March 3, 2021

BIR RULING NO. OT-064-21

Sec. 41, NIRC; BIR Ruling No. 49-2016

ANFLO Banana Corporation
Bo. Napnapan, Pantukan,
Comval Province 8809

Attention: *AAA*

Gentlemen :

This refers to your letter dated October 4, 2019 requesting for ruling or approval to change its accounting method on inventory costing from First-In-First-Out (FIFO) to Moving Average Method for materials and supplies inventory starting January 1, 2019.

As represented, **ANFLO BANANA CORPORATION**, with Taxpayer Identification Number (TIN) 000-000-000-000, is a corporation duly organized and existing under and by virtue of Philippine laws with office address at Barangay Napnapan, Municipality of Pantukan, Province of Compostela Valley. It is engaged in the business of establishing agricultural venture, acquiring, leasing, buying, developing, exploiting and occupying agricultural lands of the public domain or private persons and entities; promoting and encouraging scientific methodical farming and cooperative marketing of farm products and for such allied purposes.

Since its incorporation, the Company has consistently adopted the FIFO method in costing its materials and supplies. In order to facilitate its cost accounting and optimize the use of its computerized system, the Company will install computerized cost accounting system. The Computerized Accounting System (CAS) to be adopted is Systems Applications and Products (SAP) Enterprise Resource Planning (ERP) Software which recognizes the Moving Average method for materials and supplies. Correspondingly, the Moving Average Method will be a more effective costing method for the valuation of inventories and will best conform to the Company's Accounting Practice as said valuation method will clearly reflect its income.

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Consequently, per Corporate Secretary's Certificate, the Board of Directors approved and authorized the Company to change its inventory costing method, for materials and supplies, from FIFO costing method under Microsoft GP ERP (Enterprise Resource Planning) Software to Moving Average costing method under SAP (Systems Applications and Products) ERP Software. Hence, the request for a ruling providing for the approval to change accounting method on inventory costing, *viz.*:

Inventory	From	To
Materials	FIFO	Moving Average
Supplies	FIFO	Moving Average

In reply, please be informed that Section 41 of the National Internal Revenue Code (Tax Code) of 1997, as amended, provides:

> *"Section 41. Inventories. — Whenever in the judgment of the Commissioner, the use of inventories is necessary in order to determine clearly the income of any taxpayer, inventories shall be taken by such taxpayer upon such basis as the Secretary of Finance, upon the recommendation of the Commissioner, may, by rules and regulations, prescribe as conforming as nearly as may be to the best accounting practice in the trade or business and as most clearly reflecting the income.*
>
> *If a taxpayer, after having complied with the terms and conditions prescribed by the Commissioner, uses a particular method of valuing its inventory for any taxable year, then such method shall be used in all subsequent taxable years unless:*
>
> *(i)* ***with the approval of the Commissioner, a change to a different method is authorized****; or*
>
> *(ii) the Commissioner finds that the nature of the stock on hand (e.g., its scarcity, liquidity, marketability and price movements) is such that inventory gains should be considered realized for tax purposes and, therefore, it is necessary to modify the valuation method for purposes of ascertaining the income, profits, or loss in a more realistic manner: Provided, however, That the Commissioner shall not exercise its authority to require a change in inventory method more often than once every three (3) years: Provided, further, That any change in an inventory valuation method must be subject to approval by the Secretary of Finance."* (Emphasis provided.)

In relation to the above section of the Tax Code of 1997, as amended, Section 145 of Revenue Regulations No. 2 states:

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"Section 145. Valuation of Inventories. — The law provides two tests to which each inventory must conform. — (1) it must conform as nearly as possible to the best accounting practice in the trade or business, and (2) it must clearly reflect the income. It follows, therefore, that inventory rules can not be uniform but must give effect to trade customs which come within the scope of the best accounting practice in the particular trade or business. In order to clearly reflect income, the inventory practice of a taxpayer should be consistent from year to year, and greater weight is to be given to consistency than to any particular method of inventory or basis of valuation, as long as the method of basis used is substantially in accord with these regulations, an inventory that can be used under the best accounting practice in a balance sheet showing the financial position of the taxpayer is, as a general rule, regarded as clearly reflecting his income."

Since the change in **ANFLO BANANA CORPORATION's** accounting method is in order to clearly reflect the income of the said corporation in line with its adoption of the Systems Applications and Products (SAP) Enterprise Resource Planning (ERP) Software which uses the moving average method rather than the FIFO method of inventory costing, **ANFLO BANANA CORPORATION** is hereby granted permission to change its accounting method from FIFO to Moving Average method starting January 1, 2019 pursuant to the provision of Section 41 of the Tax Code of 1997, as amended, provided that such conforms to the best accounting practice in its trade or business and will clearly reflect the income of the Company.

This ruling is being issued on the basis of the foregoing facts as represented. However, if upon investigation, it will be ascertained that the facts are different, then this ruling shall be considered null and void.

Very truly yours,

(SGD.) CAESAR R. DULAY
Commissioner of Internal Revenue

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