
Accounting for Construction Contracts

Significant Court Cases

CASH METHOD OF ACCOUNTING

Cases Decided in Favor of the Government

[Von Euw & L.J. Nunes Trucking, Inc. v. Commissioner](#) T.C. Memo 2000-114, No. 17599-97

A sand and gravel hauler was required to change its accounting method from cash to accrual. The taxpayer operated 20 trucks and, based on customer orders, acquired sand and gravel from suppliers and delivered to various contractors and developers. These customers use the sand and gravel to construct foundations for streets, houses, and buildings. The taxpayer had no beginning or ending inventories and maintained its books and records on the accrual method. It filed its tax return using the cash method.

[Tebarco Mechanical Corporation v. Commissioner](#), T.C. Memo 1997-311

A mechanical subcontractor that provided plumbing, heating, and air conditioning services was required to change from cash to accrual. Merchandise was an income-producing factor.

[Thompson Electric v. Commissioner](#), T.C. Memo 1995-292

An Electrical contractor was required to change from cash to accrual. Merchandise was an income-producing factor.

[J.P. Sheahan Associates, Inc. v. Commissioner](#), T.C. Memo 1992-239

A roofer was required to change from cash to accrual. Merchandise was an income-producing factor even though there was no ending inventory.

[Asphalt Products, Inc. v. Commissioner](#), 86-2 USTC 9556

A manufacturer of emulsified asphalt was required to change from cash to accrual. Inventories were an income-producing factor.

Wilkinson-Beane, Inc. v. Commissioner, 70-1 USTC 9173

A funeral director was required to change from cash to accrual. Merchandise was an income-producing factor. This case established the guideline of requiring the use of accrual method whenever a taxpayer's purchases are at least 15% of its gross receipts.

Cases Decided in Favor of the Taxpayer

RACMP Enterprises, Inc. v. Commissioner, 114 T.C. No. 16, No. 23954-97

Concrete used by a construction contractor is not merchandise, so the taxpayer can continue to use the cash method of accounting.

Jim Turin & Sons, Inc. v. Commissioner, T.C. Memo 1998-223

An asphalt-paving contractor was not required to change from the cash method. The emulsified asphalt became useless in less than three hours.

Golden Gate Litho v. Commissioner, T.C. Memo 1998-184

A printing company was not required to change from the cash method. The tax Court agreed that merchandise was an income-producing factor but the method proposed by IRS was not proper.

Galedrige Construction, Inc. v. Commissioner, T.C. Memo 1997-240

An asphalt-paving contractor was not required to change from the cash method. Emulsified asphalt became useless in less than 5 hours.

Ansley-Sheppard-Burgess Company v. Commissioner, 104 TC 367

A general contractor not required to change from the cash method. IRS stipulated that inventory was not an issue. Also, the IRS tried to change the taxpayer's method to PCM instead of to accrual.

Vandra Bros. Construction Co., Inc. v. Commissioner, T.C. Memo 2000-233; No. 15483-96 (Aug. 2, 2000)

The Tax Court ruled against the Commissioner with respect to a Contractor who specializes in construction of streets, sidewalks, curbs, and similar improvements. The concrete, stone, reinforcing steel and other items (collectively, the materials) used by the taxpayer were determined not to be merchandise. Since taxpayer was not engaged in the production or sale of merchandise, he was not required to use inventories and was not required to change to the accrual method of accounting.

Edward G. Smith and Jan M. Smith, T.C. Memo 2000-353 (November 14, 2000)

The Tax Court ruled against the Commissioner with respect to a Contractor who specializes in installing flooring materials such as carpeting, vinyl and ceramic tile and hardwood flooring. The court held that the taxpayer did not produce, purchase or sell merchandise within the meaning of Income Tax Regulation 1.471-1. The purchase of materials for a particular job was incidental and secondary to the taxpayer providing flooring installation services. Thus, the taxpayer was not required to use an inventory nor was he required to use the accrual method of accounting.