



# IFRS Alert

## IFRIC 22 Foreign Currency Transactions and Advance Consideration

Issue 2016-10

### *Executive summary*

The IFRS Interpretations Committee (IFRIC) has issued 'IFRIC 22 Foreign Currency Transactions and Advance Consideration'. It looks at what exchange rate to use for translation when payments are made or received in advance of the related asset, expense or income.



### Background

Although IAS 21 'The Effects of Changes in Foreign Exchange Rates' sets out requirements about which exchange rate to use when recording a foreign currency transaction on initial recognition in an entity's functional currency, IFRIC had observed diversity in practice in circumstances in which an entity recognises a non-monetary liability arising from advance consideration. The diversity resulted from the fact that some entities were recognising revenue using the spot exchange rate at the date of the receipt of the advance consideration while others were using the spot exchange rate at the date that revenue was recognised.

In carrying out their analysis of the issue, IFRIC noted that the issue was not restricted to just revenue transactions. For example, the same issue arises for transactions such as a sale of property, plant and equipment or the purchase of services when consideration is denominated in a foreign currency and is paid or received in advance.

### Action taken

IFRIC 22 addresses this issue by clarifying that 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.

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.

Illustrative examples in the Interpretation demonstrate the application of this consensus.

### Effective date

IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted.



## Transition

On initial application, entities have the choice of applying the Interpretation either retrospectively or, alternatively, 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.

### *Point of view*

We welcome the publication of this Interpretation. We believe that translating foreign currency income, expense, assets or liabilities using the exchange rate on the date of recognising a non-monetary asset or non-monetary liability reflects the economics of advance payments in a foreign currency. This is because the receipt or payment of the foreign currency amount eliminates the entity's exposure to future exchange rate movements.



© 2016 Grant Thornton International Ltd.

IFRS Alerts are developed as an information resource summarising new pronouncements issued by the International Accounting Standards Board and the IFRS Interpretations Committee. This document is intended as a guide only and the application of its contents to specific situations will depend on the particular circumstances involved. While every care has been taken in its presentation, personnel who use this document to assist in evaluating compliance with International Financial Reporting Standards should have sufficient training and experience to do so. No person should act specifically on the basis of the material contained herein without considering and taking professional advice. Neither Grant Thornton International Ltd (GTIL), nor any of its personnel nor any of its member firms or their partners or employees, accept any responsibility for any errors this document might contain, whether caused by negligence or otherwise, or any loss, howsoever caused, incurred by any person as a result of utilising or otherwise placing any reliance upon it.

"Grant Thornton" refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.