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ACCOUNTING & AUDIT

Blockchain is a Database, Get Over It

There is a mania surrounding the blockchain technology which underlies cryptocurrencies— it is surrounded by a boundless enthusiasm, and based on the breathless excitement, one might believe that it is the cure for cancer, Alzheimer's disease, and the ...

Brian Tankersley, CPA.CITP, CGMA • Mar. 22, 2018



BLOCKCHAIN

I'm so glad to be back with you, the gentle reader of *The CPA Practice Advisor*, after a four-year sabbatical. The title of this column is “The Twenty-First Century Accountant”, and my job here is to tell you what you need to know about the technologies which are going to change how we work in the future. I hope to provide you with a little perspective – and levity – while discussing the technologies we may use in the future in our work.

There is a mania surrounding the blockchain technology which underlies cryptocurrencies– it is surrounded by a boundless enthusiasm, and based on the breathless excitement, one might believe that it is the cure for cancer, Alzheimer's disease, and the common cold, all in one. Allow me to inject some reality into this conversation:

Blockchain is Just a Way of Recording Transactions in a Ledger.

Yes, even though someone recently told you about how critical blockchain is for your future life in the same breathless excited voice with which your parents told you

bedtime stories like the three little pigs, Cinderella, or read you the Very Hungry Caterpillar; the truth remains that blockchain is *just a tamper-resistant way of recording transactions into a digital ledger*. Billionaire investor Warren Buffet, the king of plain-spoken quotes on investing, warns you to watch out in different terms. Those quotes include:

- “Risk comes from not knowing what you’re doing,” and
- “Never invest in a business which you cannot understand.”[1]

While there are some cryptocurrency investors who are buying Lamborghini sportscars with their Bitcoin gambling winnings, there are also some people who are going to lose fortunes in this speculative market and spend their seventy-something years greeting shoppers at Wal-Mart.

The “fear of missing out” FOMO surrounding cryptocurrencies is so strong that the speculative market was the featured story on the March 11, 2018 episode of [HBO’s Last Week Tonight with John Oliver \(link to the story on YouTube, which is NSFW due to foul language\)](#), but he isn’t the only one who is chiming in on the cryptocurrency market, which has all of the markers of a classical asset bubble – others include:

- The Atlantic’s Derek Thompson (January 10, 2018) penned a column titled “[It Is Silly Season in the Land of Cryptocurrency](#)” which compares the current bitcoin and blockchain enthusiasm to the dot com bubble in 2001.
- Reuters produced a [story comparing the current cryptocurrency market](#) and an [accompanying infographic showing the irrational spikes in market cap](#) when companies change their names to include the word “blockchain”

While I remain optimistic about the future of blockchain and distributed ledger technology, I caution you to be careful when dealing with cryptocurrencies. FOMO is contagious and is very dangerous to your nest egg. In my life, FOMO has almost always been the beginning of bad business decisions – so remember that when something seems too good to be true, it almost assuredly is.

The real value of blockchain to the accounting profession is the tamper-resistance of the blockchain protocol. Each successive block (batch of transactions) is tied to the other blocks with cryptography, making the entire ledger tamper resistant and making it possible to know when someone has changed anything in the underlying ledger[2]. While we won’t get into the variety of ways a blockchain can be configured (private, public, distributed, or centralized, among others), you can currently think

of blockchain as an incorruptible database platform which can be used to record many kinds of transactions. Some potentially interesting uses for blockchain technology include: recording the stock ledgers of private companies, recording permanent records like real estate transactions, creating unalterable medical records, and validating the date and time when an insurance policy was underwritten and approved. All these uses are interesting, but I don't sense an overwhelming, imminent change to all of our lives as a result of this technology.

My best advice to each of you is to stay tuned for how blockchain is going to affect your life – because it may have some impact on you in the future. I'd also listen to Warren Buffet's investing advice and stick with what you know, because there are a lot of people gambling on things here that they most likely don't really understand.

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[1] “The Genius of Warren Buffet in 23 Quotes,” *Marketwatch* (<https://www.marketwatch.com/story/the-genius-of-warren-buffett-in-23-quotes-2015-08-19>), retrieved on March 3, 2018.

[2] The encryption underlying blockchain appears to be sound for now, but emerging technologies like [quantum computing](#) may provide ways in the future for hackers to subvert the cryptography in Blockchain by recalculating the private encryption keys which are used to prove the ownership of the related digital assets.

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