

ISSUES

When an entity receives consideration in advance of recognising the associated revenue in the income statement, it recognises both the consideration received and a non-monetary liability (deferred income or contract liability) in the statement of financial position at the spot rate of exchange in accordance with NZ IAS 21 *The Effects of Changes in Foreign Exchange*. When the deferred income is subsequently recognised in the income statement as revenue the question arises as to whether its measurement should reflect:

- The amount at which the deferred income was originally recognised, i.e. when the consideration was originally received; or
- The amount of consideration received translated at the exchange rate applicable on the date the non-monetary item is released to the income statement as revenue, with a foreign exchange gain or loss reflecting the difference between the amount of consideration received translated at
 - i. The prevailing spot rate when received and
 - ii. The prevailing spot rate when recognised in the income statement as revenue or a cost.

SCOPE

NZ IFRIC 22 applies to foreign currency transactions that result in the recognition of a non-monetary asset (or liability) arising from the payment (or receipt) of consideration before the entity recognises the related asset or expense (or income), except for payments and receipts relating to:

- Income taxes; and
- Insurance contracts (including reinsurance contracts) that it issues or reinsurance contracts that it holds.

CONSENSUS

- NZ IFRIC 22 specifies that the date of a transaction for the purpose of determining the exchange rate to use on initial recognition of related asset, expense or income (or part of it) on the derecognition of non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration, is the date on which that non-monetary asset or liability was initially recognised. Therefore, the related income, expense or asset is not remeasured for changes in exchange rates occurring between the date of initial recognition of the advance consideration and the date of recognition of the transaction to which that consideration relates.
- 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.

TIER 2 NZ IFRS RDR REPORTERS

NZ IFRS RDR Reporters are required to comply with NZ IFRIC 22 in full.