By: Juli Balaskas

Machinery and Equipment Valuations – It's Not Just Oil Rigs and Linear Accelerators: Balancing Bitcoin Miners Books

The recent downtrend in the price of Bitcoin and other cryptocurrencies combined with record high hash rates, increased competition, and higher electricity costs have squeezed profits and caused bankruptcies such as FTX and Celsius Network, among others. This has led to asset impairments the likes of which we haven't seen since the 2008 financial crisis. Bankrupt cryptocurrency firms need to write down their significant investment in computer mining rigs and related infrastructure as well.

The secondary market for computer mining rigs has seen price declines of 25%, as measured by price/terahash, over a period of days. Market uncertainties and the possibility of more bankruptcies are triggering discussions of how to value machines under ASC 360-Property, Plant, and Equipment or IAS 36-Impairment of Assets for IFRS indicates when and how to test and measure for impairment. The potential liquidation of more used computer rigs further complicates the outlook.

In these circumstances, the market approach, where you would value the asset based on current pricing in the secondary market, is the most appropriate method to determine fair value for reporting purposes. The cost approach, using replacement cost new, would not be used because it is too difficult to determine economic obsolescence. The cost approach would also not accurately reflect the price that would be realized in the event of a sale due to liquidation. The income approach, which is based on calculating future earnings derived from the asset, would not be used because it is not possible in this situation to attribute income to an individual property unit or the units of fixed assets, which constitute an operating facility, since the assets contribute to earnings only in concert with all other economic factors of production.