

# ***IT 2289 - Income tax : valuation of trading stock - average cost or actual cost***

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TAXATION RULING NO. IT 2289

INCOME TAX : VALUATION OF TRADING STOCK - AVERAGE COST  
OR ACTUAL COST

F.O.I. EMBARGO: May be released

REF

H.O. REF: 84/5749-2

DATE OF EFFECT: Immediate

B.O. REF:

DATE ORIG. MEMO ISSUED:

F.O.I. INDEX DETAIL

REFERENCE NO:      SUBJECT REFS:      LEGISLAT. REFS:

|           |                      |       |
|-----------|----------------------|-------|
| I 1078045 | TRADING STOCK        | 31(1) |
|           | - NEWSPAPER INDUSTRY |       |
|           | - VALUATION          |       |
|           | VALUATION            |       |
|           | - TRADING STOCK      |       |

PREAMBLE

Where a taxpayer carries on business section 31 requires each article of trading stock (other than livestock) on hand at the end of a year of income to be taken into account at the taxpayer's option at its cost price or market selling value or the value at which it can be replaced. There is discretionary power for the Commissioner to approve a special basis of valuation in cases where obsolescence or some other special circumstance is involved.

2. In some cases where cost price is selected it is not always practicable to ascertain the cost price of each article of trading stock on hand at the end of the year. In a large business, for example, it is obviously a practical impossibility to trace the actual cost of each article. Trading stock delivered at different times may be so mixed or intermingled that it is simply not possible to ascertain the actual cost of it. A gasoline distributor, for example, may fill his delivery trucks regularly from storage tanks containing a mixture of several shipments of fuel from the refinery. In situations like this average cost is accepted as a sufficiently accurate figure for the purposes of section 31.

3. Nevertheless the strict legal position remains important. The acceptability, or otherwise, of various methods commonly used by accountants to value trading stock must be judged not by reference to established accounting principles but according to whether or not the methods produce reasonable approximations to what would have been the total valuation if each article had been individually valued (at cost price, market value or replacement value, as the case may be).

FACTS

4. In a case considered in this office a taxpayer in the newspaper industry valued its stock of newsprint on hand at the end of the year of income at average cost by reference to purchases of newsprint over the preceding 12 months. On

enquiry, it was ascertained that the size of the rolls of newsprint made them easily identifiable as did the records kept by the company. Moreover, the newsprint on hand at the end of the year had only been purchased within the previous three months.

RULING

5. The taxpayer was informed that the average cost basis was not an acceptable method for valuing the rolls of newsprint on hand at the end of the year. Because the rolls of newsprint were easily identifiable both physically and in the records of the company a valuation based upon actual cost should have been adopted. Average cost is not an acceptable alternative where actual cost of trading stock can be ascertained.

COMMISSIONER OF TAXATION  
18 April 1986

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