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VIRTUAL CURRENCY AND ITS IMPORTANCE IN TODAY'S DIGITIZED SOCIETY

Abstract: As a result of the globalization process, online trading is becoming increasingly popular. An important phenomenon of the present day has therefore become a virtual currency as a possible means of payment or the underlying instrument of online trading. For this reason, the issue of virtual currency has become the subject of our research. The virtual currency can be considered as a perspective tool of the modern economic practice. Virtual currency serves for prompt, simple and safe payment for goods, products and services to the subject that accepts the virtual currency. The aim of the submitted contribution is to clarify the essence, importance, role, valuation of the virtual currency in the present digitized society with the discovery and subsequent presentation of potential benefits, respectively. Disadvantages of using this virtual payment. Our intention is to bring a comprehensive view of this issue not only from the accounting point of view, but also from the auditor's point of view, thus reducing the entropy and fear of interest groups from the innovations of contemporary modern virtual economic practice.

Keywords. online trading, virtual currency, cryptocurrency, bitcoin, audit

1. INTRODUCTION

Accounting is a source of relevant information (Tumpach, Juhaszová, Meluchová, 2018) for making adequate decisions from a wide range of users presented through the financial statements. (Šlosárová, 2014) (Parajka,2015) The information presented in the financial statements must be reliable and useful for users. They will be reliable and useful provided that they are regulated by appropriate legislation. Legislative regulation plays a very important role, since if reporting through financial statements is left to the full responsibility of the entities, this information could be distorted and the financial statements would not give a true and fair view of the facts that are subject to accounting. This implies the undisputed importance of the amendment and revision of the accounting legislation. The basic legal norm in the area of accounting is Act no. 431/2002 Coll. on Accounting, as amended, which deals, among other things, with the issue of virtual currencies in terms of their valuation, in accordance with the latest amendment valid from 1 January 2018 (Mateášová, 2018). Therefore, virtual currencies have become the subject of our exploration. Virtual currency is a possible means of payment or an underlying tool for online trading, which is gradually becoming part of the current digitized economic environment. Online trading is an interactive way of doing business, the cause of which was the globalization process. The use of virtual currencies in online commerce brings with it many risks that are necessary to face. From the point of view of national legislation, the use of virtual currencies is not dealt with in detail, as Petra Pauerová (2013) states that they are not considered to be national currencies and have no physical consideration in the form of legal tender and trading using virtual currency is at their own risk. Exchanges or purchases of virtual currencies represent investors 'own business risk, and investors' money is not protected. In our opinion, it is only a matter of time before this situation changes and the virtual currency becomes another national currency. The aim of our contribution is to provide insight into the use of virtual currencies in online trading, not only from the accounting point of view, but also from the audit point of view at the national level, thereby reducing the entropy and interest groups interest from the innovation of modern virtual economic practice. In pursuit of our goal, we apply scientific research methods such as epistemology, abstraction, deduction and analysis, combining to clarify the importance of the validity and usability of virtual currencies today.

2. ONLINE TRADING AND ITS POSITION IN A DIGITIZED ECONOMIC ENVIRONMENT

Nowadays, the issue of online trading is becoming increasingly important as a result of the change in the economic environment caused by the processes of globalization and harmonization. We believe that e-commerce is an electronic form of already existing activities, which we consider online trading as an interactive way of dealing with the risks faced by all stakeholders, including the auditor confirming a true and fair view of the financial position of e-commerce entities.

E-commerce is a safe management of business functions between businesses, their partners and customers, using electronic means such as the Internet and computer applications. In the narrower sense, e-commerce means the process of acquiring and selling transactions through data communication networks.

In a broader sense, all the business activities of enterprises that run through data communication networks, the exchange of technical product specifications, the production of an electronic catalog.

As a result of the emergence and development of the Internet, the "e-way" of trading has increased, with an increasing number of innovations using e-money transfers, supply chain management, internet marketing, online processing. transactions, electronic data interchange (EDI), inventory management systems and automated data collection systems. In this context, the use of virtual currency for the implementation of electronic transactions is justified.

3. VIRTUAL CURRENCY AS AN IMPORTANT CONTEMPORARY PHENOMENON

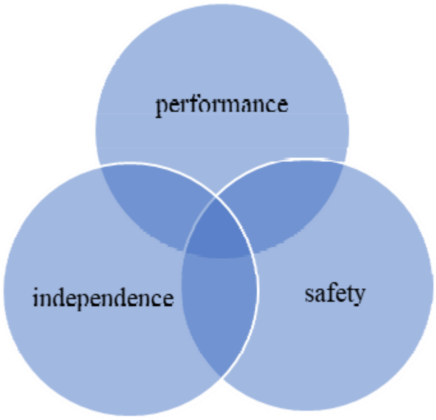
The on-line trading uses a virtual currency to secure the payment system. It may be understood as an on-line payment, respectively. internet digital menu. There is no definition of virtual currency in the Accounting Act. The definition of the virtual currency is declared in the Methodological Guideline of the Ministry of Finance of the Slovak Republic no. MF / 10386 / 2018-721 on the process of taxing virtual currencies. This guideline has taken over the definition of virtual currency from EP and R (EU) 2018/843 of 30 May 2018 amending Directive (EU) 2015/849 on the prevention of the use of the financial system for the purpose of money laundering or terrorist financing and Directive 2009 / 138 / EC and 2013/36 / EU. Under a virtual currency, we mean "a digital value bearer that is neither extradited nor guaranteed by a central bank or public authority, nor necessarily tied to legal tender, has no legal status as currency or money, but is acceptable by some natural or legal persons as a means of payment and This definition implies acceptance of the virtual currency by another entity for another currency or service, and this acceptance must be publicly declared to which the market condition is linked.

A virtual menu can be obtained:

- Stock Exchange
- Exchange on special exchanges
- Mining, which means the creation and creation of the currency itself, which is based on a complex mathematical algorithm.

The virtual menu can be used on your own computer set-up, which involves a high level of IT investment and the associated operating costs of electricity. However, it is also possible to benefit from the virtual menu in tvz. "Clode" that does not require its own hardware. Virtual currency mining is possible through rented software for a fee. The costs of extracting a virtual currency are in companies investing in the acquisition of virtual currency by accounting for the materially relevant cost accounts.

The most significant group of virtual names are cryptocurrency that are linked to the real economy. The cause of the indisputable popularity of cryptocurrents in the current digitized economy is predominantly illustrated in Picture no. 1.

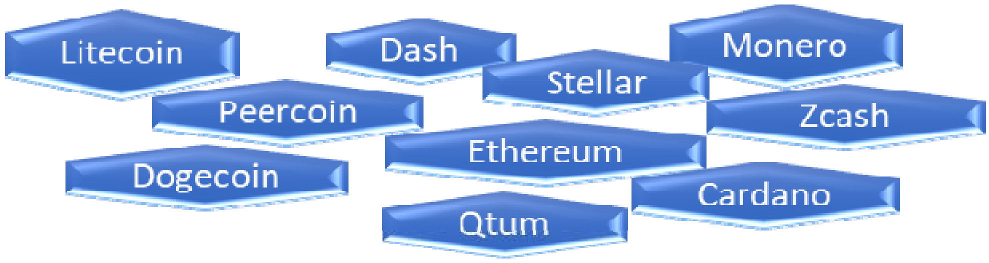


Picture 1: The Aspects of cryptocurrency popularity
Source: own processing

The use of cryptocurrencies has an impact on the entire financial system, in which central and commercial banks, investment and financial companies, government institutions, and the like are the focus of interest. The first cryptocurrency to be traded since 2008 was Bitcoin, an independent open-source cryptocenter with complete decentralization. Bitcoin is denominated in USD, CZK, EUR, GBP and ETH. For illustrative purposes, see graph no. 1 development of the Bitcoin price in Euros on the world exchanges and in the exchange offices until January to April 2019 based on available data.

Graph no. 1 Average Bitcoin prices in Euros
Source: Bitcoin - current and historical prices of cryptocurrency Bitcoin, graph of development of cryptocurrency price Bitcoin. Available on: https://www.kurzy.cz/komodity/bitcoin-graf-vyvoje-ceny/eur-5-dnu?dat_field=05.01.2019&dat_field2=05.04.2019

As reported by Marie Brière, Kim Oosterlinck, Ariane Szafarz (2015) Bitcoin is a major virtual name. Its specificity lies in the fact that it is designed so that none of the interest groups can artificially influence or falsify it. Other virtual currencies were also created and created. At present, there are more than 1,000 species and they differ mainly in the way they are mined on different hardware. An example of virtual names is illustrated in Picture no. 2.



Picture no. 2 Examples of virtual names
Source: own processing

4. ADVANTAGES AND DISADVANTAGES OF USING CRYPTOCURRENCY

The use of cryptocurrencies in online trading brings many advantages and disadvantages.

The advantage is:

- arises without central authority as opposed to the money issued and affected by the central bank, the government, etc., which is not subject to the control of any bank as it is not regulated by any financial institution or government,
- the impact of inflation due to the exact number of Bitcoins is not taken into account;
- High transparency,
- the impossibility of counterfeiting cryptocurrency, with a high degree of decentralization,
- non-repayment of a transaction, unlike card or check payment
- Express and inexpensive payment confirmed within minutes with low charges and unlimited functionality
- anonymity of the address from which the payment is made, but is not absolute anonymity
- In the case of extraction or use of cryptocurrency, the system cannot collapse as copies of payment transaction history are stored for all transactions.

The downside is:

- Internet connection,
- the possibility of theft if the e-wallet is not encrypted or the password is lost,
- High volatility that can be considered natural,
- the threat of anonymity, especially when buying weapons, with the requirement to regulate exchange trading with cryptocurrency;
- Banks' threats to the growing volume of digital payments replacing current payments, as banks consider cryptocurrency to be a significant risk without legislation.

It follows that cryptocurrencies have a high future development potential and will not only be used as a means of payment but also as an underlying tool for online trading. E.g. From the point of view of commercial banks, their use may lead to a reduction in the cost of clearing between two commercial banks. (European Central Bank, 2015) We believe that it is necessary to address the issue of legislation in this area, as many conspiracy theories and experiments are currently being conducted.

We are convinced that laws will sooner or later come into force to prohibit or restrict the usability of cryptocurrency. Based on this, we wonder if cryptocurrency are a real currency or just a speculative commodity? The answer is not clear. We are sure to say that, with the right and appropriate legislation, the future in the current digital world is having an impact on many areas of the financial market.

5. VALUATION, ACCOUNTING AND VIRTUAL CURRENCY TAXATION

In the context of § 25 para. 1 (a) 1 letter h) of the Accounting Act, the virtual currency is measured at fair value[1] as at the date of the accounting transaction:

- Revenue Acquired,
- acquired by mining on the day of exchange for another asset or service,
- acquired in exchange for another virtual menu
- for which an asset or service was acquired, with the exception of cash and valuation at nominal value.

All details of the determination of fair value for a virtual currency shall be disclosed by the entity in its internal regulation. An entity is required to adjust the fair value of certain types of assets and liabilities at the balance sheet date. However, this does not apply to the valuation of the virtual currency at the balance sheet date. Act on Accounting Revaluation of the Virtual Currency to Fair Value as of the Date on which the Financial Statements Are Not Prepared. § 25 para. 5) of the Accounting Act deals with the issue of valuation of a virtual currency loss, in the context of which the valuation of a loss of assets, which is a virtual currency, can be valued the same type of stock and securities in the entity's portfolio by the price-weighted arithmetic average method or the way the price first increment to evaluate the first loss.

There is no separate account from the general chart of accounts for entrepreneurs for the accounting display of the virtual currency. Because it is a short-term commodity, it is considered to be a short-term financial asset accounted for in the accounts group 25 - Short-term financial assets. Within the account group in question, an entity that:

a) is set up for business purposes to add account 258 - Virtual Currency, through which not only additions but also decreases in virtual currency are displayed.
b) is not established for business purposes, to create analytical evidence for account 251 - Trading securities for trading.

In the case of the sale of a virtual currency, the sales revenue is recognized in account 668 - Other financial income, whereas the actual loss of the virtual currency is the occurrence of the expense recognized in account 568 - Other financial expenses. On these accounts, we charge value differences[2] arising:

- as the difference between the purchase price of the virtual currency and the fair value of the virtual currency valued under the Accounting Act;
- between the value of the liability at the time of acquisition of the asset or service for the virtual currency and the value at the time of payment of the liability;
- between the value of the claim at the time of sale of the asset or service for the virtual currency and the value at the time of collection of the claim.

Pursuant to the Methodological Guideline of MF SR 10386 / 2018-721, virtual currencies are taxed on income tax. Taxation is subject to taxable income derived from the sale of a virtual currency. Selling a virtual currency means exchanging a virtual currency for a property, service, or other virtual currency. In taxation matters, it is very important whether the taxpayer is a non-entrepreneur or entrepreneur. In the case of a non-entrepreneur with unlimited tax liability, it is also important whether it is an occasional or recurring transaction that generates a taxable income from the sale of a virtual currency considered as other income in the context of Section 8 of the Income Tax Act, unless the taxpayer has a virtual currency included in the business property. The income does not include income from the virtual currency obtained by the extraction in the tax period in which it was mined, as this income will be included in the tax base in the tax period of the virtual currency sale. The difference between the fair value and the virtual currency input price is not included in the tax base. Taxable income can be reduced by the taxpayer by the expenses incurred to achieve this income. The tax rate[3] applies to taxation:

- 19% if the taxpayer's tax base is less than or equal to EUR 35,268.06;
- 25% if the taxpayer's tax base is greater than 35,268, 06 Euros.

At the same time, the income is taxed at 14 % as it is subject to health insurance.

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[1] According to § 27 par. 13 is the fair value of the virtual currency the market price at the date of its valuation determined in a manner determined by the entity from a designated public market with a virtual currency, e.g. daily prices from a particular stock exchange). An entity uses the same method of determining fair value for a particular virtual currency

[2] Differences arising in accounting until the time of crediting or loss of the virtual currency are charged with an impact on the economic result.

[3] Expenses of the total input prices of virtual currencies up to the total revenue from the sale of virtual currencies. If expenditure is higher than revenue, the differences are not taken into account. In the event that a taxpayer achieves a single sale of a virtual currency profit and a second loss, the loss is offset by the gain as they relate to the same kind of income.

For a taxpayer who is an entrepreneur, the taxable income is the income earned from the sale of the virtual currency. The tax liability is ascertained from the profit or loss arising from the accounting transformed to the tax base in accordance with Sections 17 to 29 of the Income Tax Act. The taxpayer can apply tax expenses up to the amount of the revenue from the sale of the virtual currency.

From a VAT point of view, cryptocurrency trading is exempt. However, it is considerably controversial as the supply of goods or services subject to VAT is subject to VAT.

6. E-COMMERCE AND AUDIT

Accounting is interacting with the audit. The purpose of the financial statement audit is to enable the auditor to express an opinion as to whether the financial statements are prepared in accordance with the applicable financial reporting framework and provide a true and fair view of the facts that are subject to accounting. It is imperative for the auditor to engage in professional skepticism that we understand as an auditor's attitude based on critical thinking. (Krišková, Užík, 2017)

The auditor is guided by the International Business Practice Guidance on E-commerce - Impact on the Audit of Financial Statements when verifying the entity's online financial statements.

There is no uniform definition of the concept of e-commerce in terms of the audit profession. However, it can be understood as transaction activities such as the purchase and sale of goods and services made electronically. The nature of the business of an entity doing business through online trading affects the auditor's procedures for the verification of the financial statements. The auditor's role is to acquaint himself not only with information technology, but also with the area of business via the Internet in order to understand the strategy, technology, risks associated with e-commerce, the adequacy of the internal control system, including the security infrastructure and relevant controls.

An auditor may use an expert in the work in accordance with Audit Standard ISA 620, “Use of an expert nominated by an auditor,” assessing the integration of the expert's work with that of other auditors and the procedures that will be applied to the risks identified during the expert's work. The auditor may decide to use an expert for the work, for example if he considers it appropriate to test the controls by attempting to disrupt the protection of the company's system (vulnerability or penetration testing).

In the context of ISA 315, “Identifying an Entity and its Environment and Assessing the Risk of Material Misstatement”, it is the auditor's responsibility to obtain sufficient and appropriate knowledge of the relevant entity to identify and understand events, transactions and practices that involve a material risk. impact on the entity’s financial statements.

An auditor's understanding of the entity's business is a basis for assessing the importance of e-commerce for the entity's business and its impact on the audit risk. The auditor obtains the necessary information from financial reporting personnel as well as IT staff, such as the IT department manager.

Every activity should be regulated by legislation. Therefore, in the context of ISA 250, “Consideration of Laws and Regulations on Audit of Financial Statements,” for the purpose of audit planning, the auditor is acquainted with the entity's legal and regulatory framework and compliance with it. If the auditor considers a legal and regulatory issue as significant, i. j. with significant impact on the financial statements, audit procedures or the auditor's report itself, requires management to explain these matters.

In the area of e-commerce, management is facing business risks accompanying all the entity's activities. One way to address e-commerce risks is to implement secure infrastructure and relevant controls to:

- "Verifying the identity of customers and suppliers,
- ensuring transaction integrity,
- Obtaining Terms of Trade,
- Obtaining customer payments or securing customer credit product,
- creating security and protection protocol information ”.

Identifying and assessing the risks of material misstatement of the auditor's improper prioritization of controls is also important because automatic processes and controls may ultimately reduce the risk of unintentional error. It should be borne in mind that they do not prevent the risk of forbidding such automated processes in a forbidden way, for example by changing amounts that are automatically transferred to the general ledger or to the financial reporting system. Risks accompanying e-commerce can be mitigated by effective and effective internal controls.

Based on the ISA 315 Auditing Standards "Identifying and Assessing the Risk of Material Misstatement by the Accounting Entity and its Environment" and ISA 330 "Auditor's Responses to Assessed Risks", the auditor reviews the control environment and control procedures established and applied by the entity in the context of e-commerce.
Within the internal control, the use of manual and automated elements influences the way of initiating, recording, processing and reporting.

Within IT, controls are predominantly a combination of automated and manual controls, with a combination of manual and automated internal control elements applied to different entities depending on the nature and complexity of the information technology that the entity applies. It is therefore undoubtedly important for an entity doing business over the Internet to ensure the protection, integrity of transactions and process organization. ' The nature and complexity of the entity's e-commerce transactions affect the nature and extent of the risks associated with e-commerce transactions. The auditing procedures used in relatively demanding e-commerce are focused on automated controls regarding the integrity of transactions from recording to automatic processing. One of the advantages of e-commerce is the fact that there may not be paper records. The difference between paper and electronic records is the existence of a higher risk of destruction or modification. Therefore, the auditor assesses the principles implemented by the data protection entity and its control systems in place to protect against unauthorized changes in the accounting system and records or systems providing information for the accounting system.

7. CONCLUSION

As a result of the ongoing process of globalization, the attention of many entities is being given the possibility of e-commerce, an interactive way of dealing with the risks faced by all stakeholders, including the auditor confirming a true and fair view of the financial position of e-business entities. As part of the on-line payment system, accounting entities use virtual currencies to carry out online trading, which can be considered a significant phenomenon of the present. For this reason, the virtual currencies have become the subject of our research to clarify their importance, relevance and usability in e-commerce. The most popular virtual currency is Bitcoin, whose average rate changes with considerable fluctuations. The use of virtual currencies is not only influenced by the development of exchange rates, but also by legislation that is, in our opinion, insufficient in terms of Slovakia. Virtual currencies serve not only as a means of payment, but also as an underlying tool for online trading. Since the use of a virtual currency is associated with the purchase of goods or services, it is necessary to display them in national terms. Those entities that conduct their business through the Internet are subject to audit. This implies an undisputed interaction between accounting and auditing in the area.
The auditor verifies not only the correctness of the measurement, recognition and presentation of the virtual currency in the financial statements but performs procedures to obtain sufficient and appropriate evidence to conclude that the financial statements are free from material misstatement and are prepared in accordance with the applicable financial reporting framework. On the basis of conclusions, it formulates an opinion on the information presented in the financial statements and presents it in the auditor's report. By expressing the opinion and information presented in the financial statements, the auditor increases the confidence of users of this information and eliminates mistrust in the use of the virtual currency as the national currency. In our opinion, the auditor may also be able to resolve the question of whether a virtual currency is a real currency or a speculative commodity. We are confident that it is only a matter of time before a virtual currency will be considered a generally accepted means of exchange for the national currency used in online trading in the current digitized economic environment.

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