

REPUBLIC OF THE PHILIPPINES  
DEPARTMENT OF FINANCE  
**BUREAU OF INTERNAL REVENUE**

Quezon City

December 14, 2009

**REVENUE MEMORANDUM ORDER NO. 40-2009**

**SUBJECT :** Prescribing the Guidelines and Procedures in the Observation of Inventory Taking of Goods for Purposes of Determining the 2009 Ending Inventory

**TO :** All Revenue Officials, Revenue Officers and Others Concerned

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**I. Background**

Inventories are major components in determining the cost of goods sold and any inaccurate reporting of this account will result to distortion of taxable income. Thus, we need to ensure that taxpayers have accurately reported their inventories as of the end of the taxpayers' accounting period. The best way to ensure that the inventories are properly reported by taxpayers is for our Revenue Officers (ROs) to be present during the conduct of the annual inventory-taking.

**II. Objectives**

1. To ascertain the correctness of inventories to be reported by taxpayers as of the end of taxable year 2009; and
2. To enhance voluntary compliance of taxpayers for 2010 through proper reporting of inventories.

**III. Policies and Procedures**

1. Based on the Financial Statements and Inventory Lists for taxable year 2008 submitted to the Revenue District Office (RDO), the Revenue District Officer shall prepare a list of taxpayers whose peso value of ending inventory is 50% or more of its declared sales for the same year, except dealers of automobiles, excise taxpayers and taxpayers maintaining fast-moving items/goods (e.g., drugstores, supermarkets and groceries). The list of taxpayers selected for inventory-taking observation shall be submitted by the Revenue District Officer to the Regional Director for approval, following the format prescribed under Annex A hereof.

2. Upon receipt of the approved list from the Regional Director, the Revenue District Officer shall immediately advise the concerned taxpayer that representatives from the RDO having jurisdiction of the place/premises where his inventory of goods for sale or for use in business are kept must be present to observe and witness the conduct of the annual inventory-taking. The Revenue District Officer shall request from the taxpayer for the scheduled date of inventory-taking for all the branches, warehouses, bodegas or facilities maintained including the corresponding addresses, which must be provided to the Bureau at least twenty (20) days before the scheduled conduct of inventory-taking. To ensure that all the conducts of inventory-taking are witnessed by the Bureau representative(s), the information provided by the taxpayer with regard to the place/premises where inventory of goods are kept shall be cross-checked with the registration records available in the RDO. Any discrepancy that may be noted shall be immediately relayed to the concerned taxpayer and reconciled/resolved within five (5) days from receipt of notification from the RDO.
3. In case there are places/premises where inventories of goods are kept that are located outside the RDO having jurisdiction of the head office (Home RDO), the Home RDO shall inform the RDO having jurisdiction over the place/premises where inventories of goods are kept of the scheduled inventory taking and request its participation. The Home RDO shall ensure that enough time from notification is given to the other RDO to prepare for the scheduled inventory-taking.
4. Mission Orders authorizing the ROs to witness the inventory-taking shall be prepared by the Revenue District Officer for signature of the Regional Director and to be distributed as follows:

Original	-	to the ROs assigned to witness the inventory-taking
Duplicate	-	to be furnished to the taxpayer – This shall serve as the authority of the ROs to witness the inventory-taking
Triplicate	-	to be duly acknowledged by the taxpayer or his authorized representative. This shall be attached to the report/docket to be prepared by the ROs after the witnessing of the inventory-taking.
Quadruplicate	-	file copy of the RDO

5. Depending on the size of inventory kept by the taxpayer, the Revenue District Officer shall assign ROs from the Assessment Section to observe and witness the conduct of annual inventory-taking. If the existing ROs-Assessment are not enough, the Revenue District Officer may assign ROs from the other sections in the RDO to assist in the inventory-taking activity.

6. The ROs must perform the following:
  - 6.1 Obtain from the taxpayer a list of all accountable forms related to inventories (e.g., sales invoices, delivery receipts, receiving reports);
  - 6.2 Conduct immediate physical count of all accountable forms and establish cut-off thereof to preclude any alterations in the records of the taxpayer;
  - 6.3 Verify the method of inventory valuation adopted by the taxpayer and ascertain if it conforms to the acceptable valuation methods prescribed under the 1997 National Internal Revenue Code, as amended;
  - 6.4 Check if all books of inventories are registered with the BIR; and
  - 6.5 Obtain from the taxpayer a copy of the inventory lists to be used during the conduct of the inventory-taking.
7. The ROs shall observe and witness actual inventory taking during the dates scheduled by the taxpayer, with particular attention on inventories which are material in value. After completion of each count of one inventory list, he shall require the taxpayer's representative to print his name or sign on every page together with the date and time. Likewise, the ROs shall print his name and sign on the inventory list. The ROs shall also indicate on the inventory list any discrepancy or questionable item/amount noted during the inventory-taking.
8. The ROs shall prepare and submit a report on the conduct of inventory-taking within fifteen (15) days after the conclusion of the inventory-taking activity to the Revenue District Officer. The following information shall be stated in the report:
  - 8.1 Specific location of the inventory (e.g., Head Office, Branch, Warehouse/Bodega)
  - 8.2 Duration of the inventory-taking
  - 8.3 Profile of the taxpayer, particularly the type of business organization, nature of business, product line, etc.
  - 8.4 Valuation used by the taxpayer
  - 8.5 Triplicate copy of the Mission Order
  - 8.6 A copy of the inventory list and supporting count sheets at the time of the inventory-taking or physical count duly signed by the taxpayer, his authorized representative or any responsible company personnel and by the ROs
9. In cases where a RDO other than the Home RDO witnessed the inventory-taking, the Revenue District Officer of the former shall furnish the Home RDO with a copy of the report together with all the attachments within five (5) days from the submission of the report.
10. The Revenue District Officer shall prepare and submit the List of Mission Orders Issued (Annex B) indicating therein the status on each taxpayer (e.g. completed,

not done, etc.) to the Deputy Commissioner, Operations Group, copy furnished the Regional Director and Assistant Commissioner, Assessment Service.

#### **IV. Reporting Requirements**

The following reports shall be prepared and submitted by the Revenue District Officer:

Name of Report	Distribution of Report	Due Date	Annex
a. Approved List of Taxpayers Selected for 2009 Inventory Taking Observation	Deputy Commissioner, Operations Group Assistant Commissioner, Assessment Service	Within ten (10) days from the approval of this Order	A
b. List of Mission Orders Issued	Regional Director -do-	On or before the 10 <sup>th</sup> day of each month	B

#### **V. Duration of Observation of Inventory-Taking of Goods**

For the purpose of this activity, the taxable year 2009 shall cover the 2009 calendar year and all fiscal years ending on the first six (6) months of 2010, i.e., January 31, 2010, February 28, 2010, March 31, 2010, April 30, 2010, May 31, 2010 and June 30, 2010. Accordingly, this activity shall be concluded in July 2010.

#### **VI. Repealing Clause**

All other issuances inconsistent herewith are hereby modified or repealed accordingly.

#### **VII. Effectivity**

This Order shall take effect immediately upon approval.

(Original Signed)  
**JOEL L. TAN-TORRES**  
Commissioner of Internal Revenue

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