

Application for Change in Accounting Method

Note: If you are applying for a change in accounting period, use Form 1128.

See separate instructions.

Department of the Treasury Internal Revenue Service

Name of applicant, Address, City or town, state, and ZIP code, Name of person to contact, Identifying Number, Applicant's area code and telephone number, District Director's office having jurisdiction, Telephone number of contact person

Check one: Individual, Partnership; No. of Partners, Corporation, S Corporation; No. of Shareholders, Cooperative (Section 1381(a)), Ins. Co. (Sec. 801), Ins. Co. (Sec. 821), Ins. Co. (Sec. 831), Exempt organization; Enter code section, Other (specify)

NOTE: Are you making an election under section 458 or 466? Yes No If "Yes," see Specific Instructions for Section J. 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 "Note" Above

- 1 a 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 date you signed this Form 3115 on page 6, see General Instruction for "Late Applications" before proceeding any further.

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 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 14 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 (if a hybrid method is used, explain the overall hybrid method in detail in a separate statement)

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 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 and 6 of Rev. Proc. 84-74.

f Are you a manufacturer to whom Regulations section 1.471-11 applies? If "Yes," complete Section E-2 on page 4

4 In the last 10 years have you requested permission to change your accounting period, your overall method of accounting, or the accounting treatment of any item? (Members of an affiliated group of corporations filing a consolidated return, see item 7d on page 2.)

a If "Yes," was a ruling letter granting permission to make the change issued? If "Yes," attach a copy of the letter. If "No," attach an explanation

b 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?

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

Table with 2 columns: Yes, No. Rows correspond to questions 4d, 4e, 4f, 4a, 4b.

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.)

Table with 5 columns: 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 investment 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 7a on page 2.



- 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 three years?** . . . . .  Yes  No  
 If "Yes," enter the amounts sold for each of the three years . . . . .
- |    | 1st preceding year ended,<br>enter: mo. yr | 2nd preceding year ended,<br>enter: mo. yr. | 3rd preceding year ended,<br>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 1 above do not agree with those shown on profit and loss statement and balance sheet, explain on separate page.**

**Section C. 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 D. Change in Method of Reporting Bad Debts**  
*(See Specific Instructions for Section D before completing item 2.)*

- 1 If a change to the Reserve Method is requested and applicant has installment sales, are such sales reported on the installment method?**  Yes  No  
 If "Yes," show whether change relates to:  Installment sales,  Sales other than installment sales, or  Both.
- 2 If a change to the Reserve Method is requested, provide the following information for the five tax years preceding the year of change:**

	1st preceding year	2nd preceding year	3rd preceding year	4th preceding year	5th preceding year
Total sales . . . . .					
Deductions for specific bad debts charged off <sup>1</sup> . . . . .					
Recoveries of bad debts deducted in prior years . . . . .					
<b>Year-end balances:</b>					
Trade accounts receivable . . . . .					
Trade notes receivable <sup>2</sup> . . . . .					
Installment accounts receivable <sup>3</sup> . . . . .					
Other receivables (explain in detail) . . . . .					

- 3 If a change to the method of deducting specific bad debt items is requested, enter the amount in reserve for bad debts at end of the year preceding the year of change** . . . . . \$ \_\_\_\_\_

<sup>1</sup> If your return was examined, enter amount allowed as a result of the examination.

<sup>2</sup> If loan company, enter only capital portion.

<sup>3</sup> Applicable only to receivables attributable to sales reported on installment method. Enter only the capital portion of such receivables.

**Section E-1. Change in Method of Valuing Inventories. (See Specific Instructions for Section E-1.)**

- 1 Nature of all inventories** ▶ .....
  - 2 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.
  - 3 Method used to value inventory:**  Cost  Cost or market, whichever is lower  Retail cost  Retail lower cost or market  
 Other (attach explanation)
  - 4 Method of allocating indirect production costs:**  Standard cost method  Burden method  Other (attach explanation)
  - 5 Show method and value of all inventories at the end of the tax year preceding the year of change under:**
- |                                 |          |
|---------------------------------|----------|
| <b>a Present method</b> ▶ ..... | \$ _____ |
| <b>b New method</b> ▶ .....     | \$ _____ |
- c If changing to cost method, are you going to elect LIFO for identifying costs?** . . . . .  Yes  No

**Section E-2. Change in Method of Inventory Costing by Manufacturers and Processors.**  
(See Specific Instructions for Section E-2.)

Please check (✓) the appropriate boxes showing which costs are included in inventoriable costs, under both the present and proposed methods, of all costs listed in Regulations sections 1.471-11(b)(2), (c)(2)(i), and (c)(2)(ii) for Federal income tax purposes, and all costs listed in or subject to Regulations section 1.471-11(c)(2)(iii) for tax and financial statement reporting purposes. If any boxes are not checked, it is assumed that these costs are excluded from inventoriable costs. If certain costs are not incurred, please mark "N/A" in the appropriate box.

Part I Direct Production Costs (Regulations section 1.471-11(b)(2))	Federal income tax purposes			
	Present method		Proposed method	
	Included (✓)		Included (✓)	
1 Material				
2 Labor				
<b>Part II Indirect Production Costs:</b>				
1 Category One Costs (Regulations section 1.471-11(c)(2)(i))				
a Repairs				
b Maintenance				
c Utilities				
d Rent				
e Indirect labor and production supervisory wages				
f Indirect materials and supplies				
g Small tools and equipment				
h Quality control and inspection				
2 Category Two Costs (Regulations section 1.471-11(c)(2)(ii) (See also Rev. Rul. 79-25))				
a Marketing				
b Advertising				
c Selling				
d Other distribution expenses				
e Interest				
f Research and experimental				
g Section 165 losses				
h Percentage depletion in excess of cost depletion				
i Depreciation and amortization for Federal tax purposes in excess of financial report depreciation and amortization				
j Local and foreign income taxes				
k Past service costs of pensions				
l Administrative (general)				
m Other salaries (general)				
3 Category Three Costs (Regulations section 1.471-11(c)(2)(iii)). (See also Rev. Proc. 75-40 and attach the data required by either section 5.02 or 5.03 of Rev. Proc. 75-40.)	Federal Income Tax Purposes		Financial Statements	
	Present method	Proposed method	Present method	Proposed method
a Taxes under section 164 (other than local and foreign income taxes)	Included (✓)	Included (✓)	Included (✓)	Included (✓)
b Financial statement depreciation and cost depletion				
c Employee benefits				
d Costs of strikes, rework labor, scrap, and spoilage				
e Factory administrative expenses				
f Officers' salaries (manufacturing)				
g Insurance costs (manufacturing)				

**Section F. Change in Method of Treating Vacation Pay**

- Is the plan(s) fully vested as of the end of the tax year preceding the year of the change?  Yes  No
- If "Yes," enter the amount of accrued vacation pay as of the end of the tax year preceding the year of change \$ \_\_\_\_\_
- Number of tax years plan(s) has been vested ▶ \_\_\_\_\_

**Section G-1. Change in Method of Reporting Income from Contracts**

- Are your contracts long-term contracts as defined in Regulations section 1.451-3?  Yes  No
- Is the same method used for reporting all long-term contracts regardless of duration? If "No," explain  Yes  No
- Do you have extended period long-term contracts as defined in Regulations section 1.451-3(b)(3)?  Yes  No
- Net adjustment required under section 481(a) \$ \_\_\_\_\_

**Section G-2. Change to the Completed Contract Method or Change in Allocation of Costs**

Please check (✓) the appropriate boxes showing which costs are allocable to long-term contracts to the extent required by Regulations sections 1.451-3(d)(5) and (6) for Federal income tax purposes. Please mark "N/A" in boxes for costs that do not apply to the taxpayer.

	Tax Purposes			
	Non-Extended Period		Extended Period	
	Present Method	Proposed Method	Present Method	Proposed Method
	Included (✓)	Included (✓)	Included (✓)	Included (✓)
Direct Material				
Direct Labor				
Repairs				
Maintenance				
Utilities				
Rent				
Indirect labor and contract supervisory wages				
Indirect material and supplies				
Tools and equipment				
Quality control and inspection				
Taxes under section 164 (other than local and foreign income taxes)				
Financial statement depreciation and cost depletion				
Percentage depletion in excess of cost depletion				
Depreciation and amortization for Federal tax purposes in excess of financial report depreciation and amortization for equipment and facilities in use				
Administrative costs				
Other administrative, service, or support costs				
Officers' salaries attributable to long-term contract activities				
Insurance				
Employee benefits				
Research and experimental expenses attributable to extended period long-term contracts				
Other research and experimental expenses				
Rework labor, scrap, and spoilage				
Bidding expenses incurred in the solicitation of extended period long-term contracts				
Other bidding expenses				
Marketing, selling, and advertising				
Interest				
Other general and administrative costs				
Section 165 losses				
Income taxes				
Cost of strikes				

**Section H. Change in Overall Method of Reporting Income of Farmers to Cash Receipts and Disbursements Method**

**Note:** Also complete Section B.

- 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.
- 4 Provide the following information for the five 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					

**5 Method used to value inventory (check appropriate block):**

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

**Section I. Change in Method of Accounting for Depreciation**

Applicants desiring to change their method of accounting for depreciation 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.*

- 1 Date of acquisition ▶ .....
- 2 **a** 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**  
If "Yes," the only changes permitted are under Regulations section 1.167(a)-11(c)(1)(iii). Identify these changes on the tax return for the year of change.
- 4 Is the property public utility property? . . . . .  **Yes**  **No**
- 5 Location of the property (city and state) ▶ .....
- 6 Type or character of the property ▶ .....
- 7 Cost or other basis of the property and adjustments thereto (exclude land) . . . . . \$ \_\_\_\_\_
- 8 Depreciation claimed in prior tax years (depreciation reserve) . . . . . \$ \_\_\_\_\_
- 9 Estimated salvage value . . . . . \$ \_\_\_\_\_
- 10 Estimated remaining useful life of the property ▶ .....
- 11 If the declining balance method is requested, show percentage of straight-line rate ▶ .....
- 12 Other information, if any ▶ .....

**Section J. Change in Method of Accounting Not Listed Above (See Specific Instructions for Section J.)**

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**Signature—All Filers (See instructions.)**

Under penalties of perjury, I declare that I have examined this application, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct and complete. Declaration of preparer (other than applicant) is based on all information of which preparer has any knowledge.

Applicant's name	Signature and title	Date
Signing official's name (Please print or type)	Signature and title of officer of the parent corporation, if applicable	Date
Signature of individual or firm preparing the application	Date	