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**Sultan Gurban Niftaliyev**

PhD Student, Azerbaijan State University of Economics (UNEC), Lead Analyst of the Underwriting of SME and Corporate Loans Department, Kapital Bank ASC, Baku, Azerbaijan;  
 e-mail: [sultanniftaliyev69@gmail.com](mailto:sultanniftaliyev69@gmail.com)  
 ORCID: [0000-0002-0887-5210](https://orcid.org/0000-0002-0887-5210)  
 (Corresponding author)

# PROBLEMS ARISING IN THE ACCOUNTING OF CRYPTOCURRENCIES

## ABSTRACT

The study provides detailed information about the cryptocurrency market as an IFRS object and indicates the methods of their accounting and their features. Data on the change in the total market capitalization of cryptocurrencies are shown, and the reasons for which they went into decline are revealed. Companies that may be interested in accounting for cryptocurrencies under IFRS are considered, as well as the official guidance of the IASB on the issue of accounting and reporting of cryptocurrencies, issued several years ago, is analyzed. Two standards IAS 38 "Intangible Assets" and IAS 2 "Inventories" are analyzed and the reasons why for which the company's cryptocurrency is mainly accounted for either as part of intangible assets or as part of inventories. The foreign experience of some companies that reflect the cryptocurrency according to IFRS is studied, as well as Azerbaijan's practice in this area is considered. Accounting standards have not yet been fully developed, as cryptocurrency has different characteristics from traditional financial assets. Therefore, businesses may experience uncertainty regarding the accounting of cryptocurrency. It is important for businesses to maintain proper accounting records regarding cryptocurrency. These records help businesses meet their tax obligations related to the purchase, sale and exchange of cryptocurrency. However, it can be difficult to find staff with adequate knowledge of accounting and recording cryptocurrency.

**Keywords:** cryptocurrency, IFRS, intangible asset, reserves, IASB, accounting

**JEL Classification:** M41, M48, M49

## INTRODUCTION

The digitalization of the economy has a significant impact on the development of the financial accounting and reporting system, changing the technologies for collecting and analyzing data, ways business reporting and communication compilers and users of financial statements. New accounting objects appear, such as, for example, digital currencies that require the development of a methodology for their accounting and reflection in financial statements. In this regard, the study of issues related to the consideration of cryptocurrencies as an object of international financial reporting standards (IFRS) is relevant.

## LITERATURE REVIEW

Cryptographic assets (Brukhanskyi and Spilnyk, 2019: 384) [3] that emerge as a result of the digitization of the economy, earn their trust, defy established economic laws, destroy traditional ideas and demand radical changes in business processes (Brukhanskyi and Spilnyk, 2019: 384) [3] are in a peer-to-peer network designed to prohibit their copying or duplication. They are decentralized and transferable digital representations that use the "blockchain" or distributed ledger technology infrastructure that keeps track of all transactions that occur and encrypts information.

Cryptographic assets are characterized by their ability to be used as a medium of exchange, as a representation to provide or access goods or services, or as a means of financing such as securities. With these capabilities, the crypto ecosystem provides new opportunities that allow payments and other financial services to be cheaper, faster and

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more accessible, allowing it to go beyond borders rapidly, and helps the emergence of a new decentralized transaction model [4, p.94].

On the other hand, it is estimated that it will cause potential problems, including consumer protection, operational flexibility, market integrity, as it appears dangerous in terms of financial stability, falls outside of financial services regulations, crypto-asset custody wallet and crypto asset trading platforms are not regulated under financial services law. Although it is predicted that there will be various problems, the use of crypto assets is rapidly spreading. In fact, this rapid rise has attracted the attention of organizations, investors, regulators and governments [3, p. 385] and they have begun to think about whether and how cryptocurrencies can be regulated. This situation requires the institutionalization that the industry seriously needs (Brukhanskyi and Spilnyk, 2019: 386) [3] will also eliminate the problem. This phenomenon, which makes its impact felt in every financial activity, changes the way business is conducted between individuals and organizations, and in addition to the changes in business models, it also affects the accounting profession [14, p.59]. The status of cryptocurrencies as potential objects of the accounting and reporting system remains completely unclear. According to recent research, due to the novelty of the problem, the problems related to cryptocurrencies in the accounting and reporting system have not been adequately examined [3, p. 387]. In this direction, the main purpose of the study is to examine the literature on the accounting of crypto assets in the field of accounting and to make suggestions. This phenomenon, which makes its impact felt in every financial activity, changes the way business is conducted between individuals and organizations, and in addition to the changes in business models, it also affects the accounting profession [14, p.60]. The status of cryptocurrencies as potential objects of the accounting and reporting system remains completely unclear. According to recent research, due to the novelty of the problem, the problems related to cryptocurrencies in the accounting and reporting system have not been adequately examined [3, p.387]. In this direction, the main purpose of the study is to examine the literature on the accounting of crypto assets in the field of accounting and to make suggestions. This phenomenon, which makes its impact felt in every financial activity, changes the way business is conducted between individuals and organizations, and in addition to the changes in business models, it also affects the accounting profession [14, p. 61]. The status of cryptocurrencies as potential objects of the accounting and reporting system remains completely unclear. According to recent research, due to the novelty of the problem, the problems related to cryptocurrencies in the accounting and reporting system have not been adequately examined. In this direction, the main purpose of the study is to examine the literature on the accounting of crypto assets in the field of accounting and to make suggestions.

Figure 1 shows the market capitalization 2 trends of cryptocurrencies from 2010 to 2022. The market of cryptocurrencies reached a significant volume in 2017. It decreased in 2018 and started to rise again in 2019.

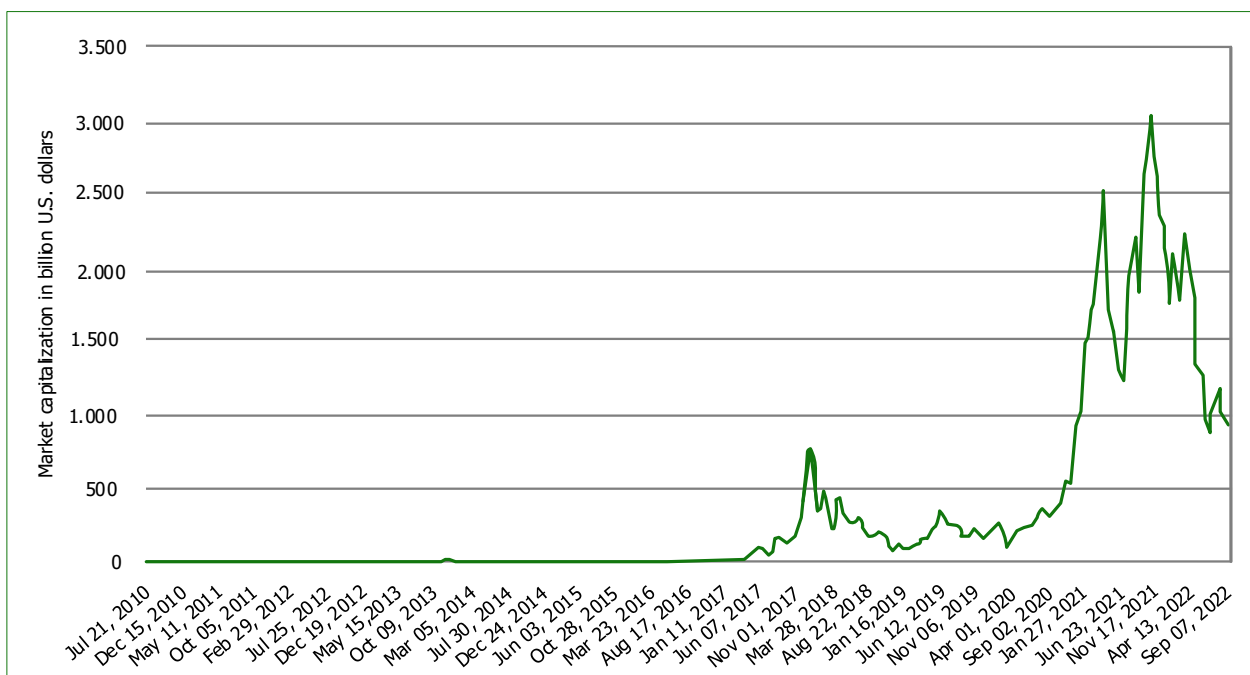


Figure 1. Overall cryptocurrency market capitalization per week from July 2010 to September 2022(in USD billion. (Source: [7])

When the academic studies on the accounting of cryptocurrencies in the literature are examined, the following studies can be reached. These studies consist of studies that have the feature of compilation as an academic research method. Since it is a fairly new subject, it has been seen that internet resources containing opinions and suggestions in the form of technical notes are more common than academic research.

Al-Dulami and Özkan (2021) [1] stated that crypto money cannot be considered cash according to IFRS because the issuers of crypto money do not have the authority to give legal money status to this asset.

In the study titled "Accounting for Bitcoin and Other Cryptocurrencies under IFRS: A Comparison and Assessment of Competing Models" by Prochozca (2018) [11], evaluations, comparisons and suggestions were made regarding the gap in accounting for cryptocurrencies on the basis of IFRS. It has been discussed whether cryptocurrencies should be considered as cash, financial instruments, commodities or intangible assets.

According to the analysis and evaluations of Sayar et al., (2021) [13], it is considered that it would be appropriate to consider Bitcoin transactions as an item under cash in terms of accounting record, valuation, measurement, reporting and presentation in Bitcoin. In this way, an opinion is put forward that Bitcoin is more liquid and instead of "impairment loss", the daily valuation profit/loss and accounting will comply with the principle of reflecting the real value. However, it is not possible to make this argument for all crypto assets.

Utku (2021) [15] stated that investment transactions in crypto assets do not comply with IAS 2 and IAS 8 measurement provisions and, contrary to these standards, they should be reported at fair value. He also stated that MSUGT (General Communiqué on Accounting Practices) and IFRS would be insufficient in reporting crypto assets.

Yatsyk T. (2020) [16] proposed to divide cryptocurrencies into two main groups securities and utility tokens. It recommended that security tokens that give rise to a contractual right to cash or another financial asset and therefore meet the definition of a financial asset should be accounted for in accordance with IFRS 9. He stated that benefit tokens that meet the definition of prepayment for goods or services and therefore enter the definition of intangible assets should also be accounted for in accordance with IAS 38.

He stated that in order to meet the needs of accounting and presentation of crypto instruments in financial statements, a common view should be formed that these assets are money, securities or commodities. In addition, the end-of-period valuation of crypto instruments in terms of MSUGT is made with the stock market price in accordance with the provision of Article 280 of the TPL, and the valuation differences are recorded as foreign exchange profit/loss if the crypto instruments obtained as a result of mining activities are accepted as commodities by the legal authority, VAT is applied in the purchase and sale. reporting crypto instruments among cash-like financial assets such as other liquid assets.

He suggested that if cryptocurrencies are considered securities, they should be recorded in the Other Securities account over the purchase price and the profit or loss should be recorded in the relevant accounts (Kondova, G., Simonella, G. 2019). Considering the area and form of use in the accounting of cryptocurrencies, accounting records should be made according to the concept of priority of substance, according to the evaluation of bitcoin as a currency unit, liquid value, securities or commercial goods.

Due to the lack of legislative regulations, there are not many studies in the literature that deal with the accounting dimension of cryptocurrencies. However, since the use of Bitcoin in these currencies is becoming increasingly widespread, legal arrangements should be made along with accounting and tax regulations related to this issue [9, p. 85]. Accounting for the purchase of Bitcoin means that the exchange rate value in that exchange should be taken as a reference, from which the exchange platform Bitcoin was obtained.

Zigman (2015) [17] wrote in his study that Bitcoin can be handled in three ways in terms of accounting and stated that Bitcoin can be accepted as a payment instrument, basic currency and foreign currency.

KPMG experts developed a framework to help organizations integrate crypto assets as part of their business. This framework consists of the following steps, which is described in [9] (Table 1).

**Table 1. Reporting and Audit Framework for Crypto Assets.** (Source: [9])

Activity	Action	Output
Determination of Accounting Policy	<ul style="list-style-type: none"> <li>▪ Set Accounting Policy for Crypto Assets;</li> <li>▪ Document the Accounting Policy you have determined;</li> <li>▪ The accounting you have determined explains your policies in the footnotes.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Accounting policies and directives;</li> <li>▪ Annotation templates.</li> </ul>
Determination of Valuation Measure	<ul style="list-style-type: none"> <li>▪ Determine the valuation method according to the characteristics of the crypto assets in hand;</li> <li>▪ Provide support and consultancy services for the valuation method you have determined;</li> <li>▪ The functionality of the existing system and evaluate your gaps.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Valuation Directives and Reports;</li> <li>▪ Documents of Needs, processes.</li> </ul>
Evaluation of the Impact on the Business	<ul style="list-style-type: none"> <li>▪ Identify data needs and data gaps;</li> <li>▪ New processes and control identify your needs.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Technology and Data Lack Analysis Report.</li> </ul>
Implementation of Plans	<ul style="list-style-type: none"> <li>▪ A Powerful App;</li> <li>▪ Set and Manage the Schedule.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Implementation of the Plan.</li> </ul>

As understood from the framework content above, KPMG did not take a firm view on the accounting of cryptocurrencies and tried to determine the steps to be taken during accounting and auditing within a business model.

Looking at the academic studies given above, it has been revealed that there is no consensus yet on how to account for cryptocurrencies, and how the accounting of cryptocurrencies will be in line with the individual opinions and suggestions of the researchers working on this subject. In this study, the perspectives of accounting institutions, organizations, professional organizations and auditing companies operating on a global scale on the classification and measurement of cryptocurrencies "according to the way they are used" are presented. The fact that the opinions of authority institutions on how to account for cryptocurrencies are binding makes the discussions on this subject important. The presentation of these views in the study makes this study different from other studies.

## AIMS AND OBJECTIVES

The aim of the article is to identify, analyze and propose solutions to the problems that occur in the accounting flight of cryptocurrencies. For this purpose, the following tasks will be carried out: to investigate the current situation and problems in accounting for cryptocurrency, to study the problems of price fluctuations and valuation of cryptocurrencies, and to analyze proposed solutions and practical methods for accounting for cryptocurrencies.

With the fulfilment of these tasks, it will be possible to understand the problems that occur in the accounting flight of cryptocurrencies and offer solutions. This study will help businesses more effectively manage their accounting volatility and fulfil their tax obligations. It will also open up a new field of research on accounting for cryptocurrencies in academia.

## METHODS

The article uses such methods of scientific research as analysis, synthesis, comparison. In this study, firstly cryptocurrencies were discussed with analysis method, then academic studies on the accounting of cryptocurrencies were emphasized with synthesis method, and finally, the opinions put forward by AICPA, ACCA, IASB, AASB, ASBJ were presented comparatively and the effect of these discussions on financial reports was discussed with comparison method.

## RESULTS

Cryptocurrencies, which are the newest among the money types, are becoming an important alternative in the money markets. The number has exceeded 2000 as stated above. However, the most widely recognized ones in use are 25. Looking at the strengths, weaknesses, opportunities and threats of crypto money, the relationship between them and today's monetary system will be better understood.

### A- Opportunities

- Confidential account feature opportunity. Cryptocurrency is an important investment tool. It has a confidential transaction feature like offshore banking. With this aspect, it plays an important role in attracting the wealth that is wanted to be hidden to the countries. With this method, it is possible to have a significant foreign exchange reserve accepted by many countries.
- An opportunity not to increase supply. The speculative situation in exchange rate movements may not be experienced here. Since all the crypto money produced depends on a predetermined amount, it creates a situation similar to the advantages of the gold bullion system. The situation of multiplying more money than production is eliminated.

#### *B- Threats*

- Following with a distributed system. This method prevents policy development as all records are made public. Every transaction can be done instantly by anyone.
- The Threat of Absence of a Central Director. It has a feature that can change hands at any time like a stock. Its amount cannot be interfered with. Production can increase or decrease at any time.
- The threat of Loss for Accounts Not Registered by Name. In terms of security, it is important to encode accounts with extremely high-security passwords. However, it is an important threat that no identity check is made to enter the account and that anyone who knows the password can enter the account.

#### *C- Strengths*

The strengths of cryptocurrencies can be listed as follows.

- High Encryption: The money supply and demand cannot be directed because the probability of breaking the accounts is very difficult, no one can be guided according to their will since it is in the virtual environment, and the rules cannot be changed in the virtual environment.
- Whether the amount can be reduced or multiplied: The money supply cannot be changed. Thus, money cannot be created in an economy that does not correspond to production.

#### *D- Weaknesses*

acceptance problem, It has not yet been accepted all over the world;

- Lack of legal infrastructure. In the world, the legal regulation regarding crypto money has not been fully made.
- Lack of account security. Since individuals cannot be identified in the accounts, there is no possibility of accessing the account in case of losing or forgetting the password.

b) not being taxed, legal in terms of record under a). It cannot be taxed because it cannot be taxed;

c) used in money laundering. It has become an important tool to increase informality for countries.

The economic policy of all countries without exception is strongly influenced by the processes arising in the field of international finance. A rather legitimate desire to streamline these processes led to the formation of international (regional) monetary systems of the world monetary system.

Electronic money is a relatively new payment instrument that has emerged due to advances in technology. The popularity electronic of money is driven by a number of factors, including increasing complications in opening current accounts and receiving payment cards from traditional retail banks, changes in the social structure of the population, and the evolution of the Internet into a digital workplace.

E-money comes in a variety of forms and therefore covers the different needs of different customer groups, from nomads, migrants and freelancers to corporations looking to make bulk payouts. Cryptocurrency is a type of electronic money and it has already had a very big impact on the whole world.

Currently, cryptocurrency is spreading rapidly in the global economy, there are already more than 1500 of their types.

According to the Coin Gecko platform, in May 2021, an increase in the price of mainly Bitcoin and Ethereum led to an increase in market capitalization to record USD 2.6 trillion (Figure 2). After that, a decline began due to restrictions on the crypto market in China, and the record was only repeated by October 20, 2021. By the end of 2021, the capitalization of the cryptocurrency market exceeded USD 3 trillion. More than half of them are Bitcoin and Ethereum (USD 1.8 trillion), the most popular crypto-currencies [5]. But at the beginning of 2022, the total capitalization of the cryptocurrency market decreased, due to the fall of bitcoin to a maximum since mid-2021. Then the situation began to stabilize and the indicator began to grow.



**Figure 2. The total market capitalization of cryptocurrencies since June 2021 to March 2022, trillion USD. (Source: [5])**

At the moment, there are two main categories of cryptocurrencies in the world:

- firstly, these are those that are used to purchase goods and services;
- secondly, those that allow the creation of "smart contracts-agreements" that ensure compliance with laws.

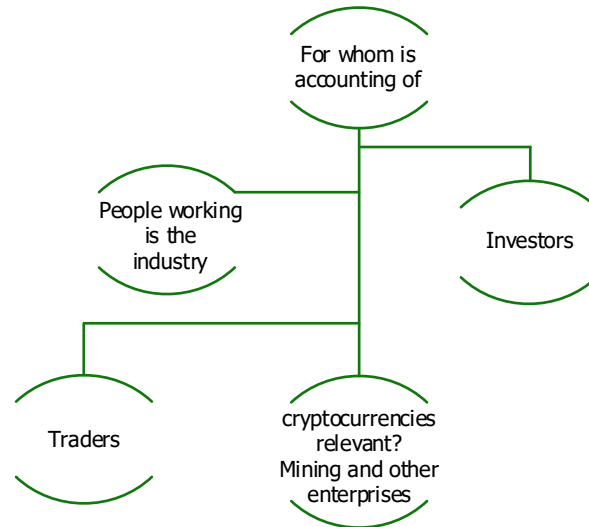
Bitcoin and Ethereum have a strong influence on the overall capitalization of cryptocurrencies. They are leaders in the list of cryptocurrencies (Table 2).

**Table 2. The most popular cryptocurrencies. (Source: [5])**

N	Name	Ticker	Price, USD	Ryn. cap., USD	Volume, USD (24h)	Volume, %	Change, % (24h)	Change, % (7 days)
1	Bitcoin	BTC	28.789.4	549.40B	30.88B	39.41	-4.82	0.49
2	Ethereum	ETH	1.921.71	233.91B	17.42B	22.23	-7.88	-6.11
3	Tether	USDT	0.9989	74.11B	55.36B	70.64	-0.03	0.24
4	USD Coin	USDC	1.0014	52.27B	5.73B	7.31	0.02	-0.03
5	BNB	BNB	289	47.43B	1.50B	1.92	-4.70	8.34
6	XRP	XRP	0.40792	19.84B	1.58B	2.02	-6.63	0.56
7	Binance USD	BUSD	1.0014	18.45B	5.77B	7.36	0.03	0
8	Cardano	AD	0.507	17.32B	899.05M	1.15	-11.82	0.49
9	Solana	SOL	50.044	17.02B	1.73B	2.21	-11.06	3.23
10	Dogecoin	DOGE	0.083887	11.19B	543.02M	0.69	-6.48	0.25

Until now, experts are arguing about whether cryptocurrencies are an object of investment or not. However, more and more people and organizations create and hold crypto assets, as they consider them promising for profit. The use of cryptocurrencies as an investment object, as well as a method of electronic payments, caused serious difficulties for the compilers of accounting and financial statements since cryptocurrencies have different characteristics and areas of use. In this regard, undoubtedly, the question arises as to whether it is possible and expedient to use the accounting policy that applies to one cryptocurrency for another.

There are two categories of companies that may be interested in the accounting of cryptocurrencies and the reflection of transactions with them in the financial statements, which are presented in Figure 3.



**Figure 3. Who may face cryptocurrency accounting?** (Source: [9])

The first are holders of cryptocurrencies - those who purchased them for savings or to profit from their sale in the future. The second includes miners - those who invest in computer equipment and other resources for mining. That is, they are engaged in the collection and processing of information about ongoing operations with cryptocurrency.

Considering the importance of the problem and the need formation form approach to accounting and disclosure in financial statements, the IASB held a meeting in June 2019 and discussed the issue with cryptocurrency. Currently, there is official guidance that can at least partially solve the problem of accounting and reflection in the financial statements of this type of asset.

Study provisionsThe Conceptual Framework for the Presentation of Financial Statements in relation to the definition and recognition of elements of financial statements, it is established that cryptocurrency meets the definition of intangible assets acquired for investment and having an active market. In accordance with IFRS (IAS) 38 "Intangible assets are an identifiable non-monetary asset that does not have a physical form". Cryptocurrency has no physical form, is a non-monetary asset and is likely to bring economic benefits in the future [6].

The price volatility of cryptocurrencies and their value as a medium of exchange indicate that the method of accounting for them after recognition is at revalued value. Under IAS 38 Intangible Assets, increases in value are required to be recognized in other comprehensive income, decreases in value are recognized in profit and losses. This is due to the fact that intangible assets are viewed as long-term investments that contribute to the economic activity of the company. This interpretation does not correspond to the essence of cryptocurrencies as highly liquid assets used for trading or investment purposes.

For example, Bitcoin Group Ltd, a consulting company headquartered in Melbourne, Australia, accounts for bitcoins as part of intangible assets. Accounting is as follows: first, bitcoins are recognized at acquisition cost under IAS 38, and then they are revalued to a price in an active market [7].

As for the revaluation, if it increases, it is necessary to carry it out through capital. Otherwise, when the revaluation decreases, it must be reduced by the amount of the positive revaluation of previous periods in equity, and the remainder recognized as expenses of the current period. After the disposal of bitcoins, the revaluation reserve is reflected in retained earnings.

Keep in mind that according to IFRS (IAS) 38 Cryptocurrency does not apply to "Enterprise's Intangible Assets held for sale in the ordinary course of business". That is, this means that a company whose main activity is the trading and mining of cryptocurrencies must account for them as reserves.

IAS 2 defines inventories as assets that are held for sale in the ordinary course of business and are in the process of being produced for such sale. A decrease in net realizable value will be recognized in the income statement, and an increase in net realizable value in excess of previous decreases will not be recognized at all. Ethereum is one of the most popular organizations at the moment, which considers cryptocurrency as reserve.



You can also consider accounting for cryptocurrencies in IAS 40 "Investment Property". In this article, the following definition is real estate that is owned by a company, individual or legal entity and generates income from rental payments. The property may be held under a contract.

Some companies may purchase cryptocurrencies for themselves in order to earn income and increase the value of cryptocurrency. But nevertheless, this cannot make them real estate, so the cryptocurrency cannot be related to IAS 40.

At Azerbaijan legislation cryptocurrency received the status of digital currency. For the first time, cryptocurrency as an asset was used in 2019 by one of the investors of the Artel company, he contributed bitcoin to the authorized capital of the company. This happened before the legalization of cryptocurrency in Azerbaijan. However, on January 1, 2021, the Law "On Digital Financial Assets" came into force and such operations became legal for all companies in the country. Cryptocurrency was recognized as property and now it can be owned, in addition, cryptocurrency can be sold, bought, and income from transactions must be declared.

Based on the study, it can be concluded that today cryptocurrencies (and their dynamics in particular) are one of the most promising and controversial phenomena in the global financial market (Table 3). They are spreading at a staggering rate and many companies are already using them as payment. Created to make anonymous transactions bypassing payment systems, cryptocurrencies have become an object of investment in every possible way. Most countries are trying to quickly determine their status in order not to miss the market with a huge daily turnover and somehow regulate it.

**Table 3. Examination of the Development of Cryptocurrencies and their Place in Money Markets by Swot Analysis.**

OPPORTUNITIES	THREATS
Confidential account feature Failure to increase the supply	Monitoring with a distributed system Lack of Central Management Unable to save accounts to name
STRENGTHS	WEAKNESSES
High-security encryption Inability to be directed at will Unable to change the amount	Acceptance problem Lack of account security Non-taxable Used in money laundering

Azerbaijan did not stand aside from the ongoing transformation in the field of international finance, streamlining the process of using cryptocurrencies on territory of the Azerbaijan through the adoption of a relevant law.

In accounting and reporting from the standpoint of IFRS, cryptocurrency is a specific class of intangible assets, acquired for investment purposes and having an active market. From an asset such as a cryptocurrency, economic benefits can be obtained in the future, its value can be reliably estimated.

The popularity of cryptocurrency is due to the requirements of the time. In the modern age of ubiquitous dissemination of information technologies, digital means of communication of various participants in economic activity, universal means of payment are extremely in demand, which could be used to pay in electronic space without being tied to a particular country or institution. Cryptocurrency and other types of digital currencies have become such a means.

## DISCUSSION

In the above sections, the opinions and suggestions of different individuals and institutions on the classification and measurement of cryptocurrencies are emphasized. The opinions and suggestions made as a result of these discussions can be summarized in the table below.

According to Table 4, it is seen that a common consensus has not been achieved in the accounting of cryptocurrencies. This situation may cause differences in practice and the continuity of the informal economy. In terms of being risky instruments, cryptocurrencies can be subject to asset classification, which needs control and audit in terms of no floor ceiling pricing.



**Table 4. The perspective of International Accounting Authorities in Accounting for Cryptocurrencies.** (Source: [9])

	IASB	ACCA	AICPA	AASB	ASBJ	ARTICLE	PWC	Deloitte	KPMG
Cash and Cash Like	x	x	x	√	x	√	x	x	x
Financial Instrument	x	x	x	√	x	√	x	x	x
Stock	x	x	x	√	x	√	√	x	x
Material Non-Fixed Asset	√	√	√	√	x	√	-	√	√
Monetary according to IAS 21 No Item (Paragraph 16)	√	-	-	-	-	-	-	-	-
Foreign Currency	-	-	-	-	-	-	-	-	-
Digital Asset	-	-	-	-	x	-	-	-	-
Digital Currency	-	-	-	-	√	-	-	-	-

Accounting is responsible for presenting impartial and incomplete information to information users in virtual cryptocurrencies, as it should be in every transaction made in accordance with the conceptual framework it contains. The business of this money, which has monetary value, must be registered [12, p. 33]. Although in some countries, there is no legal legislation prepared for crypto money users in our country. In short, there is no legal directive describing how to make payments and collections with these coins. Money Structurally, it is considered to be an intermediary for payment, collection and some functions. In short, how these coins are used should be taken into account in how these coins are to be accounted for. If it is considered as a means of payment, opening a new sub-account under the 10 Liquid Assets group can be deducted. The function that comes into play here is undoubtedly the concept of the primacy of the essence. Considering that this type of currency has a unique exchange in which its value increases or decreases, it can be recorded as accounting for foreign currencies. In this case, an account such as a gold crypto money safe of 100 safe accounts can be opened. The foreign exchange gain or loss on the foreign exchange account numbered 646 and 656, which is used in the increase or decrease in the value of the foreign currency, is transferred to the accounting records. Expenses incurred in the transfer, purchase and sale of cryptocurrencies can be tracked in the 653 Commission Expenses Account. Generally, the application uses the Central bank rate, since these cryptocurrencies do not have a stock exchange operating in Azerbaijan.

Example for companies that account crypto-assets like inventory:

On 05.03.2019 1 Bitcoin = 43,000 TL

1 Bitcoin on 03.04.2019 = 41.000 TL

1 Bitcoin on 31.12.2019 = 48,000 TL

1 Bitcoin on 01.01.2023 = 30 000 AZN

5 bitcoins were purchased.

On 15.01.2023 1 Bitcoin = 35 000 AZN

3 Bitcoin Converted to AZN on 15.03.2022

1 Bitcoin on 31.01.2023 = 40 000 AZN

The First transaction for accounting Cryptocurrency inflow to the firm for Azerbaijani Companies is:

- DR 207 "Other inventory" 150 000 AZN
- CR 601 "Revenue" 150 000 AZN

The company decided to convert 3 Bitcoin cryptocurrencies to AZN on 15.01.2023:

- DR 223 "Bank account" 105 000 AZN
- CR 207 "Other inventory" 90 000 AZN
- CR 611-8 "Foreign Currency gain" 15 000 AZN

The remaining 2 bitcoin will be in inventory and their price will be 60 000 AZN. In the closing balance, it can be reassessed and the gain or loss for the bitcoin can be accounted. At the end of the year, the cryptocurrencies have to be evaluated and the gain or loss has to be recognized. Let`s say that on 31.12.2023 cryptocurrency market price is 40 000 AZN. Then

the remaining portion of bitcoins has to be accounted in a new price. These changes will amend the balance sheet and Profit or loss account. At the end of the year, bitcoins impairment things have to be accounted:

DR 207 "Other inventory" 20 000 AZN

CR 611 "Gain for impairment" 20 000 AZN

Overall the closing balance bitcoin amount will be 80 000 AZN, not 60 000 AZN. And this gain will be accounted in the "Profit or loss statement" and "Statement of Financial Position". This accounting purpose is for companies who intend to use cryptocurrencies in the short term. If cryptocurrencies are used for the long term, then we can recognize them in intangible assets or stocks.

So, the company decided to use them as a long-term asset and account them in a financial asset account:

DR 181 "Investing or financial asset"

Cr 223 "Bank account"

And so, if the conversion takes place, then the previous accounting has to be placed. Impairment and gain or loss have to be recognized also.

## CONCLUSIONS

Apart from being a medium of exchange, crypto money can be an investment tool, can be bought and sold, decentralized, etc. The subject of the study is the question of how businesses that have crypto money or operate with this type of money will account for crypto money. In this study, the opinions and suggestions about how to account for cryptocurrencies are discussed. It has been seen that the global accounting institutions and organizations that have expressed their opinions on this subject mainly agree on the classification of cryptocurrencies as intangible assets. However, considering the business model in which cryptocurrencies are held, it has been suggested that it would be appropriate to register them in other stocks that are not within the scope of IAS 2. cryptocurrencies, it has been determined that there is a consensus on the issue of cash and cash equivalents and not having the characteristics of a financial instrument. But cryptocurrencies held for the short term will be accounted in inventories for IAS 2. It has been suggested that the value over which cryptocurrencies will be measured should be determined according to whether they are intangible assets or to be held by an intermediary in order to benefit from short-term price fluctuations and to be recognized in the other stock class.

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Ніфталієв С.Г.

## ПРОБЛЕМИ, ЩО ВИНИКАЮТЬ В ОБЛІКУ КРИПТОВАЛЮТ

Дослідження надає детальну інформацію про ринок криптовалют як об'єкт МСФЗ та вказує на методи їх обліку й особливості. Показані дані про зміну загальної ринкової капіталізації криптовалют, а також розкриті причини, які вплинули на їхню спадну тенденцію. Розглянуто компанії, які можуть бути зацікавлені в обліку криптовалют за МСФЗ, а також проаналізовано офіційне керівництво РМСБО з питань обліку та звітності криптовалют, випущене кілька років тому. Аналізуються два стандарти МСБО 38 «Нематеріальні активи» й МСБО 2 «Запаси», а також причини, через які криптовалюта компанії в основному обліковується або в складі нематеріальних активів, або в складі запасів. Вивчається зарубіжний досвід окремих компаній, які відображають криптовалюту за МСФЗ, а також розглянута азербайджанська практика в цій сфері. Стандарти бухгалтерського обліку ще не повністю розроблені, оскільки криптовалюти мають характеристики, відмінні від традиційних фінансових активів. Тому бізнес може відчувати невизначеність щодо обліку криптовалют. Для підприємств важливо вести належний бухгалтерський облік щодо криптовалют. Ці записи допомагають підприємствам виконувати свої податкові зобов'язання, пов'язані з купівлею, продажем та обміном криптовалют. Однак може бути важко знайти персонал із достатніми знаннями щодо обліку та реєстрації криптовалют.

**Ключові слова:** криптовалюта, МСФЗ, нематеріальний актив, резерви, РМСБО, бухгалтерський облік

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