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How to Become the Most Valuable Asset to a Cannabis CEO

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# How to Become the Most Valuable Asset to a Cannabis CEO

By Andrew Hunzicker

**Zig Ziglar** said, “You will get all you want in life, if you help enough other people get what they want.”

As CPAs and financial professionals, we’ve been practicing that for many years as we assist clients and our organizations. If we can help our clients make more money, sleep at night knowing their books and taxes are done properly, and improve their ROI and cash flow by adding value to their firms, they will gladly pay us more money.

There are specific challenges with the cannabis niche, however, that particularly offer new opportunities for CPAs and set Canna-businesses apart from other sectors:

1. Cannabis is the most tightly-regulated industry in the U.S., posing unique financial challenges to business owners and CEOs.
2. Many cannabis companies are evolving out of the black market, with no knowledge of how to properly navigate accounting and tax procedures.

Together, these factors result in a demand for qualified CPAs and bookkeepers that are educated on the nuances of serving businesses in the cannabis space. Since most large accounting firms are avoiding this sector while cannabis is federally illegal, there is a sizable lack of qualified cannabis accountants. This is where individual CPAs and smaller firms can take the reins.

## ***Cannabis businesses are subjected to tricky tax restrictions.***

Profit potential is limited for cannabis businesses, thanks to strict tax regulations including the Internal Revenue Code (IRC) Sections 280E and 471.

For instance, under IRC 280E, cannabis companies are prohibited from deducting any business expenses due to the federal status of marijuana as a Schedule I substance. This means cannabis businesses are only allowed to write off the Cost of



Goods Sold (COGS), which significantly increases taxes.

Correct cost/absorption accrual accounting is necessary to ensure compliance with regulations. The key to mitigating these complications? Keeping books up-to-date and including supporting documentation, maintaining tied out monthly accounting work papers, and performing cost and GAAP accrual accounting in recurring financials to maximize benefits under IRC 471-11.

## ***So what does that mean in terms of how you actually provide cannabis CEOs and investors significant value?***

In addition to being reliable and available, you can offer your clients a long list of measurable deliverables:

- Correct cannabis accounting
- Minimizing taxes while staying compliant with GAAP and IRS
- Maximizing peace of mind around compliance with IRS, state, and other agencies
- Maximizing cash flow by providing key metrics around their business including product and shelf profitability and effectiveness of their marketing (ROI tracking/i.e., increasing dollars to bottom line)
- Better cash forecasting

- Client data portal (to provide client/auditor/investor/lender access to all documents, accounting, support, etc.) which increases valuation of their overall firm
- Internal controls (including a month end tie out system)
- Corporate governance guidance
- Timely and proactive tax planning

These items provide significant value to the CEO and investors, both short term in the day to day, and the long term. We’ve found that CEOs will gladly pay higher prices for these types of services as they realize a real return on their investment.

## ***How can you also give cannabis CEOs world-class service?***

1. Become an expert in cannabis accounting (farm, manufacture, food, retail) and cannabis tax issues.
2. Learn how to help your clients comply with 280e/471 and maximize their allowable COGS allocations, and understand clearly all recent IRS cases around cannabis.
3. Participate in the cannabis community by attending conferences and other events where you can meet CEOs.
4. Commit to learning continuously and staying current with all cannabis industry aspects, particularly

- accounting and tax, but also operations, software, cash issues, banking, etc.
5. Provide first class accounting process and work (solid record keeping, cannabis chart of accounts, accrual/ GAAP entries, month-end tie out reports, cost accounting support, usable financials, forward-looking cash forecasts, consolidations, books that are 100% audit ready at all times, and tax support work-papers).
  6. Help your client set up strong accounting policies, procedures, and internal controls and document the standard operating procedures in writing.
  7. Assist your client in creating a virtual data room, where their documents (legal, corporate, contracts, leases, insurance, accounting, banking, payroll, HR, etc.) are always up-to-date, organized, and sharable). This is of tremendous value to the cannabis CEO who needs to be ready for investors, lenders, auditors, state compliance, and exits/joint ventures.
  8. Create a knowledgeable, supporting team that has every skill set (cannabis, accounting, and legal) to enable you to address client questions and work jointly to serve clients as needed.

**Specializing in cannabis accounting will pay off—and make you indispensable.**

Even the smallest of cannabis

businesses can generate multimillion dollar revenue over a short span of time. Growing and expanding quickly, these companies have the ability to meet size-able accounting fees and generously compensate the critical skillset you are bringing to the table. In a confusing industry wrought with banking issues and difficulty complying with FDA, OSHA, and state and federal regulations, CEOs understand the value of bringing in a qualified professional to assist with accounting—after all, the success of their business depends on it.

Many cannabis businesses are unaware that an IRS audit could likely expose compliance problems they didn't even know existed from prior year tax returns. These companies are running the risk of being slapped with steep fines and even being shut down altogether. By forming a specialty in the cannabis niche and providing solutions to the common pain points that cannabis CEOs face on a daily basis, you will make yourself invaluable to them.

**There are helpful resources available to teach you the ropes.**

For individuals looking to enter this highly nuanced and still maturing industry, it's essential to begin honing your skills and learning the ins and outs of cannabis accounting. Fortunately, you're not alone. There are numerous educational resources

to turn to for more information on cannabis accounting, beginning with the AICPA website.

In addition, training programs have been designed specifically for the purpose of equipping finance professionals with the tools of the trade, along with a supportive network of peers available to help. My company, DOPE CFO, happens to offer such a program.

Armed with this specialized knowledge and skill set—and with the freedom and flexibility to work remotely—you will soon be providing world-class financial services to cannabis businesses. Ultimately, this business move will open you up to a new source of clients and revenue not previously available. In a market projected for substantial growth in the coming years, now is the time to dive into the challenging, yet fruitful, cannabis realm; it's a space in dire need of your expertise.



*Andrew Hunzicker is founder and partner of DOPE CFO. You can contact him at [andrew@cfobend.com](mailto:andrew@cfobend.com). Join Andrew at the Bottles, Brews & Buds Conference, August 2. Learn more at [www.wscpa.org/bbb](http://www.wscpa.org/bbb).*



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