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

| Sec. 41, NIRC |
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| BIR Ruling No. 49-2016 |
| CT-559-2021 |
| OCT 04 2021 |

**SyCip Gorres Velayo & Co.**
6760 Ayala Avenue
1226 Makati City

Attention: **Atty. Reynante M. Marcelo**
Partner, Tax Services

Gentlemen:

This refers to your letter dated July 18, 2019 requesting on behalf of your client, **Unimart, Incorporated** ("Unimart" 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 effective July 1, 2019.

As represented, Unimart, is a domestic corporation engaged primarily in the business of wholesale and retail of general merchandise and grocery items. It is also a top 20,000 corporation. Unimart is owned 94% by Makati Supermarket Corporation (MSC) while its ultimate parent company is JHN Holding Company Inc.

Since its incorporation, Unimart has been consistently using the FIFO method in the costing of its inventories. On August 31, 2018, Unimart has applied for BIR authority to adopt a new computerized accounting system (CAS) based on Systems Applications and Products in Data Processing or SAP. The adoption by the Company of a new CAS will ensure faster processing of data, reduction of the possibility of errors, easy storage and retrieval of data, thus the change will have the effect of clearly reflecting the income of Unimart. However, the new CAS uses Moving Average method rather than the FIFO method of inventory costing, which is the method recognized by the new CAS, effective July 1, 2019.

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 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."*

Since the change in Unimart'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, Unimart is hereby granted permission to change its accounting method from FIFO method to Moving Average method effective July 1, 2019 pursuant to the provision of Section 41 of the Tax Code of 1997, as amended. It is understood, however, that such accounting method must conform to the best accounting practice in the trade or business, and must 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,

**CAESAR R. DULAY**
Commissioner of Internal Revenue

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