REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE
Quezon City

Sec. 41, NIRC
BIR Ruling No. 49-2016
CT- 078-2021
MAR 18 2021

REYES TACANDONG & CO.
LANDCO Building, J.P. Laurel Avenue,
Davao City 8000

Attention: **MA. C. ELEANOR M. MONTENEGRO**
Principal, Tax Services

Gentlemen:

This refers to your letter dated December 19, 2019 requesting on behalf of **ANFLO CONSTRUCTION CORPORATION** for ruling or approval to change its accounting method on inventory costing from First-In-First-Out (FIFO) to Weighted Average Method for inventory costing starting January 1, 2019.

As represented, **ANFLO CONSTRUCTION CORPORATION,** with Taxpayer Identification Number (TIN) , is a corporation duly organized and existing under and by virtue of Philippine laws with office address at Damosa Complex, Lanang, Davao City 8000. It was registered with the Securities and Exchange Commission (SEC) on February 21, 1994, with SEC Certificate of Registration No.

The company was established "to engage in general engineering construction and other allied business including the constructing, enlarging, repairing, servicing, developing, or otherwise enagging in any work upon buildings, roads, highways, manufacturing plants, bridges, airfield, piers, docks, mines, wood, masonry, and earth construction and to make, execute, bid for and take or receive any contract or assignment or contract therefore, or in relation thereto or connected therewith and to manufacture and furnish building materials and supplies connected therwith; and doing of any and all other business and constructing incidental thereto or connected therwith, and the doing or construction for and incidental to the furtherance and/or implementation of the purposes therein mentioned."

From the time of its incorporation, the Company has consistently adopted the FIFO Method in costing its inventory. In 2019, the companies under the Anflo Group (the "Group"), which includes the Company, have adopted the Weighted Average Method in costing its inventories, as a result of the change of the Group's accounting system. In order to align the method of inventory valuation with the other companies under the Group, the Company has decided to adopt the Weighted Average Method of inventory valuation.

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As further represented, the use of the Weighted Average Method of inventory valuation will not result to a substantial change in the total cost of sales and gross profit. Thus, the adoption of the new inventory valuation method will still clearly reflect the income of the Company.

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:

> *"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."*

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Since the change in **ANFLO CONSTRUCTION CORPORATION's** accounting method is in order to align its method of valuation with that of the other companies under the Anflo Group, its adoption of the new Weighted Average Method rather than the FIFO method of inventory starting January 1, 2019 is hereby granted permission provided that such method conforms to the best accounting practice in its trade or business and will clearly reflect the income of the company pursuant to the provision of Section 41 of the Tax Code of 1997, as amended.

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,

CAESAR R. DULAY
Commissioner of Internal Revenue

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