

# TAX ACCOUNTING METHODS & PERIODS

Business 223F – Spring 2009

5:30 p.m. – 9:15 p.m.

Professor Annette Nellen

Wednesdays	April 22 – June 17 No class on May 6 + Saturday May 9 and May 30 (9 am – 1 pm)
Office hours	20 minutes before and after class AND by appointment + available by email
Office	Office hours to be held at Rose Orchard (unless scheduled by appointment). On campus office is Business Tower 955.
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**Catalog description:** Definition and importance of accounting methods and periods, timing rules for income and expenditures, change procedures, special accounting methods for inventory, R&D, and long-term contracts. Pre/Corequisite: BUS 223A and graduate standing.

**Course objectives:** To gain an understanding of what an accounting method is and its importance to taxpayers; the tax rules governing taxpayer's choice of overall accounting method and methods for specific items (e.g. inventory, R & D, etc.); choice of accounting period; required accounting periods and methods; how and when to change accounting periods and methods; timing of income recognition and expense deduction for both cash and accrual methods; special rules for inventory including Unicap rules; interest capitalization; long-term contracts; installment sales; research and development costs; §9100 relief procedures; current developments and issues; and possible future developments in the accounting periods and methods area. You will also learn the differences between GAAP accounting and tax accounting for each course topic. Class discussions will also include an analysis of the tax policies underlying the accounting method rules. The overall goal is to give you enough background to accounting method rules and theory to enable you to identify and resolve possible accounting method issues.

Learning will take place through reading and discussion of the pertinent law, as well as practice solving problems in these areas, including completion of a Form 3115 for requesting change in method. You will work on case studies both in small groups during most class sessions, as well as on your own (for points). Each section of the reading materials includes a few questions and case studies to better focus your required reading assignments for the class; these exercises will NOT be collected, but doing them will greatly improve your ability to learn the material. Planning and application exercises will be assigned in place of a midterm. Class time will be used for lecture, group discussion, and in-class exercises. You will also have access to Blackboard (online tool) to access podcasts to listen to along with the reading; other materials may also be posted there as well.

## Class preparation and study materials

- Internal Revenue Code\*
- Income Tax Regulations (§§174, 263A, 446 – 481, 9100)\*
- Reading materials assembled by Professor Nellen and available in pdf format from:  
[http://www.cob.sjsu.edu/nellen\\_a/ClassInfo.html](http://www.cob.sjsu.edu/nellen_a/ClassInfo.html)
- Podcasts and other materials available on the Blackboard site for 223F

\* You can obtain the sections you need from RIA Checkpoint or CCH.

## Grading

Case Brief* and discussion	10
Research Questions**	100
Final Exam	<u>90</u>
Total	200

Grades will be assigned based on 90% and above is an A, 80% and above a B and 70% and above is a C, etc. Plus and minus (+/-) will be used as well.

\* You will select a case from the sign-up list that will be distributed in class. You are to prepare a presentation for your classmates that covers the facts, holding and rationale of the case and why it is important (how it might come up in practice today). Points will be earned by use of good presentation skills (don't read your notes to us) and getting across to your audience the significance of your case in terms of understanding accounting method rules.

\*\* The set of questions is on the 223F web site. The due dates and point values are indicated in that file.

## Reading and Assignment Due Dates

- See the 223F website for the reading. Be sure to read the materials before class – that is how you will get the most out of this class. You need to be as prepared as you expect your instructor to be.
- You will get more out of this course if you participate in class and group discussions. You should also find ways to engage with the materials outside of class – discuss them with colleagues; form a study group with some classmates.
- Take your time on the research questions. You will not get much out of this work if you rush. The purpose of the assignments is to give you an opportunity to really think about what the rules and concepts mean and to apply them.

Date	<p style="text-align: center;"><b>OBJECTIVES:</b></p> <p style="text-align: center;"><b>The goal of this lesson is to be able to explain the answers to the following questions and understand the significance of the rules in practice and theory:</b></p>
4/22	<p><b>Introduction to Tax Accounting Methods</b></p> <ul style="list-style-type: none"> <li>• What is the significance of accounting methods and periods to taxpayers and tax practitioners? Why are these rules needed for the income tax? Are they also needed for other types of taxes?</li> <li>• What is an accounting method for tax purposes?</li> <li>• How is an accounting method adopted by a taxpayer?</li> <li>• What choices of methods do taxpayers have?</li> <li>• What is the significance of §448 that prohibits specified taxpayers from using the cash or hybrid method and what are the basics of how this rule operates?</li> </ul>

4/29	<p><b>Timing of Income</b></p> <ul style="list-style-type: none"> <li>• What are the rules for determining when a cash method taxpayer must recognize income? Why did Congress and the IRS create these rules in this manner?</li> <li>• What are the rules for determining when an accrual method taxpayer must recognize income? Why did Congress and the IRS create these rules in this manner?</li> <li>• What is the meaning and significance of such terms as fixed right, condition precedent, condition subsequent, claim of right, constructive receipt, advance payment, and deposits?</li> <li>• What is an installment sale and how do these accounting method rules under §453 operate? Why do the installment sale rules exist for the federal income tax?</li> </ul>
5/9 + 5/13	<p><b>Timing of Expenses</b></p> <ul style="list-style-type: none"> <li>• What are the rules for determining when a cash method taxpayer must report expenses? Why did Congress and the IRS create these rules in this manner?</li> <li>• What are the rules for determining when an accrual method taxpayer must report expenses? Why did Congress and the IRS create these rules in this manner?</li> <li>• What is the meaning and significance of such terms as fixed right, capitalization, reserves, contested liabilities, contingencies, economic performance, and deferral?</li> <li>• What are the basics of the guidance with respect to capitalization of costs related to tangibles (such as repair expenditures) and intangibles?</li> <li>• What accounting methods apply to R&amp;E costs? What is R&amp;E per §1.174-2?</li> </ul>
5/20	<p><b>What is a Method of Accounting &amp; How To Change a Method</b></p> <ul style="list-style-type: none"> <li>• What is a method of accounting?</li> <li>• How is a change in method of accounting distinguishable from correction of an error or a change in facts?</li> <li>• How does a taxpayer change an accounting method?</li> <li>• What does “automatic” change in accounting mean? When does it apply? What rules govern this type of change?</li> <li>• How do you complete a Form 3115?</li> <li>• What special accounting method change procedures apply to transactions that fall under §381?</li> </ul>
5/27	<p><b>Inventory Accounting Methods and Definitions</b></p> <ul style="list-style-type: none"> <li>• What is inventory?</li> <li>• What concerns exist over tracking and reporting inventory that led Congress and the IRS to write the rules they wrote?</li> <li>• What is the difference between inventory and supplies?</li> <li>• How are taxpayers required to account for supplies?</li> <li>• What is the accounting significance of a taxpayer having inventory?</li> <li>• How do the special rules that allow certain businesses to use the cash method operate (Rev. Procs. 2001-10 and 2002-28)?</li> <li>• How is inventory valued? What rules apply? How strict are the rules?</li> </ul>

5/30	<p><b>Special Rules - §263A and §460</b></p> <ul style="list-style-type: none"> <li>• What is the purpose of §263A?</li> <li>• What is the basic framework for determining what costs need to be capitalized under §263A?</li> <li>• What is interest capitalization and when does it apply? What is the theory and basic mechanics of interest capitalization under §263A(f)?</li> <li>• What is a long-term contract for §460 purposes? What are the basic accounting rules and special elections under §460?</li> </ul>
6/3	<p><b>Accounting Periods</b></p> <ul style="list-style-type: none"> <li>• What possible accounting periods exist?</li> <li>• What concerns might Congress and the IRS have been trying to address with the accounting period provisions?</li> <li>• What considerations are relevant in selecting an accounting period?</li> <li>• What accounting period restrictions apply to certain types of entities?</li> <li>• How does a taxpayer change its accounting period?</li> <li>• What do the relation-back doctrine (<i>Arrowsmith</i>) and tax benefit rule have to do with accounting periods?</li> <li>• What is the meaning and significance of such terms as natural business year, short period return, 52/53 week year, and §444 election?</li> </ul>
6/10	<p><b>Miscellaneous Special Rules and Future Developments</b></p> <ul style="list-style-type: none"> <li>• What is §9100 relief and when is it available/needed?</li> <li>• How do California accounting method and period rules differ from the federal rules?</li> <li>• What special rules exist for subscription income and expense, and settlement payments under §468B?</li> <li>• What likely future developments exist in the accounting methods area?</li> <li>• What are some of the tax accounting areas that Congress may change and why?</li> <li>• How would you improve the accounting method and period provisions? Why would your suggestions be improvements?</li> </ul>
6/17	<p><b>Final Exam</b></p>

## ***University Policies***

### **Academic integrity**

Students are expected to be familiar with the University's Academic Integrity Policy. Your own commitment to learning, as evidenced by your enrollment at San José State University, and the University's Academic Integrity Policy requires you to be honest in all your academic course work. Faculty members are required to report all infractions to the Office of Student Conduct and Ethical Development. The policy on academic integrity and other resources related to student conduct can be found at [http://sa.sjsu.edu/student\\_conduct](http://sa.sjsu.edu/student_conduct).

### **Campus Policy in Compliance with the American Disabilities Act**

If you need course adaptations or accommodations because of a disability, or if you need to make special arrangements in case the building must be evacuated, please make an appointment with me as soon as possible, or see me during office hours. Presidential Directive 97-03 requires that students with disabilities requesting accommodations must register with the DRC (Disability Resource Center) to establish a record of their disability.

Special accommodations for exams require ample notice to the testing office and must be submitted to the instructor well in advance of the exam date.

### ***SJSU Writing Center***

The SJSU Writing Center is located in Room 126 in Clark Hall. It is staffed by professional instructors and upper-division or graduate-level writing specialists from each of the seven SJSU colleges. Our writing specialists have met a rigorous GPA requirement, and they are well trained to assist all students at all levels within all disciplines to become better writers. The Writing Center website is located at <http://www.sjsu.edu/writingcenter/>