

Cost Accounting 2

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Chapter 2

Marketing costs
"concept - objectives "

1

Marketing and
administrative
costs

2

Analyzing and measuring
marketing costs

3

Administrative and
financing costs

Introduction

- ❑ **The marketing activity** has become, at the present time, the starting point in the activity of the firms and the preparation of **budgets and economic feasibility studies** for the existing and new firms.
- ❑ This marketing activity contains many activities such as **marketing research, advertising, promotion, and distribution channels**, each of which needs to implement many cost elements.

Introduction

- ❑ The firm's objectives require, in addition to both the production and marketing activity, the exercise of a set of **administrative activities** that serve both the production and marketing activity, such as **senior management, HR, accounting** and other administrative activities.

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Marketing costs "concept - objectives "

1- Concept of Marketing Costs:

❑ **Marketing costs** are known from the enterprise's point of view that are those **costs required by the marketing activity in order for the good or service to reach the hands of customers or consumers**, meaning that **marketing costs are the costs of performing the various marketing functions.**

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Marketing costs "concept - objectives "

- ❑ **The marketing activity** in any firm is one of the basic functions within the firms, like **production, finance, and HR.**
- ❑ **The marketing activity** aims to create benefits and satisfy desires.

❑ The marketing activity in the company is based on the performance of two basic functions:



1
Jobs related to
creating
developing
demand for a
good or service.

2
Jobs related to serving
the demand and
meeting the consumer's
needs for the goods or
service

❑ Marketing costs include the following:

1

(A) General marketing costs, which include:

- ✓ Costs related to sales and management salesmen.
- ✓ Advertising and promotion costs.
- ✓ Marketing research costs.

2

(B) Marketing costs related to marketing functions, including:

- ✓ Storage costs for finished products (available) to sale.
- ✓ Packaging costs.
- ✓ Transportation and delivery costs.
- ✓ Credit and collection costs

1

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- ❑ **The unified accounting system defined marketing costs as the costs incurred by the unit for the finished production related to storing, advertising, promoting, selling, transporting, distributing, and collecting, as well as the costs of marketing research for the disposal of production.**

1

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❑ It can be said that marketing costs include the costs of the marketing mix which is based on:

Production planning according to market research

Advertising.

Selling.

Price study and marketing research.

1

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2- Objectives of Marketing Cost Accounting:

1. Determine the share of the units sold from the marketing costs, whether at the level of the product or service, or the level of the area.

2. Providing the necessary data and information to rationalize the decision-making of the marketing mix of the product, distribution channels, tools and means of promotion, advertisement, and price, and preparing the planning budget for sales and marketing costs

1

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2- Objectives of Marketing Cost Accounting:

3-Providing the necessary data and information to control the elements of marketing costs, and differentiating between those that are subject to control and those that are not subject to control

1

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3- The difference between production costs and marketing costs:

1-the relative stability in number and type of cost item.

2-Marketing costs are more difficult to study and analyze due to their change and instability even throughout the year.

3-Psychological factors and human and social relations play a major role in determining marketing costs and their nature

1

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3- The difference between production costs and marketing costs:

4-Production costs are analyzed according to the relationship to the product unit or the volume of production. As for marketing costs, can be analyzed in multiple directions, according to jobs or according to sales areas.

5-Diversity, multiplicity, and change in marketing costs have made it extremely difficult to standardize and control these costs

1

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3- The difference between production costs and marketing costs:

6-The development in E-marketing, E-payment and collection processes, have led to great difficulty for the cost accountant to measure and determine marketing costs and to charge them to the unit of goods and services,



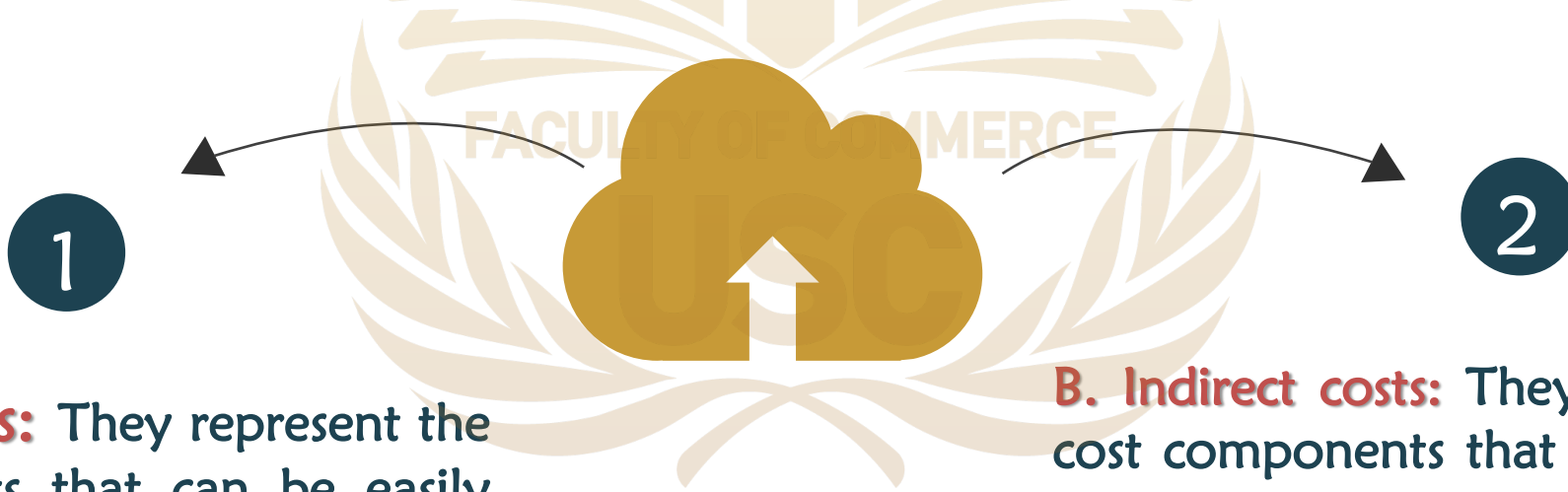
2

Analyzing and measuring marketing costs

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❑ First: Analysis of marketing costs according to the areas of distribution and sale:

❑ Marketing costs are analyzed by areas of distribution and sales to:



A. Direct costs: They represent the cost components that can be easily linked directly to the sales area or distribution area, such as transportation costs within the area, packaging, and storage, and selling and distribution costs within the area.

B. Indirect costs: They represent the cost components that are difficult to relate directly to the sales area or the distribution area, such as the storage costs at the main center, the cost of advertising at the firm level

❑ To measure marketing costs according to the areas of distribution and sales to determine the share of the unit sold from this cost, this is done according to the following steps:

1

Analyzing marketing costs into direct costs and indirect costs according to the relationship to the area.

2

Allocation of indirect marketing costs on a fair and appropriate basis for the nature of the cost component.

3

Determine the share of the unit sold in the area from the marketing cost, using an appropriate allocation rate.

2

Analyzing and measuring marketing costs

Example (1)

❑ **Sherif and Shady Company** for Foods Trading, headquartered in Cairo, markets its sales in the Egyptian and external market, and the company has divided the sales areas in the Egyptian market into three areas: Cairo, Lower Egypt, Upper Egypt, and one external area, the Arab Gulf area.

❑ **The following is the marketing activity data for the month of October 2021:**

data	Home office	Cairo	Lower Egypt	Upper Egypt	Arab Gulf
Sales value	-	100000	80000	90000	150000
Sales commission	-	%2	%3	%4	%5
Salaries of salesmen	-	10000	4000	3000	18000
Transportation expenses	11200	2000	3000	4000	6000
Packaging	-	2500	2500	1500	4000
Advertising	18900	-	-	-	-
Storage costs	9000	1500	1000	1500	3000
Selling management expenses	14700	1000	500	500	4000
The distance from the main center of the areas	-	20 Km	100 Km	500 Km	2000 Kg
Weigh the dispatched quantities	-	50 ton	25 ton	25 ton	20 ton
Cost of purchasing units sold	-	50000	50000	60000	40000
Insurance expenses	10000	-	-	-	-

Example (1)

Required:

1. Prepare a statement of marketing distribution according to areas.
2. Calculate the share of sales from marketing costs.
3. Prepare the income statement for each area if you know that the administrative costs are **21,000** pounds, and the financing costs are **2,520** pounds.



Solution

1. Statement of distribution of marketing costs by areas:

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Items cost	Total costs	Sales and distribution areas				Basis of distribution
		Cairo	Lower Egypt	Upper Egypt	Arab Gulf	
1- Direct costs						
Sales commission	15,500	2,000	2,400	3,600	7,500	direct
Salaries of salesmen	35,000	10,000	4,000	3,000	18,000	direct
Packaging	10,500	2,500	2,500	1,500	4,000	direct
Transportation expenses	15,000	2,000	3,000	4,000	6,000	direct
Storage costs	7,000	1,500	1,000	1,500	3,000	direct
Selling management expenses	<u>6,000</u>	<u>1,000</u>	<u>500</u>	<u>500</u>	<u>4,000</u>	direct
Total direct costs	89,000	19,000	13,400	14,100	42,500	

Items cost	Total costs	Sales and distribution areas				Basis of distribution
		Cairo	Lower Egypt	Upper Egypt	Arab Gulf	
2- Indirect costs						
Transportation expenses	11200	200	500	2500	8000	Distance / ton
Storage costs	9000	3750	1875	1875	1500	The ton
Advertising	18900	4500	3600	4050	6750	Sales value
Selling management expenses	14700	3500	2800	3150	5250	Sales value
Insurance	<u>10000</u>	<u>2500</u>	<u>2500</u>	<u>3000</u>	<u>2000</u>	Value purchases
Total marketing costs	152800	33450	24675	28675	66000	

Solution

Notes on the statement:

- 1. The direct costs of the areas include that part of the cost component or the entire component cost of the area as long as it can be linked and assigned directly to this area, and it represents the first part of the table.**

Solution

Notes on the statement:

2- Indirect costs were distributed on the following basis:

❖ Transportation expenses based on the distance, weighted in tons from the headquarters, according to the following ratios:

Cairo,	Lower Egypt,	Upper Egypt,	Arab Gulf
20×50	100×25	500×25	2000×20
1000 :	2500 :	12500 :	40000

Solution

❖ Transportation expenses

$$\text{Cairo} = (1000 / (1000 + 2500 + 12500 + 40000)) \times 11200 = 200$$

$$\text{Lower Egypt} = (2500 / (1000 + 2500 + 12500 + 40000)) \times 11200 = 500$$

$$\text{Upper Egypt} = (12500 / (1000 + 2500 + 12500 + 40000)) \times 11200 = 2500$$

$$\text{Arab Gulf} = 40000 / (1000 + 2500 + 12500 + 40000) \times 11200 = 8000$$

Solution

- **Storage costs** based on the quantity that each area benefits from the head office, according to the following rates for Cairo, Lower Egypt, Upper Egypt, and the Arabian Gulf, **50: 25: 25: 20**, respectively.

Solution

❖ Storage costs

$$\text{Cairo} = (50 / (50+25+25+20)) \times 9000 = 3750$$

$$\text{Lower Egypt} = (25 / (50+25+25+20)) \times 9000 = 1875$$

$$\text{Upper Egypt} = (25 / (50+25+25+20)) \times 9000 = 1875$$

$$\text{Arab Gulf} = (20 / (50+25+25+20)) \times 9000 = 1500$$

Solution

- Advertising costs were distributed based on the sales value for each area of Cairo, Lower Egypt, Upper Egypt, and the Arabian Gulf in the following rates: 100,000: 80,000: 90,000: 150,000 respectively

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Solution

❖ Advertising costs

$$\text{Cairo} = (100,000 / (100,000 + 80,000 + 90,000 + 150,000)) \times 18900 = 4500$$

$$\text{Lower Egypt} = (80,000 / (100,000 + 80,000 + 90,000 + 150,000)) \times 18900 = 3600$$

$$\text{Upper Egypt} = (90,000 / (100,000 + 80,000 + 90,000 + 150,000)) \times 18900 = 4050$$

$$\text{Arab Gulf} = (150,000 / (100,000 + 80,000 + 90,000 + 150,000)) \times 18900 = 6750$$

- ❖ **Sales department expenses** in the head office were distributed based on the sales value for each area and in the same proportions for advertising costs.
- ❖ **Insurance expenses** were distributed based on the value of purchases on the basis that insurance is made on the stored value, which is represented in the purchases for each area, i.e. the ratio of 50,000: 50,000: 60,000: 40000, respectively, for the areas of Cairo, Lower Egypt, Upper Egypt, and the Arabian Gulf.

The End
Thank You

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