


TD 93/D237 - Income tax: how does a fruit grower calculate the cost price of fruit on hand at the end of the year under subsection 31(1) of the Income Tax Assessment Act 1936?

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Draft Taxation Determinations (TDs) represent the preliminary, though considered, views of the ATO. Draft TDs may not be relied on; only final TDs are authoritative statements of the ATO.

Draft Taxation Determination

Income tax: how does a fruit grower calculate the cost price of fruit on hand at the end of the year under subsection 31(1) of the *Income Tax Assessment Act 1936*?

1. Under section 31, a fruit grower may choose to adopt either cost price, market selling value or replacement value for valuing trading stock on hand at the end of the year.

2. The cost price of fruit on hand at the end of the year is calculated using the formula:-

$$\frac{\text{Quantity of Fruit on Hand} \times \text{Total Cost of Production}}{\text{Total Quantity of Fruit Produced During Year}}$$

3. The 'Total Cost of Production' is the total expenditure incurred in getting the fruit into its condition and location at the date of the valuation. In calculating 'total expenditure incurred', subsection 51(1) may require certain items of the expenditure to be apportioned between the production of trading stock and other items.

4. Apportionable expenses for fruit growers could include:-

- (a) wages paid to harvesters, pickers, packers and transporters;
- (b) fruit expenses such as clips, brands, containers, labels, packing material, binding material and accessories;
- (c) food consumed by harvesters, pickers, packers and transporters;
- (d) petrol for running the equipment used for harvesting and picking and any other motor driven equipment;
- (e) depreciation on harvesting and picking equipment and the harvester's and picker's accommodation provided by the fruit grower;
- (f) transportation costs where the fruit is not on the grower's property at the time of the valuation;
- (g) telephone and general expenses;
- (h) any other costs connected with the harvesting, picking, packing and transportation.

Example:

Farmer Dennis, an orchardist and primary producer, needs to calculate the cost of his fruit on hand at the end of the year. During the year, Farmer Dennis has produced a total of 500 crates of fruit. At the end of the year Farmer Dennis has 100 crates of fruit on hand available for sale. His total cost of producing the 500 crates of fruit is \$48,900 and is calculated based on the apportionments listed in the following table.

<i>COST PRICE VALUATION (APPORTIONMENT OF EXPENSES)</i>				
<i>ITEM</i>	<i>\$ Total Expense</i>	<i>\$ Fruit Produced</i>	<i>\$ Other Business</i>	<i>\$ Non- Business</i>
<i>Wages paid to harvesters, pickers, packers and transporters</i>	<i>30,000</i>	<i>25,000</i>	<i>2,000</i>	<i>3,000</i>
<i>Containers, labels, brands, packing material, binding material, accessories</i>	<i>10,000</i>	<i>10,000</i>		
<i>Food consumed by harvesters, pickers, packers, transporters</i>	<i>3,000</i>	<i>2,500</i>	<i>500</i>	
<i>Fuels for running equipment for harvesting and picking</i>	<i>2,000</i>	<i>1,500</i>	<i>500</i>	
<i>Telephone and general</i>	<i>1,000</i>	<i>800</i>	<i>200</i>	
<i>Depreciation on equipment, harvesters' and pickers' accommodation, coolrooms</i>	<i>8,000</i>	<i>7,000</i>	<i>1,000</i>	
<i>Transportation costs</i>	<i>2,000</i>	<i>1,500</i>	<i>500</i>	
<i>Power and cold storage costs</i>	<i>1,000</i>	<i>600</i>	<i>100</i>	<i>300</i>
<i>\$TOTAL</i>	<i>57,000</i>	<i>48,900</i>	<i>4,800</i>	<i>3,300</i>

The cost price value of fruit on hand at the end of the year is calculated as follows:

$$\begin{aligned}
 &\frac{\text{Quantity of Fruit on Hand} \times \text{Total Cost of Production}}{\text{Total Quantity of Fruit Produced During Year}} = \frac{100 \text{ crates} \times \$48,900}{500 \text{ crates}} \\
 &= \$9,780
 \end{aligned}$$

Therefore the value of fruit on hand at the end of the year under the cost method is \$9,780.

Commissioner of Taxation

16/9/93

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