

PS LA 2003/13 - Valuing trading stock for retailers and wholesalers

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⚠ This document has changed over time. This version was published on *12 September 2024*



This Practice Statement explains how to value trading stock on hand for retailers and wholesalers.

This Practice Statement is an internal ATO document and an instruction to ATO staff.

Taxpayers can rely on this Practice Statement to provide them with protection from interest and penalties in the following way. If a statement turns out to be incorrect and taxpayers underpay their tax as a result, they will not have to pay a penalty, nor will they have to pay interest on the underpayment provided they reasonably relied on this Practice Statement in good faith. However, even if they do not have to pay a penalty or interest, taxpayers will have to pay the correct amount of tax provided the time limits under the law allow it.

1. What this Practice Statement is about

This Practice Statement only applies in relation to those retailers or wholesalers (including consolidated groups) whose consolidated gross operating turnover for the financial year is greater than \$10 million.

It provides guidance on:

- what costs to include in valuing trading stock on hand
- the valuation approach you can take when valuing a taxpayer's trading stock on hand for the 2003–04 tax return
- the valuation approach you should take when valuing a taxpayer's trading stock on hand in subsequent (2004–05 and later) tax returns, where the taxpayer has not used cost basis valuation previously.

Note: If a taxpayer has a consolidated gross operating turnover for the financial year of less than \$10 million, you should accept their calculations where they are made in accordance with this Practice Statement. However, such a taxpayer may use any other method that is fair, reasonable and in full accordance with the law.

2. Full absorption costing to be used

Valuations of trading stock on hand for these taxpayers must be done using the full absorption costing method.

You can accept the taxpayer's calculations where the cost of their trading stock on hand is determined in accordance with Accounting Standard [AASB 102 Inventories](#), where all costs incurred in bringing the trading stock to its present location and condition are appropriately captured.

3. Examples of costs that should be absorbed

Examples of costs which are to be included in full absorption costing are:

- the purchasing function
- operating distribution centres
- operating on-site or off-site warehouses, or storage areas
- freight from the supplier's premises to the retailer's warehouse or distribution centre
- freight from the retailer's warehouse or distribution centre to the retail outlet.

The costs of operating a warehouse or distribution centre typically include:

- salary and wages
- light and power
- cleaning
- security
- repairs and maintenance
- freight
- insurance
- rent
- rates and taxes
- lease costs
- depreciation
- damaged stock
- phone
- WorkCover premiums
- superannuation
- other administration costs.

4. Costs that should not be absorbed

When applying the absorption method, the following costs need not be absorbed:

- general administrative costs unrelated to the operation of the warehouse or distribution centre
- costs connected with the selling function
- costs incurred outside the normal operations of the warehouse or distribution centre
- costs of carrying obsolete stock
- cost of displaying goods in the retail outlet
- cost of transporting goods from the selling location to the customer's premises
- interest
- advertising.

You should also accept that incidental costs of a minor nature which may be time-consuming to record and would not result in a material difference to value need not be absorbed – for example, the cost of moving stock from the on-site storage location to the display setting.

5. Accounting costs versus absorption costs

The costs that are being included under absorption costing may include costs which the taxpayer does not include for inventory costing purposes under the relevant accounting standards.

If a taxpayer has not used the full absorption cost method for calculating the cost valuation of their trading stock on hand in a given income year, you may accept a taxpayer's use of calculation methods permitted under the relevant accounting standards for valuing the cost of their trading stock on hand, provided the methods used are consistent with their financial statement accounting calculations and financial statement disclosures over the same period.

Note: Where a taxpayer includes a particular cost amount in their trading stock calculations for calculating the cost of their trading stock on hand for income tax purposes, you may not accept the inclusion of that particular cost amount again at any other assessable income or allowable deduction item, irrespective of which method is used.

6. 2003–04 financial year

Where taxpayers have not previously used full absorption costing, we will allow those taxpayers to include the appropriate figure in their return for the year ended 30 June 2004. Those taxpayers are not required to adjust their closing stock on hand in earlier year returns.

However, the rules outlined in this Practice Statement will apply for the 2004–05 and subsequent years.

7. More information

For more information, refer to:

- legislative principles
 - section 70-45 of the *Income Tax Assessment Act 1997*
- on judicial interpretation of valuation principles
 - *Phillip Morris Ltd v Commissioner of Taxation* [1979] VicSC 321
 - *Commissioner of Taxation v Kurts Development Ltd; Kurts Development Ltd v Commissioner of Taxation* [1998] FCA 1037
- Accounting Standard [AASB 102 Inventories](#)
- public rulings
 - Taxation Ruling [TR 2006/8](#) *Income tax: the cost basis of valuing trading stock for taxpayers in the retail and wholesale industries*
 - Taxation Ruling [IT 2289](#) *Income tax: valuation of trading stock – average cost or actual cost*
 - Taxation Ruling [TR 2009/5](#) *Income tax: trading stock – treatment of discounts, rebates and other trade incentives offered by sellers to buyers.*

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Amendment history

12 September 2024

Part	Comment
Throughout	Content checked for technical accuracy and currency. Updated in line with current ATO style and accessibility requirements.

11 May 2016

Part	Comment
All	Updated to new LAPS style and format. Amended and deleted outdated information and law. Included further useful references for ATO Officers.

7 August 2014

Part	Comment
Contact details	Updated.

6 December 2011

Part	Comment
Contact details	Updated.

20 July 2011

Part	Comment
Contact details	Updated.

7 May 2008

Part	Comment
Throughout	Amendments made to reflect repeal of STS.
Contact details	Updated.

References

Legislative references	ITAA 1997 70-45
Case references	Commissioner of Taxation v Kurts Development Ltd; Kurts Development Ltd v Commissioner of Taxation [1998] FCA 1037; 86 FCR 337; 98 ATC 4877; 39 ATR 493 Phillip Morris Ltd v Commissioner of Taxation [1979] VicSC 321; 38 FLR 383; 79 ATC 4352; 10 ATR 44
Other references	Accounting Standard AASB 102 Inventories
Related public rulings	IT 2289 TR 2006/8 TR 2009/5

ATO references

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