

Virtual currency in accounting 2/13/24

Many companies are considering accepting virtual currency or cryptocurrency in payment for their goods or services. Some are even considering buying virtual currency as a financial instrument. What is virtual currency? And how do we account for it properly? This article explores the essence of and accounting for virtual currency.

What is virtual currency?

Directive (EU) 2018/843 of the European Parliament and of the Council defines virtual currency as a digital representation of value that is not issued or guaranteed by a central bank or a public authority, is not necessarily attached to a legally established currency and does not have the legal status of currency or money, but is accepted by individuals or entities as a means of exchange and can be transferred, stored or traded electronically. Virtual currency is not considered a financial instrument, an issue of electronic money or a payment service because it's not money. To promote a uniform understanding of the tax and accounting treatment of virtual currency dealings, the State Revenue Service (SRS) has drawn up guidelines on the practical application of relevant laws, last updated on 24 January 2024.

Accounting practice

The Accounting Act states that a company's books must clearly show all its business transactions, as well as each fact or event that changes its financial position. The books must be kept in a way that gives a third party qualified in accounting matters a true and fair view of the company's financial position at the balance sheet date and of its performance and cash flows over a specified period, to be able to establish the beginning of each business transaction and follow its progress. Accounting information must be true, comparable, timely, relevant, comprehensible and complete. The books must ensure that revenues and expenses are separated by reporting periods.

The SRS recommends that companies dealing in virtual currency should record it under current assets as inventories purchased for cash. The value of inventories should be expressed in euros. The SRS says it's a barter, not a cash transaction, according to its economic substance and should be recorded as such.

The Company and Consolidated Accounts Act states that current assets must be revalued to ensure they are carried at the lower of cost or bottom market price on the balance sheet date. This means virtual currency, too, must be valued according to these indicators at the balance sheet date.

International Accounting Standards (IAS)

Since Latvian legislation contains no rules on accounting for virtual currency, some pointers on how to handle it properly should be derived from International Financial Reporting Standards (IFRS).

According to IFRS there is no uniform methodology used to determine precisely how cryptocurrencies should be accounted for. This follows from the diversity of cryptocurrency markets and from the various characteristics and purposes of cryptocurrencies. Cryptocurrencies can be bought, sold and produced, as well as having other functional possibilities.

However, based on the practices of IFRS experts, a few characteristics have been identified that can help us classify and account for similar cryptocurrency assets. If a company has cryptocurrency assets, then it's

important for its accounting policy to describe how they are accounted for.

In 2019 the IFRS Interpretations Committee revised the question of holding cryptocurrencies. They found cryptocurrencies held for sale should be accounted for under IAS 2 Inventories. If the accountant does not believe this standard is applicable to cryptocurrencies in the company's operations, then IAS 38 Intangible Assets should be used.

Companies acting as virtual currency brokers should record it under inventories at fair value after deducting the cost of sales. Companies regularly buying and selling cryptocurrency should record it at its lowest value, i.e. net realisable value.

Companies planning to account for virtual currencies under IAS 38 should state this way of accounting in their accounting policy. This could be a description of accounting for virtual currencies or a description of the method used in valuing them.

Overall, the SRS guidelines and IAS recommend accounting for virtual currencies as inventories. Our experience suggests that companies planning to deal in virtual currencies should describe this practice in their accounting policy to provide true and fair information on accounting for virtual currencies.