) and article 22 (independence)	✓			
22. Describe any auditing standards for the Netherlands for which there are no corresponding U.S. auditing standards.					22. No additional standards

APPENDIX D

Checklist for Comparison of Generally Accepted Accounting Principles (GAAP) in the United States to Accounting Principles in the Netherlands

General Information	Answers	Comments
1. Are there generally accepted accounting principles in the Netherlands? If so, are they codified?	Yes Yes	1. Civil Code, Book 2, Title 8 Guidelines of the Council for Annual Reporting
2. Who is responsible for promulgating accounting principles (for example, the profession or a governmental body)?		2. Legislature; Government (decree); the Enterprise Court; interpretation; the Council for Annual Reporting

Notes:

References in parentheses are to sections in the *FASB Current Text*, unless otherwise noted.
"GCAR" refers to Guidelines of the Council for Annual Reporting.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
3. Are assets and liabilities recorded on the historical cost basis?	Yes. Civil Code, Book 2, Title 8, article 384; GCAR (par.1.03)	✓			3. Current value accounting is the minority practice.
4. Are interest costs, incurred while activities that are necessary to get an asset ready for its intended use are in progress, capitalized as part of the historical cost of an asset? (I67)	Allowed. Civil Code, Book 2, Title 8, article 388; GCAR (par.1.03)	✓			4. Predominant practice for fixed assets, and minority practice for inventories
5. A. Is a general revaluation (either upward or downward) of assets permitted? (D40)	Yes. Civil Code, Book 2, Title 8, article 384 + current value, value to the business, or net realizable value.		✓		5. Or footnoted in addition to historical cost
B. If so, define the basis.	As defined in governmental decree and GCAR (par.1.03)				
6. Are nonmonetary transactions that culminate an earnings process accounted for on the basis of the	No	✓			6. Note that intangible assets can only be valued at cost.

fair market value of the assets involved when that value is determinable within reasonable limits? (N35)			
7. Is revenue recognized when it is earned and its realization is reasonably assured (rather than when money is received)? (Statement of Financial Accounting Concepts No. 5)	Yes. Civil Code, Book 2, Title 8, article 362; GCAR (par.2.7.1)	✓	
8. Are costs recorded when incurred rather than when money is paid? (Statement of Financial Accounting Concepts No. 5)	Yes. Civil Code, Book 2, Title 8, article 362; GCAR (par.2.7.1)	✓	
9. A. Are consolidated financial statements required when one company has control over another company? (C51)	Yes. Civil Code, Book 2, Title 8, article 362; Draft GCAR (par.2.03)	✓	
B. Is control usually indicated by ownership of over 50 percent of the outstanding voting shares? If not, how is control indicated?	Yes. Civil Code, Book 2, Title 8, articles 54a, 76, and 186	✓	9B. Usually, but not exclusively; control can be exercised other than by ownership.
10. A. Are there instances when an entity would not be consolidated even though control is present? (C51)	Yes. Civil Code, Book 2, Title 8, articles 54a, 76, and 187; Title 8, article 379; Draft GCAR (par.2.03)	✓	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
B. If so, list them.					10B. For example, in the case of investments in industries that are very dissimilar to the primary operations, such as consolidation of an industrial group with a bank/insurance subsidiary
11. If consolidation is not otherwise appropriate, is the equity method used for unconsolidated subsidiaries, corporate joint ventures, and other investees when the investments give the investor the ability to exercise significant influence over the investees' operating and financial policies? (I82)	Yes. Civil Code, Book 2, Title 8, article 389 + explanatory notes to law; Draft GCAR (par.2.03)	✓			
12. Are there two methods of accounting for business combinations—the pooling-of-interests method and the purchase method? (B50)	No		✓		12. Pooling-of-interests method is very rare.
13. Is the method used to account for a business combination disclosed? (B50)	Yes. Civil Code, Book 2, Title 8, article 384; Draft GCAR (par.2.03)	✓			
14. A. Do criteria exist for treatment of business combinations as poolings of interests? (B50)	No				

B. If so, list the criteria.			
15. A. Is goodwill arising from a business combination accounted for as an asset? (160)	Possibly. Civil Code, Book 2, Title 8, article 389; Draft GCAR (par.2.03)	✓	
B. If so, is it amortized as a charge to income over the period estimated to be benefited?	If capitalized, yes, over five or, exceptionally, ten years (Draft GCAR par.2.03; Title 8, article 386.3)	✓	15B. Alternatively, goodwill can be written off immediately against reserves or as charged to income.
16. Are the following disclosures made for related party transactions: (R36)			16. Predominant practice if applicable. Only interest and investment income from related parties to be disclosed, plus year-end intercompany group balances.
a. The nature of the relationship?	No. Only selected transactions	✓	
b. A description of the transactions for the periods presented?	Special transactions	✓	
c. The amounts of the transactions for the periods presented?	Yes, as for *b.* (Civil Code, Book 2, Title 8, article 377)	✓	
d. The amounts due to or from related parties at the balance-sheet date?	Yes. Civil Code, Book 2, Title 8, articles 367, 370, and 375	✓	
17. Is an estimated loss from a loss contingency accrued only if it is probable that an asset has been impaired or a liability incurred and the amount of loss can be reasonably estimated? (C59)	Yes. Civil Code, Book 2, Title 8, article 374; Draft Directives (par.2.53 and 2.65)	✓	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
18. If a loss contingency is not accrued because both conditions for accrual listed in question 17 are not met, is disclosure of the contingency required when there is at least a reasonable possibility that a loss may have been incurred? (C59)	Yes. Draft GCAR (par.2.53); GCAR (par.2.65)	✓			18. Title 8, article 376 requires guarantees, in particular for group companies to be disclosed.
19. Are guarantees of the indebtedness of others or other loss contingencies disclosed in financial statements even though the possibility of loss may be remote? (In the United States, guarantees are usually disclosed as loss contingencies even if the possibility of loss is remote.) (C59)	Yes. Guarantees and discounted notes as per Civil Code, Book 2, Title 8, article 376	✓			
	Other loss contingencies: no		✓		
20. Are the following items disclosed in an enterprise's financial statements for each industry segment: (S20)					20. However, if a company has activities in various industry segments, insight is required, with the support of figures, into the extent to which each type of activity has contributed to the turnover.
a. Sales to outsiders and intersegment sales?	Yes. Civil Code, Book 2, Title 8, article 380	✓			
b. Operating profit or loss?	No				
c. Identifiable assets and related depreciation, depletion, and amortization expense?	No				
d. Capital expenditures?	No				

e. Equity in net income and net assets of unconsolidated subsidiaries and other investees?	No		
f. Effect of a change in accounting principle? (S20)	No		
21. A. Are there any requirements to disclose the effects of inflation? (C27)	Yes, if significant (per explanatory notes to Title 8)	✓	21A. At least in footnotes
B. If so, list the disclosures required.			21B. If there is a material difference between costs and current/replacement value the accounts should either be stated at current/replacement value or the difference should be footnoted. The Netherlands does not endorse inflation accounting in the sense of general price-level accounting; it does endorse specific price-level adjustments.
22. Are assets segregated into current and noncurrent classifications with a total for current assets presented? (B05)	Yes. Civil Code, Book 2, Title 8 + model chart of accounts	✓	
23. A. Are noncurrent assets those not expected to be realized within one year or the current operating cycle? (B05)	Yes. Civil Code, Book 2, Title 8, by inference	✓	
B. If not, how are noncurrent assets defined?			
24. A. Is an allowance established for uncollectible receivables? (C59)	Yes. Civil Code, Book 2, Title 8, article 387	✓	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
B. If so, what is the basis (for example, percentage of sales, aging of receivables, and so forth) for calculating the allowance?					24B. The most effective method applicable under the circumstances
25. Are receivables and payables, not arising in the normal course of business or subject to normal trade terms, recorded at an amount which takes imputed interest into account? (I69)	No, except for pension provisions. Draft GCAR (par.2.53)	✓			25. Predominant practice for pensions
26. A. Is inventory stated at the lower of cost or market (or net realizable) value? (I78)	Yes. Civil Code, Book 2, Title 8, articles 384 and 385	✓			
B. If not, how is inventory stated?					26B. Replacement cost is the minority practice.
C. Is the basis disclosed?	Yes. Civil Code, Book 2, Title 8, article 384	✓			
27. Does cost for inventory purposes include— (I78)					
a. Materials?	Yes	✓			
b. Direct labor?	Yes	✓			
c. Factory overhead?	Yes	✓			
	Civil Code, Book 2, Title 8, article 387; GCAR (par.1.03)				

d. If the answer to *c.* is yes, is an allocable share of all factory overhead included?	Optional	✓		
28. A. Are the following cost methods permitted for reporting purposes: (I78)				28A. Average cost is also commonly used.
a. First-in, first-out (FIFO)?	Yes	✓		
b. Last-in, first-out (LIFO)?	Yes		✓	
c. Average cost?	Yes Civil Code, Book 2, Title 8, article 387; GCAR (par.1.03)		✓	
B. Are the same methods permitted for tax purposes?	Not LIFO			
29. Is the inventory costing method that is used disclosed? (I78)	Yes. Civil Code, Book 2, Title 8, article 384; GCAR (par.1.03)	✓		
30. A. Are fixed assets depreciated over their estimated useful lives by systematic charges to income? (D40)	Yes. Civil Code, Book 2, Title 8, article 386; GCAR (par.2.02)	✓		
B. If so, is an accumulated depreciation account used?	Yes. Civil Code, Book 2, Title 8, article 368; GCAR (par.2.02)	✓		
31. Are disclosures made of—(D40)				
a. Depreciation expense for the period?	Yes	✓		
b. Balances of major classes of depreciable assets?	Yes Civil Code, Book 2, Title 8, article 368; GCAR (par.2.02)	✓		

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
c. The methods used to compute depreciation for the major asset classes?	Yes (Civil Code, Book 2, Title 8, article 368; GCAR (par.2.02))	✓			
d. Accumulated depreciation, either by major class of assets or in total?	Yes (Civil Code, Book 2, Title 8, article 368; GCAR (par.2.02))	✓			
32. A. Do criteria exist for classifying leases as operating leases? (L10)	Yes. GCAR (par.1.05)	✓			
B. If so, list the criteria and disclosure requirements.					32B. If not a financial lease, the lessee will not become, ultimately, the legal owner; the economic risks rest with the lessor as with a rental contract. Terms and amount to be disclosed.
33. A. Do criteria exist for classifying leases as other than operating leases for the lessor and lessee? (L10)	Yes. GCAR (par.1.05)	✓			33A. Lessee has legal right to acquire asset on termination of agreement at a price below market value, or lease period equates economic lifetime asset, or combinations thereof.
B. If so, list the criteria, type of lease, and disclosure requirements.					33B. Similar to, but more globally defined than U.S. GAAS
34. Are liabilities segregated into current and noncurrent classifications with a total for current liabilities presented ? (B05)	Yes. Title 8 + model chart of accounts	✓			

35. A. Are noncurrent liabilities those whose liquidation is not expected to require the use of current assets or the creation of current liabilities? (B05)	Yes, by inference		✓	
B. If not, how are noncurrent liabilities defined?				35B. Noncurrent liabilities are those payable in excess of one year. Title 8, model chart of accounts; Directives (par.2.55)
36. For notes payable, is disclosure made of—(C59 and Statement of Financial Accounting Concepts No. 5)				
a. Interest rates?	Yes	Yes. Civil Code, Book 2, Title 8, article 375; GCAR (par.2.53)	✓	36*a*. In excess of one year
b. Maturities?	Yes, globally		✓	36*b*. In excess of five years
c. Assets pledged as collateral?	Yes		✓	
d. Covenants to reduce debt?	Yes		✓	
e. Minimum working capital requirements?	Yes, if applicable		✓	
f. Divided restrictions?	Yes, if applicable		✓	
37. A. For long-term construction-type contracts, are the percentage-of-completion and completed contract method used? (C04)	Yes, by inference only		✓	37A. While both are used, no statistical data on exact application
B. If so, what are the criteria for determining the method to be used?				37B. Same as in United States
38. A. Are research costs charged to expense when incurred? (R50)	Optional. Draft GCAR (par.2.01)		✓	38A. Can be capitalized subject to setting up legal reserve (Title 8, article 365).

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
B. Are such costs disclosed?	Yes. Civil Code, Book 2, Title 8, article 391	✓			38B. Disclosed in directors' report
39. A. Are development costs charged to expense when incurred? (R50)	Optional. Draft GCAR (par.201)	✓			
B. Are such costs disclosed?	Yes. Civil Code, Book 2, Title 8, article 391	✓			39B. Disclosed in directors' report
40. A. In the United States events and transactions are presented in the income statement as extraordinary items when they are unusual in nature and are of the type that would not reasonably be expected to recur in the forseeable future. Do similar criteria for identifying extraordinary items exist in the Netherlands? (I17)	Yes. Civil Code, Book 2, Title 8, article 377; Draft GCAR (par.2.71)	✓			
B. If not, what are the criteria?					
41. Are material events or transactions that are unusual in nature or expected to occur infrequently but not both (and thus do not meet the criteria for classification as extraordinary) shown as a separate component of income or expense? (I22)	Yes. Civil Code, Book 2, Title 8, article 377; Draft GCAR (par.2.71)	✓			41. Other income

42. A. Are disclosures required for—			
a. Extraordinary items? (I17)	Yes. Civil Code, Book 2, Title 8, article 377; GCAR (par.2.71)	✓	
b. Material events or transactions not classified as extraordinary items? (I22)	Yes, optional, at least to be included in directors' report. Civil Code, Book 2, Title 8, article 391; GCAR (par.2.71)	✓	42*b*. Other income or otherwise
c. Disposal of a segment of a business? (I13)	Yes. Civil Code, Book 2, Title 8, article 377; GCAR (par.2.71)	✓	42*c*. Sale of investment or extraordinary income
B. Indicate the financial statement presentation of these items.			42B. See comments to 42A
43. A. Are pension costs provided for covered employees over the term of employment? (P15)	Yes. Draft GCAR (par.2.53)	✓	
B. If so, do they include charges for costs assigned under the actuarial method used to years prior to the plan's inception?	Possibly yes. Draft GCAR (par.2.53), if applicable	✓	
44. A. Are specific disclosures required relating to pension plans? (P15)	Yes. Title 8, articles 377, 382; Draft GCAR (par.2.53)	✓	44A. Explanation of accounting principles applied against the background of the plan in force. The plan itself need not be explained; unfunded rights are to be provided for, unfunded contingent rights/obligations (for example, unfunded backservice)
B. If so, list them.			

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
					need to be disclosed. Pension cost needs to be disclosed in P/L; pension provisions are to be disclosed separately.
45. A. When accounting income and taxable income differ, are deferred income taxes recorded for differences (as opposed to permanent differences)? (I24)	Yes. Draft GCAR (par.2.53). Law: optional	✓			
B. If so, are deferred taxes provided for all timing differences (as opposed to only those meeting certain criteria)?	Yes. Draft GCAR (par.2.53)	✓			
C. If deferred taxes are provided only for those timing differences meeting certain criteria, what are the criteria?	No				
46. A. Are deferred taxes determined on the basis of tax rates in effect at the time the difference originated? (I24)	No		✓		
B. If not, on what basis?					46B. Effective current rate
47. A. Is specific information related to income taxes required to be disclosed? (I28)	Yes. Civil Code, Book 2, Title 8, articles 377 and 390; Draft GCAR (par.2.53)	✓			47A,B. Base valuation/income determination principles, among which accounting for taxes, normally disclosed. Application of deferred taxes on revaluations to be disclosed.

B. If so, list the requirements.			
48. A. Are operating losses reported on the income tax return allowed to be carried backward to earlier periods? (I37)	Yes. Draft GCAR (par.2.53)		
B. If so, are the tax effects of a loss carryback included in the income in the period?	Yes. Draft GCAR (par.2.53)	✓	
49. A. Are operating losses reported on the income tax return allowed to be carried forward? (I37)	Yes	✓	
B. If so, are the tax effects of a loss carryforward included in the income in the period realized?	No. Draft GCAR (par.2.53)		49B. Except, possibly, for timing differences released within the period of compensation allowed
50. Are financial statements of a foreign entity prepared for consolidation purposes measured in the currency of the primary economic environment in which the entity operates? (F60)	Yes. GCAR (par.1.03)	✓	
51. Are all elements of financial statements translated at current exchange rates? (F60)	No	✓	51. Income statement at rate of exchange per transaction date; loans not always denominated in foreign currency.
52. A. Are translation adjustments reported separately? (F60)	Optional. GCAR (par.1.03)	✓	
B. Are they accumulated in a separate component of stockholders' equity until ultimately realized?	Optional. GCAR (par.1.03)	✓	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
C. Is there an analysis of the changes during the period in the component of stockholders' equity relating to translation adjustments?	Optional. GCAR (par.1.03)		✓		
53. A. Are gains and losses resulting from transactions, denominated in a currency other than that of the environment in which the entity operates, included in determining net income for the period in which the exchange rate changes? (F60)	No	✓			
B. Is the aggregate transaction gain or loss included in determining net income for the period disclosed in the financial statements or notes?	No	✓			53B. These net exchange gains or losses are sometimes grouped with other financial income and expenditure.
54. Are gains or losses on foreign currency transactions that are intended to hedge a foreign currency commitment deferred and included in the related transaction? (F60)	Yes. GCAR (par.1.03)	✓			
55. What information is disclosed about foreign currency restrictions?					55. No specific requirements; if of relevance to profit realization principle, to be disclosed or accounted for.

56. Are significant events arising subsequent to the balance sheet date reflected in the financial statements or notes thereto?	Yes. Civil Code, Book 2, Title 8, articles 362, 391 and 392; Draft GCAR (par.4.03)	✓	
57. List any accounting standards for the Netherlands for which there are no corresponding U.S. accounting standards.			57. Unique standards follow: • Model chart of accounts, EEC Fourth Directive-based • Governmental decree on application of current value accounting (broad) • Treatment legal reserves/ revaluation reserves • Accounting for government grants

Bibliography

The information in this booklet was compiled from many sources in the Netherlands. Significant references follow:

- Pronouncements of the NIvRA (See appendix A.)
- Dutch Civil Code, Book 2, Title 8
- Guidelines of the Council for Annual Reporting

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