

(ii) R reduces the numerator of the cost complement by the margin protection payments of \$240 ( $\$6 \times 40$ ) and reduces the denominator of the cost complement by the related markdowns of \$400 ( $\$10 \times 40$ ). Therefore, R's cost complement is  $\$2,160/\$3,600$ , or 60%.

(iii) Under paragraph (b)(4) of this section, R includes the permanent markdown in determining year-end retail selling prices. Therefore, the aggregate retail selling price of R's ending table inventory is  $\$1,350 (15 \times \$90)$ . Approximating LCM under the retail method, the value of R's ending table inventory is  $\$810 (60\% \times \$1,350)$ .

*Example 4.* (i) The facts are the same as in *Example 1*, except that R cannot determine the amount of its related markdowns and computes the cost complement using the alternative method under paragraph (b)(3)(ii)(C) of this section.

(ii) R reduces the numerator of the cost complement by the margin protection payments of \$240 ( $\$6 \times 40$ ). R reduces the denominator of the cost complement by the amount that, in conjunction with the reduction in the numerator, maintains the cost complement percentage before taking into account the margin protection payments and the related markdowns. R's original cost complement was 60% ( $\$2,400/\$4,000$ ). The numerator of R's new cost complement is  $\$2,160 (\$2,400 - \$240)$ . Therefore, R reduces the denominator by \$400, which maintains the cost complement of 60% ( $\$2,160/\$3,600$ ).

(iii) Under paragraph (b)(4) of this section, R includes the permanent markdowns in determining year-end retail selling prices. Therefore, the aggregate retail selling price of R's ending table inventory is  $\$1,350 (15 \times \$90)$ . Approximating LCM under the retail method, the value of R's ending table inventory is  $\$810 (60\% \times \$1,350)$ .

*Example 5.* (i) The facts are the same as in *Example 1*, except that R uses the LIFO inventory method. R must value inventories at cost and, under paragraph (c) of this section, uses the retail cost method.

(ii) Under paragraph (b)(2)(i)(A) of this section, R reduces the numerator of the cost complement by the amount of the margin protection payment. Under paragraph (b)(2)(i)(B) of this section, R includes the permanent markdown in the denominator of the cost complement. Therefore, R's cost complement is  $\$2,160/\$3,600$ , or 60%.

(iii) Under paragraph (b)(4) of this section, R includes the permanent markdown in determining year-end retail selling prices. Therefore, the aggregate retail selling price of R's ending inventory is  $\$1,350 (15 \times \$90)$ . Approximating cost under the retail method, the value of R's ending inventory is  $\$810 (60\% \times \$1,350)$ .

(f) *Effective/applicability date.* This section applies to taxable years beginning after December 31, 2014. For tax-

able years beginning before January 1, 2015, see § 1.471-8 as contained in 26 CFR part 1, revised April 1, 2014.

[T.D. 9688, 79 FR 48036, Aug. 15, 2014]

#### § 1.471-9 Inventories of acquiring corporations.

For additional rules in the case of certain corporate acquisitions specified in section 381(a), see section 381(c)(5) and the regulations thereunder.

[T.D. 6500, 25 FR 11727, Nov. 26, 1960]

#### § 1.471-10 Applicability of long-term contract methods.

See § 1.460-2 for rules providing for the application of the long-term contract methods to certain manufacturing contracts.

[T.D. 8067, 51 FR 393, Jan. 6, 1986, as amended by T.D. 8929, 66 FR 2240, Jan. 11, 2001]

#### § 1.471-11 Inventories of manufacturers.

(a) *Use of full absorption method of inventory costing.* In order to conform as nearly as may be possible to the best accounting practices and to clearly reflect income (as required by section 471 of the Code), both direct and indirect production costs must be taken into account in the computation of inventoriable costs in accordance with the "full absorption" method of inventory costing. Under the full absorption method of inventory costing production costs must be allocated to goods produced during the taxable year, whether sold during the taxable year or in inventory at the close of the taxable year determined in accordance with the taxpayer's method of identifying goods in inventory. Thus, the taxpayer must include as inventoriable costs all direct production costs and, to the extent provided by paragraphs (c) and (d) of this section, all indirect production costs. For purposes of this section, the term "financial reports" means financial reports (including consolidated financial statements) to shareholders, partners, beneficiaries or other proprietors and for credit purposes. See also § 1.263A-1T with respect to the treatment of production costs incurred in taxable years beginning after December 31, 1986, and before January 1, 1994. See also §§ 1.263A-1 and 1.263A-2 with