

## Factorisation

In calculating the Customs Value of an imported good it is necessary that all those elements included in the price of the goods that are defined as being not dutiable be deducted, and all those elements not already included in the price that are defined as being dutiable be added to the price. In that way, the Customs Value takes into account all dutiable costs, charges and expenses incurred in bringing those goods into Australia while eliminating those that are not dutiable.

Such costs, charges and expenses may include, but not necessarily be limited to:

- ❖ Deductible financing costs;
- ❖ Deductible administrative costs;
- ❖ Overseas freight and insurance;
- ❖ Australian freight and insurance;
- ❖ Australian port charges;
- ❖ Local customs and delivery expenses;
- ❖ Foreign inland freight and insurance
- ❖ Royalties and license fees;
- ❖ Commissions; and
- ❖ Price related costs.

Where such a cost relates to a number of goods in a single transaction, and 2 or more of those goods fall to either a different tariff classification or a different rate of duty, it may be necessary to apportion the cost across each good that the cost relates to. In doing so, the apportionment attaches only that part of the cost that relates to that particular good.

The principal method of apportioning each cost, charge or expense incurred is called a factor.

In its most simple form, a factor can be expressed as  $X / Y$  where:

X = the value to be apportioned; and

Y = the value that X is to be apportioned over, and

then multiplying the result (the factor) over each value that went into making up the total of Y.

For example, where an import consignment as depicted in the following page under Incoterms CFR<sup>1</sup> comprises 2 different products each falling to a different tariff classification, one with value of A\$250.00 and one with a value of A\$750.00, giving a total CFR value of products of A\$1000.00, and the overseas freight charge included within the A\$1000.00 was A\$50.00, you will need to apportion the overseas freight charge over each of the imported product's values so that you can calculate how much of the A\$50.00 overseas freight charge should be deducted from each product's price to arrive at the Customs Value.

---

<sup>1</sup> CFR = Cost and Freight -- Title, risk and insurance cost pass to buyer when delivered on board the ship by seller who pays the transportation cost to the destination port. Used for sea or inland waterway transportation.

**USA Company Inc**9876 32<sup>nd</sup> Street  
New York City**INVOICE**INVOICE #[100]  
DATE: FEBRUARY 20, 2006TO:  
Aus Company Pty Ltd  
10 George Street  
Sydney

F.O.B. POINT	TERMS
New York	CFR

QUANTITY	DESCRIPTION	UNIT PRICE	TOTAL
10	Springs	A\$25.00	A\$250.00
50	Oil Seals	A\$15.00	A\$750.00
	Included in the above prices: Overseas Freight A\$50.00		
		SUBTOTAL	A\$1000.00
		SALES TAX	-----
		SHIPPING & HANDLING	-----
		TOTAL DUE	A\$1000.00

By applying the simple factor of X / Y:

X = A\$50.00 (the value to be apportioned)

Y = A\$1000.00 (the value that X is to be apportioned over)

The factor = 0.05

By then taking that factor and multiplying it over each value that went into making up the total of Y we can calculate how much of the overseas freight charge is to be applied (apportioned) to each product's value such that:

Product 1	A\$ 250.00 CFR x Factor 0.05 =	A\$12.50 overseas freight to be apportioned
Product 2	A\$ 750.00 CFR x Factor 0.05 =	A\$37.50 overseas freight to be apportioned
	<hr/>	<hr/>
	A\$1000.00 (total CFR value)	A\$50.00 (total overseas freight charge)

Therefore the CFR cost – overseas freight charge for each product is:

Product 1 CFR A\$250.00 - A\$12.50 = A\$237.50 Customs Value

Product 2 CFR A\$750.00 - A\$37.50 = A\$712.50 Customs Value

For a variation to the above factor please select [HERE](#).

### **Factors to account for exchange rates**

Where an apportionment is required of some element over two or more products, and the product prices are in a different currency to that of the element to be apportioned, a factor can take into account both the apportionment, and the currency exchange.

For example, the documents on the following pages depict a A\$1000.00 ex-works<sup>2</sup> consignment comprising springs with a value of A\$250.00, and oil seals with a value of A\$750.00, and additional invoices for foreign Inland Freight of US\$ 250.00 and foreign Inland Insurance of NZ\$ 25.00.

The appropriate rates of exchange are:

US\$: 0.7200 and

NZ\$: 1.2000

---

<sup>2</sup> Ex-works = Title and risk pass to buyer including payment of all transportation and insurance cost from the seller's door. Used for any mode of transportation.

**USA Company Inc**9876 32<sup>nd</sup> Street  
New York City**INVOICE**INVOICE #[100]  
DATE: FEBRUARY 20, 2006TO:  
Aus Company Pty Ltd  
10 George Street  
Sydney

F.O.B. POINT	TERMS
New York	Ex-Works

QUANTITY	DESCRIPTION	UNIT PRICE	TOTAL
10	Springs	A\$25.00	A\$250.00
50	Oil Seals	A\$15.00	A\$750.00
SUBTOTAL			A\$1000.00
SALES TAX			----
SHIPPING & HANDLING			----
TOTAL DUE			A\$1000.00

**NZ Insurance Inc**

10 Church Street Auckland

**INVOICE**INVOICE #200  
DATE: FEBRUARY 20, 2006**BILL TO:**  
Aus Company Pty Ltd  
10 George Street  
Sydney

<b>TERMS</b>
30 days

QUANTITY	DESCRIPTION	Price M3	TOTAL
	Transport Insurance		NZ\$25.00
		SUBTOTAL	NZ\$25.00
		SALES TAX	-----
		SHIPPING & HANDLING	-----
		TOTAL DUE	NZ\$25.00

**USA Truckers Inc**1100 West Street  
New York City**INVOICE**INVOICE #200  
DATE: FEBRUARY 20, 2006**BILL TO:**  
Aus Company Pty Ltd  
10 George Street  
Sydney

<b>TERMS</b>
30 days

QUANTITY	DESCRIPTION	Price M3	TOTAL
	Transport from USA Company Inc to Freight America LLC	US\$25.00	US\$250.00
		SUBTOTAL	US\$250.00
		SALES TAX	-----
		SHIPPING & HANDLING	-----
		TOTAL DUE	US\$250.00

To arrive at the Customs Value of each product it is necessary to apportion an amount of foreign inland freight and foreign inland insurance to the ex-works price of the product and make the necessary adjustments to account for the currencies to bring them to Australian dollars.

If each element to be apportioned (the foreign inland freight and foreign inland insurance) is converted to Australian currency and added together, the total amount to be apportioned is:

$$\begin{array}{r}
 \text{US\$} \quad 250.00 @ 0.7200 = \text{A\$} \quad 347.22 \\
 \text{NZ\$} \quad 25.00 @ 1.2000 = \text{A\$} \quad 20.83 \\
 \hline
 \text{A\$} \quad 368.05
 \end{array}$$

Using the simple factor of X / Y:

$$X = \text{A\$} 368.05 \quad (\text{the value to be apportioned})$$

$$Y = \text{A\$} 1000.00 \quad (\text{the value that X is to be apportioned over})$$

$$\text{The factor} = 0.36805$$

By then taking that factor and multiplying it over each value that went into making up the total of Y we can calculate how much of the foreign inland freight and foreign inland insurance is to be applied (apportioned) to each product's value such that:

Product 1	Ex-works A\$ 250.00 value x Factor 0.36805 =	A\$ 92.01 to be apportioned
Product 2	Ex-works A\$ 750.00 value x Factor 0.36805 =	A\$276.04 to be apportioned
	A\$1000.00 (total ex-works value)	<hr style="width: 20%; margin-left: auto; margin-right: 0;"/> A\$368.05 (total foreign inland freight and foreign inland insurance)

Therefore the total ex-works cost + foreign inland freight and foreign inland insurance for each product is:

$$\begin{array}{l}
 \text{Product 1 Ex-works A\$250.00 + A\$ 92.01 = A\$ 342.01 Customs Value} \\
 \text{Product 2 Ex-works A\$750.00 + A\$276.04 = A\$1026.04 Customs Value}
 \end{array}$$

By extrapolating the process seen above to a situation where many different products are imported and multiple exchange rates required to account for various elements it is clear that using a factor to account for the exchange rates / elements is much preferred.

For a variation to the above factor please select [HERE](#).

### **Factors to account for additions**

To apportion multiple elements that must each be added to the price to arrive at the Customs Value you can apportion each element individually, or you can combine all the elements together and factor them as a single element over the required products.

Using the example on the following two pages, it shows an ex-works consignment of US\$750.00 comprising springs with a value of US\$200.00, and oil seals with a value of US\$500.00, but this time where all the elements that make up the total ex-works price being separated on the commercial invoice, and where the additional costs are also incurred on a separate transport company invoice.



**USA Company Inc**9876 32<sup>nd</sup> Street  
New York City**INVOICE**INVOICE #[100]  
DATE: FEBRUARY 20, 2006TO:  
Aus Company Pty Ltd  
10 George Street  
Sydney

F.O.B. POINT	TERMS
New York	Ex-Works

QUANTITY	DESCRIPTION	UNIT PRICE	TOTAL
10	Springs	US\$20.00	US\$200.00
50	Oil Seals	US\$10.00	US\$500.00
	Packing		US\$ 20.00
	Labour		US\$ 30.00
SUBTOTAL			US\$750.00
SALES TAX			-----
SHIPPING & HANDLING			-----
TOTAL DUE			US\$750.00

**USA Truckers Inc**

1100 West Street  
New York City

**INVOICE**

INVOICE #200  
DATE: FEBRUARY 20, 2006

**BILL TO:**  
Aus Company Pty Ltd  
10 George Street  
Sydney

<b>TERMS</b>
30 days

QUANTITY	DESCRIPTION	Price M3	TOTAL
	Transport from USA Company Inc to Freight America LLC	US\$20.00	US\$75.00 (min)
	Transport Insurance		US\$10.50
		SUBTOTAL	US\$85.50
		SALES TAX	-----
		SHIPPING & HANDLING	-----
		TOTAL DUE	US\$85.50

To arrive at the FOB value of each product in the above example it is necessary to apportion an amount of packing and labour as well as an amount of foreign inland freight and foreign inland insurance to the ex-works line price of the products.

If each element to be apportioned (the labour, packing, foreign inland freight and foreign inland insurance) is added together, the total amount to be apportioned is:

US\$	20.00	Packing
US\$	30.00	Labour
US\$	75.00	Foreign inland freight
US\$	10.50	Foreign inland insurance
<hr/>		
US\$	135.50	

Using the simple factor of X / Y:

X = US\$ 135.50 (the value to be apportioned)

Y = US\$ 700.00 (the value that X is to be apportioned over)

The factor = 0.1935714

By then taking that factor and multiplying it over each value that went into making up the total of Y we can calculate how much of the packing, labour, foreign inland freight and foreign inland insurance is to be applied (apportioned) to each product's value such that:

Product 1	US\$ 200.00 value x Factor 0.1935714 = US\$ 38.71 to be apportioned
Product 2	US\$ 500.00 value x Factor 0.1935714 = US\$ 96.79 to be apportioned
	<hr/>
	US\$700.00 (total product line value)      US\$135.50 (total packing, labour foreign inland freight and foreign inland insurance)

Therefore the total product line cost + packing, labour, foreign inland freight and foreign inland insurance for each product is:

Product 1 US\$200.00 + US\$ 38.71 = US\$ 238.71 FOB  
 Product 2 US\$500.00 + US\$ 96.79 = US\$ 596.79 FOB

Remember, if we had the rate of exchange we could have incorporated that as well and arrived at a Customs Value.

For a variation to the above factor please select [HERE](#).

### **Factors to account for deductions, additions and rates of exchange**

To apportion multiple elements of different currencies, some of which must be added whilst others deducted in order to arrive at the Customs Value the factor can again be used.

Consider the documents on the following pages where you are required to arrive at the Customs Value for each line of product.

The documents show an ex-works consignment of US\$725.00 comprising springs with a value of US\$200.00, and oil seals with a value of US\$500.00, but this time where all the dutiable and non-dutiable elements that make up the total ex-works price being separated on the commercial invoice. A 2<sup>nd</sup> invoice also indicates other elements in a different currency that must be accounted for in the Customs Value.

The appropriate rate of exchange is 0.7200.

**USA Company Inc**9876 32<sup>nd</sup> Street  
New York City**INVOICE**INVOICE #[100]  
DATE: FEBRUARY 26, 2006TO:  
Aus Company Pty Ltd  
10 George Street  
Sydney

F.O.B. POINT	TERMS
New York	Ex-Works

QUANTITY	DESCRIPTION	UNIT PRICE	TOTAL
10	Springs	US\$20.00	US\$200.00
50	Oil Seals	US\$10.00	US\$500.00
	Packing		US\$ 20.00
	Labour		US\$ 30.00
	Quantity discount		US\$25.00
		SUBTOTAL	US\$725.00
		SALES TAX	----
		SHIPPING & HANDLING	----
		TOTAL DUE	US\$725.00

**USA Truckers Inc**

1100 West Street  
New York City

**INVOICE**

INVOICE #200  
DATE: FEBRUARY 26, 2006

**BILL TO:**  
Aus Company Pty Ltd  
10 George Street  
Sydney

<b>TERMS</b>
30 days

QUANTITY	DESCRIPTION	Price M3	TOTAL
	Transport from USA Company Inc to Freight America LLC	A\$25.00	A\$250.00
	Transport insurance for above movement		A\$ 8.50
		SUBTOTAL	A\$258.50
		SALES TAX	-----
		SHIPPING & HANDLING	-----
		TOTAL DUE	A\$258.50

To arrive at the Customs Value of each product in the above example it is necessary to add an amount of packing and labour as well as an amount of foreign inland freight and foreign inland insurance to the ex-works line price of the products, remembering that the packing and labour, and foreign inland freight and foreign inland insurance amounts are in different currencies. In addition, an amount of quantity discount must also be deducted from the ex-works line price of the products.

If the sum total of each US\$ element to be apportioned (the labour, packing and quantity discount) is calculated, the total US\$ amount to be apportioned and exchanged to A\$ is:

US\$	20.00	Packing <b>plus</b>
US\$	30.00	Labour <b>minus</b>
US\$	25.00	Quantity discount =
<hr/>		
US\$	25.00 @ rate of exchange 0.7200 =	
A \$	34.72	

If each dutiable A\$ element to be apportioned (the foreign inland freight and foreign inland insurance) is added together, the total A\$ amount to be apportioned is:

A\$	250.00	Foreign inland freight
A\$	8.50	Foreign inland insurance
<hr/>		
A\$	258.50	

The total costs to be apportioned, both dutiable and non-dutiable, are ....

A\$	34.72
A\$	258.50
<hr/>	
A\$	293.22

The total line price of the goods is .....

US\$	700.00
@	0.7200
<hr/>	
A\$	972.22

Each line price is ...

US\$	200.00 @ 0.7200 = A\$277.78
US\$	500.00 @ 0.7200 = A\$694.44

Using the simple factor of X / Y:

X = A\$ 293.22 (the value to be apportioned)

Y = A\$ 972.22 (the value that X is to be apportioned over)

The factor = 0.30159840365

By then taking that factor and multiplying it over each value that went into making up the total of Y we can calculate how much of the packing, labour, foreign inland freight and foreign inland insurance is to be applied (apportioned) to each product's value such that:

Product 1	A\$ 277.78 value x Factor 0.30159840365 =	A\$ 83.77 to be apportioned
Product 2	A\$ 694.44 value x Factor 0.30159840365 =	A\$209.45 to be apportioned
	A\$972.22 (total product line value)	A\$293.22 (total packing, labour, discount, foreign inland freight and foreign inland insurance)

Therefore the total product line cost + packing, labour, foreign inland freight and foreign inland insurance – quantity discount for each product is:

Product 1 A\$ 277.78 + A\$ 83.77 = A\$ 361.55 Customs Value

Product 2 A\$ 694.44 + A\$ 209.45 = A\$ 903.89 Customs Value

**NB !!!!!** ... Having now worked through all the above exercises it will be apparent that the methodology used, whilst being accurate and quicker than apportioning each dutiable and non-dutiable element individually, may be far from the most efficient method under some circumstances.

By way of example, in such a situation as presented itself in the immediate above exercise, a more effective method of factorising would be as follows:

Total US\$ ex-works invoice price = US\$725.00. Remember that this price takes into account the dutiable packing and labour costs and the non-dutiable discount.

@ the rate of exchange of 0.7200

= A\$ 1006.94

+ the total dutiable A\$ elements from the 2<sup>nd</sup> invoice of \$ 258.50

= A\$ 1265.44 total Customs Value



Now using a variation to the simple factor of X / Y, where:

X = A\$ 1265.44 (the Customs Value)

Y = US\$ 700.00 (the total product line value)

The factor = 1.80777142857

By carefully considering this factor you will note that it includes all dutiable and non-dutiable elements in addition to the currency exchange. By applying a factor that apportions the final result required (Customs Value) over the values that require the apportionment (the product line values) the factor effectively converts the product line values into Customs Values in a single step

As such, by taking this factor and multiplying it over each value that went into making up the total of Y we can calculate how much of the packing, labour, discount, foreign inland freight and foreign inland insurance is to be applied (apportioned) to each product's value AND add that value to arrive at the Customs Value such that:

Product 1	US\$	200.00 value x Factor 1.80777142857 =	A\$361.55 Line Customs Value
Product 2	US\$	500.00 value x Factor 1.80777142857 =	A\$903.89 Line Customs Value
	US\$	700.00 Total product line value	<hr/> A\$1265.44 Total Customs Value