REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF FINANCE
BUREAU OF INTERNAL REVENUE

Quezon City

Sections 41& 145 of the Tax Code of 1997
BIR Ruling No. 567-12
#048-2016 1-29-2016

A.M. Sison, Jr. & Partners Law Office
Suite 2002- A Security Bank Centre
6776 Ayala Avenue, 1226 Makati City

Attention: **Carlito P. Egaña**

Gentlemen:

This refers to your letter dated June 23, 2014 requesting on behalf of TOYO INK (PHILIPPINES) CO. INC., (TOYO INK), for the approval of the authority to change its accounting method on inventory costing from First-In-First-Out (FIFO) to Weighted Average Method effective January 1, 2014.

It is represented that TOYO INK, with Tax Identification Number
s a corporation duly organized and existing under the laws of the Philippines; that it was registered with the Securities and Exchange Commission on May 9, 1989, with SEC Certificate of Registration No. hat from the time of its incorporation, TOYO INK has consistently adopted the FIFO Method in costing its inventory; that as a subsidiary company, TOYO INK is required to periodically render a report of its financial operations to its parent company, TOYO INK SC HOLDINGS CO., LTD., which uses the Weighted Average Method; that by reason thereof, TOYO INK would have to convert its cost accounting from FIFO Method into Weighted Average Method every time it submits financial report to the parent company; that in order to lessen the burden associated with the financial reporting and to be compatible with the inventory costing method of its parent company and other affiliates and subsidiaries around the world, TOYO INK would like to change its accounting method from FIFO to Weighted Average Method; and that the use of the Weighted Average Method will not result to a substantial difference in the total cost of sales and the gross profit, as illustrated below:

Statement of Gross Profit January 2014 to March 2014 FIFO vs Weighted Average		
January	**FIFO**	**Weighted Average**
Sales		
Cost of Sales		
Gross Profit		

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February		
Sales		
Cost of Sales		
Gross Profit		
March		
Sales		
Cost of Sales		
Gross Profit		
TOTAL (Jan-Mar)		
Sales		
Cost of Sales		
Gross Profit		

In support of its application, TOYO INK submitted the following documents:

1) Comparison of the Cost of Sales and Gross Profit from January to March, 2014;
2) Monthly Comparison of FIFO vs. Weighted Average Method in Inventory Costing of Finished Goods for 12 months (January to December, 2013) and for 3 months (January to March, 2014);
3) Monthly Comparison of FIFO vs Weighted Average Method in Monthly Cost of Sales for 12 months (January to December, 2013) and for 3 months (January to March, 2014);
4) Summary of Journal Entries- FIFO vs Weighted Average Method for January to July 2013;
5) Minutes of the Meeting of the Board of Directors on resolution to adopt the Weighted Average Method in costing TOYO INK's inventories;
6) Secretary's Certificate on the aforesaid Board Resolution;
7) Certification by the President of TOYO INK that the Board of Directors approved the use of Weighted Average Method in costing its inventory effective as of January 1, 2014; and
8) Other relevant documents.

In reply, please be informed that on the basis of the above representations, TOYO INK is hereby granted permission to change its accounting method from FIFO Method to Weighted Average Method pursuant to the provisions of Section 41 of the National Internal Revenue Code (Tax Code) of 1997, as amended, in relation to Section 145 of Revenue Regulations No. 2, pertinent portion of which provide that —

> *"SEC. 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 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 his 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."

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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 cannot 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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Considering that TOYO INK's request for authority to change its inventory costing method is in order to make its accounting method compatible with the inventory costing method of its parent company and other affiliates and subsidiaries, and since the change thereof would still clearly reflect the income of the company, this Office hereby grants TOYO INK the authority to use the Weighted Average Method. (*BIR Ruling No. 567-12* dated September 11, 2012)

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

Recommended by:

KIM S. JACINTO-HENARES
Commissioner of Internal Revenue

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JAN 08 2016

Approved by:

HON. CESAR V. PURISIMA
Secretary
Department of Finance

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