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Supplies, Materials, and Inventory on Hand

Supplies and Materials on Hand

Generally you deduct the cost of materials and supplies you consume and use in your business during the tax year, but often you have some left at the end of the year. The supplies and materials on hand at year end will benefit a future accounting period, so they are properly recorded on the balance sheet as assets. When they are used in the following year they are deducted as expenses. For tax purposes there are special tax rules that limit how much you can deduct if you have supplies and materials on hand at the end of the year.

Inventory on Hand

Inventory on hand at the end of the year includes crops, fiber and other farm products that have been processed for storage or value added products, animals intended for market sales, and nursery items. Inventory on hand at year end will be sold in a future accounting period, so it is properly recorded as a balance sheet asset. When the inventory is sold the amounts recorded on the balance sheet are expensed - the balance sheet account is reduced and an expense account is increased.

In formal inventory accounting there are a number of techniques and methods for calculating the value of inventory on hand and the amount of inventory to expense when inventory is sold. For tax purposes you are allowed to use simpler methods that generally result in less tax owed than if you had used formal inventory accounting methods.