Worked example

Foreign currency transactions – Advance consideration

How the amendments in IFRIC 22 are applied

December 2016

Company C's functional currency is the euro (EUR). C receives a non-refundable amount of 100 US dollars (USD) on 1 January as advance payment for delivery of goods on 1 April. The spot EUR/USD exchange rate is 0.9 on 1 January and 1.0 on 1 April.

C would recognise cash received of USD 100 and a deferred income liability of USD 100. Both would be translated into EUR using the spot exchange rate at 1 January of 0.9 – i.e. EUR 90.

On 1 April, the deferred income liability of USD 100 would be derecognised, and revenue of USD 100 would be recognised and translated as EUR 90 using the same 1 January spot exchange rate – i.e. 0.9.

Timeline	1 January	1 April
EUR/USD spot rate	0.9	1.0
Action	C receives advance consideration of USD 100	C delivers goods
Accounting treatment	C recognises cash received of EUR 90, and a deferred income liability of EUR 90	C derecognises the deferred income liability of EUR 90, and recognises revenue of EUR 90
Calculation	USD 100 translated at current spot rate of 0.9 = EUR 90	USD 100 translated at 1 January spot rate of 0.9 = EUR 90