


TD 93/D253 - Income tax: can a primary producer use standard cost to calculate the cost value of grain on hand at the end of the year, where the grain is held for a number of purposes including resale, feed for stock or seed for planting?

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Draft Taxation Determination

Income tax: can a primary producer use standard cost to calculate the cost value of grain on hand at the end of the year, where the grain is held for a number of purposes including resale, feed for stock or seed for planting?

1. Surplus grain held for resale and which is on hand at the end of the year, is required to be brought to account as trading stock under section 28 of the *Income Tax Assessment Act 1936* (see Taxation Ruling IT 147).
2. Surplus grain held for use as feed for stock or seed for planting and which is on hand at the end of the year, is not required to be brought to account as trading stock (see Taxation Ruling IT 147).
3. A primary producer may use standard costs to calculate the cost value of grain on hand at the end of the year, only where the standards used are reviewed regularly to equate with current prices and are representative of the actual costs incurred in bringing the trading stock into its condition and location at the time of valuation.

Example:

Farmer Tony, a primary producer and grain grower, farming a 162 hectare property, has produced 500 tonnes of grain during the year and has 100 tonnes on hand for the year ended 30 June 1993. Of the 100 tonnes of grain on hand, 20 tonnes is for seed, 30 tonnes is for feed and 50 tonnes is for sale.

The total cost of producing the 500 tonnes of grain is \$60,225. The \$60,225 has been calculated by Farmer Tony using standard costs per hectare, reported in an agricultural publication produced by agricultural authorities for the region in which the 162 hectare property is located. The standard costs equate with current prices and are representative of actual costs incurred in bringing the trading stock into its condition and location at the time of valuation.

The standard costs per hectare and total cost of production of the grain for the year ended 30 June 1993 are listed in the following table.

| <i>COST PRICE VALUATION (STANDARD COSTS)</i> | | |
|--|---------------------------------------|---|
| <i>TYPE OF COST</i> | <i>\$ COSTS PER HA</i> | <i>\$ COSTS PER 162 HA</i> |
| <i>Contract harvesters</i> | <i>35.00</i> | <i>5,670</i> |
| <i>Cultivation</i> | <i>13.01</i> | <i>2,107</i> |
| <i>Sowing</i> | <i>26.98</i> | <i>4,370</i> |
| <i>Fertiliser (DAP, Nitrogen Urea) and Application</i> | <i>81.90</i> | <i>13,267</i> |
| <i>Herbicide (Hoegrass, Igran, MCPA) and Application</i> | <i>55.34</i> | <i>8,965</i> |
| <i>Insecticide and Application</i> | <i>32.50</i> | <i>5,265</i> |
| <i>Contract work (excluding harvesting & transportation)</i> | <i>14.50</i> | <i>2,349</i> |
| <i>Levies</i> | <i>11.70</i> | <i>1,895</i> |
| <i>Cartage, grading and bagging</i> | <i>23.70</i> | <i>3,839</i> |
| <i>Food consumed by harvesters</i> | <i>9.25</i> | <i>1,498</i> |
| <i>Depreciation on equipment and accommodation</i> | <i>49.38</i> | <i>8,000</i> |
| <i>Sundry</i> | <i>18.51</i> | <i>3,000</i> |
| <i>TOTAL STANDARD COSTS</i> | <i>\$371.77</i> | <i>\$60,225</i> |

The cost price of the grain held for resale and on hand at the end of the year is calculated as follows:

$$\frac{\text{Quantity of Grain on Hand} \times \$\text{Total Cost of Production}}{\text{Total Quantity of Grain Produced During Year}} = \frac{50 \text{ tonnes} \times \$60,225}{500 \text{ tonnes}}$$

$$= \$6,022$$

Therefore the value of grain for resale and on hand at the end of the year using standard cost is \$6,022.

Commissioner of Taxation

30/9/93

FOI INDEX DETAIL: Reference No.

Related Determinations: TD93/47

Related Rulings: IT 147

Subject Ref: trading stock; grain growers; standard cost method

Legislative Ref: ITAA 28, 31(1)

Case Ref:

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