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Research Article

IFRS Accounting Method: Cryptoassets or Cryptocurrencies?

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Abstract

IFRS as the current accounting and reporting framework does not consider cryptoassets, so the IFRS Interpretation Committee discusses how the IFRS Standards apply to cryptoasset holdings and proactively provides guidance on potentially transformative issues. In its publication, the IFRS Interpretation Committee in 2019 explained about: Intangible Assets, Financial Asset, Cash, Inventory. “Currency (cash) is a financial asset because it represents a medium of exchange and is therefore the basis on which all transactions are measured and recognized in financial statements. Cryptocurrencies can be classified into several categories namely, inventory; cash and investment.

Keywords: International Financial Accounting Standard, Cryptoassets, Cryptocurrencies
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1. Introduction

It is known that crypto experienced several increases in 2017 although in early 2018 it experienced a decline but in 2019 to November 2021 the average market price across all major Bitcoin exchanges had peaked at 62,393 USD. Cryptograph, such as Bitcoin and Ether, have experienced price spikes as public awareness has increased, and financial market participants have increasingly turned their attention to the phenomenon.

Simultaneously, the trend of issuing new cryptocurrencies has developed in every country, such as from Indonesia which has released cryptograph TKO (Toko coin), BNB from China and recorded more than 100 crypto assets that can be traded.

In investing transparency, investor protection and market integrity are essential to ensure that innovation continues. Given the recent growing market interest, governments around the world are constantly considering whether and how cryptographics can be regulated. Indonesia and other international governments have also voiced concerns about cryptographs.

The purpose of the establishment of the International Accounting Standards Committee (IASC) and the International Accounting Standards Board (IASB) is to develop high quality international financial reporting standards. This is in line with the mandate of the G-20 countries meeting in London. To achieve this goal, the IASC and IASB have issued principles-based standards known as International Financial Reporting Standards (IFRS) and previously International Accounting Standards (IAS). IFRS as the current accounting and reporting framework does not consider cryptoassets, so the IFRS Interpretation Committee discusses how the IFRS Standards apply to cryptoasset holdings and proactively provides guidance on potentially transformative issues. This is interesting to be discussed further because crypto assets have accounts that are still biased in the IFRS financial statements..

2. Literature Review

Cryptocurrency or digital currency using transactions through the network (online). Cryptocurrency, a vocabulary derived from the word cryptography or cryptography (coding language), refers to an agreement from users and a storage process that is secured by strong passwords, while currency is currency as a medium of exchange that applies in society. Cryptocurrency is a centralized currency system in the form of a network that is able to connect users without intermediaries or third parties such as banks or governments. such as Visa Paypal and others (Syamsiah, 2017).

There is some literature that has researched Bitcoin cryptographs, with the influential work by Gandal et al (2018) documenting Bitcoin price manipulation, while Foley et al (2019) showing the amount of illegal activity carried out through Bitcoin. Recently, Makarov and Schoar (2019) demonstrated arbitrage opportunities in the cryptocurrency market. Shen et al (2019) show that Bitcoin tweet count is a significant driver of trading volume and the realization of cryptocurrency volatility while Grobys and Sapkota (2019) show no evidence of significant gain momentum in the cryptocurrency market. Platanakis and Urquhart (2019) demonstrate the importance of risk estimation when creating a cryptocurrency portfolio. Shaen Corbet, Brian Lucey, Andrew Urquhart, Larisa Yarovaya (2020) define Cryptocurrency as a financial asset with systematic analysis, Marta Cristina, et al (2020) discuss Accounting for bitcoin in relation to IFRS and tax aspects. Tatiana Morozova, et al (2020) Crypto Asset Valuation Model in Typology of Financial Reporting Content

Methods

A literature review is a description of studies relevant to a the topic. The discussion is about information in certain subject areas with the latest references, for the last few years. The process includes reading, analyzing, evaluating and summarizing specific topics (Nasution et al., 2021). A descriptive approach was adopted in this study through the collection of previous literature on cryptographic accounting so as to provide a relatively easy-to-understand affirmation regarding the placement of cryptographs in accounting according to IFRS. Several articles have also been examined to get the views of researchers on this topic. The purpose of this paper is as a collection of previous research and the results of discussions from international accounting associations related to cryptographics so that stakeholders related to crypto accounting are expected to obtain the information that has been presented here and can more easily to implement..

3. Result and Discussion

4.1. Result

In its publication, the IFRS Interpretation Committee in 2019 explained that:

a. Intangible Assets
   IAS 38 applies to the accounting for all intangible assets except: those that are within the scope of another Standard; financial assets, as defined in IAS 32 Financial Instruments: Presentation; recognition and measurement of exploration and evaluation assets; and expenditures on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources
b. Financial Asset
   Paragraph 11 of IAS 32 defines financial assets. In summary, a financial asset is any asset that:
   (a) cash;
   (b) equity instruments of other entities;
   (c) a contractual right to receive cash or another financial asset from another entity;
   (d) a contractual right to exchange a financial asset or financial liability with another entity under certain conditions; or
   (e) certain contracts that will or may be settled in the entity's equity instruments.

c. Cash
   Paragraph AG3 of IAS 32 states that 'currency (cash) is a financial asset because it represents a medium of exchange and therefore is the basis on which all transactions are measured and recognized in financial statements. A cash deposit with a bank or similar financial institution is a financial asset because it is the depositor's contractual right to obtain cash from that institution or to withdraw a check or similar instrument against a balance that favors the creditor in payment of a financial obligation.
d. Inventory
   IAS 2 applies to inventories of intangible assets. Paragraph 6 of the Standard defines inventories as assets: held for sale in the ordinary course of business; in the production process for the sale; or in the form of materials or supplies for consumption in the production process or in the rendering of services.

4.2. Discussion

In the case of cryptographs as **Inventory** in IAS 2 it applies to cryptoassets when they are held for sale in the ordinary course of business for example in this case if the company acts as a cryptoasset's broker. If IAS 2 does not apply, the entity applies IAS 38 to the cryptoasset holdings.

IAS 2 defines '**inventory**' as assets held for sale in the ordinary course of business, in the production process for sale or as materials or supplies for consumption in the production or rendering of services. IAS 38 refers to an **'intangible asset'** which is defined as an 'identifiable non-monetary asset without physical substance'.

Because cryptocurrencies are not yet treated as legal currencies in any region, and certainly also by the United Nations or any other global organization, they do not meet the IFRS definition of cash, as set out in IAS 32:

"*Currency (cash) is a financial asset because it represents a medium of exchange and is therefore the basis on which all transactions are measured and recognized in financial statements. A cash deposit with a bank or similar financial institution is a financial asset because it is the depositor's contractual right to obtain cash from that institution or to withdraw a check or similar instrument against a balance in favor of the creditor in payment of a financial obligation*."

Cryptocurrencies do not meet the definition of a financial asset in the form of an equity instrument or a contractual right to receive cash. For that reason, three measurement models defined by IFRS 9 (a financial asset at fair value through profit or loss; a financial asset at fair value through other comprehensive income; or amortised cost) are not directly available. However, the main motive for the purchase of Cryptocurrencies is based on speculation to realise future capital gain. This kind of a transaction does not fulfil the definition of a financial asset, but the economic factors surrounding the ("buy and hold") transaction are comparable to trading with financial instruments. Using the provision of IAS 8.11, an accounting policy adopted for investment-like Cryptocurrencies can refer to the measurement models of IFRS 9. From applicable models, amortised cost cannot be employed, as Cryptocurrencies do not have any maturity date. Only FVPL or FVOCI models can be applied and shall be applied as a relevant source of useful information for the users of financial statements. (Procházka, 2018)

Despite references such as the above that may apply to cryptoassets, the fact remains that, to date, there has been no specific accounting standard covering cryptoassets. Because the status of this new type of asset will become clearer in the coming months and years.

Conclution

Despite references such as the above that may apply to cryptoassets, the fact remains that, to date, there has been no specific accounting standard covering cryptocurrencies. There is no specific classification and measurement in accounting standards governing Cryptocurrencies. It still depends on the purpose of the acquisition, Cryptocurrencies can be classified into several categories namely, inventory; cash and investment. Cryptocurrencies also meet the definition of an intangible asset. This paper encourages standard setters and regulators to develop specific guidelines for cryptocurrencies as this new type of asset will see growth in its use by many companies in the coming months and years.

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