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**INTERPRETATION OF  
FINANCIAL  
REPORTING STANDARD**

**INT FRS 122**

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**Foreign Currency Transactions  
and Advance Consideration**

This Interpretation is applicable for annual reporting period beginning on  
1 January 2023.

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## INT FRS 122

Interpretation of Financial Reporting Standard 122 *Foreign Currency Transactions and Advance Consideration* (INT FRS 122) is set out in paragraphs 1–9 and Appendices A and B. INT FRS 122 is accompanied by Illustrative Examples. The scope and authority of Interpretations are set out in the *Preface to Financial Reporting Standards*.

# Interpretation of Financial Reporting Standard 122

## *Foreign Currency Transactions and Advance Consideration*

### References

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- *The Conceptual Framework for Financial Reporting*<sup>1</sup>
- FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- FRS 21 *The Effects of Changes in Foreign Exchange Rates*

### Background

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- 1 Paragraph 21 of FRS 21 *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 21 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 liability<sup>2</sup> 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.
- 3 The question relates to how to determine 'the date of the transaction' applying paragraphs 21–22 of FRS 21 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. It was noted that the receipt or payment of advance consideration in a foreign currency is not restricted to revenue transactions. Accordingly, this Interpretation clarifies 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

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- 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

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<sup>1</sup> The reference is to the *Conceptual Framework for Financial Reporting*, issued in 2011 and in effect when the Interpretation was developed.

<sup>2</sup> For example, paragraph 106 of FRS 115 *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 (i.e. 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).

- (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 103 *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**

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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**

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8 Applying paragraphs 21–22 of FRS 21, 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 INT FRS 122 and has the same authority as the other parts of INT FRS 122.*

#### Effective date

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- 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

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- A2 On initial application, an entity shall apply this Interpretation either:
- (a) retrospectively applying FRS 8 *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 FRS 101 *First-time Adoption of Financial Reporting Standards***

*The amendment in this appendix 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.*

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*The amendment contained in this appendix when this Interpretation was issued in 2016 has been incorporated into the text of FRS 101 published in this volume.*