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

Sec. 41 of the National Internal Revenue Code of 1997, as amended; Revenue Regulations No. 2
BIR Ruling No. 250-14
OT-0447-2019

AUG 09 2019

DEL MONTE PHILIPPINES, INC.
JY Campos Centre, 9th Ave. cor. 30th St.,
Bonifacio Global City, Taguig City

Attention: SOPHIA AGNES V. JANDAYAN
Chief Accountant

Gentlemen:

This refers to your letter dated July 29, 2016, requesting on behalf of **Del Monte Philippines, Inc. ("DMPI" for brevity)**, for an authority to change its accounting method on inventory costing from "Weighted Average" method to "First-In-First-Out" (FIFO) method effective May 1, 2016.

Background:

As represented, DMPI is a corporation duly organized under the laws of the Republic of the Philippines and registered with the Securities and Exchange Commission (SEC) under Company Registration No. [redacted]. It is doing business under the name and style of *PHILPACK and PHILPAK.* It is also registered with Revenue District Office (RDO) No. 122 with Taxpayers Identification Number (TIN) [redacted], and adopts Fiscal Year ending [redacted].

DMPI is engaged primarily in growing, processing and distribution of food products mainly under the brand names *"Del Monte", "Todays", and "S&W"*. Its cannery operation is registered with the Philippine Economic Zone Authority at the Philippine Packing Agricultural Export Processing Zone as an Ecozone Export Enterprise under Certificate of Registration No. [redacted] dated December 03, 2007. On October 09, 2015, Certificate of Registration No. [redacted] was also approved for the registration of its additional activity, particularly the Fresh Fruit processing project at the Bukidnon Agro-Resource Export Zone in Manolo Fortich, Bukidnon.

Moreover, DMPI is a wholly-owned subsidiary of Central American Resources, Inc., a corporation organized under the laws of the Republic of Panama. Its intermediate parent company is Del Monte Pacific Ltd. ("DMPL" for brevity), a company incorporated in the British Virgin Islands, and a listed entity in the Singapore Exchange Securities Trading Limited and the Philippine Stock Exchange (PSE). It decided to adopt "FIFO" method of accounting in the costing of its raw materials, packaging materials, traded goods, and storeroom supplies for the following reasons:

1. to align its inventory costing method with DMPL and other affiliates; thus, relieve itself from the burden of converting its financial report to conform to the accounting practice of DMPL and other affiliates;

2. to provide a valuation of inventory which is more reflective of the current market values; currently, the costs of new and recent inventories are averaged with the older costs of inventories; and

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3. to establish a more effective and orderly inventory management system, under the "FIFO" method; thus, minimizing losses caused by obsolete and perishable stocks. This reflects the character and nature of the inventories which are perishable stocks, and hence, the ones which were purchased first are the ones which should also be sold first.

Given the foregoing reasons, DMPI submits that the change of its inventory costing from "weighted average" method to "FIFO" method will certainly conform to the best accounting practice in the trade which will most clearly reflect its true income. Hence, this request.

In reply, please be informed that on the basis of the above representations, DMPI is hereby granted permission to change its accounting method from "weighted average" method to "FIFO" 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 (RR) 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, 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 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."*

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Considering that DMPI's change of its accounting method will best conform to its accounting practice as said "FIFO" method will clearly reflect its income, this Office hereby grants authority to DMPI to change its accounting method of valuing its inventories from "weighted average" method to "FIFO" method effective May 1, 2016.

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.

Very truly yours,

CAESAR R. DULAY
Commissioner of Internal Revenue

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