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Commentary

Bitcoin – Its Economics for Financial Reporting

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Abstract

Despite its increasing popularity, no official guidance on the financial reporting of Bitcoin transactions has been provided by standard setters, although tax accounting guidance began to appear in 2014. Designed as a decentralised currency, Bitcoin is not intended to become a reporting currency and will instead complement *fiat* money. We argue that in the case of Bitcoin the accounting principle of faithful representation requires interpretation of the economic substance for financial reporting that varies with reporting entity: trading firms recognise Bitcoin like a foreign currency and measure the revenue, or expense, at the equivalent amount of the reporting currency and digital currency exchanges recognise Bitcoin as goods in line with tax accounting treatment. An *Economica* paper by Radford (1945), which describes the use of cigarettes as commodity money in a prisoner of war camp alludes to this economic basis. This paper applies accounting principles to a practical issue and contributes to the process by which standard setters may issue an interpretation.

References

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