



# Instructions for Form 3115

(Rev. November 1992)

## Application for Change in Accounting Method

(Section references are to the Internal Revenue Code unless otherwise noted.)

### Paperwork Reduction Act Notice

We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average times are:

Form	Recordkeeping	Learning about the law or the form	Preparing and sending the form to the IRS
3115	20 hr., 5 min.	3 hr., 38 min.	5 hr., 20 min.
Sch. A	23 hr., 12 min.	1 hr., 58 min.	3 hr., 38 min.
Sch. B	4 hr., 18 min.	1 hr., 4 min.	2 hr., 23 min.
Sch. C	26 hr., 47 min.	3 hr., 11 min.	3 hr., 45 min.
Sch. D	14 hr., 21 min.	2 hr., 23 min.	2 hr., 44 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to both the **Internal Revenue Service**, Washington, DC 20224, Attention: IRS Reports Clearance Officer, T:FP; and the **Office of Management and Budget**, Paperwork Reduction Project (1545-0152), Washington, DC 20503. **DO NOT** send the tax form to either of these offices. Instead, see **When and Where To File** on this page.

### Change To Note

New Rev. Proc. 92-20, 1992-38 I.R.B. 22, provides general procedures under section 446 to change a method of accounting. Rev. Proc. 92-20, which supersedes Rev. Proc. 84-74, uses certain incentives to encourage prompt voluntary compliance. An applicant generally will receive more favorable terms and conditions for any change in method if an application to change its accounting method is filed before it is contacted for examination by the IRS.

## General Instructions

### Purpose of Form

File Form 3115 to request a change in accounting method, including the accounting treatment of any item. When filing Form 3115, applicants must determine if the IRS has published a ruling, notice, or procedure dealing with the specific type of method change since November 1992 (the current revision date of Form 3115).

If requesting a change in tax year, use **Form 1128**, Application To Adopt, Change, or Retain a Tax Year. Corporations electing to be treated as an S corporation use **Form 2553**, Election by a Small Business Corporation. For more information, get **Pub. 538**, Accounting Periods and Methods.

### Automatic Changes in Accounting Method

1. Rev. Proc. 92-74, 1992-38 I.R.B. 16—For certain taxpayers that are required to use inventories to change to an overall accrual method, or to an accrual method in conjunction with a request to change to a special method;

2. Rev. Proc. 92-75, 1992-38 I.R.B. 22—For certain taxpayers (other than those required to use inventories) to change to an overall accrual method, or to an accrual method in conjunction with a request to change to a special method;

3. Rev. Proc. 89-46, 1989-2 C.B. 597—For cash basis taxpayers to change the method for reporting interest income on series E or EE U.S. savings bonds;

4. Rev. Proc. 88-15, 1988-1 C.B. 683—To discontinue the LIFO method;

5. Rev. Proc. 90-37, 1990-2 C.B. 361—To change the method for reporting interest in accordance with section 1281;

6. Rev. Proc. 90-63, 1990-2 C.B. 664—To change the method for package design costs; and

7. Rev. Proc. 91-51, 1991-2 C.B. 779—To change the method for sales of mortgage loans (mortgages) in accordance with section 1286 and Rev. Rul. 91-46, 1991-2 C.B. 358.

### Who Must File

Generally, individuals, partnerships, corporations, S corporations, personal service corporations, cooperatives, insurance companies, estates and trusts, and tax-exempt organizations must file Form 3115 to change their accounting method. Applicants that are members of an affiliated group filing a consolidated return that are requesting to change to the same accounting method for more than one member of the group must file a separate Form 3115 for each member of the group.

### User Fee

Applicants filing Form 3115 to request a change in accounting method under Rev. Proc. 92-1, 1992-1 C.B. 516, must pay a \$500 user fee. A separate user fee must be paid for each member of an affiliated group that files an application. However, see Rev. Proc. 92-90, 1992-46 I.R.B. 30, for the reduced amount, if applicable, that each member must pay. A \$500 user fee is required for a ruling request for extension of time to file under Regulations section 301.9100-1. Payment of the user fee (check or money order made payable to the Internal Revenue Service) must be sent with Form 3115 at the time the form is filed.

Applicants requesting certain automatic changes under Rev. Proc. 88-15, Rev. Proc. 89-46, Rev. Proc. 90-37, and Rev. Proc. 91-51 are not required to pay the user fee when they file Form 3115.

### When and Where To File

Generally, applicants must file Form 3115 within the first 180 days of the tax year in which the change is requested. Applicants applying under one of the automatic revenue procedures listed under **Automatic Changes in Accounting Method** above, must file the original Form 3115 with a timely filed tax return for the year of the change. Review the applicable automatic revenue procedure for the filing deadline of the Form 3115 copy that is sent to the address listed in the next paragraph.

Applicants, other than exempt organizations, file Form 3115 with the Internal Revenue Service, Associate Chief Counsel (Domestic), Attention: CC: CORP, P.O. Box 7604, Ben Franklin Station, Washington, DC 20044. Exempt organizations file with the Assistant Commissioner (Employee Plans and Exempt Organizations), Attention: E:EO, P.O. Box 120, Ben Franklin Station, Washington, DC 20044.

**Note:** If this form is being filed in accordance with Rev. Proc. 74-11, 1974-1 C.B. 420, see *Schedule D, Part II* on page 4 of these instructions.

The IRS will normally send an acknowledgement of receipt to the applicant within 30 days after the filing of a completed Form 3115. If nothing has been received from the IRS within 30 days of submitting Form 3115, the applicant can write to: Control Clerk, CC:IT&A, Internal Revenue Service, Room 5517, 1111 Constitution Avenue, NW, Washington, DC 20224.

**Note:** Applicants filing under any of the automatic changes listed in the first column will not receive an acknowledgement.

See section 5.01(3) of Rev. Proc. 92-20 for information on filing an early application.

### When Not To File Form 3115

Do not file Form 3115:

- To make a late election out of the installment method or to revoke an earlier election out of the installment method. Instead, submit a request for a letter ruling to the IRS National Office. To request a letter ruling, see Rev. Proc. 92-1.
- To comply with either section 447, 460, or 585 in the first required year by one of those sections. In addition, applicants making changes to comply with section 263A or 448

in the first required year, need only to file Form 3115 with their income tax return.

## Late Applications

A Form 3115 that is filed after the 180-day period is considered to be a late application. However, applications filed within 90 days after the time required for filing may be considered as timely filed under Regulations section 301.9100-1 when the applicant provides evidence to establish that:

1. The taxpayer acted reasonably and in good faith, and
2. Granting relief will not prejudice the interests of the government. See section 5 of Rev. Proc. 92-85, 1992-42 I.R.B. 32.

Applications filed beyond 90 days after the due date of Form 3115 will be presumed to jeopardize the interests of the government except in very unusual and compelling circumstances. See section 5 of Rev. Proc. 92-20. A Form 3115 is not late if it is being filed after the 180-day period under any of the automatic changes based on the expeditious procedure rules listed on page 1. Refer to these revenue procedures for specific information.

## Specific Instructions

All applicants must complete pages 1 and 2 of Form 3115. In addition, complete and attach only the appropriate schedule(s) for the change in method requested. The four schedules are as follows:

- Schedule A—Change in Overall Method of Accounting
- Schedule B—Changes Within the LIFO Inventory Method
- Schedule C—Change in the Treatment of Long-Term Contracts, Inventories, or Other Section 263A Assets
- Schedule D—Miscellaneous Changes in Method of Accounting

All attachments to Form 3115 must indicate the applicant's name and identifying number. Also, indicate that the information is an attachment to Form 3115.

### Identifying Number

**Individuals.**—Individuals enter their social security number in this block. If the application is made on behalf of a husband and wife who file their income tax return jointly, enter the social security numbers of both.

**Others.**—The employer identification number of an applicant other than an individual should be entered in this block. If the employer identification number is unknown because one has been applied for but not yet received, enter "Applied for."

### Address

Include the suite, room, or other unit number after the street address.

If the Post Office does not deliver mail to the street address and the applicant has a P.O. box, show the box number instead of the street address.

**Person to contact.**—The person to contact must be the person authorized to sign Form 3115, or the applicant's authorized representative. If the person to contact is an agent for the applicant, attach **Form 2848**,

Power of Attorney and Declaration of Representative.

## Pages 1 and 2—All Applicants

**Item 2b.**—Enter the business activity code no., if applicable, as designated on the applicant's income tax return.

**Item 3b.**—Provide a description of the present and proposed new method of accounting. Use of the term "see attached" is not acceptable.

**Item 3d.**—Insert the actual number of tax years. Use of the term "since inception" is not acceptable. However, "more than 6 years" is acceptable.

**Items 8a and 8b.**—If the applicant is a member of a related group, provide the gross receipts and taxable income for each member.

**Item 8a.**—The term "gross receipts" includes total sales (net of returns and allowances) and all amounts received for services. In addition, gross receipts includes any income from investments and from incidental or outside sources (e.g., interest, dividends, rents, royalties, and annuities). However, if the applicant is a resaler of personal property, exclude from gross receipts any amounts not derived in the ordinary course of a trade or business. Gross receipts do not include amounts received for sales taxes if, under the applicable state or local law, the tax is legally imposed on the purchaser of the goods or service, and the applicant merely collects the tax and remits it to the taxing authority.

**Item 8b.**—Enter taxable income or (loss) from operations **before** application of any net operating loss deduction under section 172(a).

Individuals enter net profit or (loss) from business; partnerships and S corporations enter ordinary income or (loss); tax-exempt organizations enter unrelated business taxable income; and estates or trusts enter adjusted total income.

**Item 9b.**—If Item 9b is "Yes," indicate on a separate sheet the following for each separate trade or business: Type of business (manufacturing, retail, wholesale, etc.), employer identification number, overall method of accounting, and whether, in the last 6 years, the business changed its accounting method, or is changing its accounting method as part of this request or as a separate request.

**Item 13.**—If the requested information cannot be provided, the applicant should:

1. Estimate and provide the net section 481(a) adjustment that would have been required if the requested change had been made for the preceding year and explain why the actual amounts cannot be provided; and
2. Submit the perjury statement required by section 8.01(2) of Rev. Proc. 92-20.

If the IRS later examines the return for the year of the change or for later years, it has the right to verify the perjury statement at that time.

**Item 17.**—Answer "Yes" to item 17 if the applicant wants a **conference** of right at the IRS National Office if the IRS proposes to disapprove the application.

## Signature

Form 3115 **MUST** be signed by the applicant as discussed below. File the original and keep a copy for the applicant's records.

**Individual.**—If the application pertains to a husband and wife filing a joint income tax return, the names of both should appear in the heading and both should sign.

**Partnerships.**—The form should show the name of the partnership followed by the signature of one of the general partners and the words "General Partner."

**Corporations, S corporations, personal service corporations, cooperatives, and insurance companies.**—The form should show the name of the company and the signature of the president, vice president, treasurer, assistant treasurer, or chief accounting officer (such as the tax officer) authorized to sign, and that person's official title. Receivers, trustees, or assignees must sign the application they are required to file. For a subsidiary corporation filing a consolidated return with its parent, the form should be signed by an officer of the parent corporation.

**Estates or trusts.**—The form should show the name of the estate or trust and be signed by the fiduciary, personal representative, executor, administrator, etc., having legal authority to sign, and that person's official title.

**Tax-exempt organizations.**—The form should show the name of the organization and the signature of a principal officer or other person authorized to sign, followed by that person's official title.

**Preparer other than applicant.**—The individual preparing the application, other than the applicant, should also sign it. An individual or firm also authorized to represent the applicant before the IRS, to receive a copy of the requested ruling, or to perform any other act(s), must reflect such authorization in the power of attorney.

## Schedule A

### Part I—Change in Overall Method

All applicants requesting permission to change their overall method of accounting must complete this section. Rev. Proc. 92-74 and Rev. Proc. 92-75 contain procedures that the applicant may be able to use to obtain expeditious approval for an overall change in accounting method from the cash method to the accrual method.

**Items 1a through 1g.**—Although some of the amounts requested here may not have been required in computing taxable income due to the applicant's present method of accounting, include those amounts in Items 1a through 1g. Schedule A will be incomplete if these amounts are omitted.

Do not include amounts that represent the correction of a math or posting error, errors in the computation of tax liability, or an adjustment to the useful life of a depreciable asset.

**Item 1b.**—Include all amounts reported as income in a prior year even if the income was not earned or received in the prior year (e.g., a discount on installment loans reported as income in the year the loans were made instead of in the year(s) the income was received or earned).

If the applicant is requesting to defer its advance payments from the sale of goods or services, complete Schedule D, Part IV. See Regulations section 1.451-5 or Rev. Proc. 71-21, 1971-2 C.B. 549. If the applicant is changing its accounting method for interest and/or discount on loans or other debt obligations, complete Schedule D, Part I.

**Item 1g.**—If the amount of inventory on hand is different from the amount reported on the applicant's income tax return, the applicant must also complete Schedule C, Part II and, if applicable, Part III.

**Item 5a.**—The nonaccrual-experience method specified in section 448(d)(5) is only available to applicants using the accrual method of accounting for amounts to be received for the performance of services. If the applicant is eligible to use this method, and is requesting to use this method in conjunction with a change to the accrual method, the section 481(a) adjustment must be reduced by the portion of the eligible receivables the applicant has determined will not be collected. See Temporary Regulations section 1.448-2T(e) for rules for determining uncollectible amounts.

**Item 5b.**—Indicate which system the applicant intends to use in applying the nonaccrual-experience method. See Temporary Regulations section 1.448-2T(e)(3) and Notice 88-51, 1988-1 C.B. 535.

**Item 6.**—As part of the change to an accrual method, an applicant may also request to use the recurring item exception for the year of change. The applicant should provide the information described in Temporary Regulations section 1.461-3T, Q-7. If an eligible applicant is requesting to use the method specified in section 461(h)(3), the section 481(a) adjustment must be determined to account for the amount of the additional deduction.

The following example illustrates how an applicant should compute the section 481(a) adjustment when changing to an accrual method as well as changing to the nonaccrual-experience method and/or the recurring item exception.

**Example.**—ABC corporation, a calendar year taxpayer using the cash method of accounting, has the following items of unreported income and expense on December 31, 1991:

Accrued income . . . . .	\$250,000
Uncollectible amounts based on the nonaccrual-experience method . . . . .	50,000
Accrued expenses properly deductible (economic performance has occurred) . . . . .	75,000
Expenses eligible for recurring item exception . . . . .	5,000

ABC corporation changes to an overall accrual method for calendar year 1992. The section 481(a) adjustment is computed in the following manner:

Accrued income . . . . .	\$250,000
<b>Less:</b>	
Uncollectible amount . . . . .	<u>50,000</u>
Net amount of income to be accrued . . . . .	\$200,000
<b>Less:</b>	
Accrued expenses . . . . .	75,000

Expenses deducted as recurring item . . . . .	<u>5,000</u>
<b>Section 481(a) adjustment . . . . .</b>	<b>\$120,000</b>

**Part II—Change to the Cash Method**

Use an attached statement to describe the information requested in this part.

**Limits on the use of the cash method of accounting.**—Except as provided below, C corporations, partnerships with a C corporation as a partner, and tax shelters may not use the cash method of accounting. For purposes of this limit, a trust subject to tax on unrelated business income under section 511 is treated as a C corporation with respect to its unrelated trade or business activities.

The limit on the use of the cash method as provided by section 448 does not apply to:

1. Farming businesses as defined in section 448(d)(1). Also see Part III below.
2. Qualified personal service corporations as defined in section 448(d)(2).
3. Entities with gross receipts of \$5 million or less. See section 448(c) to see if the applicant qualifies for this exception.

**Part III—Farmers—Change to the Cash Method**

**Item 1b.**—Section 447 requires certain C corporations engaged in the trade or business of farming and partnerships with a C corporation as a partner engaged in the trade or business of farming to use the accrual method of accounting. For purposes of section 447, a corporation will not be treated as a corporation if it is an S corporation or a corporation that meets the gross receipts test of section 447(d).

**Schedule B**

**Changes Within the LIFO Inventory Method**

Use this schedule to request a change from one LIFO method to another LIFO method. Attach all necessary explanations and computations. All applicants completing this schedule must complete Parts I and II.

**Change to Inventory Price Index (IPI) Computation Method.**—Applicants changing to the IPI computation method must use this method for all LIFO inventories. A copy of the Form 970 filed to adopt this method must be attached to Form 3115.

**Schedule C**

**Part I—Change in Reporting Income From Long-Term Contracts**

**Item 1.**—Under section 460(f), the term "long-term contract" means any contract for the manufacture, building, installation, or construction of property that is not completed within the tax year in which it is entered into. However, a manufacturing contract will not qualify as a long-term contract unless the contract involves the manufacture of: (1) a unique item not normally included in finished goods inventory, or (2) any item that normally requires more than 12 calendar months to complete.

Generally, all long-term contracts entered into after February 28, 1986, that do not meet the exceptions under section 460(e) must be accounted for using either the percentage of completion-capitalized cost method or the percentage of completion method. See Notice

87-61, 1987-2 C.B. 370; Notice 88-66, 1988-1 C.B. 552; Notice 89-15, 1989-1 C.B. 634, and section 460.

**Item 3.**—Under the simplified method, only certain costs are used in determining both (1) costs allocated to the contract and incurred before the close of the tax year, and (2) total estimated contract costs. These costs are: (a) direct material costs; (b) direct labor costs; and (c) allowable deductions for depreciation, amortization, and cost recovery allowances on equipment and facilities directly used to construct or produce the subject matter of the long-term contract.

**Item 5a.**—To qualify for the contract exceptions under section 460(e), the contract must be:

1. A real property construction contract, or any other construction contract entered into by the applicant if, at the time the contract is entered into, it is expected to be completed within 2 years and the applicant's average annual gross receipts determined under section 460(e)(2) for the 3-year period preceding the tax year the contract was entered into did not exceed \$10 million; or
2. A home construction contract entered into after June 20, 1988, involving single family residences and dwelling units in buildings containing four or fewer units.

**Part II—Change in Valuing Inventories**

Applicants must give complete details about the present method and the proposed new method of valuing inventory. State whether all or part of the inventory is involved in the change.

**Item 3.**—The rules provided in Rev. Proc. 90-63 must be used if the applicant is changing its method of accounting for package design costs.

**Item 4.**—If an applicant is subject to, but not in compliance with section 263A, the applicant must first comply with section 263A before changing an inventory valuation method.

**Change from the LIFO method.**—If the applicant is currently using a LIFO inventory method and is changing to another LIFO method, use Schedule B, Changes Within the LIFO Inventory Method. If the applicant is changing from LIFO to a non-LIFO method, the applicant may be eligible to use the expeditious procedure rules under Rev. Proc. 88-15. If so, attach the following additional information to Form 3115:

1. A statement explaining whether the proposed identification and valuation methods conform to the inventory method currently used with respect to non-LIFO inventories, if any, or how such method is otherwise consistent with Regulations section 1.472-6.
2. The termination event statement required by section 7 of Rev. Proc. 88-15 and an explanation if there has been a termination event.

3. If applicable, a representation that the group of financially related corporations has or has not issued nonconforming financial statements in violation of section 472(g) for a tax year beginning after July 18, 1984.

If the applicant properly elected the LIFO inventory method but is unable to furnish a copy of Form(s) 970, attach the following

statement, signed by the applicant, to Form 3115:

"Under penalties of perjury, I certify that to the best of my knowledge and belief (**name of applicant**) properly elected the LIFO inventory method by filing Form 970 with its return for the taxable year(s) ended (**insert date(s)**) and otherwise complied with the provisions of section 472(d) and Regulations section 1.472-3."

### Part III—Method of Cost Allocation

Applicants requesting to change their method of accounting for any property (produced or acquired) that is subject to section 263A or any long-term contracts under section 460 must complete this schedule.

If the change involves noninventory property that is subject to section 263A, attach a detailed description of the types of property involved and an explanation detailing how that property was accounted for prior to January 1, 1987.

There are several methods available for allocating and capitalizing costs in accordance with section 263A. A change to or from any of these methods is a change in accounting method that requires the consent of the Commissioner. Using the applicable regulations and notices listed below, the applicant should verify which methods are presently being used and the proposed new methods before completing Schedule C, Part III.

#### Allocating Indirect Costs

General rule and specific identification—Temporary Regulations section 1.263A-1T(b)(3)(iii)(A).

Burden rate method—Temporary Regulations section 1.263A-1T(b)(3)(iii)(C).

Standard cost method—Temporary Regulations section 1.263A-1T(b)(3)(iii)(D).

#### Allocating Service Costs

General rule—Temporary Regulations section 1.263A-1T(b)(4)(i).

Direct reallocation method—Temporary Regulations section 1.263A-1T(b)(4)(iii)(A).

Step allocation method—Temporary Regulations section 1.263A-1T(b)(4)(iii)(B).

Simplified service cost method—Temporary Regulations section 1.263A-1T(b)(6)(i).

Labor-based simplified service cost method—Notice 88-86, 1988-2 C.B. 401, section II(B)(1).

Simplified resale service cost method—Notice 88-86, section III(A)(1).

#### Capitalizing Additional Section 263A Costs (including service costs)

Simplified production method—Temporary Regulations section 1.263A-1T(b)(5)(ii).

Simplified service cost method—Temporary Regulations section 1.263A-1T(b)(6)(i).

Simplified resale method—Temporary Regulations section 1.263A-1T(d)(3)(i).

U.S. ratio method—Notice 88-104, 1988-2 C.B. 443.

Alternative simplified resale method—Notice 88-86, section III(A)(2).

Modified resale method—Notice 89-67, 1989-1 C.B. 723, section II(A).

### Schedule D

#### Part I—Change in Reporting Interest on Loans and Other Debt Obligations

Use Part I for all applicants that are changing their treatment of any type of interest on loans and other debt instruments.

**Item 1.**—Applicants may obtain expeditious consent to change their accounting methods for reporting interest income on short-term loans to customers in accordance with section 1281. See Rev. Proc. 90-37. Cash method applicants who want to change their method for reporting interest income on series E or EE U.S. savings bonds may also obtain expeditious consent. See Rev. Proc. 89-46.

**Item 4.**—If the change involves interest on installment loans, the applicant should see Rev. Rul. 83-84 and Rev. Proc. 83-40. If this is a change from the sum of the months digits method (rule of 78's) to the economic accrual of interest method for reporting interest (discount), the applicant may be eligible to use the expeditious procedure rule in Rev. Proc. 84-30.

**Item 6.**—If the original issue discount rules of section 1271 and 1274 do not apply, Rev. Rul. 70-540 provides the tax year in which lending institutions are to include in their income the points, commitment fees, and service fees charged by them in connection with real estate mortgage loans. Applicants must explain how Rev. Rul. 70-540 applies. Include the identification of the applicable situation described in the revenue ruling that fits the applicant's request.

#### Part II—Change in Depreciation Under Section 167

Use Part II to request a change in method of accounting for depreciation under section 167.

Rev. Proc. 74-11 provides a procedure for applicants that are considered to have obtained the consent of the IRS to change their method of accounting for depreciation. Form 3115 must be filed within the first 180 days of the tax year in which the change is requested. File Form 3115 with the service center where the income tax return will be filed and attach a copy of Form 3115 to the income tax return for the tax year of the change.

**Note:** Do not use Form 3115 to make or revoke an election under section 168. An election under section 168 may be made only on the tax return for the year in which the property is placed in service. To revoke an earlier election made under section 168, submit a request for a letter ruling to the IRS National Office. See Rev. Proc. 92-1.

#### Part III—Change in Treatment of Property Used in a Trade or Business

Indicate what type of property is involved in the change and provide examples. Attach a statement indicating whether the change is requested for the applicant's entire investment in the property. If the change involves more than one type of property, attach an explanation.

**Materials and supplies.**—In general, materials and supplies can only be expensed in the tax year they are actually used or consumed. However, there is an exception for incidental materials and supplies if no record of consumption is kept and no physical inventories are taken. See Regulations section 1.162-3.

#### Part IV—Change in Reporting Advance Payments

**Item 1.**—In general, payments received for services to be performed in the future must be included in gross income in the tax year of receipt. However, Rev. Proc. 71-21 allows applicants on the accrual method, in certain specific and limited circumstances, to defer for Federal income tax purposes, payments received (or amounts due and payable) in one tax year if the services are to be performed by the end of the succeeding tax year. For purposes of Rev. Proc. 71-21, amounts due and payable are treated as payments received. An applicant requesting to defer advance payments must show that the applicant meets the requirements of Rev. Proc. 71-21 and attach a sample service contract.

**Item 2.**—Advance payments received from a contract for the sale of goods can be deferred for Federal income tax purposes until the 2nd year following the receipt of substantial advance payments on the contract. See Regulations section 1.451-5 for requirements that must be met and for the definition of "substantial advance payments."

#### Part V—Other Changes in Method of Accounting

If the applicant is requesting an accounting method change and Schedule A, B, C, or D did not provide for that type of change, use Part V. Give a full explanation of the method presently used and the proposed new method. If more space is needed, attach additional pages.