



CAS-3 (Revised 2011)¹
COST ACCOUNTING STANDARD ON “OVERHEADS” (Revised 2011)

The following is the revised COST ACCOUNTING STANDARD 3 (CAS-3) issued by the Council of The Institute of Cost Accountants of India on “Overheads”. In this Standard, the standard portions have been set in ***bold italic*** type. This standard shall be read in the context of the background material, which has been set in normal type.

1. Introduction

1.1 This standard deals with the principles and methods of determining the Overheads.

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

2. Objective

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

3. Scope

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

4. Definitions:

The following terms are being used in this standard with the meaning specified.

4.1 Abnormal cost: An unusual or atypical cost whose occurrence is usually irregular and unexpected and / or due to some abnormal situation of the production or operation.²

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

¹ This revised Cost Accounting Standard comes into force w.e.f. 1st April 2012 and supersedes the Cost Accounting Standard - 3 on Overheads issued by the Council on 3rd January 2003.)

² Adapted from CAS 1 paragraph 6.5.19



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

4.3 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 include administration costs relating to production, factory, works or manufacturing.³

4.4 Cost Centre: Any unit of an entity selected with a view to accumulating all cost under that unit. The unit can be division, department, section, group of plant and machinery, group of employees or combination of several units.

A cost centre includes a process, function, activity, location, item of equipment, group of persons or any other unit in relation to which cost are accumulated.

4.5 Cost Object: An activity, contract, cost centre, customer, process, product, project, service or any other object for which costs are ascertained.

4.6 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.

Examples of Distribution Overheads are Cost towards Secondary Packing, Transportation of Finished Goods, Warehousing of Finished Goods, Delivering the Finished Products to Customers, Clearing & Forwarding and Mending or Replacing Packing Materials at Distribution Point.

4.7 Imputed Cost: Notional cost, not involving cash outlay, computed for any purpose.

³ From CAS 11 paragraph 4.3



4.8 Indirect Employee Cost: *Employee cost, which cannot be directly attributed to a particular cost object.*

4.9 Indirect Expenses: *Expenses, which cannot be directly attributed to a particular cost object.*⁴

4.10 Indirect Material Cost: *Material cost that cannot be directly attributed to a particular cost object.*

4.11 Marketing Overheads: *Marketing Overheads comprises selling overheads and distribution overheads.*⁵

4.12 Normal capacity: *Normal Capacity is the production achieved or achievable on an average over a number of periods or seasons under normal circumstances taking into account the loss of capacity resulting from planned maintenance.*⁶

4.13 Overheads: *Overheads comprise costs of indirect materials, indirect employees and indirect expenses.*

Overheads shall be classified on the basis of functions to which the overheads are related. For example:

- Production Overheads
- Administrative Overheads
- Marketing Overheads

In addition Overheads shall also be classified on the basis of behaviour such as variable overheads, semi-variable overheads and fixed overheads.

- Variable overheads comprise of expenses which vary in proportion to the change of volume of production. For example, cost of utilities etc.

⁴ Adapted from CAS 1 paragraph 6.2.12

⁵ From CAS 9 paragraph 4.10

⁶ Adapted from CAS 2 paragraph 4.4



- Semi-variable overheads are partly affected by change in the production volume. They are further segregated into variable overheads and fixed overheads
- Fixed overheads comprise of expenses whose value does not change with the change in volume of production. For example, salaries, rent etc.

4.14 Production Overheads: Indirect costs involved in the production of a product or in rendering service

The terms Production Overheads, Factory Overheads, Works Overheads and Manufacturing Overheads denote the same meaning and are used interchangeably. Production overheads shall include administration cost relating to production, factory, works or manufacturing.

4.15 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.

4.16 Standard Cost: A predetermined cost of a product or service based on technical specifications and efficient operating conditions.

Standard costs are used as scale of reference to compare the actual cost with the standard cost with a view to determine the variances, if any, and analyse the causes of variances and take proper measure to control them. Standard costs are also used for estimation.⁷

5. Principles of Measurement:

5.1 Overheads representing procurement of resources 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.

5.2 Overheads other than those referred to in paragraph 5.1 shall be determined on the basis of cost incurred in connection therewith.

For example machinery spare fabricated internally or a repair job carried out internally will include cost incurred on material, employees and expenses.

5.3 Any abnormal cost where it is material and quantifiable shall not form part of the

⁷ From CAS 7 paragraph 4.15



overheads.

5.4 Finance costs incurred in connection with procured or self generated resources referred to in paragraph 5.1 and 5.2 shall not form part of overheads.

5.5 Overheads shall not include imputed cost.

5.6 Overhead variances attributable to normal reasons shall be treated as part of overheads. Overhead variances attributable to abnormal reasons shall be excluded from overheads.

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

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

5.9 Credits / recoveries relating to the overheads, material and quantifiable, shall be deducted from the total overhead to arrive at the net overheads. Where the recovery exceeds the total overheads, the balance recovery shall be treated as other income.

5.10 Any change in the cost accounting principles applied for the measurement of the 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.

6. Assignment

6.1 While assigning overheads, traceability to a cost object in an economically feasible manner shall be the guiding principle. The cost which can be traced directly to a cost object shall be directly assigned.

6.2 Assignment of 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.***

In case of facilities created on a standby or ready to serve basis, the cost shall be assigned on the basis of expected benefits instead of actual.

6.3 Absorption of Production Overheads shall be as follows:

6.3.1 The variable production overheads shall be absorbed to products or services based on actual capacity utilisation.

6.3.2 The fixed production overheads shall be absorbed based on the normal capacity.

6.4 Assignment of Administration Overheads shall be in accordance with CAS-11.

6.5 Assignment of Marketing Overheads shall be as follows:

6.5.1 Marketing Overheads that can be identified to a product or service shall be assigned to that product or service.

6.5.2 Marketing Overheads that cannot be identified to a product or service shall be assigned to the products or services on the most appropriate basis.

7. Presentation

7.1 Overheads shall be presented as separate cost heads like production, administration and marketing.

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

7.3 Any under-absorption or over-absorption of overheads shall be presented in the reconciliation statement.

8. Disclosures

8.1 The cost statements shall disclose the following:

- 1. The basis of assignment of overheads to the cost objects.***



- 2. Overheads incurred in foreign exchange.**
- 3. Overheads relating to resources received from or supplied to related parties⁸.**
- 4. Any Subsidy / Grant / Incentive or any amount of similar nature received / receivable reduced from overheads.**
- 5. Credits / recoveries relating to the overheads.**
- 6. Any abnormal cost not forming part of the overheads.**
- 7. Any unabsorbed overheads.**

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

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 overheads during the period covered by the cost statement which has a material effect on the overheads shall be disclosed. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.

⁸ Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement