

INSIGHTS FROM THE BDO GOVERNMENT CONTRACTING PRACTICE

THE COST ACCOUNTING STANDARDS (CAS) GUIDE FOR GOVERNMENT CONTRACTORS

Navigating Cost Accounting Standards (CAS) can prove challenging for government contractors. CAS are mandatory for use by prime contractors and subcontractors to estimate, accumulate and report costs, and to settle disputes for procurements with the U.S. government unless an exemption applies.

A cost accounting practice can be defined as any disclosed or established accounting method or technique used for the measurement of a cost, assignment of a cost to accounting periods, or the allocation of cost-to-cost objectives.

The role of the Cost Accounting Standards Board (CASB) is to promote consistency and uniformity of contractor cost accounting practices and proper allocation of costs for government grants and contracts through the issuance of standards.

There are 19 standards promulgated by the CASB. Each standard specifies the purpose, definitions, fundamental requirement, techniques for application, and illustrations. Some standards also specify the interpretation, exemption, and effective date as applicable.

Read on to learn more about the essential features of CAS and important complexities related to requirements, applicability, exemptions, types of coverage, compliance and enforcement, disclosure statements, cost accounting practice changes and audits.



CAS, GAAP and FAR

CAS differs from Generally Accepted Accounting Principles (GAAP) in scope and applicability.

- ▶ GAAP is focused on financial accounting, so they are more broadly applicable and wide ranging.
- ▶ CAS only focuses on cost accounting and applies to entities holding contracts with the U.S. federal government and its agencies on a contract-by-contract basis when a certain threshold in contract value is met.
- ▶ There are some areas where CAS and GAAP overlap. An entity may comply with both where guidance differs and maintain two sets of books in order to comply with federal cost accounting requirements.

CAS differs from the Federal Acquisition Regulation (FAR) in focus.

- ▶ FAR Part 31, Contract Cost Principles and Procedures, focus on the allowability and reasonableness of costs.
- ▶ CAS provides prescriptive guidance on the measurement and allocation of costs.
- ▶ Costs may be allocable under CAS but not allowable or reasonable under FAR, and vice versa.
- ▶ Compliance with CAS, if applicable, is required for a cost to be allowable under FAR.

CAS Applicability, Exemptions and Types of Coverage

CAS applies to contracts, not to contractors or agencies. CAS requirements apply to all negotiated contracts in excess of \$2 million, unless an exemption applies. A contract award of \$7.5 million or more is generally a “trigger” contract that establishes CAS coverage, unless an exemption below applies.

CAS exemptions include the following:

- ▶ Contract is a sealed-bid contract.
- ▶ Contract is with an entity that is a small business.
- ▶ Prices are set by law or regulation.
- ▶ Contract/subcontract is with a foreign government.
- ▶ Contract is firm-fixed price (FFP) and awarded on the basis of adequate competition and no submission of cost or pricing data.
- ▶ Contract is FFP or Time & Materials (T&M) for the acquisition of commercial items.
- ▶ Contract value is less than \$7.5 million (and contractor is not currently performing any CAS-covered awards).

Types of CAS coverage:

- ▶ Full coverage
 - Contract is subject to all 19 standards.
 - Must be a single award of \$50 million or more, or a non-exempt contract award when the net CAS-covered awards in the preceding cost accounting period totaled at least \$50 million.
- ▶ Modified coverage
 - Contract is subject to four of the 19 standards: 401, 402, 405 and 406.
 - Applicable upon award of a \$7.5 million trigger contract if covered contract is less than \$50 million and total net CAS-covered awards in the preceding cost accounting period are less than \$50 million.
 - Modified CAS coverage applies to a contract over the entire contract lifespan, regardless of whether the contractor receives a contract subject to full CAS coverage in the future.

Breakdown of CAS



BASIC CAS CONCEPTS/SUBJECT TO MODIFIED COVERAGE

- ▶ 401: Consistency in Estimating, Accumulating and Reporting Cost
- ▶ 402: Consistency in Allocating Costs Incurred for the Same Purpose*
- ▶ 405: Accounting for Unallowable Costs*
- ▶ 406: Cost Accounting Period*



ALLOCATION OF COSTS

- ▶ 403: Allocation of Home Office Expenses to Segments
- ▶ 410: Allocation of Business Unit General & Administrative (G&A) Expenses to Final Cost Objectives
- ▶ 418: Allocation of Direct and Indirect Costs
- ▶ 420: Accounting for Independent Research and Development Costs and Bid and Proposal Costs (IR&D and B&P)*



COMPENSATION

- ▶ 408: Accounting for Costs of Compensated Personal Absence
- ▶ 412: Composition and Measurement of Pension Costs*
- ▶ 413: Adjustment and Allocation of Pension Cost*
- ▶ 415: Accounting for the Cost of Deferred Compensation*



FIXED ASSETS

- ▶ 404: Capitalization of Tangible Assets*
- ▶ 409: Depreciation of Tangible Capital Assets*
- ▶ 414: Cost of Money as an Element of the Cost of Facilities Capital*
- ▶ 417: Cost of Money as an Element of the Cost of Capital Assets Under Construction*



LABOR & MATERIAL COSTING

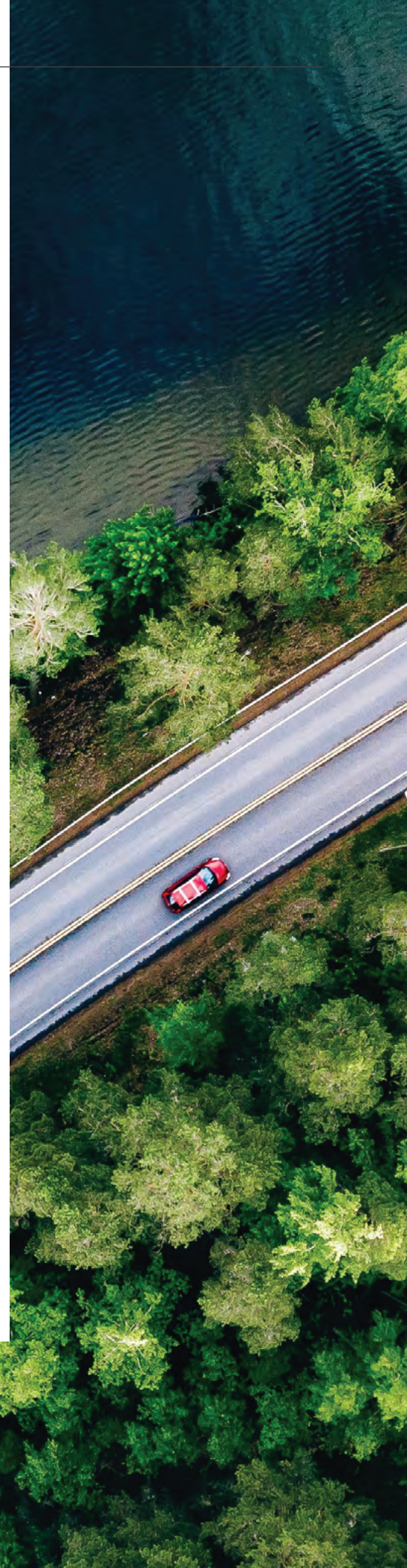
- ▶ 407: Use of Standard Costs for Direct Material and Direct Labor
- ▶ 411: Accounting for Acquisition Costs of Material



INSURANCE

- ▶ 416: Accounting for Insurance Cost*

*Referenced or substantially duplicated in FAR Part 31.



CAS Compliance and Enforcement

- ▶ The federal agency with the largest amount of contract work will be responsible for appointing your Cognizant Federal Agency Official (CFAO) for CAS administration.
- ▶ The CFAO will be responsible for administering all CAS requirements.
- ▶ Once an entity wins its first CAS-covered contract, timing of compliance with all 19 standards is not immediate.
- ▶ Certain standards (i.e., CAS 401, 402 and 405) require immediate compliance upon the award of a CAS-covered contract.
- ▶ Other standards require compliance by the start of the next cost accounting period or next full fiscal year upon contract award.

A contractor is subject to the following regulatory requirements if it holds CAS-covered contracts:

- ▶ Comply with each applicable CAS.
- ▶ Disclose cost accounting practices.
- ▶ Follow cost accounting practices consistently.
- ▶ Notify the government of any cost accounting practice changes.
- ▶ Calculate contract cost and price adjustments resulting from cost accounting practice changes.

Contractor Disclosure Statements

A disclosure statement (DS-1) is a written description of a contractor's cost accounting practices and procedures. Contractors are responsible for maintaining accurate disclosure statements and complying with the cost accounting practices therein.

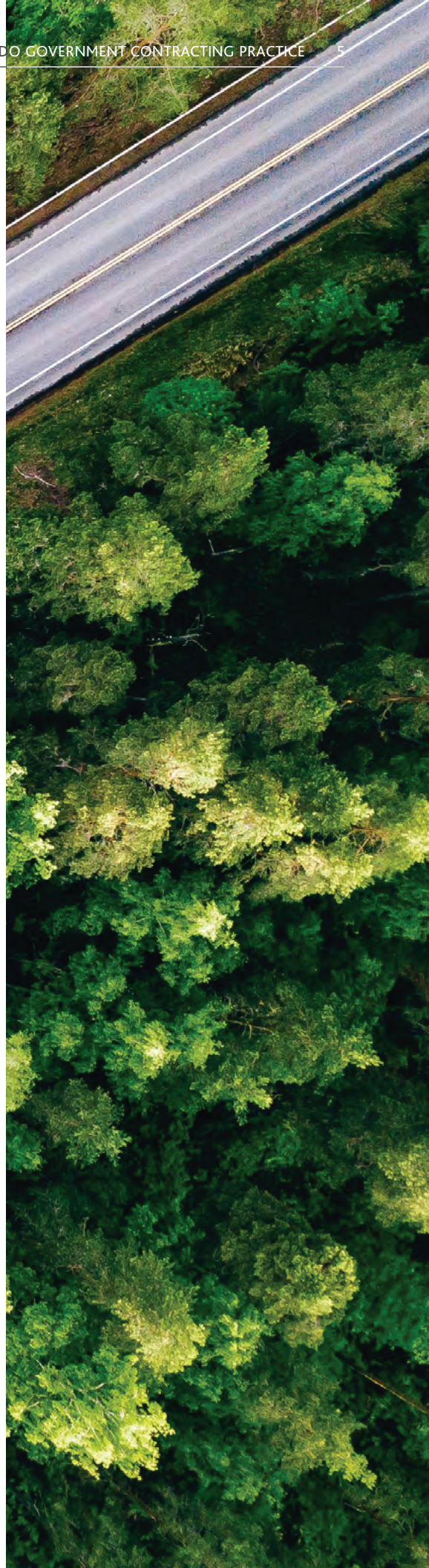
The contractor's CFAO will review the disclosure statement for adequacy and compliance. If any changes occur that create an inconsistency, the contractor is responsible for updating with a disclosure statement revision.

Contractors shall submit a disclosure statement under the following circumstances:

- ▶ Before the award of a trigger contract of \$50 million or more.
- ▶ If net awards of negotiated contracts total \$50 million or more in a cost accounting period, then submit a DS-1 before the award of the first CAS-covered contract in the immediately following cost accounting period.

Even if it is not required, a contractor should consider completing a disclosure statement for internal reference purposes. It is best practice to review cost accounting practices at least annually to ensure consistency between policies and practices. At a minimum, a contractor should establish policies describing the following:

- ▶ Types of costs considered to be direct, indirect or sometimes direct/sometimes indirect.
- ▶ Indirect rates used to allocate indirect costs.
- ▶ Functions and cost elements included in each indirect pool and base.
- ▶ Allocation methods and bases for indirect rates.



Cost Accounting Practice Changes

- ▶ A cost accounting practice change (CAPC) is required to be submitted to the CFAO 60 days prior to the effective date of the proposed change.
- ▶ The CAPC will be reviewed for adequacy and compliance.
- ▶ The CAPC will need to be classified by type (required, unilateral or desirable accounting change) by the CFAO to determine the appropriate treatment.
- ▶ For required and unilateral changes, the contractor shall submit a cost impact proposal, unless the CFAO determines the cost impact is immaterial.
- ▶ The cost impact proposal calculates the estimated overall impact of a change in cost accounting practice on affected CAS-covered contracts.

CAS Audits

- ▶ CAS compliance audits are conducted to determine if a contractor's policies, procedures and practices adhere to CAS requirements.
- ▶ An audit may be conducted if the CFAO has reason to suspect a contractor is materially non-compliant with CAS requirements. Other audits may raise red flags, such as:
 - Accounting system audits
 - Incurred cost audits
 - Forward pricing rate proposal audits
- ▶ Contractors should ensure their cost accounting practices are described adequately and related policies are followed. Consistency between policy and practice is not only paramount but crucial.

The experienced professionals in **BDO's Government Contracting practice** can help you understand the complexities involved in CAS. To learn more, you can also view the recording and presentation from our recent webinar: [An Introduction to Cost Accounting Standards for Government Contractors](#).



A photograph of three business professionals in a meeting outdoors. A man in a grey suit and blue shirt is looking down at a tablet held by a woman in a black blazer. Another woman with dark hair in a bun is also looking at the tablet. They are standing on a wooden deck with a railing, with lush green trees in the background.

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