

Guidance Note
on
Cost Accounting Standard
on
Administrative Overheads
(CAS-11)



Issued by

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(A Statutory Body under an Act of Parliament)

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FOREWORD

The Council of the Institute of Cost Accountants of India in its meeting held on 17th January, 2013 has approved the release of the Guidance Note on Cost Accounting Standard on Administrative Overheads (CAS 11) as recommended by the CASB. I am pleased that the Technical Directorate is accelerating its efforts to develop guidance notes in respect of the CAS already issued to guide the Practitioners as well as industry to evaluate the implementation of the Cost Accounting Standards by the business entities.

The Guidance Note on CAS 11 as Administrative Overheads covers an important element of the Cost of Goods and Services.

I am Confident that this Guidance Note would help the members and other readers to understand and implement the various principles of Cost Accounting Standard on Administrative Overheads.

I wish to place on record my appreciation for Shri M. Gopalakrishnan, Chairman CASB and all the members of the CASB for bringing out guidance literature for the members.


(CMA RAKESH SINGH)

Date: 5th February 2013

President

PREFACE

The Cost Accounting Standards released by the CASB, represent the accepted practices of cost accounting in a codified and structured manner. Since the CAS have to be succinct highlighting the principles, the Application Guidance by the Board explains the practical nuances surrounding the principles enshrined in the standards.

I am pleased to present the Guidance Note on the Cost Accounting Standard on Administrative Overheads (CAS-11). This Guidance Note deals with the practical illustration of the Principles and Methods as provided in the Standard in connection with the determination of Administrative Overheads for a product of service.

I express my sincere gratitude to the members of the Board, for their whole hearted participation in the standard setting and guidance formulation process. I am also thankful to CMA Rakesh Singh, President of the Institute for the support provided to the Cost Accounting Standard Board (CASB), in bringing out this publication.

I would also like to place on record the efforts put in by the CASB Secretariat headed by Dr. S.K. Gupta, Director (Technical), and Shri M.L. Mehta, Advisor for all the initiatives and successful coordination in completing this document. I am confident that the Secretariat will bring out more guidance notes in near future.

I am confident that this guidance note would be well received by the members.



(CMA M. Gopalakrishnan)
Chairman- CASB

Date: 5th February, 2013

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Guidance Note on Cost Accounting Standard on Administrative Overheads (CAS-11)

The Council of the Institute of Cost Accountants of India has issued the Cost Accounting Standard - 11 (CAS-11) on Administrative Overheads which lays down a set of principles and methods of classification, measurement and assignment of Administrative Overheads for determination of the cost of product or service and the presentation and disclosure in the cost statements.

The Guidance Note deals with principles and methods as provided in the CAS-11 and practical aspects in connection with the determination of Administrative Overheads for a product or service.

In the preparation of cost statement including those requiring attestation, Administrative Overheads should be determined as per CAS-11. The Cost Accounting Standards have been set in **bold Italic** type and reference number of the standard has been retained.

Further, The Companies (Cost Accounting Records) Rules, 2011 provide that every company, including a foreign company defined under section 591 of the Companies Act, 1956 which is engaged in production, processing, manufacturing or mining activities have to maintain cost accounting records in accordance with the Generally Accepted Cost Accounting Principles (GACAP) and Cost Accounting Standards issued by the Institute, to the extent these are found to be relevant and applicable. The above Rules further provide that these will be applicable to companies wherein:

- (a) aggregate value of net worth as on the last date of the immediately preceding financial year exceeds five crores of rupees; or
- (b) the aggregate value of the turnover made by the company from sale or supply of all products or activities during the immediately preceding financial year exceeds twenty crores of rupees; or
- (c) the company's equity or debt securities are listed or are in the process of listing on any stock exchange whether in India or outside India.

The Companies (Cost Audit Report) Rules 2011 cast a duty on a Cost Auditor appointed under Section 233B of the Companies Act, 1956 to certify inter- alia that books and records maintained by the company are in conformity with the Cost Accounting Standards issued by the Institute to the extent these are found to be relevant and applicable.



Chapter 1

Introduction

Administrative Overheads have been defined by the CAS-11 as the cost of all activities relating to general management and administration of an entity. These costs generally represent amounts incurred at Head office / Corporate office relating to administration and policy matters of the company. Administrative Overheads are the cost of all activities relating to general management and administration of an entity. These are the total costs of formulating the policy, directing the organisation and controlling the operations of an entity.

Administrative Overheads exclude production overheads, marketing overheads and finance cost. Production overheads include administration cost relating to production, factory, works or manufacturing. Such costs are in the nature of administrative support to functions connected with the production e.g. Purchase, factory accounts, factory administration etc.

Administrative cost on the other hand represent costs incurred in connection with the management of affairs of the entity such as Policy making, Finance, Human resources and the like.

For example:

Indirect materials - printing and stationery; office supplies;

Indirect employee costs - Salaries of administrative directors, secretaries, accounts department and so on;

Indirect expenses – rent, rates and taxes, insurance, legal charges, audit fee and the like. These include the costs of the concerned departments as well as the Head Office and other administration costs as detailed below:

A. Administrative Overheads generally include the expenses of following departments:

- General Administration
- Human Resources
- Finance and Accounts
- Cost Accounts
- Internal Audit
- Secretarial
- Law and Taxation
- Information Technology
- Security

Administrative costs include all executive, organizational, and clerical costs associated with general management of an organization rather than with manufacturing, marketing, or selling. For examples



administrative costs include executive compensation, secretarial salaries, general accounting, public relations, and similar costs involved in the overall, general administration of the organization as a whole.

Other Administrative Expenses:

Printing and stationery

Travelling & Local Conveyance

Membership fee

Computer maintenance expenses for administration

Vehicle maintenance expenses and the like for administration.

A detailed list of other administrative expenses is at **Annexure 1**

B. Corporate Office Expenses:

Board of Directors:

- Directors' sitting fees, remuneration and commission;
- Directors' travelling expenses;
- Meeting and other board expenses.

Other Management Expenses:

1. Administration - Salaries and fringe benefits of general and administrative personnel. For example salaries of managers, and other employees in the administrative functions of the company. Rent, rates and taxes, travelling and other administrative expenses;
2. Cost information should be collected and analyzed systematically and consistently, whether for a routine information system, or for a specific application and / or purpose. In the preparation of cost statement and its attestation, if required, Administrative Overheads relating to a product / service should be determined with reference to CAS-11.

**Chapter 2****Definitions**

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.*

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

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

4.4 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 costs are ascertained.*

4.5 Finance Costs: *Costs incurred by an enterprise in connection with the borrowing of funds.*

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

4.7 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.*

4.8 Overheads: *Overheads comprise of indirect materials, indirect employee costs and indirect expenses which are not directly identifiable or allocable to a cost object.*



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

Administrative Overheads is the cost of all activities relating to general management and administration of an organisation. It is represented by cost of shared services, infrastructure cost and general management cost. Resources consumed are in terms of employee costs, utilities, office supplies, legal expenses and outside services. The measurement of these resources consumed is to be determined in terms of relevant cost accounting standards.

CAS-6 lays down the principles with regard to the valuation of receipts of material. Therefore receipt of indirect materials should be valued at purchase price including duties and taxes, freight inwards, insurance and other expenditure directly attributable to procurement (net of trade discounts, rebates, taxes and duties refundable or to be credited by the taxing authorities) that can be quantified with reasonable accuracy at the time of acquisition.

The consumption of indirect material is to be valued at issue rate adopted i.e. First in First out, Last in First out, Weighted Average. Such basis should be followed consistently.

Indirect employee cost is to be measured in terms of CAS-7 (Employee cost). Employee cost relating to administrative staff should be the gross pay and allowances payable. It should take into account the employee's salary including all allowances and other benefits, such as Employer's contribution to EPF, FPS, ESIS, Holiday Pay, Gratuity Payable, Bonus and so on. Remuneration paid to Officers, Managers and Executive Directors of an entity - engaged in administrative function should cover fixed salary, PF contribution, leave, superannuation and severance payment, other benefits, and the like. It should also include any amount paid as commission based on percentage of profit. Other benefits include free furnished accommodation, house rent allowance, leave travel concession, reimbursement of medical expenses for self and family. Personal accident insurance, fully maintained company's car with driver, gardener, watchmen and the like. These should form part of employee cost. Remuneration paid to non-executive directors should be treated as Administrative Overheads.

Utilities consumed by administrative cost centres are to be collected and measured in accordance with principles laid down by CAS-8. Repair and maintenance cost should be measured in accordance with principles laid down by CAS -12.

5.2 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.



A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. Leases are of two types viz Finance lease and Operating lease. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Whereas an operating lease is a lease other than a finance lease. The basic concept of lease accounting is that operating lease is merely rental, whereas financial is a disguised purchase.

Lease Rentals in respect of assets taken on 'Operating Lease' for administrative activities should be included under Administrative Overheads. Payments under an operating lease will be recognised by the lessee as an expense over the lease term. Lease rentals for assets acquired under Financial Lease should be segregated between the cost component of asset and interest component by applying an implicit rate of return. Interest component should form part of the Finance Cost and should not be included under Administrative Overheads.

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

Software may be either developed in house, purchased, licensed or customised. Where software is included in the purchase price of hardware (For example operating system software) and the cost of the software cannot be easily calculated, the software should be capitalized and amortized as part of hardware. In case of licensed software, if one-off licensing fee is paid during the period in order to use the software which has acquired service potential or future economic benefits relating to that software, such cost of license fee should be capitalized as part of the software and amortised over its useful life. In case licensing fee is not a one-off (For example a yearly licensing fee which covers maintenance and upgrades automatically provided by the vendor) service potential or future economic benefits obtained will normally expire when the next payment is due and should not be capitalized and charged during the period. In house developed software, as soon as it is put to use, should be capitalized and amortized over its useful life.

5.4 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.

Various types of services related to administration may be procured from outside, such as legal consultancy, management consultancy, internal audit, and so on. In such cases determination of cost of administrative services procured from outside should be as per agreed price / invoice. It should include duties and taxes and other expenditure. These are to be net of any discount, rebate, taxes and duties refundable, if any.



5.5 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.

Subsidy and grant received / receivable should be recognized on a systematic basis. These should be matched with the related cost for which these are intended to compensate over the period.

For example:

Subsidy may be receivable for any social service, such as crèche, schooling, community centre and the like. Subsidy receivable for this purpose may be reduced from the cost of such services, while ascertaining the cost of the administrative overheads.

5.6 Administrative overheads shall not include any abnormal administrative cost.

Abnormal cost has been defined under paragraph 4.1 of CAS - 11. The rationale of exclusion is that inclusion of such items in the cost will make the cost not comparable with a normal situation. Such an aberration is avoided to understand the cost in a better perspective for any purpose. For determining the abnormal cost following two conditions should be satisfied:

- a) Costs were never envisaged; and
- b) They are not likely to recur during an accounting period.

For example:

- Abnormal administrative cost resulting from natural calamity (flood, earthquake, and the like).
- Sudden breakdown/ loss due to major fire accident.

It should not form part of the administrative overheads and should be dealt with in the costing profit and loss account.

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

Fines, Penalties, damages and the like are levied by the statutory authorities for non-compliance with statutory requirements or delays. These are abnormal cost and should not form part of Administrative Overheads.

For example:

- Penalty for delay in depositing Provident Fund contribution with the Provident Fund Authorities.



- Penalties for non-payment of statutory dues / noncompliance with legal requirement for example not filing certain statutory returns in time.

5.8 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.

If any administrative services are provided to other activity / unit without any consideration, the cost of the same, if material and quantifiable, should be determined and adjusted against the Administrative Overhead.

For example management consultancy services provided to other unit, the cost of the same should be adjusted against the administrative overheads

5.9 Any change in the cost accounting principles applied for the measurement of the administrative 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 organisation.

Resources consumed in the administrative overheads are indirect material, indirect employees cost, utilities and other similar items. These are represented in the form of shared services, infrastructure cost and general management cost. Principles applied for measurement of these resources are to be as per relevant cost accounting standard and are to be followed consistently. However, change in principle of measurement of Administrative Overheads should be applied 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.

For example profit sharing bonus paid to employees was not earlier treated as employee cost. But as per the CAS - 7, profit sharing bonus now forms part of employee cost. It is to be measured as per requirement of Bonus Act and CAS - 7. If there is any change in computation of bonus, its measurement has to comply with required changes.



Chapter 4

Assignment of Cost

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

Once administrative overheads have been accumulated and measured, these are to be assigned to a cost object. Cost Object is a logical sub-unit for collection of cost. Cost Object may be classified in different ways like function-wise and nature-wise. Thus cost object may be any customer, product service, contract, project, activity or other work unit for which a separate cost measurement is desired.

For assigning the administrative overheads, traceability is a key element. Tracing administrative overheads to cost objects can occur by way of:

1. Direct tracing;
2. Driver tracing; and
3. Allocation.

Direct tracing is the process of identifying and assigning cost that is specifically or physically associated with cost object. For example, tracing cost of stationery consumed in the accounts department to a cost object i.e. accounts department. Drivers tracing may be through cost activities viz. units manufactured, hours worked, number of batches in production, number of orders processed, number of departments, and so on.

The method of direct cost tracing usually relies on the observation, counting, and/or recording of the consumption of resource units, such as staff hours or days that are spent on or assignment, or gallons of fuel consumed in a transport trip. Direct tracing also applies to specific resources that are dedicated to particular outputs.

Direct cost tracing often minimizes distortion and ensures accuracy in cost assignments. It shall be applied only to items that account for a substantial portion of the cost of an output and only when it is economically feasible. For example, it is usually unnecessary to trace the cost of office supplies (pens, papers, computer disks, etc.) to various activities or outputs.

The tracing of such costs directly usually outweighs the benefit of the increased accuracy in assigning the resources.

It is often not possible to physically observe the exact amount of resources consumed by a cost object, especially in case of administrative overhead, being an indirect cost. In case of indirect cost there is no relationship between the cost and cost object and tracing is not economically feasible.



The following steps are to be followed when tracing the administrative cost:

1. Identify the activities that cause the administrative costs,
2. Measure the cost of those activities; and
3. Assign the cost of the activities to those products and customers.

Various items of administration overheads are first collected according to nature of expenditure. These are arranged according to department or function. This is the method of primary distribution. The expenses which are capable of being identified with a specific department are directly assigned. The expenses which cannot be assigned directly to specific departments are assigned on suitable basis. Examples of direct identifying with department or functions are:

<i>General Office</i>	
<i>Secretariat</i>	
<i>Finance and Accounts</i>	
<i>Human Resources</i>	
<i>Legal</i>	
Following are the bases used for assignment of administrative expenses:	
<i>Expenses</i>	<i>Bases</i>
Office rent, rates and taxes	Floor area
Depreciation of office building	Floor area
Legal expenses	Number of cases handled / time basis for consultancy
Salaries and allowances	Number of employees

In brief, administrative costs shall be assigned on a reasonable and consistent basis. Directly tracing costs might be a preferred approach when economically feasible. Assigning costs on a cause-and-effect basis shall be considered for costs that cannot be directly traced to outputs. This issue therefore requires a judgment taking into account facts and circumstances of each case.

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

- 1) Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost.**
- 2) Benefits received – overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.**

A cost is assignable or chargeable to one or more cost objects on the basis of relative benefits received or other equitable relationship. Assigning of costs shall be done on a reasonable and consistent basis. Testing reasonableness shall take into account the purpose of the cost information and the economic feasibility of collecting and assigning it. Following criterion shall be considered:



Assigning costs on a cause-and-effect basis shall be considered for costs that cannot be directly traced to outputs.

For example: A computer technology department provides technical support to other departments of an organization. The costs of the department may be assigned to other departments on a cause-and effect basis through two steps. In the first step, the costs are assigned to the activities of the department, such as hardware installation and maintenance, software development and installation, or programming adjustments. In the second step, the costs of these activities are further assigned to other departments based on their usage of the technical services.

Assigning Cost - Benefit received:

Standard provides for assigning of Administrative Overheads to the various cost objects in proportion to the benefits received by them. Benefits received when measurable and traceable, provide guidance for assignment. The beneficiaries of the output of the cost pool shall be identified and costs allocated in proportion to the benefits received. Benefits received shall be interpreted as meaning the receiving of services or goods by the activity represented by the cost objects to which the costs are being assigned.

For example: A corporate wide advertising programme promotes the general image of corporation rather than an individual product. The costs of such programme may be allocated on the basis of division sales in the belief that divisions with higher sales levels are more likely to benefit than divisions with lower sales levels.



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.

Administrative overheads are required to be presented as a separate head in the cost statement. Element wise details of administrative overheads are to be indicated in the cost statement if these are material. What is considered material or immaterial depends on the facts of each case. The materiality of a particular cost is important in classifying costs. The less significant a cost, the less likely will it need to be traced to a cost object. An example as to how administrative overheads can be reflected in a cost statement is given in **Annexure II**.

**Chapter 6****Disclosures****8.1 The cost statements shall disclose the following:**

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

Disclosure is to ensure the consistency and compliance of requirement of Cost Accounting standards. Disclosure is to be made relating to the basis of assignment of administrative overheads adopted for cost objects / units in the cost statement or by way of foot note.

- **Any imputed cost included as a part of administrative overheads.**

Imputed cost does not form part of the cost as it does not involve any cash outlay. However, if any imputed cost has been included in the administrative overheads, the same shall be disclosed.

For example: Rent of Rs. Two Lakh for owned office building may have been included in Administrative Overhead.

- **Administrative overheads incurred in foreign exchange.**

Payment made in foreign exchange for Administrative Overhead relating to import of any office equipment / consultancy / foreign travelling shall be disclosed in the cost statement.

- **Cost of administrative activities received from or supplied to related parties.**

If any administrative service has been procured from or supplied to related parties (as defined under The Companies Act, 1956), its relationship, nature of transaction viz. quantity, rate, other terms / conditions are to be disclosed. The objective of disclosure is to ascertain that the transaction is at arm's length and on purely commercial terms. *For example:*

Related party → A B C Ltd

Nature of relationship → We and our subsidiaries own 51 percent of their Equity.

Nature of transactions: Hiring of office premises.

Office premises measuring 15000 sq ft has been hired from ABC Ltd @ Rs 1500 per sq ft. The rate is a market prevailing rate for such premises and transaction is at arm's length. Related party disclosure is to be made.

- **Any Subsidy / Grant / Incentive or any amount of similar nature received / receivable reduced from administrative overheads.**

Any subsidy / grant / incentive or any amount of similar nature received or receivable relating to Administrative Overheads is to be reduced from the Administrative overheads.



For example for setting up school in township / adopting any social activity, subsidy/grant received is to be disclosed.

- **Credits / recoveries relating to the administrative overheads.**

If any credit or recovery is considered while determining the administrative overheads the same shall be disclosed.

For Example: certain administrative services were provided during the year to an Associate/Group entity unit, a sum of Rs 15 lakh received has been credited to the Administrative Overheads.

- **Any abnormal portion of the administrative overheads.**

Abnormal portion of administrative overhead in the cost of cost object is to be excluded as the same has not contributed to the cost object. Disclosure is to be made.

For example: During the year there was fire resulting in loss of office equipment, furniture and fixtures of Rs. 9 lakh. The same has been excluded from the administrative overheads.

- **Penalties and damages excluded from the administrative overheads.**

Penalties and damages paid are not an item of cost as these are levied for non compliance with regulatory / contractual requirements. These are to be excluded from cost and disclosure made.

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

Level of materiality and significance has not been stated in the standard. Materiality is to be judged in terms of quantity and nature of cost element and in particular context of its omission. A piece of information is material, if its non disclosure could influence the decision of a user.

Materiality and significance of any information will be different from situation to situation. If material, the same is to be disclosed.

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

Disclosure in the body of cost statement will depend on nature and materiality of Administrative Overheads. If it forms material part of the Administrative Overheads and can be identified with a cost object the same shall be disclosed in the cost statement otherwise, disclosures may be made either in the body of the Cost Statement or by way of foot note.



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

Cost Accounting principles, and methods applied for the measurement and assignment of Administrative Overheads are to be applied consistently between one period and another and uniformly applied for different elements of Administrative Overheads. If any change is made in these principles and methods which results in material effect on the cost of product, the same shall be disclosed in the cost statement. In case the impact of change in principles and methods of cost accounting is not ascertainable, the fact is to be disclosed by a note to the cost statements.

For example Head Office (General Management) expenses were being assigned to various units on the basis of turnover. During the current year the general management expenses have been assigned on a composite ratio which takes into account turnover, capital employed, gross profit, employee cost of units. Previous year's figure is not on comparable basis.



List of other administrative expenses:

- i. General Charges;
- ii. Casual labour;
- iii. Licence fees;
- iv. Insurance expenses;
- v. Training expenses;
- vi. Printing of the Annual Report;
- vii. Telephone;
- viii. Bank charges;
- ix. Printing and stationery;
- x. Vehicle maintenance expenses;
- xi. Travelling and local conveyance for staff;
- xii. Water charges;
- xiii. Electricity charges;
- xiv. Subscription and membership fee;
- xv. Books and periodicals;
- xvi. Inspection fees;
- xvii. Computer maintenance expenses;
- xviii. Gas charges;
- xix. Cleaning and plant watering;
- xx. Advertisement (related to recruitment);
- xxi. Stipend and trainee expenses;
- xxii. Gifts and presents;
- xxiii. Depreciation and repair & maintenance of administrative fixed assets (machines and furniture located in HO); and
- xxiv. Other miscellaneous expenses, such as Reception; Company party to celebrate functions.



Annexure II

COST STATEMENT OF PRODUCT

ELEMENTS OF ADMINISTRATIVE OVERHEADS
(as at serial no.9 of the Cost Statement)

For the period/year ending -----						
S.No.	Item	Unit	Quantity	Rate	Amount	Cost per unit
1.	Material cost					
1(a)	Indigenous – I. Purchases II. Self manufactured					
1(b)	Imported					
2.	Other materials					
3.	Total Material cost					
4.	Utilities – Power Steam Water etc.					
5.	Employee cost					
6.	Direct expenses: Royalty Others(specify)					
7	Production Overhead					
8	Adjustment for opening/closing WIP					
9	Cost of Production					
10	Increase/decrease in Finished Goods					
11	Cost of production of goods sold					
12	ADMINISTRATIVE OVERHEADS Employees cost Repairs and Maintenance Depreciation Others Total					
13	Selling and Distribution					
14	Interest and Financing charges					
15	Cost of sales					
16	Net sales realization					
17	Margin (Profit /loss)					



Annexure III

CAS - 11

COST ACCOUNTING STANDARD ON ADMINISTRATIVE OVERHEADS

The following is the COST ACCOUNTING STANDARD – (CAS-11) issued by the Council of The Institute of Cost and Works Accountants of India on “ADMINISTRATIVE OVERHEADS”. In this Standard, the standard portions have been set in **bold italic** type. This standard should 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 administrative overheads.

1.2 *This standard deals with the principles and methods of classification, measurement and assignment of administrative overheads, for determination of the Cost 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 administrative overheads with reasonable accuracy.

3. Scope

This standard should be applied to cost statements, which require classification, measurement, assignment, presentation and disclosure of administrative 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

¹ Adapted from CAS 1 Para 6.5.19



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.

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

Administrative overheads shall exclude production overheads³, marketing overheads⁴ and finance cost. Production overheads includes administration cost relating to production, factory, works or manufacturing.

4.4 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 costs are ascertained.*⁵

4.5 Finance Costs: *Costs incurred by an enterprise in connection with the borrowing of funds.* This will include interest and commitment charges on bank borrowings, other short term and long term borrowings, amortisation of discounts or premium related to borrowings, amortisation of ancillary cost incurred in connection with the arrangements of borrowings, finance charges in respect of finance leases, other similar arrangements and exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to the interest costs⁶. The terms Finance costs and Borrowing costs are used interchangeably.

4.6 Imputed Costs: *Hypothetical or notional costs, not involving cash outlay, computed for any purpose.*⁷

4.7 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.*⁸

4.8 Overheads: *Overheads comprise of indirect materials, indirect employee costs and indirect expenses which are not directly identifiable or allocable to a cost object.*⁹

² Adapted from CAS 3 Para 4.6

³ Paragraph reference 4.13 CAS -9

⁴ Paragraph reference 4.11 CAS -7

⁵ Adapted from CIMA Terminology

⁶ Adapted from CIMA Terminology

⁷ Adapted from CAS 1 Para 6.5.13

⁸ Adapted from CAS 2 Para 4.4

⁹ Adapted from CAS 3 Para 4.1



5. Principles of Measurement

5.1 *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.

5.2 *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.*

5.3 *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.

5.4 *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.*

5.5 *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.*

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

Example: Expense incurred in a situation of natural calamity.

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



5.8 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.

5.9 Any change in the cost accounting principles applied for the measurement of the administrative 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 organisation.

6. Assignment of Cost

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.¹⁰**

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

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

General management costs should be assigned on rational basis.

For example: Number of employees, turnover, investment size etc.

7. 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.

8. Disclosures

8.1 The cost statements shall disclose the following:

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

¹⁰ Adapted from of CAS 3 Para 5.1



- ***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 parties¹¹.***
- ***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.***

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

¹¹ Related party as per the applicable legal requirements relating to the cost statement as on the date of the statement