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

Sec. 41 (i), Tax Code of 1997, as amended
BIR Ruling No. 049-16
OT- 360-2022
AUG 12 2022

Panabo Trucking Services, Inc.
Bo. Antonio O. Floirendo
Panabo City, Davao Del Norte

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

Gentlemen:

This refers to your request on behalf of **Panabo Trucking Services, Inc.** ("PanTrucks" or the "Company") for authority pursuant to Section 41 (i) of the National Internal Revenue Code (Tax Code) of 1997, as amended, to change its inventory method from First-In, First-Out (FIFO) to Moving Average method for the following inventory items – spare parts; office supplies; construction supplies; fuel, oils, and lubricants; tires, tubes and batteries; and other supplies effective January 1, 2021.

Documents show that **PanTrucks** is a domestic corporation duly organized and existing under and by virtue of Philippine laws. It is primarily engaged in the business of transportation of general cargoes, merchandise, freight auto trucks services, and warehousing.

Per Corporate Secretary's Certificate dated October 15, 2021, 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 (Enterprise Resource Planning) Software to their new costing methods under SAP (Systems Applications and Products) ERP Software:

Inventory	From	To
Spare parts	FIFO	Moving Average
Office Supplies	FIFO	Moving Average
Construction Supplies	FIFO	Moving Average
Fuel, Oils and Lubricants	FIFO	Moving Average
Tires, Tubes and Batteries	FIFO	Moving Average
Other Supplies	FIFO	Moving Average

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From the time of its incorporation, the Company has consistently adopted the FIFO method in costing its spare parts, office supplies, construction supplies, fuel, oils, and lubricants, tires, tubes and batteries, and other supplies. In order to facilitate its cost accounting and optimize the use of its computerized system, the Company will install computerized cost accounting system (CAS). The CAS to be adopted is SAP ERP Software which recognizes the Moving Average method for spare parts, office supplies, construction supplies, fuel, oils, and lubricants, tires, tubes and batteries, and other supplies.

In reply, please be informed that Section 41 of the 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, 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."*

Since the change in **PanTrucks's** accounting method is needed because of its adoption of the new CAS, which system uses the Moving Average method rather than the FIFO method of inventory costing, the Company is hereby granted permission to change its accounting method from FIFO to Moving Average method for the following inventory items: spare parts; office supplies; construction supplies; fuel, oils, and lubricants; tires, tubes and batteries; and other supplies effective January 1, 2021 pursuant to the provision of Section 41 of the Tax Code of 1997, as amended, provided that such method conforms nearly as possible to the best accounting practice in the trade or business, and it 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,

Lilia C. Guillermo

LILIA CATRIS GUILLERMO
Commissioner of Internal Revenue

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