

# A QUICK CRYPTO GUIDE FOR BUSY CPAS

6 Ways Crypto is Making Accounting More  
Complex and More Profitable.



**ALTMONIE**

# Introduction

*“As investors rotate out of Bonds in search of a Store of Value, they are forced to choose between Gold and Big Tech.”*

**- Michael Saylor, CEO MicroStrategy**

Your world just became more complex, thanks to your clients.

Their curiosity to try new things — and make a ship-load of money — led them into the mysterious world of cryptocurrencies (aka virtual currencies, digital assets).

Little did you know they'd be sailing into complex financial waters... and taking you with them.

This past tax season, the accounting industry had to deal with filing crypto taxes for businesses and individuals.

## **Some clients were prepared.**

Others had no clue how to generate a report for the 16,345 trading transactions they initiated to take profits, stop losses, ape into NFTs, yield farm, stake, leverage trade, compound their liquidity pools, and find the next coin to pump 300%.

Oh, and they're thinking about accepting Bitcoin as payments by next year.

Plus, they want to explore paying employees in Bitcoin.

And they discovered a cool marketing app to give clients loyalty rewards in Bitcoin too!

## **The kicker?**

You're expected to manage the books and get up to speed on this wild west world of money being created out of thin air using apps and a digital wallet.

The reality is when your clients ventured into crypto, they weren't thinking about the accounting ramifications of being on the cutting edge of this disruptive technology.

They just saw new ways to earn, save, trade, invest, collateralize, gamble, and transfer money at the speed of light.

Right now, the entire accounting and financial industry faces a tsunami of change that is just getting started. Expect things to normalize in about 10 years.

Until then, just know that it's not your fault that you didn't get the memo about how an unknown Japanese man called Satoshi Nakamoto would complicate the financial universe by unleashing Bitcoin back in January 2009.

None of us got the memo.  
We were too busy surviving the housing crash of 2008!

Since 2020, I've been educating business leaders, accountants, financial advisors, and tax strategists about the basics of cryptocurrencies because the reality is - digital asset accounting and management is here to stay!

### **Are you concerned?**

Great, this guide is for you.

Just take a quick look at what over 2,500+ of your accounting colleagues have shared with me about their view of cryptocurrencies....

*"It's confusing and complex. Where do I begin?"*

*"Crypto is full of scams and hacks. Why are we even entertaining this?"*

*"The risk of loss is too high and unpredictable."*

*"The volatility feels unsafe and unstable."*

*"The rewards and risks are all over the place."*

*"There are too many coins. How do we know which ones are legit vs scams?"*

*"The regulations, best practices, and standards are not 100% clear. Or are too complex to follow for this new asset class."*

*"I don't know who to trust when it comes to learning about crypto."*

*"How do we track taxes?"*

*"Who is responsible for the wallet?"*

*"I'm concerned about my clients losing money to this new asset class."*

*"This takes way too much time to learn."*

*"I want to invest in crypto. I don't want to miss out. And I don't want to lose money either."*

*"I don't have the tools to understand Bitcoin's trend. Maybe if I understood the trend of Bitcoin, I'd feel more confident about trying it out."*

*"I'm afraid I'll lose clients, because I can't keep up and I don't have the tools to support their crypto activities."*

*"There are too many opinions around crypto and not enough facts. I just need the facts."*

*"I don't understand why Elon Musk is promoting a digital dog coin on Twitter."*

*"I still don't get what the blockchain is?"*

*"What do these coins even do? What's the big deal?"*

*"What in the world is triple entry accounting?! Sounds like I need to plan an early retirement."*

*"Dapps, CeFi, DeFi, Yield Farming, NFTs, Interoperability, Gas Fees, Staking, Rug Pulls, Minting, Total Locked Value, Tokenomics?!? Can somebody please simplify this and speak English!?"*

**Yes, adapting to crypto for now means you'll have more questions than answers.**

**The tech is launching faster than we can adapt.**

**This is the greatest real-time money transformation any of us has ever experienced. The risks are high and the rewards are high.**

**This trend will boom, bust, and only the quality projects will survive and become the new tech behemoths.**

**Time and education over the next 10 years will eventually make interacting with digital assets as normal as Uber, AirBnB, DoorDash, Apple Pay, and all those apps on your phone that make life easier.**

**In the meantime, it's likely that the accounting industry will self-categorized into at least three distinct groups over the next 12 months:**

## 1. The Action Takers:

Your firm will be proactive and adapt. You'll take CPE courses at sites like CPA Academy or CPA Crossing. You'll start researching leading crypto apps and tools that support the accounting process. You'll follow closely how FASB, SEC, and IRS adapt to digital assets. You might even open a Coinbase account to understand what your clients are doing. You'll charge your clients a premium for helping them navigate crypto taxes and accounting strategically. You'll become a crypto-tax Jedi in your community. Your cashflow will grow. You won't worry about client retention. And you'll have more referrals than you can handle. Your business will thrive in this emerging economy.

## 2. The Alliance Builders:

You'll learn the bare minimum of crypto only because you don't want to be out of the loop. You'll build alliances with crypto CPAs and tax strategists to outsource the work. You have no interest in owning or managing anything crypto related. You'll just wait for the disruption to normalize before you invest any serious time or effort into learning what this madness is about. In the meantime, you'll just refer and outsource.

## 3. The Late Adopters:

You'll do nothing. Most of your clients, as far as you know, have no intention of adding crypto to their business operations. You tell clients to find someone else to help them with their crypto taxes, or come back when they figure out how to generate a tax report. You're confident this tech disruption won't impact your business cashflow anytime soon -- you hope.

Regardless of how you choose to approach crypto, this quick guide will give a sky-dive view of what's happening, what you need to know to navigate the space, and how to strategically position your firm to stay profitable, relevant, and successful during this volatile shift.

Stay ahead,

Sonia Dumas  
Chief Editor  
AltMonie.com

# Start Here

## **Technology is redefining two questions:**

1. What is valuable?
2. What is money?

For those of us who are involved with crypto (business owners, investors, traders), we view money in terms of layers.

It starts as dollars, euros, and other foreign currencies and works our way into decentralized finance strategies that enable people to maximize their wealth and minimize taxes.

To start, let's get clear about what is happening to money.

Right now, all the apps on your phone and computer are evolving. The centralization of information is being shifted from central entities like traditional financial institutions and social media monopolies into the hands of individuals and millions of computers across the globe.

Information that was originally dependent on third party companies can now be publicly accessible and verifiable through blockchain.

Assets can now be transferred in a matter of seconds, with little to no third parties involved.

The future is coming faster than you think.

Our guide will dive into the 6 ways crypto is making accounting more complex and more profitable so that CPAs can better serve their crypto clients and stay ahead of the game.

## Ready to get started?

# 1. Grasp the Basics of Blockchain, Bitcoin, & Smart Contracts

As technology continues to advance, so does the speed at which things grow.

It took Microsoft and Apple over 40 years to be worth over a trillion dollars.

Amazon and Google cut that time in half - about 24 years.

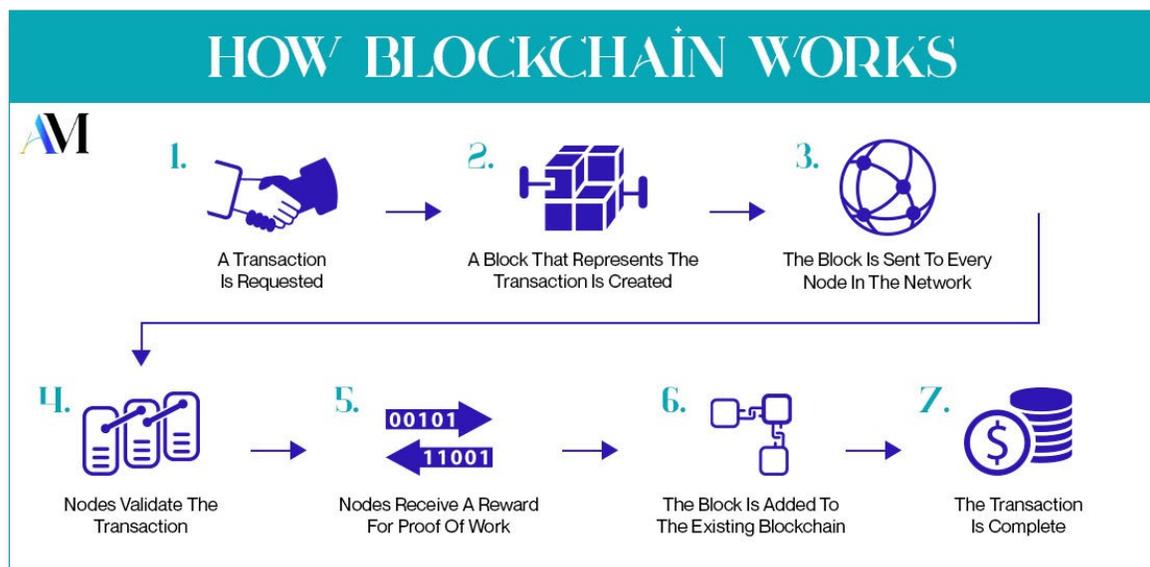
It took Bitcoin even less time to surpass one trillion dollars - 12 years.

The moral of the story: every time technology advances, growth accelerates and time shortens.

Blockchain technology, which includes cryptocurrencies, will impact everything from identity verification, mobile payments, resource management, supply chains, health care, shipping, manufacturing, real estate, travel, insurance banking, and more.

Now, let's look at a simplified version of how blockchain works in real life.

Say you wanted to pay in advance for a hotel in Sweden that happens to accept bitcoin. They send you to a payment page that is connected to their bitcoin wallet, and they provide you with a specific address to send your bitcoin to.



Now, think of a wallet like a checking account and an address like a bank account number.

From your wallet, you send money to their wallet.

Behind the scenes, the transaction is created in a block.

Think of a block as a bundle of invoices or transactions batched together. This block is then sent to the network to be verified through multiple sources.

A sequence of these transactional blocks creates a chain. Hence the term blockchain.

Once this block, or batch of transactions is verified by the network, bitcoin is released to the hotel's wallet, the transaction is complete, and your room is booked for an upcoming vacation.

**Notice what was removed from this process -**

- No Bank Wires
- No ACH
- No 3-5% Credit Card Transaction Fees
- No 2-3 Day Hold Times.
- No chargebacks

This whole process can happen in a matter of minutes and on some blockchains, microseconds.

As of now, there are over 15,000 cryptocurrencies and over 439 cryptocurrency exchanges where people buy and sell crypto, similar to the Nasdaq exchange.

We've seen projections that the long term market cap for crypto is projected to grow to over \$18 trillion over the next decade.

Over the past few years we've seen the crypto market fluctuate between one and three trillion dollars.

Those who are early to this evolution will capture returns really unheard of in human history.

**Another thing to understand is that crypto is split into two major groups:**

- Bitcoin: Current leader in crypto.
- Altcoins: All other cryptocurrencies. Ethereum so far is the current dominant altcoin.

Many of these altcoins are taking blockchain technology to the next level by using another technology called smart contracts.

### **So let's dive deeper into smart contracts.**

Smart contracts verifies, controls, and self executes an agreement digitally.

This contract is embedded in code on a blockchain platform like Ethereum and executed if parties meet the coded predefined rules of the contract.

Unlike traditional contracts that we now use, these contracts occur publicly or privately and are enforced automatically without the involvement of any third party.

What does this mean?

Any asset like real estate, art, business, businesses, intellectual property, patents, royalties, and land (virtually anything of value) can be placed inside a digital contract and bought, sold and transferred to anyone publicly or privately, anywhere at any time.

### **And guess who's not included in the transactions?**

The broker, the dealer, the agent, the clearing house and the majority of third parties that charge a fee to help the transaction move forward.

In short, blockchain technology, Bitcoin, and smart contracts are eliminating traditional third parties and their fees..

Two disclaimers - First, these blockchain-based apps do charge a fee for use. The point is the fees are significantly less than the current traditional model.

Second, we still have to trust some third parties, like the developers of these projects to code correctly so that user funds are protected against hacks and contract failure.

The gap between the vision of crypto versus the reality of crypto is being figured out through innovation and regulation in real-time.

# 2. Leverage Triple Entry Accounting

Some history - the first book on double entry accounting was published in 1494, over 500 years ago.

With the onset of blockchain technology, this 500 year-old method is now being challenged by technology.

## **Let's start with a definition.**

Triple entry accounting is a blockchain-based form of accounting that adds another verifiable layer on top of current accounting standards.

Triple entry accounting verifies accounting transactions from outside parties and posts them to a shared ledger or shared blockchain.

This can include inventory, sales taxes, utility payments, payroll, sales, liabilities, insurance, logistics, vendor contracts, client contracts, any expense, any asset, any revenue, and any loss. Essentially any accounting transaction can be placed on a shared ledger.

Rather than these entries occurring separately in an independent set of books, they can be reflected on a shared ledger, which creates an interlocking system of accounting records that can never be altered or tampered with.

## **Let's get practical with a use case.**

Think of mergers and acquisitions or strategic partnerships, where financial information must be shared.

Or when a business wants to go after private or public financing.

Rather than having to coordinate a time and capital intensive audit, the financial transactions of each company's books can be viewed, audited, verified, and analyzed on a shared blockchain platform within hours.

This will allow for financing and acquisition decisions to occur within hours instead of days, weeks, and months.

Can you think of a few Fortune 500 businesses that would take advantage of this efficiency?

It's this shared information that's considered the third entry. Hence the name, triple entry accounting.

We're moving at a breathless pace into a world where everything is being connected to everything.

# 3. Understand the Answers to The Top 5 Most-Asked Tax Questions

When it comes to accounting for digital assets, there's more questions than there are clear answers.

This chapter is in thanks to the pioneering work of MicroStrategy's Bitcoin Accounting Treatment and Tax Considerations guide. They highlight specific questions that accountants should take into consideration when it comes to digital assets and how it affects business operations.

Let's dive into some of these questions and see what MicroStrategy discovered while they were buying over 129,000 Bitcoin to add to their treasury.

*\*\*Disclaimer: This educational information is unaudited, open-source, and should not be construed as providing accounting, tax or legal advice.*

**Question 1:** Does the Company have control of the Investment and therefore recognize the Investment as assets on the Company's balance sheet?

**Answer:** There is no authoritative GAAP that addresses whether or not a digital asset belongs to the Company or the third party hosted wallet provider. When considering whether the investment belongs to the company or not, accountants must look at whether it meets the definition of an asset in FASB Concepts Statement No. 6 (CON 6).

It defines assets as this: "Assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events. An asset has three essential characteristics: **(a)** it embodies a probable future benefit that involves a capacity, singly or in combination with other assets, to contribute directly or indirectly to future net cash inflows, **(b)** a particular entity can obtain the benefit and control others' access to it, and **(c)** the transaction or other event giving rise to the entity's right to or control of the benefit has already occurred."

When someone holds their digital assets in a third-party hosted wallet service, the digital asset should be recognized on the financial statements of the entity that has control over the digital asset.

Determining which entity — the depositor or the custodian — has control of the digital asset should be based on the specific facts and circumstances of the agreement between the depositor and custodian and applicable laws and regulations.

In that regard, a legal analysis may be needed to evaluate certain aspects of the agreement, including legal ownership. The form of the agreement between the depositor and the custodian may vary but often will be included within the terms and conditions or initial account-opening documents provided by the custodian.

In addition to assessing the terms of the agreement, an analysis of the characteristics of an asset as defined by FASB Concepts Statement No. 6, Elements of Financial Statements (see above for analysis), may help determine which party should recognize the digital asset.

**Some factors an entity may consider include the following:**

- Are there legal or regulatory frameworks applicable to the custodian and the depositor (which may also depend on the jurisdiction)? If so, does the framework specify who the legal owner of the digital asset is?
- Do the terms of the arrangement between the depositor and custodian indicate whether the depositor will pass title, interest, or legal ownership of the digital asset to the custodian?
- When the depositor transfers its digital assets out of the custodian's wallet, is the custodian required to transfer the depositor's original units of the digital asset deposited with the custodian?
- Does the custodian have the right (under contract terms, law, or regulation) to sell, transfer, loan, encumber, or pledge the deposited digital asset for its own purposes without depositor consent or notice, or both?
- Would the digital asset deposited with the custodian be isolated from the custodian's creditors in the event of bankruptcy, liquidation, or dissolution of the custodian? If not, do the depositors have a preferential claim in such circumstances?
- Can the depositor withdraw the deposited digital asset at any time and for any reason? If not, what contingencies are associated with the rights to receive the deposited digital asset? Are there technological or other factors that would prevent timely withdrawal notwithstanding contractual, legal, or regulatory rights?
- Are there side agreements affecting rights and obligations of the depositor and the custodian?

- Are there “off-chain” transactions recorded outside of the underlying blockchain that should be considered?
- Is the digital asset held in a multisignature wallet, and if so, what are the signatures that are required to execute a transaction? Who holds the private keys to the multisignature wallet and how is ownership evidenced through any applicable account agreements?
- Is the custodian required (by contract, law, or regulation) to segregate the digital assets of depositors from the digital assets owned for the custodian’s own account? Does the custodian commingle digital assets of multiple depositors?
- Does the depositor bear the risk of loss if the deposited digital asset is not retrievable by the custodian (for example, due to security breach, hack, theft, or fraud)?
- Could the depositor be impeded by the custodian in any way from receiving all economic benefits of controlling the digital asset, including price appreciation?

Ultimately, however, there isn’t just one determining factor when it comes to who controls a digital asset and each situation should be assessed separately.

If it is determined that the depositor has control over the digital asset, then the depositor should recognize the digital asset in its financial statements.

## **Question 2:** How should the Investment be classified and initially measured on the Company’s balance sheet?

**Answer:** There is no authoritative US GAAP that directly talks about the accounting for digital assets because blockchain and digital currencies challenge traditional accounting and reporting models.

As it’s an emerging area, neither the FASB nor the IASB have provided specific accounting guidance.

In response, Deloitte had this to say about accounting for cryptocurrencies: “*we believe that cryptocurrencies should generally be accounted for as indefinite-lived intangible assets under ASC 350.*”

The ASC glossary defines intangible assets as “assets (not including financial assets) that lack physical substance (the term intangible assets is used to refer to intangible assets other than goodwill.”

Since they aren't cash, an ownership interest in an entity, or contract that establishes the right or obligation to deliver/receive cash or other financial instrument, cryptocurrencies are not financial assets but rather intangible assets.

In response to the question; *“How should an entity that does not apply specialized industry guidance (for example, it is not applying FASB Accounting Standards Codification [ASC] 946, Financial Services — Investment Companies) account for purchases of crypto assets for cash?”*

### **The research revealed -**

The FASB ASC Master Glossary defines intangible assets as assets (not including financial assets) that lack physical substance. Accordingly, crypto assets with the previously described characteristics meet the definition of intangible assets and would generally be accounted for under FASB ASC 350, Intangibles — Goodwill and Other.

These crypto assets generally would not meet the definitions of other asset classes within U.S. GAAP, and therefore, accounting for them as other than intangible assets may not be appropriate, as described in the following examples:

- Crypto assets will not meet the definition of cash or a cash equivalents (as defined in the FASB ASC Master Glossary) when they are not considered legal tender and are not backed by sovereign governments. In addition, these crypto assets typically do not have a maturity date and have traditionally experienced significant price volatility.
- Crypto assets will not be financial instruments or financial assets (as defined in the FASB ASC Master Glossary) if they are not cash (see previous discussion) or an ownership interest in an entity and if they do not represent a contractual right to receive cash or another financial instrument.
- Although these crypto assets may be held for sale in the ordinary course of business, they are not tangible assets and therefore may not meet the definition of inventory (as defined in the FASB ASC Master Glossary).

Under FASB ASC 350, an entity should determine whether an intangible asset has a finite or indefinite life.

FASB ASC 350-30-35-4 states that if no legal, regulatory, contractual, competitive, economic, or other factors limit the useful life of an intangible asset to the reporting entity, the useful life of the asset should be considered indefinite.

The term indefinite does not mean infinite or indeterminate. The useful life of an intangible asset is indefinite if that life extends beyond the foreseeable horizon — that is, there is no foreseeable limit on the period of time over which the asset is expected to contribute to the cash flows of the reporting entity.

Entities should consider the factors outlined in FASB ASC 350-30-35-3 when determining the useful life of an intangible asset. If there is no inherent limit imposed on the useful life of the crypto asset to the entity, then the crypto asset would be classified as an indefinite-lived intangible asset.

As intangible assets, these crypto assets purchased for cash would initially be measured at cost.

**The initial measurement guidance in ASC 350-30-30-1 states the following:**

- 30-1 An intangible asset that is acquired either individually or with a group of other assets (but not those acquired in a business combination) shall be initially measured based on the guidance included in paragraphs 805-50-15-3 and 805-50-30-1 through 30-4.

**As such, ASC 805-50-30-1 and 30-2 specifically state:**

- 30-1 Assets are recognized based on their cost to the acquiring entity, which generally includes the transaction costs of the asset acquisition, and no gain or loss is recognized unless the fair value of noncash assets given as consideration differs from the assets' carrying amounts on the acquiring entity's books.
- 30-2 Asset acquisitions in which the consideration given is cash are measured by the amount of cash paid, which generally includes the transaction costs of the asset acquisition.

**Financial Statement Presentation**

**ASC 350-30-45-1 provides guidance on the presentation of intangible assets and states:**

- At a minimum, all intangible assets shall be aggregated and presented as a separate line item in the statement of financial position. However, that requirement does not preclude presentation of individual intangible assets or classes of intangible assets as separate line items.

In accordance with this guidance, the Company will present the Investment as a separate line item titled “Digital Assets” on its Consolidated Balance Sheet.

**The FASB Codification Master Glossary defines current assets as follows:**

- Current assets are used to designate cash and other assets or resources commonly identified as those that are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business. See paragraphs 210-10-45-1 through 45-4.

ASC 210-10-45-1 provides guidance on the classification of current assets. The Company will classify the Investment as a non-current asset on its balance sheet (titled “Digital Assets”) and include the related cash flows for the purchase of its Investment in the investing section of the statement of cash flows.

### **Question 3:** How should the Investment be subsequently measured?

**Answer:** In question 2, the conclusion is that crypto assets are intangible assets within the scope of the ASC glossary. Specifically, ASC 350-30-35-18 states:

*An intangible asset that is not subject to amortization shall be tested for impairment annually and more frequently if events or changes in circumstances indicate that it is more likely than not that the asset is impaired. This is consistent with the interpretive guidance.*

This is consistent with the interpretive guidance included in DI 18-13, Alert 18-9 and the nonauthoritative guidance in Question 4 of the AICPA Guide, which addresses the question, “How should an entity account for digital assets that are classified as indefinite-lived intangible assets subsequent to their acquisition?”:

*An indefinite-lived intangible asset is initially carried at the value determined in accordance with FASB ASC 350-30-30-1 and is not subject to amortization. Rather, it should be tested for impairment annually or more frequently if events or changes in circumstances indicate it is more likely than not that the asset is impaired. Paragraphs 18B and 18C in FASB ASC 350-30-35 provide examples of relevant facts and circumstances that should be assessed to determine if it is more likely than not that an indefinite-lived intangible asset is impaired. If an impairment indicator exists and it is determined that the carrying amount of an intangible asset exceeds its fair value, an entity should recognize an impairment loss in an amount equal to that excess. After the impairment loss is recognized, the adjusted carrying amount becomes the new accounting basis of the intangible asset. Refer to paragraphs 15–20 in FASB ASC 350-30-35 for details on the subsequent accounting for intangible assets that are not subject to amortization.*

Consistent with the AICPA Guide regarding measurement of digital assets, classified as indefinite-lived intangible assets, the Company should monitor events and changes in circumstances that may indicate if it is more likely than not that the Investment is impaired.

**Specifically, ASC 350-30-35-18B and 35-18C list the following factors to consider:**

35-18B In assessing whether it is more likely than not that an indefinite-lived intangible asset is impaired, an entity shall assess all relevant events and circumstances that could affect the significant inputs used to determine the fair value of the indefinite-lived intangible asset.

**Examples of such events and circumstances include the following:**

- A. Cost factors such as increases in raw materials, labor, or other costs that have a negative effect on future expected earnings and cash flows that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset.
- B. Financial performance such as negative or declining cash flows or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset.
- C. Legal, regulatory, contractual, political, business, or other factors, including asset-specific factors that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset.
- D. Other relevant entity-specific events such as changes in management, key personnel, strategy, or customers; contemplation of bankruptcy; or litigation that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset.
- E. Industry and market considerations such as a deterioration in the environment in which an entity operates, an increased competitive environment, a decline in market-dependent multiples or metrics (in both absolute terms and relative to peers), or a change in the market for an entity's products or services due to the effects of obsolescence, demand, competition, or other economic factors (such as the stability of the industry, known technological advances, legislative action that results in an uncertain or changing business environment, and expected changes in distribution channels) that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset.

- F. Macroeconomic conditions such as deterioration in general economic conditions, limitations on accessing capital, fluctuations in foreign exchange rates, or other developments in equity and credit markets that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset.

35-18C The examples included in the preceding paragraph are not all-inclusive, and an entity shall consider other relevant events and circumstances that could affect the significant inputs used to determine the fair value of the indefinite-lived intangible asset.

An entity shall consider the extent to which each of the adverse events and circumstances identified could affect the significant inputs used to determine the fair value of an indefinite-lived intangible asset.

**An entity also shall consider the following to determine whether it is more likely than not that the indefinite-lived intangible asset is impaired:**

- A. Positive and mitigating events and circumstances that could affect the significant inputs used to determine the fair value of the indefinite-lived intangible asset.
- B. If an entity has made a recent fair value calculation for an indefinite-lived intangible asset, the difference between that fair value and the then carrying amount.
- C. Whether there have been any changes to the carrying amount of the indefinite-lived intangible asset.

In considering the above factors in the context of digital assets classified as indefinite-lived intangible assets, the Company should also evaluate transactions where the same digital asset is reportedly bought and sold by third parties on a market at a price below its current carrying value.

If a trigger exists, the Company will determine if the Investment is impaired by comparing the fair value of bitcoin when applying ASC 820 to the current carrying amount of the Investment.

**ASC 350-30-35-18A provides guidance on qualitative and quantitative assessments for impairment and states:**

An entity may first perform a qualitative assessment, as described in this paragraph and paragraphs 350-30-35-18B through 35-18F, to determine whether it is necessary to perform the quantitative impairment test as described in paragraph 350-30-35-19.

An entity has an unconditional option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test as described in paragraph 350-30-35-19.

An entity may resume performing the qualitative assessment in any subsequent period. If an entity elects to perform a qualitative assessment, it first shall assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that an indefinite-lived intangible asset is impaired.

As crypto is a new form of “money”, understanding the answers to these essential tax questions is a crucial part of providing great service to your clients. Being able to answer any and all questions that come your way can be the difference between a client who chooses to keep working with you and one that leaves for someone else.

## **Question 4:** How should the Company account for sales of the Investment?

**Answer:** When selling all or a portion of the Investment, the Company should develop a reasonable and rational methodology for identifying which units of the Investment were sold and apply it consistently.

### **This is consistent with AICPA Guide Question 8, which states:**

When selling a portion of an entity’s digital asset holdings that are accounted for as indefinite-lived intangible assets, how should an entity determine the cost basis of the units sold?

Response 8: Entities should track the cost (or subsequent carrying value) of units of digital assets they obtain at different times and use this value for each unit of digital assets upon derecognition when they sell or exchange digital assets for other goods or services. Digital assets typically represent fungible units that can be subdivided into smaller fractional units.

It may not be possible to identify which specific units of digital assets were sold or transferred in certain cases. For instance, it may be clear that the number of units of digital assets held has gone down (for example, from 10 units to 9 units in the entity’s wallet) but not whether the first, last, or some other unit purchased was the one sold.

An entity may apply the guidance in these circumstances by developing a reasonable and rational methodology for identifying which units of digital assets were sold and apply it consistently.

For example, one reasonable and rational approach could be using the first-in, first-out method. The Company has determined that it is able to track its separate purchases of the Investment since each individual purchase (all BTC purchased at the same time and same price) was placed in a separate wallet and, as such, will use the specific identification method when accounting for its sales of bitcoin.

ASC 350-10-40-1 provides guidance on the derecognition of intangible assets and states: An entity shall account for the derecognition of a nonfinancial asset, including an in substance nonfinancial asset, within the scope of this Topic in accordance with

Subtopic 610-20 on gains and losses from the derecognition of nonfinancial assets, unless a scope exception from Subtopic 610-20 applies. For example, the derecognition of a nonfinancial asset in a contract with a customer shall be accounted for in accordance with Topic 606 on revenue from contracts with customers.

When the Company chooses to sell the Investment (or part of the Investment), the Company will account for the sale in accordance with FASB ASC 610-20 Gains and Losses from the Derecognition of Nonfinancial Assets. FASB ASC 610-20-32-2, states:

32-2 When an entity meets the criteria to derecognize a distinct nonfinancial asset or a distinct in substance nonfinancial asset, it shall recognize a gain or loss for the difference between the amount of consideration measured and allocated to that distinct asset in accordance with paragraphs 610-20-32-3 through 32-6 and the carrying amount of the distinct asset.

The amount of consideration promised in a contract that is included in the calculation of a gain or loss includes both the transaction price and the carrying amount of liabilities assumed or relieved by a counterparty.

Upon sale, the Company will recognize a gain or loss for the difference between the current carrying value of the Investment and the fair value for which the bitcoin is sold.

ASC 610-20-45-1 provides presentation guidance of sales of nonfinancial assets and states: See paragraph 360-10-45-5 for guidance on presentation of a gain or loss recognized on the sale of a long-lived asset (disposal group).

ASC 360-10-45-5 states: A gain or loss recognized (see Subtopic 610-20 on the sale or transfer of a nonfinancial asset) on the sale of a long-lived asset (disposal group) that is not a discontinued operation shall be included in income from continuing operations before income taxes in the income statement of a business entity.

If a subtotal such as income from operations is presented, it shall include the amounts of those gains or losses. Based on this guidance, the Company will record any gains on sale of Bitcoin within the same line as impairment losses within income from operations, titled “Digital asset impairment losses (gains on sale), net”.

Proceeds from the sale of the Investment will be presented within the investing section of the statement of cash flows, consistent with the presentation of purchases of the Investment.

## **Question 5:** What are the tax accounting implications of the investment?

**Answer:** As established in the background section above, crypto assets are indefinite-lived intangibles, subject to quarterly impairment test for US GAAP purposes.

Further, the Company is required to pay transaction fees for purchases of the Investment, which are paid in Bitcoin. For US GAAP purposes, the transaction costs are capitalized as part of the Investment.

As such, the Company’s cost basis for the investment will be the total amount paid, which includes transaction fees. When sold, the Company will recognize for US GAAP purposes a gain or loss for the difference between the current carrying value of the Investment and the fair value for which the bitcoin is sold.

### *How should a company treat their investment in digital assets for tax purposes?*

In 2014, the IRS issued Notice 2014-21 which clarified that cryptocurrency is considered property for US income tax purposes. At the time of this Notice, there was primarily bitcoin and three other digital assets.

In 2019, at a time when there were thousands of cryptocurrencies in existence, the more common vernacular has become “digital assets” but the IRS and other government agencies still use “cryptocurrencies” interchangeably.

In 2019, the IRS re-affirmed the classification of cryptocurrency as property by Revenue Ruling 2019-24 and a series of Q&As on the IRS website. More specific characterization of digital assets for tax purposes should be confirmed using general tax principles and must consider the facts and circumstances as well as the means in which the taxpayer uses the digital assets.

Section 1221 defines “capital asset” as property held by the taxpayer, whether it is connected with the taxpayer’s trade or business.

**Section 1221 does not include—**

**(1)** stock in trade of the taxpayer or other property of a kind which would properly be included in the inventory of the taxpayer if on hand at the close of the taxable year, or property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business;

**(2)** property, used in his trade or business, of a character which is subject to the allowance for depreciation provided in section 167, or real property used in his trade or business;

**(3)** a patent, invention, model or design (whether patented), a secret formula or process, a copyright, a literary, musical, or artistic composition, a letter or memorandum,

**(4)** accounts or notes receivable acquired in the ordinary course of trade or business for services rendered or from the sale of property

**(5)** a publication of the United States Government (including the Congressional Record) which is received from the United States Government or any agency thereof, other than by purchase at the price at which it is offered for sale to the public, )

**(6)** any commodities derivative financial instrument held by a commodities derivatives dealer, unless—

**(A)** it is established to the satisfaction of the Secretary that such instrument has no connection to the activities of such dealer as a dealer, and

**(B)** such instrument is clearly identified in such dealer's records as being described in subparagraph **(A)** before the close of the day on which it was acquired, originated, or entered into (or such other time as the Secretary may by regulations prescribe);

Company intends to hold digital assets as investments or treasury reserve assets and not use them in their trade or business. As such, they are likely considered a capital asset in the hands of Company.

Any gains or losses realized upon sale or exchange are likely to be capital gains and losses. This will need to be re-evaluated if Company starts to use digital assets in their trade or business or if they diversify into other forms of digital assets beyond bitcoin.

*How are transaction costs treated for income tax purposes?*

The tax treatment of transaction costs will follow US GAAP and capitalize to the basis of the investment. In general, Internal Revenue Code Section 1012 states that the basis of property shall be the cost of such property.

**Additionally, the IRS issued frequently asked questions with respect to virtual currency and addressed the question as follows:**

*How do I determine my basis in virtual currency I purchased with real currency?*

Your basis (also known as your “cost basis”) is the amount you spent to acquire the virtual currency, including fees, commissions and other acquisition costs in U.S. dollars. Your adjusted basis is your basis increased by certain expenditures and decreased by certain deductions or credits in U.S. dollars. For more information on basis, see Publication 551, Basis of Assets.

*What is the deferred accounting at the time of acquisition of the digital asset?*

The book and tax basis of the intangible will be the same upon acquisition and deferred taxes will not be required to be recorded.

*What is the impact of any impairment for tax purposes?*

The write down of the intangible for GAAP purposes will create a book tax basis difference upon recognition of the impairment. The impairment will generate a deferred tax asset because the tax basis will be higher than the carrying value for US GAAP purposes.

The deferred tax asset generated with the impairment will need to be measured for realizability (ASC 740-10-30-5(e)). As the underlying asset is capital in nature, the sale of the bitcoin will generate a capital gain or loss.

Pursuant to IRC 1211, losses from sales of capital assets are allowed only to the extent of capital gains.

Further, IRC 1212, allows for a carryback of capital losses to each of the 3 preceding taxable years and carryforward for each of the 5 taxable years succeeding the loss year.

In this case, the impairment represents a future capital loss. During the time of the impairment, the Company should evaluate if they have any sources of capital gains.

The Company should assess the potential capital gain/loss of the bitcoins by comparing the book value to the fair market value of the bitcoins at quarter end.

If the result is a potential net capital gain, then no valuation allowance is required.

If the result is a potential net capital loss, and the Company does not hold any other capital assets that could generate capital gains upon sale, then it would not be more likely than not that the deferred tax asset associated with the impairment would be realized and a valuation allowance against the bitcoin assets would be required.

The valuation allowance should be the potential net capital loss amount at the quarter end. The assessment should be performed and valuation allowance be adjusted at each quarter end.

The write down of the intangibles is a component of pretax income that is not estimable and will not be included in the annual forecasted income and annual tax rate for quarterly provision purposes.

According to the guidance in ASC 740-270-30-17, the impairment will be reported discretely in the quarter it occurs and will create a deferred tax benefit.

***What is the deferred tax accounting at the time of disposal?***

If the digital asset is sold for a loss after impairment, the Company will generate a capital loss and replace the impairment DTA with a capital loss DTA. If the capital loss is larger than the cumulative impairment, the excess amount will require a valuation allowance with an offsetting impact to deferred expense.

If the digital asset is sold at a gain, then it is likely no book tax difference will exist (since book and tax basis are the same without impairment). As such the gain will result in a current tax expense similar to any other pre-tax book income item.

If there are capital gains on assets that were previously impaired, the valuation allowance on the capital loss DTA will be released to the extent of the capital gains realized. This valuation allowance release will result in a deferred tax benefit.

**Tax accounting methods**

Company has established a custodial relationship with in which they have segregated different tranches of purchased digital assets into different addresses.

This allows Company to implement a tax accounting method in which they choose which digital assets are eventually sold and which associated basis is used to calculate gain.

Further, Company will not recognize gain or loss until such time that the digital assets are sold or exchanged.

Further details of these accounting methods are depicted in a separate tax analysis.

**In Summary...**

Complexities like these will cause business leaders to seek out accounting, tax, and legal advice as they incorporate cryptocurrencies into their operations.

Companies like MicroStrategy, Deloitte, KPMG and other Fortune 500 corporations are working to strategize the best path forward under existings regulations.

**The disclaimer to remember is that more due diligence is required.**

Use this information to start a conversation with licensed accounting, tax and legal advisors based on your relevant facts and circumstances, which may differ from those expressed in this document. This information is unaudited, open-source, and should not be construed as providing accounting, tax or legal advice of any kind.

# 4. Why Your Crypto Clients Are Enticed By Decentralized Finance

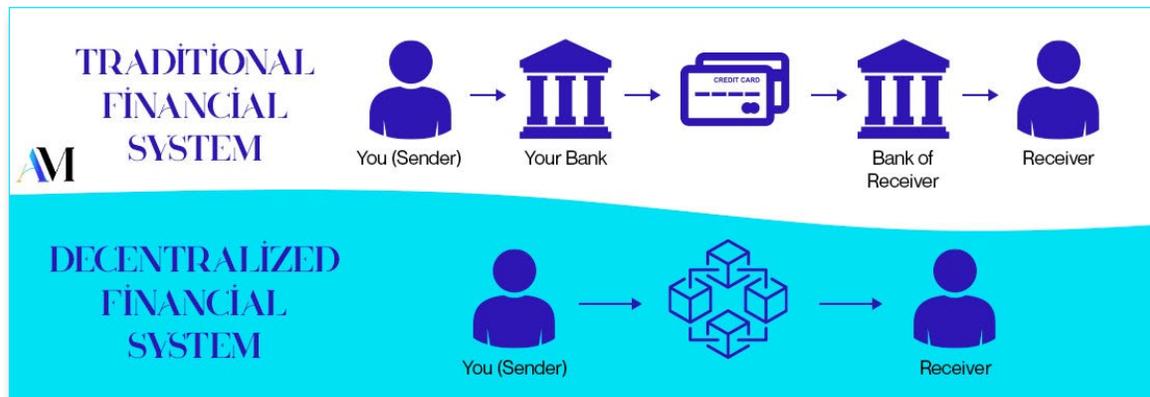
Decentralized finance (DeFi) is an umbrella term for services like investing, borrowing, lending, and trading based on non-custodial software.

Blockchain technology, smart contracts, and cryptocurrencies initiated the conversation about how money can flow freely and globally at the speed of light.

DeFi has created opportunities to earn double and triple digit yields, assuming your client knows what they're doing.

The ways to earn money in DeFi are numerous. From yield farming, to staking, lending, leverage borrowing, flipping NFT, playing games, exercising, and becoming a liquidity provider.

The options to earn 20%+, 50%+, 200%+, 500%+ yields in a matter of days to months is one reason the market cap exceeds \$200 billion dollars and growing.



And traditional finance saw the writing on the wall to adapt or die.

In December of 2015, 42 of the world's largest financial institutions formed a consortium called R3 to develop their own blockchain networks across banking, capital markets, global trade insurance and beyond.

This helps to solidify that the growing impact of cryptocurrencies and blockchain technology is just getting started.

The financial system is being disrupted at every level from the way money/value is issued and shifting monetary reliance from government to concepts like proof of work and proof of stake.

Lending, borrowing, and sending money is transitioning from banks to peer-to-peer.

From your bank and your client's bank. To your private wallet and the private wallet of anyone across the globe.

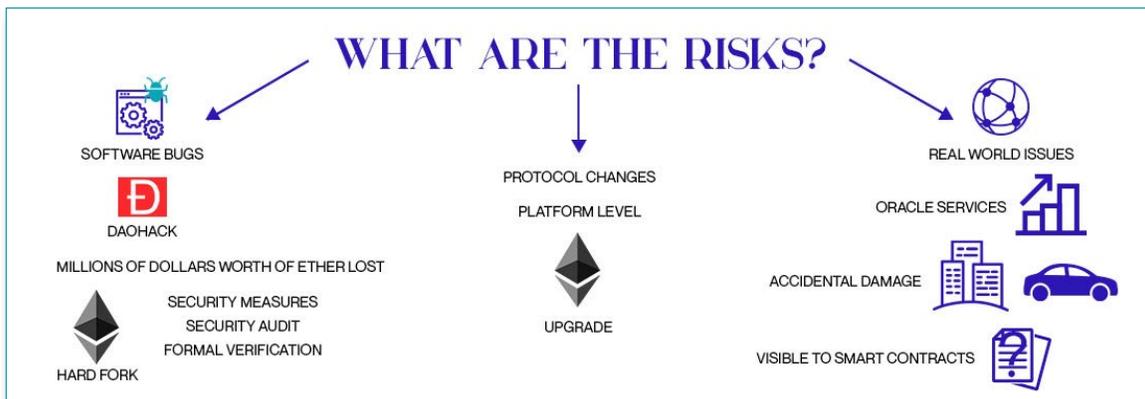
The point that you need to grasp here is the removal of friction, the removal of third party intermediaries that take a fee for helping you and your clients move, store or obtain money.

With cryptocurrencies, the blockchain operating system will do it for us at the speed of light and for a fraction of traditional costs.

So if you do the math, it doesn't make sense to pay more for a slower process, unless there's a tangible value add.

Your crypto clients want to minimize their economic costs, add value to their businesses, and maximize their wealth. Digital assets are making it possible.

# 5. Common Crypto Risks



Yes there are risks. It's not a pure utopia.

There are landmines everywhere crypto users have to avoid - known and unknown.

We're still in the teen years of cryptocurrencies. Expect more maturity in about ten years.

The most notable and painful risk in crypto revolves around smart contracts.

They can have exploitable bugs/vulnerabilities in them where smart hackers can drain money from the platform.

There can also be issues when the developers upgrade the project. Sometimes, during an upgrade, there are issues that create vulnerabilities for hackers to exploit or the smart contract stops working as intended.

Have you ever upgraded software on your computer and all of a sudden files are missing, apps aren't working properly, and you have to restore a backup?

Or you get the alert from Apple/Windows that a critical bug has been found and you're urged to upgrade immediately due to cybersecurity reasons.

Same issues happen in crypto when code is being updated.

Coding error is a real risk even if the project has been through several rounds of security audits.

Smart contracts are not 100% bulletproof as of now.

Plus there's human error. The developers can make a mistake, like placing the decimal point in the wrong place, or they can input a wrong number or formula.

## Story Time:

I was in a crypto project that was returning anywhere from 3% to 12% per day over the course of about five weeks.

An upgrade was due that would further enhance the long-term viability of the project.

The team went in to make a change to the code and placed the decimal point in the wrong place (we found out after an audit).

I woke up the next morning and instead of seeing the normal 3% to 12% return, my eyes stared in awe at an 813% return. Viva la crypto!

And then my eyes turned to the coin's value. I was confused. The coin's value was mere pennies. The day before it was over \$12!

Since the decimal point was in the wrong place, an 8.13% return turned into an 813% return for all holders.

Anyone who was awake during the yield distribution sold the coin so fast that the value absolutely plummeted to pennies.

Lessons were learned that day.

It's true, never invest more than you can afford to lose.

We're still in the early days and errors, whether accidents or intentional, can happen to any project at any time.

### **Let's shift to regulation risks.**

Now that crypto is front and center every global government, is investigating the crypto market with scrutiny.

The regulations vary by country and even by state. Keep in mind this is more than just a conversation about taxes.

It's also an estate planning and securities issue.

In December 2020, the SEC filed a lawsuit against Ripple Labs and two of its executives. The claim is that they traded \$1.3 billion in their cryptocurrency XRP as a security without registering it with the SEC.

The precedent with this case will determine if other US-based crypto projects are deemed as securities and are subject to existing securities regulations.

Expect in the coming years a series of lawsuits, policies, and regulations to corral this transformation that's challenging the status quo.

It'll be interesting to see if a global framework is developed for countries to adopt, since this is a global disruption.

### **Here's a risk few think about...**

You and your clients are vulnerable to cybersecurity risks such as phishing schemes, malware, ponzi-schemes, viruses, and hacks.

What happens when your crypto client sends Bitcoin to the wrong wallet?

Or what if the wallet gets hacked or they lose their private keys (think password) ?

There's no 1-800 number to call to get a refund.  
There's no undo button. It's gone, forever.

### **Crypto is unforgiving of mistakes.**

That's another reason why they say don't put in more money you can afford to lose.

Even doing the best due diligence in a reputable project can still incur unforeseen risks that can either hurt the development team or the users.

### **There's also price risk.**

Those on the outside of crypto find it frightening to watch the value of an asset drop 20%, 50%, 90% in a matter of minutes to days.

And they're also bewildered by how a crypto asset can grow 20%, 75, 358% in a matter of minutes to days.

### **This is the volatility that is unique to crypto.**

It's an emotional pendulum swinging from extreme fear to extreme greed that grows cash and burns cash across millions of digital wallets.

Time, experience, analytics, and strategy helps to curtail hive-mind emotional trading. Being calm when others are panicking takes confidence and intel.

Asking your crypto clients what their strategy is when the market is growing to all-time highs and crashing to all-time lows are critical questions.

If they don't know, if they don't have a plan...a painful day is coming that can place their business and personal wealth at risk.

No matter the asset class, in an unstable world with out of control inflation, geopolitical risks, socio-economic inequality, recessionary signaling, and rising interest rates, having a financial plan is mission critical.

Even your crypto clients are not immune to the global ripple effect of financial turbulence in the short-term.

The long-term outlook of cryptocurrencies and the next evolution of tech is still bullish. Manage expectations accordingly.

Crypto is currently on a similar adoption curve as the internet back in 2000.

In time it will normalize as the industry matures to protect its users.

There are already projects that exist to provide insurance as a hedge against smart contract exploits and hacks.

As of now we're seeing insurance coverage premiums range from 2% - 18%, depending on the platform your crypto clients want coverage for.

**The key takeaway is to get informed and take precautions.**

Hackers are definitely waiting to prey on the vulnerabilities of smart contracts and people.

Having a healthy sense of paranoia is actually recommended since there's no such thing as being too cautious in crypto.

# 6. Position Yourself As a Crypto Ally and Profit

It's not about how much you make, it's about how much you get to keep that counts.

Becoming an ally to your crypto clients means helping them understand the importance of what the IRS reporting requirements, estate planning, and alerting them to available tax minimization strategies that currently exist.

In order to become an ally to your clients, by showing them how to create essentially a tax now, tax later, and tax never strategy with their crypto, because right now, buying, selling and trading crypto is tax inefficient.

Many CPAs that we are already doing some smart thinking by creating tax structures and entities to help their clients currently minimize their tax exposure.

The accountants who create services to help their crypto clients create a tax now, tax later, tax never strategy will win and keep all the clients they can handle.

It's no surprise we're all in business to earn a profit that elevates or at least sustains our current and future lifestyles.

The ability to help your clients navigate crypto strategically is a new revenue center, a cashflow firehose, a client acquisition and retention opportunity window – open for a limited time.

In the upcoming decade many firms will label themselves as crypto-accountants or crypto-tax-strategists. Prices for these services will normalize and commoditize, just like they are now.

It's the proactive firms that will develop services, charge premium prices, and attract multi-million dollar clients first. Everyone else will play catch up.

The business cycle tends to favor the first mover, especially when it comes to tech.

For example, Uber's revenue was \$11.68 billion in the first nine months of 2021. As for Lyft, only \$2.2 billion in revenue.

Uber debuted in 2009. Lyft in 2012.

A 3 year lag between the two, equates to nearly 6X revenue for Uber.

Tech and opportunity create exponential returns.

It's not a 1 to 1 return on investment.

It's a 1 to 5X, 20X, 50X, 100X return.

Few understand this, and even fewer actually develop a playbook to profit from the new opportunities created by the evolution of technology.

What many see as disruptions, your clients see as new possibilities to drive revenue, earn yields, and elevate their status.

And they're looking for accounting and tax allies to help them manage their growth efficiently.

**Can you help them?**

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