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**آسان لیکچر سیریز**

**Income Tax Ordinance 2001**

**Section: 35**



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ





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Income Tax

# INCOME TAX



**Section No : 35**

**Division IV**  
**Tax Accounting**

**Stock In Trade**    **مال تجارت**

# Stock In Trade ماڻ تجارت



# 35(7) Definition: Stock in Trade

“**stock-in-trade**” means anything produced, manufactured, purchased, or otherwise acquired for **manufacture, sale or exchange**, and any materials or supplies to be consumed in the production or manufacturing process, **but does not include stocks or shares; and**

**35. Stock-in-trade.**— (1) For the purposes of determining a person’s income chargeable to tax under the head “Income from Business” for a tax year, the cost of stock-in-trade disposed of by the person in the year shall be computed in accordance with the following formula, namely:—

$$(A + B) - C$$

where —

**A** is the opening value of the person’s stock-in-trade for the year;

**B** is 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.

(2) The opening value of stock-in-trade of a person for a tax year shall be —

(a) the closing value of the person’s stock-in-trade at the end of the previous year; or

(b) where 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.

(3) The fair market value of stock-in-trade referred to in clause (b) of sub-section (2) shall be determined at the time the stock-in-trade is ventured in the business.



(1) کسی ٹیکس سال کے لیے، کاروبار سے آمدن ”کی مد کے تحت ٹیکس کی مستوجب آمدن کا تعین کرنے کی اعراض سے درج ذیل کلیہ کے مطابق اس کا شمار کیا جائے گا، یعنی:-

$$(A + B) - C$$

جہاں

(A) کسی سال کے لیے کسی فرد کے مال تجارت کی ابتدائی مالیت ہے؛

(B) کسی سال کے دوران کسی فرد کی جانب سے حاصل کردہ مال تجارت کی مالیت ہے؛ اور

(C) کسی سال کے لیے مال تجارت کی اختتامی مالیت ہے۔

(2) کسی سال کے لیے کسی فرد کے مال تجارت کی ابتدائی لاگت درج ہوگی:-

(a) گزشتہ سال کے اختتام پر کسی فرد کے مال تجارت کی اختتامی مالیت؛ یا

(b) جہاں کسی فرد نے اسی سال کاروبار شروع کیا ہو تو کاروبار کے آغاز سے قبل کسی فرد کی جانب سے حاصل کردہ کسی مال تجارت کی واجبی ہزاری مالیت۔

(3) The fair market value of stock-in-trade referred to in clause (b) of subsection (2) shall be determined at the time the stock-in-trade is ventured in the business.

(4) The closing value of a person's stock-in-trade for a tax year shall be the lower of cost or <sup>1</sup>[net realisable]value of the person's stock-in-trade on hand at the end of the year.

(5) A person accounting for income chargeable to tax under the head "Income from Business" on a cash basis may compute the person's cost of stock-in-trade on the prime-cost method or absorption-cost method, and a person accounting for such income on an accrual basis shall compute the person's cost of stock-in-trade on the absorption-cost method.

(6) Where 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 and in accordance with any conditions that the Commissioner may impose.

(3) ذیلی دفعہ (2) کی شق (b) میں محولہ مال تحبارت کی واجبی بازاری مالیت کا تعین اس وقت کیا جائے گا جب مال تحبارت کاروبار میں لگا دیا گیا ہو۔

(4) کسی فیکس سال کے لیے کسی فرد کے مال تحبارت کی اختتامی مالیت کسی سال کے اختتام پر کسی فرد کے مال تحبارت کی کم تر لاگت یا حوالہ قابل وصول مالیت ہوگی۔

(5) کوئی فرد نقد بنیاد پر "کاروبار سے آمدن" کی مدد کے تحت فیکس کی مستوجب آمدن کا حساب لگانے کے لیے کسی فرد کے مال تحبارت کی لاگت، اصل لاگت کے طریقے سے یا انجذابی لاگت کے طریقے سے شمار کرے گا اور کوئی فرد واجب الادائیگی کی بنیاد پر ایسی آمدن کا حساب کرتے وقت کسی فرد کے مال تحبارت کی لاگت، انجذابی لاگت کے طریقے سے شمار کرے گا۔

(6) جہاں کسی مال تحبارت کی مخصوص آئٹمز باسانی قابل شناخت نہ ہوں تو ایسا فرد سٹاک کا حساب اول آمد اول نکاسی کے طریقے سے یا اوسط لاگت کے طریقے سے کر سکتا ہے تاہم جب ایک بار طریقے کا انتخاب کر لیا تو سٹاک کی تشخیص مالیت کا طریقہ صرف کمشنر کی تحریری اجازت اور ان شرائط کے تحت ہی تبدیل کیا جاسکتا ہے جو کمشنر عائد کرے۔

# International Accounting Standards

GAAP VS IFRS



(7) In this section, —  
“direct labour costs” means labour costs directly related to the manufacture or production of stock-in-trade;



(7) In this section, — **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;



(7) In this section, —

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

**Factory  
Overhead  
Cost**

**=**



(+) Depreciation Expenses on Equipment used in Production

(+) Rent of the factory building

(+) Salaries of manufacturing managers

(+) Wages / Salaries of material managing staff

(+) Utilities of the factory



$$\text{Factory Overhead Cost} = \boxed{\text{Fixed Factory Overhead Cost} + \text{Variable Overhaed Cost}}$$

Fixed overhead costs are costs that do not change even while the volume of production of goods changes. For Example Rents, Salaries of Managers

**Variable overhead Cost** , is changes & fluctuates according to levels of production.

- \*Wages for those handling and shipping the product,
- \*No of Logistic/Transport Vehicles
- \*Utilities to run equipment and the facility



(7) In this section, —

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

**Variable overhead Cost** , is changes & fluctuates according to levels of production.

\*Wages for those handling and shipping the product,

\*No of Logistic/Transport Vehicles

\*Utilities to run equipment and the facility

(7) 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;

$$\text{Absorption Cost Formula} = \frac{(\text{Direct Labor Cost} + \text{Direct Material Cost} + \text{Factory Overhead Cost})}{\text{No. of Units Produced}}$$



(7) In this section, —

“**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;

*Prime  
Cost*



$$= \frac{(\text{Direct Labor Cost} + \text{Direct Material Cost} + \text{Variable Factory Overhead Cost})}{\text{No. of Units Produced}}$$



(7) In this section, —

“**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;



(7) In this section, —

**Last in, first out (LIFO)** is a method used to account for [inventory](#) that records the most recently produced items as sold first. Under LIFO, the cost of the most recent products purchased (or produced) are the first to be expensed as [cost of goods sold](#)



## Average Cost Method or (Weighted Average Cost Method)

The average cost inventory method assigns the same cost to each item. The average cost method is calculated by dividing the cost of goods in inventory by the total number of items available for sale. This results in net income and ending inventory balances between FIFO and LIFO.

(7) In this section, —

“**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 units on hand;



Thanks

شکریہ