

CHAPTER 19**COST IDENTIFICATION**1901 GENERAL190101 Purpose

A. The 6000 series of the DoD Uniform Chart of Accounts provides for the identification of the annual cost to operate the Department of Defense. This chapter prescribes the basic standards for identifying costs incurred to accomplish a specific cost objective. Title 2 of the General Accounting Office (GAO) Policy and Procedures Manual For Guidance of Federal Agencies requires Federal Agencies to implement policy established by the Cost Accounting Standards Board (CASB) when a policy is not specifically covered in Title 2 and is applicable to agency operations. The next section identifies cost accounting policy governing the allocation of cost that are applicable to the Department of Defense. Policies that are applicable to cost accounting modules but that are contained in other chapters of this Regulation are identified in section 1903. of this chapter.

B. The objective of cost accounting is to accumulate and record all the elements of cost incurred to accomplish a cost objective; i.e., to carry on an activity or operations, or to complete a unit of work of a specific job. The cost objective must be discrete enough and described in writing to such a level of detail to form a basis to establish cost centers and output products. The bottom line is that the cost accountant must be able to translate the measurement requirements into terms of source documents, allocation techniques, and such other cost accounting techniques as may be required to meet the management requirement. Establishing a cost objective is necessarily a management decision and is essential to the accumulation or allocation of costs to a cost objective. There may be a series of intermediate cost objectives which, when combined, equal the final cost objective. For example, the final cost objective may be the cost to manufacture a truck; intermediate cost objectives might be the cost of the motor, body, etc. Certain costs are classified and assigned directly as a direct cost to the cost objective being costed, while others are grouped as indirect costs for the subsequent allocation to the unit. The cost objective may vary from a large program or activity to a smaller specific cost objective, such as a work order, a manufactured product, or a part of a construction cost objective project. Management decides the cost objective for which cost is to be accumulated.

C. The cost identification techniques described in this chapter have a utility whenever management wants to measure productivity, determine the cost of a particular management objective, determine the cost to be billed to a customer, etc.

D. The cost of a product or service may be obtained either through establishing a formal cost accounting module or through the use of cost finding procedures. A formal cost

accounting module should be established when management decides that such information must be continuously accumulated, recorded, and controlled by a formal cost accounting module. Cost finding procedures shall be designed to accomplish an end result that would approximate the results that would have been obtained if a formal cost accounting system was in operation. Therefore, the policy in this chapter shall be taken into consideration when cost finding procedures are established.

190102 Overview

A. A critical step in the cost identification process is establishment of the purpose for the cost accumulation. If the purpose is billing a customer, then reference should be made to [Volume 11](#) for guidance on the cost elements that are reimbursable. If the purpose is to accumulate the total cost of performing an operation for the purpose of cost comparisons with industry, then all cost elements, including military labor, and other unfunded costs should be accumulated. This means that when the full cost to the Federal Government is needed it may be necessary to add in costing rates prescribed by higher authority. For example, OMB uses an unfunded retirement rate for cost comparison purposes in OMB Circular No. A-76.

B. In any given year, the obligations and outlays incurred may be less than, equal to, or greater than the costs recognized for that period. The differences are due to such things as increases or decreases in inventories, undelivered orders, depreciation, amortization, or other changes in certain resources. The difference in concept lies in the distribution of these different measures (costs and obligations) over a period of time. Table 19-1, using the purchase of inventory materials, illustrates these timing differences. These stages can occur in a different sequence.

C. Cost accounting modules must be integrated with the overall accounting system, and this is accomplished by having multiple cost elements related to one or more accounts in the general ledger. An organization operating a formal cost accounting module shall use Account 1581, "Work in Process-In-House," (WIP) or Account 1721, Construction in Progress In-House, to control the cost accounting module. Accordingly, increases to the WIP accounts shall be offset by decreases to asset accounts (e.g., inventory held for sale) or increases to liability accounts (e.g., Accounts Payable). Upon completion of a customer's requirements, the decrease to or relief of the WIP account shall be offset by increasing some other Inventory (e.g., inventory held for sale) or the Cost of Goods Sold account. Cost accounting systems constitute a module of the general accounting system. An activity may subdivide the WIP control account in any manner that management decides is necessary to control the costs. Accordingly, the subdivisions could be by cost center or cost element.

<u>TRANSACTION STAGES</u>				
<u>TRANSACTION</u>	<u>WHEN ORDER IS PLACED</u>	<u>WHEN MATERIALS ARE RECEIVED</u>	<u>WHEN MATERIALS ARE USED</u>	<u>WHEN BILL IS PAID</u>
	<u>OBLIGATION</u>	<u>ACCRUED EXPENDITURE</u>	<u>COST OR EXPENSE</u>	<u>OUTLAY</u>
Order for materials is placed.	Obligation is recorded as an undelivered order and a decrease to the uncommitted/unobligated budgetary resources (see Volume 3).			
Materials are received or constructively received.		This is recorded in the proprietary accounts as an account payable and as an increase in the inventory accounts. It is recorded in the budgetary accounts as a decrease to undelivered orders and an increase to accrued expenditures unpaid. (see Volume 3 and Chapter 19 of this Volume).		
Materials are used or consumed.			Cost is recorded in the proprietary accounts as a decrease in inventory and a charge to the applicable expense account or work in process account (see Chapters 4 and 18 of this Volume).	

TABLE 19-1

<u>TRANSACTION STAGES (CONT'D)</u>				
<u>TRANSACTION</u>	<u>WHEN ORDER IS PLACED</u>	<u>WHEN MATERIALS ARE RECEIVED</u>	<u>WHEN MATERIALS ARE USED</u>	<u>WHEN BILL IS PAID</u>
	<u>OBLIGATION</u>	<u>ACCRUED EXPENDITURE</u>	<u>COST OR EXPENSE</u>	<u>OUTLAY</u>
Payment is made for the materials.				Outlay is recorded in the proprietary accounts as a reduction of accounts payable and a reduction to cash. In the budgetary accounts it is recorded as a decrease to accrued expenditures unpaid and an increase to accrued expenditures paid. (see Volume 3 and Chapter 2 of this Volume).

TABLE 19-1 (Cont'd)

1902 COST ACCOUNTING STANDARDS

Public Law 100-679 (41 U.S.C. 422) requires certain contractors and subcontractors to comply with Cost Accounting Standards. Appendix B, "Cost Accounting Preambles and regulations," to the Federal Acquisition Regulation contains a statement of the Cost Accounting standards. Additionally, the Cost Accounting Standards are codified in 48 Code of Federal Regulation (CFR), Chapter 99. Following is a brief explanation of the published Cost Accounting standards and is not intended to be used as a reference source.

190201 Consistency in Estimating, Accumulating and Reporting Costs (CASB Standard 401)

A. A DoD Component's practices used in estimating costs for proposed reimbursable orders shall be consistent with cost accounting practices used in accumulating and reporting actual costs. Consistency in applying cost accounting practices is necessary to assure that reimbursable orders are executed within the amounts obligated in the records of the ordering

activity and to assure that comparable transactions are treated alike. With respect to individual jobs, the consistent application of cost accounting practices facilitates the preparation of reliable cost estimates used in pricing work and their comparison with the costs of performance of the resulting job. Such comparisons provide one important basis for financial control over costs during job performance and aid in establishing accountability for performance in the manner agreed to by both parties. The comparisons also provide an improved basis for evaluating estimating capabilities.

B. The grouping of homogeneous costs and estimates prepared for proposed work purposes shall not be deemed an inconsistent application of the standard when actual costs are accumulated and reported in greater detail by the cost accounting module during job performance.

190202 Consistency in Allocating Costs Incurred for the Same Purpose (CASB Standard 402)

A. Each type of cost shall be allocated only once and on only one basis to any job or other cost objective. The criteria for determining the allocation of costs to a product, job, or other cost objective shall be the same for all similar objectives. Adherence to this standard is necessary to guard against the over charging of some cost objectives and to prevent double counting. Double counting occurs most commonly when cost items are allocated directly to a cost objective without eliminating like cost items from indirect cost pools that are allocated to that cost objective.

B. All costs incurred for the same purpose in like circumstances, are either direct costs only or indirect costs only with respect to final cost objectives. No final cost objective shall have allocated to it as an indirect cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included as a direct cost of that or any other final cost objective. Further, no final cost objective shall have allocated to it as a direct cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included in any indirect cost pool to be allocated to that or any other final cost objective.

190203 Allocation of Home Office (Headquarter's General and Administrative Expenses to Segments (CASB Standard 403))

A. General. The Department of Defense is organized into three primary organizational levels - Departmental, Intermediate, and Installation. This standard applies to general and administrative (G&A) expenses, not otherwise accumulated by the formal cost accounting module, that benefit or were incurred on behalf of an operation whose cost is being measured by a formal cost accounting module. For cost identification purposes, management shall identify the functional areas and related expenses incurred on behalf of, or for the benefit of another segment, that are necessary for allocation. These expenses shall be allocated to the benefiting or causing segments pursuant to consistently followed accounting practices.

1. Headquarters G&A expenses shall be allocated on the basis of the beneficial or causal relationship between supporting and receiving activities. Such expenses shall be allocated directly to segments to the maximum extent practical. Expenses not directly allocated, if significant in amount and in relation to total headquarters management expenses, shall be grouped in logical and homogeneous expense pools and allocated pursuant to paragraph 190203.C, below. Such allocations shall minimize to the extent practical the amount of expenses that may be categorized as residual (those of managing the organization as a whole). Residual expenses shall be allocated pursuant to paragraph 190203.D, below.

2. No segment shall have allocated to it as an indirect cost, either through a homogeneous expense pool or the residual expense pool, any cost, if other costs incurred for the same purpose have been allocated directly to that or any other segment.

B. Expense Grouping Requirements. Separate expense groupings shall ordinarily be required to implement this standard. The number of groupings shall depend primarily on the variety and significance of service and management functions performed. Ordinarily, each service or management function shall be separately identified for allocation by means of an appropriate allocation technique. However, it is not necessary to identify and allocate different functions separately, if allocation in accordance with the relevant requirements of paragraph 190203.C, below, can be made using a common allocation base. For example, if the personnel department provides personnel services for some or all of the segments (a centralized service function), and also establishes personnel policies for the same segments (a staff management function), the expenses of both functions could be allocated over the same base, such as the number of personnel, and the separate functions do not have to be identified. Where the expense of a given function is to be allocated by means of a particular allocation base, all segments shall be included in the base unless:

1. Any excluded segment did not receive significant benefits from, or contribute significantly to, the cause of the expense to be allocated.

2. Any included segment did receive significant benefits from, or contribute significantly to, the cause of the expenses in question.

C. Homogeneous Expenses. The following paragraphs provide criteria for allocation of homogeneous groups of management expenses:

1. Centralized Service Functions. Centralized service functions performed by a staff office for its segments consist of specific functions which, but for the existence of a staff office, would be performed or acquired by some or all of the segments individually. Expenses of centralized service functions performed by a staff office for its segments shall be allocated to segments on the basis of the service furnished to or received by each segment. Examples include centrally performed personnel administration and centralized data processing.

a. The allocation of centralized service functions shall be governed by a hierarchy of preferable allocation techniques that represent beneficial or causal relationships. The preferred representation of such relationships is a measure of the activity of the organization performing the function. Service functions are usually labor oriented, machine oriented, or space oriented. Measures of the activities of such functions can be expressed in terms of labor hours, machine hours, or square footage. Accordingly, costs of these functions shall be allocated by use of a rate, such as a rate per labor hour, rate per machine hour or cost per square foot, unless such measures are unavailable or impractical to ascertain. In these latter cases, the basis for allocation shall be a measurement of the output of the service function. Output is measured in terms of units of end product produced by the service function, for example, number of printed pages for a print shop, number of purchase orders processed by a purchasing department, number of hires by an employment office.

b. Where neither activity nor output of the supporting function can be practically measured, a surrogate for the beneficial or causal relationship must be selected. Surrogates used to represent the relationship are generally measures of the activity of the segments receiving the service; for example, for personnel services reasonable surrogates would be number of personnel, labor hours, or labor dollars of the segments receiving the service. Any surrogate used should be a reasonable measure of the services received, and logically, should vary in proportion to the services received.

c. Some typical centralized service function pools, together with illustrative allocation bases that could be used in appropriate circumstances are listed below. The selection of a base shall be governed by the beneficial or causal relationship criteria established in subparagraphs 190203.C.1.a and b, above.

<u>CENTRALIZED SERVICE FUNCTIONS</u>	<u>ILLUSTRATIVE ALLOCATION BASIS</u>
1. Personnel administration	1. Number of personnel, labor hours, payroll, number of personnel actions.
2. Data processing services	2. Machine usage or time, number of reports.
3. Centralized purchasing	3. Number of purchase orders, contracting value of purchases, number of items.
4. Centralized warehousing	4. Square footage, value of material, volume.
5. Transportation service	5. Actual or standard rate per hour, mile, passenger mile, or similar unit.

<u>CENTRALIZED SERVICE FUNCTIONS</u>	<u>ILLUSTRATIVE ALLOCATION BASIS</u>
6. Central telephone service	6. Usage costs, number of instruments.

2. Staff Management of Certain Specific Activities or Segments. Staff management or policy guidance to segments is commonly provided in the overall direction or support of the performance of discrete segment activities such as personnel, production, and engineering (see paragraph 190206.D, below). The expenses incurred by a headquarters office for staff management or policy guidance functions that are significant in amount, and in relation to total staff management expenses, shall be allocated to segments receiving more than a minimal benefit over a base, or bases, representative of the total specific activity being managed. Some typical pools, together with illustrative allocation bases, which could be used in appropriate circumstances are listed below. Other bases for allocating headquarters expenses to segments may be used if they are substantially in accordance with beneficial or causal relationships specified in subparagraph 190203.A.1, above, and the criteria in this paragraph.

<u>STAFF MANAGEMENT OF SPECIFIC ACTIVITIES</u>	<u>ILLUSTRATIVE ALLOCATION BASIS</u>
1. Personnel management	1. Number of personnel, labor hours, payroll, number of personnel actions.
2. Production policies (quality control, industrial engineering, production, scheduling, tooling, etc.)	2. Production cost input, production direct labor.
3. Engineering policies	3. Total engineering costs, engineering direct labor, number of drawings.
4. Material purchasing policies	4. Number of purchase orders, value of purchases.

3. Line Management of Particular Segments or Groups of Segments. Line management is considered to consist of management or supervision of a segment or group of segments as a whole. The expense of line management shall be allocated only to the particular segment or group of segments that are being managed or supervised. If more than one segment is managed or supervised, the expense shall be allocated using a base or bases representative of the total activity of such segments.

4. Central Payments or Accruals. Central payments or accruals are those that, but for the existence of a number of segments, would be accrued or paid by the

individual segments. Common examples include centrally paid or accrued pension costs, group insurance costs and payrolls paid by a headquarters on behalf of its segments. Central payments or accruals that are made by a support office on behalf of its segments shall be allocated directly to segments to the extent that all such payments or accruals of a given type or class can be identified specifically with individual segments. Any such types of payment or accruals that cannot be identified specifically with individual segments shall be allocated to benefited segments using an allocation base representative of the factors on which the total payment is based. Some typical pools, together with illustrative allocation bases that could be used in appropriate circumstances, are listed below. Other bases may be used if they are substantially in accordance with beneficial or causal relationships specified in subparagraph, 190203.A.1, above, and the criteria in this paragraph.

<u>CENTRAL PAYMENTS OR ACCRUALS</u>	<u>ILLUSTRATIVE ALLOCATION BASIS</u>
1. Pension expenses	1. Payroll or other factor on which total payment is based.
2. Group insurance expenses	2. Payroll or other factor on which total payment is based.
3. Personnel unemployment and injury compensation expenses	3. State agency and Department of Labor notices of payment, billing, or other factor on which total payment is based.

D. Residual Expenses

1. Residual expenses are expenses that are the result of managing the organization as a whole and are not identifiable with specific activities or segments. Residual expenses include functions such as exercising oversight, direction, and control of organizations through policy, program, resource, or providing technical, administrative, or logistic support essential to an operation. Typical residual expenses are those commonly performed by management headquarters and headquarters support activities, and any staffs that are not identifiable with specific activities of segments.

2. Residual expenses which are not identifiable with specific activities or segments, shall be allocated to all segments by means of a base representative of the total activity of such segments using the two factor formula described below. This formula takes into account two broad areas of management concern, that is, the personnel of the organization and the capital invested in the organization. The percentage of the residual expenses to be allocated to any segment pursuant to the formula is the arithmetical average of the following two percentages for the same period:

a. The percentage of the segment's payroll dollars (Accounts 6111 and 6112) to the total payroll dollars of all segments.

b. The percentage of the average net book value of the sum of the segment's tangible capital assets (1700 and 1800 account series) plus inventories (1500 account series) to the total average net book value of such assets of all segments. Property held primarily for leasing to others shall be excluded from the computation. The average net book value shall be the average of the net book value at the beginning of the organization's fiscal year and the net book value at the end of the year.

190204 Accounting for Unallowable Costs (CASB Standard 405). An unallowable cost is a cost that should have been a direct charge to a customer. However, because of management error, a cost overrun occurred that the customer was unable to finance. Such costs cannot be included in billings to other activities, either as a direct charge or as part of an indirect charge. In the case of revolving funds the amount of such unallowable costs should be accumulated, and represents a reduction to the fund corpus. If the cost is material, a supplemental appropriation to replace working capital may be necessary.

190205 Cost Accounting Standard 405-- Accounting for Unallowable Costs. An unallowable cost is any cost which, under the provisions of any pertinent law, regulation, or contract, cannot be included in prices, cost reimbursements or settlements. These costs, even though not normally charged as a reimbursable expense, shall nevertheless, if material and when directed by the Under Secretary of Defense (Comptroller), be accounted for as a cost of operations.

190206 Cost Accounting Period (CASB Standard 406)

A. DoD activities shall use the October 1 to September 30 fiscal year as the cost accounting period, except that:

1. The costs of an indirect function that exists for only a part of a cost accounting period may be allocated to cost objectives of that same part of the period if the cost is material in amount, accumulated in a separate indirect cost pool, and allocated on the basis of an appropriate direct measure of the activity or output of the function during that part of the period. For example, an organization whose cost accounting period is the fiscal year, installs a computer service center and begins operations on February 1. If the operating expense related to the new service center is expected to be material in amount, it shall be accumulated in a separate indirect cost pool, and shall be allocated to the benefiting cost objectives on the basis of measured usage. The total operating expenses of the computer service center for the 8-month part of the cost accounting period may be allocated to the benefiting cost objectives of that same 8-month period.

2. A transitional cost accounting period shall be used whenever a change of fiscal year occurs.

B. An organization shall follow consistent practices in selecting the cost accounting period or periods in which any types of expense and any types of adjustment to expense (including prior period adjustments) are accumulated and allocated. The consistent practices requirement shall include appropriate practices for deferrals, accruals, and other adjustments to be used in identifying the cost accounting periods among which any types of expenses and any types of adjustments to expenses are distributed. If an expense, such as insurance or employee leave, is identified with a fixed, recurring, annual period that is different from the organization's cost accounting period, this standard permits continued use of that different period. Such expenses shall be distributed to cost accounting periods in accordance with the organization's established practices for accruals, deferrals, and other adjustments.

C. The same cost accounting period shall be used for accumulating costs in an indirect cost pool as for establishing its allocation base. Indirect cost allocation rates, based on estimates, that are used for the purpose of expediting the closing of jobs that are terminated or completed prior to the end of a cost accounting period need not be those finally determined for that cost accounting period. They shall, however, be developed to represent a full cost accounting period, except as provided in paragraph 190204.A, above.

190207 Use of Standard Costs for Direct Material and Direct Labor (CASB Standard 407)

A. An organization operating a formal cost accounting system may use standard costs for estimating, accumulating, and reporting costs of direct material and direct labor only when all of the following criteria are met:

1. Both standard and actual costs are entered into the books of account.
2. Standard costs are compared to actual costs at the end of each accounting period and a variance calculated.
3. Standard costs and related variances are appropriately accounted for at the level of the production unit.
4. Practices with respect to the setting and revising of standards, use of standard costs, and disposition of variances are stated in writing and are consistently followed.

B. An organization's written statement of practices with respect to standards shall include the bases and criteria (such as engineering studies, experience, or other supporting data) used in setting and revising standards; the period during which standards are to remain effective; the level (such as ideal or realistic) at which material quantity standards and labor time standards are set; and the conditions (such as those expected to prevail at the beginning of a period) that material price standards and labor rate standards are designed to reflect.

1. Where only either the material price or material quantity is set at standard, with the other component stated at actual, the result of the multiplication shall be treated as material cost at standard. Similarly, where only either the labor rate or labor time is set at standard, with the other component stated at actual, the result of the multiplication shall be treated as labor cost at standard.

2. A labor rate standard may be set to cover a category of direct labor only if the functions performed within that category are not materially disparate and the employees involved are interchangeable with respect to the functions performed.

3. A labor rate standard may be set to cover a group of direct labor workers who perform disparate functions only under either one of the following conditions:

a. When the group of workers all work in a single production unit yielding homogenous outputs (in this case, the same labor rate standard shall be applied to each worker in that group), or

b. When that group of workers, while performing their respective functions, forms an integral team (in this case, a labor rate standard shall be set for each integral team).

C. Material shall be recorded at acquisition price in the applicable cost accounts at the time of acquisition. Material price standards in the cost accounting module may be used and their related variances recognized at the time the material cost is allocated to production units.

D. Labor cost variances shall be recognized at the time labor cost is introduced into production units. Labor rate variances and labor time variances may be combined into one labor cost variance account. A separate labor cost variance shall be accumulated for each production unit.

E. An organization's established practice with respect to the disposition of variances accumulated by production unit shall be in accordance with one of the following subparagraphs:

1. Variances are allocated to cost objectives (including ending in-process inventory) at least annually. Where a variance related to material is allocated, the allocation shall be on the basis of the material cost at standard, or where outputs are homogenous, on the basis of units of output. Similarly, where a variance related to labor is allocated, the allocation shall be on the basis of the labor cost at standard or labor hours at standard, or where outputs are homogenous, on the basis of units of output.

2. Variances that are immaterial may be included in appropriate indirect cost pools for allocation to applicable cost objectives.

3. When a standard costing system is used by an appropriation account for the purpose of billings, it shall apply the variance to all billings. This procedure ensures that actual costs are fully recouped on a current basis. The variance shall not be carried forward to the next accounting period.

4. When this standard is used in a Defense Business Operations Fund, and the standard is a stabilized rate, any over or under applied variance recovery may be carried forward for recovery in the next year.

190208 Cost Accounting Standard 408 -- Accounting for Costs of Compensated Personal Absence

A. The costs of compensated personal absence (illness, vacation, holidays, jury duty, military training or other absence for which compensation is paid directly to an employee) shall be assigned to the cost accounting period or periods in which the entitlement was earned.

B. The costs of compensated personal absence for an entire cost accounting period shall be allocated pro-rata on an annual basis among the final cost objectives of that period.

190209 Cost Accounting Standard 409 -- Depreciation of Tangible Capital Assets

A. The depreciable cost of tangible capital asset (or group of assets) shall be assigned to cost accounting periods in accordance with the following criteria:

1. The depreciable cost of a tangible capital asset shall be its capitalized cost less its estimated residual value.

2. The estimated service life or a tangible capital asset (or group of assets) shall be used to determine the cost accounting periods to which the depreciable cost will be assigned.

B. The annual depreciation cost of a tangible capital asset (or group of assets) shall be allocated to cost objectives for which it provides service in accordance with the following criteria:

1. Depreciation costs may be charged as a direct cost only if depreciation costs of all like assets used for similar purposes are charged in the same manner.

2. Depreciation costs charged to service or general and administration cost centers shall be included in the allocated costs of those centers.

3. Depreciation costs of capital assets used within a production cost center but which are not charged directly to a cost objective shall be included as an indirect cost of that center.

190210 Allocation of Business Unit General and Administrative Expense to Final Cost Objectives (CASB Standard 410)

A. Business unit general and administrative (G&A) expenses shall be allocated to final cost objectives based on their beneficial or causal relationship. These expenses represent the cost of the management and administration of the business unit as a whole. The standard also provides criteria for the allocation of headquarters expenses received by a segment to the cost objectives of that segment. This standard shall increase the likelihood of achieving objectivity in the allocation of expenses to final cost objectives and comparability of cost data among business units in similar circumstances.

B. Business unit G&A expenses shall be grouped in a separate indirect cost pool that shall be allocated only to final cost objectives.

1. G&A expenses of a segment incurred by another segment shall be removed from the incurring segment's G&A expense pool. They shall 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, they shall be allocated using an allocation base common to all such segments.

2. The G&A expense pool may be combined with other expenses for allocation to final cost objectives provided that:

a. The 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.

b. Provision is made to identify the components and total of the G&A expense pool separately from the other expenses in the combined pool.

3. Expenses that 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.

C. The G&A expense pool of an business unit for a cost accounting period shall be allocated to final cost objectives of that cost accounting period by means of a cost input base representing the total activity of the business unit.

1. The base selected shall be the one that best represents the total activity of a typical cost accounting period and shall include all significant elements of that cost input that represent the total activity of the business unit. The base selected may be total cost input, value added cost input, or single element cost input. The determination of which cost input base best represents the total activity of an business unit must be judged on the basis of the circumstances of each organization unit.

a. A total cost input base is generally acceptable as an appropriate measure of the total activity of a business unit.

b. Value added cost input shall be used as an allocation base when inclusion of material and subcontract costs would significantly distort the allocation of the G&A expense pool in relation to the benefit received, and when costs other than direct labor are significant measures of total activity. A value added cost input base is total cost input less material and subcontract costs.

c. A single element cost input base, e.g., direct labor hours or direct labor dollars, that represent the total activity of an business unit may be used to allocate the G&A expense pool when it produces equitable results. A single element base may not produce equitable results when other measures of activity are also significant in relation to total activity. A single element base is inappropriate when it is an insignificant part of the total cost of some of the final cost objectives.

2. The cost input shall include those expenses that by operation of this standard are 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.

D. Headquarters expenses received by a segment shall be allocated to segment cost objectives as follows:

1. Expenses related to the management and administration of the receiving segment as a whole shall be included in the receiving segment's G&A expense pool.

2. Expenses related to the management and administration of specific activities of segments shall be allocated to the segment cost objectives in proportion to the beneficial or causal relationship between the cost objectives and the expenses, if such allocation is significant, in amount. When a beneficial or causal relationship for expenses is not identifiable with segment cost objectives, the expenses may be included in the G&A expense pool.

E. Any costs that do not satisfy the definition of G&A expense, but that have been classified by an business unit as G&A expenses, can remain in the G&A expense pool unless they can be allocated to business unit cost objectives on a beneficial or causal relationship that is best measured by a base other than a cost input base.

F. Where a segment performs headquarters functions and also performs as an operating segment having a responsibility for final cost objectives, the expense of the headquarters functions shall be segregated. These expenses shall be allocated to all benefiting or causing segments, including the segment performing the headquarters functions, pursuant to written and consistently followed accounting practices for the allocation of headquarters expenses to segments.

G. For purposes of allocating the G&A expense pool, items produced or worked on for stock or product inventory shall be accounted for as final cost objectives as follows:

1. When items are produced or worked on for stock or product inventory in a given cost accounting period, the cost input to such items in that period shall be included only once in the computation of the G&A expense allocation base and in the computation of the G&A expense allocation rate for that period, and shall not be included in the computation of the base or rate for any other cost accounting period.

2. A portion of the G&A expense pool shall be allocated to items produced or worked on for stock or product inventory in the cost accounting period or periods in which such items are produced at the rates determined for such period.

190211 Accounting for Acquisition Costs of Material (CASB Standard 411)

A. An organization operating a formal cost accounting module shall have, and consistently apply, written statements of accounting procedures and practices for accumulating the costs of material and for allocating costs of material to cost objectives.

B. The cost of units of a category of material may be allocated directly to a cost objective provided the cost objective was specifically identified at the time of purchase or production of the units.

C. The cost of material that is used solely in performing indirect functions, or is not a significant element of production cost, whether or not incorporated in an end product, may be allocated to an indirect cost pool. When significant, the cost of such indirect material not consumed in a cost accounting period shall be established as an asset at the end of the period by reducing the indirect cost pool by a corresponding amount.

D. Except as provided in paragraphs 190207.B and 190207.C, above, the cost of a category of material shall be accounted for in material inventory records.

1. Material cost shall be the acquisition cost as specified in [chapter 4](#) of this Volume of a category of material, whether or not a material inventory record is used.

2. The purchase price of material shall be adjusted by extra charges incurred or discounts and credits earned. Such adjustments shall be charged or credited to the same cost objective as the purchase price of the material, except that when it is not practical to do so, the organization's policy may provide for the consistent inclusion of such charges or credits in an appropriate indirect cost pool.

E. In allocating to cost objectives the costs of a category of material issued from a DoD-owned material inventory, the costing method used shall be selected in accordance with [chapter 4](#) of this Volume, and shall be used in a manner that results in systematic and rational costing of issues of material to cost objectives. The same costing method shall, within the same business unit, be used for similar categories of materials.

190212 Cost Accounting Standard 412 -- Composition and Measurement of Pension Cost. This standard does not apply to the Defense Business Operations Fund as it is not responsible for accounting for the pension cost of its employees.

190213 Cost Accounting Standard 413 -- Adjustment and Allocation of Pension Cost. This standard does not apply to the Defense Business Operations Fund as it is not responsible for accounting for the pension cost of its employees.

190214 Cost Accounting Standard 414 -- Cost of Money as an Element of the Cost of Facilities Capital. The cost of capital committed to facilities shall be charged by the Defense Business Operations Fund to non-Federal Government customers when authorized by regulations pertaining to those sales. [Volume 11](#) provides instructions on the computation and application of interest on investment in assets.

190215 Accounting for the Cost of Deferred Compensation (CASB Standard 415)

A. Deferred compensation is a payment to be made by a component to compensate an employee in a future cost accounting period or periods for services rendered in one or more cost accounting periods prior to the date of the receipt of compensation by the employee.

B. The cost of all deferred compensation, except for annual leave, sick leave, and pension cost for which specific guidance is provided in paragraph 190211.C, below, shall be assigned to the cost accounting period in which the obligation to compensate the employee occurs. In the event no obligation is incurred prior to payment, the cost of deferred compensation shall be the amount paid and shall be assigned to the cost accounting period in which the payment is made.

C. The obligation for the cost of deferred compensation is deemed to have occurred when all of the following conditions have been met. However, for awards that require that the employee perform future service in order to receive the benefits, the obligation is deemed to have been incurred as the future service is performed for that part of the award attributable to such future service.

1. There is a requirement to make the future payments that cannot be unilaterally avoided.
2. The deferred compensation award is to be satisfied by a future payment of money.
3. The amount of the future payment can be measured with reasonable accuracy.
4. The recipient of the award is known.
5. If the terms of the award require that certain events must occur before an employee is entitled to receive the benefits, there is a reasonable probability that such events shall occur.

D. If the cost of deferred compensation can be estimated with reasonable accuracy on a group basis, including consideration of probable forfeitures, such estimate may be used rather than separate computations for each employee. The present value, of the future benefits, shall be used as the measurement of the amount of the cost of deferred compensation.

190216 Accounting for Insurance Costs (CASB Standard 416). The United States Government is a self-insuring entity. Consequently, the Cost Accounting Standard, Part 416, is not applicable.

190217 Cost Accounting Standard 417 -- Cost of Money as an Element of the Cost of Capital Assets Under Construction. The cost of money used to construct a capital asset shall not be capitalized as part of the cost of that asset unless loans were obtained by the Department of Defense specifically for the construction of those assets.

190218 Allocation of Direct and Indirect Costs (CASB Standard 418)

A. An business unit operating a formal cost accounting module shall have a written statement of accounting policies and practices for classifying costs as direct or indirect that shall be consistently applied.

1. In accounting for direct costs, an business unit shall use actual costs, except that:

a. Standard costs for material and labor may be used as provided in paragraph 190205, above.

b. An average cost or pre-established rate for labor may be used provided that:

(1) The functions performed are not materially disparate and employees involved are interchangeable with respect to the functions performed.

(2) The functions performed are materially disparate but the employees involved either all work in a single production unit yielding homogeneous outputs, or perform their respective functions as an integral team. Whenever average cost or pre-established rates for labor are used, the variances, if material, shall be disposed of at least annually by allocation to cost objectives in proportion to the costs previously allocated to these cost objectives.

(3) The level of compensation for the employees involved does not vary considerably.

2. Labor or material costs specifically identified with one of the particular cost objectives listed in subparagraph 190208.C.1.b, below, shall be accounted for as direct labor or direct material costs.

B. Indirect costs shall be accumulated in indirect cost pools that are homogeneous.

1. An indirect cost pool is homogeneous if each significant activity whose costs are included therein has the same or a similar beneficial or casual relationship to cost objectives as the other activities whose costs are included in the cost pool. It is also homogeneous if the allocation of the costs of the activities included in the cost pool result in an allocation to cost objectives that is not materially different from the allocation that would result if the costs of the activities were allocated separately.

2. An indirect cost pool is not homogenous if the costs of all significant activities in the cost pool do not have the same or a similar beneficial or causal relationship to cost objectives and, if the costs were allocated separately, the resulting allocation would be materially different. In determining whether amounts of costs are material or immaterial, the following criteria shall be considered where appropriate; no one criterion is necessarily determinative:

a. The absolute dollar amount involved. The larger the dollar amount, the more likely that it shall be material. Whether or not a dollar amount is large, and therefore material, depends on its relative weight. A cost amount might be material for a contract for the production of bolts, but the same cost amount could be immaterial for a contract for the production of a rocket motor.

b. The amount of job cost compared with the amount under consideration. The larger the proportion of the amount under consideration to job cost the more likely it is to be material.

c. The relationship between a cost item and a cost objective. Direct cost items, especially if the amounts are themselves part of a base for allocation of indirect cost, shall normally have more impact than the same amount of indirect costs.

d. The cumulative impact of individually immaterial items. It is appropriate to consider whether such impacts:

(1) Offset one another.

(2) Tend to be in the same direction and hence to accumulate into a material amount.

e. The cost of administrative processing of any adjustment modification. If the cost to process exceeds the amount to be adjusted, it is less likely the amount shall be material.

3. A homogeneous indirect cost pool shall include all indirect costs identified with the activity to which the pool relates.

C. Pooled costs shall be allocated to cost objectives in reasonable proportion to the beneficial or causal relationship of the pooled costs to cost objectives in accordance with the following criteria:

1. If a material amount of the costs included in a cost pool are costs of management or supervision of activities involving direct labor or direct material costs, resource consumption cannot be specifically identified with cost objectives. In that circumstance, a base shall be used that is representative of the activity being managed or supervised.

a. The base shall be determined by applying the following criteria. All significant elements of the selected base shall be included.

(1) A direct labor hour base or direct labor cost base shall be used, whichever in the aggregate is more likely to vary in proportion to the costs included in the cost pool being allocated, except that:

(2) A machine-hour base is appropriate if the costs in the cost pool are comprised predominately of facility-related costs, such as depreciation, maintenance, and utilities.

(3) A units-of-production base is appropriate if there is common production of comparable units.

(4) A material cost base is appropriate if the activity being managed or supervised is a material related activity.

b. Indirect cost pools that include material amounts of the costs of management or supervision of activities involving direct labor or direct material costs shall be allocated to:

(1) Final cost objectives.

(2) Goods produced for stock or product inventory.

(3) General research and development and bid and proposal projects when required to be specifically identified for cost accounting purposes.

(4) Cost centers used to accumulate costs identified with a process cost system (i.e., process cost centers).

(5) Goods or services produced or acquired for other segments of the organization and for other cost objectives of an business unit.

(6) Self-construction, fabrication, betterment, improvement, or installation of tangible capital assets.

2. If the cost pool does not contain a material amount of the costs of management or supervision of activities involving direct labor or direct material costs, resource consumption can be specifically identified with cost objectives. The pooled cost shall be allocated based on the specific identifiability of resource consumption with cost objectives by means of one of the following allocation bases: a resource consumption measure, an output measure, or a surrogate that is representative of resources consumed. The base shall be selected in accordance with the following criteria taking into consideration the individual circumstances:

a. The best representation of the beneficial or causal relationship between an indirect cost pool and the benefiting cost objectives is a measure of resource consumption of other activities of the indirect cost pool.

b. If consumption measures are unavailable or impractical to ascertain, the next best representation of the beneficial or causal relationship for allocation is a measure of the output of the activities of the indirect cost pool. Thus, the output is substituted for a direct measure of the consumption of resources. The use of the basic unit of output shall not reflect the proportional consumption of resources in circumstances in which the level of resources

consumption varies among the units of output produced. When a material difference results, either the output measure shall be modified or more than one output measure shall be used to reflect the resources consumed to perform the activity.

c. If neither resources consumed nor output of the activities can be measured practically, a surrogate that varies in proportion to the services received shall be used to measure the resources consumed. Generally, such surrogates measure the activity of the cost objectives receiving the service.

d. Allocation of indirect cost pools that benefit one another may be accomplished by use of the cross-allocation (reciprocal) method, the sequential method, or another method, the results of which approximate those achieved by either of the methods cited in this paragraph.

e. Where the activities represented by an indirect cost pool provide services to two or more cost objectives simultaneously, the cost of such services shall be prorated between or among the cost objectives in reasonable proportion to the beneficial or causal relationship between the services and the cost objectives.

D. Use of pre-established rates for indirect costs.

1. Pre-established rates, based on either forecasted actual or standard cost, may be used in allocating an indirect cost pool.

2. Pre-established rates shall reflect the costs and activities anticipated for the cost accounting period. Such pre-established rates shall be reviewed at least annually, and revised as necessary to reflect the anticipated conditions.

3. Where variances of a cost accounting period are material, these variances shall be disposed of by allocating them to cost objectives in proportion to the costs previously allocated to these cost objectives by use of the pre-established rates.

4. If pre-established rates are revised during a cost accounting period, and if the variances accumulated to the time of the revision are significant, the cost allocated to that time shall be adjusted to the amounts that would have been allocated using the revised pre-established rates.

E. To the extent that any cost allocations are required by the provisions of other Cost Accounting Standards, such allocations are not subject to the provisions of this standard.

F. This standard does not cover accounting for the costs of special facilities where such costs are accounted for in separate indirect cost pools.

190219 Cost Accounting Standard 419. There is no cost accounting standard 419.

190220 Cost Accounting Standard 420 -- Accounting for Independent Research and Development Costs and Bid and Proposal Costs

A. Independent research and development costs incurred in a cost accounting period shall not be assigned to any other cost accounting period except as may be permitted pursuant to other provisions of existing laws, regulations and other controlling factors.

B. Bid and proposal costs incurred in a cost accounting period shall not be assigned to any other cost accounting period.