

IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*

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Background

On 8 December 2016, the IASB issued IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*.

When an entity receives consideration in advance of recognising the associated revenue in the income statement, it recognises both the consideration received and a non-monetary liability (deferred income or contract liability) in the statement of financial position at the spot rate of exchange in accordance with IAS 21 *The effects of Changes in Foreign Exchange*. When the deferred income is subsequently recognised in the income statement as revenue the question arises as to whether its measurement should reflect:

- the amount at which the deferred income was originally recognised, i.e. when the consideration was originally received; or
- the amount of consideration received translated at the exchange rate applicable on the date the non-monetary item is released to the income statement as revenue, with a foreign exchange gain or loss reflecting the difference between the amount of consideration received translated at (i) the prevailing spot rate when received and (ii) the prevailing spot rate when recognised in the income statement as revenue or a cost.

The Interpretations Committee noted that the feedback from its outreach on the question indicated that the issue affects a number of jurisdictions and particularly the construction industry. In addition, there is diversity in practice with both of the above approaches being used. It also identified that a similar question arises for any transaction, not only revenue transactions, where consideration is both denominated in a foreign currency and paid or received in advance. For example:

- Purchases and sales of property, plant and equipment, purchases of intangible assets and purchases of investment property;
- Purchases of inventory or services;
- Entering into lease contracts; and
- Receipt of some government grants.

This IFRB summarises the requirements of IFRIC 22.

STATUS

Final

EFFECTIVE DATE

Periods beginning on or after 1 January 2018.

ACCOUNTING IMPACT

Potentially impacts the measurement of foreign currency transactions where consideration is paid or received in advance of recognising the related income, expense or asset

Consensus

IFRIC 22 specifies that the date of a transaction for the purpose of determining the exchange rate to use on initial recognition of related asset, expense or income (or part of it) on the derecognition of non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration, is the date on which that non-monetary asset or liability was initially recognised.

In other words, the related income, expense or asset should not be remeasured for changes in exchange rates occurring between the date of initial recognition of the advance consideration and the date of recognition of the transaction to which that consideration relates.

Scope exceptions

IFRIC 22 applies to foreign currency transactions that result in the recognition of a non-monetary asset (or liability) arising from the payment (or receipt) of consideration before the entity recognises the related asset or expense (or income), except for payments and receipts relating to

- income taxes; and
- insurance contracts (including reinsurance contracts) that it issues or reinsurance contracts that it holds.

Additionally, IFRIC 22 does not apply when the asset, expense or income:

- is initially measured at fair value. This exception might be relevant where consideration is paid or received in advance for transactions involving financial assets, financial liabilities, and identifiable assets and liabilities in a business combination; or
- is required by another IFRS to be measured at the fair value of the consideration paid or received at a date other than the date on which the non-monetary asset or liability was initially recognised. This exception might be relevant to non-cash consideration included in the measurement of revenue in accordance with IFRS 15 *Revenue*.

Transition

On initial application, an entity may apply IFRIC 22:

- retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; or
- prospectively to transactions 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 period presented as comparative information in the financial statements of the reporting period in which the entity first applies the Interpretation.

Effective date

IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted, although has yet to be endorsed for application in the European Union.



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