Table of Contents

Accounting Methods 1

Cash Method 3

Small Business Exception/Gross Receipts Test 3

Expenses - Special 12-Month Rule 5

Who May Not Use the Cash Method? 7

Inventory Under the Cash Method 7

Accrual Method 9

Advance Payments 9

Accounting for Gift Cards 11

Expenses 11

Recurring item exception 12

Physical Inventory Requirements 14

Uniform Capitalization Rules 14

Producing Property 14

Tangible Personal Property 14

Exceptions to the UNICAP Rules 15

UNICAP Steps 16

Identify the Costs Subject to Capitalization 16

Computing UNICAP Allocation for Inventory 17

Direct material costs 17

Direct labor costs 17

Indirect costs 17

Mixed service costs 17

Allocation of Mixed Service Costs 18

Computation of Absorption Ratio 18

Example: Simplified Production Method for Determining the Additional §263A Costs 20

Common costs and the treatment required under UNICAP 23

Direct Costs 24

Indirect Production Costs Required to be Capitalized 24

Indirect Costs Not Required to be Capitalized 25

Qualified Creative Expenses 25

Auto Dealerships 27

Construction 28

Example 1 : Marv’s Contracting 28

Example 2: Smythe LLC Home Builders 28

Completed Contract Method 28

Example 3: Smythe LLC Home Builders 29

Example 4: Smythe LLC Home Builders 30

Example 5: Smythe LLC Home Builders 30

Related Issue 32

Land Developers and Subcontractors- Proper Method of Accounting 32

Common Expense Issues 33

Club dues 33

Meals & Entertainment 33

Owner Expenses 34

Type of Business Expense/ Tax Treatment 34

Changing Accounting Methods 34

 Automatic Change Approvals 39

Common Characteristics of Automatic Changes 39

Research and Experimental Expenditures 41

Making the Change for the 2022 Tax Year 41

Making the Change After the 2022 Tax Year 41

Completion Notes for Form 3115 42

Table B: Sch to Complete on Form 3115-Common Accounting Method Changes 42

List of DCNs 43

Comprehensive Example 1: Changing from Cash to Accrual 52

Solving Depreciation Mistakes 68

Amended Returns 68

Change in Accounting Method 68

2-year Rule 70

Attachment to 2025 Form 1120-S of Plum, LLC 71

Form 3115 72

Accounting Periods 77

Form 1128 79