January 10, 2019

BIR RULING NO. 081-19

Sec. 41 of the National Internal Revenue Code of 1997, as amended; Revenue Regulations No. 2; BIR Ruling No. 250-14

Punongbayan & Araullo
19th and 20th Floors, Tower 1
The Enterprise Center,
6766 Ayala Avenue
1200 Makati City

Attention: *AAA*

Gentlemen :

This refers to your letter dated December 17, 2014, requesting on behalf of your client, **Tempo Scan Pacific Philippines, Inc. ("TSPPI" for brevity)**, for an authority to change its accounting method of valuing its inventories from "first-in-first-out" (FIFO) method to Weighted Average Method effective January 1, 2015.

It is represented that TSPPI with Taxpayer's Identification No. (TIN) 000-000-000-000 and Certificate of Registration No. OCN 3RC0000663153 dated August 06, 2007, is a stock corporation duly organized under the laws of the Republic of the Philippines, and that it is registered with the Securities and Exchange Commission (SEC) under Company Registration No. CS200712196.

It is further represented that TSPPI's decision to change its method of inventory to weighted average method is founded on the following reasons:

a. Aligning its method of inventory valuation with its parent company;

b. New unit cost is determined after every purchase; and

c. Weighted average method levels out the effects of market fluctuations in inventory prices and produces inventory valuation that approximates current value.

and that by using the weighted average method, it would conform to the best accounting practice of TSPPI's trade and business as a distributor and wholesaler of food, beverage,

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pharmaceutical and personal care products, and it would clearly reflect the true income of TSPPI.

In reply, please be informed that on the basis of the above representations, TSPPI 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 of 1997, as amended, in relation to Section 145 of Revenue Regulations No. 2, pertinent portion of which provides that:

> *"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 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, profit, 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."*
>
> *"Section 145. Valuation of Inventories. — The law provides two tests to which 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 or 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."*

Considering that TSPPI's change of its accounting method will best conform to its accounting practice as said Weighted Average Method will clearly reflect its income, this

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Office hereby grants authority to TSPPI to change its accounting method of valuing its inventories from FIFO method to Weighted Average Method effective January 1, 2015.

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 the ruling shall be considered null and void.

Recommending Approval:

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

Approved:

(SGD.) CARLOS G. DOMINGUEZ III
Secretary of Finance

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