



**Note:** *The draft you are looking for begins on the next page.*

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### Cost of Goods Sold

Attach to Form 1120, 1120-C, 1120-F, 1120S, or 1065.  
Go to [www.irs.gov/Form1125A](http://www.irs.gov/Form1125A) for the latest information.

Name	Employer identification number
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1 Inventory at beginning of year	1	
2 Purchases	2	
3 Cost of labor	3	
4 Additional section 263A costs (attach schedule)	4	
5 Other costs (attach schedule)	5	
6 <b>Total.</b> Add lines 1 through 5	6	
7 Inventory at end of year	7	
8 <b>Cost of goods sold.</b> Subtract line 7 from line 6. Enter here and on Form 1120, page 1, line 2, or the appropriate line of your tax return. See instructions	8	
9a Check all methods used for valuing closing inventory. See instructions.		
(i) <input type="checkbox"/> Cost		
(ii) <input type="checkbox"/> Lower of cost or market		
(iii) <input type="checkbox"/> Other (specify method used and attach explanation)		
For certain small business taxpayers, alternative methods of accounting for inventories:		
(iv) <input type="checkbox"/> Non-incidentals materials and supplies method		
(v) <input type="checkbox"/> AFS method		
(vi) <input type="checkbox"/> Non-AFS method		
b Check if there was a writedown of subnormal goods <input type="checkbox"/>		
c Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970) <input type="checkbox"/>		
d (i) If the LIFO inventory method was used for this tax year, enter amount of closing inventory figured under LIFO		9d(i)
(ii) If the LIFO inventory method was used for this tax year, enter amount of the closing LIFO Reserve		9d(ii)
e If property is produced or acquired for resale, do the rules of section 263A apply to the entity? See instructions <input type="checkbox"/> Yes <input type="checkbox"/> No		
f Was there any change in determining quantities, cost, or valuations between opening and closing inventory? If "Yes," attach explanation <input type="checkbox"/> Yes <input type="checkbox"/> No		

Section references are to the Internal Revenue Code unless otherwise noted.

#### What's New

**Small business taxpayers.** For tax years beginning after December 31, 2023, if filing Form 1125-A for a small business taxpayer (defined later) that uses an alternative method of accounting for inventories, check the applicable box on line 9a(iv) through 9a(vi). See the instructions for line 9.

#### General Instructions

##### Purpose of Form

Use Form 1125-A to figure and deduct cost of goods sold for certain entities.

##### Who Must File

Filers of Form 1120, 1120-C, 1120-F, 1120S, or 1065 must complete and attach Form 1125-A if the applicable entity reports a deduction for cost of goods sold.

##### Inventories

Generally, inventories are required at the beginning and end of each tax year if the production, purchase, or sale of merchandise is an income-producing factor. See Regulations section 1.471-1(a).

If inventories are required, you generally must use an accrual method of accounting for sales and purchases of inventory items.

##### Exception for small business taxpayers.

A small business taxpayer can account for inventory by treating the inventory as non-incidentals materials and supplies (line 9(iv)), or conforming to its treatment of inventory in an applicable financial statement (as defined in section 451(b)(3)) (line 9a(v)). If it does not have an applicable financial statement, it can use the method of accounting used in its books and records prepared according to its accounting procedures (line 9a(vi)). See section 471(c)(3).

A small business taxpayer is a taxpayer that (a) has average annual gross receipts of \$25 million or less (indexed for inflation) for the 3 prior tax years, and (b) is not a tax shelter (as defined in section 448(d)(3)). The inflation adjusted amount for 2024 is \$30 million. See Rev. Proc. 2023-34, 2023-48 I.R.B. 1287, or any successor.

For additional guidance on methods of accounting, see Pub. 538, Accounting Periods and Methods. For guidance on changing methods of accounting, see Form 3115, Application for Change in Accounting Method, and the Instructions for Form 3115.

**Uniform capitalization rules.** The uniform capitalization rules of section 263A generally require you to capitalize, or include in inventory, certain costs incurred in connection with the following.

- The production of real property and tangible personal property held in inventory or held for sale in the ordinary course of business.
- Real property or personal property (tangible and intangible) acquired for resale.
- The production of real property and tangible personal property for use in its trade or business or in an activity engaged in for profit.

A small business taxpayer (defined earlier) is not required to capitalize costs under section 263A. See section 263A(j).

See the discussion on section 263A uniform capitalization rules in the instructions for your tax return before completing Form 1125-A. Also see Regulations sections 1.263A-1 through 1.263A-3. See Regulations section 1.263A-4 for rules for property produced in a farming business and Pub. 225, Farmer's Tax Guide.

## Specific Instructions

### Line 1. Inventory at Beginning of Year

If you are changing your method of accounting for the current tax year, you must refigure last year's closing inventory using the new method of accounting. Enter the result on line 1. If there is a difference between last year's closing inventory and the refigured amount, attach an explanation and take it into account when figuring any section 481(a) adjustment.

### Line 2. Purchases

Reduce purchases by items withdrawn for personal use. For a partnership, the cost of these items should be shown on Schedule K and Schedule K-1 as distributions to partners.

### Line 4. Additional Section 263A Costs

If you elected a simplified method of accounting, enter on line 4 the balance of section 263A costs paid or incurred during the tax year not includible on lines 2, 3, and 5.

If you elected the simplified production method or the modified simplified production method, additional section 263A costs are generally those costs, other than interest, that are not included in your section 471 costs but that are required to be capitalized under section 263A. For details, see Regulations section 1.263A-2(b).

If you elected the simplified resale method, additional section 263A costs are generally those costs incurred with respect to the following categories.

- Off-site storage or warehousing.
- Purchasing.
- Handling, such as processing, assembling, repackaging, and transporting.
- General and administrative costs (mixed service costs).

### Line 5. Other Costs

Enter on line 5 any costs paid or incurred during the tax year not entered on lines 2 through 4. Attach a statement listing details of the costs.

### Special Rules for Cooperatives

Cooperatives are allowed to deduct certain per-unit retain allocations. Include these costs on line 5. Attach a statement listing details of per-unit retain allocations paid in:

- Qualified per-unit retain certificates,
- Money or other property (except nonqualified per-unit certificates), and
- Nonqualified per-unit retain certificates redeemed this year.

**Per-unit retain allocations.** A cooperative is allowed to deduct from its taxable income amounts paid during the payment period for the tax year as per-unit retain allocations to the extent paid in money, qualified per-unit retain certificates, or other property with respect to marketing occurring during the tax year. A per-unit retain allocation is any allocation from a cooperative to a patron for products marketed for the patron without reference to the cooperative net earnings. A qualified per-unit retain certificate is any per-unit retain certificate that the distributee has agreed to take into account at its stated dollar amount.

**Nonqualified per-unit retain certificates redeemed this year.** Include the amount paid in money or other property (except amounts already included as per-unit retain certificates) to patrons to redeem nonqualified per-unit retain certificates. No deduction is allowed at the time of issuance for a nonqualified per-unit retain certificate. However, the cooperative may take a deduction in the year the certificate is redeemed, subject to the stated dollar amount of the certificate. See section 1383. Also see the instructions for Form 1120-C, line 30h, for a special rule for figuring the cooperative's tax in the year of redemption of a nonqualified per-unit retain certificate.

### Line 7. Inventory at End of Year

See Regulations sections 1.263A-1 through 1.263A-3 for details on figuring the amount of additional section 263A costs to be included in ending inventory.

### Line 8. Cost of Goods Sold

Enter the amount from line 8 on your tax return as follows. Filers of Form 1120, 1120-C, 1120S, and 1065, enter cost of goods sold on page 1, line 2. Filers of Form 1120-F, enter cost of goods sold on Section II, line 2.

### Line 9. Inventory Valuation Methods

Complete line 9 as follows.

**Line 9a. Inventory methods.** Check all applicable boxes on lines 9a(i) through 9a(iii) to indicate how the value of an inventory item is figured.

For certain small business taxpayers that have adopted or changed to an alternative accounting method that is an exception to the general inventory requirements described above, check a box on lines 9(iv) through 9(vi) in lieu of checking an applicable box on lines 9a(i) through 9a(iii).

See Regulations sections 1.471-1(b)(3) through (6) and your accounting procedures.

Inventories can be valued at:

- Cost,
- Cost or market value (whichever is lower), or
- Any other method approved by the IRS that conforms to the requirements of the applicable regulations cited below.

Under lower of cost or market, the term "market" (for normal goods) means the current bid price prevailing on the inventory valuation date for the particular merchandise in the volume usually purchased by the filer. For a manufacturer, market applies to the basic elements of cost—raw materials, labor, and burden. If section 263A applies, the basic elements of cost must reflect the current bid price of all direct costs and all indirect costs properly allocable to goods on hand at the inventory date.

Inventory may be valued below cost when the merchandise is unsalable at normal prices or unusable in the normal way because the goods are subnormal due to damage, imperfections, shopwear, change of style, odd or broken lots, or other similar causes, including second-hand goods taken in exchange. The goods may be valued at the bona fide selling price, minus the direct cost of disposition (but not less than scrap value). Bona fide selling price means actual offering of goods during a period ending not later than 30 days after inventory date.

The methods on line 9a are methods of accounting. Any method, once established, cannot be changed in a later year without requesting a change in accounting method. See the Instructions for Form 3115 for more information on requesting accounting method changes.

**Lines 9c and 9d. LIFO method.** If this is the first year the last-in, first-out (LIFO) inventory method was either adopted or extended to inventory goods not previously valued under the LIFO method provided in section 472, attach Form 970, Application To Use LIFO Inventory Method, or a statement with the information required by Form 970. Check the LIFO box on line 9c. On line 9d(i), enter the amount of total closing inventories figured under section 472.

If you changed or extended your inventory method to LIFO and had to write up the opening inventory to cost in the year of election, report the effect of the write-up as other income, on your applicable return, proportionately over a 3-year period that begins with the year of the LIFO election.

On line 9d(ii), enter the closing LIFO Reserve. The closing LIFO Reserve is figured by subtracting the LIFO value of the inventory subject to a LIFO method that is on hand at the end of the tax year from the first-in, first-out (FIFO) value of that inventory. If the closing LIFO Reserve amount is negative, place the amount on line 9d(ii) in parentheses.

**Note:** Entities using the LIFO method that make an S corporation election or transfer LIFO inventory to an S corporation in a nonrecognition transaction may be subject to an additional tax attributable to the LIFO recapture amount. See the instructions for Form 1120, Schedule J, line 11, or the applicable line on your tax return.

**Line 9e.** If property is produced or acquired for resale and the rules of section 263A apply to the corporation, cooperative, partnership, or other applicable entity, check the "Yes" box on line 9e.

**Paperwork Reduction Act Notice.** We ask for the information on this form to carry out the Internal Revenue laws of the United

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You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for business taxpayers filing this form is approved under OMB control number 1545-0123 and is included in the estimates shown in the instructions for their business income tax return.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.

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ONLY DRAFT  
July 23, 2024  
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