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INTRODUCTION

Expenses refer to all costs, other than material cost and Labour cost incurred by undertaking. Rent and rates of factory premises, office premises and warehouses, repairs and maintenance expenses of factory premises, plant and machinery, office premises, office furniture and equipment, warehouse and showrooms, power, lighting, heating, water, depreciation on fixed assets, insurance charges, printing and stationery, postage and telegrams, transport charges, advertisement, etc. are example of expenses. Each of the three main element of cost is further analyse into different elements such as, direct and indirect.

Direct Expenses

Expenses which can be identified with an allocated to cost units or cost centres as they are specifically incurred for a particular product or process.

Definitions

According to **I.C.W.A., England**, "Direct expenses are those which can be allocated to cost centres or cost units.

Features of direct expenses

- a) Direct expenses are included in the prime cost
- b) direct expenses can be distributed over other jobs or products
- c) direct expenses are fully variable
- d) these expenses are treated as direct expenses **e.g** Royalty, travel expenses for a special job, Freight, carriage, octoroi etc. paid on direct material, Travelling expenses for a special job, experimental costs and expenditure on model and pilot schemes, Sub- contract cost, etc.

Indirect expenses

Indirect expenses refers to the expenses which can be identified with an allocated to cost units or cost centres as they are not specifically incurred for a specific product or process.

following at the **example** of indirect expenses: Rent and rates, Insurance, office stationery, welfare and medical expenses, advertisement.

Overhead

Indirect cost are known as 'overhead'. Overhead means the expenses that cannot be allocated or charged directly to a specific job, product or service due to their identifiability with the same. Thus

Overhead= Indirect materials cost+ Indirect Labour Cost+ Indirect Expenses

Definitions- According to C.I.M.A, "The aggregate of indirect material cost, indirect Labour cost and indirect expenses is called as overheads."

Classification of overheads

1. **Functional classification**-On the basis of functions comma overhead may be classified as under:

a) **Factory Overheads:** Factory overhead is also termed as production overhead, work overhead, or manufacturing overhead. It is the aggregate of factory indirect material cost, indirect wages and indirect expenses. Some example of indirect material cost used in the manufacturing process are consumer store, TV parts of materials suggest thread and button in ready made garments industry, nails and police in furniture making industry and so on. Example of indirect Labour cost incurred in production process are wages and salaries of repairs and maintenance staff, salary of foreman supervisor, inspector, watchman's salary , works manager salary , etc. example of indirect expenses incurred in production process are depreciation, repairs and maintenance, rent , rates, taxes of factory building, drawing office expenses and so on.

b) **Administration overhead** . these overhead are of general nature and consist of all cost incurred in direction, control and administration of an undertaking which is not related directly to production or selling and distribution function. Some example of indirect material cost are office stationery such as paper companies, carbon papers ,stapler, etc. Some example of

indirect Labour cost incurred in administration Department of a factory are salary of managing director, accountant, secretary clerks and attendants. Some example of indirect expenses incurred in office are air lighting and heating, rent and taxes repairs and maintenance, bank charges, legal charges, telephone charges, etc.

- c) **Selling Overheads:** The overheads which are incurred in promoting sales and retaining customer is known as selling overheads. Selling overheads include indirect material cost, indirect Labour cost and indirect expenses. Some example of indirect material cost are catalogue, price list, free gifts and samples, etc. Some example of indirect expenses incurred in the sales Department are expenses incurred in training salesman, advertisement, market research expenses, rent, insurance, heating and lighting of sales showroom.
- d) **Distribution Overheads:** These are expenses which are incurred from the time finished products are packed until they reach their destination. Distribution overhead includes indirect material cost, indirect Labour cost and indirect expenses. Some example of indirect materials cost incurred in the distribution Department of a factory are packing materials such as cardboard boxes, hammers, nails, etcetera. Some example of indirect Labour cost incurred in the distribution Department are salary of air house staff, salaries of drivers of delivery vans, etcetera. Example of indirect expenses are rent, heating, lighting, repairs of air house, freight, maintenance of delivery van's, etc

2. **On the basis of Variability:**

- a) **Fixed Overheads:** Fixed overhead may be defined as the overhead which do not vary with the volume of production within the installed capacity of plant. Fixed overhead means the overhead which remain constant for all volumes of production within certain limits. The example of fixed overheads are rent of factory, salary of work managers, insurance municipal taxes, etc.

- b) **Variable Overheads:** Variable overhead may be defined as the overheads which vary in direct proportion to the volume of production. This is the positive correlation between the variable overhead and quantity of output. Example of variable overheads are power, repairs etc.
- c) **Semi-variable overheads:** Semi-variable overheads are the overheads which contain the elements of fixed and variable overheads that is they are partially affected by the fluctuations in the volume of output. Such cost do not proportionally but simultaneously do not remain stationary at all times . Telephone expenses, depreciation, repairs etc are the example of semi variable overheads.

3. **On the basis of Elements of cost:**

- a. **Indirect Materials:** Indirect materials are those materials which do not become part of the product. Indirect material consumed in the course of manufacture and cannot be currently assigned to special physical units. Example of indirect material are lubricants, consumer consumable stores, cleaning materials for machine, printing and stationery.
- b. **Indirect Labour:** Indirect Labour is the Labour which is not directly engaged in the production operation but engaged to assist or help the production operations. Such Labour does not alter the construction, composition or condition of the product. Example of indirect Labour cost of wages of foreman, storekeeper, director's fees, salary of office managers, salary of salesman, leave pay, overtime wages etc
- c. **Indirect expenses:** Indirect expenses are those expenses which cannot be directly and conveniently allocated to specific cost units. examples of such expenses are rent, rates insurance of factory building, power, depreciation of plant and machinery, office rent , posts in telegram, bank charges, advertisement expenses, bad debts, carriage outwards, packing charges, etc.
- d. **On the basis of Normality :**
 - i. **Normal Overheads:** Normal overheads Refers to these expenses which are expected to be incurred in the normal

circumstances that is in the ordinary course of business or manufacture.

- ii. **Abnormal overheads**-abnormal overheads are the expenses which are incurred due to abnormal and uncontrollable factors like accident common inefficiency etc.
4. **On the basis of Controllability:**
- a) **Controllable Overheads:** Controllable overheads are overhead which can be influenced by the action of a specialist member of an undertaking.
 - b) **Uncontrollable overheads:** uncontrollable overheads are those overhead which cannot be influenced by the action specified member of an undertaking.

Short Questions

1. Give a ten example of distribution overheads.
2. What is difference between direct and indirect expenses?

Long Question

1. What do you understand by overhead ? Give its classification.

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Thank You