



# **THE 10 ESSENTIALS OF COST ACCOUNTING STANDARDS COMPLIANCE**

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**QUESTIONS EVERY CONTRACTOR  
SHOULD ASK THEMSELVES**



# INTRODUCTION

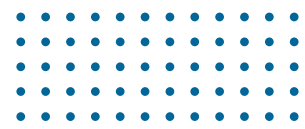
The Cost Accounting Standards (CAS), CFR Title 48 Chapter 99, may present an onerous set of requirements that apply to specific U.S. Government contracts and can dramatically impact your organization's cost accounting practices and the disclosure of your practices.

If you are currently performing under flexibly priced and/or negotiated contracts, you may be subject to CAS, but as you may not be aware, a significant number of these standards are also incorporated through the Federal Acquisition Regulation (FAR) Part 31 Cost Principles, even for contracts not subject to CAS.

So why should contractors understand the CAS if they are subject to the standards or subject in part through FAR Part 31? Contractors are often overwhelmed because the CAS requirements go beyond just the standards. Further, the Cost Accounting Standards Board (CASB) has recently been active in reviewing certain standards for purposes of aligning the compliance requirements with those of traditional financial accounting and reporting, e.g., generally accepted accounting principles (GAAP). Contractors should remain aware of these CASB initiatives as changes to existing standards is likely in the future.

Every contractor that holds CAS-covered contracts should ask themselves the following ten essential questions.





1.

## Do we have a complete list of CAS-covered contracts that specifies the type of coverage (full vs. modified)?

It is critical for every contractor to have this information, as it is essential in meeting the requirements under FAR Part 30 Cost Accounting Standards Administration (more on this later). Many contractors have difficulties identifying their CAS covered contract universe and coverage type as they do not conduct timely, complete, and accurate contract briefs. In addition, it is the Defense Contract Audit Agency's (DCAA) expectation during the Accounting System Audit that there is a sufficient contract briefing process in place and that this information is readily available.





## 2.

## Are we reviewing solicitation provisions and contract clauses pertaining to the CAS and do we understand their implications?

The table below summaries CAS-related provisions and clauses your organization should be aware of. If you think these clauses do not apply or sought an exemption, then negotiating the clause(s) out of the contract is paramount!

FAR Clause / Provision	Title	Description
FAR 52.230-1 (Solicitation Provision)	Cost Accounting Standards Notices and Certification	Offerors shall examine each part and provide the requested information in order to determine Cost Accounting Standards (CAS) requirements applicable to any resultant contract.
FAR 52.230-2	Cost Accounting Standards	Requires contractors to conform to all 19 Cost Accounting Standards and submission of a Disclosure Statement
FAR 52.230-3	Disclosure and Consistency of CAS	Requires contractors to conform to the Modified Cost Accounting Standards
FAR 52.230-4	Disclosure and Consistency of CAS - Foreign Entities	Requires foreign concerns to conform to the CAS 401 and CAS 402
FAR 52.230-5	Cost Accounting Standards - Educational Institutions	Requires Educational Institutions to conform to all 19 Cost Accounting Standards and submission of a Disclosure Statement (when applicable)
FAR 52.230-6	Administration of CAS	Requires CAS covered contract recipient to submit revised disclosure statement and/or cost impact statement for cost accounting changes
FAR 52.230-7 (Solicitation Provision)	Proposal Disclosure – Cost Accounting Practice Changes	Contract award will result in a required or unilateral change in cost accounting practice disclosure



## What is our level of understanding of all the standards?

There are 19 standards that contractors need to conform to on contracts subject to full CAS coverage. The outline below summarizes the standards grouped for your understanding. We recommend your organization have adequate resources and subject matter expertise to conform with all 19 standards (as applicable).

### BASIC STANDARDS

- i. CAS 401 – Consistency in estimating, accumulating & reporting
- ii. CAS 402 – Consistency in allocating costs incurred for same purpose
- iii. CAS 405 – Accounting for unallowable costs
- iv. CAS 406 – Cost accounting period

### ALLOCATION OF COST STANDARDS

- i. CAS 403 – Allocation of home office expenses to segments
- ii. CAS 410 – Allocation of business unit G&A to final cost objectives
- iii. CAS 418 – Allocation of direct and indirect costs
- iv. CAS 420 – Accounting for IR&D/B&P costs

### COMPENSATION STANDARDS

- i. CAS 408 – Compensated personal absence
- ii. CAS 412 – Composition and measurement of pension costs
- iii. CAS 413 – Adjustment and allocation of pension costs
- iv. CAS 415 – Deferred compensation







## ASSET STANDARDS

- i. CAS 404 – Capitalization of tangible capital assets
- ii. CAS 409 – Depreciation of tangible capital assets
- iii. CAS 414 – Cost of money as an element of the cost of facilities capital
- iv. CAS 417 – Cost of money as an element of the cost of capital under construction

## OTHER STANDARDS

- i. CAS 407 – Use of standard costs
- ii. CAS 411 – Accounting for material costs
- iii. CAS 416 – Accounting for insurance costs





4.

## Do we know when to file a CASB Disclosure Statement?

If you have a \$50 Million trigger contract, it is easy to determine when to submit a disclosure statement. What about the Disclosure Statement applicability based on the look back requirement of CAS-covered awards received in the previous cost accounting period? How about the requirement for other segments that may not currently have any CAS-covered contracts but are included in the total price of a CAS-covered Contract? These can be trickier to navigate.



5.

## Is our Disclosure Statement(s) current, adequate, and inclusive of only the information required to disclose our cost accounting practices?

Your Disclosure Statement(s) must reflect your current cost accounting practices! Your organization should be aware of any cost accounting practice changes that have or will be implemented, and they must be properly reflected in the Disclosure Statement. Furthermore, the Disclosure Statement is designed to define your cost accounting practices that pertain to how you measure, assign, and allocate cost. Information such as chart of accounts, department numbers, and policies and procedures (e.g., PTO benefits, description of accounting software, organizational charts, etc.) do not belong within the Disclosure Statement. These do not define your cost accounting practices!



6.

## Do we know what constitutes a cost accounting practice change and what does not?

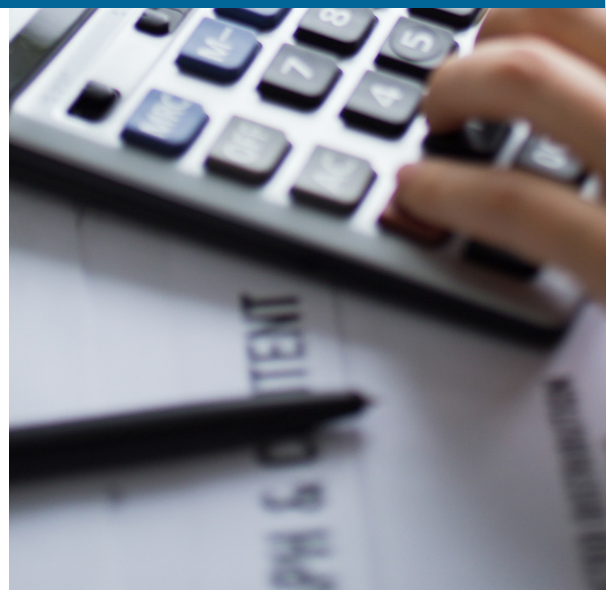
Cost accounting practice change(s) are a result of altering how you assign, measure, or allocate existing costs. Typical examples include changes in inventory costing methodology, grouping existing cost to a different indirect rate pool, changing the way you measure useful life of an asset, or changing the allocation base of an existing indirect cost pool. Examples of situations that do not constitute a change to cost accounting practice include functions or activities created for the first time or eliminated, make or buy decisions, and changes in values of specific elements of an employee fringe benefits plan.



7.

## Do we have a process and internal controls around cost accounting practice changes?

Your organization should have a defined process that ensures the right level of leadership is aware of the implications of making cost accounting practice changes and how this may affect your organization. What is advantageous for a particular proposal may be detrimental to the current CAS-covered contract population. The process should also cover timely disclosures that could be driven from internally approved cost accounting practice changes and not to mention the 60 day notification “before implementation of the change” requirement under FAR 30.6 – CAS Administration.







8.

## Are we aware of the types of cost accounting practice changes and the requirements under FAR Part 30?

FAR Part 30 defines the types of cost accounting practice changes. Each change defined below will have specific administration requirements and could impact CAS-covered contracts differently.

- Required – May file for an equitable adjustment.
  - A change in cost accounting practice that a contractor is required to make in order to comply with applicable standards, modifications or interpretations thereto, that subsequently becomes applicable to an existing CAS-covered contract or subcontract due to the receipt of another CAS-covered contract or subcontract; or
  - A prospective change to a disclosed or established cost accounting practice when the Cognizant Federal Audit Agency (CFAO) determines that the former practice was in compliance with applicable CAS and the change is necessary for the contractor to remain in compliance.
- Unilateral – Government shall not pay any increased cost, in the aggregate
  - A change in cost accounting practice from one compliant practice to another compliant practice that a contractor with a CAS-covered contract(s) or subcontract(s) elects to make that has not been deemed a desirable change by the CFAO and for which the Government will pay no aggregate increased costs
- Desirable – Not subject to the no increased cost prohibition provisions
  - A compliant change to a contractor's established or disclosed cost accounting practices that the CFAO finds is desirable and not detrimental to the Government and is, therefore, not subject to the no increased cost prohibition provisions of CAS-covered contracts and subcontracts affected by the change.
- Non-compliant (Bad Contractor!) – Price adjustments and interest.
  - A change to a contractor's established or disclosed cost accounting practice when the former practice was NOT in compliance with applicable CAS and the change is necessary for the contractor become compliant.



9.

## Do we know how to prepare and submit a cost impact proposal?

FAR Part 30 defines the process for submitting either a Rough Order Magnitude (ROM) or a Detailed Cost Impact and may be in any format acceptable to the CFAO. Additionally, a recent major defense contractor court case puts more emphasis on materiality and consideration on the cumulative impact to the U.S. Government when considering multiple cost accounting practice changes (i.e., “stacking”).



10.

## Do we have a process and internal controls around cost accounting practice changes?

Many contractors have difficulties with CAS 402 – Consistency in Allocating Costs Incurred for the Same Purpose. Like costs in like circumstances, must always be treated consistently. The contract allowing (or not allowing) the cost to be billed as direct cost cannot define your cost accounting practice. Does, “if the contract will pay for it, charge it direct” or “oh, we can’t bill that as direct cost, so stick it in overhead” sound familiar? These are common violations of CAS 402 and can have serious consequences for your organization.



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### Need Help with Cost Accounting Standards Regulatory Compliance?

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