

**LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA
MALAYSIAN ACCOUNTING STANDARDS BOARD**

IC Interpretation 22

**Foreign Currency Transactions and
Advance Consideration**

There is no equivalent FRS for IFRS 15 Revenue from Contracts with Customers and hence any reference to IFRS 15 is to be read in the context of the following Standards:

- *FRS 111 Construction Contracts*
- *FRS 118 Revenue*
- *FRS 201₂₀₀₄ Property Development Activities*
- *IC Interpretation 13 Customer Loyalty Programmes*
- *IC Interpretation 18 Transfer of Assets from Customers*
- *IC Interpretation 131 Revenue – Barter Transactions Involving Advertising Services*

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IC Interpretation 22 *Foreign Currency Transactions and Advance Consideration* is issued by the MASB in respect of its application in Malaysia.

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Style

Additions to the original text of IFRSs are clearly identified and would be made in a manner that preserves the format and structure of the IFRSs.

If a new paragraph or new text is added by MASB, that paragraph or text would be underlined and shaded.

If a paragraph is deleted by MASB, that paragraph would be clearly indicated as “[Deleted by MASB]”. The text of the deleted paragraph will be re-produced at the end of the Standard for readers’ information and does not form part of the Standard. If a text is deleted by MASB, that text would be struck through and shaded.

Those additions and deletions which are underlined or struck through without shading are amendments made by the IASB.

Other than the bare FRS which uses MASB nomenclature, the bases for conclusions, illustrative examples, guidance notes or any other additional explanatory material which does not expressly state it is an “integral part of the FRS” uses nomenclature of the IASB ie IFRS, IAS, IFRIC or SIC.

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

Introduction

IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration* (the Interpretation) is issued by the International Accounting Standards Board (the Board). It was developed by the IFRS Interpretations Committee (the Interpretations Committee).

The Interpretations Committee received a question asking how to determine ‘the date of the transaction’ for the purpose of determining the exchange rate to use when recognising revenue in circumstances in which an entity has received advance consideration in a foreign currency.

IAS 21 *The Effects of Changes in Foreign Exchange Rates* specifies the exchange rate(s) to use on initial recognition of a foreign currency transaction in an entity’s functional currency. IAS 21 does not, however, address how to determine the exchange rate for the recognition of revenue when an entity has received advance consideration in a foreign currency. In discussing the issue, the Interpretations Committee observed that the receipt or payment of advance consideration in a foreign currency is not restricted to revenue transactions.

Accordingly, to address the question received and the wider scope of transactions that include the receipt or payment of advance consideration in a foreign currency, the Interpretations Committee developed this Interpretation.

IC Interpretation 22

Foreign Currency Transactions and Advance Consideration

References

- *The Conceptual Framework for Financial Reporting*
- FRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
- FRS 121 *The Effects of Changes in Foreign Exchange Rates*

Background

- 1 Paragraph 21 of FRS 121 *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 FRS 121 states that the date of the transaction is the date on which the transaction first qualifies for recognition in accordance with FRS 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 liability¹ 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.

¹ 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).

- 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 FRS 121 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.

Scope

- 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 FRS 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

- 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

- 8 Applying paragraphs 21–22 of FRS 121, 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 IC Interpretation 22 and has the same authority as the other parts of IC Interpretation 22.

Effective date

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.

A1AA An entity that has in the alternative applied the Financial Reporting Standards shall apply the Malaysian Financial Reporting Standards Framework for annual periods beginning on or after 1 January 2018². Such an entity shall apply IC Interpretation 22 under MFRS Framework, instead of this Interpretation, on or after 1 January 2018.

Transition

A2 On initial application, an entity shall apply this Interpretation either:

- (a) retrospectively applying FRS 108 *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

² See MASB announcement on 28 October 2015.

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.

Consequential Amendment to FRS 1 *First-time Adoption of Financial Reporting Standards*

This Addendum sets out the amendment to FRS 1 that is a consequence of the MASB issuing IC Interpretation 22 Foreign Currency Transactions and Advance Consideration. The amendment 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.*

The following paragraphs were added / amended in 2011-2016 and are listed here for ease of reference:

Paragraph(s)	Document Title
39F, E4	<i>Disclosures—Transfers of Financial Assets</i> (Amendments to FRS 7)
39G	FRS 9 <i>Financial Instruments</i> (IFRS 9 <i>Financial Instruments</i> as issued by IASB in October 2010) FRS 9 <i>Financial Instruments</i> (IFRS 9 <i>Financial Instruments</i> as issued by IASB in July 2014)
39H, D26–D30	<i>Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> (Amendments to FRS 1)
39I, D31	FRS 10 <i>Consolidated Financial Statements</i> and FRS 11 <i>Joint Arrangements</i>
39J	FRS 13 <i>Fair Value Measurement</i>
39K	<i>Presentation of Items of Other Comprehensive Income</i> (Amendments to FRS 101)
39L, E5	FRS 119 <i>Employee Benefits</i> (as amended in November 2011)
39M, D32	IC Interpretation 20 <i>Stripping Costs in the Production Phase of a Surface Mine</i>
39N, 39O	<i>Government Loans</i> (Amendments to FRS 1)
39P–39R	<i>Improvements to FRSs (2012)</i>

continued...



* See IC Interpretation 22 paragraph A1AA.

... continued

Paragraph(s)	Document Title
39S	<i>Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance</i> (Amendments to FRS 10, FRS 11 and FRS 12)
39T, E6, E7	<i>Investment Entities</i> (Amendments to FRS 10, FRS 12 and FRS 127)
39U	FRS 9 <i>Financial Instruments</i> (IFRS 9 <i>Financial Instruments</i> as amended by IASB in November 2013) FRS 9 <i>Financial Instruments</i> (IFRS 9 <i>Financial Instruments</i> as issued by IASB in July 2014)
39V	FRS 14 <i>Regulatory Deferral Accounts</i>
39W	<i>Accounting for Acquisitions of Interests in Joint Operations</i> (Amendments to FRS 11)
39Y, E1, E2, D33	FRS 9 <i>Financial Instruments</i> (IFRS 9 <i>Financial Instruments</i> as issued by IASB in July 2014)
39Z	<i>Equity Method in Separate Financial Statements</i> (Amendments to FRS 127)
39AA, E4A	FRS 7 <i>Financial Instruments: Disclosures (Annual Improvements to FRSs 2012–2014 Cycle)</i>

* Paragraphs 39X, 39AB, D34 and D35 were not used.

Paragraph 39AC is added.

- 39AC IC Interpretation 22 *Foreign Currency Transactions and Advance Consideration* added paragraph D36 and amended paragraph D1. An entity shall apply that amendment when it applies IC Interpretation 22.



In Appendix D, paragraph D1 is amended. A heading and paragraph D36 are added (new text is underlined and deleted text is struck through).

- D1 An entity may elect to use one or more of the following exemptions:
- (a) share-based payment transactions (paragraphs D2 and D3);
 - (b) ...
 - (t) designation of contracts to buy or sell a non-financial item (paragraph D33); and
 - (u) [not in use]
 - (v) foreign currency transactions and advance consideration (paragraph D36).

Foreign Currency Transactions and Advance Consideration

- D36 A first-time adopter need not apply IC Interpretation 22 *Foreign Currency Transactions and Advance Consideration* to assets, expenses and income in the scope of that Interpretation initially recognised before the date of transition to FRS Standards.

