

Recent Updates and Current Challenges in Financial Reporting for Crypto Assets

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Written by: Kiriaki Giannoulas, CPA, and Zhanna Korneva, CPA

The technology industry has seen a significant surge in crypto assets, driven by direct purchases, mining operations, payments, trading, and various revenue-generating activities. This rapid growth has introduced several accounting challenges, as the unique nature of crypto assets combined with a historical lack of clear and authoritative guidance has created complexities. As a result, guidance has recently been issued by the Financial Accounting Standards Board (FASB). However, with the new guidance comes new challenges for tech companies.

Accounting Guidance for Crypto Assets

In December 2023, the FASB issued Accounting Standards Update (ASU) 2023-08, Accounting for and Disclosure of Crypto Assets. The ASU clarified various aspects of accounting for crypto assets and helped businesses better reflect the economic substance of their crypto asset holdings. Even with the introduction of this new accounting guidance, businesses still face financial reporting challenges related to their crypto holdings and should be aware of various accounting considerations as

they engage in crypto transactions.

Before Issuance of ASU 2023-08

Before ASU 2023-08 was implemented, there was no authoritative accounting guidance specific to crypto assets. Most entities were forced to account for their crypto holdings as general intangible assets, effectively carrying these investments at cost and recording impairment losses when the token's value fell below its carried cost. Unrealized gains were not allowed to be recognized, which prevented companies from reporting the economics of their crypto investments and overall liquidity positions each reporting period, and did not properly reflect the volatile nature of crypto holdings. The lack of authoritative guidance also resulted in inconsistencies in financial reporting among entities, impeding comparability as entities would interpret and apply accounting rules and disclosures differently.

ASU 2023-08 Guidance and Effective Date

ASU 2023-08 introduced a new Accounting Standards Codification (ASC) subtopic 350-60, Intangibles – Goodwill and Other – Crypto Assets, which clarifies the definition of crypto assets and provides clear guidance on recognition, subsequent measurement of crypto assets, and specific disclosure and presentation guidance. Companies are now required to carry crypto assets at fair value, with changes recognized in net income each reporting period. Crypto assets are now required to be separately reported on the balance sheet, and changes in the value of crypto assets will be presented separately from changes in other intangible assets on the entity's income statement as either realized or unrealized gains and losses.

The standard also introduced specific required disclosures, offering financial statement users enhanced insights into an entity's cryptocurrency holdings. While the new guidance clarified certain presentation and disclosure aspects, it does not explicitly define what should be classified as current versus noncurrent holdings on the balance sheet, leaving companies to exercise judgment based on the nature of their crypto assets. For private companies, this new standard is effective for fiscal years beginning after December 15, 2024, with early adoption permitted.

Remaining Challenges

Despite the clarified guidance, several accounting challenges remain. Valuing crypto assets is particularly complex due to the absence of standardized valuation methods and a centralized marketplace, often necessitating subjective judgments and specialized knowledge of blockchain technology and market dynamics. Adding to the complexity, the extreme volatility of crypto markets and rapidly changing asset values introduce uncertainties that can pose significant challenges for companies, particularly regarding liquidity planning and assessing going concern risks.

Another challenge occurs when entities receive payments from customers in cryptocurrency. Revenue recognition becomes complex due to the need to value revenue from these contracts upfront, manage high transactional volumes, and assess the impact of market risks related to fluctuating values against the initial contract amounts. Additionally, entities must evaluate whether indicators of embedded derivatives are present in receivables settled in cryptocurrency, which may result in highly complex accounting and substantial administrative costs associated with valuing and reporting these derivatives.

Although recent updates have addressed several issues, accounting for crypto assets remains challenging due to their rapidly evolving nature. Guidance on accounting for certain crypto instruments, such as stablecoins, is still unclear, and additional complexities need to be addressed, necessitating a continuous evolution of accounting standards for new forms of digital assets. Given this, tech businesses must remain alert and informed on new developments and regulatory changes in the cryptocurrency space to ensure accurate and compliant financial reporting.

For more information on accounting for crypto assets for your technology company, please contact [Chris Noble](#), Partner and Co-Leader of the Technology Group and [Adam Pizzo](#), Partner and Co-Leader of the Technology Group, or your Anchin Relationship Partner.