

# FORVIS



FORVIS Corporate Finance

## **CAS: The Series – Episode 7: G&A and B&P/ IR&D – CAS 410 and CAS 420**

A 12-part webinar series on the Cost Accounting Standards

# Your Instructors



**Bill Walter, CPA**

**Managing Director  
FORVIS LLP**

(703) 970.0509  
Bill.Walter@FORVIS.com



**Brad Tress, CPA**

**Director  
FORVIS LLP**

(703) 226-0043  
Brad.Tress@FORVIS.com

# Agenda

- Layout of the series
- CAS 410 – General and Administrative Allocations
- CAS 420 – Bid and Proposal Costs/ Independent R&D Costs

# Polling Question

Where are you working from today?

- A. Home or alternate work location
- B. My company office
- C. A different work location
- D. Traveling
- E. Other



# Layout of the Series

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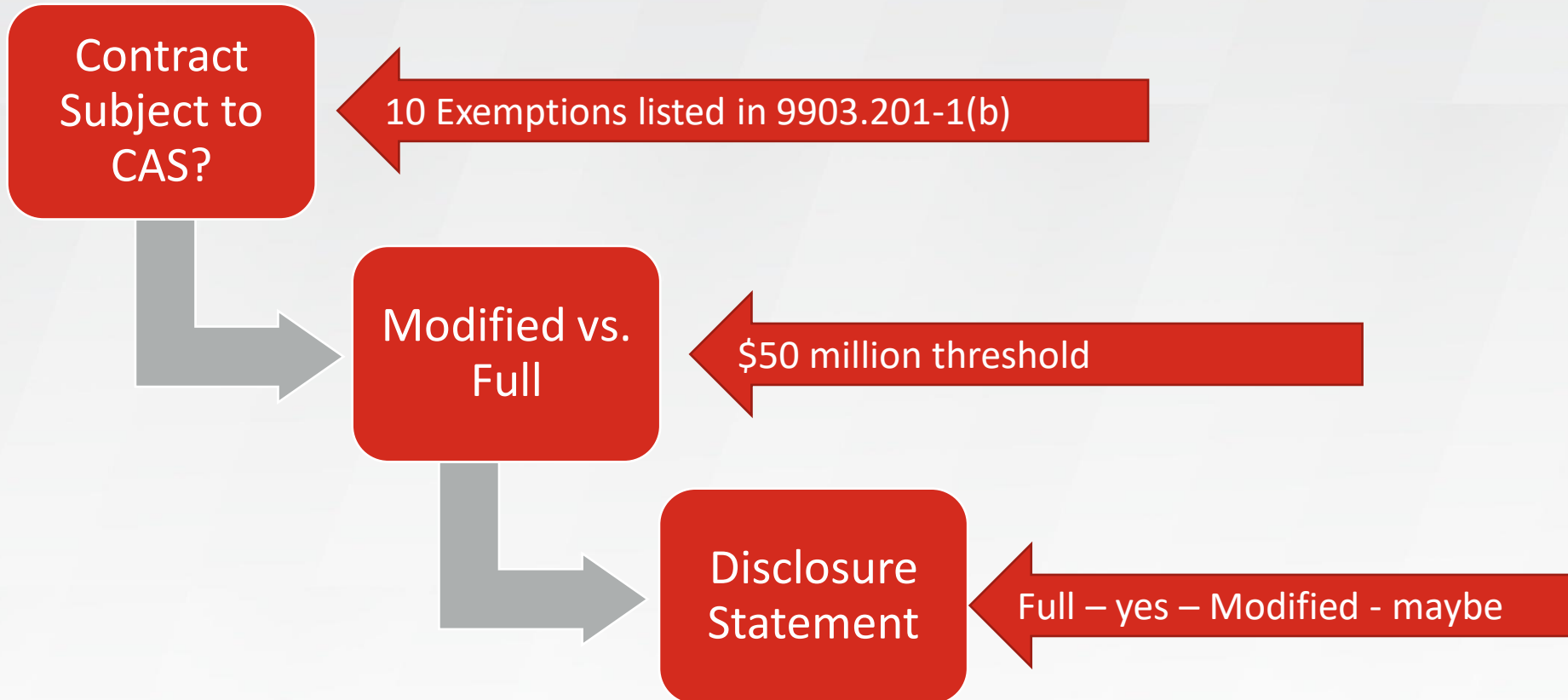
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# CAS in a minute!

- Contracts are subject to CAS – not contractors!



# Layout of CAS the Series

- Pilot Episode – 90-minute webinar to kick off the series
- Individual 90-minute episodes:
  - Episode 1 – CAS Clauses, Exemptions and Full/Modified CAS
  - Episode 2 – Cost Accounting Practice Changes & Administration
  - Episode 3 – CAS 401, 402, 405 & 406
  - Episode 4 – Compensation – CAS 408, 412, 413 & 415
  - Episode 5 – Direct and Indirect Costs – CAS 418
  - Episode 6 – Home office allocations – CAS 403

# Layout of CAS the Series

- Episode 7 – G&A and B&P/ IR&D – CAS 410 & 420
- Episode 8 – COM and Standard Costs – CAS 407, 414 & 417
- Episode 9 – Assets & Material – CAS 404, 409 & 411
- Episode 10 – Insurance and CAS 419 – CAS 416 and the mystery of CAS 419
- Episode 11 – Disclosure Statements
- Episode 12 – CAS Administration – Roles of DCMA & DCAA



# The Cost Accounting Standards

- BASIC Standards
  - CAS 401: Consistency
  - CAS 402: Direct v. Indirect Costs
  - CAS 405: Unallowable Costs
  - CAS 406: Cost Accounting Period
- The Cost Allocation Standards
  - CAS 407: Standard Costs
  - CAS 414: Cost of Money
  - **CAS 410: General & Administrative**
  - CAS 403: Home Office expenses
  - CAS 418: Direct & Indirect
  - **CAS 420: B&P and IR&D**
- Asset Accounting Standards
  - CAS 404: Capitalization
  - CAS 409: Depreciation
  - CAS 417: Self Constructed Assets
- Compensation Standards
  - CAS 408: Compensated Assets
  - CAS 412 & 413: Pensions
  - CAS 415: Deferred Compensation
- Other Standards
  - CAS 411: Material Costs
  - CAS 416: Insurance Costs

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# The Format of the Standards

- Purpose (.20)
- Definitions (.30)
- Fundamental Requirement (.40)
- Techniques for Application (.50)
- Illustrations (.60)
- Interpretation (.61)
- Exemption (.62)
- Effective Date (.63)

# CAS 410

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# History

- Took effect on April 17, 1992
- Contractors with prior CAS-covered contracts with full coverage shall continue this Standard's applicability upon receipt of a contract to which this Standard is applicable
- For contractors with no previous contracts subject to this Standard, this Standard shall be applied beginning with the contractor's next full fiscal year beginning after the receipt of a contract to which this Standard is applicable

# CAS 410 – G&A Allocations

- Establishes criteria for allocation of business unit general & administrative (G&A) expenses to business unit final cost objectives based on their beneficial or causal relationship.
- Provides criteria for allocation of home office expenses received by a segment to the cost objectives of that segment
- This Standard increases the likelihood of achieving objectivity in the allocation of expenses to final cost objectives and comparability of cost data among contractors in similar circumstances

# CAS 410 - Definitions

- **Allocate** means to assign an item of cost, or a group of items of cost, to one or more cost objectives. This term includes both direct assignment of cost and the reassignment of a share from an indirect cost pool.
- **Business unit** means any segment of an organization, or an entire business organization which is not divided into segments
- **Cost input** means the cost, except for G&A expenses, which for contract costing purposes is allocable to the production of goods & services during a cost accounting period
- **Cost objective** means a function, organizational subdivision, contract or other work unit for which cost data are desired and for which provision is made to accumulate and measure the cost of processes, products, jobs, capitalized projects, etc.
- **Final Cost objective** means a cost objective which has allocated to it both direct and indirect costs, and, in the contractor's accumulation systems, is one of the final accumulation points.

# CAS 410 - Definitions

- **G&A expense** means any management, financial, and other expense which is incurred by or allocated to a business unit and which is for the general management and administration of the business unit as a whole.
  - G&A expense does not include those management expenses whose beneficial or causal relationship to cost objectives can be more directly measured by a base other than a cost input base representing the total activity of a business unit during a cost accounting period
- **Segment** means one of two or more divisions, product departments, plants, or other subdivisions of an organization reporting directly to a home office, usually identified with responsibility for profit and/or producing a product or service.
  - Includes Government-owned contractor-operated (GOCO) facilities, and joint ventures and subsidiaries (domestic and foreign) in which the organization has a majority ownership.
  - Includes those joint ventures and subsidiaries (domestic and foreign) in which the organization has less than a majority of ownership, but over which it exercises control.

# CAS 410 – Fundamental Requirement

- Business unit G&A expenses must be grouped in a separate indirect cost pool to be allocated only to final cost objectives using a cost input base representing the total activity of the business unit
- The cost input base selected shall be the one which best represents the total activity of a typical cost accounting period.
- The allocation of the G&A expense pool to any particular final cost objectives which receive benefits significantly different from the benefits accruing to other final cost objectives shall be determined by special allocation
- Home office expenses received by a segment shall be allocated to segment cost objectives
- Any costs which do not satisfy the definition of G&A expense can remain in the G&A expense pool unless they can be allocated to business unit cost objectives on a beneficial or causal relationship which is best measured by a base other than a cost input base.



# Polling Question #2

What is your G&A Base?

- A. Total Cost Input (TCI)
- B. Value Added (VA)
- C. Single Element
- D. Other



# CAS 410 – Techniques for Application – Shared G&A

- G&A expenses of a segment incurred by another segment must be removed from the incurring segment's G&A expense pool.
- G&A expenses must be allocated to the segment for which the expenses were incurred on the basis of the beneficial or causal relationship between the expenses incurred and all benefiting or causing segments.
- If the expenses are incurred for two or more segments, the costs must be allocated using an allocation base common to all segments.

# CAS 410 – Techniques for Application - Combining

- G&A expense pool may be combined with other expenses for allocation to final cost objectives provided that
  - Allocation base used for the combined pool is appropriate both for the allocation of the G&A expense pool under this Standard and for the allocation of the other expenses; and
  - Provision is made to identify the components and total of the G&A expense pool separately from the other expenses in the combined pool
- Expenses which are not G&A expenses and are insignificant in amount may be included in the G&A expense pool for allocation to final cost objectives

# CAS 410 – Techniques for Application – Cost Input Bases

- The cost input base used to allocate the G&A expense pool shall include all significant elements of that cost input which represent the total activity of the business unit.
- The cost input base selected to represent the total activity of a business unit during a cost accounting period may be:
  - A total cost input base is generally acceptable as an appropriate measure of total activity
  - Value-added cost input shall be used as an allocation base where inclusion of material and subcontract costs would significantly distort the allocation of the G&A expense. A value-added cost input base is total cost input less material and subcontract costs.
  - A single element cost input base may be used to allocate the G&A expense pool where it produces equitable results. A single element base is inappropriate where it is an insignificant part of the total cost of some of the final cost objectives.
- Cost input includes all expenses excluded from the G&A expense pool and are not part of a combined pool of G&A expenses and other expenses allocated using the same allocation base.
- If, before the applicability of this Standard, a business unit's disclosed or established cost accounting practice was to use a cost of sales or sales base – can use a transition method

# CAS 410 – Techniques for Application – Home Office Expenses

- Allocations of the following home office expenses must be included in the receiving segment's G&A expense pool:
- Line management of particular segments or groups of segments,
- Residual expenses, and
- Directly allocated expenses related to the management and administration of the receiving segment as a whole,
- Separate allocation of expenses of home office centralized service functions, staff management of specific activities of segments, and central payments or accruals, received by a segment, shall be allocated to the segment cost objectives in proportion to the beneficial or causal relationship between the cost objectives and the expense if such allocation is significant in amount.
- Where a beneficial or causal relationship for the expense is not identifiable with segment cost objectives, the expense may be included in the G&A expense pool.
- Where a segment performs home office functions and also performs as an operating segment having a responsibility for final cost objectives, the expense of the home office functions shall be segregated. These expenses shall be allocated to all benefiting or causing segments, including the segment performing the home office functions, pursuant to disclosed or established accounting practices for the allocation of home office expenses to segments.

# CAS 410 – Illustration #1

- Business Unit A has been including the cost of scientific computer operations in its G&A expense pool. The scientific computer is used predominantly for research and development, rather than for the management and administration of the business unit as a whole.
- The costs of the scientific computer operation do not satisfy the Standard's definition of G&A expense; however, they may remain in the G&A expense pool unless they can be allocated to business unit cost objectives on a beneficial or causal relationship which is best measured by a base other than a cost input base representing the total activity of a business unit during a cost accounting period.

# CAS 410 – Illustration #2

- Segment B performs a budgeting function, the cost of which is included in its G&A expense pool.
- This function includes the preparation of budgets for another segment.
- The cost of preparing the budgets for the other segment should be removed from B's G&A expense pool and transferred to the other segment.

# CAS 410 – Illustration #3

- Business Unit C has a personnel function which is divided into two parts:
- A vice president of personnel who establishes personnel policy, and
- Overall guidance, and a personnel department which handles hirings, testing, evaluations, etc.
- The expense of the vice president is included in the G&A expense pool.
- The expense of the personnel department is allocated to other indirect cost pools based on the beneficial or causal relationship
- In compliance with CAS 410



# CAS 410 – Exemptions

- Standard shall not apply to contracts and grants with state, local, and Federally-recognized Indian tribal governments

# Polling Question #3

DCAA has a preference for Total Cost Input (TCI) G&A Bases?

- A. True
- B. False
- C. Need more information



# Fun Facts about CAS 410

- The CASB initial draft required the use of TCI
- Updated to state “the cost input base selected shall be the one which best represents the total activity of a typical cost accounting period”
- DCAA preference for TCI incorporated into WG 78-21
- Ford Aerospace & Communications Corp – Value added base was in compliance with CAS 410
- Aydin Corp. (West) v. Windall – Sales commissions as G&A

# CAS 420

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# History of CAS 420

- CAS 420 - Accounting for independent research & development costs and bid & proposal costs
- Published September 25, 1979
- Took effect on March 15, 1980
- Applicable second full fiscal year after receipt of a covered contract
- Government and industry felt Standard was not needed

# CAS 420 – IR & B&P Allocations

- Establishes criteria for the accumulation of independent research and development costs and bid and proposal costs and for the allocation of such costs to cost objectives based on the beneficial or causal relationship between such costs and cost objectives
- Consistent application of these criteria will improve cost allocation

# CAS 420 - Definitions

- **Allocate** means to assign an item of cost, or a group of items of cost, to one or more cost objectives. This term includes both direct assignment of cost and the reassignment of a share from an indirect cost pool.
- **Bid and proposal (B&P) cost** means the cost incurred in preparing, submitting, or supporting any bid or proposal which effort is neither sponsored by a grant, nor required in the performance of a contract
- **Business unit** means any segment of an organization, or an entire business organization which is not divided into segments
- **G&A expense** means any management, financial, and other expense which is incurred by or allocated to a business unit and which is for the general management and administration of the business unit as a whole.
  - G&A expense does not include those management expenses whose beneficial or causal relationship to cost objectives can be more directly measured by a base other than a cost input base representing the total activity of a business unit during a cost accounting period

# CAS 420 - Definitions

- **Home office** means an office responsible for directing or managing two or more, but not necessarily all, segments of an organization
- **Independent research** (IR) means the cost of effort which is neither sponsored by a grant, nor required in the performance of a contract, and which falls within any of the following three areas:
  - Basic and applied research,
  - Development, and
  - Systems and other concept formulation studies
- **Indirect cost** means any cost not directly identified with a single final cost objective but identified with two or more final cost objectives or with at least one intermediate cost objective
- **Segment** means one of two or more divisions, product departments, plants, or other subdivisions of an organization reporting directly to a home office, usually identified with responsibility for profit and/or producing a product or service.
  - Includes Government-owned contractor-operated (GOCO) facilities, and joint ventures and subsidiaries (domestic and foreign) in which the organization has a majority ownership.
  - Includes those joint ventures and subsidiaries (domestic and foreign) in which the organization has less than a majority of ownership, but over which it exercises control



# CAS 420 – Fundamental Requirement

- The basic unit for the identification and accumulation of Independent Research and Development (IR&D) and Bid and Proposal (B&P) costs shall be the individual IR&D or B&P project
- IR&D and B&P project costs shall consist of all allocable costs, except business unit general and administrative expenses
- IR&D and B&P cost pools consist of all IR&D and B&P project costs and other allocable costs, except business unit general and administrative expenses
- IR&D and B&P cost pools of a home office shall be allocated to segments on the basis of the beneficial or causal relationship between the IR&D and B&P costs and the segments reporting to that home office
- IR&D and B&P cost pools of a business unit shall be allocated to the final cost objectives of that business unit on the basis of the beneficial or causal relationship between the IR&D and B&P costs and the final cost objectives

# Polling Question #4

All work done on a proposal is B&P costs?

- A. True
- B. False
- C. Not sure



# CAS 420 – Techniques for Application – IR&D and B&P Costs

- IR&D and B&P projects costs include:
  - Direct costs, which if incurred in like circumstances for a final cost objective, would be treated as direct costs of that final cost objective, and
  - Overhead costs of productive activities and other indirect costs related to the project
  - Allocable home office IR&D and B&P costs.
  - When the costs of individual IR&D or B&P efforts are not material in amount, these costs may be accumulated in one or more project(s).
  - The costs of any work performed by one segment for another segment shall not be treated as IR&D costs or B&P costs of the performing segment unless the work is a part of an IR&D or B&P project of the performing segment.

# CAS 420 – Techniques for Application – Home Office

- The costs of IR&D and B&P projects accumulated at a home office are allocated to segments as follows:
  - Projects which can be identified with a specific segment(s) to the segment(s)
  - The costs of all other IR&D and B&P projects are to be allocated among all segments by means of the same base used by the company to allocate its residual expenses per CAS 403
  - Where a particular segment receives significantly more or less benefit from the IR&D or B&P costs than would be reflected by the allocation of such costs to the segment by the base, the Government and the contractor may agree to a special allocation.

# CAS 420 – Techniques for Application

- The costs of IR&D and B&P projects accumulated at a business unit shall be allocated to cost objectives as follows
  - Where costs of any IR&D or B&P project benefit more than one segment of the organization, the amounts to be allocated to each segment shall be determined in accordance with paragraph (e) of this subsection.
  - The IR&D and B&P cost pools which are not allocated under subparagraph (f)(1) of this subsection, shall be allocated to all final cost objectives of the business unit by means of the same base used by the business unit to allocate its general and administrative expenses in accordance with 9904.410-50; provided, however, where a particular final cost objective receives significantly more or less benefit from IR&D or B&P cost than would be reflected by the allocation of such costs the Government and the contractor may agree to a special allocation of the IR&D or B&P costs to such final cost objective commensurate with the benefits received. The amount of special allocation to any such final cost objective made pursuant to such an agreement shall be excluded from the IR&D and B&P cost pools to be allocated to other final cost objectives and the particular final cost objective's base data shall be excluded from the base used to allocate these pools.
- Notwithstanding the provisions of paragraph (d), (e) or (f) of this subsection, the costs of IR&D and B&P projects allocable to a home office pursuant to 9904.420-50(d) may be allocated directly to the receiving segments, provided that such allocation not be substantially different from the allocation that would be made if they were first passed through home office accounts.

# CAS 420 – Illustration #1

- Business Unit A's engineering department in accordance with its established accounting practice, charges administrative effort including typing its overhead cost pool.
- In submitting a proposal, the engineering department assigns several typists to the proposal project on a full time basis and charges the typists' time directly to the proposal project, rather than to its overhead pool.
- Because the engineering department under its established accounting practice does not charge the cost of typing directly to final cost objectives, the direct charge is not compliant with CAS 420 (or CAS 402).

# CAS 420 – Illustration #2

- Company B has five segments.
- The company undertakes an IR&D project which is part of IR&D plans of segments X, Y, and Z, and will be of general benefit to all five segments.
- The company designates Segment Z as the project leader in performing the project. In accumulating the costs, each segment allocates overhead to its part of the project but does not allocate segment G&A.
- The IR&D costs are then allocated to the home office by each segment. The costs are combined with other IR&D costs that benefit the company as a whole.
- The costs are allocated to all five segments by means of the same base by which the company allocates its residual home office expense costs of all segments.
- Practice is compliant with CAS 420.

# CAS 420 – Illustration #3

- Business Unit C normally accounts for its B&P effort by individual project.
- It accumulates directly allocated costs and departmental overhead costs by project.
- The business unit also submits large numbers of bids and proposals whose individual costs of preparation are not material in amount and collects the cost of these efforts under a single project.
- Since the cost of preparing each individual bid and proposal is not material, the practice of accumulating these costs in a single project meets the requirements of CAS 420.



# CAS 420 – Exemptions

- Standard shall not apply to contracts and grants with state, local, and Federally-recognized Indian tribal governments

# Polling Question #



# Fun Facts about CAS 420

- Many companies treat “normally” indirect bid and proposal costs as CAS 420 B&P costs
- ATK-Thiokol - Guidance on when a cost is ‘required in the performance of a contract.’”

# Positioning for future sessions . . .

*November 9<sup>th</sup> – 2:00 Eastern . . .*

**Episode 8 – COM and Standard Costs – CAS 407, 414, 417**

Government Contracting

# Last Chance for Some Questions

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