



Bookkeeping for Crypto in Xero

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Bookkeeping throughout the year

1. Attaching documents

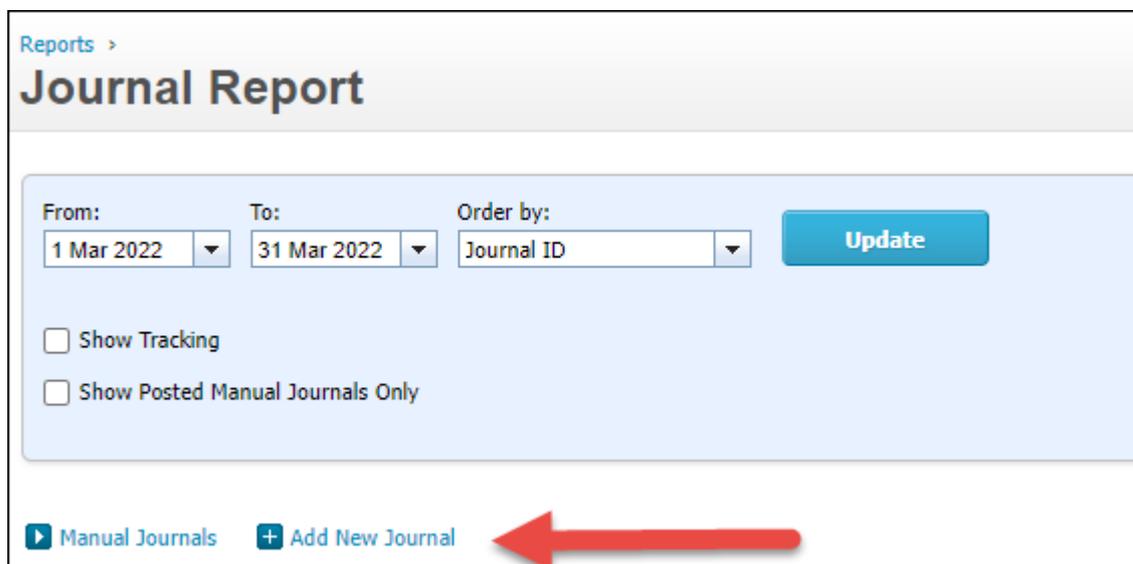
We recommend attaching documents wherever possible to all transactions in Xero – whether journals, sales invoices, bills, money in or money paid out.

This can be done by clicking on the document icon on the top right of most screens:



2. Manual journals

Manual journals can be found under Accounting > Reports > Taxes and Balances > Journal reports



The screenshot shows the 'Journal Report' page in Xero. At the top, it says 'Reports > Journal Report'. Below this, there are three dropdown menus: 'From:' with '1 Mar 2022', 'To:' with '31 Mar 2022', and 'Order by:' with 'Journal ID'. To the right of these is a blue 'Update' button. Below the dropdowns are two checkboxes: 'Show Tracking' and 'Show Posted Manual Journals Only', both of which are currently unchecked. At the bottom of the interface, there are two buttons: 'Manual Journals' (with a play icon) and '+ Add New Journal'. A large red arrow points to the '+ Add New Journal' button.

PLEASE NOTE: we do not recommend you post any journals other than those related to cryptocurrency as shown below.

3. Setting up account codes in Xero for each currency

If you do not currently have an account code set up for a new type of cryptocurrency you can see [here](#) how to create this in Xero.

We would recommend using a code between 640-699 as the cryptocurrency accounts will be classed as current assets.

You will also need to ensure that when setting this up you tick the option to enable payment.

Add New Account

Account Type
Current Asset

Code
A unique code/number for this account (limited to 10 characters)
641
'641' is available

Name
A short title for this account (limited to 150 characters)
Ethereum
[+ add Reporting Name](#)

Description (optional)
A description of how this account should be used
Cryptocurrency

Tax
The default tax setting for this account
No VAT

Show on Dashboard Watchlist
 Show in Expense Claims
 Enable payments to this account

Save **Cancel**

4. Mining Income

We would recommend that these are posted to your accounting software on a regular basis such as Monthly or Quarterly.

Whether you convert to fiat immediately or not will affect how you reflect these in your bookkeeping.

Mining income converted to fiat immediately

If the mining income is converted to fiat immediately then this will be received in your company bank account and can be reconciled from the bank account to the sales code (usually 200) in the same manner as any other transaction.

Mining income being held as cryptocurrency

You will need to create a [manual journal](#) to reflect this income in the accounting software.

PLEASE NOTE: the value used in the journal **MUST be the GBP value at the time the currency was mined.**

You will need to enter the following as a journal:

Debit Crypto asset code (640 – 699 range)	GBP value as above
Credit Sales code (200 range)	GBP value as above

Example

Please see an example below.

Draft 📄

Narration **Date** **Auto Reversing Date (optional)**

Default narration to journal line description
 Show journal on cash basis reports ?

Amounts are

Description	Account	Tax Rate	Debit GBP	Credit GBP
⋮ Mining Income March 2022	200 - Sales	No VAT		10,000.00
⋮ Mining Income March 2022	640 - Bitcoin	No VAT	10,000.00	
tal			10,000.00	10,000.00
ⓂL			10,000.00	10,000.00

5. Purchasing Cryptocurrency from the business bank account

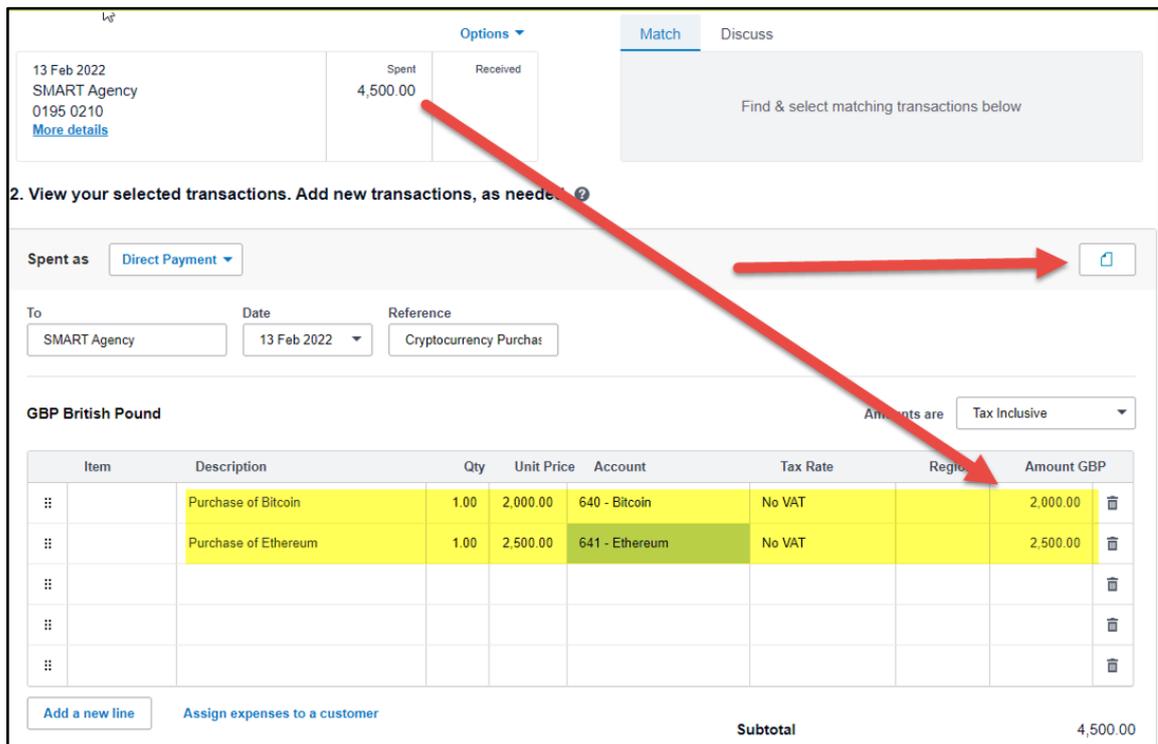
These can be reconciled from your bank account in the usual way; however, you just need to ensure that the GBP value of the cryptocurrency you are purchasing is posted to the correct cryptocurrency code.

Example

You have sent £4,500 to an exchange to purchase £2000 Bitcoin and £2,500 Ethereum

You would split the transaction when posting from the bank account to ensure that the Bitcoin account code shows £2000 and the Ethereum account code shows the relevant £2500.

You can see how to split transactions [here](#).



The screenshot shows a transaction entry form. At the top, a transaction from 'SMART Agency' on '13 Feb 2022' for '4,500.00' is shown. Below this, the transaction is split into two lines: 'Purchase of Bitcoin' (2,000.00) and 'Purchase of Ethereum' (2,500.00). The interface includes fields for 'Spent as', 'To', 'Date', 'Reference', and 'Amounts are'. A red arrow points from the 'Spent' amount to the 'Purchase of Bitcoin' line, and another red arrow points from the 'Spent as' dropdown to the right.

Item	Description	Qty	Unit Price	Account	Tax Rate	Region	Amount GBP
::	Purchase of Bitcoin	1.00	2,000.00	640 - Bitcoin	No VAT		2,000.00
::	Purchase of Ethereum	1.00	2,500.00	641 - Ethereum	No VAT		2,500.00
::							
::							
::							
Subtotal							4,500.00

6. Receiving disposal proceeds from Cryptocurrency into the business bank account

These can be reconciled from your bank account in the usual way as with the purchases above, however you just need to ensure that the GBP value of the cryptocurrency you have received is posted to the relevant cryptocurrency code (in the 640 to 699 range).

7. Receiving Cryptocurrency as payment for an invoice

There are a number of different scenarios when you receive cryptocurrency as payment depending on whether you hold the cryptocurrency or convert it to fiat, or if you have generated an invoice for your client or not.

Sales invoice created in Xero

Crypto converted to fiat

If you have converted the cryptocurrency payment to fiat on the same day as it is received, this will be reconciled as normal from your bank account against the relevant sales invoice.

Holding the cryptocurrency in an exchange

You will need to go to the sales invoices page and navigate to the relevant invoice that has been paid for via cryptocurrency.

You will need to add a manual payment for the GBP value of the cryptocurrency at the time it was received to the invoice from the relevant cryptocurrency account code.

You can do this by navigating to the bottom of the sales invoice.

You can complete the reference box if this would be helpful.

[Preview](#)
[Email](#)
[Print PDF](#)
[Invoice Options](#)

To	Date	Due Date	Invoice #	Branding theme	Online Payments	Total
Boom FM Attention: Human Resources Manager P O Box 3955 South Mailing Centre Oaktown OK12 3TN Edit address	22 Feb 2022	8 Mar 2022	INV-0045	Standard	democo@democo.co Manage	1,623.75

Amounts are Tax Exclusive

Item Code	Description	Quantity	Unit Price	Disc %	Account	Tax Rate	Region	Amount GBP
Support-M	Desktop/network support via email & phone. Per month fixed fee for minimum 20 hours/month.	3.00	451.04		Sales	20% (VAT on Income)		1,353.13
Subtotal								1,353.13
Total VAT 20%								270.62
TOTAL								1,623.75

Receive a payment

Amount Paid	Date Paid	Paid To	Reference	
1623.75	1 Mar 2022	640 - Bitcoin		Add Payment

8. Using Cryptocurrency to pay for goods or services

Bill created in Xero

You can add a crypto payment to a bill in the same way as above with a sales invoice.

If you navigate to your outstanding bills tab and got to the outstanding bill, you can add a manual payment at the bottom of the screen and ensure this is going to the correct cryptocurrency code. Ensure this is the sterling value at the point the payment is made.

Add a reference if this is helpful.

Purchases overview > Bills to pay >

Bill GB1-White

Awaiting Payment Print PDF 📄 Bill Options ▾

From	Date	Due Date	Reference	Total
Bayside Wholesale No address Add address	18 Feb 2022	28 Feb 2022	GB1-White	840.00

Amounts are Tax Exclusive

Item Code	Description	Quantity	Unit Price	Account	Tax Rate	Region	Amount GBP
GB1-White	Golf balls - white single	200.00	3.50	Purchases	20% (VAT on Expenses)		700.00
Subtotal							700.00
Total VAT 20%							140.00
TOTAL							840.00

Make a payment

Amount Paid	Date Paid	Paid From	Reference	
<input type="text" value="840.00"/>	<input type="text" value="1 Mar 2022"/>	<input type="text" value="640 - Bitcoin"/>	<input type="text"/>	<input type="button" value="Add Payment"/>

Year end requirements

1. Cryptocurrency Balances at the end of the year

It is important that we identify any gain or loss in the value of any cryptocurrency that the company is holding at the year end and process this through the accounts.

This is to ensure that the increase or decrease in value is shown in the year it occurred rather than when it is disposed of or exchanged.

Please could you provide us with the balance of all cryptocurrencies held at the year end split by each type.

2. Gains/losses on disposal or exchange of the cryptocurrency

When the company sells or exchanges cryptocurrency this creates a capital gain or loss.

To ensure that the calculations of these meet with HMRC guidance and are readily accepted by them, then we would recommend the following:

- You consider using an online tool to formulate the company's cryptocurrency transactions:
 - We would suggest you consider using sites such as [koinly](#), [recap.io](#), [cryptotax trader](#), [bitcoin tax](#), [cointracker](#) or [cointracking](#)
- Once these have been formulated, we would require a full tax report to be downloaded from the online tool.
- These tools are also useful in providing back up documentation to support any mining income transactions that have been posted in your accounting software during the year.