



# Cost Accounting Standards

## Complex Accounting and Risk Management

The U.S. Government has established nineteen (19) cost accounting standards to be used by contractors in order to establish uniformity and consistency in how costs charged to the Government are measured and assigned to contracts. The standards are also used in determining the allocability of costs on negotiated procurements. The standards, developed in the 1970s for defense contracts, have since been expanded to be applicable on a government-wide basis. The requirements of the Cost Accounting Standards ("CAS") differ from the Federal Acquisition Regulation ("FAR") Part 31 cost principles in that the FAR requirements deal principally with allowability of costs. There are two versions of the cost accounting standards – one to be followed by educational institutions and a second set for commercial entities (discussed herein). Contractors that meet specific dollar threshold requirements, as a condition of contracting, need to disclose, in writing, their cost accounting practices; follow the disclosed practices consistently; and comply with CAS.

### **The Cost Accounting Standards are as follows:**

- |                                                                                               |                                                                                           |
|-----------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|
| 401: Consistency in Estimating, Accumulating and Reporting Costs                              | 411: Accounting for Acquisition Costs of Material                                         |
| 402: Consistency in Allocating Costs Incurred for the Same Purpose                            | 412: Composition and Measurement of Pension Costs                                         |
| 403: Allocation of Home Office Expenses to Segments                                           | 413: Adjustment and Allocation of Pension Cost                                            |
| 404: Capitalization of Tangible Assets                                                        | 414: Cost of Money as an Element of the Cost of Facilities Capital                        |
| 405: Accounting for Unallowable Costs                                                         | 415: Accounting for the Cost of Deferred Compensation                                     |
| 406: Cost Accounting Period                                                                   | 416: Accounting for Insurance Cost                                                        |
| 407: Use of Standard Costs for Direct Material and Direct Labor                               | 417: Cost of Money as an Element of the Cost of Capital Assets Under Construction         |
| 408: Accounting for Costs of Compensated Personal Absence                                     | 418: Allocation of Direct and Indirect Costs                                              |
| 409: Depreciation of Tangible Capital Assets                                                  | 420: Accounting for Independent Research and Development Costs and Bid and Proposal Costs |
| 410: Allocation of Business Unit General and Administrative Expenses to Final Cost Objectives |                                                                                           |

CAS requirements are applicable to contracts with the appropriate FAR Part 52 contract clauses. A company may have contracts that are subject to "full" CAS coverage (required to follow all applicable standards); "modified" CAS coverage (required to follow only Standards 401, 402, 405, and 406); or simultaneously have contracts that are subject to both modified or full coverage, while some contracts may be exempt from coverage. A company, applicable business unit, or CAS-segment with "full" CAS coverage will not be subject to a standard where it does not apply (e.g., a company which does not have "standard" cost accounting system does not have to comply with CAS 407).

"Modified" CAS coverage applies to contracts when a company receives a single CAS-covered award of \$7.5 million or more. That action is known as the "trigger" contract. Once the trigger contract is awarded, modified coverage applies to all contracts that are not exempt from CAS until the company meets the criteria for "full" coverage.

"Full" coverage applies when a company receives either one CAS-covered contract of \$50 million or more in the current accounting period, or in the preceding cost accounting period, or receives multiple CAS-covered contracts cumulatively totaling \$50 million.

In addition to complying with the applicable standards, the company must also file a Cost Accounting Standards Board Disclosure Statement ("CASB DS") which describes in detail the company (or applicable business unit) accounting practices. There are two versions of the Disclosure Statement: version DS-1 applies to commercial companies while the DS-2 applies to educational institutions.



### **CAS Exemptions**

A contract may be exempt from the CAS in certain circumstances:

- Contracts awarded to small businesses are exempt from CAS, regardless of contract size;
- Any contract less than \$7.5 million is exempt, provided the company has not been awarded a contract greater than \$7.5 million;
- Any contract less than \$2 million is exempt;
- Contracts for commercial items;
- Contracts awarded under sealed bid procedures, or where "adequate price competition" was available;
- Contracts where the price is set by law or regulation (e.g., certain utilities);
- Contracts awarded to foreign governments; and
- Contracts awarded to foreign concerns (only the disclosure statement and CAS 401 and 402 apply in this case).

### **CASB Disclosure Statements**

Contractors that meet certain dollar thresholds are required to prepare, and maintain, a current CASB DS. Contractors not currently subject to CAS, or Disclosure Statement requirements, may need to submit a CASB DS with a proposal if the proposal, if awarded, will exceed the applicable CAS dollar threshold.

# THE CHESS CONSULTING ADVANTAGE

Our professionals work closely with our clients to establish an understanding of their specific CAS-related needs – be it the award of a full CAS-covered contract; preparing the initial CASB Disclosure Statement; making assessments of internal business practices to ensure compliance with the standards; strategizing the optimum indirect cost structure based on the current and expected future work environment; or assisting management respond to an alleged audit finding of an “inadequate” disclosure statement or noncompliance with one of the CAS.

Changes to existing accounting practices need to be carefully considered as making changes to current, disclosed practices requires that a “cost impact” to the Government be considered. These general dollar magnitude cost impact assessments are a crucial management consideration as to whether making an accounting change is worth any resultant cost impact on current CAS-covered contracts.

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