



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

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



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

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.*

⁹ Adapted from CAS 3 Para 4.1



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.

¹⁰ Adapted from of CAS 3 Para 5.1



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.**
- **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