

Questions You Should Be Able to Answer By the End of the Accounting Methods & Periods Course

1. What is a method of accounting?
 - a. What is an example of a treatment that is a method of accounting and an example of a treatment that is not a method of accounting?
 - b. Why is it relevant whether or not a treatment is a “method?”
2. What overall methods are available to a taxpayer?
3. What is §448 and who is subject to it?
4. What types of taxpayers and businesses are allowed to use the cash method of accounting?
5. What are separate trades or businesses and what is the relevance under §446(d) and the regulations?
6. What is the rule for when a cash method taxpayer should report income?
 - a. What are the constructive receipt (§1.451-2) and economic benefit doctrines and when are they relevant to a cash method taxpayer?
7. What is the rule for when a cash method taxpayer should treat an item (such as an expense) as incurred?
 - a. What rule applies to determine if a cash method taxpayer may currently deduct a prepayment?
8. What is the rule for when an accrual basis taxpayer should report income?
9. What distinguishes a deposit from a prepayment?
10. What are the rules that might allow an accrual method taxpayer to defer the reporting of income received in advance?
11. What is the rule for when an accrual basis taxpayer should treat an item as incurred (either for expensing or capitalizing purposes)?
 - a. What are the categories of liabilities under the economic performance rules and what is the rule for each as to when economic performance is met?
 - b. How does the recurring item exception work? When is it applicable?
12. What is a contingent liability and what does it mean regarding the timing of a deduction?
13. What is a contested liability and what does it mean regarding the timing of a deduction?
14. What rules may override the general rules for when an expense is allowed? (Ex - §267, expense is not that of the taxpayer, etc.)?
15. What is a condition precedent? A condition subsequent? How are these terms relevant to the all events test?
16. What types of sales qualify for installment sale treatment?
 - a. How is a gross profit percentage and yearly gain calculated under §453?
 - b. In general, can §453 apply to contingent liabilities and if yes, how?
17. What are some of the factors that distinguish the correction of an error, from a method change, from a change in facts?
18. What are the general procedures to change an accounting method?
19. How is a §481(a) adjustment computed?
20. What is the cut-off method?
21. What distinguishes supplies from inventory?
22. What distinguishes depreciable property from inventory?
23. When are supplies considered incidental rather than non-incidental and how does it affect the reporting of their cost?
24. When is §1.471-1 applicable to a taxpayer and what does it require of a taxpayer?

25. What is a manufacturer or producer?
26. What are some of the common elections and methods available under §263A?
27. What are the examples of costs required to be capitalized under §263A? What are examples of costs not required to be capitalized?
28. What taxpayers are excepted from §263A?
29. What are the basic steps in applying §263A?
30. What facts must exist for a taxpayer to be concerned with §263A(f) (interest capitalization)?
 - a. In general, how do the interest capitalization rules work?
31. What is a long-term contract?
 - a. What elections and special rules exist under §460?
32. What are the basic rules for timing of R&D deductions?
33. What entities have a required tax year? What is it? What exceptions exist?
34. How does the “least aggregate deferral” rule work under the §706 regulations? When would it apply?
35. What are the basics for a corporation to change its accounting period?
36. What is a short tax year, when would a taxpayer have one and what special rules must be followed for a short tax year?
37. What are the basics of §444 and why does it exist?
38. What are some of the current issues in the accounting methods and periods area?

Cases and rulings that someone knowledgeable with accounting methods should be familiar with:

• Rev. Rul. 90-38	
• Indianapolis Power & Light	• Schlude and “trilogy”
• Artnell	• Rev. Proc. 2004-34
• §1.451-5	• Rev. Rul. 79-229 (3-part rule for prepayments of cash method taxpayers)
• Zaninovich and related AOD and 12-month rules of 1.263(a)-4(f)	• General Dynamics
	• Korn Industries
• Thor Power	• Wilkinson-Beane and progeny
• Revenue Procedures and Notices allowing some taxpayers to use the cash method.	
• Revenue Procedures governing automatic, non-automatic, and involuntary changes in accounting period	