

Accounting for cryptocurrency in licensed broker's books 3/9/22

Today, cryptocurrency is almost a household word. "Crypto" denotes encryption provided in all modern digital currencies. Cryptocurrencies such as Bitcoin and Dogecoin have a value because people buy them for a price. The cryptocurrency can then be exchanged for goods, services or currencies issued by governments, such as the euro. This article explains how cryptocurrency trades should be booked by a company acting as broker between an individual or entity wishing to buy cryptocurrency or exchange it for money and the stock exchange where it can be bought.

What is cryptocurrency?

According to the State Revenue Service (SRS), cryptocurrency is a digital representation of value that can be digitally sent, stored or traded and can function as a medium of exchange but is not recognised as legal tender, is not considered a banknote or coin, cash at bank or electronic money, and is not monetary value accrued in a payment instrument that is used in cases specified by section 3(10-11) of the Payment Services and Electronic Money Act.

How cryptocurrency is booked by a broker licensed to exchange and store cryptocurrency

As you know, the value of cryptocurrency is changing every second. Before you start trading in cryptocurrency, it is very important to describe in your accounting policy how you will account for this and how often you will revalue your cryptocurrency – at the end of each working day, once a month, or at the end of the year when annual accounts are prepared, and to name the source of information on the average daily rate of exchange for the cryptocurrency value on the relevant date.

Let us now look at two examples. One has a customer sending in money to exchange it for a cryptocurrency (EUR for BTC). In the other example a customer transfers cryptocurrency to the company's stock exchange and wishes to exchange it for money (BTC for EUR).

Example 1

A customer credits EUR 53,000 to the company's bank account. Under the contract the company deducts commission for its services equal to the amount of BTC where the BTC value of the commission is EUR 2,000.

The value of 1 BTC is EUR 7,554.30. The stock exchange commission is 0.1% of the amount exchanged.

EUR -> BTC

As we can see, the money paid into the account is later transferred to the stock exchange, which for accounting purposes is the same as if the company transferred money between two of its accounts through an intermediary account.

The money enters the bank: EUR 53,000 D2620 K5210

The money is transferred to the stock exchange: EUR 53,000 D26C K2620

The money enters the stock exchange: EUR 53,000 D262B K26C

The euros are then exchanged for BTC.

We buy the currency on the stock exchange: EUR 52,871.99 (6.998925 BTC)

D213K D5310 EUR 52,871.99

D5310 K262B EUR 52,871.99

Once the trade is made on the stock exchange, the company deducts the contractual commissions for the trade, which in this case is the amount of cryptocurrency worth EUR 2,000, and makes allocations in the books after deducting the commission.

Transfer/Allocation to the customer:

D2310 K59 EUR 52,871.99

D213X K213K EUR 2,000

D5210 K2310 EUR 52,871.99

When the customer pays out his exchanged BTC, the company has revenue from the transaction.

Payout to the customer's wallet/profit from the trade:

D59 K6110 EUR 52,871.99

D6110 K231K EUR 50,871.99

The company covers the commission for the exchange. Since the exchange was from EUR to BTC, the commission is withheld in the amount of BTC.

The commission in BTC for the exchange:

D7110 K231X EUR 52.80 (0.00699 BTC)

Example 2

A customer transfers 7.3 BTC to the company's stock exchange. The customer agrees with the company that the commission for the trade will be deducted in the amount of BTC where the BTC value is set according to the value for which the BTC sent in by the customer was exchanged.

The value of 1 BTC is EUR 7,554.30. The stock exchange commission for the exchange is 0.1% of the amount exchanged.

BTC -> EUR

The amount of BTC the customer wishes to exchange for EUR is transferred from his electronic wallet to the company's stock exchange.

7.3 BTC enters the stock exchange:

7 BTC (EUR 52,880.10) D231K K59

0.3 BTC (EUR 2,266.29) D231X D6110

The stock exchange makes an exchange for the amount of BTC after deducting the company's commission.

We sell BTC: EUR 52,880.10 (7 BTC)

D26C K231K EUR 52,880.10

D262B K26C EUR 52,880.10

The money is transferred to the account:

D26C K262B EUR 52,880.10

D2620 K26C EUR 52,880.10

At the customer's request the money is transferred to the company's bank account:

D59 K2620 EUR 52,880.10

The commission in EUR for the exchange:

D7110 K231X EUR 52.8 (0.007 BTC)

The value of any cryptocurrency is changing every second instead of being fixed. It is like a game of chance where you can invest money in cryptocurrency that can be sold at a later date possibly at a profit, yet any trade can make a loss due to cryptocurrency fluctuations. When it comes to dealing in cryptocurrency, you should be very careful. If you make a mistake in one of the specified characters when transferring cryptocurrency from one electronic wallet to another, the money will hit someone else's electronic wallet, from which it can no longer be recovered, as would be possible if the transfer had been made through a bank.