

# The Accounting Of Cryptocurrency As Per Indian Accounting Standards: A Review Paper

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## Abstract

Crypto currency has become the buzzword these days. Accounting is yet another field where cryptocurrency has occupied its space. In India, the status of accounting for cryptocurrency still remains unclear even though few of the additions have been made in IAS. A list of varied elements exists in the accounting process, where accountants deal in the real world as there is presently no accounting standard regulated for them; one such example is crypto currency. The U.S. GAAP (General Accepted Accounting Principles) and international financial reporting standards (IFRS) has recognized Crypto currency in the present times for public firms as an account for a digital currency as an intangible asset with an unlimited life. Companies will first record crypto on the balance sheet at their cost basis in both scenarios. The goal of this research paper is to assess if there are adequate justifications for the establishment of IFRS accounting rules for crypto-assets (liabilities) and to make suggestions for possible directions in which they may go. A clear insight into the accounting and taxation is attempted in the present research paper.

**Key-Words** Cryptocurrency, MCA, IASB, IFRS

## Introduction

The Ministry of Corporate Affairs (MCA) on March 24, 2021 published a notification that businesses need to disclose their cryptocurrency holdings in their balance sheets. These adjustments were made by taking the necessary modifications to Schedule III of the 2013 Companies Act. According to the notification, businesses must now disclose any profit or loss resulting from trading or investing in cryptocurrencies or virtual currencies of any kind, and any deposits or advances they have received from third parties for such purposes.

Crypto-currencies are intended to be used as a kind of exchange. Cryptocurrencies and cryptocurrency legislation have been hot subjects in India in recent years. Initially RBI had warned people for using cryptocurrency because of not being accepted as a legal tender. This was followed by a 2018 Circular that forbade RBI-regulated firms from assisting cryptocurrency transactions.

## Review of Literature

**Procházek David** has given the analysis as; The development of blockchain technology has fundamentally altered how people think about the design and operation of financial institutions. The majority of central banks and state authorities reject the idea that cryptocurrencies are money, despite the fact that they are increasingly used in payment transactions

and account for a sizeable portion of wealth. The financial statements of the organisations employing cryptocurrencies must handle cryptocurrencies, like other economic phenomena, even if there is no accounting guidance in the present financial reporting standards. This study fills this gap by outlining, contrasting, and evaluating potential IFRS accounting methods. The research demonstrates that fair value accounting is the most pertinent source of meaningful information on price volatility of cryptocurrencies, supported by evidence from a literature analysis and current time-series data. The most popular and commonly utilised cryptocurrency worldwide is bitcoin. Just over \$10 billion (USD) is the market capitalisation as of right now (Crypto-Currency Market Capitalizations, 2016). Satoshi Nakamoto created Bitcoin initially as a peer-to-peer electronic currency payment method and a fix for the double-spending issue (Nakamoto, 2008). It is mainly intended to do away with the requirement for banking institutions or other "trusted third-party" organisations. In order to do this, Bitcoin reduces the likelihood of fraud, boosts efficiency, and provides unbiased evidence of effort to ensure the reliability and security of every transaction (Nakamoto, 2008). A safe and private transaction may be made using digital signatures and a public ledger. Since the public network of nodes validates transactions, there is no requirement for faith in a transaction through achieving agreement. The **strategic business reporting team** has adopted an approach in regard with International Accounting Standard (IAS®) 7, IAS 32, Presentation and International Financial Reporting Standard (IFRS®) 9, Financial Instruments as a benchmark for illustrating the treatment of Crypto currency in accountancy as well as the principles and standards that apply to it. Treatment of different Financial Instruments can be justified through various researchers' perspective, as when held as investments and falling within the purview of IAS 2 and 38, measuring criteria, crypto-assets may not accurately reflect their economics.

## Definition of Cryptocurrency

India still lacks a formal definition for either cryptocurrencies or cryptoassets despite several talks and attempts at regulation. While the RBI has issued prohibitory circulars and precautionary notifications in 2013, 2017, and 2018, respectively, and laid out examples of these, it has not attempted to define cryptocurrencies, virtual currencies, or cryptoassets. However, it has made it clear that they are not legal tender. Thus, it is unclear whether holdings in cryptoassets like Stable Coins, Utility Tokens, Non-Fungible Tokens (NFTs), etc. will also be subject to the disclosure obligations as notified by MCA. Such clarity may be helpful in deciding on taxation, foreign exchange regulation and taking up anti-corruption measures.

## Application of crypto currency

Due to the fact that bit coin is a type of digital currency, it could initially seem as though it should be recorded as cash. However, because they cannot easily be traded for any item or service, crypto currencies cannot be regarded as being equal to cash (money) as defined by IAS 7 and IAS 32. Digital currencies are not yet generally acknowledged as a means of exchange and do not serve as legal money, despite an increase in the number of businesses who accept them as payment. There is no necessity for organisations to accept digital currencies as a means of payment.

## IAS 2

IAS 2 relates to inventories of intangible assets, in some cases and depending on an entity's business model, it could be acceptable to account for crypto currencies in line with that standard. According to IAS 2, inventories are assets: Held for sale in the regular course of business, material used during the production of such sales, or in the form of raw materials or supplies that will be used during manufacturing or service provision.

## IAS 7

Cash equivalents are characterized under IAS 7 as "short-term, highly liquid investments that are easily convertible into known sums of cash and which are subject to a minimal risk of fluctuations in value." Since crypto currencies are

very volatile in terms of price, they cannot be categorized as cash equivalents. As a result, it doesn't seem like digital currencies are similar to cash or other forms of money that may be recorded using IAS 7.

## IFRS 9

According to IFRS 9, it would seem intuitively correct to account for crypto currencies as financial assets at fair value through profit or loss (FVTPL). Because it does not reflect currency, an ownership stake in an organization, or a contract creating a right or obligation to deliver or receive cash or another financial instrument, it does not appear to fit the definition of a financial instrument. Due to the fact that crypto currency does not reflect an ownership stake in an organization, it is neither a debt security nor an equity security (although a digital asset may take the form of an equity security). Consequently, it would seem that crypto currencies should not be treated as financial assets.

## IFRS 13

As per the revaluation model applicability, the fair value of the cryptocurrency should be determined in accordance with IFRS 13, Fair Value Measurement. An active market is defined under IFRS 13; it is up to the analyst to decide if there is an active market for a given cryptocurrency. Since Bitcoin is traded every day, it is simple to show that such a market exists. The most trustworthy proof of fair value is a quoted market price in a thriving market, which is utilised without modification to calculate fair value whenever it is available. Additionally, the organisation needs to identify the primary or most favourable market for cryptocurrency.

## Taxation of Cryptocurrency

A defined taxation framework for bitcoin holdings or transactions does not yet exist in India. It was made clear last year in the Union Budget that any gains from the transfer of cryptocurrencies or cryptoassets are liable to income tax. However, the Income Tax Department does not keep any records, and there is hardly any instruction. It is now difficult to imagine how taxation on bitcoin transactions and holdings will be imposed from the Central Board of Indirect Taxes and Customs (CBIC), the entity that classifies services under the GST. Therefore, even if the government has made it clear that these transactions are subject to both direct and indirect taxation, it is necessary to provide a clear process for doing so. Furthermore, he made it clear that any service that makes these transactions easier is equally subject to the Goods and Services Tax (GST) regime.

The foundational assumption of this paper is that cryptoassets satisfy the accounting definition of assets using the IASB Conceptual Framework for Financial Reporting (Conceptual Framework) concept of assets. A growing legal viewpoint on the nature of cryptoassets and the enforceability of related agreements supports this viewpoint. For instance, the UK LawTech Panel published an authorised legal declaration in 2019 stating that linked smart contracts are legally enforceable and that cryptoassets constitute property. Although this remark solely applies to the UK and is based on common law, its justification could have an impact on comparable positions in other countries.

## Conclusion

Cryptocurrency accounting is more complicated than it initially appears. Since there is presently no IFRS standard, current accounting rules must be cited (and perhaps even the Conceptual Framework of Financial Reporting). SBR applicants should be ready to apply this strategy during a test since it enables them to support their claims, which is a strategy that will be anticipated by employers in the real world. Although the government is also adopting a positive strategy by being open to dialogue with stakeholders, 68 public and private banks in India have begun refusing to process transactions involving cryptocurrencies, which has created issues for many of India's 7 million reported cryptocurrency investors. Even after the SC ruled that the circular encouraging this was unlawful, press sources claim that this move by the banks is a result of RBI formally requesting them to review their links with bitcoin company.

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