

CHAPTER 53

COST ACCOUNTING STANDARDS

A. REQUIREMENTS OF COST ACCOUNTING SYSTEMS

1. The Defense Working Capital Fund (DWCF) shall have a cost estimating and cost accounting system or, as needed, systems specifically designed for its operations. The cost accounting system may be a job-order cost system, a process cost system or a suitable combination. When warranted for management purposes, a cost accounting system may employ standard cost methods and may utilize engineered performance standards. The cost accounting system shall be integrated with the general accounting system and shall be consistent with the estimating system.

2. The cost accounting system shall be designed to meet the following objectives:

a. Provide measures of cost effectiveness within the activity. This may be accomplished by relating performance costs to standard costs or cost estimates by established cost centers and by end-product with development of appropriate analyses of cost variances.

b. Provide the basis for determination of cost of end-products or services by individual orders. The cost of all end-products and services shall include an equitable portion of all overhead, support, and administrative functions.

c. Provide cost data useful in cost estimating for purposes of establishing fixed prices or rate schedules or for establishing cost estimates for individual orders, and in budgeting and establishment of cost standards.

d. Provide a means of detecting losses in performance of customers' orders through timely identification of costs of performing specific orders or functions and through providing data that may serve as a basis for timely revisions, where applicable, of cost estimates and ceilings under such orders as are performed on a cost reimbursement basis.

e. Provide, to the extent not available elsewhere, performance related cost measurements as required by the DoD in its implementation of requirements resulting from the Government Performance and Reporting Act.

3. The cost estimating system shall provide the following:

a. Performance cost standards for cost control.

b. A sound foundation for establishing fixed prices or rates.

c. A reasonable basis for establishing cost estimates and ceilings for individual orders in light of the specific work order requirements.

4. Cost standards and estimates for performance of operations and functions shall be at a sufficiently conservative level to require significant efforts to meet them. The cost standards and estimates established to measure effectiveness of performance shall be regarded as targets that may be exceeded rather than "limitations" such as allotments under appropriated funds.

5. Cost estimates for end-products or services developed to establish fixed prices, rate schedules, and cost ceilings to the customer shall include allowances for cost variances and

contingencies. While the use of allowances for expected cost variances and contingencies is appropriate in estimating costs of end-products and services for the purpose of pricing orders and central planning, they should not be included in standard costs to be used for performance cost control.

6. At any Fund activity in which a standard cost method is used, variances shall be analyzed by responsibility areas to provide indices of efficiency, and to assist management in improving cost control, operating efficiency, and cost estimating. Cost variances shall be separately identified for direct labor, direct material, and overhead. Predetermined cost variance limitations shall be established. Significant cost variances shall be applied to the work order. Minor variances shall be distributed to all other work.

7. Costs shall be recorded separately according to whether they were paid from the DWCF or were paid by other appropriations or funds. The latter shall be recorded so that the approximate total cost of work or services performed may be determined.

B. 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. The DWCF shall comply with the Cost Accounting Standards where not contradicted by other standards issued by the Under Secretary of Defense (Comptroller) or Statements of Federal Financial Accounting Standards issued by the Office of Management and Budget. Following is a brief explanation of the published Cost Accounting Standards and is not intended to be used as a reference source.

1. Cost Accounting Standard 401 -- Consistency in Estimating, Accumulating and Reporting Costs

a. Practices used by a DoD Component activity in estimating costs for proposed reimbursable orders shall be consistent with cost accounting practices it uses in accumulating and reporting actual costs.

b. Conversely, practices used by a DoD Component activity in accumulating and reporting actual costs shall be consistent with practices it uses in estimating costs for proposed reimbursable orders.

c. The grouping of homogeneous costs and estimates prepared for proposed reimbursable order purposes shall not be deemed an inconsistent application of the standard when actual costs are accumulated and reported in greater detail on an actual cost basis during job performance.

2. Cost Accounting Standard 402 -- Consistency in Allocating Costs Incurred for the Same Purpose. All costs incurred for the same purpose, in like circumstances, are either direct costs only, indirect costs only, or general and administrative (G&A) costs only with respect to final cost objectives. No final cost objective shall have allocated to it as an indirect or G&A 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 or G&A cost pool to be allocated to that or any other final cost objective.

3. Cost Accounting Standard 403 -- Allocation of Home Office (Headquarters) Expenses to Segments

a. Headquarters expenses shall be allocated on the basis of the beneficial or causal relationship between supporting and receiving activities. Such expenses, to the maximum extent possible, shall be allocated directly to segments (activities reporting directly to the headquarters office). Expenses not directly allocated, if significant in amount and in relation to total home office expenses, shall be grouped in logical and homogeneous expense pools and allocated as described in CAS 403.

b. Expense Pools. Examples of expense pools listed in CAS 403 include:

(1) Centralized Services. Centralized services consist of specific functions which, but for the existence of a home office, would be performed or acquired by some or all of the segments individually.

(2) Management of Specific Functions within Activities.

(3) Management of Certain Activities or Group of Activities.

c. Residual Expenses. All home office expenses which are not allocable directly or by a expense pool shall be deemed residual expenses. 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 Planning, Programming and Budgeting System guidance, or providing technical, administrative, or logistic support essential to an operation. Residual expenses shall be allocated to all segments by means of a base representative of the total activity of such segments. The allocation base should take into account one or both of the two broad areas of management concern, that is, the personnel of the organization and the capital invested in the organization. The residual expenses to be allocated to any segment may be one of the following ,or their arithmetical average, whichever, in absence of specific Under Secretary of Defense (Comptroller) guidance, best distributes residual expenses:

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

(2) Direct labor dollars of the segment to the total direct labor dollars of all segments.

(3) Direct labor hours of the segment to the total direct labor hours of all segments.

(4) 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.

4. Cost Accounting Standard 404 -- Capitalization of Tangible Assets

a. The acquisition cost of tangible capital assets shall be capitalized. Capitalization shall be based upon a written policy that is reasonable and consistently applied.

b. Costs incurred subsequent to the acquisition of a tangible capital asset which result in extending the life of that asset and which meet the criteria for capitalization shall be capitalized. However, costs incurred for repairs and maintenance to a tangible capital asset which either

restore the asset to, or maintain it at, its normal or expected service life of production capacity shall be treated as costs of the current period.

5. 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.

6. Cost Accounting Standard 406 -- Cost Accounting Period. DoD activities shall use the October 1 to September 30 fiscal year as the cost accounting period.

7. Cost Accounting Standard 407 -- Use of Standard Costs for Direct Material and Direct Labor

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. (For the Department of Defense, the "production unit" is the job-order.)

(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. Disposition of variances 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.

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

8. 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.

9. Cost Accounting Standard 409 -- Depreciation of Tangible Capital Assets

a. The depreciable cost of a 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 of 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.

10. Cost Accounting Standard 410 -- Allocation of Business Unit General and Administrative Expense to Final Cost Objectives. Organizational unit general and administrative (G&A) expenses shall be allocated to final cost objectives based on their beneficial or causal relationship to those objectives. If the organizational unit general and administrative (G&A) expenses benefit two or more segments of the activity, those G&A expenses shall be allocated to each of the segments using a common allocation base. The cost input base used to allocate the G&A expense pool may be (1) total cost input, (2) value-added cost input, or (3) a single-element cost input. The determination of which cost input base best represents the total activity of an activity must be judged on the basis of the circumstances of each activity. That determination shall be made by the comptroller of the activity or, in the case where a group of activities are similarly organized, may be made by the headquarters office of those particular activities.

11. Cost Accounting Standard 411 -- Accounting for Acquisition Cost of Material

a. The Statement of Federal Financial Accounting Standards (SFFAS) Number 3, "Accounting for Inventory and Related Property," is the standard for accounting for the value of operating materials and supplies.

b. The cost, when significant, of operating materials and supplies may be allocated directly to a cost objective to which they directly benefit.

c. The cost of operating materials and supplies which are used solely in performing indirect functions or which are not a significant element of direct production cost, may be allocated to an indirect cost pool.

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

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

14. 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 DWCF to non Federal Government customers when authorized by regulations pertaining to those sales. Chapter 26, "Reimbursements," of the DoD Accounting Manual (DoD 7220.9-M) provides instructions on the computation and application of interest on investment in assets. (Chapter 26 of the DoD Accounting Manual will be incorporated into Part A, chapter 1, "Reimbursements," of this Volume.)

15. Cost Accounting Standard 415 -- Accounting for the Cost of Deferred Compensation

a. The obligation for the cost of deferred compensation is deemed to have occurred when all of the following conditions have been met.

(1) There is a requirement to make the future payments that cannot be unilaterally avoided.

(3) The amount of the future payment can be measured with reasonable accuracy.

b. 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.

16. Cost Accounting Standard 416 -- Accounting for Insurance Costs. This standard does not apply to the DWCF. The Federal Government is self-insured. Insurance type losses, when they occur, are not charged to customers of the DWCF but are, instead, charged to appropriations made available for that purpose.

17. 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.

18. Cost Accounting Standard 418 -- Allocation of Direct and Indirect Costs

a. 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.

b. 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.

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

20. 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.