CRYPTOCURRENCIES

BDO Knows: Accounting for Cryptocurrencies

January 2025

CONTENTS

Accounting for Cryptocurrencies

1. INTRODUCTION

The creation and evolution of blockchain technology over the past decade has accelerated exponentially. Blockchain offers a new secure way to process and store financial and nonfinancial information that is easily accessible to users.

A blockchain is made up of a series of "blocks," each of which contains data for multiple transactions, a hash (similar to a unique record number), and the hash of the previous block. Each block is validated by a decentralized network of participants (that is, a peer-to-peer network without a central authority) and is linked to another block using cryptography (that is, code). The decentralization of the validation process and the use of cryptography make it nearly impossible, or at least cost prohibitive, to tamper with information in the block.

Blockchain is the foundation for all forms of crypto assets including cryptocurrencies (for example, bitcoin and ether) and tokens (for example, utility, nonfungible, and security tokens).

However, with new and evolving technology comes new and unique risks and challenges that may affect processes and related controls (for example, safeguarding of assets through key encryption and splitting or multi-signature wallets) and financial reporting (for example, fair value measurement).

In December 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2023-08, *Intangibles — Goodwill and Other — Crypto Assets (Subtopic 350-60*), which provides guidance on the accounting for and disclosure of certain crypto assets. More specifically, all public and private entities holding crypto assets that meet certain criteria outlined in the ASU must measure those crypto assets at fair value, with changes recognized in net income every reporting period.[1] Additionally, ASU 2023-08 requires enhanced disclosures about those crypto assets in annual and interim reports. The ASU is effective for fiscal years beginning after December 15, 2024; therefore, it became effective on January 1, 2025 for all entities with calendar year ends. A cumulative-effect adjustment to reflect the impact of adoption should be recognized to the opening balance of retained earnings as of the beginning of the fiscal year of adoption.

This publication discusses accounting and internal controls over financial reporting related to the purchase, sale, and receipt of cryptocurrencies that meet the definition of a crypto asset in Accounting Standards Codification (ASC) 350-60, *Intangibles — Goodwill and Other — Crypto Assets*. It does not cover specialized industry guidance in ASC 940, *Financial Services — Brokers and Dealers*, and in ASC 946, *Financial Services — Investment Companies*.

2. SCOPE

A cryptocurrency generally possesses **all** the characteristics of a crypto asset set forth in ASC 350-60:

- Meets the U.S. GAAP definition of an intangible asset (see further discussion in the table below)
- Does not give the asset holder enforceable rights to, or claims on, underlying goods, services, or other assets
- Is generated or resides on a distributed ledger based on blockchain or similar technology
- Is secured through cryptography
- Is fungible
- Is not generated or issued by the reporting entity or its related parties

Cryptocurrencies are generally intangible assets because they are "*assets (not including financial assets) that lack physical substance*" as defined in the FASB's Master Glossary. Cryptocurrencies are generally not considered to be financial assets or any other type of asset for the following reasons:

[1] Entities must continue to apply other U.S. GAAP to account for crypto assets that are not in the scope of the ASU. Typically, crypto assets outside the scope of ASC 350-60 will be accounted for as intangible assets under ASC 350-30, *Intangibles — Goodwill and Other, General Intangibles Other Than Goodwill*.

ASSET CATEGORY	FASB MASTER GLOSSARY DEFINITION	REASON FOR REJECTION
Cash	*Consistent with common usage, cash includes not only currency on hand but demand deposits with banks or other financial institutions. Cash also includes other kinds of accounts that have the general characteristics of demand deposits in that the customer may deposit additional funds at any time and also effectively may withdraw funds at any time without prior notice or penalty. …*	Cryptocurrencies are not backed by sovereign governments and are generally not accepted as legal tender, which are two other characteristics generally viewed to be necessary to meet the definition of cash.
Cash Equivalents	*Cash equivalents are short-term, highly liquid investments that have both of the following characteristics:* *a. Readily convertible to known amounts of cash* *b. So near their maturity that they present insignificant risk of changes in value because of changes in interest rates.* *Generally, only investments with original maturities of three months or less qualify under that definition. Original maturity means original maturity to the entity holding the investment. …*	Cryptocurrencies can be highly volatile and typically do not have stated maturity dates.
Financial Instrument	*Cash, evidence of an ownership interest in an entity, or a contract that both:* *a. Imposes on one entity a contractual obligation either:* *1. To deliver cash or another financial instrument to a second entity* *2. To exchange other financial instruments on potentially unfavorable terms with the second entity.* *b. Conveys to that second entity a contractual right either:* *a. To receive cash or another financial instrument from the first entity* b. *To exchange other financial instruments on potentially favorable terms with the first entity. …*	As discussed in the first row of this table, cryptocurrencies are not cash. They generally also are not an ownership interest in an entity and do not create a contractual right (or obligation) to receive (or deliver) cash or another financial instrument.

ASSET CATEGORY	FASB MASTER GLOSSARY DEFINITION	REASON FOR REJECTION
Inventory	*The aggregate of those items of tangible personal property that have any of the following characteristics:* a. *Held for sale in the ordinary course of business* b. *In process of production for such sale* c. *To be currently consumed in the production of goods or services to be available for sale. …*	Cryptocurrencies are not tangible personal property because they lack physical substance.
Security	*The evidence of debt or ownership or a related right. It includes options and warrants as well as debt and stock.* *A share, participation, or other interest in property or in an entity of the issuer or an obligation of the issuer that has all of the following characteristics:* a. *It is either represented by an instrument issued in bearer or registered form or, if not represented by an instrument, is registered in books maintained to record transfers by or on behalf of the issuer.* b. *It is of a type commonly dealt in on securities exchanges or markets or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment.* c. *It either is one of a class or series or by its terms is divisible into a class or series of shares, participations, interests, or obligations.*	Cryptocurrencies do not provide an ownership interest in an entity or in property.

3. PURCHASE OF CRYPTOCURRENCIES

3.1 Accounting Considerations

An entity only recognizes in its financial statements cryptocurrencies that it **controls**. To determine whether an entity controls a cryptocurrency, including when an entity deposits a cryptocurrency in a third-party hosted wallet, all facts and circumstances between the entity and other parties (for example, a custodian) involved in the transaction must be considered. An entity may need a legal analysis, such as an evaluation of legal ownership of the cryptocurrency, and assessment of the terms of any agreements among the parties. Further, an entity must consider the definition of an "asset" in the FASB Concepts Statement No. 8—Chapter 4, Elements of Financial Statements, and the factors in Question 10 of the AICPA practice aid on Accounting for and Auditing of Digital Assets (AICPA Practice Aid) to reach a conclusion on whether it controls the cryptocurrency.

BDO INSIGHTS — APPLY ASC 350-30 FOR INITIAL MEASUREMENT AND RECOGNITION OF CRYPTOCURRENCIES

While ASC 350-60 provides guidance on subsequent measurement of crypto assets in its scope, it does not provide guidance on initial measurement and recognition of crypto assets. Accordingly, entities must apply other U.S. GAAP. We believe entities will generally apply ASC 350-30, *Intangibles — Goodwill and Other, General Intangibles Other Than Goodwill*, to determine the initial measurement and recognition of cryptocurrencies because cryptocurrencies meet the definition of an intangible asset under U.S. GAAP (see Section 2). In accordance with ASC 350-30-25-1 and 30-1, cryptocurrencies are initially recognized and measured at cost, which generally includes any transaction costs.

After acquisition, cryptocurrencies are measured at fair value, with changes recognized in net income every reporting period.

EXAMPLE 3-1 PURCHASE OF AND SUBSEQUENT ACCOUNTING FOR CRYPTOCURRENCIES

FACTS

- Entity A bought 10 bitcoins for cash at $30,000 per unit on April 1, 20X2 and paid $250 in transaction fees per bitcoin.
- On April 30, 20X2, Entity A bought another 10 bitcoins for cash at $27,000 per unit and paid $225 in transaction fees per bitcoin.
- As of June 30, 20X2 (the end of Entity A's reporting period), the bitcoins traded at $28,000 per unit on XYZ.
- Entity A determined that XYZ is the principal market in accordance with ASC 820, *Fair Value Measurement*.
- The bitcoins purchased by Entity A meet all criteria in ASC 350-60-15-1.

CONCLUSION & ANALYSIS

- Entity A accounts for the bitcoins as crypto assets pursuant to the guidance in ASC 350-60 and recognizes $300,000 of bitcoin (10 bitcoins x $30,000 per unit) on April 1, 20X2, plus transaction fees of $250 per bitcoin, a total of $302,500.
- Entity A recognizes $270,000 of additional bitcoins (10 bitcoins x $27,000 per unit) on April 30, 20X2, plus transaction fees of $225 per bitcoin, a total of $272,250, which results in a total carrying amount of $574,750 for 20 bitcoins.
- Entity A recognizes a loss of $14,750 on its June 30, 20X2 income statement ($574,750 total carrying amount of the 20 bitcoins less $560,000 fair value of the bitcoins as of June 30, 20X2). The fair value of $560,000 for the 20 bitcoins is calculated as follows: 20 bitcoins x $28,000 per bitcoin fair value as of June 30, 20X2.

3.2 Internal Control Over Financial Reporting Considerations

Owning cryptocurrencies and relying on blockchain-based technologies exposes an entity to new and unique risks that management needs to understand and sufficiently mitigate. It is critical that entities design and operate effective processes and controls over the safeguarding and financial reporting for cryptocurrencies, including private companies that do not obtain an audit of their internal controls over financial reporting. Failure to identify and understand relevant risks and sufficiently address those risks through processes and internal controls may result in financial losses (for example, unauthorized cryptocurrency transactions) or other business challenges and accounting errors and restatements. Therefore, management must design a governance model over cryptocurrencies that includes understanding the risks introduced by this new technology and implementing properly designed controls. Communicating proactively and frequently with auditors about these matters also may help streamline the audit process.

Establishing adequate internal controls over safeguarding and financial reporting for cryptocurrencies requires an appropriate mix of IT controls and business process controls. Some key internal control objectives to consider regardless of whether these assets are custodied internally (through self-custody) or externally (via a third-party wallet service provider) include the following:

SAFEGUARDING	FINANCIAL REPORTING
Securing and controlling the entity's private keys, which may involve multiple layers of security including: ▶ Private key encryption and splitting or multi-signature wallets (for example, three of five scheme) ▶ Security of the entity's (or third party's) data centers or physical storage locations ▶ Processes for private key backup and recovery ▶ Segregation of duties for authorizing cryptocurrency transactions	Determining the appropriate recognition and measurement guidance to apply. Internal control documentation must clearly articulate how the entity: ▶ Assesses whether it has control over the cryptocurrencies, such as when the entity deposited the cryptocurrencies in a third-party hosted wallet ▶ Determines fair value to be recorded in the financial statements every reporting period for cryptocurrencies ▶ Assesses the classification and cutoff for recognizing and measuring cryptocurrency transactions ▶ Tracks and records cryptocurrency transactions at the appropriate unit of account, including the methods used to extract blockchain data for reconciliation against internal records

Those charged with establishing internal controls must monitor the types of cryptocurrencies held by the entity and establish protocols to update processes and controls related to both of the following:

- Safeguarding cryptocurrencies
- Accounting policies and procedures when cryptocurrencies are purchased on new blockchains with different security protocols than previous blockchains used

4. SALE OF CRYPTOCURRENCIES

4.1 Accounting Considerations

An entity may decide to sell cryptocurrencies to a third party. However, ASC 350-60 does not provide derecognition guidance for crypto assets in its scope. Therefore, entities must apply other U.S. GAAP, such as the derecognition guidance in ASC 350-10-40-1 and ASC 610-20, *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets*, unless a scope exception from ASC 610-20 applies. For example, ASC 610-20-15-4 excludes from its scope both of the following types of transactions:

- The derecognition of a nonfinancial asset in a contract with a customer for which ASC 606, *Revenue from Contracts with Customers*, applies
- Nonmonetary transactions in the scope of ASC 845, *Nonmonetary Transactions*

Accordingly, if an entity sells cryptocurrencies and such a sale is "an output of the entity's ordinary activities" to a customer, the sale is in the scope ASC 606. However, if the sale is not an output of the entity's ordinary activities and the counterparty is not a customer, the sale may be accounted for in accordance with ASC 610-20 or ASC 845, depending on the nature of the transaction. For example, if cryptocurrencies are an output of an entity's ordinary activities and the entity exchanges ether for bitcoin to facilitate a sale to a customer, and the transaction is not in the scope of ASC 606 or ASC 610-20, the guidance in ASC 845 may apply. For more guidance, see BDO's Blueprint, **Revenue Recognition Under ASC 606**, in Appendix A below.

BDO INSIGHTS — CAREFULLY DETERMINE WHAT DERECOGNITION GUIDANCE TO APPLY

A sale of a cryptocurrency for another cryptocurrency results in an initial measurement of the cryptocurrency received at fair value, regardless of whether the entity applies ASC 606, ASC 610-20, or ASC 845. However, ASC 845 requires that fair value is measured for the asset surrendered, unless the fair value of the cryptocurrency received is more clearly evident, while ASC 606 and ASC 610-20 require fair value to be measured using the noncash consideration received. Further, the timing of the measurement and recognition may vary because different derecognition requirements (risks and rewards principle in ASC 845 vs. transfer of control principle in ASC 606 and

ASC 610-20) may result in different conclusions. The presentation also may vary for this reason. Therefore, an entity must carefully determine which accounting guidance applies. See Questions 9 and 9A of the AICPA Practice Aid.

Also, cryptocurrencies are typically fungible units that can be bought and sold in fractional units. Therefore, it can be challenging for entities to identify which specific units (or fractional units) of cryptocurrencies were sold. Entities must develop a reasonable and rational method for identifying which units (or fractional units) of cryptocurrency were sold and apply the method consistently, as provided in Question 8 of the AICPA Practice Aid. The first-in, first-out (FIFO) method is one reasonable and rational approach used in practice, but other approaches also may be acceptable.

BDO INSIGHTS — GAINS AND LOSSESS ON DISPOSAL OF CRYPTOCURRENCIES MIGHT BE RARE

As discussed in Section 3.1, after acquisition, cryptocurrencies are measured at fair value, with changes recognized in net income every reporting period. That is, an entity must remeasure its cryptocurrencies until the moment they are disposed of. The entity generally would not recognize a gain or loss on disposal unless the cryptocurrency is disposed of at a price that is above or below its fair value.

4.2 Internal Control Over Financial Reporting Considerations

To appropriately derecognize a cryptocurrency and recognize a gain or loss upon its sale, an entity must implement controls over the review and approval of cryptocurrency sales to confirm that the entity:

- Authorized the transaction
- Applied the appropriate derecognition guidance and measured any gains or losses using a reasonable and rational basis (such as FIFO), fiat currency receipts (net of fees or commissions), or spot prices used in exchanges for other cryptocurrencies
- Recognized the transaction in the correct period

5. RECEIPT OF CRYPTOCURRENCIES IN EXCHANGE FOR GOODS OR SERVICES

5.1 Accounting Considerations

An entity may receive cryptocurrencies in exchange for selling goods or services to another party. Such a transaction typically is in the scope of ASC 606 if the counterparty is a customer (that is, the counterparty contracted to obtain goods or services that are an output of the entity's ordinary activities), or in the scope of ASC 610-20 (which refers to the recognition and measurement requirements of ASC 606) if the counterparty is not a customer. ASC 606-10-32-21 explains that an entity must measure "the estimated fair value of the noncash consideration at contract inception." Any changes in the fair value of the noncash consideration after contract inception that are due to the form of the consideration are excluded from the transaction price and accounted for under other guidance (specifically, ASC 350-60). These changes must be reported outside of revenue from customers. If the changes are due to other than the form of the consideration, such changes are reflected in the transaction price and are subject to the guidance on constraining variable consideration in ASC 606. For more guidance on noncash consideration, see Section 4.5 of BDO's Blueprint, **Revenue Recognition Under ASC 606**, in Appendix A below.

If an entity provides goods or services in exchange for a right to receive cryptocurrencies in the future, the entity must evaluate whether the receivable contains an embedded derivative that must be bifurcated, which typically depends on whether the cryptocurrencies are readily convertible to cash. Refer to Question 24 in the AICPA Practice Aid for more guidance.

5.2 Internal Control Over Financial Reporting Considerations

To appropriately account for the receipt of cryptocurrencies in exchange for goods or services, an entity must design and operate effective internal controls over financial reporting, as discussed in Sections 3 and 4.

6. PRESENTATION AND DISCLOSURES

All entities with cryptocurrency holdings must comply with the presentation and disclosure requirements in ASC 350-60. However, an entity must consider the guidance in ASC 210, *Balance Sheet*, to determine the appropriate classification (current or noncurrent) for cryptocurrencies as neither ASC 350-30 nor ASC 350-60 provide classification guidance.

6.1 Presentation

The following table summarizes the presentation for cryptocurrencies in accordance with ASC 350-60:

	ALL ENTITIES
Balance Sheet	Present cryptocurrencies separately from other intangible assets. Entities can present cryptocurrencies by individual cryptocurrency holding, intangible asset class, or on a more disaggregated basis.
Income Statement	Present changes (gains and losses) in the fair value of cryptocurrencies included in net income separately from changes in the carrying value of other intangible assets.
Statement of Cash Flows	Present the sale of cryptocurrencies that were received as noncash consideration in the ordinary course of business and nearly immediately converted into cash as cash flows from operating activities. “Nearly immediately” is a short time period (for example, hours or a few days rather than weeks).[2] ASC 350-60 does not give other guidance on cash flow presentation and instead refers entities to ASC 230, *Statement of Cash Flows*.

BDO INSIGHTS — REMEASUREMENT GAINS AND LOSSES PRESENTATION IS BASED ON FACTS AND CIRCUMSTANCES

ASC 350-60 requires entities to include cryptocurrency remeasurement gains and losses in net income. However, it does not provide guidance on whether to report these gains and losses in operating or nonoperating income because such classification is based on an entity’s facts and circumstances.[3] We believe an entity with cryptocurrency holdings that are operational in nature may present remeasurement gains and losses on such holdings in operating income. Conversely, if the holdings are investing in nature and the entity presents a subtotal for operating income on the face of its income statement, the entity may present remeasurement gains and losses in nonoperating income.

6.2 Disclosures

The following table summarizes the disclosure requirements for cryptocurrencies in accordance with ASC 350-60:

DISCLOSURE REQUIREMENT	FREQUENCY
For each significant (as determined by fair value) cryptocurrency asset holding: ▶ Name ▶ Cost basis ▶ Fair value ▶ Number of units held For cryptocurrency holdings that are not individually significant, entities must disclose their aggregated cost bases and fair values.	Annual and interim

[2] ASC 230-10-45-27A
[3] ASU 2023-08, Basis for Conclusions (BC) 48

DISCLOSURE REQUIREMENT	FREQUENCY
For cryptocurrencies subject to a contractual sale restriction: ▶ Fair value ▶ Nature of the restriction ▶ Remaining duration of the restriction ▶ Conditions to meet to remove the restriction An entity with multiple cryptocurrencies subject to contractual sale restrictions must consider: ▶ The level of detail necessary to satisfy the required disclosures ▶ How much emphasis to place on each of the required disclosures ▶ How much aggregation or disaggregation to undertake ▶ Whether users of financial statements need additional information to evaluate the quantitative information disclosed	Annual and interim
Aggregate rollforward of activity in the reporting period for cryptocurrency holdings, including additions, dispositions, gains, and losses determined on a cryptocurrency-by-cryptocurrency basis, along with the nature of the additions and disposals. The following requirements also apply to the rollforward: ▶ The gains and losses line must include each cryptocurrency holding that has a net gain or loss from remeasurement for the period. ▶ Entities must disclose an amount for total cumulative realized gains losses from dispositions that occurred during the period. The difference between a cryptocurrency's sale price and its cost basis is the realized gain or loss for this asset. ▶ Entities must describe the activities that result in additions (for example, purchases, receipts from customers, or mining activities) and dispositions (for example, sales or use as payment for services). An entity that receives cryptocurrencies as noncash consideration in the ordinary course of business (or as a contribution, in the case of a not-for-profit entity) that is converted nearly immediately into cash need not include that activity in the aggregated rollforward disclosures.	Annual
If not presented separately, the income statement line item that includes gains and losses from cryptocurrency holdings	Annual
Method used to determine cost basis for cryptocurrencies (for example, specific identification or FIFO)	Annual

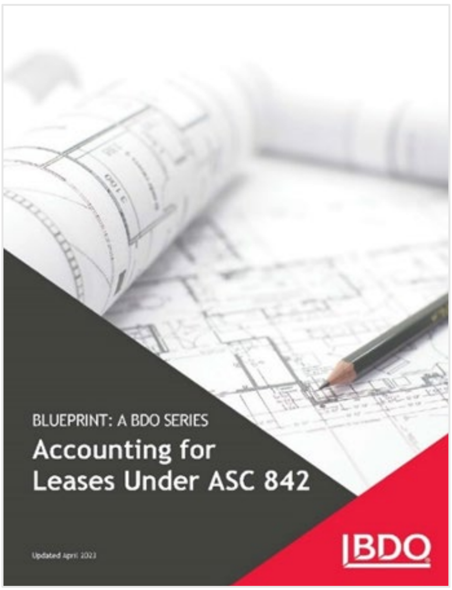
BDO INSIGHTS — IDENTIFYING SIGNIFICANT CRYPTOCURRENCY HOLDINGS REQUIRES JUDGMENT

ASC 350-60 requires that an entity disclose the name, cost basis, fair value, and number of units held for each significant cryptocurrency holding. However, the guidance does not prescribe a quantitative threshold for determining what are “significant holdings.” The FASB noted in ASU 2023-08 that using the term significant holdings is consistent with other U.S. GAAP requirements.[4] We believe an entity considers both quantitative and qualitative factors when determining which cryptocurrency holdings are subject to the significant holdings disclosures. Additionally, an entity must develop a consistent method and consider disclosing the policy for identifying significant holdings. Reaching a conclusion on what cryptocurrency holdings are significant requires professional judgment based on the facts and circumstances.

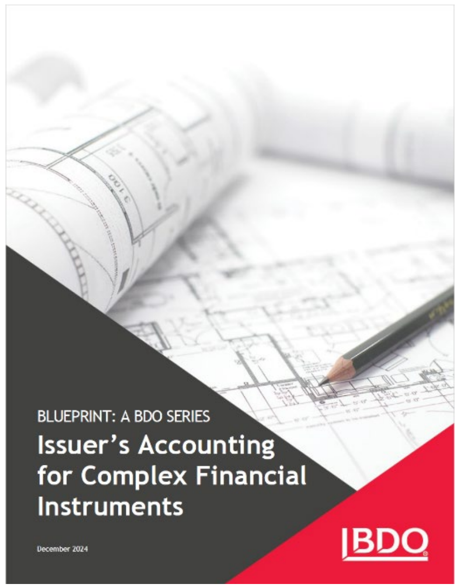
[4] ASU 2023-08, BC61

Appendix A — BDO Blueprints

Publications in BDO's Blueprint series are available on the BDO Center for Accounting Standards and Reporting Matters.

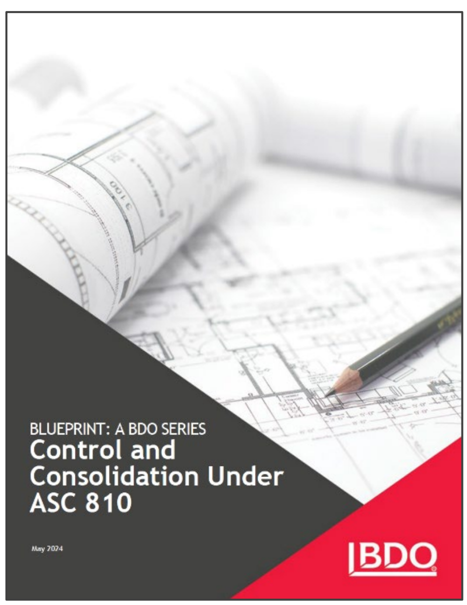


Accounting for Leases Under ASC 842

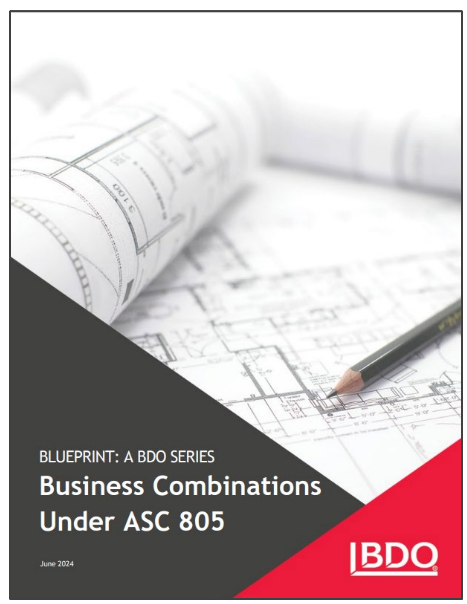


Issuer's Accounting for Complex Financial Instruments

Revenue Recognition Under ASC 606



Control and Consolidation Under ASC 810



Business Combinations Under ASC 805

Contacts

ADAM BROWN
National Managing Principal - Accounting
214-665-0673 / **abrown@bdo.com**

ANGELA NEWELL
Professional Practice Principal — Accounting
214-689-5669 / **ajnewell@bdo.com**

JIN KOO
Professional Practice Principal — Accounting
214-243-2941 / **jkoo@bdo.com**

KYLE SEWELL
Assurance Assistant Technical Principal
404-826-9768 / **ksewell@bdo.com**