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## **Managing The Use of Cryptocurrencies Under New U.S. GAAP Accounting Rules**

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### **Abstract**

Using cryptocurrencies in commerce varies significantly across the world, and transactions using cryptocurrencies in the U.S. are not as widespread as elsewhere. Because all commercial transactions in the U.S., whether private or public eventually require accounting, the Financial Accounting Standards Board has focused on how cryptocurrency should be recorded. The new reporting requirements under U.S. GAAP state that cryptocurrency may not be recorded as cash. Cryptocurrency must be reported as an intangible asset. Unlike other intangible assets that are recorded at cost under an impairment accounting model, cryptocurrency must be recorded at fair value under a fair value accounting model. Changes in the fair value of cryptocurrency balances must now be reported in earnings. The new treatment substantially impacts the reporting of U.S. companies for cryptocurrency and alters earnings by introducing fair value volatility. Fair value gains or losses will be recorded well after the transactions and market changes in the value of cryptocurrency that produced the volatility have passed. Reporting cryptocurrency as a noncurrent intangible asset, rather than the most-current-of-assets – cash – understates liquidity and working capital. These new U.S. GAAP reporting complicates estimation of one of the most widely used capital markets statistics: ‘free cash flow.’ ‘Fair value accounting’ rules add additional measurement and disclosure complexity. The substantial ‘treasury management’ differences between how cash resources and other forms of liquidity are managed versus how cryptocurrencies are transacted make changes to treasury internal controls unavoidable. The differences complicate the integration of cryptocurrencies into modern-day centralized and automated general ledger systems. Management may find the requirements burdensome. These reporting and managerial disadvantages may disincentivize the use of cryptocurrencies. This paper discusses and analyzes these new accounting requirements. The discussion should be helpful to management in general, and especially to reporting managers.

### **MANAGING THE USE OF CRYPTOCURRENCIES UNDER NEW U.S. GAAP ACCOUNTING RULES**

Cryptocurrencies have appeared with increasing frequency in commerce as both ‘mediums of exchange’ and ‘stores of value.’ The first cryptocurrency, Bitcoin, emerged

in 2008 (Coinbase, 2025a). The label “cryptocurrency” can lead non-technical readers to conclude that cryptocurrencies are new forms of currencies (U.S. Dollar, EURO, etc.). Such a reader might pragmatically call a cryptocurrency ‘cash.’ Cryptocurrencies are not ‘cash’ in the traditional accounting sense of that term as defined in US GAAP. Cryptocurrencies are ‘digital assets’ consisting of electronic code, based in blockchain technology. However, the differences in cryptocurrencies and cash coupled with the growing use of cryptocurrency in commerce attracted the attention of the Financial Accounting Standards Board (FASB), the private sector regulator responsible for promulgating U.S. GAAP accounting standards. In late 2023, the FASB issued new rules to bring uniformity to reporting cryptocurrency while closing the door on reporting cryptocurrency as cash.

The new U.S. GAAP accounting standards for cryptocurrency provide incentives to managers to understand the implications of the standard. The standard has new and profound impacts on both earnings and each of the entity’s financial statements. The standard impacts several key items on the income statement and balance sheet. Managers will be required to provide additional information to all stakeholders through the disclosures required by this new accounting standard.

## ACCOUNTING FOR CRYPTOCURRENCY

### The New U.S. GAAP Accounting Standard

In December 2023, the FASB issued new guidance on “*Accounting for and Disclosure of Crypto Assets*” in an amendment to the Accounting Standards Codification® (ASC) (FASB 2023). We summarize those changes and discuss managerial challenges these new rules pose. The paper is timely for all managers because these rules become mandatory for fiscal years beginning after December 15, 2024, with early adoption permitted.

The central provisions of this new U.S. GAAP rule are that cryptocurrencies are to be:

1. classified as intangible assets;
2. measured at fair value using existing guidance with the associated disclosures; and
3. recognized in the balance sheet at fair value, with fair value updated at each reporting date; the resulting fair value changes must be reported in earnings.

### *Prior U.S. GAAP Accounting*

Under prior U.S. GAAP, cryptocurrency was considered an intangible asset subject to an impairment model, not cash. Cryptocurrency could not be accounted for as cash, even though, identically to cash, it was received, or paid out, in transactions involving the exchange for goods and services.

The older U.S. GAAP impairment rules also made it difficult to ascertain the value of cryptocurrency from the recorded asset balance. Intangible digital assets were carried at cost and sometimes written down due to an “impairment” that could not be

reversed. The original carrying amount could not be reinstated, nor could the digital assets be written up above their original cost.

The impairment model applies to many asset classes and does not intend to report carrying values with the “neutrality” of fair value accounting. Yet, the fair values of cryptocurrency were always relevant. The older impairment model required the disclosure of cryptocurrency. In general, financial statement users were provided, or could deduce, cryptocurrencies’ fair values and fair value changes.

## Background

When used in commerce, cryptocurrency is generally known as a “*decentralized digital money ... used on the internet.*” (Coinbase, 2025) The reporting problems associated with cryptocurrencies begin with the label ‘currency.’ The use of the label ‘currency’ is consistent with market participants considering them ‘money.’ We expect that most non-accountants would be surprised by the U.S. GAAP prescriptions used to determine if something is ‘cash.’ To the layman, including business managers, many of the complex and intertwined requirements to produce financial statements remain mysterious. To the practicing U.S. GAAP CPA, reliance on the loose generalities of every day ‘lingo’ would make the preparation of understandable financial statements impossible. The FASB states that for accounting purposes cryptocurrency is not ‘cash.’ They conclude that cryptocurrency requires a form of accounting that is distinct from cash accounting as well most forms of accounting for intangible assets.

**Defining Cryptocurrency** An accurate and ubiquitous definition for cryptocurrency is electronic code. Cryptocurrency is neither paper nor coined ‘money.’ It is also not ‘bullion,’ meaning it is not a precious metal such as gold or silver. Cryptocurrency has no physical manifestation, and the code exists in electronic form only. Cryptocurrency storage can only be electronic. It has no physical existence other than the digital code constituting it. Cryptocurrency has been aptly described in financial statements as a digital asset. Cryptocurrency can be transferred from one holder to another in a manner that an accountant might use to describe a ‘flow’ transaction as distinct from the traditional ‘snapshot value’ used as the balance for an asset or liability. The transfer from one party to another occurs electronically on the internet, with a trivial exception for ‘hard wallet’ transfers.

The current state and policy positions of most western banking systems adds to the confusion regarding whether cryptocurrency should be considered cash. These systems do not yet systematically accord electronic or digital assets such as cryptocurrency the same status as the electronic manifestations of established currencies in their systems. Balances in currencies can take the form of electronic book entries; and transfers can also occur electronically, or digitally. A transaction is required to convert these book entries into physical bills and coin. The international banking community, including their central banks, are in the early stages of creating ‘digital currencies.’ These topics are outside the scope of this study, except to note their existence and our interest in further research on the overlaps between ‘digital currencies’ and ‘digital assets.’

**Cryptocurrency has Cash Attributes** U.S. GAAP relies on a pragmatic definition of ‘cash.’ That pragmatism extends to substitutes for reported cash: ‘cash equivalents’ and ‘restricted cash.’ The pragmatic but complex U.S. GAAP treatment is mapped out in Table 1. The FASB chose this pragmatic approach rather than rely on economic attributes that most currency regulators and economists would use to qualify an item as ‘cash.’ While cryptocurrency has certain economic attributes of ‘cash,’ the FASB has found that the attributes are not sufficient to treat cryptocurrency as ‘cash.’

Table 1: U.S. GAAP Definitions of Cash and the Cryptocurrency Exclusion <sup>i</sup>				
Accounting Variable <sup>1</sup>	Definition – Element 1	Definition – Element 2	Definition – Element 3	Examples
Cash	“ ... consistent with common usage ... ”			
	“currency on hand”	“demand deposits with banks and other financial institutions”	Add or withdraw funds ‘at any time’ without ‘prior notice or penalty’	demand deposits; currencies
Cash Equivalent	‘short-term highly liquid investments	Readily convertible to known amounts of cash	So near to maturity that risks due to changes in value because of changes in interest rates are “insignificant”	Securities purchased within three months of maturity; Treasury bills, commercial paper, money market funds and federal funds sold
Restricted Cash	Not defined			Requires disclosure
Currency	Not defined			
Cryptocurrency	Not defined Characterized as a digital asset that is not Cash.			Requires disclosure

Both cash and cryptocurrencies share the economic attributes that they are ‘stores of value’ and ‘mediums of exchange.’ The ‘store of value’ attribute means that a user may warehouse the wealth they have created in the form of the cryptocurrency for a time until they are ready to use the cryptocurrency in a transaction. The ‘medium of exchange’ attribute means that a cryptocurrency user can interact with buyers of their goods and services and vendors of material used in their business. In US GAAP accounting cash flows are characterized as either payments or receipts. A cryptocurrency ‘exchange’ means that it is a ‘payment’ by one party that is accepted as a ‘receipt’ by the receiving party. payments are exchanged.

Economic attributes of cash other than ‘store of value’ and ‘medium of exchange,’ are generally not associated with cryptocurrencies. Unlike currencies, cryptocurrency is not characterized as ‘legal tender.’ Thus, other participants in an economy where cryptocurrency is not legal tender are not required to accept the cryptocurrency as

payment. As an exception, two countries have moved to make cryptocurrency 'legal tender.' On September 7, 2021, the Republic of El Salvador became the first country in the world to adopt Bitcoin as legal tender (Lopez and Livni, 2021). On April 27, 2022, the Central African Republic became the second nation to designate Bitcoin as legal tender (Namcios, 2022).

The designation of an item as "legal tender" is not the same as to whether an item can be used legally within a country for payments. Many more countries have declined to make the use of cryptocurrencies 'legal' in one form or another: Algeria, Bangladesh, Bolivia, China, Ghana, Nepal, Qatar, Vanuatu, and the Republic of Macedonia (Volyntseva, 2023).

Cryptocurrencies are used voluntarily throughout the world. The first cryptocurrency, Bitcoin, has been joined by many other cryptocurrencies. Some of these newer cryptocurrencies have lost value and are no longer in use. Those cryptocurrencies that continue in use have different levels of volatility in their value, and different volumes in their use.

***Characterizing Cryptocurrency and its Context*** Cryptocurrency does not originate from a central bank nor is it created by any government. No authoritative regulatory body controls any single cryptocurrency. Cryptocurrency, a digital or electronic manifestation, exists only in a 'distributed' economy. Using of cryptocurrency in a transaction, requires the digital interaction of two properly 'keyed' internet participants using 'distributed ledgers.' One participant is the transferor of the cryptocurrency and the other party is the receiver of that cryptocurrency position.

Accessing, using, and/or holding a cryptocurrency requires internet access except in the trivial case of a cryptocurrency position held in a 'hard wallet.' Internet access requires the use of computers or another internet-accessible device such as a smart phone. And these devices, in turn, consume electric power. In the parlance of commercial operations, the use of cryptocurrency entails 'system requirements.'

***The Special Case of Cryptocurrency Hard Wallets*** Many cryptocurrencies can be stored in an offline format, and potentially transacted in what are called 'cold storage' wallets or 'hard wallets.' Hard wallets consist of a removeable digital storage medium, a device, formatted to securely hold the cryptocurrency. The cryptocurrency position is secure because access to the cryptocurrency requires a 'key' or 'code,' and the storage remains secure when the hard wallet is detached from the internet. Cryptocurrencies have no robust or systematic way to be transferred or used in transactions when in a storage wallet – internet-based or electronic cryptocurrency flows cannot occur. This is 'storage.' Connection to the internet is required to move, use, or otherwise execute a transaction in the cryptocurrency. As frequently stated above, the trivial exception is where a hard wallet is passed from one person to another.

## **Cryptocurrency is Not Cash**

When the FASB precluded cryptocurrency from being considered cash under U.S. GAAP, it took on the responsibility of creating alternative accounting rules. This



section discusses the decision to preclude cryptocurrency from being treated as ‘cash’ for accounting purposes.

***A Label that can Mislead: Cryptocurrency*** Cryptocurrency’s moniker has the serendipity of containing the word “currency.” To most, currency is ‘cash’ as a matter of common sense, or more precisely using the terminology of U.S. GAAP, ‘common usage.’

Most cryptocurrency has limited legal standing because it has not been created by any recognized government, and many such governments do not recognize it for use in transactions. The exceptions to this are El Salvador and the Central African Republic. Any cryptocurrency, that is admitted into a list of legally recognized currencies, also represents a ‘foreign currency’ under U.S. GAAP.

In everyday conversations, or ‘street lingo,’ a tautology has existed for centuries:

$$\text{Money} = \text{Currency} = \text{Cash} \quad (1)$$

The easy “coming and going” from one word to another belies the difficulty of accounting for cryptocurrency under U.S. GAAP. Equation 1 is a false tautology. Money is a colloquial term often encompassing more than currencies in common usage (for example, it can include gold, a commodity).

***‘Cash’ in U.S. GAAP*** If cryptocurrency was accepted by U.S. GAAP regulators as ‘cash,’ then the accounting challenges of using it in commerce evaporate. In U.S. GAAP three broad categories of money holdings are used in nearly interchangeable ways for reporting purposes: cash, cash equivalents and restricted cash. Cryptocurrencies of all kinds are excluded from each category. For U.S. GAAP reporting and especially in the reconciliation section of The Statement of Cash Flows, Equation 2 applies.

$$\text{Cash} \approx \text{Cash Equivalents} \approx \text{Restricted Cash} \quad (2)$$

In U.S. GAAP while the word “currency” is not defined, currency is associated with different reporting modalities. U.S. GAAP has “reporting currency,” “functional currency,” “local currency,” and “reasonably stable currency.” U.S. GAAP also describes currencies subject to “hyperinflation” or used only for “convenience reporting.”

***A Test of the Acceptance of Cryptocurrency as Cash*** Table 2 details a partial list of global currencies one might have encountered across the globe since World War II and their status as ‘money,’ or more specifically, ‘cash.’ Table 2 shows that currencies are more likely to be ‘cash’ for all reporting purposes if they are reserve currencies. Cryptocurrency, while accepted as legal tender in a limited number of jurisdictions, is not broadly accepted as Cash. The ‘legal tender’ status of Bitcoin in El Salvador and the Central African Republic is not yet significant enough to move them into the line item “All other” below.

Table 2: Cryptocurrency is not a Currency: The Global Reserve Currencies <sup>ii</sup>				
“Currencies”	Government (1)	Form (2)	Backing Type of Currency (3)	As a % of Official Foreign Exchange reserves 2023 (4)
<b>World Reserve Currencies</b>				
U.S. dollar	USA	<i>Coin, paper &amp; at least some electronic transfer</i>	Fiat	58.41%
EURO	EU			19.98%
Japanese yen	Japan			5.70%
Pound sterling	United Kingdom			4.84%
<b>Other Reserve Currencies</b>				
Canadian dollar	Canada	<i>Coin, paper &amp; at least some electronic transfer</i>	Fiat	2.58%
Chinese renminbi	China			2.29%
Australian dollar	Australia			2.11%
Swiss franc	Switzerland			0.23%
All other	Various			3.87%
	<b>TOTAL – Reserve Currencies</b>			<b>100.00%</b>
Gold	none	<i>Commodity</i>	Itself	?
Silver	none	<i>Commodity</i>	Itself	?
Cryptocurrencies	none	<i>Electronic code only</i>	Market Acceptance	?
(1) This is the government that “coins” the currency and has a Central Bank(s) overseeing it.				
(2) Certain modern fiat currencies are now moving into a “digital” format. The “digital” format is not meant to convert the currency into a cryptocurrency. The “digital” format as it is arising is meant to co-exist alongside coin and paper manifestations of the currency.				
(3) A fiat currency is the creation of a national government. In 1971 President Nixon made the U.S. Dollar a fiat currency by removing its gold backing. More recently the EU created the EURO as a fiat currency for use from 1998. Modern currencies are generally fiat currencies no longer backed by precious metals.				

In addition to new accounting rules, the use of cryptocurrency, as a practical matter, also introduces new governance and internal control requirements.

## GOVERNANCE: CRYPTOCURRENCY USE REQUIRES NEW INTERNAL CONTROLS

The cryptocurrency market and its use of decentralized or distributed ledgers raises governance issues. The decentralized nature of cryptocurrency means deciding on, and implementing, any change in the cryptocurrency’s electronic code or protocol

requires a lengthy process of consensus building across its various stakeholders. Even relatively straightforward updates such as security upgrades can be delayed if there is a substantial disagreement on the best way to modify the protocol to deal with the issue (Ethereum.org, 2025).

As a digital asset, cryptocurrency raises internal control issues within firms. Cryptocurrency is not cash, as that is understood in U.S. GAAP nor is it a security that can be classified as a cash equivalent or treated as a securities investment. Each liquidity item (cash, cash equivalents, and security investments) differ in their internal controls. Digital asset creators specify the nature of the asset. For example, Bitcoin was created as a decentralized cryptocurrency, while Ethereum was created as a decentralized blockchain that functions as a smart contract (Warren, 2023). The internal controls over cryptocurrency must be markedly different because of each cryptocurrency's decentralized nature, the use of distributed ledgers, the user-specific security keys, etc. The procedures around cryptocurrency may challenge integration within a company's existing procedures, controls, and other safeguards.

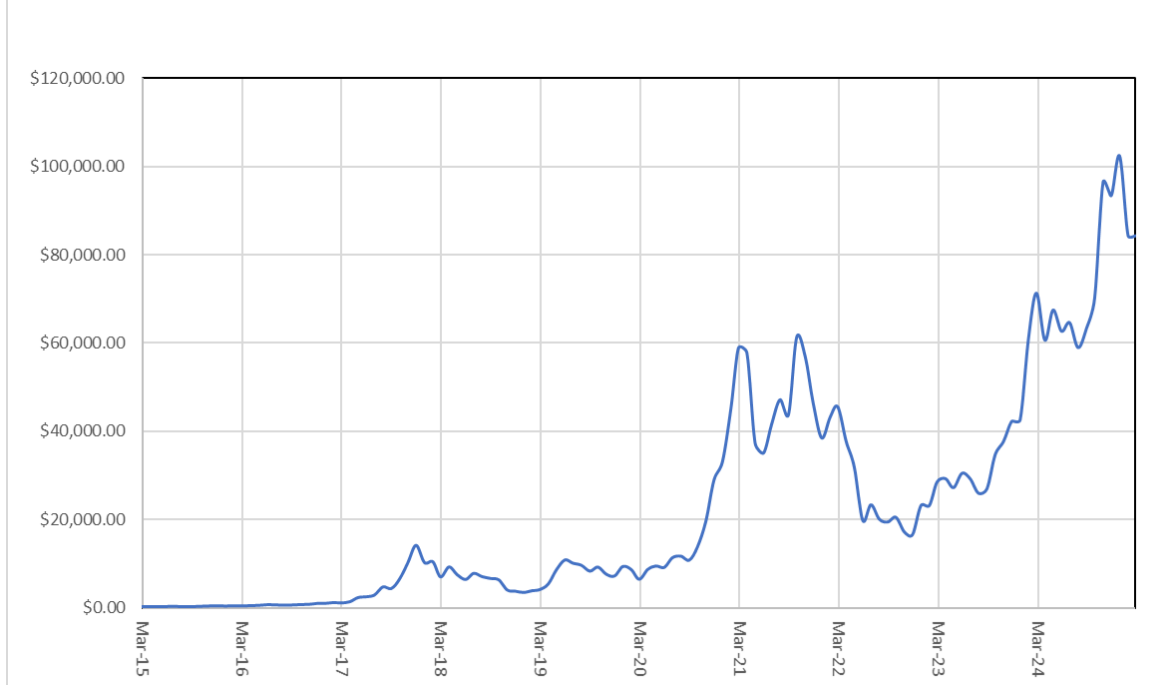
Accounting for cash, cash equivalents, and security investments can be incorporated or embedded in the traditional general ledger functionality of the firm along with other balance sheet accounts. Most critically, the market requirement that cryptocurrency transactions use distributed ledgers means that the firm using such digital assets must find a way to manually enter the information in its general ledger.

## **MANAGERIAL IMPLICATIONS OF THE NEW U.S. GAAP CRYPTOCURRENCY RULES**

Managers will be concerned about both the earnings and balance sheet implications of holding cryptocurrencies. The changes in fair value of cryptocurrencies are recorded in earnings as unrealized gains or losses. In accounting, 'unrealized' means the gain or loss has not yet been crystallized by selling or otherwise derecognizing the position to convert the gain/loss into a cash inflow/outflow. One of the major complaints against fair value accounting is that earnings events are reported whether there has been an associated cash flow, or not. Thus, fair value accounting introduces volatility to earnings, as well as the balance sheet. The earnings impact is often more noticeable, especially for an entity with a high degree of operating leverage (many fixed assets). The volatility inherent to digital assets is well known and can be seen in Figure 1 for Bitcoin.

Economic volatility, measured as the variance of returns is expressed as a positive number. Accounting volatility pierces that statistical representation to report negative losses and positive gains. Figure 1 shows the price of Bitcoin over time. During the losses and subsequent gains associated with the collapse of FTX from November 2, 2022 through May 8, 2024 (Harrison, 2024), a company holding a large digital asset position would have reported sizeable fair value losses as the FTX scandal unfolded. If the Bitcoin position were maintained, the same company would be reporting sizeable fair value gains as the criminal trials concluded in early 2024.



**Figure 1: Monthly Value of One Bitcoin in U.S. Dollars March 2015 to March 2025<sup>iii</sup>**

Companies maintain varied currency positions to support their foreign working capital needs and their foreign customers. The accounting for foreign currency positions is designed to moderate the volatility impact and protect earnings from currency volatility. Cryptocurrency volatility due to fair value accounting has no such reporting protections.

The cryptocurrency owner must report cryptocurrency as an intangible asset rather than as a component of cash, cash equivalents and restricted cash. As intangible assets are more likely to be reported as a non-current asset than as a current asset, cryptocurrency positions will not appear liquid at first glance. Cryptocurrency positions will add to the impression that the company is exposed to more operating leverage at a cost of financial liquidity.

There are additional problems related to the use of fair value accounting for cryptocurrencies related to the disclosure requirements for that accounting model. The disclosure requirements will burden the cryptocurrency holder with additional fair value disclosures including the technical designation of fair values as level 1, level 2, or level 3 fair values. Depending on the fair value level (1, 2, or 3), the disclosures may signal incremental risk to the market contrary to how cash is most often not accompanied by such fair value 'levels' disclosures.

### SUMMARY AND CONCLUSION

The FASB does not consider cryptocurrency to be cash. Cryptocurrency must be recognized as an intangible asset using a fair value accounting model. The new rules can significantly modify earnings by adding fair value volatility. The resulting balance sheet positions and disclosures are likely to signal a high level of risk, and a lower level

of liquidity, in comparison to cash as traditionally reported and used in transactions. The fundamental differences between accounting for cash and cryptocurrencies introduces myriad internal control requirements, and the need for system modifications.

We conclude that the new U.S. GAAP rules for cryptocurrencies represent complex disincentives for the use of these digital assets. These costs can no longer be ignored and must be considered as significant variables in the value proposition for using cryptocurrencies.

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<sup>i</sup> See the U.S. GAAP master glossary within the FASB's Accounting Standards Codification<sup>®</sup>.  
<https://asc.fasb.org/MasterGlossary>

<sup>ii</sup> Data for Table 1 is compiled from "World Currency Composition of Official Foreign Exchange Reserves" and can be accessed at [https://data.imf.org/en/Data-Explorer?datasetUm=IMF.STA:COFER\(7.0.0\)](https://data.imf.org/en/Data-Explorer?datasetUm=IMF.STA:COFER(7.0.0))

<sup>iii</sup> Price data used for Figure 1 taken from Yahoo! Finance. <https://finance.yahoo.com/quote/BTC-USD/> Accessed on 4/1/2025