

## ACCOUNTING METHODS

TYPE OF BUSINESS	ANNUAL GROSS RECEIPTS < \$25 MILLION	NEW ACCOUNTING METHOD
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Service Business	YES	File form with IRS INFORMING them that you are changing to Cash Method
	NO	File form with IRS REQUESTING permission to change to Cash Method
Construction Business	YES	File form with IRS INFORMING them that you are changing to Completed Contract Method
	NO	No new Accounting Methods Available
Manufacturing or Resale/Distribution Business	YES	File form with IRS INFORMING them you are no longer subject to UNICAP inventory accounting
	NO	No new Accounting Methods Available

**CASH METHOD OF ACCOUNTING:** on the cash method of accounting, a taxpayer only recognizes as income collected receivables and only deducts paid expenses. On the accrual method, a taxpayer recognizes as income accounts receivable when earned and deducts accounts payable when incurred. On the accrual method, a taxpayer is paying tax on the difference between accounts receivable minus accounts payable. In essence, an accrual method taxpayer is paying tax on cash he has not yet collected. On changing to the cash method, a taxpayer benefits from an immediate deduction for the balance of the accounts receivable in excess of accounts payable and accrued expenses. See your business balance sheet for these amounts and to estimate the benefit. On occasion, if a taxpayer's payables are in excess of their receivables, a change to the cash method is not beneficial.

**COMPLETED CONTRACT METHOD OF ACCOUNTING:** on the completed contract method, a taxpayer does not recognize construction income until the construction is complete. This applies to construction which takes 2 years or less. The alternative is the percentage of completion. The percentage of completion method requires a taxpayer to estimate how much of the construction is completed at year end and pay tax on that portion of the income.

**UNICAP INVENTORY ACCOUNTING:** UNICAP requires businesses which manufacture or distribute to delay deducting sometimes significant amounts of expenses which are written off on their accounting books. Changing away from UNICAP allows a taxpayer to immediately deduct all the prior year expenses which were never deducted for tax purposes and which have built up over the years.

Please contact our firm for further details.

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