

IFRIC 22 Foreign Currency Transactions and Advance Consideration clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. IFRIC 22 is effective for annual periods beginning on or after 1 January 2018.

What is the interpretation about?

IAS 21, The Effects of Changes in Foreign Exchange Rates requires an entity to record a foreign currency transaction, on initial recognition in its functional currency by applying to the foreign currency amount, the spot rate at the date of transaction. However, there are circumstances when an entity pays or receives consideration in advance in a foreign currency. This gives rise to a non-monetary asset or liability before recognition of the related asset, expense or income.

Scope of IFRIC 22

- This Interpretation applies to a foreign currency transaction (or part of it) when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income (or part of it).
- This Interpretation does not apply when an entity measures the related asset, expense or income on initial recognition:
 - at fair value (FV); or
 - at the FV of the consideration paid or received at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability arising from advance consideration (for example, the measurement of goodwill applying IFRS 3 Business Combinations).
- An entity is not required to apply this Interpretation to income taxes or insurance contracts (including reinsurance contracts) that it issues or reinsurance contracts that it holds.

What is the Date of Transaction?

The 'date of the transaction' for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. In case there are multiple payments or receipts in advance, the entity should determine a date of transaction for each payment or receipt of advance consideration.

Illustrative Examples

Example 1: On 1/2/2017, Entity A enters into a contract with Supplier B to purchase machinery. Entity A pays Supplier B in advance \$1000 on 1/3/2017 and takes delivery of the machinery on 27/3/2017.

Entity A would recognise a non-monetary asset converting the \$1000 at the spot exchange rate on 1/3/2017. When Entity A receives delivery of machinery on 27/3/2017, it will derecognise the non-monetary asset and recognise the machinery as an asset (applying IAS 16) at the same exchange rate used at the date of initial recognition (1/3/2017).

Example 2: On 1/2/2017 Entity B enters into a contract to supply machinery for \$10,000. The terms of the contract stipulate that an advance payment of 40% should be paid on 1/3/2017 and balance on 30/4/2017. The machinery will be delivered on 1/4/2017.

On 1/3/2017 Entity B receives \$4000 and recognizes a non-monetary liability by converting the advance receipt at the spot exchange rate on 1/3/2017.

On 1/4/2017 Entity B:

- derecognizes the contract liability of \$4000 and recognizes revenue using the exchange rate on 1/3/2017; and
- recognizes revenue of \$6000 and a corresponding receivable using the exchange rate on that date (1/4/2017).

The receivable of \$6000 recognized on 1/4/2017 is a monetary item. Entity B updates the translated amount of the receivable until the receivable is settled.

Effective Date and transitional provisions

An entity shall apply this Interpretation for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. If an entity applies this Interpretation for an earlier period, it shall disclose that fact.

An entity could apply IFRIC 22 initially either:

- Retrospectively applying IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, or
- Prospectively to all assets, expenses and incomes in the scope of the Interpretation initially recognised on or after
 - The beginning of the reporting period in which an entity first applies the interpretation or;
 - The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which an entity first applies the interpretation.

On prospective application of IFRIC 22, an entity should apply it to assets, expenses and incomes initially recognised on or after the beginning of the reporting period as given above for which non-monetary assets and non-monetary liabilities arising from advance considerations have been recognised before that date.