

TAX ACCOUNTING METHODS & PERIODS

Business 223F – Spring 2016

Professor Annette Nellen

Thursdays, Saturday and Online NOTE: This is a "blended" course. That means you attend class at Bunker Hill every other week and in between do lessons online (Canvas website). Check Canvas for due dates of quizzes.	Class dates at Lucas Business Complex (Bunker Hill): <u>Group A:</u> 4/21, 4/28, 5/12, 5/21 (9-5), 6/2 (final exam) <u>Group B:</u> 4/21, 5/10 (Tues), 5/19, 5/21 (9-5), 6/2 (final exam) Optional review session, 5/31 from 4:30 – 7 pm Email sent on 4/9/16 to confirm your group assignment.
Office hours	20 minutes before and after class AND by appointment + available by email
Office	Office hours to be held at Bunker Hill (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, expenditures, inventory and R&D; change procedures; special methods; book-tax differences; introduction to provision for income taxes. 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 key differences between GAAP accounting and tax accounting for each course topic, and key points about how methods affects accounting for income tax on GAAP financial statements. 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 a 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 Canvas

(online classroom) to access materials for the online portion of this course and quizzes; 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 and online materials assembled by Professor Nellen and available in pdf format, along with podcasts, videos and other materials – posted on Canvas.
 - <https://idp01.sjsu.edu/idp/Authn/UserPassword>
- Quizzes on Canvas site for 223F.

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

Grading

In-class group assignments	20
Online quizzes (best 4 of 5 will be counted)	40
Research questions*	90
Final exam	<u>100</u>
Total	250

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.

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

Reading and Assignment Due Dates

- See the 223F Canvas website for the reading, quizzes and other course materials. Be sure to read the materials before class – that is how you will get the most out of this course. 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; consider forming 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.
- Create a calendar for yourself before the first class to be sure you get all of the online elements completed timely.

Date	<p style="text-align: center;">OBJECTIVES:</p> <p style="text-align: center;">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:</p>
<p>April 21</p> <ul style="list-style-type: none"> ▪ Read Unit 2 ▪ Complete Introductory Exercise (posted in first module on Canvas) ▪ Lecture and in-class activities 	<p>Introduction to Tax Accounting Methods</p> <ul style="list-style-type: none"> • 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? • What is an accounting method for tax purposes? • How is an accounting method adopted by a taxpayer? • What choices of methods do taxpayers have? • 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?
<p>Online – work on from before 4/21 to end of April)</p> <ul style="list-style-type: none"> ▪ Podcast intro (do before 4/21) ▪ Read Unit 3 ▪ Podcast with answers to questions in the reading ▪ Quiz on Canvas (10 points) 	<p>Timing of Income</p> <ul style="list-style-type: none"> • 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? • 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? • 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? • 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? • How do these rules apply to retail businesses? • Book tax differences

<p>Online – work on from before 4/21 to end of April)</p> <ul style="list-style-type: none"> ▪ Podcast intro (do before 4/21) ▪ Read Unit 4 ▪ Podcast with answers to questions in reading ▪ Quiz on Canvas (10 points) 	<p>Timing of Expenses</p> <ul style="list-style-type: none"> • 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? • 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? • What is the meaning and significance of such terms as fixed right, capitalization, reserves, contested liabilities, contingencies, economic performance, and deferral? • What are the basics of the guidance with respect to capitalization of costs related to tangibles (such as repair expenditures) and intangibles? • What accounting methods apply to R&E costs? What is R&E per §1.174-2? • How do these rules apply to retail businesses? • Book tax differences
<p>A: April 28 B: May 10</p>	<p>In-class discussion and problem-solving on timing of income and expenses</p> <p>Review the reading and activities noted in above two rows before this class. You'll continue to work on Units 2 and 3 subsequent to the April 16 first class.</p>
<p>A: May 12 B: May 19</p> <ul style="list-style-type: none"> ▪ Read Unit 5 ▪ In-class lecture and activities 	<p>What is a Method of Accounting & How To Change a Method</p> <ul style="list-style-type: none"> • What is a method of accounting? • How is a change in method of accounting distinguishable from correction of an error or a change in facts? • How does a taxpayer change an accounting method? • What does “automatic” change in accounting mean? When does it apply? What rules govern this type of change? • How do you complete a Form 3115? • Why is adoption of the final tangible property regulations treated as a method of accounting adoption? • What special accounting method change procedures apply to transactions that fall under §381? (brief intro)

<p>Online</p> <ul style="list-style-type: none"> ▪ Read Units 6 & 7 ▪ Videos + ppt ▪ Quiz on Canvas (20 points) 	<p>Inventory Accounting Methods and Definitions</p> <ul style="list-style-type: none"> • What is inventory? • What concerns exist over tracking and reporting inventory that led Congress and the IRS to write the rules they wrote? • What is the difference between inventory and supplies? • How are taxpayers required to account for supplies? • What is the accounting significance of a taxpayer having inventory? • How do the special rules that allow certain businesses to use the cash method operate (Rev. Procs. 2001-10 and 2002-28)? • How is inventory valued? What rules apply? How strict are the rules? • What is the purpose of §263A? • What is the basic framework for determining what costs need to be capitalized under §263A? • How do these rules apply to retail businesses? <p>Special Accounting Rules</p> <ul style="list-style-type: none"> • What is interest capitalization and when does it apply? What is the theory and basic mechanics of interest capitalization under §263A(f)? • What is a long-term contract for §460 purposes? What are the basic accounting rules and special elections under §460?
<p>Online</p> <ul style="list-style-type: none"> ▪ Read Unit 8 ▪ Video + ppt ▪ Quiz on Canvas (10 points) 	<p>Accounting Periods</p> <ul style="list-style-type: none"> • What possible accounting periods exist? • What concerns might Congress and the IRS have been trying to address with the accounting period provisions? • What considerations are relevant in selecting an accounting period? • What accounting period restrictions apply to certain types of entities? • How does a taxpayer change its accounting period? • What do the relation-back doctrine (<i>Arrowsmith</i>) and tax benefit rule have to do with accounting periods? • What is the meaning and significance of such terms as natural business year, short period return, 52/53 week year, and §444 election?
<p>May 21 all day</p>	<p>In-class discussion and group questions on inventory, §263A, interest capitalization, and long-term contracts</p>

<p>May 21 all day</p> <ul style="list-style-type: none"> ▪ Read Unit 9 ▪ In-class lecture and activities 	<p>Introduction to Accounting for Income Taxes</p> <ul style="list-style-type: none"> ▪ Purpose ▪ Review sample financial statements ▪ Review relevant GAAP ▪ Exercises <p>Miscellaneous Special Rules and Future Developments</p> <ul style="list-style-type: none"> • What is §9100 relief and when is it available/needed? • How do California accounting method and period rules differ from the federal rules? • What special rules exist for subscription income and expense, and settlement payments under §468B? • What likely future developments exist in the accounting methods area? • What are some of the tax accounting areas that Congress may change and why? • How would you improve the accounting method and period provisions? Why would your suggestions be improvements? • Review
<p>See Unit 10 Online podcasts:</p> <ul style="list-style-type: none"> ▪ Inventory review ▪ Course review - questions you should be able to answer by end of the course 	<p>Review on your own</p> <p>Be sure you have watched all of the videos prepared by your classmates (links on Canvas)</p>
<p>May 31 from 4:30 – 7 pm</p>	<p>Optional Review Session</p>
<p>June 2</p>	<p>Final Exam</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://www.sjsu.edu/senate/docs/S07-2.pdf>.

All work you do must be your own work. If your work includes anything you are representing as your own which is not your own, you will receive zero points for the assignment and a referral to Judicial Affairs will be required. Be sure to read the SJSU Academic Integrity Policy and do the right thing. When in doubt, ask your instructor.

Do not discuss quiz questions or answers with classmates. You are all taking these quizzes at different times because they are online and are taken within a window rather than at a set time.

Do not share quiz questions or answers with anyone else. If someone offers to give you quiz questions, do not take them as doing so is a violation of academic integrity for both parties and you'll fail the class (and risk expulsion from the program).

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.

Mission and MST Program Learning Goals

LCoB Mission Statement		
MST Program Learning Goals		
	contributes to business theory, practice and education.	
1	Complex and Multi-jurisdictional Tax Issues	To identify, understand and resolve complex and multijurisdictional tax issues within the context of our global economy and society.
2	Research Skills	To learn research skills for exploring both familiar and novel areas of the tax law and to communicate the findings in clear terms.
3	Analytical Skills	To develop conceptual and analytic skills with real world applications.
4	Tax Policy	To appreciate tax policy issues and foundations of the tax law.
5	Ethical Implications of Tax Practice	To understand the ethical implications of tax practice.
6	Tax Practice and Career Advancement	To develop skills for effective tax practice including keeping current, interacting with others, and career advancement.