

The Cannabis Industry Accounting and Appraisal Guide



Indispensable Resources on Taxation, Financial Accounting,
and the Appraisal of Cannabis-Related Intellectual Property and Business Interests

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INTRODUCTION

The cannabis industry is undoubtedly the fastest-growing industry in the United States and has created one of the greatest business opportunities of the 21st century. In 2016, sales of legal cannabis reached nearly \$6.7 billion; Colorado alone hit the \$1.3 billion mark. Arcview Market Research projects sales of legal cannabis products in North America will increase at a compound annual growth rate of 25 percent—reaching \$20.2 billion—by 2021.^{1, 2}

Tom Adams of Arcview states:³

The only consumer industry categories I've seen reach \$5 billion in annual spending and then post anything like 25 percent compound annual growth in the next five years are cable television (19%) in the 1990s and the broadband internet (29%) in the 2000s.

Domestically, it all began with California—the 6th largest economy in the world—when its citizens adopted Proposition 215 in 1996, which permitted the medical use of cannabis in the state. As of mid-2017, 29 states have legalized medical use, and eight states have legalized recreational use, bringing the total to 31 states that allow legal use of cannabis. In fact, 95 percent of the U.S. population lives in a state with legal access to

¹ “Executive Summary,” *The State of the Legal Marijuana Markets*, 5th Ed. Arcview Market Research.

² Kate McKee Simmons, “Colorado Reports \$1.3 Billion in Marijuana Sales in 2016,” *Westword*, May 30, 2017, <http://bit.ly/2hNIBgV>.

³ Debra Borchart, “Marijuana Sales Totaled \$6.7 Billion In 2016,” *Forbes*, January 3, 2017, <http://bit.ly/2AZoAsE>.

some form of cannabis, which includes the 13 states where cannabinoid (CBD) oil is legal.⁴

With so many states legalizing various aspects of cannabis, it isn't surprising that an October 2016 Gallup poll shows that 60 percent of Americans support legalized marijuana. The survey also indicates in the United States 57 percent of adults believe marijuana use should be legal, whereas 37 percent believe it should be illegal. A decade ago, 32 percent of adults favored legalization and 60 percent opposed legalization.⁵

The cannabis industry is booming, not only for the growers, producers, and sellers of cannabis but also for ancillary businesses such as software, lighting, packaging, security, growing products, accessories, and banking. Every type of cannabis business has unique characteristics that accountants and business appraisers should consider. For example, there is a growing amount of scrutiny related to the edibles segment concerning the consistency of portion potency, labeling, and related issues.

The cannabis industry continues to evolve. There are varying and often conflicting rules at the federal, state, city, and county levels. Every state requires a license, but obtaining those licenses can be a very different process, depending on where you are, and the costs can be quite different. The complexities regarding this industry require the use of knowledgeable professionals, who are adequately trained and familiar with industry trends and protocols. As certified public accountants who work regularly with a wide range of business and clients, nothing has come close to the intellectual challenges we've encountered when addressing issues and concerns in this niche.

The cannabis industry may be outside of the comfort zone for accountants, lawyers, valuation experts, consultants, and potential investors, yet it can also open doors to a new client group that up until several years ago didn't exist. The purpose of the *Cannabis Industry Accounting and Appraisal Guide* is to provide useful information about the unique financial aspects and intricacies related to businesses operating in the licensed and regulated cannabis industry.

⁴ "Did You Know? 95% of the U.S. Population Lives in States With Legal Marijuana Access," New Frontier Data, March 1, 2017, <http://bit.ly/2yXyqdf>.

⁵ Gallup, Inc., "Support for Legal Marijuana Use Up to 60% in U.S.," Gallup.com, Gallup, October 19, 2016, <http://bit.ly/2zdGZEX>.

The guide also presents everything a cannabis business owner needs to know about choosing a business structure, basic accounting, setting up a cannabis friendly accounting system, tax issues, how to avoid an audit, the basics of valuation, and building value into your business for the future.

We will supplement this guide on a regular basis on our website (www.CannaValuation.com), to provide subscribers with value-added benefits, including updates on the latest developments in cannabis accounting and tax compliance, practical tools, and guidance to be used for bookkeeping and accounting. In the mid- to long-term, we hope to provide access to proprietary market data on industry transactions unavailable elsewhere.

In the meantime, enjoy and learn from *Cannabis Industry Accounting and Appraisal Guide* and about this exciting, relatively new, and rapidly evolving industry.

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