

PRESENTATION ON

CAS 11 ADMINISTRATIVE OVERHEADS

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SERIES OF WEBINTS ON PRACTICAL ASPECTS OF CAS

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CAS 11 ADMINISTRATIVE OVERHEADS

Objective

The objective of this standard is to bring uniformity and consistency in the principles and methods of determining the administrative overheads with reasonable accuracy.

Scope

*This standard should be applied to cost statements, which require classification, measurement, assignment, presentation and **disclosure of administrative overheads including those requiring attestation.***

CAS 11 ADMINISTRATIVE OVERHEADS

Important Definitions

Absorption of overheads: Assigning of overheads to cost objects by means of appropriate absorption rate.

Overhead Absorption Rate = Overheads of the Cost object / Quantum of base.

Administrative Overheads: Cost of all activities relating to *general management and administration* of an entity.

Administrative overheads shall exclude production overheads, marketing overheads and finance cost. Production overheads includes administration cost relating to production, factory, works or manufacturing.

CAS 11 ADMINISTRATIVE OVERHEADS

Principles of Measurement

Administrative overheads shall be the aggregate of cost of resources consumed in activities relating to general management and administration of an organisation.

It usually represents the cost of shared services, cost of infrastructure and general management costs. Administrative overheads comprise items such as employee costs, utilities, office supplies, legal expenses and outside services. The principles of measurement of Material Cost, Employee Costs, Utilities, Repairs and Maintenance and Depreciation found in the respective standards will apply to these elements included in administrative overheads.

CAS 11 ADMINISTRATIVE OVERHEADS

Principles of Measurement

*In case of leased assets, if the lease is an **operating lease**, the entire rentals shall be included in the administrative overheads. If the lease is a **financial lease**, the finance cost portion shall be segregated and treated as part of finance costs.*

The cost of software (developed in house, purchased, licensed or customised), including up-gradation cost shall be amortised over its estimated useful life.

When hardware requires up-gradation along with software up-gradation, it is recommended that compatible estimated lives be used for the two sets of cost.

CAS 11 ADMINISTRATIVE OVERHEADS

Principles of Measurement

*The cost of administrative services procured from outside shall be determined at **invoice or agreed price** including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discount), taxes and duties refundable or to be credited.*

*Any **Subsidy/Grant/Incentive** or any amount of similar nature received/receivable with respect to any Administrative overheads shall be reduced for ascertainment of the cost of the cost object to which such amounts are related.*

CAS 11 ADMINISTRATIVE OVERHEADS

Principles of Measurement

*Administrative overheads **shall not include** any abnormal administrative cost.*

Example: Expense incurred in a situation of natural calamity.

***Fines, penalties, damages** and similar levies paid to statutory authorities or other third parties shall not form part of the administrative overheads.*

Credits/ recoveries relating to the administrative overheads including those rendered without any consideration, material and quantifiable, shall be deducted to arrive at the net administrative overheads.

CAS 11 ADMINISTRATIVE OVERHEADS

Assignment of Costs

6.1 While assigning administrative overheads, traceability to a cost object in an economically feasible manner shall be the guiding principle.

6.2 Assignment of administrative overheads to the cost objects shall be based on either of the following two principles;

i) Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost.

ii) Benefits received – overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.

i) The costs of shared services should be assigned to user activities on the basis of actual usage.

ii) Where the resources by way of infrastructure are shared the cost should be assigned on a readiness to serve basis.

iii) General management costs should be assigned on rational basis.

CAS 11 ADMINISTRATIVE OVERHEADS

Presentation

7.1 Administrative overheads shall be presented as a separate cost head in the cost statement.

7.2 Element wise details of the administrative overheads based on materiality shall be presented.

CAS 11 ADMINISTRATIVE OVERHEADS

Disclosures

The cost statements shall disclose the following:

- *The basis of assignment of administrative overheads to the cost objects.*
- *Any imputed cost included as a part of administrative overheads.*
- *Administrative overheads incurred in foreign exchange.*
- *Cost of administrative activities received from or supplied to related parties.*
- *Any Subsidy / Grant / Incentive or any amount of similar nature received / receivable reduced from administrative overheads.*
- *Credits / recoveries relating to the administrative overheads.*
- *Any abnormal portion of the administrative overheads.*
- *Penalties and damages excluded from the administrative overheads.*

CAS 13 COST OF SERVICE COST CENTRE

Introduction

*This standard covers the Service Cost Centre as defined in paragraph 4.11 of this standard. **It excludes Utilities and Repairs & Maintenance Services dealt with in CAS- 8 and CAS-12 respectively.***

Objective

The objective of this standard is to bring uniformity and consistency in the principles and methods of determining the Cost of Service Cost Centre with reasonable accuracy.

Scope

This standard should be applied to the preparation and presentation of cost statements, which require classification, measurement and assignment of Cost of Service Cost Centre, including those requiring attestation.

CAS 13 COST OF SERVICE COST CENTRE

Important Definitions

Stand-by service: Any facility created as backup against any failure of the main source of service.

Support-Service Cost Centre: The cost centre which primarily provides auxiliary services across the entity.

The cost centre which provides services to Production, Operation or other Service Cost Centre **but not directly engaged in manufacturing process or operation is a service cost centre.** A service cost centre renders services to other cost centres / other units and in some cases to outside parties.

Examples of service cost centres are **engineering, workshop, research & development, quality control, quality assurance**, designing, laboratory, welfare services, safety, transport, Component, Tool stores, Pollution Control, Computer Cell, dispensary, school, crèche, township, Security.

Administrative Overheads include cost of administrative Service Cost Centre.

CAS 13 COST OF SERVICE COST CENTRE

Principles of Measurement

*5.1 Each identifiable service cost centre shall be treated as a **distinct cost object for measurement** of the cost of services subject to the principle of materiality.*

5.2.1 Cost of service cost centre shall be the aggregate of direct and indirect cost attributable to services being rendered by such cost centre.

5.2.2 Cost of in-house services shall include cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources used in such service.

*5.2.3 Cost of services rendered by contractors within the facilities of the entity shall include **charges payable to the contractor and cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources provided to the contractors for such services.***

CAS 13 COST OF SERVICE COST CENTRE

Principles of Measurement

*5.2.4 Cost of services rendered by contractors at their premises shall be determined at **invoice or agreed price** including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discount), taxes and duties refundable or to be credited. This cost shall also include the cost of resources provided to the contractors.*

*5.2.5 **Cost of services for the purpose of inter unit transfers shall also include distribution costs incurred for such transfers.***

5.2.6 Cost of services for the purpose of inter-company transfers shall also include distribution cost incurred for such transfers and administrative overheads.

5.2.7 Cost of services rendered to outside parties shall also include distribution cost incurred for such transfers, administrative overheads and marketing overheads.

CAS 13 COST OF SERVICE COST CENTRE

Principles of Measurement

5.3 Finance costs incurred in connection with the Service Cost Centre shall not form part of the cost of Service Cost Centre.

*5.4 The cost of service cost centre **shall not include imputed costs.***

5.5 Where the cost of service cost centre is accounted at standard cost, the price and usage variances related to the services cost Centre shall be treated as part of cost of services. Usage variances due to abnormal reasons shall be treated as part of abnormal cost.

5.6 Any Subsidy / Grant / Incentive or any such payment received / receivable with respect to any service cost centre shall be reduced for ascertainment of the cost to which such amounts are related.

CAS 13 COST OF SERVICE COST CENTRE

Principles of Measurement

5.7 The cost of production and distribution of the service shall be determined based on the normal capacity or actual capacity utilization whichever is higher and unabsorbed cost, if any, shall be treated as abnormal cost. Cost of a Stand-by service shall include the committed costs of maintaining such a facility for the service.

*5.8 **Any abnormal cost** where it is material and quantifiable shall not form part of the cost of the service cost centre.*

5.9 Penalties, damages paid to statutory authorities or other third parties shall not form part of the cost of the service cost centre.

*5.10 **Credits/recoveries** relating to the service cost centre including charges for services rendered to outside parties, material and quantifiable, shall be reduced from the total cost of that service cost centre.*

CAS 13 COST OF SERVICE COST CENTRE

Assignment of Costs

6.1 While assigning cost of services, traceability to a cost object in an economically feasible manner shall be the guiding principle.

6.2 Where the cost of services rendered by a service cost centre is not directly traceable to a cost object, it shall be assigned on the most appropriate basis.

6.3 The most appropriate basis of distribution of cost of a service cost centre to the cost centres consuming services is to be derived from logical parameters which could be related to the usage of the service rendered. The parameter shall be equitable, reasonable and consistent.

CAS 13 COST OF SERVICE COST CENTRE

Presentation

7.1 Cost of service cost centre shall be presented as a separate cost head for each type of service in the cost statement, if material.

Disclosures

8.1 The cost statements shall disclose the following:

- 1. The basis of distribution of cost of each service cost centre to the consuming centres.*
- 2. The cost of purchase, production, distribution, marketing and price of services with reference to sales to outside parties*
- 3. Where the cost of service cost centre is disclosed at standard cost, the price and usage variances*
- 4. The cost of services received from / rendered to related parties.*

CAS 13 COST OF SERVICE COST CENTRE

Disclosures

- 5. Cost of service cost centre incurred in foreign exchange.*
- 6. Any Subsidy/Grant/Incentive and any such payment reduced from cost of Service Cost Centre.*
- 7 Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement Cost of Service Cost Centre*
- 8. Credits/ recoveries relating to the cost of Service Cost Centre*
- 9. Any abnormal cost excluded from cost of Service Cost Centre*
- 10. Penalties and damages paid excluded from cost of Service Cost Centre.*

CAS 15 SELLING AND DISTRIBUTION OVERHEADS

Introduction

This standard deals with the principles and methods of classification, measurement and assignment of Selling and Distribution Overheads, for determination of the cost of sales of product or service, and the presentation and disclosure in cost statements.

Objective

The objective of this standard is to bring uniformity and consistency in the principles and methods of determining the Selling and Distribution Overheads with reasonable accuracy.

Scope

This standard should be applied to cost statements, which require classification, measurement, assignment, presentation and disclosure of Selling and Distribution Overheads including those requiring attestation.

CAS 15 SELLING AND DISTRIBUTION OVERHEADS

Important Definitions

Distribution overheads: *Distribution overheads, also known as distribution costs, are the costs incurred in handling a product or service from the time it is ready for despatch or delivery until it reaches the ultimate consumer including the units receiving the product or service in an inter-unit transfer.*

The cost of packing, repacking, labelling, etc. at an intermediate storage location will be part of distribution cost.

1. Packing, repacking / labelling at an intermediate storage location
2. Transportation cost
3. Cost of warehousing (cover depots, godowns, storage yards, stock yards etc.,)

In case of machinery involving technical help in installation, such expenses for installation are part of cost of production and not considered as cost of Selling and Distribution Overheads.

CAS 15 SELLING AND DISTRIBUTION OVERHEADS

Important Definitions

Marketing Overheads: Marketing overheads comprise of selling overheads and distribution overheads.

Selling Overheads: Selling overheads are the expenses related to sale of products or services and include all indirect expenses incurred in selling the products or services.

For Example:

1. Salaries of sales personnel
2. Travelling expenses of sales personnel
3. Commission to sales agents
4. Sales and brand promotion expenses including advertisement, publicity, sponsorships, endorsements and similar other expenses.
5. Receivable Collection costs
6. After sales service costs
7. Warranty costs

CAS 15 SELLING AND DISTRIBUTION OVERHEADS

Principles of Measurement

*5.1 Selling and Distribution Overheads shall be the aggregate of the cost of resources consumed in the selling and distribution activities of the entity. The cost of resources procured from outside shall be determined at **invoice or agreed price** including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discounts), taxes and duties refundable or to be credited by the Tax Authorities.*

Post sales costs such as warranty cost, product liability cost, after sales service shall be estimated on a reasonable basis.

5.2 Selling and Distribution Overheads, the benefits of which are expected to be derived over a long period, shall be amortised on a rational basis.

*5.3 Selling and distribution overheads **shall not include imputed cost.***

CAS 15 SELLING AND DISTRIBUTION OVERHEADS

Principles of Measurement

5.4 Cost of after Sales Service provided in terms of sale agreement for a class of transactions, shall be determined on rational and scientific basis, net of any recovery on the service.

*5.5 **Any Subsidy / Grant / Incentive** or any such payment received / receivable with respect to any Selling and Distribution Overheads shall be reduced from the cost of the sales of the cost object.*

*5.6 **Any abnormal cost** relating to selling and distribution activity shall be excluded from the Selling and Distribution Overheads.*

*5.7 Any **demurrage or detention charges**, or penalty levied by transportation or other authorities in respect of distribution activity shall not form part of the Selling and Distribution Overhead.*

CAS 15 SELLING AND DISTRIBUTION OVERHEADS

Principles of Measurement

5.8 Penalties and damages paid to statutory authorities or other third parties shall not form part of the Selling and Distribution Overheads.

5.9 Credits / recoveries relating to the Selling and Distribution Overheads including those rendered without any consideration, material and quantifiable, shall be deducted to arrive at the net Selling and Distribution Overheads.

5.10 Any change in the cost accounting principles applied for the measurement of the Selling and Distribution Overheads shall be made only if it is required by law or for compliance with the requirements of a cost accounting standard or a change would result in a more appropriate preparation or presentation of cost statements of an entity.

CAS 15 SELLING AND DISTRIBUTION OVERHEADS

Assignment of Costs

6.1 Selling and Distribution Overheads directly traceable shall be assigned to the relevant product sold or services rendered.

6.2 Transportation cost relating to distribution shall be assigned as per CAS – 5, where relevant and applicable.

6.3 Assignment of Selling and Distribution Overheads to the cost objects shall be based on either of the following two principles;

i) Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost.

ii) Benefits received – overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.

CAS 15 SELLING AND DISTRIBUTION OVERHEADS

Presentation

7.1 Selling and Distribution overheads shall be presented as a separate cost head in the cost statement.

A reporting entity may use the term **marketing Overheads** in place of Selling and Distribution overheads.

7.2 Element wise details of the Selling and Distribution overheads shall be presented, if material.

Disclosures

8.1 The cost statements shall disclose the following:

- 1. The **basis of distribution of Selling and Distribution Overheads** to the cost objects.***
- 2. **Selling and Distribution Overheads** incurred in foreign exchange.***
- 3. **Cost of Selling and Distribution services** rendered to related parties.***

CAS 15 SELLING AND DISTRIBUTION OVERHEADS

Disclosures

4. Any Subsidy / Grant / Incentive and any such payment reduced from Selling and Distribution Overheads.

5. Credits / recoveries relating to the Selling and Distribution Overheads.

6. Penalties and damages excluded from the Selling and Distribution Overheads.

8.2 Disclosures shall be made only where material and significant.

8.3 Disclosures shall be made in the body of the Cost Statement or as a foot note or as a separate schedule.

8.4 Any change in the cost accounting principles and methods applied for the measurement and assignment of the Selling and Distribution Overheads during the period covered by the cost statement which has a material effect on the Selling and Distribution Overheads shall be disclosed. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.

CAS 17 INTEREST AND FINANCING CHARGES

Introduction

This standard deals with the principles and methods of classification, measurement and assignment of Interest and Financing Charges.

Objective

The objective of this standard is to bring uniformity and consistency in the principles, methods of determining and assigning the Interest and Financing Charges with reasonable accuracy.

Scope

This standard should be applied to cost statements which require classification, measurement, assignment, presentation and disclosure of Interest and Financing Charges including those requiring attestation.

This standard does not deal with costs relating to risk management through derivatives.

CAS 17 INTEREST AND FINANCING CHARGES

Important Definitions

Asset: *An Asset is a resource;*

- (a) controlled by an entity as a result of past events; and*
- (b) from which future economic benefits are expected to flow to the entity.*

Current asset: *An entity shall classify an asset as current when :*

- (a) it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;*
- (b) it holds the asset primarily for the purpose of trading;*
- (c) it expects to realise the asset within twelve months after the reporting period; or*
- (d) the asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.*

CAS 17 INTEREST AND FINANCING CHARGES

Important Definitions

Current Liabilities: *An entity shall classify a liability as current when :*

- (a) it expects to settle the liability in its normal operating cycle;*
- (b) it holds the liability primarily for the purpose of trading;*
- (c) the liability is due to be settled within twelve months after the reporting period ; or*
- (d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.*

Intangible Asset: *An intangible asset is an identifiable non-monetary asset without physical substance.*

CAS 17 INTEREST AND FINANCING CHARGES

Important Definitions

Interest and Finance charges: *Interest and Financing Charges are interest and other costs incurred by an entity in connection with the financing arrangements.*

Examples are:

1. Interest and commitment charges on bank borrowings, other short term and long term borrowings:
2. Financing Charges in respect of **finance leases** and other similar arrangements: and
3. Exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs.

The terms Interest and financing charges, finance costs, and borrowing costs are used interchangeably.

CAS 17 INTEREST AND FINANCING CHARGES

Important Definitions

Net current asset: *Net current asset is the excess of current assets over current liabilities.*

Current Liabilities shall include short term borrowings and that part of long term borrowings which are classified as current liabilities

Short term borrowing is the borrowing which is repayable within one year from the date of disbursal as per Loan Agreement.

Long term borrowing is the borrowing which is repayable after one year from the date of disbursal as per Loan Agreement.

CAS 17 INTEREST AND FINANCING CHARGES

Principles of Measurement

5.1. Interest and Financing Charges shall be measured in accordance with the Accounting Standards notified by the Central Government under the Companies (Accounting Standards) Rules 2006 or with the Indian Accounting Standards notified under the Companies (Indian Accounting Standards) Rules 2015, as applicable.

5.2. Interest and Financing Charges incurred shall be identified for:

- (a) acquisition / construction/ production of qualifying assets ; and***
- (b) Other finance costs for production of goods/ operations or services rendered which cannot be classified as qualifying assets.***

5.3. Interest and Financing Charges directly attributable to the acquisition / construction/production of a qualifying asset shall be included in the cost of the asset.

5.4. Interest and Financing Charges shall not include imputed costs.

CAS 17 INTEREST AND FINANCING CHARGES

Principles of Measurement

5.5. Subsidy / Grant / Incentive or amount of similar nature received / receivable with respect to Interest and Financing Charges if any, shall be reduced to ascertain the net interest and financing charges.

5.6. Penal Interest for delayed payment, Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the Interest and Financing Charges.

In case the company delays the payment of Statutory dues beyond the stipulated date, interest paid for delayed payment shall not be treated as penal interest.

5.7. Interest paid for or received on investment shall not form part of the other financing charges for production of goods / operations or services rendered;

CAS 17 INTEREST AND FINANCING CHARGES

Assignment of costs

6.1. Assignment of Interest and Financing Charges to the cost objects shall be based on either of the following principles:

(a) Cause and effect- cause is the process or operation or activity and effect is the incurrence of cost.

(b) Benefits received- Interest and Financing Charges are to be apportioned to the various cost objects in proportion to the benefits received by them.

Presentation

7.1. Interest and Financing Charges shall be presented in the cost statement as a separate item of cost of sales.

CAS 17 INTEREST AND FINANCING CHARGES

Disclosures

8.1 The cost statements shall disclose the following:

1. The basis of distribution of Interest and Financing Charges to the cost objects/ cost units.
2. Where predetermined cost is applied in Interest and Financing Charges, the rate and usage variances.
3. Interest and Financing Charges paid/ payable to related parties.
4. Interest and Financing Charges incurred in foreign exchange.
5. Any Subsidy / Grant / Incentive or any amount of similar nature received / receivable reduced Interest and Financing Charges.

8.2 Disclosures shall be made only where material, significant and quantifiable.

CAS 17 INTEREST AND FINANCING CHARGES

Disclosures

8.3 Interest and Financing Charges incurred relating to prior periods and taken to reconciliation directly shall be disclosed separately.

8.4 Disclosures shall be made in the body of the Cost Statement or as a foot note or as a separate schedule.

8.5 Any change in the cost accounting principles and methods applied for the measurement and assignment of the Interest and Financing Charges during the period covered by the cost statement which has a material effect on the Interest and Financing Charges shall be disclosed. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.



THANKS !!