



Technical Accounting Alert

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

Introduction

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.

The Interpretation

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.

Australian context

The Australian Accounting Standards Board (AASB) is expected to issue the equivalent Australian interpretation shortly.

Grant Thornton Comment

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.

Further information

For further information on any of the information included in this Technical Accounting Alert, please get in touch with your local Grant Thornton Australia contact or a member of the National Audit Support Team at nationalaudit.support@au.gt.com.