



THE STANDARD STANCE

Navigating the Accounting Treatment of Cryptocurrencies

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WHAT IS CRYPTOCURRENCY?

Cryptographic assets are transferable digital representations of a variety of ‘*real world*’ objects that are designed in a way that prohibits their copying or duplication. **Cryptocurrencies** are among the most commonly known subsets of cryptographic assets.

Cryptocurrency is an intangible digital token/ currency which is recorded using a distributed ledger infrastructure, often referred to as a **blockchain**. When a transaction is to be added to the blockchain, the computers participating in the blockchain use an automated process (a consensus algorithm) to validate the format of the transaction to be included in the next ‘block’. These tokens provide various rights of use. For example, cryptocurrency is designed as a medium of exchange to pay for goods and services, and for investment purposes.

These tokens are owned by an entity, which owns the key that lets it create a new entry in the ledger. Access to the ledger allows the reassignment of the ownership of the token. These tokens are not stored on an entity’s IT system, as the entity only stores the keys to the Blockchain (as opposed to the token itself). Cryptocurrencies do not have a physical form, and they have not been declared to be legal tender. The supply of a cryptocurrency is not determined by any central bank.

Bitcoin is the first cryptocurrency, created in 2009 and initially defined as a chain of digital signatures.

CRYPTOCURRENCIES IN INDIA

Crypto Assets are unregulated in India. However, the Government vide Finance Act, 2022, brought a comprehensive taxation regime for transfer of virtual digital assets (VDAs) and vide notification dated 7 March 2023 also brought VDAs under the purview of the Prevention and Money-laundering Act, 2002.

WHICH IND AS MIGHT BE USED TO ACCOUNT FOR CRYPTOCURRENCY?

Accounting for cryptocurrencies is not as simple as it might first appear. As no Ind AS specifically addresses this issue, reference must be made to existing Ind AS (and perhaps even the Conceptual Framework for Financial Reporting) to interpret the recognition and measurement of cryptocurrencies. Crypto-assets have diverse terms and conditions. The purpose for holding crypto-assets also differs among the entities, and even among business models within the entities that hold them. Hence, the accounting treatment will depend on the particular facts and circumstances, and the resulting analysis could be complex.

It is well understood that a cryptocurrency does meet the definition of an asset under the Ind AS Conceptual Framework. However, it would be critical to understand which Standard would be most relevant given the nature of Cryptocurrency.

1. A financial asset like cash or cash equivalent? Or
2. An intangible asset?

Asset	Ind AS	Applicability	Remarks
Cash	Ind AS 7 and Ind AS 32	No	These are not legal tender and not issued by any Government or State.
Cash Equivalent	Ind AS 7	No	The value of cryptocurrencies is highly volatile.
Financial asset	Ind AS 109	No	No contractual right to receive cash or another financial asset, and is not a residual (equity) interest in the issuer of the cryptocurrency.
Intangible asset	Ind AS 38	Yes	As they are identifiable and lack physical substance
Inventory	Ind AS 2	Yes	Only where the test for “ <i>held for sale in ordinary course of business</i> ” is met.

Let us analyse the above table in detail:

Is Cryptocurrency Cash?

At first, it might appear that cryptocurrency should be accounted for as cash because it is a form of digital money. The description of cash in Ind AS 32 suggests that, **cash** is expected to be used as a medium of exchange (i.e., used in exchange for goods or services) and as the monetary unit in pricing goods or services to such an extent that it would be the basis on which all transactions are measured and recognised in financial statements (i.e., it could act as the functional currency of an entity). Currently, it is unlikely that any crypto-asset would be considered a suitable basis for measuring and recognising all the items in an entity’s financial statements.

Cash, as currently presented in the financial statements, tends to be the physical holdings and demand deposits of fiat currencies issued, or supported, by the governments of various jurisdictions. Fiat currencies (physical currencies like dollar or sterling) have little or no intrinsic value but are generally accepted as a medium of exchange in a jurisdiction because they are supported by the government and recognised as legal tender in their respective jurisdictions.

The holder of a cryptocurrency is unable to demand cash and instead is only able to realise its investment by either selling it to another party or by using it to purchase goods or services.

Is Cryptocurrency A Cash Equivalent?

The answer is no. Because of the significant risk of changes in value, a cryptocurrency will fail the definition of cash equivalents. Ind AS 7 defines cash equivalents as 'short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value'. Thus, cryptocurrencies cannot be classified as cash equivalents because they are subject to significant price volatility. Therefore, it does not appear that digital currencies represent cash or cash equivalents that can be accounted for in accordance with Ind AS 7. Although an increasing number of entities are accepting digital currencies as payment, digital currencies are not yet widely accepted as a medium of exchange and do not represent legal tender. Entities may choose to accept digital currencies as a form of payment, but there is no requirement to do so.

Is Cryptocurrency A Financial Asset?

Cryptocurrencies fail the definition of a financial asset, since they do not give the holder any contractual right to receive cash or another financial asset, and they do not entitle the holder to any residual (equity) interest in the issuer of the cryptocurrency.

Moreover, cryptocurrency is not a debt security, nor an equity security (although a digital asset could be in the form of an equity security) because it does not represent an ownership interest in an entity. Therefore, it appears cryptocurrency should not be accounted for as a financial asset.

WHAT IS BEST SUITED FOR ACCOUNTING OF A CRYPTOCURRENCY?

An intangible asset? Yes, because it is identifiable and does not have any physical form.

Ind AS 38 '*Intangible Assets*', defines an intangible asset as an identifiable non-monetary asset without physical substance. Ind AS 38 states that an asset is identifiable if it is separable or arises from contractual or other legal rights. An asset is separable if it is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability.

This also corresponds with Ind AS 21 *The Effects of Changes in Foreign Exchange Rates*, which states that an essential feature of a non-monetary asset is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Thus, it appears that cryptocurrency meets the definition of an intangible asset in Ind AS 38 as it is capable of being separated from the holder and sold or transferred individually and, in accordance with Ind AS 21, it does not give the holder a right to receive a fixed or determinable number of units of currency.

Cryptocurrency holdings can be traded on an exchange, and therefore, there is an expectation that the entity will receive an inflow of economic benefits. However, cryptocurrency is subject to major variations in value, and therefore, it is non-monetary in nature. Cryptocurrencies are a form of digital money and do not have physical substance. Therefore, the most appropriate classification is as an intangible asset.

Measurement: Ind AS 38 allows intangible assets to be measured at cost or revaluation.

- A) Using the cost model, intangible assets are measured at cost on initial recognition and are subsequently measured at cost less accumulated amortisation and impairment losses.
- B) Using the revaluation model, intangible assets can be carried at a revalued amount if there is an active market for them; however, this may not be the case for all cryptocurrencies.

The same measurement model should be used for all assets in a particular asset class. If there are assets for which there is not an active market in a class of assets measured using the revaluation model, then these assets should be measured using the cost model.

Ind AS 38 states that a revaluation increase should be recognised in other comprehensive income and accumulated in equity. However, a revaluation increase should be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset that was previously recognised in profit or loss. A revaluation loss should be recognised in profit or loss. However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance in the revaluation surplus in respect of that asset.

Where the revaluation model can be applied, IFRS 13 *Fair Value Measurement* should be used to determine the fair value of the cryptocurrency. IFRS 13 defines an active market, and judgement should be applied to determine whether an active market exists for particular cryptocurrencies. As there is daily trading of some cryptocurrencies, such as Bitcoin, it may be possible to demonstrate that such a market exists. A quoted market price in an active market provides the most reliable evidence of fair value and is used without adjustment to measure fair value whenever available. In addition, the entity should determine the principal or most advantageous market for the cryptocurrencies.

An entity will also need to assess whether the cryptocurrency's useful life is finite or indefinite. An indefinite useful life is where there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity. It appears that cryptocurrencies should be considered as having an indefinite life for the purposes of Ind AS 38. An intangible asset with an indefinite useful life is not amortised but must be tested annually for impairment.

ENTITIES WHOSE BUSINESS IS DEALING/ TRADING IN CRYPTOCURRENCIES - INVENTORY OR INTANGIBLE ASSETS?

Ind AS 2 defines **inventories** as assets:

- held for sale in the ordinary course of business
- in the process of production for such sale, or
- in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Crypto-assets would generally not be used in the process of production or in form of materials or supplies to be consumed in the production process.

When crypto-assets are held for sale in the ordinary course of business, Ind AS 2 would be applicable. However, for cryptocurrency (or cryptocurrencies) to be regarded as being inventory, the entity would need to demonstrate that they were being traded frequently enough for this to be the entity's 'ordinary course of business'.

In cases where cryptocurrencies meet the criteria of Ind AS 2, the asset will be measured at the lower of cost and net realisable value. The costs of purchased crypto-asset inventories would typically comprise the purchase price, irrecoverable taxes and other costs directly attributable to the acquisition of the inventory (e.g., blockchain processing fees). Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the crypto-asset inventories to their present location and condition. The cost of inventory excludes anticipated selling costs as well as storage expenses (e.g., costs of holding a wallet or other crypto-account).

Net realisable value is defined in Ind AS 2 as the estimated selling price in the ordinary course of business, less the estimated cost of completion and the estimated cost necessary to make the sale. An entity holding crypto-asset inventory will need to estimate the net realisable value at each reporting period. Where this is below cost, the inventory should be written down to its net realisable value with the write-down being recorded in profit or loss. A previous write-down of inventory is reversed when circumstances have improved, but the reversal is limited to the amount previously written down so that the carrying amount never exceeds the original cost.

Further, an entity that actively trades cryptocurrencies, purchasing them with a view to their resale in the near future and generating a profit from fluctuations in the price or traders' margin, might consider whether the guidance in Ind AS 2 for commodity broker-traders should be applied. Commodity broker-traders may measure their commodity inventories at fair value less costs to sell. In those cases, the measurement principles of Ind AS 2 do not apply to that inventory.

INITIAL RECOGNITION AND MEASUREMENT OF CRYPTO-ASSETS

There are several ways in which crypto assets may be acquired, and the accounting for their initial recognition and measurement is determined by the particular facts and circumstances. The table below provides a summary of the applicable standards.

Transaction through which the crypto is acquired	Relevant guidance to consider under US GAAP and IFRS	Transaction through which the crypto is acquired
Purchased (spot or via exchange)	ASC 350 / Ind AS 38	At cost
Received in exchange for providing goods or services to a customer	ASC 606 / Ind AS 115	At fair value (non-cash consideration)
Acquired in acquisition of group of assets	ASC 350 / Ind AS 103	At cost (allocated on a relative fair value basis)
Acquired in a business combination	ASC 805 / Ind AS 103	At Fair value
Received in exchange for non-financial assets	ASC 845 / Ind AS 38	At fair value (non-cash consideration)

ACCOUNTING TREATMENT OF CRYPTOCURRENCIES - IFRS INTERPRETATIONS COMMITTEE PERSPECTIVE

At the July 2018 Board meeting, the IASB (International Accounting Standard Board) reached an agreement to ask the IFRS Interpretations Committee (IFRS IC) to consider guidance for the accounting of transactions involving cryptocurrencies, possibly in the form of an agenda decision on how an entity might walk through the existing IFRS requirements.

In June 2019, the IFRS IC published its agenda decision on 'Holdings of Cryptocurrencies', considering cryptographic assets with the following characteristics:

- a) a digital or virtual currency recorded on a distributed ledger that uses cryptography for security;
- b) not issued by a jurisdictional authority or other party; and
- c) does not give rise to a contract between the holder and another party.

The IFRS IC concluded that holdings of cryptocurrencies should be accounted for under IAS 38 unless they are held for sale in the ordinary course of business, in which case, IAS 2 would apply.

ACCOUNTING TREATMENT OF CRYPTOCURRENCIES - US GAAP PERSPECTIVE

In December 2023, the FASB issued ASU 2023-08, Intangibles – Goodwill and Other – Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets, to specifically address the accounting for and disclosure of a subset of digital assets that meet certain criteria. The guidance, which is codified in new subtopic ASC 350-60, requires all entities to subsequently measure the crypto assets they hold at fair value at each reporting period in accordance with ASC 820, Fair Value Measurement. Gains and losses from the remeasurement of crypto assets shall be included in net income. The standard eliminates the previous impairment-only model and instead mandates presenting crypto assets separately from other intangible assets on the balance sheet, and reporting changes in their fair value distinctly in the income statement.

Listed below are the criteria mentioned in ASC 350-60:

1. Is an intangible asset;
2. Does not provide the asset holder with enforceable rights to, or claims on, underlying goods, services, or other assets;
3. Is created or resides on a distributed ledger based on blockchain or a similar technology;
4. Is secured through cryptography;
5. Is fungible; and
6. Is not created or issued by the reporting entity or its related parties.

Digital assets that do not meet all the scope criteria described in ASC 350-60 should be accounted for in accordance with other applicable US GAAP.

CONCLUSION

As the landscape of digital assets continues to evolve, cryptocurrencies stand at the intersection of technology, finance, and regulation, challenging conventional accounting frameworks and demanding a nuanced interpretation of existing Ind AS guidance. While their economic substance clearly establishes them as assets, their unique characteristics—ranging from high volatility to decentralised governance—necessitate careful assessment under Ind AS 38 or Ind AS 2, depending on the entity's purpose for holding them. As regulatory clarity gradually increases in India and globally, entities will need to apply sound judgement, robust governance processes, and transparent disclosures to ensure their accounting treatment faithfully represents the underlying economics. Ultimately, a thoughtful and well-reasoned approach will be essential for navigating this emerging asset class responsibly and consistently.



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