中汇
ZHONGHUI

HK (IFRIC) 22
Foreign Currency Transactions and Advance Consideration

Introduction

Paragraph 21 of HKAS 21 "The Effects of Changes in Foreign Exchange Rates" requires an entity to record a foreign currency transaction by applying the exchange rate at the date of the transaction. Paragraph 22 of HKAS 21 states that the date of the transaction is the date on which the transaction first qualifies for recognition in accordance with HKFRSs. When an entity pays or receives consideration in advance in a foreign currency, it generally recognises a non-monetary asset or non-monetary liability before the recognition of the related asset, expense or income.

HK (IFRIC) 22 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 in cases of payment or receipt of advance consideration in a foreign currency.

Effective Date and Transitional Provisions

An entity shall apply HK (IFRIC) 22 for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted.

On initial application, an entity shall apply HK (IFRIC) 22 either retrospectively or prospectively to all assets, expenses and income initially recognised on or after:

- the beginning of the reporting period in which the entity first applies HK (IFRIC) 22; or
- 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 HK (IFRIC) 22.

Conclusions

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 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.

For example, if you pay a foreign currency deposit on day 1 for the purchase of a machine which is received on day 2, you initially recognise a non-monetary prepayment asset translating the foreign currency into the functional currency at the spot exchange rate on day 1. You do not update the translated amount of that non-monetary prepayment asset.

On day 2, you derecognise the non-monetary prepayment asset and recognise the machine as property, plant and equipment. You recognise the cost of the machine using the exchange rate at the date of the transaction, which is day 1 (the date of initial recognition of the non-monetary prepayment asset).

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.

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