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# CPA'S Guide to Cannabis Accounting

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# We Will Cover the Following

- Important tax codes and how to navigate them
- Key court cases and what that means for cannabis companies
- Complex legal entity structures
- How to find your first, or next, cannabis client

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# The State Of Cannabis Today

- Legal in 33 states medical, 10 states recreational
- \$20 billion industry, \$70 billion black market
- Major accounting issues (taxes, software, banking)
- Complicated accounting
- 4 verticals (farming, retail, manufacturing, lab)

# Who Are We - Dope CFO



## **Andrew Hunzicker, CPA and Naomi Granger, CPA, MBA**

- 30 years of accounting experience, 5 years in cannabis
- Nation's leading experts in cannabis accounting
- Creators of the premier cannabis accounting training program in the US

# Who Are We - Dope CFO

## DOPE CFO

Andrew Hunzicker, CPA, co-founder and owner of DOPE CFO, is a pioneer.



Hunzicker, an expert in cannabis startups, CFO services, turn-around and high-growth strategies, capital sourcing, mergers, exits and wealth protection, has developed a program that contains every introduction, template, client month end document, accounting process, deliverable, and complete library of docs including legal, tax, accounting, industry issue related to cannabis you can use to build a cannabis accounting firm.

### Pushing the Rock Uphill

"Back in 2014, we said we were 'pushing the rock uphill' around the national cannabis movement," Hunzicker recalls, "but then in 2017 the rock started rolling downhill. Now, it's fallen off the cliff and there is no stopping this movement."

Like many, Hunzicker sees the nation as divided, but points out that "somehow 93% of us agree on one thing. Democrats and Republicans alike: medical cannabis should be legal. New states are legislating every year, which means thousands more businesses are popping up by the week."

Each of these companies has one need in common: quality accounting. "We've seen that improper accounting procedures have been the biggest issue taking down massive cannabis companies on a grand scale" he says.

Given that hemp is now federally legal, Hunzicker suggests, CBD regulations will be implemented under the FDA and its new leadership. More states will go to medical and recreational, "and soon I believe we will see cannabis moved off Schedule 1 of the Controlled Substances Act. The first federal fees will likely come around banking and allowing R&D to take place."

With broad experience providing executive leadership and business counsel to companies across retail, manufacturing, energy, medical, bio and tech, he is a co-founder of DOPE CFO. As such, he has built a national cannabis accounting/bookkeeping training program to help students in over 40 states unlock a new world of clients, empowering them to start their own practices and create a stream of wealth for themselves in the newly developed cannabis industry.

DOPE CFO in Bend, OR, has grown into a network of more than 65 bookkeepers, CPAs and other business professional working in cannabis. It works alongside top accountants, CPAs and bookkeepers to build and grow their firms, and offers live weekly Q&A calls, a Facebook group and a library of documents covering month-end processes, cost accounting, and charts of accounts specific for the industry.



# Forbes

THE WALL STREET JOURNAL.

GREEN / Entrepreneur

# Bloomberg

accountingTODAY

Marijuana Business Magazine

LAS VEGAS SUN



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# Tax Codes

## **IRC §280E**

**No deduction or credit shall be allowed for any amount paid or incurred** during the taxable year in carrying on any trade or business **if such trade or business** (or the activities which comprise such trade or business) **consists of trafficking in controlled substances** (within the meaning of **schedule I and II** of the Controlled Substances Act) which is prohibited by Federal law or the law of any State in which such trade or business is conducted.

# §US Code 471 Rule for Inventories

- 471-2: Valuation of Inventories. Usually LCM or Cost
- 471-3: Retailers/Dispensaries. Inventory is Invoice Price, plus transportation and necessary costs to acquire goods. If any “production” done to product, you can allocate more cost. Examples are creating a pre roll product from raw flower.
- 471-11: For Cultivators, Processors, Manufacturers of Edibles: Many more allowable costs in this category. Accrual and absorption costing required. All direct costs, plus determination of 3 categories of indirect costs (all are listed in link below): 1) Costs which must be included, 2) Costs which can never be included (ie advertising) 3) Costs which can be included if they are consistent with Taxpayer recurring financials and in accordance with GAAP.
- <https://www.law.cornell.edu/cfr/text/26/1.471-11>



# §IRS is Aware of the Games Being Played

- Complex entity structure with no purpose other than to avoid tax.
- Adding everything under the sun into COGS and Inventory
- Having small “non-canna” divisions with very high allocated losses.
- The IRS is winning almost all recent court cases! CEO’s are often given poor advice to play these games and try to “beat 280e”. Its a bad strategy
- Better for Canna CEO to do 280e correctly, build brand, market share, location, growth and vertically integrate. Valuations are based now on these factors, NOT net income.

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# Court Cases

# Recent Litigation

CHAMP

WON!

Olive

LOST

Alter<sup>R</sup> & Meds<sup>®</sup>

2018 - \$500,000



CANNABLISS  
— & CO. —

2018 - 7 Months Prison

Sweet  
Leaf

2018 - Jail, \$2M

Alternative  
Health Care  
Advocates

2018 - \$2.3M, Suicide

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# Harborside

- I.R.C. section 280E prevents Harborside from deducting ordinary and necessary business expenses
- During the years ending July 31, 2007 through 2012, Harborside was engaged in only one trade or business, which was trafficking in a controlled substance
- Harborside must adjust for COGS according to the I.R.C. section 471-3 regulations for resellers



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# Legal Entity Structures

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# Legal Entity Games

- Be careful not to cross the line to give legal advice unless you are an attorney
- Must be profitable
- Must be substantial
- Must be able to stand alone
- Keep separate books

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# Finding Cannabis Clients

They're Everywhere! We will email our "Cheat Sheet"





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# This is What We Covered

- Important tax codes and how to navigate them
- Key court cases and what that means for cannabis companies
- Complex legal entity structures
- How to find your first, or next, cannabis client

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# Why the Cannabis Niche?

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# The Best Niche

*Where the **RUBBER** meets the road!*

**R**apid Growth - #1 growing industry in the world

**U**nderserved - Huge need

**B**ig Opportunity - \$30 billion + next 3 - 5 years

**B**igger Revenues = Bigger Fees!

**E**asy to Find - CEOs are everywhere, they're reachable

**R**eally Fun and Exciting!



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# You Can Land Clients that Pay High Fees?

- **Make sure your prospects have High Revenues!** If your niche or prospects only make \$100k to \$300k a year in revenues they likely will never be able to pay \$1,000 a month or more for accounting. You want an industry where the average client will do 7 figures minimum for revenues.
- **Provide Things the “CEO” wants** They say they want your time and you in their location, but actually neither of these things bring them what they really want: High Quality Financials, Access to their “data” all the time/any time (so it is useful for lender/investors/auditors), more cash in their pocket, lower taxes, greater “peace of mind”, cash forecasting tools, strong controls and governance.
- **World Class Service** By having ”world-class” systems and tools in place, you can provide these things and actually have time per client per month go DOWN while fee per client per month go UP if you can do this right. You also need the right team and community so you can provide answers to ANY question your client might have.

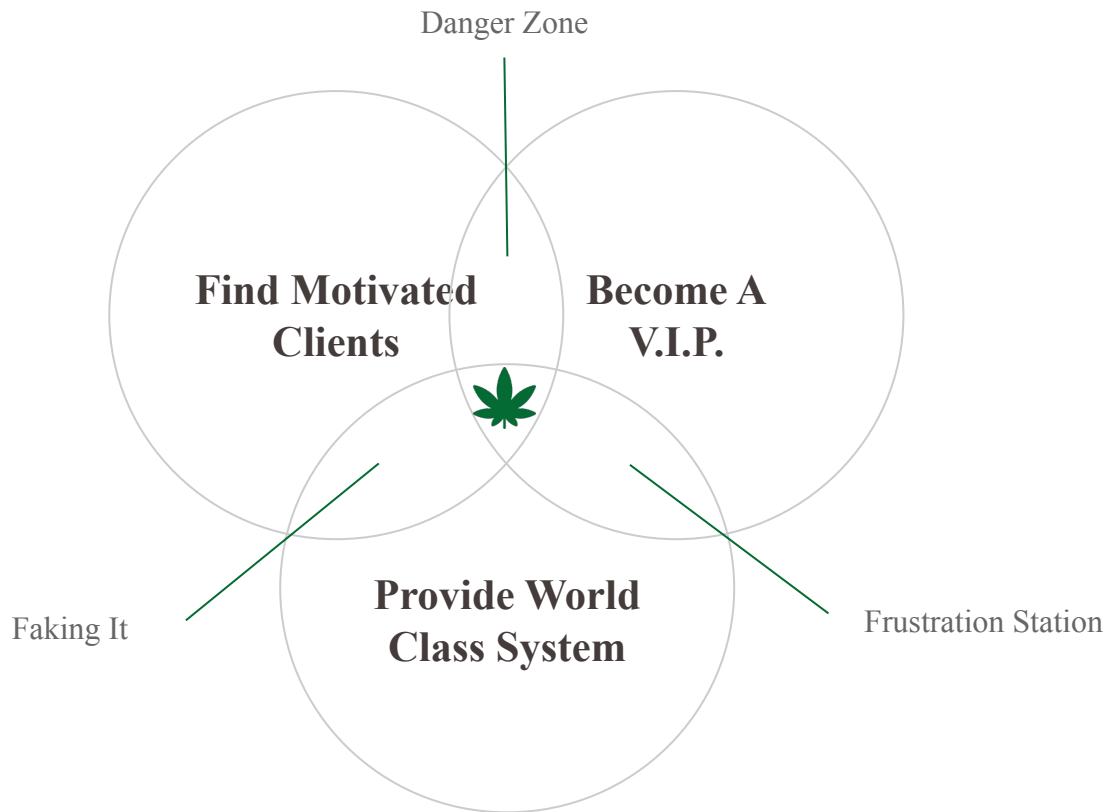
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# How to Land Clients Who Pay the **HIGHEST** Fees?

- **YOU HAVE TO BE FOCUSED ON A SINGLE NICHE:** The only way to bill the absolute highest fees is to focus on a really good niche. Focusing on one niche allows you to learn everything about that niche, more than just accounting and tax, but also legal, operations, software, industry practices, etc.
- **THE NICHE MUST BE GREAT:** Must meet ALL 6 of “**RUBBER**” criteria
- **BECOME A VIP** – Becoming a “VIP” takes time (unless you have a shortcut into a niche), but once you have “earned” this title in a Niche, you will be able to pick which clients you want and how much they will pay you. You will provide immense VALUE to your clients (since you are VIP), and in return they will pay you “World Class” fees.

# The Dope Zone

- 🌿 Lifestyle Accountant
- 🌿 Get paid your worth
- 🌿 Work remote
- 🌿 Freedom/ flexibility
- 🌿 Make a difference



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## Next Steps

Look for an email from Dope CFO with our “Land Your First Client” cheat sheet and more information about our program

