INTERPRETATION OF STATUTORY BOARD FINANCIAL REPORTING STANDARD

INT SB-FRS 122

Foreign Currency Transactions and Advance Consideration

Illustrative Examples

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These Illustrative Examples accompany, but are not part of, INT SB-FRS 122.

In these Illustrative Examples, foreign currency amounts are 'Foreign Currency' (FC) and functional currency amounts are 'Local Currency' (LC).

IE1 The objective of these examples is to illustrate how an entity determines the date of the transaction when it recognises a non-monetary asset or non-monetary liability arising from advance consideration in a foreign currency before it recognises the related asset, expense or income (or part of it) applying relevant SB-FRS Standards.

Example 1—A single advance payment for the purchase of a single item of property, plant and equipment

IE2 On 1 March 20X1, Entity A entered into a contract with a supplier to purchase a machine for use in its business. Under the terms of the contract, Entity A pays the supplier a fixed purchase price of FC1,000 on 1 April 20X1. On 15 April 20X1, Entity A takes delivery of the machine.

IE3 Entity A initially recognises a non-monetary asset translating FC1,000 into its functional currency at the spot exchange rate between the functional currency and the foreign currency on 1 April 20X1. Applying paragraph 23(b) of SB-FRS 21 *The Effects of Changes in Foreign Exchange Rates*, Entity A does not update the translated amount of that non-monetary asset.

IE4 On 15 April 20X1, Entity A takes delivery of the machine. Entity A derecognises the non-monetary asset and recognises the machine as property, plant and equipment applying SB-FRS 16 *Property, Plant and Equipment*. On initial recognition of the machine, Entity A recognises the cost of the machine using the exchange rate at the date of the transaction, which is 1 April 20X1 (the date of initial recognition of the non-monetary asset).

Example 2—Multiple receipts for revenue recognised at a single point in time

IE5 On 1 June 20X2, Entity B entered into a contract with a customer to deliver goods on 1 September 20X2. The total fixed contract price is an amount of FC100, of which FC40 is due and received on 1 August 20X2 and the balance is receivable on 30 September 20X2.

IE6 Entity B initially recognises a non-monetary contract liability translating FC40 into its functional currency at the spot exchange rate between the functional currency and the foreign currency on 1 August 20X2. Applying paragraph 23(b) of SB-FRS 21, Entity B does not update the translated amount of that non-monetary liability.

IE7 Applying paragraph 31 of SB-FRS 115 *Revenue from Contracts with Customers*, Entity B recognises revenue on 1 September 20X2, the date on which it transfers the goods to the customer.

IE8 Entity B determines that the date of the transaction for the revenue relating to the advance consideration of FC40 is 1 August 20X2. Applying paragraph 22 of SB-FRS 21, Entity B determines that the date of the transaction for the remainder of the revenue is 1 September 20X2.

IE9 On 1 September 20X2, Entity B:

(a) derecognises the contract liability of FC40 and recognises revenue using the exchange rate on 1 August 20X2; and

(b) recognises revenue of FC60 and a corresponding receivable using the exchange rate on that date (1 September 20X2).

IE10 The receivable of FC60 recognised on 1 September 20X2 is a monetary item. Entity B updates the translated amount of the receivable until the receivable is settled.

Example 3—Multiple payments for purchases of services over a period of time

IE11 On 1 May 20X3, Entity C entered into a contract with a supplier for services. The supplier will provide the services to Entity C evenly over the period from 1 July 20X3 to 31 December 20X3. The contract requires Entity C to pay the supplier FC200 on 15 June 20X3 and FC400 on 31 December 20X3. Entity C has determined that, for this contract, the payment of FC200 on 15 June 20X3 relates to the services to be received in the period 1 July–31 August 20X3, and the payment of FC400 on 31 December 20X3 relates to the services to be received in the period 1 September–31 December 20X3.

IE12 Entity C initially recognises a non-monetary asset translating FC200 into its functional currency at the spot exchange rate between the functional currency and the foreign currency on 15 June 20X3.

IE13 In the period 1 July–31 August 20X3, Entity C derecognises the non-monetary asset and recognises an expense of FC200 in profit or loss as it receives the services from the supplier. Entity C determines that the date of the transaction for the expense related to the advance consideration of FC200 is 15 June 20X3 (the date of initial recognition of the non-monetary asset).

IE14 In the period 1 September–31 December 20X3, Entity C initially recognises the expense in profit or loss as it receives the services from the supplier. In principle, the dates of the transaction are each day in the period 1 September–31 December 20X3. However, if exchange rates do not fluctuate significantly, Entity C may use a rate that approximates the actual rates as permitted by paragraph 22 of SB-FRS 21. If that is the case, Entity C may, for example, translate each month's expense of FC100 (FC400 ÷ 4) into its functional currency using the average exchange rate for each month for the period 1 September–31 December 20X3.

IE15 As Entity C recognises the expense in the period 1 September–31 December 20X3, it recognises a corresponding liability in respect of its obligation to pay the supplier. The liability is a monetary item. Entity C updates the translated amount of the liability until the liability is settled.

Example 4—Multiple receipts for revenue recognised at multiple points in time

IE16 On 1 January 20X4, Entity D enters into a contract to sell two products to a customer. Entity D transfers one product on 1 March 20X4 and the second on 1 June 20X4. As required by the contract, the customer pays a fixed purchase price of FC1,000, of which FC200 is due and received in advance on 31 January 20X4 and the balance is due and received on 1 June 20X4.

IE17 The following facts are relevant:

(a) applying SB-FRS 115, Entity D allocates FC450 of the transaction price to the first product and FC550 to the second product.

(b) Entity D has determined that, for this contract, the consideration of FC200 received on 31 January 20X4 relates to the first product transferred on 1 March 20X4. On transfer of that product to the customer, Entity D has an unconditional right to FC250 of the remaining consideration.

IE18 The spot exchange rates are:

Date	Spot exchange rate FC:LC

31 January 20X4	1:1.5
1 March 20X4	1:1.7
1 June 20X4	1:1.9

IE19 The following journal entries illustrate how Entity D accounts for the foreign currency aspects of the contract:

(a) Entity D receives the advance payment of FC200 on 31 January 20X4, which it translates into its functional currency using the exchange rate at 31 January 20X4.

Dr Cash (FC200)	LC300	
Cr Contract liability (FC200)		LC300

(b) Applying paragraph 23(b) of SB-FRS 21, Entity D does not update the translated amount of the non-monetary contract liability.

(c) Entity D transfers the first product with a transaction price of FC450 on 1 March 20X4. Entity D derecognises the contract liability and recognises revenue of LC300. Entity D recognises the remaining revenue of FC250 relating to the first product and a corresponding receivable, both of which it translates at the exchange rate at the date that it initially recognises the remaining revenue of FC250, ie 1 March 20X4.

Dr Contract liability (FC200)	LC300	
Dr Receivable (FC250)	LC425	
Cr Revenue (FC450)		LC725

(d) The receivable of FC250 is a monetary item. Entity D updates the translated amount of the receivable until the receivable is settled (1 June 20X4). At 1 June 20X4, the receivable of FC250 is equivalent to LC475. As required by paragraph 28 of SB-FRS 21 Entity D recognises an exchange gain of LC50 in profit or loss.

Dr Receivable	LC50	
Cr Foreign exchange gain		LC50

(e) Entity D transfers the second product with a transaction price of FC550 on 1 June 20X4. Entity D recognises revenue of FC550 using the exchange rate at the date of the transaction, which is the date that Entity D first recognises this part of the transaction in its financial statements, ie 1 June 20X4.

(f) Entity D also receives the remaining consideration of FC800 on 1 June 20X4. FC250 of the consideration received settles the receivable of FC250 arising on the transfer of the first product. Entity D translates the cash at the exchange rate at 1 June 20X4.

Dr Cash (FC800)	LC1,520	
Cr Receivable (FC250)		LC475
Cr Revenue (FC550)		LC1,045