



PS LA 2008/4 (GA) - Trading stock: valuing bees in honey businesses

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This Law Administration Practice Statement explains how to value bees held as trading stock.

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1. What is this practice statement about?

This statement outlines the principles beekeepers carrying on a business of beekeeping for the purposes of honey production may apply to calculate the value of bees held as trading stock.

The reference to a hive is a reference to the bees that make up the hive and not the hive structure box and frame. The hive structure box and frames are depreciating assets.

2. Key considerations

As most beekeepers are a **small business entity** and have a total population of queen bees worth less than the amount quoted in paragraph 328-285(b) of the *Income Tax Assessment Act 1997*¹ they can value their hives at \$0 because the difference between the opening and closing value is less than that amount.

3. Background

A live hive comprises a queen bee and between 20,000 and 60,000 worker and drone bees, depending on the season. However, the number of bees on hand at the end of each income year is relatively constant.

Worker and drone bees have a short lifespan. They are mostly acquired by natural increase, with minimal associated costs, and so are considered to have nil value.

The queen bee lives for about four years, but is usually replaced, by purchase as a queen bee cell, a nucleus,² or entire live hive every 12-18 months. A queen bee might also be bred by the beekeeper.

¹ \$5,000 since the law commenced on 1 July 2001.

² A nucleus contains a queen bee and enough worker and drone bees to create a live hive.

4. Valuing bees as trading stock

Bees are difficult to account for as trading stock, therefore, the ATO accepts the following principles:

- **Unit of measurement:** One live hive of bees equals one unit of measurement for valuing bees.
- **Nil opening value:** If a unit was not brought to account in the prior income year, its opening value is nil in the year that it is first taken into account, regardless of the method chosen to value the stock.
- **Valuation methods:** Beekeepers may value a particular hive at cost, market value or replacement value, and may vary that choice from year to year at their discretion.

5. Choosing a valuation method

The tax laws provide that a taxpayer must elect to value each item of trading stock on hand at the end of an income year at:

- Cost
- Market selling value, or
- Replacement value.

6. Valuing bees at cost

Hives valued at cost must use the absorption costing method. For this purpose, the cost of a queen bee can be regarded as representing the cost of a live hive on hand at the end of the income year. The cost of a live hive in different situations is explained below:

- Where a live hive is purchased, the cost includes the purchase price plus incidental costs such as transportation, shipping or postage.
- Where a live hive is acquired by splitting an existing hive and replenishing the queen bee or nucleus, the cost includes all costs associated with bringing the new hive into existence.

- Where the queen bee is replaced by another queen bee or a nucleus, the cost includes all costs associated with acquiring that queen bee or nucleus, plus any incidental costs in getting them on hand.
- Where a queen bee is bred, the cost will include all costs associated with breeding the queen plus incidentals in getting her to the hive. These may include an appropriate amount for:
 - queen grafting tools
 - cell cups
 - nucleus boxes
 - entomologist fees
 - queen-rearing kit
 - queen catcher
 - queen-marking/number kit
 - queen candy.

Rearing and maintenance costs do not form part of the cost of a live hive.

7. Average cost method

Sometimes it is impossible to trace and identify each hive so it may be appropriate to adopt the average cost method.

In the interest of reducing compliance costs, we will accept the use of the average industry cost of a queen bee as an estimate of the cost for a queen bee, regardless of whether the beekeeper purchases or breeds queen bees except where a queen bee has been acquired at a significantly higher cost. The industry has advised the average cost of a queen bee purchased from queen bee breeders is \$20³ including shipping or postage charges.

However, we will accept any method that is suited to the situation, provided that it produces a reasonable approximation of the total value. We consider an estimate will be reasonable if it:

- takes into account all relevant factors affecting the stock
- has been undertaken in good faith
- results from a rational and reasoned process
- is capable of explanation to, and verification by, a third party.

³ An average cost of \$9 was determined around 2003 and can be used up to 30 June 2015. An average cost of \$20 can be used from 1 July 2015.

8. Market selling value

Market selling value is the current value of the hive sold in the normal course of business.

9. Replacement value

Replacement value is the amount required to be paid for the live hive in its normal buying market on the last day of the income year.

10. Obsolescence and special circumstances

In these instances, items may be valued at a reasonable value below cost, market selling value or replacement value. This does not apply simply because the livestock is of an unusual type. We do not accept that a hive will have a nil value.

11. Examples

The following examples have ignored GST impacts and other types of trading stock on hand for illustrative purposes.

Example 1 (part 1): Calculating the value of trading stock on hand at year-end – small business entity – first-year trading stock taken into account

John, a small business entity, does not breed his own queen bees and has not previously accounted for his bees as trading stock. For the 2014-15 income year, John accounts for bees for the first time, so the value of the stock as at 1 July 2014, is nil. As a small business entity, he can choose not to account for changes in the value of the stock for the year, providing his reasonable estimate for the stock at year-end is \$5,000 or less.

If John decides the reasonable estimate of the cost of queen bees during the year is the average industry cost, then he can use this as the basis of the valuation.

John reasonably estimates he has 80 hives on hand at year-end. Therefore, the cost of John's trading stock is calculated as follows:

	Cost/item using average industry cost	Number	Value
Stock on hand at 1 July 2014		Nil	Nil
Reasonable estimate of stock on hand at 30 June 2015	\$20	80	\$1,600
Value of trading stock on hand at 30 June 2015			Nil

As the difference between the opening value and closing value of \$1,600 is less than \$5,000, John chooses not to account for the change, and the value of the stock at year end is deemed to be the same as the opening value, and is therefore nil.

Example 1 (part 2): Calculating the value of trading stock on hand at year-end – small business eEntity – subsequent year

During the 2015-16 income year, John purchased 30 queen bees. He used 10 to create new hives and the rest to replace existing queen bees. So, assuming no other events, John has 90 live hives at year-end.

As the value of John's opening stock for the year is nil, and as he is a small business entity, he does not have to account for the stock unless its value exceeds \$5,000.

	Cost/item	Number	Value
Stock on hand at 1 July 2015		Nil	Nil
Reasonable estimate of stock on hand at 30 June 2016	\$20	90	\$1,800
Value of trading stock on hand at 30 June 2016			Nil

As the difference between the value of the opening stock (nil) and the closing stock (\$1,800) does not exceed \$5,000, he does not bring the stock to account in his assessable income. The value of John's trading stock at year end is deemed to be the same value as his opening stock and is therefore nil.

Example 2 (part 1): Calculating the value of trading stock on hand at year end – absorption costing – average cost method – first-year trading stock taken into account

Robert is a small business entity for the 2014-15 income year and has more than 1,000 hives. He hasn't previously accounted for his bees as trading stock and has insufficient records of the number and value of bees at the beginning of the income year. Therefore, the value of trading stock as at 1 July 2014, is nil. He reasonably estimates the value of his stock at 30 June 2015 is more than \$5,000.

Robert conducts a stocktake at year-end and logs 1,050 hives. He chooses to use the average industry cost of a queen bee to calculate the cost of his stock as shown in the table:

Cost of closing stock		
	Number	Value
Stock on hand at 1 July 2014	Nil	Nil
Stock on hand at 30 June 2015 – (industry average cost multiplied by number of hives)	1,050	\$21,000 (20x1,050)
Amount to include in assessable income		\$21,000

Robert will have a one-off increase in assessable income of \$21,000 for the 2014-15 income year.

Example 2 (part 2): Calculating the value of trading stock on hand at year end – absorption costing – average cost method – subsequent year

Robert loses over half of his hives due to disease.

During the 2015-16 income year, Robert bought:

- 20 live hives at \$90 per hive
- 150 queen bees for \$23 each

He also paid \$20 to ship the hives, and \$50 for shipping the queen bees. No other incidentals are recorded.

Robert is a small business entity for the year. He reasonably estimates that the difference between the value of his trading stock at the start of the year (\$21,000) and the end of the year as more than \$5,000 due the hive losses.

A stocktake shows he has 450 hives remaining at year-end. He chooses to use actual cost rather than average industry cost of a queen bee to calculate the cost of his trading stock, as follows:

Cost of purchases – absorption costing		
Cost/item	Number	Amount
Purchases of live hives	20	\$1,800 (\$90x20)
Shipping cost of live hives		\$20
Purchases of queen bees	150	\$3,450 (\$23x150)
Shipping cost of queen bees		\$50
Total costs	170	\$5,320

Cost of closing stock – average method		
	Number	Value
Stock on hand at 1 July 2015	1,050	\$21,000
Cost of purchases	170	\$5,320
Total	1,220	\$26,320
Average cost per hive (Total of value/total of number)		\$21.57 (\$26,320/1,220)
Stock on hand at 30 June 2016 – average cost method (Average cost per hive multiplied by number of hives)	450	\$9,707 (\$21.57×450)
Amount allowed as a deduction		(\$11,293) (\$21,000 – \$9,707)

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Amendment history

Date of amendment	Part	Comment
24 September 2015	All	Updated to new LAPS style and format.
	Contact details	Updated.
	Paragraph 7	Average cost of queen bee updated.
	Examples	Dates and figures updated.
15 May 2014	Examples	Dates updated.
18 April 2013	Examples	Dates updated.
8 July 2011	Various	'Tax Office' updated to ATO as per Style Guide recommendations.
	Paragraph 27	Replaced publication with new publication.
	Various	Dates updated to current income year.
	Contact details	Updated.
October 2010	Contact details	Updated.

References

Subject references	Absorption costing, cost price method, livestock valuation, market selling value method, replacement value method, trading stock, trading stock valuation, trading stock valuation methods
Legislative references	ITAA 1997 Div 70 ITAA 1997 70-10 ITAA 1997 70-45 ITAA 1997 70-50 ITAA 1997 Subdiv 328-E
File references	05/16053
Related public rulings	TD 2008/26 TR 98/2 TR 2006/8 IT 2350
Related practice statements	PS LA 1998/1 PS LA 2003/8
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