



VARZA SCHOOL · THE FOUNDATIONAL 100

The True Cost of Buying: Freight, Customs, Insurance, Duties, and Landed Cost

Chapter 54 · Track 6 — Purchasing, Suppliers, Inventory, and Assets

THE QUESTION IT ANSWERS

How can a buyer compare suppliers and measure inventory cost when the quoted purchase price is only part of the amount required to bring goods to use or sale?

CONCEPTS DEFINED

Landed cost · Freight · Customs duty · Insurance · Inventory · Currency risk · Supplier invoice · Cost allocation

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Varza promise: clear enough for a first-time learner, exact enough for a professional conversation, and practical enough to support a real decision.

Why this chapter matters

This track follows resources from supplier selection to purchase, receipt, storage, consumption, and long-term use. The central discipline is custody: knowing what was ordered, what arrived, what is owned, what it cost, where it is, and whether it can still create value.

Central question: How can a buyer compare suppliers and measure inventory cost when the quoted purchase price is only part of the amount required to bring goods to use or sale?

Landed cost combines purchase price with attributable costs of transport, customs, insurance, handling, and other eligible preparation. Cost classification must follow the applicable framework, while management comparison should include avoidable delay, quality, financing, and risk even when not capitalized.

Varza approaches the subject from life to ledger and from ledger to decision. We begin with what actually happened, identify the rights, obligations, resources, timing, and uncertainty, and only then choose the correct term, calculation, document, or account. This order protects the learner from a common error: learning a label without understanding the economic reality that the label is supposed to describe.

Learning outcomes

- Define and distinguish landed cost in plain and professional language.
- Define and distinguish freight in plain and professional language.
- Define and distinguish customs duty in plain and professional language.
- Define and distinguish insurance in plain and professional language.
- Apply the concepts to a numerical case and explain the result rather than only calculate it.
- Identify evidence, workflow, controls, and Varza entities required for reliable use.
- Recognize when jurisdiction-specific or licensed professional advice is required.

The Varza mental model

A financial concept becomes decision-ready when six questions have answers: **what, who, when, how much, based on what evidence**, and **under which assumption or rule**. A seventh question—**what should happen next**—turns knowledge into management.

This chapter uses internationally recognized terminology, but it remains jurisdiction-neutral unless explicitly stated. Accounting standards, tax rules, contract law, consumer protection, labor

requirements, and investment regulation can produce different legal outcomes in different countries. The global foundation gives the learner a stable map; local collections must add the binding rules.

Core concepts

1. Landed cost

Working definition. Landed cost is the total attributable cost of bringing purchased goods to their present location and condition, subject to the applicable accounting policy.

Allocate freight, duty, insurance, handling, and other eligible costs consistently. Some selling, storage, abnormal waste, or financing costs may require separate treatment. In Varza language, the concept becomes useful when it changes a decision.

Simple example. Imported inventory includes purchase price, customs duty, and inbound freight allocated by a rational driver.

Decision test. What is being measured, and what has been left outside the boundary? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

2. Freight

Working definition. Freight is the cost and service of transporting goods between locations.

Distinguish inbound, outbound, internal transfer, urgent premium, and customer-recharged freight because accounting and decision use differ. The professional term matters because it prevents two different realities from being recorded as though they were the same.

Simple example. Inbound freight may form part of inventory cost while delivery to customers may be a selling cost under policy.

Decision test. When did the underlying right, obligation, benefit, or sacrifice arise? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

3. Customs duty

Working definition. Customs duty is a levy imposed on imported or exported goods according to classification, origin, value, quantity, and jurisdictional rules.

Classification and origin evidence can be as important as the rate. Recoverability and inventory-cost treatment depend on the circumstances and rules. A non-specialist can understand this by separating the object, the timing, and the consequence.

Simple example. Imported equipment incurs a non-recoverable duty included in its acquisition cost.

Decision test. Which document or observation would allow another person to verify it? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is

missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

4. Insurance

Working definition. Insurance is a risk-transfer arrangement under which a premium is exchanged for defined protection against specified losses.

Insurance protects against severe uncertainty; it is not a substitute for maintenance, controls, or emergency cash. The concept should be measured at the smallest level that still supports a real action.

Simple example. Property, health, liability, and life risks require different forms of cover.

Decision test. How would a different assumption change the result? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

5. Inventory

Working definition. Inventory is assets held for sale, in production for sale, or in the form of materials or supplies to be consumed in production or service delivery under the applicable framework.

Inventory combines quantity, ownership, condition, location, cost, and expected recoverability. Physical presence alone does not prove ownership. The number alone is not enough; its definition determines whether comparisons are valid.

Simple example. Goods held on consignment may be physically present but owned by another party.

Decision test. Who can influence the result, and who only reports it? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

6. Currency risk

Working definition. Currency risk is the uncertainty created when assets, liabilities, income, expenses, or commitments are exposed to exchange-rate changes.

Measure exposure by currency and timing; do not assume that all foreign-currency positions offset. This is where operational activity and financial reporting meet.

Simple example. A dollar payable creates risk for a business whose cash inflows are mainly in another currency.

Decision test. Does the item affect cash now, later, or not at all? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

7. Supplier invoice

Working definition. Supplier invoice is a supplier's formal claim for amounts due for goods, services, tax, or other consideration.

The invoice should be validated against supplier identity, authorization, receipt, terms, tax, duplicate risk, and calculation before posting. In Varza language, the concept becomes useful when it changes a decision.

Simple example. An invoice quotes the purchase order and matches accepted quantities.

Decision test. What is being measured, and what has been left outside the boundary? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

8. Cost allocation

Working definition. Cost allocation is the assignment of indirect cost from a pool to cost objects using a selected base or driver.

Allocation is a model. State its purpose and avoid using one convenient base for every decision. The professional term matters because it prevents two different realities from being recorded as though they were the same.

Simple example. Shared rent is allocated to departments by occupied floor area.

Decision test. When did the underlying right, obligation, benefit, or sacrifice arise? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

How the concepts connect

The concepts in this chapter are a system, not a vocabulary list. Landed cost, Freight, Customs duty, Insurance, Inventory, Currency risk, Supplier invoice, and Cost allocation describe different parts of the same decision. Confusing them usually creates one of three failures: the wrong amount is measured, the right amount is assigned to the wrong period or person, or a correct report is used for a decision it was never designed to support.

A useful analysis therefore preserves both **classification** and **relationship**. Classification tells us what an item is. Relationship tells us what caused it, what it affects, and what could change it. Varza should store both. A report that shows only totals may be suitable for orientation; a controlled decision requires traceability to the underlying relationships.

Formulas and quantitative relationships

Landed unit cost

Landed unit cost = (Purchase price + Eligible attributable costs – Purchase reductions) ÷ Saleable units received

The formula calculates cost after bringing goods to present location and condition.

Boundary: Eligibility, abnormal loss, tax recoverability, and unit denominator follow facts and accounting policy.

Worked case — The lower quote has the higher landed cost

A buyer compares two suppliers for 1,000 saleable units.

Item	Amount or observation
Supplier A price	CU 40,000
A freight / duty / insurance	CU 8,000 / CU 4,000 / CU 1,000
Supplier B price	CU 45,000
B freight / duty / insurance	CU 2,000 / CU 0 / CU 500
Expected saleable units	A 950; B 990 due to quality history

Calculation and reasoning

1. Supplier A eligible cost before abnormal analysis is CU 53,000; cost per expected saleable unit is approximately CU 55.79.
2. Supplier B cost is CU 47,500; cost per expected saleable unit is approximately CU 47.98.
3. Investigate whether quality loss is normal, abnormal, recoverable from supplier, or included in saleable-unit planning.
4. Include lead time, currency, cash terms, and stockout risk before final sourcing decision.

What the result means

The CU 5,000 lower invoice price does not create a lower economic acquisition cost. Landed and usable cost reveals the more relevant comparison.

The case is deliberately compact. In practice, Varza would preserve the supporting documents, currency, dates, counterparty, project or cost center, approvals, and links to the resulting records. The lesson is not merely to reach a number; it is to make the path to that number reviewable.

Practical workflow

1. **Define the decision, responsible person, economic unit, period, and acceptable uncertainty.**
Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
2. **Identify the shipment, ownership terms, destination, and all related cost documents.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
3. **Classify costs as eligible inventory cost, period expense, tax, recoverable amount, financing, or abnormal loss under policy.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
4. **Allocate eligible shared costs using a rational driver.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
5. **Reconcile the landed-cost pool to items and update margin, price, and procurement decisions.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
6. **Reconcile the result to source evidence and investigate exceptions rather than forcing agreement.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
7. **Approve the decision or record at the authority level required by value, risk, and legal consequence.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
8. **Monitor the outcome, compare it with the original assumption, and retain the learning for the next cycle.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.

How this concept should appear in Varza

The minimum Varza data model for this chapter includes shipment, purchase_invoice, freight_invoice, customs_entry, duty, insurance, handling, landed_cost_pool, allocation_driver, inventory_receipt. These names are not merely interface labels. Each entity should have a stable identifier, status history, responsible owner, applicable currency or unit, effective dates, evidence links, and access controls.

A useful Varza screen should answer four questions without forcing the user to reconstruct the story manually:

1. **What happened or is expected to happen?** Show the operational event, obligation, or decision in plain language.
2. **What changed financially?** Show cash, asset, liability, equity, income, expense, commitment, or risk effects.

3. **Why should the user trust it?** Show source documents, calculations, approvals, and revision history.
4. **What requires attention now?** Show exceptions, due dates, thresholds, and the next responsible action.

The Varza design principles most relevant here are:

- Begin with the real event, not the accounting label.
- Keep value, cash, profit, and ownership distinct until their relationship is proven.
- Attach every important number to a source, period, currency, entity, and responsible person.

Varza AI may explain, classify, compare, simulate, and prepare a proposed action. It should not silently change a legal record, post a material transaction, close a period, release a payment, or make an investment decision on the user's behalf. Material actions require visible evidence, permissions, validation rules, and an accountable human approval path.

Controls and professional boundaries

1. **Shipment-level document completeness.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
2. **Allocation driver approval and consistency.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
3. **No capitalization of abnormal waste or unsupported overhead.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
4. **Foreign-currency rate and customs-value validation.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
5. **Stable definitions, versioned assumptions, and consistent units across plans, records, and reports.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
6. **Traceability from every material total to evidence, calculation, owner, and change history.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
7. **Access and approval rights aligned with responsibility and the possible consequence of error or misuse.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.

A control is effective only when it operates in practice. A policy that everyone can bypass is a statement of hope, not a control. Likewise, a control that blocks ordinary work without distinguishing low-risk and high-risk cases encourages hidden workarounds.

Common mistakes and better responses

Mistake 1: Comparing suppliers only by unit quote

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 2: Allocating weight-based freight by unit count when products have radically different weight

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 3: Capitalizing outbound customer delivery as inbound inventory cost without policy basis

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 4: Ignoring duty and exchange exposure until goods arrive

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 5: Using a technically correct number outside the period, entity, currency, or decision boundary for which it was calculated

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 6: Accepting an automated result without reviewing the evidence, assumptions, exceptions, and required professional judgment

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Decision checklist

- ☐ Can I explain landed cost in plain language and in professional terms?

- ☐ Can I explain freight in plain language and in professional terms?
- ☐ Can I explain customs duty in plain language and in professional terms?
- ☐ Can I explain insurance in plain language and in professional terms?
- ☐ Have I stated the entity, currency or unit, date or period, and decision boundary?
- ☐ Can another person reproduce the number from retained evidence?
- ☐ Have I separated actuals, estimates, commitments, and scenarios?
- ☐ Have I tested timing, liquidity, risk, and at least one adverse outcome?
- ☐ Is the required approval proportional to the possible loss or legal consequence?
- ☐ Does the final output lead to a specific action, owner, and review date?

Practice lab

1. **Explain it.** Describe Landed cost to a person who has never studied finance. Then add the professional definition and identify one boundary your simple explanation omitted.
2. **Classify it.** Create five examples from your household or a small business and classify each using Freight. State any assumptions.
3. **Calculate it.** Rebuild the worked case with amounts 20% higher. Identify which conclusions change and which remain structurally true.
4. **Challenge it.** Describe a situation in which Customs duty could be measured correctly but still lead to a poor decision because timing, risk, or incentives were ignored.
5. **Design it.** Sketch a Varza screen or report for this chapter. Include fields, evidence links, status, owner, exceptions, and one AI-assisted action.

Answer guidance

A strong answer uses consistent definitions, reveals assumptions, distinguishes fact from estimate, and connects the result to an action. More than one conclusion may be reasonable when the learner clearly states the decision objective and uncertainty. The worked-case recalculation should preserve the method even when the numbers change.

Varza AI knowledge capsule

This capsule is intentionally explicit so that a retrieval system can distinguish canonical teaching points from examples and commentary.

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    "Customs duty: a levy imposed on imported or exported goods according to classification, origin, value, quantity, and jurisdictional rules.",
    "Insurance: a risk-transfer arrangement under which a premium is exchanged for defined protection against specified losses.",
    "Inventory: assets held for sale, in production for sale, or in the form of materials or supplies to be consumed in production or service delivery under the applicable framework.",
    "Currency risk: the uncertainty created when assets, liabilities, income, expenses, or commitments are exposed to exchange-rate changes.",
    "Supplier invoice: a supplier's formal claim for amounts due for goods, services, tax, or other consideration.",
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Suggested questions for Varza AI

- Explain this chapter using an example from a household, a shop, and a service business.
- Ask me five diagnostic questions before applying this concept to my situation.
- Show the difference between cash effect, accounting effect, and decision effect.

- Recalculate the worked case using my currency and assumptions, but preserve the original definitions.
- Identify which parts require local accounting, tax, legal, labor, or investment rules.

Sources and standards horizon

This chapter is original Varza educational content. It paraphrases and synthesizes concepts; it does not reproduce a standard or third-party article. The following sources were used to establish terminology, scope, and current professional context:

- **S102 — IFRS Foundation, *IAS 2 Inventories*.** 2026 standards set. Inventory cost, lower of cost and net realisable value, and cost formulas. Source: <https://www.ifrs.org/issued-standards/list-of-standards/ias-2-inventories/>
- **S107 — IFRS Foundation, *IAS 21 The Effects of Changes in Foreign Exchange Rates*.** 2026 standards set. Functional currency, transaction translation and exchange differences. Source: <https://www.ifrs.org/issued-standards/list-of-standards/ias-21-the-effects-of-changes-in-foreign-exchange-rates/>
- **S117 — IFRS Foundation, *IFRS for SMEs Accounting Standard*.** third edition 2025; effective 2027. Simplified global reporting framework for eligible small and medium-sized entities. Source: <https://www.ifrs.org/issued-standards/ifrs-for-smes/>
- **S118 — IFRS Foundation, *IFRS Accounting Standards—Required 2026*.** 2026-01-29. Standards and amendments effective from 1 January 2026. Source: <https://www.ifrs.org/news-and-events/news/2026/01/now-available-ifrs-accounting-standards-required-2026-two-editions/>

Standards horizon. Reviewed through 2026-08-31. IFRS 18 and the third edition of the IFRS for SMEs Accounting Standard are included as transition knowledge where relevant; both have mandatory effective dates beginning in 2027, with early application permitted under their respective requirements.

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