ASSESSMENTS OF CRYPTOCURRENCY ACCOUNTING FROM AN INTERNATIONAL PERSPECTIVE

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Abstract

The international accounting bodies concerned with the subject recognize the asset attributes of cryptocurrencies, but have different views on their classification and dispute the valuation model for cryptocurrencies. Cryptocurrencies are not cash or cash equivalents and do not have the characteristics of monetary assets as they do not have the characteristics of a sovereign currency. Depending on the purpose of acquisition and holding, cryptocurrencies may be classified as inventories or intangible assets, but the valuation model for cryptocurrencies and the gain or loss from holding them again violates the current regulation of accounting standards for inventories and intangible assets. Fluctuating market prices of cryptocurrencies make the financial and holding conditions of these assets less predictable for individuals and businesses. As there are no accounting standards that specifically address crypto assets, existing IFRS should be considered and a principle-based approach applied. The article highlights some of the approaches of international financial accounting standards that are currently being debated and also shares views on how IFRS could be applied to cryptocurrency accounting.

Key words: cryptocurrency, accountancy, bitcoin, blockchain, IFRS

As an extended product of blockchain technology, a cryptocurrency is a peer-to-peer network-based cryptographic electronic currency with no issuer and a largely fixed aggregate amount that is not linked to any physical currency and is not backed by any government, central bank, legal entity, underlying asset or commodity. Bitcoin is the oldest and most widely known cryptocurrency, and as of July 2022, more than 20,268 types of electronic cryptocurrencies could be traded on the online market. The total market value of tradable cryptocurrencies is currently approximately $1,025 trillion. The traded volume of cryptocurrencies in 24 hours currently stands at around $107 billion. While the legitimacy of cryptocurrencies is still under debate, cryptocurrencies have been used to pay for goods and services, as gifts to incentivize employees, or held by entities as investment vehicles.

MATERIAL AND METHOD

As a new type of asset, cryptocurrencies challenge the current concept of money, economic relationships and investment and also bring new accounting and financial reporting issues. These issues have been analyzed by international companies providing professional financial advisory, accounting and auditing services such as PricewaterhouseCoopers (PwC), Deloitte, Ernst & Young, the Australian Accounting Standards Board (AASB), the US Financial Accounting Standards Board (FASB), the International Accounting Standards Board (IASB). At the same time, accounting standards for cryptocurrencies have recently been issued in Japan, South Korea and Belarus.

Cryptocurrencies are currently used to conduct commercial transactions in the world of e-commerce and are also considered as investment options. Therefore, they will eventually need to be accounted for and there will need to be a basis for valuing cryptocurrencies for reporting purposes in financial statements.

RESULTS AND DISCUSSIONS

As the legal status of cryptocurrencies has not yet been established, the current theoretical focus is on the accounting treatment of cryptocurrencies acquired or received by a subject from a counterparty. In December 2016, the Australian Accounting Standards Board (AASB) published "Digital Currencies - A Case for Standard Setting Activities" to discuss the attributes and asset categories of cryptocurrencies and recommended that the IASB closely monitor

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relevant developments in this area. In March 2018, the FASB's Nonprofit Advisory Board stated that some nonprofit grantees are currently considering accepting cryptocurrencies as a method of payment and as cryptocurrencies, such as Bitcoin, become more prevalent, the financial reporting issues associated with them should receive attention and will be prioritized for discussion of cryptocurrency issues at future meetings. In April 2017, Japan's Payment Services Act came into force and payment methods such as Bitcoin and other cryptocurrencies were legislated. In March 2018, the Accounting Standards Board of Japan (ASBJ) formally issued the document entitled "Practical Accounting Treatment of Virtual Currencies under the Payment Services Act" as part of Japanese GAAP, which governs the accounting treatment of cryptocurrencies.

In February 2018, the Korean Accounting Association began developing accounting standards for cryptocurrencies, taking into account the classification of digital currencies such as Bitcoin as "liquid assets". At the same time, regulations are also being sought to comply with the "illiquid assets" of cryptocurrencies, which would apply to people who hold cryptocurrencies for more than one year. In 2018, international accounting firms such as Ernst & Young, PricewaterhouseCoopers and the Canadian Institute of Chartered Accountants also discussed the accounting treatment of cryptocurrencies, and the IASB discussed the accounting treatment of cryptocurrencies at an Emerging Economies Group meeting.

How to classify cryptocurrency assets is still undecided by national accounting standards boards. Current International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) do not explicitly mention cryptocurrencies, but according to the IASB's conceptual framework, an asset is a present economic resource controlled by a subject as a result of a past event, and an economic resource is a right that has the potential to generate economic benefits. The relevant accounting bodies of Ernst & Young, PricewaterhouseCoopers, the Canadian Institute of Chartered Certified Accountants, the Accounting Standards Board of Australia, Japan, Korea, Belarus and other countries consider that cryptocurrencies meeting the above conditions should be recognized as assets. However, classification as cash and cash equivalents, financial instruments, inventories or intangible assets differs between international accounting bodies (Ernst and Young, 2018). Under IAS 7, cash includes cash on hand and demand deposits, and cash in accounting is a legal tender issued by governments. For the above, cryptocurrencies do not have these attributes in most countries and regions. Cash equivalents are short-term investments that are readily convertible into known amounts of cash, which are liquid and whose value is not likely to be fully equivalent to intangible assets as covered by IAS 38. Therefore, cryptocurrencies are not likely to be considered cash or cash equivalents at this time. The Canada Revenue Agency (CRA) treats the purchase of goods or services with cryptocurrencies, the sale of goods or the rendering of services for which cryptocurrencies are received as barter transactions, and the disposal of cryptocurrencies is subject to the recognition of gain or loss on disposal of assets. In the US, cryptocurrencies are considered property, the same tax principles that apply to property apply to cryptocurrencies. As such, taxpayers must recognize taxable income based on the fair market value of cryptocurrencies when used to pay for goods or services.

Under International Accounting Standard 32 - Presentation of Financial Instruments (IAS 32), and International Financial Reporting Standard 9 - Financial Instruments (IFRS 9), an essential characteristic of a financial asset is that the holder of the asset has the right to receive cash or other financial assets from another entity. The AASB believes that cryptocurrencies should not be classified as financial instruments because they do not have corresponding contractual rights and obligations. The Canadian Institute of Chartered Accountants believes that certain contracts for the future purchase or sale of cryptocurrencies (e.g., forward contracts or options) or other contracts that are cash-settled based on the movement of a particular cryptocurrency may meet the definition of a derivative and qualify for accounting as a financial instrument.

According to International Accounting Standard 38 - Intangible Assets (IAS 38), an intangible asset is a non-monetary asset that does not have a physical entity and is identifiable. Cryptocurrency has the characteristics of not having a physical form, is distinguishable as an asset and can be sold, borrowed or exchanged separately or together with related contracts, identifiable assets or liabilities and has the characteristics of being separately identifiable, so that cryptocurrency meets the definition of an intangible asset under IAS 38. However, IAS 38 intangible assets are usually held for production operations. An entity may hold cryptocurrencies to purchase goods or services, as a gift to motivate employees or as an investment vehicle, so again cryptocurrencies may not be fully equivalent to an intangible asset as covered by IAS 38.

IAS 38 requires the application of IAS 2 - Inventories, to intangible assets that are held for sale in the course of an enterprise's operations. Therefore, if an enterprise holds cryptocurrencies to sell them in the course of its day-to-day operations, they may be classified as inventories; if an enterprise holds cryptocurrencies for investment purposes, because of the high volatility of the price of cryptocurrencies, they could be accounted for under IAS 40 - Investment Property (IAS 40), although cryptocurrencies do not belong to IAS 40. Cryptocurrencies offered as an incentive to employees may also be accounted for under IFRS 2 (Share-based payment), but at least for the time being, cryptocurrencies are not in the nature of marketable securities. The JASB believes that as current international accounting standards do not cover intangible assets for trading purposes, none of the cryptocurrencies meets the current asset classification and should be classified as a new asset class outside the existing asset classes. PricewaterhouseCoopers believes that cryptocurrencies can be considered indefinite-lived intangible assets under the current U.S. accounting framework. The Belarusian Ministry of Finance has issued accounting standards for cryptocurrencies that allow cryptocurrency investments to operate in a legalized environment where cryptocurrencies can be classified according to their origin and use. Cryptocurrencies obtained through an initial coin offering are called investments, and cryptocurrencies can be classified as long-term financial investments or short-term financial investments, depending on the period of time the coins are in circulation. If coins are purchased for future sale, they must be reported as "assets" in a debit account. Cryptocurrencies purchased by "miners" or used to validate cryptocurrency transactions should be considered "finished goods".

The international accounting bodies mentioned above consider that cryptocurrencies acquired through a transaction should be initially valued at acquisition cost, regardless of asset classification. However, their subsequent valuation differs significantly depending on the asset classification. If cryptocurrencies are classified as inventories, they are measured at a lower cost and net realizable value in accordance with IAS 2. If cryptocurrencies are classified as intangible assets with indefinite useful lives, they are not amortized but are subject to an impairment provision in accordance with IAS 38. IFRS 13 - Fair Value Measurement (IFRS 13) defines an active market as a market in which transactions in assets or liabilities occur with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is an active market for the cryptocurrency (which meets all three conditions, i.e. the items traded in the market are homogeneous, a willing buyer and seller can usually be found at any time, and the price is publicly available) and the holder of the cryptocurrency chooses the fair value measurement model, then during the period the cryptocurrency is held, it is measured at fair value in accordance with IAS 36 - Impairment of Assets. Thus, in accordance with IAS 36, the holder should determine at the balance sheet date whether there is any indication that the cryptocurrency may be impaired. If there is an indication of impairment, an impairment calculation should be performed to reassess the recoverable amount of the cryptocurrency. If the recoverable amount is less than the carrying amount, an impairment provision must be made for the part of the recoverable amount that is less than the carrying amount. Accounting for the adoption of fair value will become more complicated due to the significant volatility of current market prices of many cryptocurrencies, driven by speculative interests. Of course, cryptocurrencies for which there is no active market can only be valued using the cost model, and the AASB believes that cryptocurrencies should subsequently be measured at fair value, with gains and losses from changes in fair value recognized in profit or loss as they arise, based on their physical form, but this approach is not consistent with current IASs.

International Accounting Standard 1 - Presentation of Financial Statements (IAS 1) considers financial statements to be a structured description of the financial position and results of operations of an enterprise. The purpose of financial statements is to provide information about the financial position, results of operations and cash flows of an enterprise that is useful to a wide range of users in making economic decisions (Ramrakhiani N.V., 2018). Notes to the financial statements of an enterprise should disclose additional information required by international accounting standards that are not presented in the financial statements but are necessary for a fair presentation (Sixt E. & Himmer K., 2019). According to the Canadian Institute of Chartered Accountants, in addition to the disclosures required by IFRS, an entity should disclose: (1) information about the significant characteristics of cryptocurrencies and the purpose for which they are held; (2) the value of cryptocurrencies held at year-end; (3) the basis for selecting the accounting policy for cryptocurrencies; (4) if a cost model is used, how the fair value of cryptocurrencies was determined in accordance with IFRS 13; (5)

information about the market risk associated with cryptocurrencies. PwC believes that although cryptocurrencies can be included in the existing accounting model for intangible assets, the model does not reflect well the economic substance of these unique assets. Cryptocurrencies are fundamentally different from other intangible assets that are measured at cost.

CONCLUSIONS

This paper tries as far as possible, to provide an understanding of this new accounting element called "cryptocurrency" and of course to create the possibility of initiating the implementation of cryptocurrency in the Romanian Accounting system. However, the lack of current accounting standards has led to a diversity of accounting practices for cryptocurrencies, with differences in the accounting treatment of companies involved in cryptocurrency-related activities affecting the comparability of published accounting information. If new steps were to be taken by the state and by the accountants regulating this type of asset, it would revitalize the online commerce and also make some transactions much easier. Globally, there would be no barriers, the associated transfer fees would be zero and the security of transaction information would be impenetrable. The most important beneficiaries would be accountants and entrepreneurs. This new introduction to accounting could make it easier to expose online transactions in accounting and would add value to what we have today.

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