

Hong Kong (IFRIC) Interpretation (HK(IFRIC)-Int) 22 – Foreign Currency Transactions and Advance Consideration

【Background】

Hong Kong Accounting Standard (HKAS) 21 “The Effects of Changes in Foreign Exchange Rates” stipulates an entity to record a foreign currency transaction in its functional currency by using the spot exchange rate at the date of transaction.

There are occasions an entity pays or receives consideration in advance and recognises a non-monetary asset or non-monetary liability before the recognition of the related asset, expense or income. HKAS 21 does not address how to determine ‘the date of transaction’ when recognising the related asset, expense or income.

HK(IFRIC)-Int 22 was issued 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 income when an entity has received or paid advance consideration in a foreign currency.

【Highlight】

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.

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.

This Interpretation does not apply to the related asset, expense or income which is measured at fair value on initial recognition.

Income taxes, insurance contracts issued by the entity or reinsurance contracts that the entity holds are scoped out of this Interpretation.

【Example】

The functional currency of Entity A is HKD and the relevant exchange rates are as follows:

Date/Period	GBP:HKD
31 st March, 20X7	Spot rate 1:11
15 th April, 20X7	Spot rate 1:10
30 th April, 20X7	Spot rate 1:9.5
15 th November, 20X7	Spot rate 1:10
30 th November, 20X7	Spot rate 1:11



November 20X7	Average rate 1:10.5
15 th December, 20X7	Spot rate 1:11.5
31 st December, 20X7	Spot rate 1:12
December 20X7	Average rate: 11.5

Scenario 1

On 15th March, 20X7, Entity A entered into a contract with a vehicle dealer to purchase a vintage motor vehicle at a consideration of GBP5,000. Entity A settled the consideration in advance on 31st March, 20X7 and the motor vehicle was transferred on 15th April, 20X7.

The following journal entries illustrate how Entity A accounts for the above transactions:

- (a) On 31st March, 20X7, Entity A recognised the payment of GBP5,000 using the exchange rate on 31st March, 20X7.

Dr Advance payment	HKD55,000 (GBP5,000x11)
Cr Cash	HKD55,000

- (b) On 15th April, 20X7, Entity A obtained the ownership of the motor vehicle, derecognised the non-monetary asset and recognised the cost of motor vehicle using the exchange rate at the date of transaction, which was 31st March, 20X7.

Dr Motor vehicle	HKD55,000
Cr Advance payment	HKD55,000

Scenario 2

On 31st March, 20X7, Entity A entered into a contract with a garage for checking the vintage motor vehicle at a consideration of GBP1,000. Entity A was required to make a 40% advance payment on 31st March, 20X7 and the remaining GBP600 was due and paid on 30th April, 20X7. The checking was done on 15th April, 20X7.

The following journal entries illustrate how Entity A accounts for the above transactions:

- (a) On 31st March, 20X7, Entity A recognised the payment of GBP400 using the exchange rate on 31st March, 20X7.

Dr Advance payment	HKD4,400 (GBP400x11)
Cr Cash	HKD4,400

- (b) On 15th April, 20X7, the checking was done and Entity A recognised the expense. The date of the transaction for the service relating to the advance consideration of GBP400 was 31st March, 20X7 while the date of the transaction for the remainder of the service GBP600 was 15th April, 20X7.

(i) Dr Repair expense	HKD4,400
Cr Advance payment	HKD4,400

(ii) Dr Repair expense	HKD6,000 (GBP600x10)
Cr Payable	HKD6,000

- (c) On 30th April, 20X7, Entity A recorded the settlement of GBP600 using the spot exchange rate on 30th April, 20X7.

Dr Payable	HKD6,000
Cr Cash	HKD5,700 (GBP600x9.5)
Cr Exchange difference	HKD300

Scenario 3

On 15th April, 20X7, Entity A entered into a contract with an insurance company relating to the insurance of the motor vehicle for the period from 1st May, 20X7 to 31st December, 20X7. The premium was paid by two installments at the amount of GBP600 and GBP200 on 15th April, 20X7 and 31st December, 20X7 respectively. The service was rendered evenly by the insurance company during the insurance period and Entity A determined that the insurance premium was GBP100 per month.

The following journal entries illustrate how Entity A accounts for the above transactions:

- (a) On 15th April, 20X7, Entity A recognised the advance payment GBP600 using the spot exchange rate on 15th April, 20X7.

Dr Advance payment	HKD6,000 (GBP600x10)
Cr Cash	HKD6,000

- (b) During the period from 1st May to 31st October, 20X7, Entity A derecognised the non-monetary asset and recognised the expense in the profit or loss. The date of the transaction for the expense related to the advance payment was 15th April, 20X7.

Dr Insurance expense	HKD6,000
Cr Advance payment	HKD6,000

- (c) During November 20X7, Entity A should recognised the expense by using the spot exchange rate in each day. However, as the exchange rates did not fluctuate significantly, Entity A used the average exchange rate of the month to recognise the expense.

Dr Insurance expense	HKD1,050 (GBP100x10.5)
Cr Payable	HKD1,050

- (d) On 30th November, 20X7, Entity A translated the liability by using the spot exchange rate on 30th November, 20X7.

Dr Exchange difference	HKD50 (GBP100x11-GBP100x10.5)
Cr Payable	HKD50

- (e) During December 20X7, Entity A recognised the expense by using the average exchange rate of the month.

Dr Insurance expense	HKD1,150 (GBP100x11.5)
Cr Payable	HKD1,150

- (f) On 31st December, 20X7, Entity A recorded the settlement of the liability GBP200 using the spot exchange rate on 31st December, 20X7.

Dr Payable	HKD2,250
Dr Exchange difference	HKD150
Cr Cash	HKD2,400 (GBP200x12)

Scenario 4

On 15th November, 20X7, Entity A entered into a contract with a tourist to provide a round-trip transport service between the airport and the hotel on 30th November, 20X7 and 15th December, 20X7 respectively at a consideration of GBP100 per trip. GBP80 was received in advance on 15th November, 20X7 and the remaining balance of GBP120 was due and received on 15th December, 20X7.

The following journal entries illustrate how Entity A accounts for the above transactions:

- (a) On 15th November, 20X7, Entity A recognised the receipt of advance consideration GBP80 using the spot exchange rate on 15th November, 20X7.

Dr Cash	HKD800 (GBP80x10)
Cr Contract liability	HKD800

- (b) On 30th November, 20X7, Entity A derecognised the contract liability, recognised the revenue of GBP100 for the first trip and the corresponding receivable of GBP20. The date of the transaction for the service relating to the advance consideration of GBP80 was 15th November, 20X7 while the date of the transaction for the remainder of the revenue GBP20 was 30th November, 20X7.

(i) Dr Contract liability	HKD800
Cr Revenue	HKD800

(ii) Dr Receivable	HKD220 (GBP20x11)
Cr Revenue	HKD220

- (c) On 15th December, 20X7, Entity A rendered the remainder of the round-trip transport service and recognised the revenue GBP100 and the corresponding receipt of consideration GBP120 using the spot exchange rate on 15th December, 20X7.

Dr Cash	HKD1,380 (GBP120x11.5)
Cr Receivable	HKD220
Cr Revenue	HKD1,150 (GBP100x11.5)
Cr Exchange difference	HKD10

【Effective Date】

An entity shall apply this Interpretation for annual reporting periods beginning on or after 1st January, 2018. Earlier application is permitted.

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