

**IFRIC 22**

# Foreign Currency Transactions and Advance Consideration

In December 2016 the International Accounting Standards Board issued IFRIC 22 *Foreign Currency Transactions and Advance Consideration*. It was developed by the Interpretations Committee.

Other Standards have made minor consequential amendments to IFRIC 22, including IFRS 17 *Insurance Contracts* (issued May 2017) and *Amendments to References to the Conceptual Framework in IFRS Standards* (issued March 2018).

IFRIC 22

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*from paragraph*

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#### **BASIS FOR CONCLUSIONS**

IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration* (IFRIC 22) is set out in paragraphs 1–9 and Appendices A and B. IFRIC 22 is accompanied by Illustrative Examples and a Basis for Conclusions. The scope and authority of Interpretations are set out in the *Preface to IFRS Standards*.

## IFRIC Interpretation 22

### ***Foreign Currency Transactions and Advance Consideration***

#### References

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- *The Conceptual Framework for Financial Reporting*<sup>1</sup>
- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- IAS 21 *The Effects of Changes in Foreign Exchange Rates*

#### Background

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- 1 Paragraph 21 of 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 exchange rate between the functional currency and the foreign currency (the exchange rate) at the date of the transaction. Paragraph 22 of IAS 21 states that the date of the transaction is the date on which the transaction first qualifies for recognition in accordance with IFRS Standards (Standards).
- 2 When an entity pays or receives consideration in advance in a foreign currency, it generally recognises a non-monetary asset or non-monetary liability<sup>2</sup> before the recognition of the related asset, expense or income. The related asset, expense or income (or part of it) is the amount recognised applying relevant Standards, which results in the derecognition of the non-monetary asset or non-monetary liability arising from the advance consideration.
- 3 The IFRS Interpretations Committee (the Interpretations Committee) initially received a question asking how to determine ‘the date of the transaction’ applying paragraphs 21–22 of IAS 21 when recognising revenue. The question specifically addressed circumstances in which an entity recognises a non-monetary liability arising from the receipt of advance consideration before it recognises the related revenue. In discussing the issue, the Interpretations Committee noted that the receipt or payment of advance consideration in a foreign currency is not restricted to revenue transactions. Accordingly, the Interpretations Committee decided to clarify 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 when an entity has received or paid advance consideration in a foreign currency.

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<sup>1</sup> The reference is to the *Conceptual Framework for Financial Reporting*, issued in 2010 and in effect when the Interpretation was developed.

<sup>2</sup> For example, paragraph 106 of IFRS 15 *Revenue from Contracts with Customers* requires that if a customer pays consideration, or an entity has a right to an amount of consideration that is unconditional (ie a receivable), before the entity transfers a good or service to the customer, the entity shall present the contract as a contract liability when the payment is made or the payment is due (whichever is earlier).

## Scope

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- 4 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).
- 5 This Interpretation does not apply when an entity measures the related asset, expense or income on initial recognition:
  - (a) at fair value; or
  - (b) at the fair value 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*).
- 6 An entity is not required to apply this Interpretation to:
  - (a) income taxes; or
  - (b) insurance contracts (including reinsurance contracts) that it issues or reinsurance contracts that it holds.

## Issue

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- 7 This Interpretation addresses how to determine 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) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency.

## Consensus

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- 8 Applying paragraphs 21–22 of IAS 21, 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.
- 9 If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.

## **Appendix A**

### **Effective date and transition**

*This Appendix is an integral part of IFRIC 22 and has the same authority as the other parts of IFRIC 22.*

#### **Effective date**

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- A1 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.

#### **Transition**

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- A2 On initial application, an entity shall apply this Interpretation either:
- (a) retrospectively applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; or
  - (b) prospectively to all assets, expenses and income in the scope of the Interpretation initially recognised on or after:
    - (i) the beginning of the reporting period in which the entity first applies the Interpretation; or
    - (ii) the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the Interpretation.
- A3 An entity that applies paragraph A2(b) shall, on initial application, apply the Interpretation to assets, expenses and income initially recognised on or after the beginning of the reporting period in paragraph A2(b)(i) or (ii) for which the entity has recognised non-monetary assets or non-monetary liabilities arising from advance consideration before that date.

## Appendix B

*The amendment in this Appendix shall be applied for annual reporting periods beginning on or after 1 January 2018. If an entity applies this Interpretation for an earlier period this amendment shall be applied for that earlier period.*

### **Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards***

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*The amendment contained in this appendix when this Interpretation was issued in 2016 has been incorporated into the text of IFRS 1 published in this volume.*

