Cost Accounting Standards – From the Basics to the Finer Points

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AGENDA

• Cost Accounting Standards (CAS) Overview
• The Role of Federal Acquisition Regulations (FAR) and CAS
• CAS Applicability
• CAS Standards
• Timing of CAS Compliance
• Disclosure Statements
• Disclosure Statement Changes and Cost Impacts
CAS Overview – The CAS Board

• Established by Public Law in 1970 as an agency of Congress
• Re-established in 1988 within Office of Federal Procurement Policy (OFPP) under Office of Management and Budget (OMB)
  – Board Chairperson is the OFPP Administrator
  – 2 Industry Members (one from industry and one from an accounting firm)
  – 2 Government Members (one from DOD and one from GSA)
CAS Overview – The Purpose

- Promote uniformity and consistency in cost accounting
  - Why is uniformity so important?
  - Who benefits from consistent accounting and estimating practices?

- Basic requirements: (DFC)
  - Disclose Cost Accounting Practice, if required
  - Follow the Disclosed Cost Accounting Practice, if required
  - Comply with Standards (19 in all), as applicable.
The Role of FAR and CAS

Cost Accounting Standards (CAS)
- All about ALLOCABILITY
- Measurement
- Determination/Treatment
- Assignment of cost to cost accounting periods
- Allocation of costs.

Federal Acquisition Regulations (FAR)
- All about ALLOWABILITY (for those not CAS covered, FAR part 31 addresses Allocability)
- Defines when and to what extent costs can be recovered under a government contract
- References CAS
**CAS Standards Incorporated by FAR**

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* Denotes the standards that apply when a contractor is subject to modified coverage only
CAS Standards Incorporated by FAR

FAR 31.201-2(b) says:

- Certain cost principles in this subpart incorporate the measurement, assignment, and allocability rules of selected CAS and limit the allowability of costs to the amounts determined using the criteria in those selected standards.

- Only those CAS or portions of standards specifically made applicable by the cost principles in this subpart are mandatory unless the contract is CAS-covered (see Part 30).
CAS Standards Incorporated by FAR

FAR 31.201-2(b) says:

• Business units that are not otherwise subject to these standards under a CAS clause are subject to the selected standards only for the purpose of determining allowability of costs on Government contracts.

• Including the selected standards in the cost principles does not subject the business unit to any other CAS rules and regulations.
CAS Standards Incorporated by FAR

FAR 31.201-2(b) says:

- The applicability of the CAS rules and regulations is determined by the CAS clause, if any, in the contract and the requirement of the standards themselves.
CAS APPLICABILITY (1 of 2)

Three Step Process:

1. Is the award (i.e. contract or subcontract) exempt or covered?

2. Is the coverage full or modified?

3. Does the covered award require the contractor to submit and maintain a disclosure statement OR not?
CAS Applicability

**Full CAS-Coverage**
- Awards $50 Million or more including option amounts
- Disclosure Statement required
- Comply with all applicable standards

Any negotiated (sub)contracts awarded after the trigger contract containing a CAS clause is fully covered
- Exceeding $700,000 including all options
- Full CAS coverage at award remains for life of contract

**Modified CAS-Coverage**
- Awards from $7.5M up to $50 Million
- Disclosure Statement normally not required
- CAS 401, 402, 405 & 406 only

Any negotiated (sub)contracts awarded after the trigger contract containing a CAS clause is modified covered
- Exceeding $700,000 including all options
- Modified CAS coverage at award remains for life of contract
CAS Applicability

Full Coverage, if the Business Unit:

• Received a $50M or more CAS-covered contract (Trigger Contract)

  OR

• Received a single CAS covered contract valued at $50M or more during the current cost accounting period

  OR

• Received $50M or more of Net CAS covered awards in the preceding cost accounting period
CAS Applicability - Exemptions

- Sealed bid contracts (There is no Negotiation!)
- Contracts and Subcontracts with Small Business Concerns
- Negotiated contracts and subcontracts (including interdivisional work orders) less than $700,000
- Firm Fixed Price Contract awarded on the basis of adequate price competition without cost or pricing data
CAS Applicability - Exemptions

• Contract less than $7.5 million provided that not currently performing a CAS contract of $7.5 million or greater
• Contracts and Subcontracts with foreign governments or their agents - Foreign Contractors apply CAS 401 & 402
• Contracts and Subcontracts where the Price is set by Law or Regulation
• NATO Patrol Hydrofoil Missile (PHM) Ship program subcontracts performed outside the US

See Handout- CAS Coverage Flowchart
CAS Standards

CAS Standards cover six general areas that we will discuss in the next few slides:

1. General Standards
2. Consistency Standards
3. Cost Allocation Standards
4. Property (Tangible Assets) Standards
5. Compensation Standards
6. Cost of Money Standards
CAS Standards

GENERAL STANDARDS

• CAS 405 Accounting for Unallowable Costs
  - Requires proper segregation, but does not address allowability

• CAS 406 Cost Accounting Period
  - Defines contractor’s cost accounting period
CAS Standards

CONSISTENCY STANDARDS

- CAS 401 Consistency in Estimating, Accumulating, and Reporting Costs
  
  (Bid = Book = Bill)

- CAS 402 Consistency in Allocating Costs Incurred for the Same Purpose
  - Cost must be treated the same in like circumstance
CAS Standards

COST ALLOCATION STANDARDS

- CAS 403 Allocation of Home Office Expenses
- CAS 410 Allocation of Business Unit General and Administrative Expense
- CAS 418 Allocation of Direct and Indirect Costs
- CAS 420 Accounting for Independent Research and Development and Bid and Proposal Costs
CAS Standards

PROPERTY (TANGIBLE ASSET) STANDARDS

- CAS 404 Capitalization of Tangible Assets
- CAS 409 Depreciation of Tangible Capital Assets
CAS Standards

COMPENSATION STANDARDS

- CAS 408  Accounting for the Cost of Compensated Personal Absences
- CAS 412  Composition and Measurement of Pension Cost
- CAS 413  Adjustment and Allocation of Pension Cost
- CAS 415  Accounting for the Cost of Deferred Compensation
CAS Standards

COST OF MONEY STANDARDS

- CAS 414  Cost of Money as an Element of the Cost Facilities Capital
- CAS 417  Cost of Money as an Element of the Cost of Capital Assets Under Construction
Requirements for submission of a Disclosure Statement

- New Award exceeding $50 million, including option amounts, before award (*with proposal*).

- If company, together with its segments received net awards of negotiated prime contracts and subcontracts subject to CAS totaling $50 million or more in its *most recent cost accounting period*.

- A separate Disclosure Statement must be submitted for each segment.

- Each corporate or other home office that allocates costs to one or more disclosing segments performing CAS-covered contracts - submit a Parts I & VIII of the Disclosure Statement (Parts VI or VII may be included).
Disclosure Statement

- Once required, the contractor must submit a Disclosure Statement (Form CASB DS-1) to the ACO to document cost accounting practices (see FAR 52.230-2)

- Parts of the Disclosure Statement:
  - Part I  General Information
  - Part II  Direct Costs
  - Part III  Direct vs. Indirect Cost
  - Part IV  Indirect Costs
  - Part V  Depreciation and Capitalization Practices
  - Part VI  Other Costs and Credits
  - Part VII  Deferred Compensation and Insurance Cost
  - Part VIII  Home Office Expenses (Corporate)
Who must complete what parts of the CAS Disclosure Statement?

- It depends on the contractor’s accounting structure, but a Cover Page and Part 1 must be completed by ALL qualifying organizations.
**Disclosure Statement**

What are the recent changes in DCAA audit programs?

- DCAA Audit Programs that cover Disclosure Statements ([www.dcaa.mil](http://www.dcaa.mil))
- Compliance of Initial and Revised Disclosure Statement, (Audit Assignment No. 19100):
  - Compliance of the description of cost accounting practices
  - Does not include testing actual practices for compliance with CAS
Changes in Disclosed Practices

What is not a cost accounting practice change?

- The initial adoption of a cost accounting practice for the first time a cost is incurred, or a function is created
- The partial or total elimination of a cost or the cost of a function
- The revision of a cost accounting practice for a cost which previously had been immaterial
Changes in Disclosed Practices

What is considered a change in cost accounting practice?

- An alteration in the method used to:
  - Measure costs
  - Determine / treat direct versus indirect costs
  - Assign cost to cost accounting periods
  - Allocate costs to cost objective(s)
Changes in Disclosed Practices

Contractor’s responsibility:

• Submit to the CFAO a description of any cost accounting practice change …and any written statement that the cost impact of the change is immaterial (FAR 52.230-6).

• For Unilateral Change:
  – Submit a description of the change to the CFAO not less than 60 days (or other mutually agreeable date) before implementation of the change; and
  – Submit rationale to support any contractor written statement that the cost impact of the change is immaterial.
Changes in Disclosed Practices

Difference between Detailed Cost Impact (DCI) and GDM:

- General Dollar Magnitude (GDM) estimated overall impact on affected CAS-covered contracts and subcontracts that were awarded based on the previous cost accounting practice:
  - Shows an increase/decrease in price (cost & profit), in aggregate, of CAS covered contracts and subcontracts
  - Shows by type (FFP, CPFF, etc.)
  - Shows impact on funds of the various Agencies (DoD, DoE, HHS, DHS, etc.).
  - Generally, includes less detail than a DCI
- DCI is more detailed, it is typically prepared if requested by the CFAO
BEST PRACTICES

• Tracking system for CAS-covered Contracts
  – Identification of CAS covered contracts, including subcontracts
  – Know what triggers a CAS-covered contract
  – Do not rely on the Government to know! The Proof lies with the contractor, not the Government.
• Decide on cost accounting practice before it becomes an issue (e.g. direct versus indirect or both)
• Before changing a cost accounting practice, notify management of impact and consequences