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Crypto Startups and Token Projects Can Thrive With These Accounting Best Practices

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In an effort to penetrate the market, many crypto startups focus on product development, user acquisition, partnering for network effects and community growth. Accounting is often an afterthought, and many times payroll and HR compliance are not even considered until much later in the startup life cycle. This is true of many tech startups, but the unique issues of crypto accounting and globally distributed workforces compound problems for crypto startups.

With U.S. and global regulators turning their attention to crypto, and the financial pressures from crypto market fluctuations, now is the time for your early-stage company to get its books and operations up to par. Avoid typical back-office pitfalls by reviewing this checklist and addressing the issues you know need attention.

Operations

Effective systems and optimization of processes are critical to your mission. The following questions will help you set up the framework to ensure proper financial and resource management as your business grows:

- ♦ How crypto-friendly is your bank?
 - Make sure you get a corporate bank account.
 - Develop the right banking connections.



- Choose a bank that understands what you do.
- Develop relationships with institutions that let you operate efficiently between various countries and exchanges.
- ◆ How organized are your wallets and transaction flows?
 - Set up the right wallets and designated usage.
 - Determine what kind of multi-sig setup you need to support your operations.
 - Move your crypto off of your employee's (or owner's) wallet to ensure continued access.
- ◆ Do you have a complete inventory of your crypto assets?
 - Know whether your wallet is non-custodial (self-custody) or held by a third party.
 - Know what smart contracts you are interacting with. This helps you determine revenue for staking/LP income.
- ◆ Do you have the proper insurance to cover your business?
 - Find a trustworthy insurance company that works with crypto companies.
- ◆ Is all your operational knowledge residing in one person?
 - Set up systems to ensure the democratization of information.
 - Avoid single points of failure.
 - Create write-ups and flow of funds for your operations.
- ◆ Are legal, tax and accounting communicating?
 - Know the tax implications of your legal contracts for token plans and whether your accounting team is aware of these plans.
 - Seek counsel to structure your contracts correctly.
 - Incorporate compliant policies for crypto bonus payments.

Accounting and Finance

From tax planning to financial reporting and data analysis, the following will allow your back office to focus on growing a sustainable business:

- ◆ Is your accounting team ready for crypto's ever-changing legal and tax environment?
 - Look for accountants who are passionate about the industry and stay current with the newest blockchain regulations.
 - Make sure that your accountants understand your token activities and any related smart contracts to accurately record revenue and expenses.
- ◆ Will your [accounting software](#) scale with you?

- Be aware that crypto basis tracking and reconciliation of crypto activity to fiat general ledger may require multiple layers of tools, including enterprise resource planning software, a crypto subledger and spreadsheets.
- Spend the time to test crypto subledgers before adopting one. Give it a few hard challenges and compare the results to a competitor's solution.
- Gain insight into your growth trajectory by using a platform for project tracking, forecasting and financial analysis that will also integrate your crypto subledgers.
- Start with a system you know will scale with your business to avoid costly software changes later.
- ◆ Do you have a process for recording crypto payments?
 - Set up a payables workflow and policy.
 - Be aware that payment in crypto may have capital gain/loss implications and that you will need to keep track of gas fees.
 - Don't treat payment in crypto as an accounting record. Be sure to keep track of the invoice records in your data storage since the blockchain doesn't keep information on who you paid and what that payment was for.
 - While it's easy for crypto natives to pay each other in crypto, there still needs to be due diligence to satisfy year-end tax filings (1099s) and future audits.
 - Ensure you have a policy on capital gain/loss tracking. FIFO is the most popular, but there are other methods which can be advantageous, especially for token projects being compensated in network or governance tokens.
- ◆ Are your documentation and decks ready for the next fundraise?
 - Analyze your financials to understand the best ratio to hold your capital in crypto, fiat or another stablecoin.
 - Plan a strategy for balancing funds held in fiat with low volatility risk for operations vs. funds held in crypto with high volatility for staking or other speculative activities.
 - [Understand your financials and send them timely](#) to let investors know that you're operational and sustainable.

Human Resources and Payroll

The following questions can help you set the foundation for a solid HR department and develop policies to protect your staff:

- ◆ What are your staffing needs?

- Identify the key roles that you need to fill to meet your goals.
- Forecast how many people you will need to reach those benchmarks.
- Determine how long it will take you to achieve the desired growth with those staff members.
- ◆ Have you partnered with professionals who specialize in crypto?
 - Find specialized team members with industry experience.
 - Outsource to specialists who can support your efforts and understand your mission.
- ◆ How will you pay your U.S. employees?
 - Understand regulations around paying salaries in crypto.
 - Determine whether you will provide equity or token grants.
 - Outline your employee incentive agreements and token plans.
 - Establish a tracking system for employee token plans.
 - Know the tax implications for your business and its employees.

As your crypto startup grows, so will your back-office needs. For solutions that meet your early-stage company's requirements and evolve with your team, [reach out to our experts](#) to learn how Armanino can help you meet your goals.