



Newsletter

# IFRS Alert

Cryptocurrencies and related  
transactions: accounting  
considerations under IFRS

October 2021



# At a glance

Cryptographic assets, including cryptocurrencies such as Bitcoin, have generated significant amount of interest around the world.

While [Vietnamese legislation](#) has yet to recognise cryptocurrencies as either an asset/property or a means of transaction, cryptocurrencies prove to be popular here. According to [Global Crypto Adoption Index](#), Vietnam takes the top spot among 154 countries based on three metrics: crypto activity, trading volume and trading activity. There have been signs, in recent months, hinting at the government's openness towards establishing a new type of currency. For example: The issuance of [Decision 942/QĐ-TTg](#) in June 2021 which tasked the State Bank of Vietnam (SBV) to research the pilot use of 'virtual money' based on blockchain technology.

This alert serves as a informational guide on some of the accounting questions that are currently being debated and share our views on how IFRS could be applied.

1. At issue is how to recognise, measure and disclose activities associated with the issuances of, and the investment in, the various types of cryptographic assets.
2. As there are no accounting standards that specifically address cryptocurrencies, one must look at the existing IFRS and apply a principles-based approach.

This is an extract from [PwC's financial reporting issue](#) on accounting considerations for cryptographic assets and related transactions.



# Crypto-assets 101:

## What you need to know?

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. It is important to note the following points:

- There are various subsets of cryptographic assets.
- Cryptographic assets can be used for a variety of purposes, including as a means of exchange, as a medium to provide access to blockchain-based goods or services, and as a way to raise funding for an entity developing activities in this area.
- There are many judgemental areas that will require further investigation as entities determine the applicable accounting treatment and as the technologies and markets continue to develop. For some topics, no uniform or definitive answers currently exist.

### Definition

**Cryptocurrencies** is one of the most commonly known subsets of cryptographic assets. It is used as a means of exchange and share some characteristics with traditional currencies. The most popular cryptocurrency is Bitcoin. The most popular cryptocurrency is Bitcoin.



**Has no intrinsic value** in that it is not redeemable for another commodity, such as gold.



**Has no physical form** and exists only in the network



**Its supply is not determined by a central bank** and the network is completely decentralised.

# Crypto-assets 101:

## What you need to know?

**Blockchain** is a digital, decentralised ledger that keeps a record of all transactions that take place across a peer-to-peer network and that enables the encryption of information. It is the technology that facilitates the transfer of cryptographic assets.

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These transformative technologies have not gone unnoticed by the standard setters. The topic of digital currencies was identified as a potential new project for the International Accounting Standards Board (IASB) in 2015 through the Board's Agenda Consultation process. However, the Board decided to closely monitor developments.

It was not until July 2018 Board meeting, the IASB 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', and it considered a subset of 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 IAS 2, 'Inventories', applies to such assets where they are held for sale in the ordinary course of business. If IAS 2 is not applicable, an entity applies IAS 38, 'Intangible Assets', to holdings of cryptocurrencies.

# Accounting considerations

A single, generally accepted framework for the classification of these varied cryptographic assets does not currently exist. However, based on our observations, there are some characteristics that can be used to classify cryptographic assets into similar types. We believe that similar types of cryptographic asset should be accounted for in a similar way.

The characteristics that we observe being most relevant for classifying cryptographic assets for accounting purposes are:

- the primary purpose of the cryptographic asset; and
- how the cryptographic asset derives its inherent value.

IFRS does not include specific guidance on the accounting for cryptographic assets and there is no clear industry practice, so the accounting for cryptographic assets could fall into a variety of different standards. Consideration should also be given to the entity's purpose for holding the cryptographic assets to determine the accounting model. In the following pages, we explore the accounting standards and other considerations that might be relevant to the most popular subset of cryptographic assets: **cryptocurrencies**.

## PwC observations:

Before determining the accounting treatment of a transaction from the issuer's or owner's perspective, it is important to understand the purpose and utility of the cryptographic asset. There is diversity of rights and obligations associated with cryptographic assets. The terms/characteristics of the cryptographic asset might result in differences in the accounting model applied.

## PwC observations:

The range of possible classifications, as well as their associated measurement, indicates the importance of understanding the nature and characteristics of the cryptocurrency, as well as the entity's business model/purpose for holding the asset. This increases the importance of implementing specific accounting policies and ensuring their consistent application to similar transactions, as well as appropriate disclosures. Where an entity can evidence the existence of clearly distinguished portfolios of similar assets held for different purposes, different treatments might apply within an entity.



# Accounting considerations

A few standards come to mind when considering the accounting for cryptocurrencies held by an entity for its own account.

Category	Description	Applicable standards
Cash or a currency	<p>IFRS contains no explicit definition of the terms 'cash' or 'currency'. There might be an argument that, for accounting purposes, the words 'cash' and 'currency' are interchangeable.</p> <p>Judgement is therefore required to determine whether cryptocurrencies can be considered cash or a currency.</p> <p>Cryptocurrencies do not have some of the common properties of cash and currency, especially:</p> <ul style="list-style-type: none"> <li>cryptocurrencies are not legal tender and mostly are not issued or backed by any government or state; and</li> <li>cryptocurrencies are currently not capable of setting prices for goods and services directly. In other words, cryptocurrencies might be accepted to settle some transactions, but they are not directly related to the setting of prices for goods or services in an economy.</li> </ul>	<p>The assessment should consider the facts and circumstances for each cryptocurrency</p> <ul style="list-style-type: none"> <li>IAS 32, 'Financial Instruments: Presentation', makes a connection between currency and cash, and</li> <li>IAS 21, 'The Effects of Changes in Foreign Exchange Rates', makes a connection between cash, currency and monetary items.</li> </ul>
Financial asset – other than cash	<p>Holding a unit of a cryptocurrency typically does not give the holder a contractual right to receive cash or another financial asset, nor does the cryptocurrency come into existence as a result of a contractual relationship. Moreover, cryptocurrencies generally do not provide the holder with a residual interest in the assets of an entity after deducting all of its liabilities.</p>	-
Property, plant and equipment	<p>Cryptocurrencies do not fall into the scope of IAS 16, 'Property, Plant and Equipment', because they are not tangible items.</p>	-

# Accounting considerations

Category	Description	Applicable standards
Inventory	IAS 2 does not require inventories to be in a physical form, but inventory should consist of assets that are held for sale in the ordinary course of business. Inventory accounting might be appropriate if an entity holds cryptocurrencies for sale in the ordinary course of business. An entity that actively trades the 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 IAS 2 for commodity broker-traders should be applied.	However, if the entity holds cryptocurrencies for investment purposes (that is, capital appreciation) over extended periods of time, it would likely not meet the definition of inventory.

The chart below summarises the different possible classifications and their associated measurement considerations

Applicable standard	Initial measurement	Subsequent measurement	Movements in carrying amount
Inventory (IAS 2) <ul style="list-style-type: none"> <li>Other</li> </ul>	Cost	Lower of cost and net realisable value	Movements above cost <ul style="list-style-type: none"> <li>N/A</li> </ul> Movements below cost <ul style="list-style-type: none"> <li>Profit and loss</li> </ul>
Inventory (IAS 2) <ul style="list-style-type: none"> <li>Commodity broker-trader exception</li> </ul>	Cost	Fair value less costs to sell	Profit and loss

# Accounting considerations

Category	Description	Applicable standards
Intangible asset	<p>If a cryptocurrency does not meet the definition of any of the above categories, it will likely meet the definition of an intangible asset under IAS 38, 'Intangible Assets', because:</p> <ul style="list-style-type: none"> <li>it is a resource controlled by an entity (that is, the entity has the power to obtain the economic benefits that the asset will generate and to restrict the access of others to those benefits) as a result of past events and from which future economic benefits are expected to flow to the entity;</li> <li>it is identifiable, because it can be sold, exchanged or transferred individually;</li> <li>it is not cash or a monetary asset; and</li> <li>it has no physical form.</li> </ul>	IAS 38 applies to all intangible assets except those excluded specifically from its scope (for example, inventories).

The chart below summarises the different possible classifications and their associated measurement considerations

Applicable standard	Initial measurement	Subsequent measurement	Movements in carrying amount
Intangible assets (IAS 38) <ul style="list-style-type: none"> <li>Revaluation model (accounting policy choice but requires existence of active market)</li> </ul>	Cost	Fair value less any accumulated amortisation and impairment*	Movements above cost <ul style="list-style-type: none"> <li>Other comprehensive income</li> </ul> Movements below cost <ul style="list-style-type: none"> <li>Profit and loss</li> </ul>
Intangible assets (IAS 38) <ul style="list-style-type: none"> <li>Cost model</li> </ul>	Cost	Cost less any accumulated amortisation and impairment*	Movements above cost <ul style="list-style-type: none"> <li>N/A</li> </ul> Movements below cost <ul style="list-style-type: none"> <li>Profit and loss</li> </ul>

\* in most cases, no amortisation is expected for cryptocurrencies



# Contact us

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. For further information, please reach out to us.



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