

Thinking Outside the Bud

Episode 402 - Angela Mays

<https://www.thinkingoutsidethebud.com/podcast/402-angela-mays>

Angela Mays, Founder & CEO, The Blunt Accountant

Angela has over 25 years of experience in accounting, audit, fraud risk management and business process reengineering. She is not your typical number cruncher. She considers herself a business strategist. She looks beyond debits and credits by thinking outside the box and focusing on how the accounting function impacts the entire organization. She specializes in cannabis accounting and working with cannabis (plant-touching) businesses. She focuses on the specific pain points dispensaries, cultivation, and manufacturing businesses face and tailors her accounting and advisory services to address those specific areas.

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You're listening to thinking outside the bud where we speak with entrepreneurs, investors, thought leaders, researchers, advocates and policy makers who are finding new and exciting ways for cannabis to positively impact business, society and culture. And now, here's your host, business coach, Bruce Eckfeldt.

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1:06

Welcome everyone. This is Thinking Outside the Bud. I'm Bruce Eckfeldt. I'm your host. Our guest today is Angela Mays. She is Founder and CEO at The Blunt Accountant. We're gonna talk about the world of cannabis, the world of accounting, the challenges that cannabis companies face when it comes to accounting for their business tax, you know, keeping track of the numbers, being able to categorize things and sort of not only just optimize their business for tax purposes, but really use accounting as a strategic tool to help them grow and scale their business effectively by better knowing what their business is doing through the accounting function. So I always find this as a fascinating one. I think a lot of people just fail to see and understand and to use accounting strategically in their business. I'm always interested in hearing the stories and insights that people are having, working with cannabis companies and how the accountant side can be a friend and be you know, good insight into their business and where they can grow and scale and expand. So with all that, Angela, welcome to the program.

2:01

Thank you for having me.

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Yeah, it's a pleasure. Before we dive into well, before we dive into accounting and to cannabis, I'd love to get to know you a little bit more how you get into these spaces. What's the backstory, give us a little bit of the journey that you've been on?

2:14

Sure. I've actually been in the accounting industry for over 25 years, I started out as a general accountant and then moved to more of a consulting role, working with some big four accounting firms and some regional accounting firms here in the DC metro area, where I did consulting within the DOD, in the intelligence space, interesting, mostly audit readiness, helping the DOD, various agencies prepare for audit, fraud, risk management, enterprise risk management, business process reengineering, and a little of accounting and budgeting within that space. So I taking all that my experience and bring it over to the cannabis industry.

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Yeah, I am fascinated on what what what things transferred, I mean, working with kind of government agencies and security and all these things like, how much of this world were you able to kind of directly apply your experience directly applying to cannabis? Which things to do kind of, okay, I can adapt this a little bit in which things were like, wow, we are just in a totally different world here. How did that transfer for you?

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Well, what I've found after working with accounting, I mean with cannabis businesses is that they should be added ready, which a lot of companies or businesses or not, regardless of the industry, and because this particular industry is held under so much scrutiny with the IRS via IRC 280 E. Yeah, I felt like focusing on audit readiness as it applies to IRC 280 E would be the best approach. And so that's where I'm bringing that skill set from working with DoD agencies, helping them become audit ready and understanding all of the processes and procedures that are needed to help them to be compliant in various areas is what I'm bringing to the cannabis industry instead of just focusing on financial reporting. And accounting is also making sure that they are IRC 280 E compliant from an audit readiness standpoint, meaning that if they were ever to undergo an audit by the IRS, or even a financial statement, audit, their books and their systems and processes are already in place so that they will have a favorable outcome in being prepared.

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Yeah, I guess walk us through what is what does it mean to be audit ready in this sense,

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in this sense, it means that you're focusing not only on the accounting side, but making sure were that your processes and your procedures are in place. For example, if you are being audited, there are certain things from an IRS standpoint that they're going to look at, for instance, they're going to look at your, your gross receipts, your your revenue in for the cannabis industry, it's considered a cash intensive industry. And for cash intensive businesses, the IRS already goes into that with a little bit more scrutiny because they're expecting you to underreport income. So whatever you report it as income on your tax returns, they're going to go in and look at your processes or how you're actually reporting it. So it's good to have a good cash management system process in place that shows how cash moves in and out of the business. So putting those kind of processes in place helps you to be audit ready, if someone was to come in, and audit your cash and making sure you're not under reporting your income.

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So the IRS kind of takes your guilty until proven innocent approach to cash businesses, you know, and assumes that you're not reporting everything, and they you have to kind of prove to them a little bit that, ya know, like, these are the processes, and we've got good records, and we're accounting for everything.

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Exactly. It's all about your record keeping and your processes and being able to substantiate whatever you are reporting on your in your financials.

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Yeah. And where do people or where do companies typically get tripped up on this, like, we're like, given when you come into companies like what are the common real kind of missed apps or things that they hadn't been doing, right, that caused some problems?

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Well, it's not really having written processes, they may have a way of doing things. But for me, I will come in and look at how you're doing your current processes, and look at what you should be doing. And then take your processes in, implement what you should be doing to come up with the way a written process that you can follow consistently, and train employees on whether it's your bookkeeper, accountant, or whoever is working within the accounting function to make sure that you are following all of these steps in all of these guidelines. And it's consistent, and it's written. So when someone comes in to audit you, they can look and see they can observe, they can look at your processes, make sure that the person that's actually performing the duty is following the processes because that shows an auditor, whether it's the IRS or just a regular CPA firm coming in to do an audit that, that your people are trained, they understand what they're doing, and what is being reported based on those processes is likely to be accurate, do

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how I'm curious how much you run to this, I certainly run into it a fair amount. And working with cannabis companies is just the historical culture of cannabis and legacy market being don't write anything down, don't talk to anyone about this keep everything's eat, right now dealing with, you know, legitimate legal businesses like it's such a cultural shift. But you know, what's been your experience on working with companies, even on just sort of philosophically how to do some of these things

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is basically a mindset. Because as you stated, people that come from a legacy market are not used to keeping documentation. And that's and that's the important part is having documentation, having proper documentation that can substantiate whatever transactions, that you're reporting this hitting your financial system. And that's the mindset shift that we're working with. In also, when you when you want when you are trying to run a legitimate business, sometimes it's just lack of education, you don't know what you don't know. So now that you are legitimate in your you're not used to keeping paperwork or keeping the receipts. So it's not top of mind. So unless you have someone that comes in and says okay, going forward, any documents you received that can substantiate this transaction, we need to come up with a filing system, our solution where we can electronically upload these documents to a Google Drive or Dropbox and just put these processes in place it as well, because most people once they become legit, they want to do things right is just not having the education and knowing how to do things.

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When when you start working with a company what's generally your process I mean, where You start, how do you kind of get the details? How do you kind of prioritize triage things if necessarily necessary, give me give me a sense of how you approach a company? Well,

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it depends on whether the company is already in business. And they have an accounting system set up and they are using it, but it may not be used or set up correctly. So for that particular business, I would go in and make sure that number one, they had a chart of accounts that is a cannabis chart of accounts that has specific accounts for a cannabis dispensary, and grow or manufacture or vertically integrated that will make doing accounting for a cannabis business a lot easier for an accountant. And then for the business owner, they can actually see and understand how their business is doing. Yeah,

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then what would you say a cannabis chart of accounts like what is it that you're looking for what makes something appropriate for a cannabis company,

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it would just be more detail in for inventory in the inventory type. Instead of just having an inventory account, you will want to break out the different types of inventory. For instance, you want it to match how metric is going to report it or how state seed to sale system is going to report it. So it's going to be reported by product type. So if it's going to be flour extract, depending on like if it's a dispensary, these are the edibles, tinctures. So you want it broken out like that. That way it's it's easier to take the information from your POS system and

metric and make sure that what you're entering into the accounting system is accurate because as of now it's a manual process as accountants or cannabis accountants, there's no direct feed from the POS system into the accounting system. So a lot of what we do is taking information from the POS system in reconciling it to what the seed to sales system or metric or has in verifying that information before we manually do a journal entry to enter that information into the accounting system. So therefore, having that chart of accounts, that's very detail will help us number one in entering that information. And number two, helping the owner to see from a very granular standpoint, what it is what these transactions entail.

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Yeah. And how do you deal with an existing situation? I mean, do you? How do you go from maybe where the company is currently to something that's going to work? And is there a process or a triage list that you go through to help get someone into a better spot from their records and accounting processes?

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Yes, once once I set up the chart of accounts, I'll review what they currently have in the system, in reclass, any of those, reclassify any of the expenses that would belong in these various accounts. And then it would also require a deep dive into the POS system, if it's a dispensary in metric. And if it's not a dispensary, a lot of that historical information, if they're using the state seed to sale system. And I just keep saying metric, because that's where most of all of my clients have been on metric, it's just downloading that data and going through it. So it's not easy. It's not, it takes time to go in and do a cleanup to get the books to where you want them to be. So going forward, everything falls into place, and it becomes a lot easier. So that's where the difficulty comes in, is just trying to make sure that you can gather that historical data, any other information that the client has that that they've been holding on to and maybe not knowing what to do with Yeah, most clients will use QuickBooks and QuickBooks tends to be pretty user friendly, where anybody can use it. So they will go in and start tracking their own transactions in downloading information from the bank. So it's just a matter of putting that chart of accounts in there. And going in and cleaning up all those transactions and putting them in the right account. So and then bumping all of that up against what's coming out of the POS system or the seed to sale system. Yeah, as well. Yeah.

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So let's let's dig into to it just a little bit. For those listeners that are familiar, maybe not familiar with the details of 280. Just walk us through from I guess from a tax point of view from an accounting point of view from a business point of view, like what is 280 E and how does it apply or how does it impact cannabis companies?

14:47

Okay, so to LTE basically states IRS, according to the IRS to he basically says that no deductions or credits are allowed for any business that traffics in a scale Do one or schedule two drug. So cannabis, state legal cannabis businesses still fall under the schedule and illegal drug from a federal standpoint. Yeah. So that basically says that they're this particular business is not allowed to deduct any of the regular or normal business expenses that a regular business would be able to deduct or take advantage of any credits that the IRS may allow other businesses. So basically, for a cannabis business, it basically says that they allow you to deduct cost of goods sold from revenue, and then you're taxed on that gross profit. So you have revenue, you subtract your costs cost a good soul, and your p&l, and you arrive at gross profit, and you have to be tax on that the gross profit is what you are what you pay taxes on, as opposed to most all other businesses pay taxes on net income, and that's after they go through ended up all of their expenses. So that's basically what 280 E is and how it applies to legal marijuana businesses in each state.

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So you essentially have to pay for your normal operating expenses with post tax money,

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basically.

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It's like you take your profit, and then you gotta go pay all these other people. Money that you've already paid tax on. So I guess practically, how does this impact? I mean, obviously, we have sort of different types of cannabis businesses or cannabis businesses that have different structures and different costs of goods sold, but like walk us through from like a how does it impact a cultivator? How does it impact a processor? How does it impact a retailer, you know, what is what are the different considerations depending on where you are in the food chain here,

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it's applied the same across the board, what to A to E allows you to do is it allows you to use a tax code called IRC 471. And that allows you to allocate some of those normal business expenses into your cost of goods sold. So depending on whether you are a dispensary cultivation or grow, then it's applied differently for IRC 471 is applied differently to each of those types of cannabis businesses.

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Could you give us an example of something that you could do for, say a cultivator like how you could apply some of the normal operating expenses, normal business expenses back to cost of goods sold?

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Sure. So for a for cultivation, the what it does is it allows you to allocate expenses, some of your normal business expenses, into your cost of goods sold by looking at your entire operation. And what I mean by that is the area square footage area of your business that's dedicated to your grow, or the cultivation process is the percentage of the allocation that you're allowed to allocate into your cost of goods sold. So for example, if you if your cultivation space is 100 square feet, and I'm just making this number up 100 square feet, but 80% or 80, square feet, of that 100 is all of your grow, meaning your dry room where you grow, where you do all things cultivation, then you are allowed to allocate 80% of some of these business expenses into your cost of goods sold. So you have some expenses that are going to be 100% applicable, like the your direct expenses are your direct wages. And these are people that are 100% involved in the cultivation process for cultivation. So any of those wages, benefits, anything involved with the employees is 100% applicable, then you'll have your expenses that you can allocate, and let's say for instance, rare, so it'd be 80% of rent that you can allocate. And then you'd have indirect wages in these are people who normally do not work in the in cultivation, but they may sometimes help out in certain situations. So a percentage of their of those indirect wages could be allocated. So that's how it will apply to a cultivation unit. A lot more detail, but that kind of gives you a high level. Yeah, I'm sure explanation of how that works.

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I guess how do you establish that? I mean, is this like you have to have really good roles and responsibilities As in time tracking, and yep, people wearing air tags to tell it to show where they are in the facility.

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It is based on good record keeping. And it's also based on and in what I will say is some of the the record keeping systems or some of the payroll systems, they understand that. So a lot of that is built into the timekeeping system. But it's also based on some of the work papers that I use to track all of that information as well. So it's also having the written documentation. And that also goes back to being audit ready, is having that detail, showing how you're allocating your cost of goods sold, because that is one area that the IRS is auditing, they want to see what you're doing, I'm sure and how accurate your allocations your expense allocations are. So having the right work papers that show who was direct who's indirect, these are the expenses were allocating, this is how we came up with with these numbers and being able to prove how you arrived at the allocated cost on your, in your taxes. So that's the other key as well, in then just having those processes the written processes in place. Along with that.

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Yeah, how I mean, I've, I've certainly I've seen and I've heard of a lot of cameras, companies that do some, either smart or potentially tricky work on set of, you know, setting up their entities and how they kind of organize their corporate structure. And you know, how they kind of, I guess, do the work in different entities in different ways to try to avoid or maximize or minimize some of the impact to some of these things, I guess what's practical right now, or what are other any strategies that you've seen that are particularly effective or you feel are, you know, will stand up in audit or, you know, are kind of reasonable when it comes to business practices?

22:01

Right? Well, none of them have been, because the IRS is kind of is on to all of these entity structures and setting up a management company to do this. So thus far, those cases that have gone to court trying to use this strategy, they have not been successful. So at this point, you just try to steer people away from trying to what we call B to ad E. Yeah. Because there's really no way to beat it. It's just that you have to try to work within the confines of it and just do things the right way. Yeah, I try to avoid working the people who don't want to follow the rules, because I don't want to be a part of that. Yeah, knowingly. So it's not a good place to be in and I wouldn't I would not want to be in that situation, because there are penalties for accuracy, penalties, and then just blatantly disregarding to A to E and following it. So I would just do it right now with a tax and not worry about trying to get around or because then you'd have the tax plus the penalties plus the history.

23:12

Yeah, exactly. Yeah, they can add up literally, how, you know, for some of these companies that are not necessarily plant touching, but working with cannabis, how does this impact them? Or how do you help companies sort of figure out hey, look, I you know, I'm, you know, this applies or this doesn't apply, or this is how I make sure it's not going to apply, like in these kinds of gray zones? How do you handle things?

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I, um, if it's plant touching, IRC two, ad E, applies, what is kind of still kinda in the gray area, a bit is the delivery, delivery, an interesting product, if you're delivering it. So if you are taking possession and ownership of it, then from what I understand to ad e applies, if you're just taking the product from point A to point B, and you're not owning it, because I know there are some deliveries that will, they will take, like mark it up and sell it themselves. So that that's the part where you're considered to be owning the product versus someone who I compare to, like, Uber delivers, you're just picking up the product, and just taking it to somebody's house in your out of the yard. That's all you're doing. So

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yeah, you're handling it, but you're not right, you're on again, exactly. How do companies like labs tie into this right? Do they are they considered plant touching or do they and they have to report to it or do they not do the labs would not because they're not actually taking possession of the cannabis itself? Right. Got it. Interesting. Anything on your radar as you look out into the future? I mean, I know we've had a couple of efforts at the federal level to do some reform around these things. Anything that you've seen, that you think is going to actually pass that might change the game? Here, like what's your prognostication on the future of 280 e in cannabis?

25:06

My, I think that we should focus on the state level. If we can get more states like New Jersey, just when you file your state income taxes, they've done away with IRC to any e file a state level. So you can, you know, deduction, regular and normal business expenses. I think, since it's legal in the state, why is the state still for those states that do still apply RC 280 e, if they know that you're being taxed like crazy from the federal level, at least offer some reprieve from the state level? And I think if the advocates would focus from the state level and get rid of it from the state that would offer some reprieve. What do I think about the future of 280? E from a federal standpoint? I don't see it going anywhere, anytime soon. And that's just my opinion, because it's, it's too lucrative. So the IRS from a tax collection standpoint, so money, why would they get rid of it? Yeah. So we Yeah, that's just my opinion.

26:14

We'll see what happens. Agile that this has been a pleasure. If people want to find out more about you more about the work that you do. What's the best way to get that information,

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You can reach out to me at thebluntaccountant.com. And you can also find me on LinkedIn. Just look me up. Angela Mays.

26:32

Excellent. I'll make sure that the links are in the show notes. Angela, thank you so much for taking the time today. It's been a pleasure.

26:37

All right. Thank you for having me. I

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appreciate it. That's it for this episode of thinking outside the bud. Be sure to subscribe using your favorite podcast app so you don't miss our future episodes. See you next time.

26:50

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