Form **3115**
(Rev. January 1989)
Department of the Treasury
Internal Revenue Service

Application for Change in Accounting Method

▶ **See separate instructions.**

OMB No. 1545-0152
Expires 9-30-91

Name of applicant (if joint return is filed, also give spouse's name)	**Identifying number (see instructions)**
Address (number and street)	Applicant's area code and telephone number ( )
City or town, state, and ZIP code	District Director's office having jurisdiction
Name of person to contact (Please type or print.)	Contact person's area code and telephone number ( )

If power of attorney is applicable, check box if your representative has enclosed one (**Form 2848,** Power of Attorney and Declaration of Representative) with Form 3115 . . . . . ☐ **Yes** ☐ **No**

Check one: ☐ Individual ☐ Partnership; No. of Partners _____ ☐ Corporation ☐ S Corporation; No. of Shareholders _____
☐ Cooperative (Section 1381(a)) ☐ Ins. Co. (Sec. 801) ☐ Ins. Co. (Sec. 831) ☐ Qualified Personal Service Corporation (See section 448.)
☐ Exempt organization. Enter code section ▶ _____
☐ Other (specify) ▶ _____

NOTE: *Are you making an election under section 458?* . . . . . ☐ **Yes** ☐ **No**
If "Yes," see Specific Instructions for Section H. Do not fill in Section A. If "No," you must complete Section A.

Section A. Applicable to All Filers Other Than Those Answering "Yes" to the "Note" Above

1a Tax year of change begins (mo., day, yr.) ▶ _____ and ends (mo., day, yr.) ▶ _____

b Enter the 180th day of your tax year ▶ _____ If this date is earlier than the date you signed this Form 3115 on page 6, see General Instruction for "Late Applications" before going on.

2 Nature of business and principal source of income (including type of business designated on your latest income tax return) ▶ _____

3 The following change in accounting method is requested (check and complete appropriate spaces):

a ☐ Overall method of accounting: from ▶ _____ to _____
If the taxpayer is requesting a change to the accrual method, see section 448, Temporary Regulations section 1.448-1T, Rev. Proc. 85-36 and Rev. Proc. 85-37.

b ☐ The accounting treatment of (identify item) ▶ _____
from (present method) ▶ _____ to (new method) ▶ _____
Attach a separate statement providing all relevant facts, including a detailed description of your present and proposed methods. See also item 15 of Section A on page 2 regarding the "legal basis" for the proposed change.

c If a change is requested under 3b above, check the present overall method of accounting:
☐ Accrual ☐ Cash ☐ Hybrid (Explain the overall hybrid method in detail in a separate statement.)

	Yes	No
d Is your use of your present method specifically not permitted by the Internal Revenue Code, the Income Tax Regulations, or by a decision of the U.S. Supreme Court? See sections 4, 5, and 6 of Rev. Proc. 84-74		
e Is the requested change specifically required by the Tax Reform Act of 1986 or the Revenue Act of 1987?		
f Are you currently under examination, or were you or any member of the affiliated group contacted in any manner by a representative of the Internal Revenue Service for the purpose of scheduling an examination of your Federal tax return(s) prior to the filing of this application, or do you have an examination under consideration by an appeals officer or before any Federal court, or is any criminal investigation pending? See sections 4 through 7 of Rev. Proc. 84-74		
g Are you a taxpayer that produces property or acquires property for resale to whom section 263A applies? If "Yes" and item to be changed is subject to section 263A, section D must be completed		
h Are you a manufacturer to whom Income Tax Regulation section 1.471-11 applies?		
4a In the last 6 years have you requested permission to change or have you changed your accounting period, your overall method of accounting, or the accounting treatment of any item? (Affiliated group members filing a consolidated return, see item 8e on page 2.)		
b If 4a is "Yes," was a ruling letter granting permission to make the change issued? If "Yes" and the change was made, attach a copy of the letter. If permission was granted, but you did not make the change, attach an explanation		
c Regardless of your response to 4a, do you or an affiliated corporation have pending any accounting method or period ruling or technical advice request in the National Office?		

d If 4c is "Yes," indicate the type of request (method, period, etc.) and the specific issue involved in each request ▶ _____

5 If engaged in a business or profession: **a** Enter your taxable income or (loss)* from operations for tax purposes for the five (5) tax years preceding the year of change: (See Specific Instructions for Section A.)

1st preceding year ended: mo. yr.	2nd preceding year ended: mo. yr.	3rd preceding year ended: mo. yr.	4th preceding year ended: mo. yr.	5th preceding year ended: mo. yr.
$	$	$	$	$

b Enter the amount of net operating loss to be carried over to the year of change, if any	$
c Amount of general business credit carryover to year of change, if any	$
d Other credit carryover, if any. (Identify) ▶	$

*Individuals enter net profit or (loss) from business; partnerships enter ordinary income or (loss); members of an affiliated group filing a consolidated return see item 8b on page 2.

For Paperwork Reduction Act Notice, see separate instructions.

6 Gross receipts for the three (3) tax years preceding the year of change. (See Specific Instructions for Section A.)

1st preceding year ended: mo. yr.	2nd preceding year ended: mo. yr.	3rd preceding year ended: mo. yr.
$	$	$

	Yes	No
7a Do you have more than one trade or business?		
b If 7a is "Yes," do you account for each trade or business separately? If "Yes," see Specific Instructions for Section A for additional information that must be provided		
8a Is applicant a member of an affiliated group filing a consolidated return for the tax year of change?		
b If 8a is "Yes," state parent corporation's name, identifying number, address, tax year, and Service Center where return is filed, and provide the information requested in item 5 on a consolidated basis ▶		
c If 8a is "Yes," do all other members of the affiliated group employ the method of accounting for which the change is requested? If "No," explain ▶		
d If 8a is "Yes," are any of the items involved in the calculation of the net section 481(a) adjustment attributable to transactions between members of the affiliated group? If "Yes," attach explanation		
e If 8a is "Yes," provide the information requested in items 4a, 4b, 4c, and 4d for each member of the affiliated group.		
9a Is applicant a member of an affiliated group not filing a consolidated return for the tax year of change?		
b If 9a is "Yes," are any of the items involved in the calculation of the net section 481(a) adjustment attributable to transactions between members of the affiliated group or other related parties? If "Yes," attach explanation		
10 If change is granted, will the new method be used for financial reporting purposes? If "No," attach an explanation. Such explanation should include a discussion of whether your new method of accounting conforms to generally accepted accounting principles and why it will clearly reflect income.		

11 Enter the net section 481(a) adjustment for the year of change, and the net section 481(a) adjustment that would have been required if the requested change had been made for each of the 3 tax years preceding the year of change. (See Specific Instructions for Section A.)	At the beginning of the year of change ended, enter: mo. yr.	At the beginning of the 1st preceding year ended, enter: mo. yr.	At the beginning of the 2nd preceding year ended, enter: mo. yr.	At the beginning of the 3rd preceding year ended, enter: mo. yr.
	$	$	$	$

	Yes	No
12 Has net adjustment under section 481(a) for the year of change been reduced in any way by a pre-1954 amount?		
13 Number of tax years present method has been used for which the change is requested in item 3a or 3b. (See Specific Instructions for Section A.) ▶ _____		
14 Has your present method been designated by a Rev. Rul. or Rev. Proc. more than 2 years before filing this form as a change in method of accounting to which section 5.12(2) of Rev. Proc. 84-74 applies?		

15 State the reason(s) including the legal basis (statutes, regulation, published rulings, etc.) why you believe approval to make this change should be granted. See section 7 of Rev. Proc. 84-74.

Section B-1. Change in Overall Method of Accounting

1 The following amounts should be stated as of the end of the tax year **preceding** the year of change. If none, state "None." (Although some of the items listed below may not have been required in the computation of your taxable income due to your present method of accounting, it is necessary that they be entered here for this form to be complete. Show the net section 481(a) adjustment attributable to long-term contracts on line 8, Section E, page 5.) Provide on a schedule the breakdown of the individual items which make up the "Amount" for lines 1a through 1g. See section 448, Temporary Regulations section 1.448-1T, Rev. Proc. 85-36, and Rev. Proc. 85-37 for rules to change to the accrual method expeditiously.

	Amount	Show by (✓) how treated on last year's return: Included in income or deducted as expense	Excluded from income or not deducted as expense
a Income accrued but not received	$		
b Income received before the date on which it was earned. State nature of income. If discount on installment loans, see Section F on page 5. For advance payments for goods and services, see Specific Instructions for Section B-1. ▶			
c Expenses accrued but not paid			
d Other (specify) ▶			
e Prepaid expense previously deducted			
f Supplies on hand previously deducted			
g Inventory on hand $			
Inventory reported on your return valued in accordance with section 263A, if applicable $			
Difference			
h **Net section 481(a) adjustment** (combine lines 1a through 1g)	$		

2 Nature of inventory ▶

3 Method used to value inventory: ☐ Cost ☐ Cost or market, whichever is lower ☐ Other (attach explanation)

4 Method of identifying costs in inventory: ☐ Specific identification ☐ FIFO ☐ LIFO

5 Have any receivables been sold in the past 3 years? ☐ Yes ☐ No

If "Yes," enter the amounts sold for each of the 3 years

1st preceding year ended, enter: mo. yr.	2nd preceding year ended, enter: mo. yr.	3rd preceding year ended, enter: mo. yr.
$	$	$

6 Attach copies of profit and loss statement (Schedule F (Form 1040) in the case of farmers) and balance sheet, if applicable, as of the close of the tax year preceding the year of change. State accounting method used when preparing balance sheet. If books of account are not kept, attach copy of the business schedule provided with your Federal income tax return or return of income for that period. If amounts in item 1 Section B-1, page 2, do not agree with those shown on profit and loss statement and balance sheet, explain on separate page.

Section B-2. Change to the Cash Method of Accounting *(Farmers complete Section B-3 instead of this section.)*

Note: *Also complete section B-1.*

1 Provide a detailed statement describing the nature of the taxpayer's business. Describe the operations, services performed, and the types of activities, if more than one.

2 Provide a description of the taxpayer's investment in capital items and leased equipment used in the taxpayer's trade or business, and the relationship between these items and the services performed by the business.

3 Provide a description of any inventory item (goods, the sale of which produces income) and any materials and supplies used in carrying out the business.

4 Provide the number of employees, shareholders, partners, associates, etc., and a description of their duties in carrying out the taxpayer's business.

5 Provide a schedule showing the age of receivables for the year of change and the 3 tax years preceding the year of change.

6 Provide a profit and loss statement computed on the cash receipts and disbursements method for the year of change and the 3 tax years preceding the year of change.

Section B-3. Change in Overall Method of Reporting Income of Farmers to Cash Receipts and Disbursements Method

Note: *Also complete Section B-1.*

1 Is the taxpayer a corporation? ☐ **Yes** ☐ **No**

2 Is the taxpayer a partnership with a corporation as a partner? ☐ **Yes** ☐ **No**

3 If either 1 or 2 is "Yes," has the taxpayer had gross receipts of $1,000,000 or less in each of its tax years beginning after 1975? ☐ **Yes** ☐ **No**

If "No," attach a schedule showing which years the taxpayer's receipts were more than $1,000,000.

4a Does the taxpayer produce property with a preproductive period of more than 2 years? ☐ **Yes** ☐ **No**

b If 4a is "Yes," has the taxpayer or related party made an election out of section 263A for any trade or business? ☐ **Yes** ☐ **No**

c If 4b is "Yes," explain.

5 Provide the following information for the 5 tax years before the year of change:

	1st preceding yr.	2nd preceding yr.	3rd preceding yr.	4th preceding yr.	5th preceding yr.
a Gross receipts from farming					
b Inventory: Crops, etc.					
Livestock held for sale:					
Purchased					
Raised					
Livestock held for draft breeding, sport, or dairy purposes:					
Purchased					
Raised					
Total inventory					

6 Method used to value inventory *(check appropriate box):*

☐ Cost ☐ Cost or market, whichever is lower ☐ Farm price ☐ Unit livestock price ☐ Other (explain on separate page)

Section C. Change in Method of Valuing Inventories. *(See Specific Instructions for Section C.)*

Note: *Also complete Section D.*

1 Description of inventory goods being changed ▶

2 Description of inventory (if any) not being changed ▶

3 Present method of identifying costs in inventory: ☐ Specific identification ☐ FIFO ☐ LIFO

If "LIFO," attach copy of Form 970 adopting that method and copies of any Forms 970 filed to extend the use of the method.

4 Present method used to value inventory: ☐ Cost ☐ Cost or market, whichever is lower ☐ Retail cost ☐ Retail, lower of cost or market ☐ Other (attach explanation)

5 Show method and value of the inventories being changed at the end of the tax year preceding the year of change under:

a Present method ▶ $

b Proposed method ▶ $

c If changing to cost method, are you going to elect LIFO for identifying costs? ☐ **Yes** ☐ **No**

6 Attach the computation used to arrive at the section 481 adjustment.

Section D. Method of Cost Allocation

Complete this section if the requested change involves either property produced, property acquired for resale, or long-term contracts. Please check (✓) the appropriate boxes in Parts I and II showing which costs are included, under both the present and proposed methods, in the cost of the property produced or acquired for resale under section 263A and allocated to long-term contracts under section 460. If any boxes are not checked, it is assumed that these costs are excluded. Please mark "N/A" in boxes for costs that are not incurred by the taxpayer. If you are presently including only a portion of a type of cost, enter "P" in the appropriate box instead of (✓).

Part I Direct and Indirect Costs (Required to be allocated—see Temporary Regulations section 1.263A–1T(b)(2)(i-iv))	Federal income tax purposes	
	Present method Included (✓)	Proposed method Included (✓)
1 Direct material		
2 Direct labor		
3 Repairs that relate to a production, resale, or long-term contract activity		
4 Maintenance		
5 Utilities		
6 Rent		
7 Indirect labor and production supervisory wages		
8 Indirect materials and supplies		
9 Tools and equipment		
10 Quality control and inspection		
11 Taxes other than state, local, and foreign income taxes		
12 Depreciation, amortization, and cost recovery allowance for equipment and facilities placed in service and not temporarily idle		
13 Depletion		
14 Administrative costs (but not including any costs of selling or any return on capital)		
15 Direct or indirect costs of other administrative, service, or support function or department		
16 Officers' compensation (not including selling activities)		
17 Insurance		
18 Employee benefits		
19 Research and experimental expenses attributable to long-term contracts		
20 Rework labor, scrap, and spoilage		
21 Bidding expenses incurred in the solicitation of particular contracts ultimately awarded to the taxpayer		
22 Engineering and design costs (not including section 174 research and experimental expenses)		
23 Storage and warehousing costs including a portion of allocable general and administrative costs**		
24 Purchasing costs including a portion of allocable general and administrative costs		
25 Handling, processing, assembly, and repackaging costs including a portion of allocable general and administrative costs		
26 Interest		
27 Other costs (Attach a list of such costs.)		
** Resalers may distinguish between off-site and on-site storage, and are not required to capitalize on-site storage costs. Check this box if you are a resaler allocating only off-site storage costs ▶ ☐		
Part II Other Costs (Not required to be allocated—see Temporary Regulations section 1.263A-1T(b)(2)(v))		
1 Repairs that do not relate to a production, resale, or long-term contract activity		
2 Research and experimental expenses not included on line 19, Part I		
3 Bidding expenses not included on line 21, Part I		
4 Marketing, selling, advertising, and distribution expenses		
5 General and administrative costs attributable to the performance of services that do not directly benefit or are not incurred by reason of a particular production, resale, or long-term contract activity		
6 Income taxes		
7 Cost of strikes		
8 Other costs (Attach a list of such costs.)		

Part III Additional Information

1 Method of allocating indirect costs:
☐ Specific identification ☐ Standard cost method ☐ Burden rate (attach explanation) ☐ Other (attach explanation)

2 Method of allocating service costs: ☐ Direct ☐ Step allocation
☐ Other (explain) _____

3 Taxpayers subject to section 263A, check the appropriate box(es) to indicate the simplified method(s), if any, presently used:
☐ Simplified resale method ☐ Simplified production method ☐ Simplified service cost method
☐ Alternative simplified resale method ☐ Other (explain)

Section E. Change in Method of Reporting Income From Long-Term Contracts

Note: *Also complete section D.*

1 Are your contracts long-term contracts as defined in section 460? ☐ Yes ☐ No

2 Does the change involve any pre-March 1, 1986 contracts? ☐ Yes ☐ No

3 Will the taxpayer elect the simplified cost-to-cost method for determining the degree of contract completion? ☐ Yes ☐ No

4 Is the same method used for reporting all long-term contracts regardless of duration? ☐ Yes ☐ No

If "No," explain.

5 Do any (or all) of your contracts qualify for the small construction contract exception under section 460(e)? ☐ Yes ☐ No ☐ All

If "Yes" or "All," please provide a separate cost allocation worksheet (Section D) for such contracts.

6 Is the change in method requested for all contracts outstanding at the beginning of the tax year of change? ☐ Yes ☐ No

If "No," explain.

7 Do you have either cost-plus long-term contracts or Federal long-term contracts? ☐ Yes ☐ No

If "Yes," please provide the information in items 2 through 6 above and complete the chart in Section D separately for such contracts.

8 Net adjustment required under section 481(a) $

Section F. Change in Method of Reporting Interest (Discount) on Installment and Other Loans

1 Change with respect to interest on ☐ Installment loans, ☐ Commercial loans, and ☐ Other loans (explain) ▶

2 Do any of these loans cover a period in excess of 60 months? ☐ Yes ☐ No

If "Yes," please attach an explanation. (See Rev. Rul. 83-84 and Rev. Proc. 83-40.)

If you wish to change from the sum of the months digits method (rule of 78's) to the economic accrual of interest method for reporting interest (discount) under Rev. Rul. 83-84, see Rev. Procs. 84-27, 84-28, 84-29, and 84-30.

3 Amount of earned or realized interest that has not been reported on your return as of the end of the tax year preceding the year of change. $

4 Amount of unearned or unrealized interest that has been reported on your return as of the end of the tax year preceding the year of change. $

5 Method of rebating in event of prepayment of loans ▶

Section G. Change in Method of Accounting for Depreciation Under Section 167

Applicants desiring to change their method of accounting for depreciation under section 167 must complete this section. This information must be supplied for each account for which a change is requested. **Note:** *Certain changes in methods of accounting for depreciation may be filed with the Service Center where your return will be filed. See Rev. Proc. 74-11 for the methods covered. For information regarding elections and election revocations under section 168, see the Specific Instructions for Section G.*

1 Date of acquisition ▶

2a Are you the original owner or the first user of the property? ☐ Yes ☐ No

b If residential property, did you live in the home before renting it? ☐ Yes ☐ No

3 Is depreciation claimed under Regulations section 1.167(a)-11 (CLADR)? ☐ Yes ☐ No