

And finally...



A BLUFFER'S GUIDE TO BITCOINS

In recent months you've probably heard quite a lot about Bitcoin. But if you can make neither head nor tail of the world's leading cryptocurrency, look no further, as our cut out and keep beginner's guide will tell you nearly everything you need to know to bluff your way through a tricky conversation with an IT geek.

YOU'VE LOST ME ALREADY, WHAT IS A CRYPTOCURRENCY?

A cryptocurrency is a digital medium of exchange that uses cryptography for security. Bitcoins - which were launched by the mysterious Satoshi Nakamoto in 2009 - are the original and best known cryptocurrency. They are, however, by no means the only show in town as a number of rivals, including Peercoin and Litecoin, are also jostling for attention.

SO BITCOINS ARE REALLY JUST AN ELECTRONIC CURRENCY?

Yes and no. Although Bitcoins are now accepted by a growing number of online traders and can increasingly be used to

buy goods and services, they do differ from conventional currencies in a number of key ways. Most importantly, as Bitcoins are not issued by any central authority, they are theoretically immune from government interference. While a government can affect the value of its currency through controlling the money supply, it is not possible to interfere with the amount of cryptocurrency in the system as only a prior defined - and publicly known - amount is produced each day.

WHAT DO YOU MEAN BY 'PRODUCED'?

Bitcoins are produced by a method known as 'mining' in which computers use processing power to solve difficult equations. Whoever solves the puzzle has 'mined' a new block of Bitcoins.

SO WHAT HAPPENS ONCE I HAVE MINED SOME BITCOINS?

The Bitcoins are sent to your electronic wallet. This basically stores a string of letters and numbers that are the key to

your Bitcoins. You can then either hang on to them in the hope that their value will rise, swap them for a 'fiat' currency using one of the burgeoning number of online exchanges or simply use them to buy stuff. Believe it or not, some pubs are now accepting Bitcoins in exchange for beer! But be careful, if you lose your electronic wallet - for example if your computer is stolen - you're in trouble, as you also lose the keys to your Bitcoins.

WHY BOTHER USING BITCOINS?

Transacting in Bitcoins is fast and cheap. With no banks involved in the process, fees are low or non-existent. Critics would also say that there are significant risks attached at present and that the difficulty in tracing transactions back to individuals makes Bitcoin the ideal medium of exchange for those looking to engage in nefarious activities.

WHAT IS ONE BITCOIN WORTH?

Since prices are based on supply and demand, the rate at which a cryptocurrency can be exchanged for another currency can fluctuate widely. In November 2013, the value of each Bitcoin peaked at \$1,250 but this crashed to less than \$500 the following month after China restricted trading in the cryptocurrency. But by early 2014 the price had climbed back over \$1,000, only for it to plummet once more after the implosion of the Mt. Gox Bitcoin exchange which somehow managed to misplace 850,000 Bitcoins (worth nearly \$500m). At the time of going to press, a Bitcoin is worth around \$450.

HOW WOULD I ACCOUNT FOR BITCOINS?

That's a tricky question. There's currently no guidance on accounting for cryptocurrencies so your guess is as good as any. They don't seem to meet the definition of cash or cash equivalents and they're probably not a financial instrument either. In fact, they're probably more akin to something like gold (which, of course, is also mined) so perhaps they should be simply carried at cost less any impairment. If the explosive growth of cryptocurrencies continues, perhaps the standard-setters will have to start giving the matter some serious thought in due course. ■