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Government Contracting

Introduction to the Cost Accounting Standards (CAS)

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Meet the Presenter



Brian Gallagher

Director

brian.gallagher@forvis.com

Fundamentals of Government Contracting

Season 7 topics include:

- Contract Types and Associated Risks
- Indirect Rates
- Incurred Cost Submissions – Parts 1 and 2
- Unallowable Costs
- Introduction to the Cost Accounting Standards
- Timekeeping
- Labor Law Compliance
- Accounting Systems
- Procurement Systems
- Estimating Systems

Agenda

- Purpose and evolution of the CAS
- CAS applicability and coverage
- Review and discussion of the standards
- CAS Disclosure Statement

Cost Accounting Standards: Overview

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The Purpose of the CAS

- Promote uniformity
- Ensure consistency
- Facilitate administration, negotiation and settlement of contracts

Relationship Between the FAR Cost Principles and the CAS

- Allowability
 - Standards do not address allowability
- Allocability
 - Standards deal with allocability
 - Where there is a conflict between the cost principles and cost accounting standards, the standards prevail

Cost Accounting Standards: Applicability

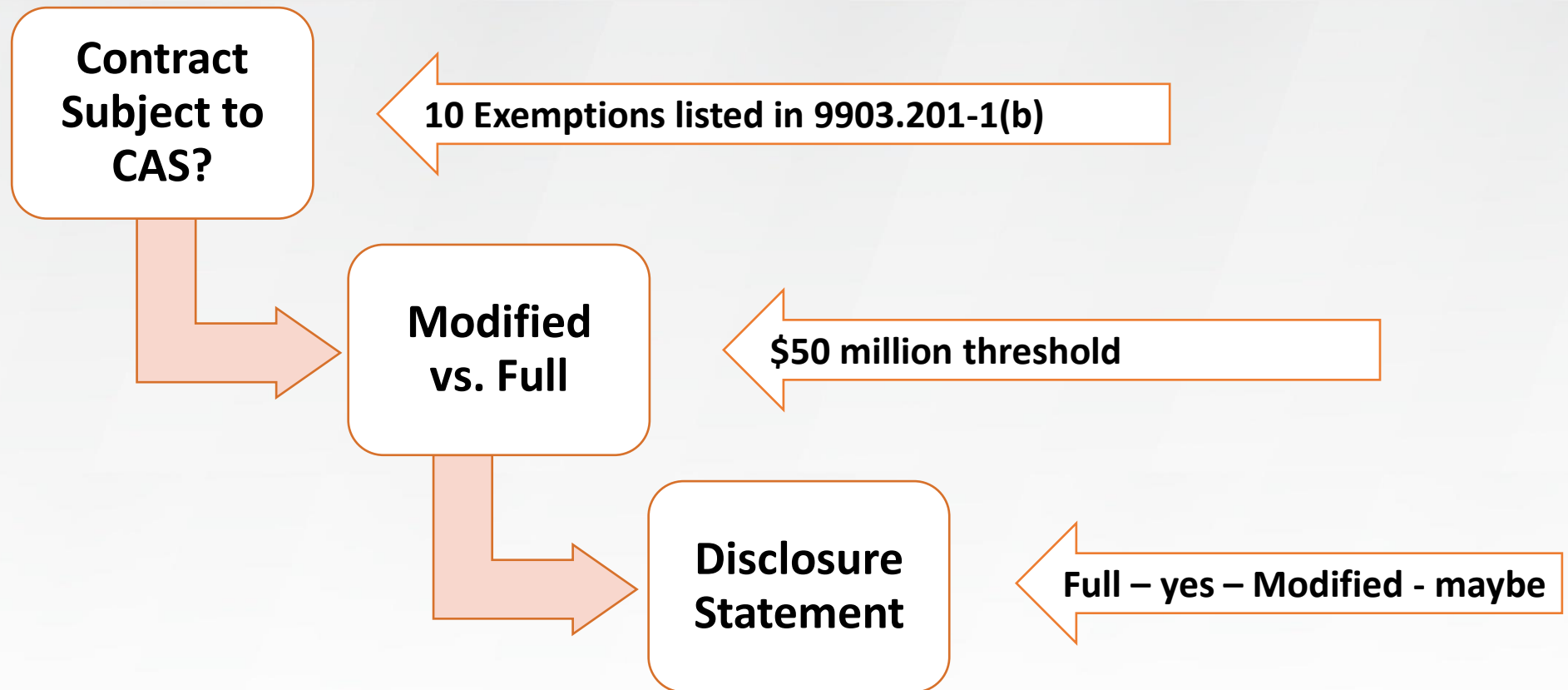
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Cost Accounting Standards Coverage

- Done on a contract-by-contract basis
- CAS status is determined at time of award and will not change over the life of the contract
- CAS administration only tied to CAS-covered contracts
- 10 exemptions to CAS

CAS Coverage in a Minute!

- Contracts are subject to CAS – not contractors!



Exemptions from CAS Coverage FAR 9903.201-1

- Sealed bid contracts
- Negotiated contracts and subcontracts not in excess of TINA threshold - formerly \$750k / 2018 NDAA update to \$2M on July 1, 2018 (*orders between segments shall be treated as a subcontract*)
- Contracts and subcontracts with small businesses
- Contracts and subcontracts with foreign governments or their agents or instrumentalities or, insofar as the requirements of CAS other than 9904.401 and 9904.402 are concerned, any contract or subcontract awarded to a foreign concern
- Contracts and subcontracts where the price is set by law or regulation
- Firm fixed-price and fixed price with EPA (*provided the price adjustment is not based on actual costs incurred*) contracts and subcontracts for the acquisition of commercial items

Exemptions from CAS Coverage FAR 9903.201-1 (Cont'd)

- Contract or subcontracts of less than \$7.5M, provided that, at the time of award, the business unit is not currently performing any CAS-covered contracts or subcontracts valued at \$7.5M or greater
- Subcontractors on the NATO PHM* Ship program to be performed outside the U.S. by a foreign concern
- Firm-fixed-price contracts or subcontracts awarded on the basis of adequate price competition without submission of **certified** (effective March 30, 2018) cost or pricing data
- In cases where the prime contract is exempt from CAS under any of the exemptions at 9903.201-1 any subcontract under that prime is always exempt from CAS

CAS Waivers: FAR 9903.201-5

- The CAS Board may waive any or all CAS requirements upon request of an agency head
- The head of an executive agency can waive CAS:
 - When less than \$15M and makes a written determination that the segment is primarily involved in commercial items and has no CAS-covered work
 - When exceptional circumstances exist where a waiver is necessary to meet the needs of the agency

Cost Accounting Standards: Types of Coverage

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Do you have a CAS covered contract?

A / Full

B / Modified

C / No

D / Not applicable

Types of CAS Coverage

Full coverage

- Comply with all CAS in effect at the time of award and any subsequent CAS
- Subject to full coverage if:
 - + Receive a single CAS-covered contract of \$50 million or more
 - + Received \$50 million in CAS-covered contract awards in the preceding cost accounting period
- Requires flow-down to subcontractors

Modified coverage

- Comply with CAS 401, 402, 405 and 406
- Modified CAS applies if:
 - + The contract or subcontract award is less than \$50 million; and
 - + the business unit received less than \$50 million in CAS awards in the preceding cost accounting period
- Requires flow-down to subcontractors

FAR 52.230-3: Modified CAS

- Comply with CAS 401, 402, 405 and 406
- File a disclosure statement if required
- Follow consistently cost accounting practices
- Agree to an adjustment if contractor fails to comply with the applicable CAS

Changes in CAS Coverage During a Cost Accounting Period

- If one modified CAS-covered contract is awarded all CAS-covered contracts of that business unit will be modified during that cost accounting period
- If a \$50 million award is received it must be full CAS-covered as will all subsequent CAS-covered contracts

FAR 52.230-2: Full CAS Coverage

- Disclose in writing cost accounting practices
- Follow consistently cost accounting practices
- Comply with all CAS
- Agree to an equitable adjustment for changes to cost accounting practices
- Agree to an adjustment if the contractor is not in compliance with the CAS

Cost Accounting Standards: Administration

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Adjustments Under CAS

- Three types of adjustments under CAS:
 - Equitable adjustment under the Changes clause for required and desirable changes
 - An adjustment of contract price or cost allowance to recover increased costs paid for noncompliant cost accounting practices
 - A negotiated agreement that may not result in increased costs paid for unilateral changes

Cost Accounting Practice

- Used to allocate costs to cost objectives
- Used to assign costs to cost accounting periods
- Used to measure costs

Change to a Cost Accounting Practice

- Any alteration to a cost accounting practice whether or not the practice is covered by a disclosure statement
- Except:
 - The adoption of a new cost or a new function is not a change
 - Revising a practice that was before considered immaterial is not a change
- Frequently a source of dispute
 - Organizational changes
 - Changes to accounting methods or techniques

Cost Impact Process

- Contractor must submit:
 - A description of the change
 - The total potential impact of the change on its CAS-covered contracts
 - General dollar magnitude of the change
 - 60 days before implementation...
- If the ACO determines the change, it will have a material impact:
 - The contractor must submit a cost impact proposal in the form and manner specified by the ACO
 - Contract adjustments will be made only if impact is material
- ACO review and determination
- Contractor appeals process

When should changes be made?

- When a fundamental shift in business mix has occurred and it is forecasted to be permanent
- **Never** casually change a practice to accommodate a single RFP (unless it truly will represent a significant shift in business mix)

Cost Accounting Standards

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Cost Accounting Standards

- **Basic Standards – Modified CAS**
 - CAS 401 - Consistency
 - CAS 402 - Direct v. Indirect Costs
 - CAS 405 - Unallowable cost
 - CAS 406 - Cost accounting period
- **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

CAS 401: Consistency in Estimating Accumulating and Reporting Costs

- Contractor's practices in estimating costs must be the same used to accumulate and report costs
- Grouping of homogeneous costs for estimating purposes is not a violation of the standard provided that the actual costs are accumulated at a greater level of detail during performance

CAS 402: Consistency in Allocating Costs Incurred for the Same Purpose

- Costs that are defined as a direct cost must be a direct cost to all final cost objectives in like circumstances
- Costs that are defined as an indirect cost must be indirect with respect to all final cost objectives in like circumstances
- The customer willingness or unwillingness to treat a cost as direct or indirect is irrelevant

CAS 405: Accounting for Unallowable Costs

- Requires exclusion of unallowable costs (both expressly unallowable or mutually agreed as being unallowable) from billings, proposals or cost submissions
- Requires identification of costs that are unallowable as a result of a contracting officers final decision if an appeal is being made

CAS 406: Cost Accounting Period

- Contractor must use its fiscal year for its cost accounting period
- Transitional cost accounting period must be used if a contractor changes its fiscal year
- A change in cost accounting period is a change in a cost accounting practice

Cost Allocation Standards

- CAS 407: Standard Costs
- CAS 414: Cost of Money
- CAS 410: General & Administrative
- CAS 403: Home Office Expenses
- CAS 418: Direct and Indirect
- CAS 420: B&P and IR&D

How does your organization allocate G&A?

A / Total Cost Input (TCI)

B / Value Added

C / Single Element

D / Not applicable

CAS 410: Allocation of Business Unit G&A Expenses to Final Cost Objectives

- Requires the use of a cost input base
- Provides several options
 - Total cost input (total cost incurred - general and administrative expenses)
 - Value added (total cost input - direct material and subcontracts)
 - Single element
- DCAA partial to total cost input

CAS 403: Allocation of Home Office Expenses to Segments

- Costs have to be allocated on a base that reflects a causal or beneficial relationship
- Three steps to the allocation process:
 - Specific identification
 - Homogeneous cost pools
 - Residual expenses
 - + Three-factor formula
 - > Percent payroll dollars
 - > Percent operating revenue
 - > Percent average net book value of assets

CAS 418: Allocation of Direct and Indirect Costs

- Requires written policy
- Indirect costs have to be grouped into homogenous cost pools
- Categorizes two types of indirect costs:
 - Those associated with the supervision and management of direct labor and direct material
 - Those that are not associated with the supervision and management of direct labor and direct material

CAS 420: Accounting for IR&D and B&P Costs

- IR&D and B&P costs shall be accumulated in individual projects
- IR&D and B&P costs are to bear all allocable expenses except for business unit general and administrative expenses
- IR&D and B&P incurred at the home office will be allocated to business units on a causal or beneficial relationship

Asset Accounting Standards

CAS 404: Capitalization

CAS 409: Depreciation

CAS 417: Self Constructed Assets

Compensation Standards

CAS 408: Compensated Absences

CAS 412 & 413: Pensions

CAS 415: Deferred Compensation

Other Standards

CAS 411: Material Costs

CAS 416: Insurance Costs

CAS Disclosure Statement

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Is your organization required to file a DS?

A / Yes

B / No

C / Not Applicable

D / I don't know

What is a disclosure statement?

- A written description of cost accounting practices used to measure, allocate and assign costs
- Segments, business units and home offices
- Significant amounts of administration
- Disclosure Statement Form, CASB DS – 1 can be found at:
https://www.whitehouse.gov/wp-content/uploads/2017/11/CASB_DS-1.pdf

What does the DS cover?

- General information
- Direct costs
- Direct versus indirect costs
- Indirect costs
- Depreciation and capitalization practices
- Other costs and credits
- Deferred compensation and insurance cost
- Corporate or group expenses

When do you file?

- Business unit selected to receive an award of \$50 million or more must submit a disclosure statement before award
- Any company which received net awards of \$50 million in the preceding cost accounting period within 90 days after the end of the cost accounting period in which the threshold was breached

Who must file and where?

- Any segment whose costs included in the price of a CAS covered contract exceed \$2M
- Exceptions:
 - Exempt from CAS by FAR 9903.201-1
 - If in the preceding cost accounting period CAS covered awards are less than 30% of sales and less than \$10 million
- Submitted to the ACO with a copy to the cognizant audit agency
- Subcontractors:
 - Either to the prime; or
 - To their ACO and cognizant audit agency (generally the preferred way for a subcontractor to file)

Would you like to talk with a FORVIS professional to assist with any of the following?

- A** / CAS Applicability
- B** / CAS Disclosure Statement
- C** / Cost Accounting Practice Changes / Other CAS Issues
- D** / No, thank you

The Fundamentals of Government Contracting

Next topic:

- Timekeeping for Government Contractors
- August 30th, 11am



8th
Largest US Firm



530+
Partners & Principals



5,500+
Team Members



10+
Industries



70
Markets



28
States + UK
& Caymans



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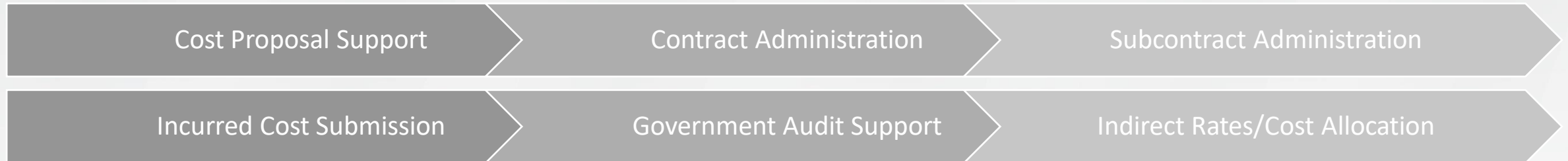
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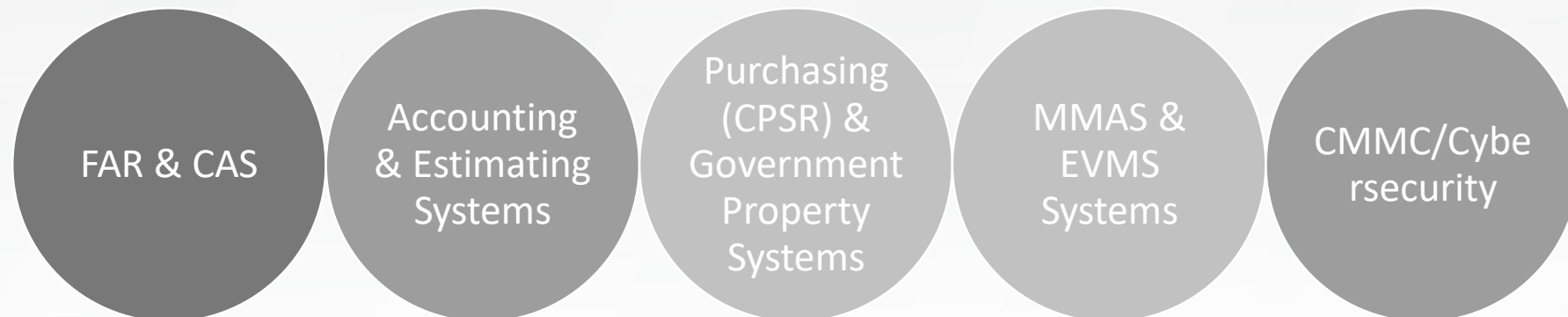
Fundamentals

Combining comprehensive professional services with government contract insights

Providing services to government contractors at all phases of the contract life cycle:



Enhancing your ability to obtain & maintain Government Contracts:



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Government Contracting Advisory Services

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- Accounting Systems
- Business Systems
- Compensation/Talent
- Contract Administration
- Cost Accounting Standards
- Cost Proposal Support
- DCAA / DCMA
- Government Contract Audit Support
- Incurred Cost Submission
- Indirect Rates/Cost Allocation
- Regulatory Compliance (FAR, CAS, DFARS)
- SBA Compliance
- Subcontract Administration
- CMMC (consulting and C3PAO certifications)
- Litigation support
- Dispute resolution
- Request for equitable adjustments/claims
- Internal audit and risk advisory
- Contract closeouts
- Outsource CFO services
- Transaction advisory (financial and tax diligence, quality of earnings, tax structuring)
- ERP services (evaluation, implementation, optimization)
- Customized training

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Fundamentals

Questions?

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