



ACCOUNTING STANDARDS BOARD

INTERPRETATION OF THE STANDARDS OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

FOREIGN CURRENCY TRANSACTIONS AND ADVANCE CONSIDERATION (IGRAP 22)

Acknowledgement

This Interpretation of the Standards of Generally Recognised Accounting Practice (IGRAP) is drawn primarily from the equivalent IFRIC Interpretation 22 on *IAS 21 – The Effects of Changes in Foreign Exchange Rates* published by the IFRS Interpretations Committee of the International Accounting Standards Board (IASB) in December 2016 . The IASB has issued a comprehensive body of IFRS® Accounting Standards and IFRIC® Interpretations. Extracts of the IFRIC Interpretation 22 on *IAS 21 – The Effects of Changes in Foreign Exchange Rates* are reproduced in this Interpretation of the Standards of GRAP with the permission of the IASB.

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Introduction

This pronouncement is set out in paragraphs .01 to .12. All paragraphs in this pronouncement have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This pronouncement should be read in the context of its objective, its basis for conclusions and/or the basis for conclusions of its international equivalent, if applicable, the *Preface to the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*¹.

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards, published in the Government Gazette.

Directives should be read in conjunction with the applicable Standards of GRAP and Interpretations of the Standards of GRAP.

¹ In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

Interpretation of the Standards of GRAP on *Foreign Currency Transactions and Advance Consideration*

References

- *Conceptual Framework for General Purpose Financial Reporting*
- GRAP 3 *Accounting Policies, Changes in Accounting Estimates and Errors*
- GRAP 4 *The Effects of Changes in Foreign Exchange Rates*

Background

- .01 Paragraph .21 of the Standard of GRAP on *The Effects of Changes in Foreign Exchange Rates* (GRAP 4) 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 GRAP 4 states that the date of the transaction is the date on which the transaction first qualifies for recognition in accordance with the Standards of GRAP.
- .02 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 revenue. The related asset, expense or revenue (or part of it) is the amount recognised applying the relevant Standard of GRAP, which results in the derecognition of the non-monetary asset or non-monetary liability arising from the advance consideration.
- .03 A question arose asking how to determine “the date of the transaction” applying paragraphs .21 and .22 of GRAP 4 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 further noted that the receipt or payment of advance consideration in a foreign currency is not restricted to revenue transactions. Accordingly, it was 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 revenue when an entity has received or paid advance consideration in a foreign currency.

Scope

- .04 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 revenue (or part of it).
- .05 This Interpretation does not apply when an entity measures the related asset, expense or revenue 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 surplus or deficit applying the Standard of GRAP on *Transfer of Functions Between Entities Not Under Common Control* (GRAP 106).
- .06 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

- .07 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 revenue (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

- .08 Applying paragraphs .21 and .22 of GRAP 4, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or revenue (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.
- .09 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.

Transitional provisions

- .10 On initial application, an entity shall apply this Interpretation either:**
- (a) retrospectively applying the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors; or**
 - (b) prospectively to all assets, expenses and revenue 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.**



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- .11** *An entity that applies paragraph .10(b) shall, on initial application, apply the Interpretation to assets, expenses and revenue initially recognised on or after the beginning of the reporting period in paragraph .10(b)(i) or (ii) for which the entity has recognised non-monetary assets or non-monetary liabilities arising from advance consideration before that date.*

Effective date

- .12** *An entity shall apply this Interpretation for annual financial statements covering periods beginning on or after 1 April 2025.*



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Comparison with the IFRIC Interpretation on *IAS 21 – The Effects of Changes in Foreign Exchange Rates*

This Interpretation is drawn primarily from the IFRIC Interpretation on *IAS 21 – The Effects of Changes in Foreign Exchange Rates* (IFRIC 22).

- This Interpretation uses different terminology, in certain instances, from IFRIC 22. The most significant example is the use of the term “revenue”. The equivalent term in IFRIC 22 is “income”.