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

Sec. 41, NIRC
BIR Ruling No. 49-16
CT-175-2021
MAY 19 2021

DAVAO PACKAGING CORPORATION
Purok 9, Block 1
A.O. Floirendo, Panabo City

Attention: **Mr. Alfred E. Samson**
Chief Financial Officer

Gentlemen:

This refers to your letter dated October 4, 2019 requesting for authority, pursuant to Section 41 of the National Internal Revenue Code of 1997, as amended (Tax Code), to change the accounting method on inventory costing of DAVAO PACKAGING CORPORATION ("the Company") from First-In, First-Out (FIFO) method to Moving Average method for raw materials inventory, and from Average Production Cost method to Standard Price method for work-in-process inventory and finished goods inventory effective January 1, 2019.

As represented, DAVAO PACKAGING CORPORATION (TIN:) is a corporation duly organized and existing under Philippine laws, with office address at Purok 9, Block 1, A.O. Floirendo, Panabo City.

The Company is engaged in the business of manufacturing, producing and processing paper and pulp, cartons, corrugated cardboard, plastic products, boxes, paper or cardboard containers, packaging materials and other allied or similar products for sale, whether in domestic or foreign markets and, for this purpose, sell, purchase, import, export, trade in, barter, or deal with, such materials, paper, pulp, machineries, equipment and tools necessary to effect the same.

The Large Taxpayers Service of the BIR issued a Permit to Use (PTU) Computerized Accounting System in favor of the Compnay on November 26, 2018. The PTU is valid from December 3, 2018 to December 2, 2023.

Consequently, per Corporate Secretary's Certificate dated 5 August 2019, the Board of Directors approved and authorized the Company to change its inventory costing method for the following items from their respective previous costing methods under Microsoft GP ERP

MAY 19 2021

(Enterprise Resource Planning) Software to its new costing methods under SAP (Systems Applications and Products) ERP Software:

	From	To
Raw Materials	FIFO	Moving Average
Work in Process	Average Production Cost	Standard Price
Finished Goods	Average Production Cost	Standard Price

From the time of its incorporation, the company has consistently adopted the FIFO method in costing its raw materials, and Average Production cost method in costing its work in process and finished goods. 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 to be adopted is Systems Applications and Products (SAP) Enterprise Resource Planning (ERP) Software which recognizes the (1) Moving Average method for raw materials and the (2) Standard Price method for work in process and finished goods. Correspondingly, the Moving Average method for valuing its raw materials and Standard Price method for work in process and finished goods will be a more effective costing method for all the respective inventories and will best conform to its accounting practice as said valuation will clearly reflect the income of the Company.

In reply, please be informed that Section 41 of the Tax Code 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.)

CT-175-2021
MAY 19 2021

In relation to the above section of the Tax Code, 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."*

Considering that the change in the Company's accounting method will best conform to the accounting practice applicable in the trade or business of the Company and the new method of inventory valuation will clearly reflect the income and financial position of the Company, at any given time, **DAVAO PACKAGING CORPORATION** is hereby granted permission to change its accounting method from FIFO method to Moving Average method for raw materials inventory, and from Average Production Cost to Standard Price method for work in process inventory and finished goods inventory pursuant to the provision of Section 41 of the Tax Code.

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.

Sincerely yours,

CAESAR R. DULAY
Commissioner of Internal Revenue

042396

K-1