

**Reconciliation of Cost of Goods Sold Reported on Schedule M-3**

Department of the Treasury  
Internal Revenue Service

▶ Attach to Schedule M-3 for Form 1065, 1120, or 1120S.

**2006**

Name of common parent Employer identification number

Name of subsidiary Employer identification number

| Cost of Goods Sold Items  | (a)<br>Income (Loss)<br>per Income<br>Statement | (b)<br>Temporary<br>Difference | (c)<br>Permanent<br>Difference | (d)<br>Income (Loss)<br>per Tax Return |
|---|---|--------------------------------|--------------------------------|--|
| <b>1</b> Amounts attributable to cost flow assumptions . . . . .  |   |                                |                                |  |
| <b>2</b> Amounts attributable to section 263A costs:  |   |                                |                                |  |
| <b>a</b> Stock option expense . . . . .   |   |                                |                                |  |
| <b>b</b> Other equity based compensation . . . . .  |   |                                |                                |  |
| <b>c</b> Meals and entertainment . . . . .  |   |                                |                                |  |
| <b>d</b> Parachute payments . . . . .   |   |                                |                                |  |
| <b>e</b> Compensation with section 162(m) limitation . . . . .  |   |                                |                                |  |
| <b>f</b> Pension and profit sharing . . . . .   |   |                                |                                |  |
| <b>g</b> Other post-retirement benefits . . . . .   |   |                                |                                |  |
| <b>h</b> Deferred compensation . . . . .  |   |                                |                                |  |
| <b>i</b> Section 198 environmental remediation costs . . . . .  |   |                                |                                |  |
| <b>j</b> Amortization . . . . .   |   |                                |                                |  |
| <b>k</b> Depletion . . . . .  |   |                                |                                |  |
| <b>l</b> Depreciation . . . . .   |   |                                |                                |  |
| <b>m</b> Corporate owned life insurance premiums . . . . .  |   |                                |                                |  |
| <b>n</b> Other section 263A costs . . . . .   |   |                                |                                |  |
| <b>3</b> Inventory shrinkage accruals . . . . .   |   |                                |                                |  |
| <b>4</b> Excess inventory and obsolescence reserves . . . . .   |   |                                |                                |  |
| <b>5</b> Lower of cost or market write-downs . . . . .  |   |                                |                                |  |
| <b>6</b> Other items with differences (attach schedule) . . . . .   |   |                                |                                |  |
| <b>7</b> Other items with no differences . . . . .  |   |                                |                                |  |
| <b>8 Total cost of goods sold.</b> Add lines 1 through 7.<br>Enter total on Schedule M-3 (Form 1065), Part II, line<br>15; Schedule M-3 (Form 1120), Part II, line 17; or<br>Schedule M-3 (Form 1120S), Part II, line 15. . . . . |   |                                |                                |  |

## General Instructions

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

### Purpose of Form

Use Form 8916-A to provide a detailed schedule of the amount reported on Schedule M-3 for Form 1120, Form 1065, or 1120S for Cost of Goods Sold.

### Who Must File

Form 8916-A must be filed for each separate entity required to file Form 1120, Form 1065, or Form 1120S Schedule M-3. In the case of a consolidated tax group, a Form 8916-A must be filed as part of the Schedules M-3 prepared for the parent company, each subsidiary, the eliminations Schedule M-3, and the consolidated Schedule M-3. It is not required that the supporting detail for Form 8916-A, line 6, be presented for the eliminations Schedule M-3 or the consolidated Schedule M-3.

### How to File

Attach Form 8916-A to each separate Schedule M-3.

## Specific Instructions

A corporation is not required to complete columns (a) and (d) if the corporation is not required to complete these columns on Schedule M-3. See Schedule M-3 instructions for Part II and III.

Columns (b) and (c) must be completed for any tax year for which the corporation files Form 8916-A.

### Line 1

Report differences attributable to cost flow assumptions, for example, differences between book and tax LIFO computations. Generally, differences in the LIFO reserves for book and tax purposes should be reported on this line.

### Line 2

Report differences attributable to section 263A. For example, if book inventory costs equal section 471 inventory costs, report differences between section 471 inventory costs and section 263A inventory costs. This includes all costs of goods sold differences, not just differences attributable to additional section 263A costs adjustments to ending inventory. LIFO taxpayers using the simplified production method or the simplified resale method should report the amount of additional section 263A costs computed after LIFO computations. LIFO taxpayers not using a simplified section 263A method should report costs attributable to additional section 263A prior to performing LIFO computation. Differences due to purchasing, and storage and handling costs, should generally be reported on line n (to the extent not already included in lines a through m). Report the additional section 263A costs adjustments to ending inventory on line n (and the reversal of the prior year ending inventory, if applicable).

### Lines 4 and 5

If the taxpayer does not distinguish between obsolescence and excess inventory reserves and lower of cost or market write-downs in its general ledger, report all amounts relating to these reserves on line 4 for excess inventory and obsolescence reserves.

### Line 6

Attach a schedule that separately states and adequately discloses the nature and amount of each expense reported on this line. See instructions for Schedule M-3 for a definition of "separately stated and adequately disclosed." It is not required that the supporting detail for Form 8916-A, line 6, be presented for the eliminations Schedule M-3 or the consolidated Schedule M-3. Report differences between book inventory costs and section 471 inventory costs on this line.

### Line 7

Report all other items with no differences on this line. For example, if book inventory costs equal section 471 inventory costs, this line should report total book inventory and section 471 inventory costs without regard to amounts reported on lines 1 through 5.

### Line 8

Line 8 should equal the amount reported on the applicable Form 1120 Schedule M-3, Part II, line 17; Form 1120S Schedule M-3, Part II, line 15; or Form 1065 Schedule M-3, Part II, line 15.

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**Paperwork Reduction Act Notice.** We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

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 average time is:

- Recordkeeping** . . . . . 20 hr., 48 min.
- Learning about the law or the form** . . . . . 30 min.
- Preparing, copying, assembling, and sending the form to the IRS** . . . . . 51 min.

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.