



# Accounting Method Review



**Are you in the service business?**

**Is your business a partnership (including LLC), an S Corporation, or a small (under \$5 million in revenue) C Corporation?**

**Does your business maintain inventories, and is the sale of that inventory a significant portion of your business?**

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If you are currently on the accrual method of accounting for tax purposes and answered “yes” to the first two and “no” to the third question above, you may benefit from being on the cash method of accounting. The cash method of accounting typically defers income by excluding uncollected accounts receivable and accounts payable/accrued expenses from taxable income.

Service businesses with increasing accounts receivable are able to defer recognition of revenue until the receivables have been collected. Companies that are growing quickly, and as a result may be experiencing cash flow difficulties or are borrowing to finance that growth, are also particularly good candidates.

During the last few years, the IRS National Office has liberalized its position in this area. The primary tests at this point involve whether a taxpayer maintains inventories and/or supplies that are a material income producing factor in its business. In prior years, the IRS had applied a number of detailed tests to determine whether to grant companies permission to convert to the cash basis.

To make the change, Form 3115 of accounting method must be filed with the IRS National Office by the end of the taxable year of the desired year of change. If you think you might qualify, or are interested in learning more, please contact your GBQ tax representative.

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Material discussed is meant to provide general information and should not be acted on without professional advice tailored to your individual needs.