



# Foreign currency transactions - Advance consideration

IFRIC 22 clarifies accounting treatment

8 December 2016

[kpmg.com/ifrs](http://kpmg.com/ifrs)

# Clarifying which exchange rate applies

“IFRIC 22 clarifies which date should be used for translation when a foreign currency transaction involves an advance payment or receipt.

Companies – particularly those in the construction sector – should consider the impact on their financial reporting, as well as their accounting systems.”



**Chris Spall**

KPMG's global IFRS  
financial instruments leader



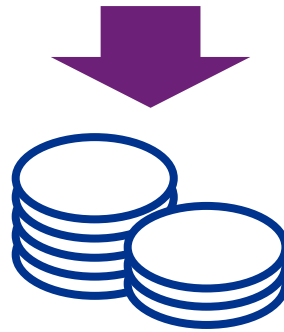
Which date?

# What's the issue?

**When foreign currency consideration is paid or received in advance of the item it relates to...**



**Asset**



**Expense**



**Income**

**... how do you determine the date of the transaction to translate the related item?**

# What does IFRIC 22 say?



The related item is translated using the exchange rate on the date that...

**Diary**  
**1 Jan**



**the advance foreign currency consideration is received/paid**  
**and**

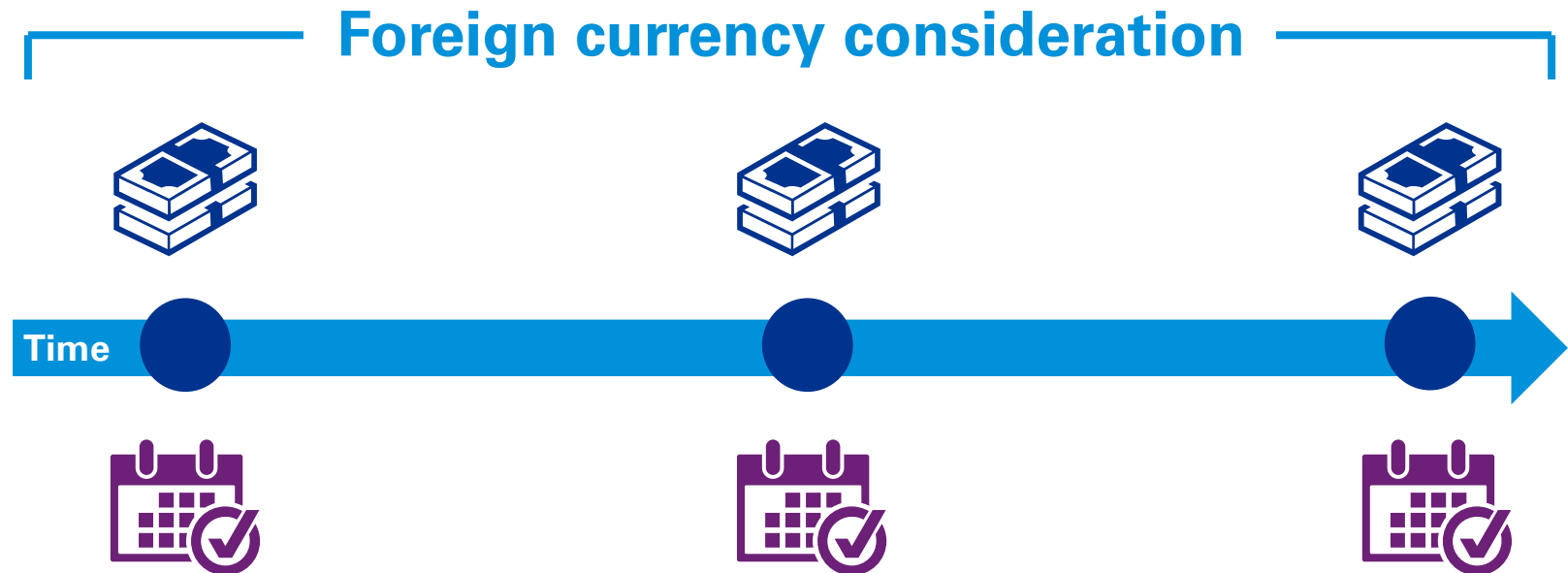


**the prepayment or deferred income is recognised**

**Worked example**

# Multiple advance payments or receipts

**Each separate advance payment or receipt gives rise to a transaction date**



# Potential impacts

**A company should consider**



**The impact  
on net profit  
or loss**



**IFRIC 22's  
interaction  
with other  
standards**



**Possible  
changes to  
accounting  
systems**



# Applying IFRIC 22



# It applies when a company...

**... pays or receives foreign currency consideration**



**... recognises a non-monetary asset/liability before recognising the related item**



# It doesn't apply...

**... when the related item has to be recognised using a fair value measurement basis**

**... to income taxes and insurance contracts**



**Financial assets  
and liabilities**

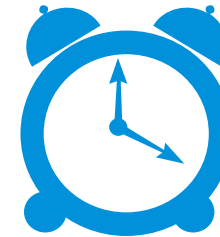


# Effective date

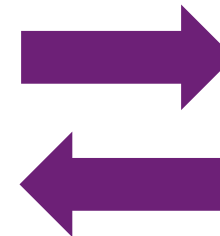
**IFRIC 22 applies for annual periods beginning on or after**



**Early adoption is permitted**



**It can be applied retrospectively or prospectively**



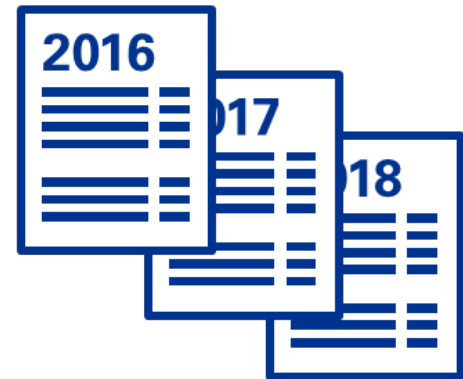
# Prospective application

**Is permitted on or after the beginning of...**



**the reporting  
period in which  
the interpretation  
is first applied**

**or**



**an earlier  
reporting period  
presented in the  
comparatives**

# Impact on the P&L

**The impact may be significant if acquired assets are currently translated on a date after consideration is paid – e.g. the delivery date**



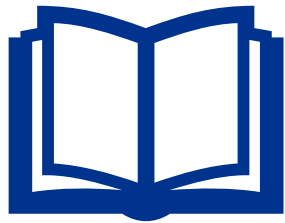
**For revenue and expense transactions, there may be no aggregate effect, but individual line items may be affected**





# Next steps

# Next steps



**Read the  
interpretation**



**Speak to your  
usual KPMG  
contact**



**Find out  
more at  
[kpmg.com/ifrs](https://www.kpmg.com/ifrs)**



[kpmg.com/socialmedia](https://kpmg.com/socialmedia)



[kpmg.com/app](https://kpmg.com/app)

© 2016 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

KPMG International Standards Group is part of KPMG IFRG Limited.

KPMG International Cooperative (“KPMG International”) is a Swiss entity that serves as a coordinating entity for a network of independent firms operating under the KPMG name. KPMG International provides no audit or other client services. Such services are provided solely by member firms of KPMG International (including sublicensees and subsidiaries) in their respective geographic areas. KPMG International and its member firms are legally distinct and separate entities. They are not and nothing contained herein shall be construed to place these entities in the relationship of parents, subsidiaries, agents, partners, or joint venturers. No member firm has any authority (actual, apparent, implied or otherwise) to obligate or bind KPMG International or any other member firm, nor does KPMG International have any such authority to obligate or bind KPMG International or any other member firm, in any manner whatsoever.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.