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CKR Financial Services

monthly journal

HELPING OUR CLIENTS GAIN THE ADVANTAGE OVER THE COMPETITION

This will be a basic primer. We've had a lot of clients start working with cryptocurrencies in the last couple of years and that came with a lot of questions. Let's get started with

Cryptocurrency Part 1

First, let's have a little history lesson about currency. Currency is a standardization of money to use as a medium of exchange. This keeps us from bartering chickens for bookkeeping. There are three main classifications of monetary systems: commodity currency, fiat currency, and representative money depending on what guarantees a currency's value. A commodity currency moves with the world prices of commodity products such as timber, soybeans, gold, or oil. You may have heard of the "Gold Standard". That was what is considered a commodity currency. The US unilaterally moved from the Gold Standard in 1971 to curb inflation and prevent foreign nations from overburdening the system by redeeming their dollars for gold. Fiat currency is a government-issued currency that is not backed by a commodity. And Representative money is any medium of exchange, printed or digital, that represents something of value but has little or no value on its own – such as paper or cheap metal. Most fiat currencies are a type of representative money.

Cryptocurrency is a virtual currency that is secured by cryptography. I hesitate to say digital currency since technically, digital currency has normally been affiliated with monies that can be converted into physical cash when making a withdrawal, such as an ATM transaction. The money in your bank account may be considered digital currency since you can transfer the funds to different accounts as well as withdraw funds from an ATM. However, with the increased use of cryptocurrency (crypto), we may see this designation become a bit muddy. Individual units of cryptocurrency are referred to as coins or tokens. These are fungible items (fungible meaning that they can replace or be replaced by another duplicate or interchangeable item -example: one Bitcoin unit holds the same value as another). However, cryptocurrency is not the same as other currency units such as the US Dollar, Mexican Peso or Euro. There is no governing body or central oversite authority to manage its value. This begs the question; "How is the value of cryptocurrency determined?" This gets interesting. The theory is that if enough people agree that it's valuable, then it becomes more valuable. Thus it becomes very subjective, like art at an auction. Without regulation, the crypto marketplace experiences huge, pendulous swings and fluctuations which results in the headlines of riches being made and fortunes being lost overnight at the hands of cryptocurrency. There are thousands of cryptocurrencies in the market today. Bitcoin is the most popular cryptocurrency but Solana, Cardano, EOS, Litecoin and Ethereum are also widely known. By 2021, the aggregate value of all cryptocurrencies had reached over $2.1 trillion. Presently, cryptocurrencies are not typically used in retail sales although there are exceptions. They are mostly seen as trading instruments. Their volatility has been appealing to high-risk investors but the other side of that is how quickly some can be devalued.

While most cryptocurrencies do not have oversight or regulation, there are some designed so that their value doesn't fluctuate like traditional cryptocurrencies. Referred to as "Stablecoins", these cryptocurrencies are backed by a reserve asset such as the US dollar or gold and track the value of the asset that backs them. Tether is one of the largest stablecoins.

I've tried to give a general, basic overview of Cryptocurrencies without getting into too much technical detail. If you've done any research at all into crypto, you've heard the terms blockchain, mining and NFT's. My interest is to get you up to speed on the basics here and you can fill out the details that interest you. Next month, we'll discuss the tax implications of crypto transactions. There are many.

Bookkeeping Basics

In order to provide better services, I want to be sure our clients can follow along when discussing their books and financial reports. Often, clients are requesting information that is readily available to them in the books that they have access to. Here are some terms to help you better understand your business financials.

"Risk-taking is the cornerstone of empires."
-ESTEE LAUDER

"In a busy marketplace, not standing out is the same as being invisible."
-Seth Godin

"Good ideas are cheap. Success comes from hard work, not a stroke of genius."
-Nir Eyal

For those of you who do your own books or if you are reading reports we supply, here are some very basic terms to be familiar with.

1.**Assets**: This relates to anything the business owns or is of value. Examples include: Cash, Land, Office Furniture, Inventory, and Equipment.
2.**Liabilities**: This factors in anything the business owes to others: Examples include: Loans, Accounts Payable, and Accrued Wages.
3.**Revenue**: Any income to the company through Sales, Service, or Interest Earned.
4.**Expenses**: The cost to operate the business. Examples include: Utilities, Repairs & Maintenance, Employee Wages, Operating Expenses, and Rent
5.**Equity**: The value of your assets after deducting your liabilities.
6.**Balance Sheet**: Reflects your business assets, liabilities and equity on a particular date
7.**Income Statement**: Also referred to as a Profit & Loss Statement, this shows the company's revenues and expenses during a certain time period (month, year-to-date, a certain year, etc).
8.**Cash-Flow Statement**: Shows incoming and outgoing cash during a specific period of time. Just a point of note: Positive Cash Flow does not necessarily translate into profit. Your business can be profitable with a Negative Cash Flow and vice-versa.
9.**Chart of Accounts**: This is a list of all the financial items or accounts that you track in your business.
10.**A/R Report**: The Accounts Receivable Report shows who owes the business money and how far out they are from the due date.
11.**Accounts Payable**: The money the business owes vendors or suppliers.
12.**Accounts Receivable**: The money the business hasn't received yet from your customer for your product or service. Unpaid billed amounts.
13.**COGS**: Cost of Goods Sold. This is the expense it takes to produce your goods or services.
14.**General Ledger** a record used to sort, store and summarize a company's transactions.
15.**Credit**: An accounting entry to decrease assets or increase liabilities and equity on the business balance sheet.
16.**Debit**: An accounting entry to increase assets or decrease liabilities on the business balance sheet
17.**Variable Expenses**: expenses that fluctuate during a given period such as labor or electricity
18.**GAAP**: Generally Accepted Accounting Principles. This is a set of rules and guidelines developed by the accounting industry for companies to follow when reporting financial data. It is generally referred to as the standard for accounting.
19.**Book Value**: the original value of an asset before depreciation
20.**Gross Profit**: Revenue less the Cost of Goods Sold. (Gross Profit does not include general overhead expenses.)
21.**Net Profit**: Total revenue less COGS and all operating, interest, and tax expenses over a given period.

BOOKKEEPING, PAYROLL, CORPORATE AND INDIVIDUAL TAXES
HOW CAN WE HELP YOU?

CKR Financial Services
Your Partner in All Things Business

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