

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

IC Interpretation 22

**Foreign Currency Transactions and
Advance Consideration**

IC Interpretation 22

This IC Interpretation contains material in which the IFRS Foundation holds copyright and which has been reproduced in this IC Interpretation with the permission of the IFRS Foundation. Copyright in the International Financial Reporting Standards (including International Accounting Standards and SIC and IFRIC Interpretations), International Accounting Standards Board (IASB) Exposure Drafts, and other IASB publications belong to the IFRS Foundation.

All rights are reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means without the prior permission in writing to MASB or as may be expressly permitted by law or under terms agreed with the appropriate reprographics rights organisation. No part of the materials incorporated in this publication, the copyright of which is held by the IFRS Foundation, may be reproduced, stored in a retrieval system or transmitted in any form or by any means without the prior permission in writing to the IFRS Foundation or as may be expressly permitted by law or under terms agreed with the appropriate reprographics rights organisation.

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

CONTENTS

	<i>from page</i>
Preface	6
Introduction	8
IC INTERPRETATION 22 <i>FOREIGN CURRENCY TRANSACTIONS AND</i> <i>ADVANCE CONSIDERATION</i>	9
APPENDIX A Effective date and transition	12
APPENDIX B Amendment to other Standard	13

Style of the document

- 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. Paragraphs that have been added by MASB are identified with the prefix “MY”, followed by the number of the preceding paragraph and decimal numbering.
- 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 that 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 shadings are amendments made by the IASB.
- Other than the bare MFRS 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 MFRS” uses nomenclature of the IASB ie IFRS, IAS (International Accounting Standards) and IFRIC and SIC Interpretations.
- The numbering of the MFRS corresponds with the equivalent IFRS. MFRS prefix with “1xx” corresponds with the equivalent IAS.
- The numbering of the IC Interpretation corresponds with the equivalent IFRIC Interpretation issued by the IASB. IC Interpretation prefix with “1xx” corresponds with the equivalent SIC Interpretation issued by the International Accounting Standards Committee, the predecessor of the IASB.

IC Interpretation 22 *Foreign Currency Transactions and Advance Consideration* (IC Interpretation 22) is set out in paragraphs 1–9 and Appendices A and B. 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*.

Preface

The Malaysian Accounting Standards Board (MASB) is implementing its policy of convergence through adopting International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) for application for annual periods beginning on or after 1 January 2012. The IASB defines IFRSs as comprising:

- (a) International Financial Reporting Standards;
- (b) International Accounting Standards;
- (c) IFRIC Interpretations; and
- (d) SIC Interpretations.

Malaysian Financial Reporting Standards (MFRSs) equivalent to IFRSs that apply to any reporting period beginning on or after 1 January 2012 are:

- (a) Malaysian Financial Reporting Standards; and
- (b) IC Interpretations.

First-time application of MFRSs equivalent to IFRSs

Application of MFRSs equivalent to IFRSs begins when a *first-time adopter** prepares its first *MFRS financial statements**. In this case, the requirements of MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards* must be observed. Application of MFRS 1 is necessary as otherwise such financial statements will not be able to assert compliance with IFRS.

MFRS 1, the Malaysian equivalent of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, requires prior period information, presented as comparative information, to be restated as if the requirements of MFRSs effective for the first-time adopter's first MFRS reporting period have always been applied, except when MFRS 1 (1) prohibits retrospective application in some aspects or (2) allows the first-time adopter to use one or more of the exemptions or exceptions contained therein.

* Appendix A of MFRS 1 defines *first-time adopter* and *first MFRS financial statements*.

This means that, in preparing its first MFRS financial statements, the first-time adopter shall refer to the provisions contained in MFRS 1 on matters relating to transition and effective dates instead of the transitional provision and effective date contained in the respective MFRSs. This differs from previous requirements where an entity accounted for changes of accounting policies in accordance with the specific transitional provisions contained in the respective Financial Reporting Standards (FRSs) or in accordance with FRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors* when the FRS did not include specific transitional provisions.

Comparison and compliance with IFRIC 22

IC Interpretation 22 is equivalent to IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration* (IFRIC 22) as issued by the IASB, including the effective and issuance dates. Entities that comply with IC Interpretation 22 will simultaneously be in compliance with IFRIC 22.

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*
- MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
- MFRS 121 *The Effects of Changes in Foreign Exchange Rates*

Background

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

Transition

- A2 On initial application, an entity shall apply this Interpretation either:
- (a) retrospectively applying MFRS 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 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

Amendment to other Standard

This appendix contains Addendum which sets out the amendment to other Standard that is a consequence of the MASB issuing this Interpretation. An entity shall apply the amendment for annual 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.

Amended paragraphs are shown with deleted text struck through and new text underlined.

Amendment to MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards*

This Addendum sets out the amendment to MFRS 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.

Paragraph 39AC is added. Paragraph 39AB was added as a consequence of the MASB issuing MFRS 16 *Leases*.

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). Paragraph D1(t) and D1(u) were corrected by IASB in December 2016. These editorial corrections are consequential amendments that should have been included in MFRS 15 *Revenue from Contracts with Customers* at the time of publication.

- 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) revenue (paragraphs D34 and D35); and
 - (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 MFRS Standards.

