

Cost of Goods Sold

Attach to Form 1120, 1120-C, 1120-F, 1120S, or 1065.
Go to www.irs.gov/Form1125A for the latest information.

OMB No. 1545-0123

Name		Employer identification number
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	Total. Add lines 1 through 5	6
7	Inventory at end of year	7
8	Cost of goods sold. 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) ☐ Cost		
(ii) ☐ Lower of cost or market		
(iii) ☐ Other (specify method used and attach explanation) _____		
For certain small business taxpayers, alternative methods of accounting for inventories:		
(iv) ☐ Non-incidental materials and supplies method		
(v) ☐ AFS method		
(vi) ☐ Non-AFS method		
b	Check if there was a writedown of subnormal goods	☐
c	Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970)	☐
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	☐ Yes ☐ No
f	Was there any change in determining quantities, cost, or valuations between opening and closing inventory? If "Yes," attach explanation	☐ Yes ☐ 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 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-incidental materials and supplies (line 9a(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, a small business taxpayer can use the method of accounting used in its books and records prepared according to its accounting procedures (line 9a(vi)).

See the discussion on small business taxpayers in the instructions for your tax return. Also see sections 448(c) and 471(c).

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 is not required to capitalize costs under section 263A. See section 263A(i).

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.