

Basis of Accounting

The accompanying financial statements have been prepared in accordance with the accrual tax-basis of accounting, modified. The accrual tax-basis of accounting is the basis of accounting the entity uses for federal income tax purposes, and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). Departure, or modification to the accrual tax-basis of accounting used in the preparation of the Financial Statements includes the presentation of expense items that are disallowed for federal income tax purposes, such as for meals and entertainment and deductions disallowed pursuant to Internal Revenue Code § 280E. Additional departure from, and modification to, the accrual tax-basis of accounting includes the omission of certain disclosures that may otherwise be required by the financial reporting framework.

Significant Accounting Policies

Accrual tax-basis of accounting

The accompanying financial statements have been prepared in accordance with the accrual tax-basis of accounting, modified. The Company records accounts receivable, accounts payable, prepaid expenses, and inventory on hand, under the accrual tax-basis of accounting, modified.

Internal Revenue Code 280E and Internal Revenue Code 471

The company produces marijuana products. Marijuana is a Schedule I Substance under the Controlled Substances Act. Therefore, the Company must adhere to Internal Revenue Code 280E and Internal Revenue Code 471.

Internal Revenue Code 280E prohibits deductions or credits when computing federal taxable income. The Company may take into account its cost of goods sold only, as an adjustment to gross receipts. Consequently, federal taxable income is calculated based on "gross profit".

Internal Revenue Code 471 provides for the general rules for inventories. The Company capitalizes inventoriable expenditures (purchases) as they occur to its inventory balance, following the methodology under Treasury Regulation Section 1.471-11.