



DEFINITIONS

Accounting and advisory services, concepts, and opportunities to support and add value to your business are too numerous to list all of them. However, the below includes a summary of some of the more common accounting and tax terminology, deliverable types, and other information that can help your cannabis business get started with understanding and assessing its accounting needs.

FINANCIAL STATEMENTS

Financial statements are a presentation of financial data intended to communicate an entity's economic resources or obligations, or both, at a point in time, or the changes therein for a period of time, in accordance with the applicable financial reporting framework.

INCOME STATEMENT

The income statement reflects revenues and expenditures of the business for a period of time. Preparation of accurate and timely monthly income statements can help with decision making, budgeting, and forecasting, including for gross profit analysis, cost analysis, and review of data trends.

BALANCE SHEET

The balance sheet reflects your business's assets, liabilities, and equity values at a point in time. This information is useful for analyzing financial position, debt and equity ratios, and for many, can provide valuable insight into the overall posture of your business. Balance sheets are most useful when prepared monthly.

STATEMENT OF CASH FLOWS

The statement of cash flows represents cash spent and received during a period of time, and is also most useful when prepared at least monthly. Businesses with inventory may find this statement more useful than the income statement when evaluating inventory expenditures. While revenues and expenses are reflected on the income statement, cash 'ins and outs' related to asset purchases, debt payments, and lender or investor funding are reflected on the statement of cash flows.

ACCOUNTING METHOD

Generally, cannabis businesses may find the need to prepare their financial statements based on one or more of the below methods of accounting.

US GAAP

GAAP may be required within operating agreements, loan agreements, or for other reasons. Following GAAP rules may not accurately reflect income, due to the limitations of IRC § 280E.

ACCRUAL TAX BASIS

The accrual tax basis of accounting may be most widely used for financial reporting purposes, generally due to the limitations of IRC § 280E and inventory cost valuation requirements under § 471 impacting net income.

[OCBOA Practice Aid](#)



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CASH BASIS

Generally, marijuana businesses are required to keep an accrual based inventory in order to account for cost of goods sold. Hemp only (CBD) businesses may be able to use a cash basis method, if other requirements are met.

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[Banking and Treasury](#)

INVENTORY

Accounting for inventory and its valuation, in general, is different than what may be applicable for most other types of businesses. Cannabis businesses are required to follow the rules under IRC Section 471 when valuing their inventory for accrual tax basis purposes.

[Inventory](#)
[280E](#)

INCOME TAX RETURN

Depending on the structuring of the business, different income tax return forms may be needed. Single owner LLCs may utilize Schedule C or Schedule F to report business activity; these schedules are reported with an individual's personal return, Form 1040. A C corporation will require income tax return Form 1120, while an S corporation will require Form 1120S. Partnerships, including multiple member LLCs, general partnerships, and limited partnerships require Form 1065. A business may sometimes elect a different entity tax classification, by filing the appropriate form(s) with the IRS.

[Structuring](#)
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INCOME TAX ESTIMATES

The payment of income tax estimates is required for businesses and individuals, both for federal income taxes and state income taxes. There are 4 due dates throughout the year, which differ slightly based on the business's entity tax classification.

[Important Dates](#)

ENTITY TAX CLASSIFICATION

A business may either use its default tax classification, or may sometimes elect a different entity tax classification, based on its specific tax structuring and planning needs. The default status for a single member LLC, or disregarded entity, is that of its owner. If the owner is an individual, the entity's default tax classification treatment is as a sole proprietor. For a multiple member LLC, the default entity tax classification is a partnership. For an incorporated entity ("Inc."), the default tax classification is a C corporation. An LLC or corporation may elect another entity tax classification by filing the appropriate paperwork with the IRS. S corporation tax classification must be elected and is not provided as a default classification.

[Structuring](#)



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SALES, USE, WITHHOLDING TAXES AND FORMS

Sales, Use, and Employer Withholding taxes are reported monthly, quarterly, and/or annually, depending on the amounts collected by the business. The reporting schedule will be determined by the MI Department of Treasury. These taxes are reported on Form 5080. Sales tax registration is required for provisioning center retailers. Employers are required to register for withholding taxes (and unemployment insurance taxes); withholding taxes collected are generally the income tax amounts withheld from employee payroll. Use tax registration may be required for certain ancillary entities, such as equipment lessors.

[Michigan Business Taxes](#)

MARIHUANA RETAILERS EXCISE TAX

The marijuana retailers excise tax, or MRE tax, is 10% of adult use sales. Medical sales do not have the MRE tax added. The MRE tax is calculated by first applying the 6% sales tax to the total sale, and then multiplying the 10% MRE tax rate to this resulting amount. MRE taxes are reported via MTO quarterly.

[Michigan Business Taxes](#)

FTE TAX

Flow through entity tax allows certain flow-through entities to elect to file a tax return and pay tax on income in Michigan, and allows members or owners of the entity to claim a refundable tax credit equal to the tax previously paid on that income. The tax is retroactive to tax years beginning on or after January 1, 2021.

[Michigan Business Taxes](#)

PAYROLL RELATED

1099/W-2/W-4/I-9

Multiple forms are required related to employee payroll. When hiring and onboarding an employee, they should complete both federal and state W-4 forms with their withholding and exemption information. Form I-9 is also required to verify employment information and employee identifying information. W-2 Forms are used to report employee wages, benefits, and taxes withheld.

W-9 forms are required for independent contractors, along with reporting of payments totaling \$600 or more on Form 1099-NEC. Forms W-2 and 1099 are due by January 31 of each year.

FORM 8300

Form 8300 is used to report cash payments over \$10,000 to the IRS. All businesses, not just cannabis businesses, are required to use and report Form 8300 applicable transactions. Form 8300 must be filed within 15 days after the cash transaction occurred. Other rules are also applicable, including the need to report cumulative payments totaling \$10,000 or more if related to the same business transaction.

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TAX PLANNING

Tax planning is an advisory service focused on helping your business with entity structuring needs, tax related cash flow information, research, and application of specific income tax rules based on your business's transactions.

BOOKKEEPING

Bookkeeping focuses on data entry, records management, documentation, and reconciliations.

[Documentation](#)

[Reconciliation](#)

CONTROLLER SERVICES

The controller function often oversees financial statement preparation, management reporting, and general procedural control over a business's accounting system.

CFO SERVICES

CFO services may generally focus on strategic planning, tax planning, and financial statement analysis for your business.

PAYROLL SERVICES

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AFS

The AFS is required by the CRA for all licensees. The AFS includes a list of agreed-upon procedures designed to test and report to the CRA whether the business followed appropriate record keeping, documentation, and maintenance of its accounting and financial transactional information. The AFS must be performed by an independent CPA. Licensees will be notified of the reporting period and due date for their AFS.

[CRA AFS](#)

OTHER ATTESTATION SERVICES

AUDIT

Audit is the highest level of assurance engagement and requires substantial planning, field work, and engagement documentation. A business generally must have adequate accounting processes and controls in place in order to support audit needs, including related to inventory. During an audit, individual transactions are sampled and tested, however the results focus on a materiality threshold. The CPA performing the audit will provide either an opinion on the business's financial statements, or a disclaimer if appropriate.



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REVIEW

A review is an assurance engagement that is less in depth than an audit, and includes a greater focus on analytical information related to a business's financial statements.

SOC FOR SUPPLY CHAIN?

SOC, or system and organization controls, for supply chain examination is a relatively new assurance engagement. This type of engagement focuses on evaluating internal controls related to the manufacturing or distribution processes, and other supply chain components.

POINT OF SALES SYSTEM

A point of sales system is used to process sales information, and is generally the front facing system your customers will interact with. Inventory information, including cost of goods sold, may also be tracked in the point of sales system.

ACCOUNTING SYSTEM

A business's accounting system is used to process all of its accounting information. It is a program that automates financial activities, centralizes financial data, and streamlines overall accounting operations, and is generally, the complete system for all financial accounting transactions. Financial statements and other financial reporting needs are often produced and maintained within. Information from subsidiary reports, such as monthly sales data from the point of sales system, is generally transferred to the accounting system.

[Accounting Systems](#)

MIWAM

MiWAM, or Michigan Web Account Manager, is used to initially register for Michigan business taxes. It is also used for employers to report, file, and pay unemployment insurance taxes each quarter (SUTA). Each year, a determination letter will be issued to businesses with employees with their updated SUTA rate.

IRS ONLINE ACCOUNT

The IRS's Online Account system is used to pay federal taxes, including estimated payments.

[CRA AFS](#)

EMPLOYEE VS. INDEPENDENT CONTRACTOR

The correct classification for workers as either employees or independent contractors is important for tax reporting and other compliance purposes. Both the IRS and Michigan UIA may audit how a business classifies its workers. Independent contractors are just that - independent of your business and generally, not under the business's control. The IRS publishes several resources to help businesses determine the correct classification of its workers.

[IRS Worker Classification 101](#)

[Reconciliation](#)

[Documentation](#)



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RECONCILIATION

Reconciliation is an accounting process that compares two sets of records to check that figures are correct and in agreement. Reconciliation also confirms that accounts in the general ledger are consistent, accurate, and complete. However, the reconciliation process can also be used for other purposes as well.

[Reconciliation Documentation](#)

GENERAL LEDGER

A general ledger is a main accounting record of a company. It includes all of the company's transactions for a given period. The general ledger contains a debit and credit entry for every transaction recorded within it, so that the total of all debit balances in the general ledger should always match the total of all credit balances. If they do not match, the general ledger is said to be out of balance, and must be corrected before reliable financial statements can be prepared from it.

TRIAL BALANCE

A trial balance is a bookkeeping worksheet in which the balances of all ledgers are combined into debit and credit account column totals that are equal. A company prepares a trial balance periodically, usually at the end of every reporting period. The general purpose of producing a trial balance is to ensure that the entries in a company's bookkeeping system are mathematically correct.

GROSS RECEIPTS

Gross receipts include all sales revenue. For Michigan cannabis businesses, sales information is entered into METRC, and often a point of sales system. Sales information should be entered and reconciled within the accounting system as well.

COST OF GOODS (COGS)

MiWAM, or Michigan Web Account Manager, is used to initially register for Michigan business taxes. It is also used for employers to report, file, and pay unemployment insurance taxes each quarter (SUTA). Each year, a determination letter will be issued to businesses with employees with their updated SUTA rate.

TAXABLE INCOME

For a cannabis business, taxable income is generally equal to their gross profit. This is calculated by subtracting sales returns and allowances, and cost of goods sold, from gross receipts. § 280E limits further deductions for ordinary and necessary business expenses.

[Inventory 280E](#)