

Accounting for NFTs

What is an NFT?

NFTs (or “non-fungible tokens”) are a special kind of digital asset in which each token is unique, representing different forms of media that are tradeable over internet marketplaces. Because every NFT is unique, they can be used to authenticate ownership of digital assets like artworks, recordings, and virtual real estate or pets¹.

In 2021, users spent approximately \$44.2 billion on NFTs.² Although most NFTs are bought and sold on the Ethereum blockchain, more and more NFT projects have begun to be developed on several other blockchains as well. As NFTs are created across blockchains, they can be purchased using fiat currency, such as the US dollar or the euro, and digital assets, Bitcoin or Ether. For artists and creators, NFTs offer an opportunity to connect with audiences in a new way and, perhaps more importantly, collect royalties on secondary sales for the first time.

Accounting Considerations

2021 saw immense growth in NFT projects and releases, and 2022 shows no sign of slowing down. With new innovations comes new problems to be solved. The accounting treatment of NFTs can vary greatly depending on whether you are the buyer, seller, creator or marketplace, the type of funds used to purchase the NFTs, whether the NFTs are earned within a play to earn game environment, as well as many other factors. The above factors can impact the classification of the related NFT activity on the entity’s financial statements, including implications regarding the measurement of cost/tax basis, realized gains and losses, and revenue recognition.

Furthermore, creators of NFTs have begun attaching additional rights and obligations (including physical/virtual goods and services) to their NFTs. As a result, creators must assess the accounting impact of these additional rights and obligations, including timing of revenue recognition and

¹ Coinbase – [What is a Non-Fungible Token \(NFT\)](#)

² [Report Preview: The 2021 NFT Market Explained](#)

allocation of the transaction price. This allocation is an area that requires judgment and supporting documentation of the underlying methodology. The creation and sales of NFTs must be assessed in accordance with the appropriate accounting standards depending on the nature of the transaction and the parties involved. As such, it is imperative that you choose technical accounting experts who understand NFTs, digital assets, and complex technical accounting.

Our dedicated, skilled professionals collaborate with international and domestic token issuers, digital asset exchanges, including decentralized finance platforms, venture capital, miners, media, blockchain and enterprise platforms, and other leaders. This allows us to find solutions for your unique accounting needs.

Our team of experts focuses on the following for companies already in or exploring the NFT space, so you can focus on business operations.

Technical Accounting:

- Revenue recognition related to the sale of NFTs
- Native token fair value analysis
- Digital asset classification
- Technical research & position papers

Outsourced Accounting Services:

- Technology support
 - New set up of accounting infrastructure
- Corporate accounting support
- Transactional support
 - Processing customer invoices and managing accounts to help pay NFT curators, creators and developers
 - Processing payroll
 - Creating and posting recurring payables and receivables

Accounting and Audit Support Services:

- Reconciliation of NFT sale proceeds (whether received in fiat currency or digital assets) as well as transactions to/from your wallet, your proprietary platform, the blockchain, and the general ledger
- Realized and unrealized gain/loss calculations and corresponding adjustments to your digital asset balances
- Preparation of financial statements
- Liaison between management and auditors
- Assistance with internal control frameworks

Please contact us to explore how our expertise aligns with the specific needs of your company.

Centri Business Consulting provides the highest quality finance and accounting consulting services to its clients by being reliable and responsive to their needs. Centri provides companies with the expertise they need to meet their reporting demands. Centri specializes in financial reporting, internal controls, technical accounting research, valuation, and CFO advisory services for companies of various sizes and industries. From complex technical accounting transactions to monthly financial reporting, our professionals can offer any organization the specialized expertise and multilayered skill sets to ensure the project is completed timely and accurately.

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