

## 50. Stock-in-trade

(1) A person is allowed a deduction for the cost of stock-in-trade disposed of by the person in a tax year for the purposes of deriving business income included in gross income.

(2) The cost of stock-in-trade disposed of by a person in a tax year is computed in accordance with the following formula -

$$(A + B) - C$$

where -

- A is the opening value of the person's stock-in-trade for the year,
- B is the cost of stock-in-trade acquired by the person in the year, and
- C is the closing value of stock-in-trade for the year.

(3) The opening value of stock-in-trade of a person for a tax year is-

- (a) the closing value of the person's stock-in-trade for the previous tax year; or
- (b) if the person commenced to carry on business in the year, the fair market value of any stock-in-trade acquired by the person prior to the commencement of the business

(4) The fair market value of stock-in-trade referred to in paragraph (b) of subsection (3) is determined at the time the stock-in-trade is ventured in the business.

(5) The closing value of a person's stock-in-trade for a tax year is the lower of cost or fair market value of the person's stock-in-trade on hand at the end of the year.

(6) A person accounting for income tax purposes-

- (a) on a cash basis, may compute the person's cost of stock-in-trade on the prime-cost method or absorption-cost method; and
- (b) on an accrual basis, shall compute the person's cost of stock-in-trade on the absorption-cost method.

(7) If particular items of stock-in-trade are not readily

identifiable, a person may account for that stock on the first-in-first-out method or the average-cost method but, once chosen, a stock valuation method may be changed only with the written permission of the Commissioner-General and in accordance with any conditions that the Commissioner-General may impose.

(8) In this section, -

"absorption-cost method" means the generally accepted accounting principle under which the cost of an item of stock-in-trade is the sum of direct material costs, direct labour costs, and factory overhead costs;

"average-cost method" means the generally accepted accounting principle under which the valuation of stock-in-trade is based on a weighted average cost of items of stock on hand;

"direct labour costs" means labour costs directly related to the manufacture or production of stock-in-trade;

"direct material costs" means the cost of materials that become an integral part of the stock-in-trade manufactured or produced, or which are consumed in the manufacturing or production process;

"factory overhead costs" means the total costs of manufacturing or producing stock-in-trade, other than direct labour and direct material costs;

"first-in-first-out method" means the generally accepted accounting principle under which the valuation of stock-in-trade is based on the assumption that stock is sold in the order of its acquisition;

"prime-cost method" means the generally accepted accounting principle under which the cost of stock-in-trade is the sum of direct material costs, direct labour costs, and variable factory overhead costs;

"stock-in-trade" means anything produced, manufactured, purchased, or otherwise acquired for manufacture, sale, or exchange, and includes any materials or supplies to be consumed in the production or manufacturing process; and

"variable factory overhead costs" means those factory overhead costs which vary directly with changes in the volume of stock-in-trade manufactured or produced.