IT Questions (Advanced Financial Reporting)

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IT QUESTIONS (ADVANCED FINANCIAL REPORTING)

Question

You are a consultant for Securitor Inc. (SI). SI, founded by “reformed” hackers, provides security and privacy audits for companies with an online presence. SI has been asked by a client to help them roll out their new alternative payment portal, which will allow them to accept cryptocurrency. The client would like to have the portal up and running in a month and has assigned a team of internal developers to begin working on it immediately. The client has formed a steering committee to oversee the project, and they have asked SI to examine the issues related to this change, including the impact that accepting this new currency may have on their financial statements (which are prepared using ASPE).

Required:

Prepare a memo for the committee identifying any issues they should consider in implementing this change.

Solution

Memo
To: Committee
From: Consultant
Re: Issues identified regarding acceptance of cryptocurrencies

The following issues should be considered prior to proceeding with the plan to accept cryptocurrencies:

- You will need a system to track the currencies received, sold, and spent. Adequate internal controls will need to be established to ensure that more than one individual is involved in the disposal or sale of the currencies, similar to the process that requires two individuals to sign cheques or authorize EFTs.
- The one-month timeline set for this project may be overly aggressive if you are planning to develop the entire payment system in house**.** Design, implementation, and testing will each take significant time to complete**.** In addition, privacy and security considerations must be at the forefront of the system development, as this will be an extension of your existing electronic commerce process.
- There are presently over 1,600 currencies in existence, with new ones emerging daily. You should limit the currencies you accept to the most commonly used ones and those that have been in existence for some time. This will minimize the risk that you will be unable to sell or use currencies received in the future.
- The values of the currencies fluctuate significantly. As such, you may want to continue to price your services in Canadian dollars and require payment in the amount of units of cryptocurrency that translates to that value on the day payment is made. If you price your services in units of cryptocurrency, you expose yourselves to the risk that the actual value received in the currency will be significantly lower than expected. There is also a potential for significant gains; however, you should be more focused on guarding against losses than on seeking to make gains.
- As noted, values fluctuate significantly in short periods of time. You will need a strategy to manage the currencies held. One possibility is that you sell the currency immediately after collecting it from a customer. Another possibility is that you have a staff member dedicated to monitoring values and selling the currencies when they reach some agreed-upon value.
- You may be able to *pay* for some services with the cryptocurrency balances you hold; however, you should still consider the fair value of those currencies to determine if it is more advantageous to pay in Canadian dollars or in cryptocurrencies**.** Accepting only the most commonly used currencies will help facilitate the use of the cryptocurrency for payments.
- It may be that your financial statements will report significant gains or losses in net income as a result of the changes in fair values of these currencies. This will create volatility in your net income that may be a concern for our financial statement users.
- If you require further information, feel free to let me know.