DETERMINATION OF AVERAGE (EQUALIZED) COST OF TRANSPORTATION (CAS 5)
9. Operative Date

Effective from 1\textsuperscript{st} 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