

TAX ACCOUNTING METHODS & PERIODS

Business 223F – Spring 2017

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), unless otherwise noted: Saturday 4/22 (1-5) – on the main campus (room and parking permit to be emailed to you a few days before class) Tuesdays (6 – 10 pm) - 4/25, 5/9, 5/23, 5/30, 6/6 (final exam) Optional review session - 5/25 from 6 – 7:30 pm
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 be able to explain what an accounting method is and its importance to taxpayers.
- To be able to explain and apply the tax rules governing the cash and accrual methods of accounting.
- To be able to explain and apply the tax rules governing taxpayer's choice of overall accounting method and methods for specific items (e.g. inventory, R & D, etc.).
- To explain and demonstrate how to find the rules governing changes in accounting methods and periods and how to complete a Form 3115.
- To explain the tax rules governing inventory.
- To explain when special tax accounting rules for Unicap (§263A), interest capitalization, long-term contracts and installment sales apply and the basics of how they apply.
- To understand the significance of choice of accounting period for tax purposes and identify the entities that have limitations on this choice, including how to determine the proper tax year of a partnership.
- To explain possible problems and solutions regarding an annual accounting period such as the relation back doctrine, tax benefit rule, claim of right (§1341) and NOL carryovers.
- To be able to explain what §9100 relief means and when it is relevant.

- To understand how tax reform might change tax accounting rules.

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. 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.
 - <http://www.sjsu.edu/at/ec/canvas/>
 - Quizzes on Canvas site for 223F.

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

Optional Readings (highly recommended):

- BNA Portfolio 570-3rd: Accounting Methods—General Principles
- BNA Portfolio 572-4th: Accounting Methods — Adoption and Changes

Grading

In-class group assignments	20
Online quizzes (best 4 of 5 will be counted)	20
In-class quiz (May 23)	20
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.
- You are encouraged to listen to/watch the online materials more than once.
- Focus on understanding the materials, considering how the tax rules compare to the GAAP rules you learned in your accounting studies, how the tax accounting rules apply to different types of entities and businesses and why Congress and IRS wrote these rules the way they did. You should be able to understand the materials well enough to explain them to a client. Focus on understanding, not memorizing.

Reading and Assignment Schedule (also see Canvas site)
Subject to Modification with Advance Notification by Your Instructor

Date	OBJECTIVES: 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:
April 22 <ul style="list-style-type: none"> ▪ Read Unit 2 ▪ Complete Introductory Exercise (posted in first module on Canvas) ▪ Lecture and in-class activities 	Introduction to Tax Accounting Methods <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?
Online – work on from before 4/22 to early May) <ul style="list-style-type: none"> ▪ Podcast intro (do before 4/22) ▪ Read Unit 3 ▪ Podcast with answers to questions in the reading ▪ Quiz on Canvas 	Timing of Income <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? • What are typical book tax differences between tax and GAAP reporting of income?

<p>Online – work on from before 4/22 to early May)</p> <ul style="list-style-type: none"> ▪ Podcast intro (do before 4/22) ▪ Read Unit 4 ▪ Podcast with answers to questions in reading ▪ Quiz on Canvas 	<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? • What are typical book tax differences between tax and GAAP reporting of income?
<p>April 25</p>	<p>In-class discussion and problem-solving on timing of income and expenses</p> <p>At a minimum, by this class meeting, listen to the “intro audio” files for §451 and §461 (modules 3 and 4) on Canvas. You can catch up with the reading after this class. You'll continue to work on Units 2 and 3 subsequent to the April 22 and 25 classes.</p>
<p>Work on the online lessons!!! Always be doing this between the face-to-face classes!!</p>	
<p>May 9</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 ▪ Quizzes on Canvas 	<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 	<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 23 and 30</p>	<p>May 23 – 30 minute in-class quiz</p> <p>In-class discussion and group questions on inventory, §263A, interest capitalization, and long-term contracts</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</p> <p>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>See Canvas module (and all prior modules as well).</p>
<p>May 25 from 6 – 7:30 pm</p>	<p>Optional Review Session</p>
<p>June 6</p>	<p>Final Exam</p> <p>You may use one page of notes (front and back); no magnifying glass.</p>

University Policies

Academic integrity

Students should know the University's Academic Integrity Policy that is available at <http://www.sjsu.edu/senate/docs/F15-7.pdf>. Your own commitment to learning, as evidenced by your enrollment at San Jose State University and the University's integrity policy, require 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 website for Student Conduct and Ethical Development is available at <http://www.sjsu.edu/studentconduct/>.

Instances of academic dishonesty will not be tolerated. Cheating on exams or plagiarism (presenting the work of another as your own, or the use of another person's ideas without giving proper credit) will result in a failing grade and sanctions by the University. For this class, all assignments are to be completed by the individual student unless otherwise specified. If you would like to include in your assignment any material you have submitted, or plan to submit for another class, please note that SJSU's Academic Policy F06-1 requires approval of instructors.

Be sure to read the following additional information on academic integrity and avoiding plagiarism from Professor Nellen at:

<http://www.sjsu.edu/people/annette.nellen/website/ClassInfo.html#Integrity>

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.

Consent for Recording of Class and Public Sharing of Instructor Material

University Policy S12-7, <http://www.sjsu.edu/senate/docs/S12-7.pdf>, requires students to obtain instructor's permission to record the course.

- Common courtesy and professional behavior dictate that you notify someone when you are recording him/her. You must obtain the instructor's permission to make audio or video recordings in this class. Such permission allows the recordings to be used for your private, study purposes only. The recordings are the intellectual property of the instructor; you have not been given any rights to reproduce or distribute the material."
- Course material developed by the instructor is the intellectual property of the instructor and cannot be shared publicly without his/her approval. You may not publicly share or upload instructor generated material for this course such as exam questions, lecture notes, or

homework solutions without instructor consent.

- You may request permission, either in writing or orally, at any time during the semester.
- If students or guests may be on the recording, permission of those students or guests should be obtained as well.

Mission and MST Program Learning Goals

LCoB Mission Statement

We are the *institution of opportunity* in Silicon Valley, educating future leaders through *experiential learning* and character development in a *global business community* and by conducting *research* that contributes to business theory, practice and education.

MST Program Learning Goals

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.