

# **DETERMINATION OF AVERAGE (EQUALIZED) COST OF TRANSPORTATION (CAS 5)**

# 9. Operative Date

Effective from 1<sup>st</sup> April 2010

# 3. Scope

3.1 This standard should be applied for **calculation of cost of transportation** required under any **statute or regulations** or for any other purpose. Eg...

- (a) determination of average transportation cost for **claiming the deduction for arriving at the assessable value** of excisable goods \*
- (b) Insurance claim valuation
- (c) Working out claim for freight subsidy under Fertilizer Industry Coordination Committee
- (d) Administered price mechanism of freight cost element

**Explanation:** The Finance Act 2003 specifies the certification requirement of transportation cost for claiming deduction while arriving at the assessable value of excisable goods cleared for home consumption / export.

**Explanation:** Freight Subsidy claims under Nutrient Based Subsidy Scheme.

# 3. Scope

- (e) Determination of inward freight costs included or to be included in the cost of purchases attributable to the acquisition.
- (f) Computation of freight included in the **value of inventory** for accounting on inventory or valuation of stock hypothecated with Banks / Financial Institution, etc.

Explanation: The material receipt should be valued (CAS6) at purchase **price including duties and taxes, freight inwards, insurance, and other expenditure directly attributable to procurement** (net of trade discounts, rebates, taxes and duties refundable or to be credited by the taxing authorities) that can be quantified with reasonable accuracy at the time of acquisition

AS2: The **costs of purchase** consist of the purchase price including duties and taxes (other than those subsequently recoverable by the enterprise from the taxing authorities), **freight inwards and other expenditure directly attributable to the acquisition**. Trade discounts, rebates, duty drawbacks and other similar items are deducted in determining the costs of purchase.

# 4. Definitions

- 4.1 Cost of Transportation comprises of the cost of **freight, cartage, transit insurance** and **cost of operating fleet** and other incidental charges whether incurred internally or paid to an outside agency for transportation of goods but **does not include detention and demurrage charges.**
- 4.7 Depot is the bounded premises /place managed internally or by an agent, including consignment agent and C & F agent, franchisee for **storing of materials/ goods** for **further dispatch** including the premises of Consignment Agent and C&F Agent for the purpose .
- 4.8 Equalized transportation cost means **average** transportation cost incurred **during a specified period.**

# 5. Maintenance of records

- 5.1 **Abnormal costs** relating to transportation, if any, are to be identified and recorded for **exclusion** of computation of average transportation cost.
- 5.2 In case of a manufacturer having his **own transport fleet**, proper records shall be maintained to determine the **actual operating cost of vehicles** showing **details of various elements of cost**.
- 5.4 Records shall be maintained **separately for inward and outward** transportation cost.
- 5.11 Records for transportation cost for exempted goods, excisable goods cleared for export shall be maintained separately. (separate for traded goods as well)

# 6. Treatment of Cost

- 6.1 Inward transportation costs shall form the **part of the cost of procurement of materials** which are to be identified for proper allocation/ apportionment to the materials / products.
- 6.2 Outward transportation cost shall form the **part of the cost of sale** and shall be allocated / apportioned to the materials and goods on a suitable basis.

# 6. Treatment of Cost

6.3 The following basis may be used, **in order of priority**, for apportionment of outward transportation cost depending upon the nature of products, unit of measurement followed and type of transport used :

- i) Weight
- ii) Volume of goods
- iii) Tonne-Km
- iv) Unit / Equivalent unit
- v) Value of goods
- vi) Percentage of usage of space

Once a basis of apportionment is adopted, the same should be followed consistently.



# 6. Treatment of Cost

6.4 For determining the transportation cost per unit, **distance shall be factored** in to arrive at weighted average cost.

6.5 **Abnormal and non recurring cost shall not be a part** of transportation cost.

## Explanation

Penalty, detention charges, demurrage and cost related to abnormal break down will not be included in transportation cost.

# 7. Cost Sheet

The cost sheets shall be prepared and presented in a form as per [Appendices 1,2 and 3](#) or as near thereto.

- Appendix 1 and Appendix 2 show the details of information to be maintained for compilation of transport cost for **own fleet and hired transportation charges respectively**.
- Appendix 1 is applicable where the organization is having its own fleet.
- The directly allocable cost of own fleet (outward) shall be identified against **different categories of products** as shown in **Appendix 3** and same shall be indicated there.
- Similarly, total common cost of own fleet (outward) shall be **apportioned to different categories** of products as shown in Appendix 3 on a basis which should be specified.

# 7. Cost Sheet

**The cost sheets shall be prepared and presented in a form as per Appendices 1,2 and 3 or as near thereto.**

- Proper records shall be maintained to show separately the Transportation Cost relating to sending of jobs to job contractors/convertors and receipt back of processed jobs/converted materials.
- An enterprise shall be required to maintain cost records and other books of account in a manner which would facilitate preparation and verification of cost of transportation and other related charges and its apportioning to various products.

*Thank you*