

Cryptocurrency is not money: forward via the basics

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ABSTRACT

This case addresses the features that differentiate cryptocurrency from fiat money. It focuses on a contemporary concept from a foundational perspective. Instructors can use the case in the principles of financial accounting or intermediate financial accounting courses. The case learning objectives are: (1) understanding the meaning and features of fiat money, (2) critical thinking and analysis of how cryptocurrency differs from fiat money, and (3) written communication skills.

Keywords: crypto assets, cryptocurrency, fiat money, tangible assets, virtual currency



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INTRODUCTION

The recent decision of the Financial Accounting Standards Board requires the treatment of cryptocurrency as an intangible asset for financial reporting purposes. Though the government does not back cryptocurrency as a medium of exchange, society accepts and uses it as a medium of exchange. Consequently, the case requires students to address why cryptocurrency is not fiat money based on the fundamental features of what constitutes fiat money.

The case aims to help students understand what fiat money means, its features, and how it differs from cryptocurrency. The case requires students to research and convey persuasively their views of why cryptocurrency is not fiat money. Students engage in active learning by applying qualitative economic concepts in an evolving digital-based financial currency.

THE CASE

You are a staff accountant in Atlas, a mid-sized family-owned retail store. Atlas imports and sells a variety of goods all over the world through its online presence. The owners of Atlas, Huang Dume (CEO) and Qin Okeke (CFO), adopt innovative technologies in Atlas. In the current year, Atlas started accepting cryptocurrency to stay competitive in the global market.

The owners of Atlas view cryptocurrency as fiat money since they accept it and use it to pay for goods and services. To determine Atlas' cash balance at year-end, the owners plan to include the cryptocurrency cash value in the cash and cash equivalents. The controller, Arnold Manghe, does not agree with the plan because of the 2023 Financial Accounting Standards Board's (FASB) regulation about crypto assets accounting and disclosure.

Following a discussion of the FASB regulation with Arnold Manghe, the owners agreed to comply. But they did not fully grasp how cryptocurrency is not fiat money; to them, it is a medium of exchange. The owners ask you to examine why cryptocurrency is not fiat money. You start by considering the definitions of money and the accounting treatment of cash.

Overview of Cryptocurrency and Fiat Money

Cryptocurrency is the generic term for digital currency; it is not associated with any physical currency nor backed by any government. They are a series of algorithms whose values are determined primarily through demand and supply. Hence, cryptocurrency is volatile. Their holders have digital access keys that enable them to use their cryptocurrency for transactions. This risk is that whoever has access to these digital keys controls the cryptocurrency. See Dunn et al. (2021) for more information about cryptocurrency.

Money is an economic term representing the set of assets within an economy that facilitates exchanges (Mankiw, 2015). Money takes two primary forms: commodity money and fiat money. Commodity money is a means of exchange that has an intrinsic value. For example, gold is a type of commodity money. It is a medium of exchange, and its conductive property is a physical value. In contrast, fiat money does not have an intrinsic value. Society accepts fiat money as a medium of exchange due to a governmental decree (Mankiw, 2015) and commonly refers to fiat money as money or cash.

Money has three fundamental functions in each economy. First, money is a medium of exchange. Society recognizes each economy's fiat money as a legal tender for the exchange of goods and services. Second, money is a unit of account and provides a uniform basis for pricing

and comparison. It is an acceptable form for measuring and recording economic transactions. Third, money is a store of value, meaning that users can save it, and its value is transferable for future exchanges (AICPA, 2020; Graham, 1940; Mankiw, 2015).

Money also has several characteristics. These are durability, portability, divisibility, fungibility, and liquidity (AICPA, 2020; Mankiw, 2015). Durability means a currency can last for a long time before needing replacement. Portability means a currency is movable from place to place without much difficulty. Divisibility means a currency has smaller units, while fungibility shows a unit of currency is interchangeable with any other unit of the same currency (AICPA, 2020). Liquidity indicates the ease of converting any asset to fiat money, which is the most liquid asset (Mankiw, 2015).

Accounting View of Money and Cryptocurrency

Accounting uses the term *cash and cash equivalents* to represent fiat money. Cash includes fiat money in hand and those with financial institutions as demand deposits. *Cash equivalents* are highly liquid investments, easily converted to specified cash amounts, and are short-term in nature, with an original maturity date of less than three months, which makes any risk of change in value resulting from interest rate changes insignificant (Spiceland et al., 2023).

FASB treats crypto assets as intangible assets and requires (1) a separate presentation of the cumulative crypto assets amount, (2) a separate presentation of crypto assets' gains and losses in net income, and a separate presentation of those gains and losses from the effects of other intangible assets on the income statement, and (3) the classification, as operating cash flows, crypto assets received as noncash settlements in the normal course of business and converted to cash soon after (FASB, 2023). This recent decision of FASB aligns with the ongoing accounting treatment of cryptocurrency. A 2021 Deloitte newsletter states, "in general, the practice has settled on accounting for bitcoin as an indefinite-lived intangible asset. This means it does not meet the accounting definition of cash or a cash equivalent, a financial instrument, or inventory" (Deloitte, 2021, p.3).

REQUIREMENT

Write a memo to the owners of Atlas and discuss how cryptocurrency differs from fiat money. The memo should address the functions and characteristics of fiat money that differentiate it from cryptocurrency and include valid examples to support the discussion. Use only information from credible sources. Follow the normal conventions of memo writing (for guidance, see <https://www.grammarly.com/blog/how-to-write-memo/>) and limit the memo to five pages.

INTENDED AUDIENCE

This case is primarily for undergraduate accounting students in the principles of accounting or the first intermediate accounting class. However, instructors may use the case in an upper-level accounting class as an introduction before discussing advanced cryptocurrency topics. Students can complete the assignment individually or in teams of two. Though designed to be a written activity, instructors may choose to only discuss the case in class.

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