

Exposure Draft

Appendix B of Ind AS 21, *Foreign Currency Transactions and Advance Consideration*

(Last date for the comments: 28th April, 2017)



Issued by

Accounting Standards Board

The Institute of Chartered Accountants of India

Exposure Draft

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Following is the Exposure Draft of Appendix B of Ind AS 21, *Foreign Currency Transactions and Advance Consideration*, issued by the Accounting Standards Board of the Institute of Chartered Accountants of India, for comments.

The Board invites comments on any aspect of this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

How to Comment

Comments should be submitted using one of the following methods, so as to receive not later than **28th April, 2017**:

- 1 Electronically: Click on the below mentioned option to submit a comment letter or visit at the following link (Preferred method):
<http://www.icai.org/comments/asb/>
- 2 Email: Comments can be sent at commentsasb@icai.in
- 3 Postal: Secretary, Accounting Standards Board,
 The Institute of Chartered Accountants of India,

 ICAI Bhawan, Post Box No. 7100,

 Indraprastha Marg, New Delhi – 110 002

Further clarifications on any aspect of this Exposure Draft may be sought by e-mail to asb@icai.in.

Appendix B of Ind AS 21, *Foreign Currency Transactions and Advance Consideration*

Background

- 1 Paragraph 21 of Ind AS 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 Ind AS 21 states that the date of the transaction is the date on which the transaction first qualifies for recognition in accordance with Ind AS 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 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 Initially, the issue was how to determine ‘the date of the transaction’ applying paragraphs 21–22 of Ind AS 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 appendix 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

- 4 This Appendix 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 Appendix does not apply when an entity measures the related asset, expense or income 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 goodwill applying Ind AS 103, *Business Combinations*).
- 6 An entity is not required to apply this Appendix to:
 - (a) income taxes; or
 - (b) insurance contracts (including reinsurance contracts) that it issues or reinsurance

contracts that it holds.

Issue

- 7 This Appendix 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

- 8 Applying paragraphs 21–22 of Ind AS 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.

Effective date and transition of Appendix B

This is an integral part of Appendix B and has the same authority as the other parts of the Appendix B.

Effective date

- A1 An entity shall apply this Appendix for annual reporting periods beginning on or after April 1, 2018*.
- A2 On initial application, an entity shall apply this Appendix either:
- (a) *retrospectively applying Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors*; or
 - (b) prospectively to all assets, expenses and income in the scope of the Appendix initially recognised on or after:
 - (i) the beginning of the reporting period in which the entity first applies the Appendix; 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 Appendix.
- A3 An entity that applies paragraph A2(b) shall, on initial application, apply the Appendix 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.

Consequential Amendments

Amendment to Ind AS 101, First-time Adoption of Indian Accounting Standards

In Appendix D, paragraph D1 is amended and existing paragraph D36 (along with its heading) is renumbered as D34B. A new heading and paragraph D36 are added. In Appendix A, paragraph 2 is added (new text is underlined and deleted text is struck through).

- D1 An entity may elect to use one or more of the following exemptions:
- (a) share-based payment transactions (paragraphs D2 and D3);
 - (b) ...
 - (t) designation of contracts to buy or sell a non-financial item (paragraph D33);
 - (u) revenue (paragraphs D34 and D35); ~~and~~
 - ~~(va)~~ non-current assets held for sale and discontinued operations (paragraph D35AA);
and
 - (v) foreign currency transactions and advance consideration (paragraph D36).

* Since this Appendix to Ind AS 21 will be notified by the Ministry of Corporate Affairs (MCA), the effective date as mentioned in paragraph A1, is subject to the notification of MCA with the same effective date.

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Transfers of Assets from Customers

D3634B An entity shall apply Appendix C of Ind AS 18 prospectively to transfers of assets from customers received on or after the transition date. Earlier application is permitted provided the valuations and other information needed to apply the Appendix to past transfers were obtained at the time those transfers occurred. An entity shall disclose the date from which the Appendix D of Ind AS 18 was applied.

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Foreign Currency Transactions and Advance Consideration

D36 A first-time adopter need not apply this appendix on *Foreign Currency Transactions and Advance Consideration* to assets, expenses and income in the scope of that Appendix initially recognised before the date of transition to Ind AS Standards.

Amendment to Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors

Appendix A

References to matters contained in other Indian Accounting Standards

This Appendix is an integral part of the Ind AS.

1. Appendix B, Liabilities arising from Participating in a Specific Market— Waste Electrical and Electronic Equipment, contained in Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*, makes reference to (Ind AS) 8.
2. Appendix B, *Foreign Currency Transactions and Advance Consideration*, contained in Ind AS 21, *The Effects of Changes in Foreign Exchange Rates*, makes reference to (Ind AS) 8.