

NO.: **IT-51R2**

DATE: May 11, 1982

SUBJECT: INCOME TAX ACT  
**Supplies on Hand at the End of a Fiscal Period**

REFERENCE: Subsections 10(4) and (5) (also subsections 10(1) and 248(1))

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This bulletin cancels and replaces IT-51R dated April 4, 1977

¶ 1. The term “inventory” is defined in subsection 248(1) of the Act as a description of property, the cost or value of which is relevant in computing a taxpayer’s income from a business for a taxation year. The enactment of paragraph 10(5)(a) of the Act was for greater certainty only and it is the Department’s view that, because the definition of “inventory” is so comprehensive, the legislation predating the introduction of that paragraph was and continues to be adequate to require the inclusion in a taxpayer’s inventory not only of those assets which are now described in paragraph 10(5)(a) but also of significant amounts in respect of any asset which good financial reporting would dictate be referred and not written off until the year in which it is used or consumed.

¶ 2. Subsection 10(1) of the Act requires any property that is described in an inventory to be valued at its cost to the taxpayer or its fair market value, whichever is lower, or in such other manner as may be permitted by regulation. Any property described in a taxpayer’s inventory that is advertising or packaging material, parts, supplies or other property is thus required to be valued in accordance with subsection 10(1), but if such property has been acquired after December 11, 1979, subsection 10(4) of the Act provides that its fair market value means its replacement cost.<sup>1</sup> Excluded from the application of subsection 10(4) is any property that is obsolete, damaged or defective or that is held for sale or lease or for the purpose of being processed, fabricated, manufactured, incorporated into, attached to or otherwise converted into property for sale or lease.

¶ 3. Anything that is used primarily for the purpose of advertising or packaging the property that is included in the inventory of a taxpayer is deemed by paragraph 10(5)(b) not to be property held for sale or lease or for the purpose of being processed, fabricated, manufactured, incorporated into, attached to, or otherwise converted into property for sale or lease. This deeming provision ensures that such property is valued at its replacement cost for the purpose of subsection 10(1).

¶ 4. As in the case of the new legislation dealing with prepaid expenses (see the current version of IT-417<sup>ii</sup>), the Department anticipates no change in its practice of ignoring adjustments for insignificant amounts.

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<sup>i</sup> Modified by Correction Sheet CS 24 dated April 20, 2001

<sup>ii</sup> Modified on June 9, 2003.