



## CAS - 15

### COST ACCOUNTING STANDARD ON SELLING AND DISTRIBUTION OVERHEADS

The following is the COST ACCOUNTING STANDARD -15 (CAS-15) issued by the Council of The Institute of Cost Accountants of India on “**SELLING AND DISTRIBUTION 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 Selling and Distribution Overheads.

***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.***

#### 2. 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.***

#### 3. 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.***

#### 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.***<sup>1</sup>

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

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

<sup>1</sup> CAS 3 (Revised 2011) Para 4.1

<sup>2</sup> 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.*<sup>3</sup>

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

**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.*<sup>5</sup>

**4.7 Distribution costs or Distribution overheads:** *Distribution Overheads are the costs incurred in handling a product or service from the time it is ready for delivery until it reaches the ultimate consumer.*

The cost of 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 Selling and Distribution Overheads.

**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.*<sup>6</sup>

For Example:

<sup>3</sup> CAS 3 (Revised 2011) Para 4.5

<sup>4</sup> CAS 3 (Revised 2011) Para 4.7

<sup>5</sup> CAS 3 (Revised 2011) Para 4.13

<sup>6</sup> CAS 3 (Revised 2011) Para 4.15



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

**4.9 Marketing Overheads: *Marketing Overheads comprises Selling Overheads and Distribution Overheads.*<sup>7</sup>**

## **5. 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.***

**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.***

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<sup>7</sup> CAS 3 (Revised 2011) Para 4.11



**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.**

**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.**

## **6. Assignment of Cost**

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

## **7. 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.**

## **8. 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<sup>8</sup>.**
- 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.**

## **9. Effective date:**

This Cost Accounting Standard shall be effective from the period commencing on or after 1st April 2013 for being applied for the preparation and certification of General Purpose Cost Accounting Statements.

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