

# Accounting Estimates and Judgments

note 28

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expense. Actual results may differ from those estimates.

Policies that are critical for the presentation of the financial position and financial performance of the Group and that require estimates and judgments are discussed below.

## Revenue recognition

Revenue recognition requires estimates and judgments as far as it relates to estimating expected returns from customers and non-renewed orders. The Group recognizes a provision for these delivered goods or rendered services based on historical rates. If these rates exceed a certain threshold, revenue is recognized only upon receipt of the payment or the order. Revenue recognition of a combination of goods and services requires estimates of the fair value of the individual components.

## Employee benefits

Wolters Kluwer has defined benefit pension plans in some countries and in the United States also has post-retirement medical plans. The net assets and liabilities of these plans are presented in the balance sheet of the Group. The costs related to these pension plans and medical plans are included in the income statement. The assets and liabilities as well as the costs are based upon actuarial and economic assumptions.

The main economic assumptions are:

- discount rate;
- expected return on plan assets;
- average increase salaries;
- medical trend rate.

For actuarial assumptions the normal mortality rates have been used. The withdrawal rates and retirement rates are based upon statistics provided by the relevant entities and compared with business practices.

## Capitalized software

Software development costs are only recognized if, and only if, the Group can demonstrate the technical feasibility of completing the software project so that it will be available for use or sale and comply with the following other requirements: the intention to complete the development project; the ability to sell or use the product; demonstration of how the product will yield probable future economic benefits; the availability of adequate technical, financial, and other resources to complete the project; and the ability to reliably measure the expenditure attributable to the project.

Capitalized software is amortized using the straight-line method over the economic life of the software, between 3 and 10 years. Capitalization of software is dependent on several assumptions as indicated above. While management has procedures in place to control the software development process, there is uncertainty with regard to the outcome of the development process.

## Useful life of assets

The useful life has to be determined for assets such as publishing rights; other intangible assets, which mainly consist of self-developed software; and

property, plant and equipment. The useful lives are estimated based upon best practice within the Group and in line with common market practice.

## **Valuation and impairment testing intangibles**

Upon acquisition, the value of intangible assets acquired is estimated, applying the methodologies as set out under the accounting policies. These calculations are usually performed by an outside consulting firm in close cooperation with management of the involved entity. These calculations require estimations regarding cash flow projections, determination of useful life, and rate of return. The estimations are based upon best practice within the Group and in line with common market practice.

IFRS 3 requires goodwill to be carried at cost with impairment reviews both annually and when there are indications that the carrying value may not be recoverable. The impairment reviews require estimates of a discount rate, cash flow projections, and a perpetual growth rate. These estimations are made by management of the entities that carry the goodwill on their balance sheet, and the calculations are based on three-year business development plans prepared by management of the entities and approved by the Executive Board of the Group.

The fair value of the assets, liabilities, and contingent liabilities of an acquired entity should be measured within 12 months from the acquisition date. This means that for some acquisitions, provisional fair values have been included in the balance sheet and final valuation of the identifiable tangible assets is still pending. Actual valuation of these assets, liabilities, and contingent liabilities may differ from the provisional valuation.

When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events (earn-out), the Group includes the amount of that adjustment in the cost of the combination at the acquisition date if the adjustment is probable and can be measured reliably. The measurement will usually be based on estimates of future results of the business combination.

## **Accounting for income taxes**

Corporate taxation is calculated on the basis of income before taxation, taking into account the relevant local tax rates and regulations. For each operating entity, the current income tax expense is calculated and differences between the accounting and tax base are determined resulting in deferred tax assets or liabilities. These calculations might deviate from the final tax assessments which will be received in future periods.

A deferred tax asset shall be recognized for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized. Management assesses the probability that taxable profit will be available against which the unused tax losses or unused tax credits can be utilized.

## **Legal and judicial proceedings, claims**

For legal and judicial proceedings and claims against the Company and its operating entities, a liability is accrued only if an adverse outcome is probable and the amount of the loss can be reasonably estimated.

If one of these conditions is not met, the proceeding or claim is disclosed as contingent liability, if material. The actual outcome of a proceeding or claim may differ from the estimated liability, and consequently may affect the actual result.

The prediction of the outcome and the assessment of a possible loss by management is based on management's judgments and estimates. Management usually consults lawyers and other specialists for support.