



**EXPOSURE DRAFT OF
CAS -
COST ACCOUNTING STANDARD ON MARKETING OVERHEADS**

The following is the Exposure Draft of Cost Accounting Standard on “**Marketing Overheads**”. In this standard, the standard portions have been set in ***bold italic*** type. These are to be read in the context of the background material which has been set in normal type.

1. Introduction

This standard deals with the principles and methods of determining the marketing overheads.

This standard deals with the principles and methods of classification, measurement and assignment of marketing overheads, for determination of the cost of sales of product or service, and 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 marketing overheads with reasonable accuracy.

3. Scope

This standard should be applied to cost statements, which require classification, measurement, assignment, presentation and disclosure of marketing 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.*¹

4.2 Absorption of overheads: *Absorption of overheads is charging of overheads to Cost Objects by means of appropriate absorption rate.*²

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

¹ CAS 3 (Revised 2011) Para 4.1

² CAS 3 (Revised 2011) Para 4.2



4.3 Cost Object: *This includes a product, service, cost centre, activity, sub-activity, project, contract, customer or distribution channel or any other unit in relation to which cost are ascertained.*³

4.4 Imputed Costs: *Hypothetical or notional costs, not involving cash outlay, computed for any purpose.*⁴

4.5 Indirect expenses: *Expenses which cannot be directly attributed to a particular cost object.*

4.6 Overheads: *Overheads comprise costs of indirect materials, indirect employees and indirect expenses which are not directly identifiable or allocable to a cost object in an economically feasible manner.*⁵

4.7 Distribution costs or Distribution overheads: *Distribution Overheads are the costs incurred in handling a product from the time it is completed in the works until it reaches the ultimate consumer.*⁶

The cost of any non manufacturing operations such as packing, repacking, labelling, etc. at an intermediate storage location will be part of distribution cost.

For Example:

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

Note:

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 marketing.

4.8 Selling Overheads: *Selling Overheads, also known as Selling Costs, are the expenses related to sale of products and include all Indirect Expenses in sales management for the organization.*⁷

For Example:

1. Salaries of sales personnel

³ CAS 3 (Revised 2011) Para 4.5

⁴ CAS 3 (Revised 2011) Para 4.7

⁵ CAS 3 (Revised 2011) Para 4.13

⁶ CAS 3 (Revised 2011) Para 4.6

⁷ CAS 3 (Revised 2011) Para 4.15



2. Travelling expenses of sales personnel
3. Commission to sales agents
4. Advertisement costs
5. Sales promotion expenses including cost of promotional material such as product brochures, catalogues etc.,
6. Collection costs including legal expenses for recovery of dues
7. After sales service costs
8. Warranty costs etc.
9. Charge for Bad debts
10. Insurance Premium for product liability
11. Any other Cost of product liability

4.9 Marketing Overheads: *Marketing Overheads comprises selling overheads and distribution overheads.*⁸

5. Principles of Measurement

5.1 *Marketing 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.*

5.2 *Marketing overheads, the benefits of which are expected to be derived over a long period, shall be amortised on a rational basis.*

5.3 *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.*

5.4 *Cost of Warranty provided in terms of sale agreement for a class of transactions, shall be determined on rational and scientific basis.*

5.5 *Charge for Bad debts for a class of transactions, shall be determined on rational basis.*

5.6 *Any other Cost of Product liability for a class of transactions not insured, shall be determined on rational and scientific basis.*

⁸ CAS 3 (Revised 2011) Para 4.11



5.7 Any Subsidy / Grant / Incentive or any such payment received / receivable with respect to any Marketing overheads shall be reduced from the cost of the sales of the cost object.

5.8 Any abnormal cost relating to marketing shall be excluded from the marketing overhead.

5.9 Any demurrage or detention charges, or penalty levied by transportation or other authorities in respect of distribution activity shall not form part of the marketing overhead.

5.10 Penalties and damages paid to statutory authorities or other third parties shall not form part of the marketing overheads.

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

5.12 Any change in the cost accounting principles applied for the measurement of the marketing overheads should 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 enterprise.

6. Assignment of Cost

6.1 Marketing 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 marketing 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.⁹**

7. Presentation

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

7.2 Element wise details of the marketing overheads shall be presented under both the heads, if material.

8. Disclosures

8.1 The cost statements shall disclose the following:

- 1. The basis of distribution of marketing overheads to the cost objects.**
- 2. Marketing overheads incurred in foreign exchange.**
- 3. Cost of marketing services rendered to related parties¹⁰.**
- 4. Any Subsidy / Grant / Incentive and any such payment reduced from marketing overheads.**
- 5. Credits / recoveries relating to the marketing overheads.**
- 6. Penalties and damages excluded from the marketing 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 marketing overheads during the period covered by the cost statement which has a material effect on the marketing overheads shall be disclosed. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.

⁹ Adapted from CAS 3 (Revised 2011) Para 6.2

¹⁰ Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement