**SUMMARY OF MAJOR CHANGES**

All changes are denoted by blue font.

Substantive revisions are denoted by an asterisk (*) symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by **bold, italic, blue, and underlined font**.

The previous version dated January 2015 is archived.

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<td>All</td>
<td>Chapter 19, Managerial Cost Accounting, was fully revised and Chapters 20-23 were incorporated. Chapter 20, Job Cost Accounting dated May 2010 is archived. Chapter 21, Process Cost Accounting dated May 2010 is archived. Chapter 22, Cost Finding dated December 2013 is archived. Chapter 23, Cost Distribution for Information Technology Facilities dated May 2010 is archived.</td>
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*CHAPTER 19

MANAGERIAL COST ACCOUNTING

1901. GENERAL

190101. Overview

A. Managerial cost accounting standards and concepts contribute to cost-based decisions that include the full cost of programs, activities, and outputs. This information provides the structure needed for accurate, consistent, and reliable managerial cost accounting.

B. The concepts of managerial cost accounting describe the relationship among cost accounting, financial reporting, and budgeting. Managerial cost accounting concepts are an integral part of the financial management system in that they provide a basis of accounting, recognition, and measurement appropriate for the intended purpose.

C. The five standards set forth are fundamental elements of managerial cost accounting:

1. Accumulating and reporting costs of activities on a regular basis for management information purposes,

2. Establishing responsibility segments to match costs with outputs,

3. Determining full costs of government goods and services,

4. Recognizing the costs of goods and services provided among Federal entities, and

5. Using appropriate costing methodologies to accumulate and assign costs to outputs.

190102. Purpose

The purpose is to provide the Department of Defense (DoD) policy for managerial cost accounting.

190103. Authoritative Guidance

Treasury Financial Manual. The accounting policy and related requirements are also in accordance with the applicable provisions of SFFAS 3, Accounting for Inventory and Related Property; SFFAS 4 Glossary; Managerial Cost Accounting Implementation Guide (MCAIG) Glossary, February 1998; and the Federal Accounting Standards Advisory Board (FASAB) Appendix E: Consolidated Glossary.

1902. DEFINITIONS

The following definitions primarily originate from the SFFAS 4 Glossary, or the MCAIG Glossary.

190201. Activity

An activity is the actual work task or step performed in producing and delivering products and services, or an aggregate of actions performed within an organization that is useful for purposes of activity-based costing. (SFFAS 4 Glossary)

190202. Activity-Based Costing

Activity-based costing (ABC) is a cost accounting method that measures the cost and performance of process related activities and cost objects. It assigns cost to cost objects, such as products or customers, based on their use of activities. It recognizes the causal relationship of cost drivers to activities. (SFFAS 4 Glossary)

190203. Budgetary Accounting

Budgetary accounting is the system that measures and controls the use of resources according to the purposes for which budget authority was enacted, and that records receipts and other collections by source. It is undertaken to assess and ensure compliance with fiscal legal requirements applicable to an appropriation or fund. It tracks the use of each appropriation for specified purposes in separate budgetary accounts through the various stages of budget execution—from appropriation to apportionment and allotment to obligation and eventual outlay. (MCAIG Glossary)

190204. Cost Accounting System

A cost accounting system is a continuous and systematic cost accounting process, which may be designed to accumulate and assign costs to a variety of objects routinely or as desired by management. (SFFAS 4, paragraph 74)

190205. Cost Accumulation

Cost accumulation is the collection of costs in an organized fashion by means of a cost accounting system. There are two primary approaches to cost accumulation: job order and process costing. Under a job order system, the three basic elements of costs: direct materials, direct labor,
and overhead, are accumulated according to assigned job numbers. Under a process cost system, costs are accumulated according to processing department or cost center. (MCAIG Glossary)

190206. Cost Allocation

Cost allocation is a method of assigning costs to activities, outputs, or other cost objects. The allocation base used to assign a cost to objects is not necessarily the cause of the incurred cost. For example, assigning the cost of power to machine activities by machine hours is an allocation because machine hours are an indirect measure of power consumption. (SFFAS 4 Glossary)

190207. Cost Assignment

Cost assignment is a process that identifies costs with activities, outputs, or other cost objects. In a broad sense, costs can be assigned to processes, activities, organizational divisions, goods, and services. There are three methods of cost assignment: (a) directly tracing costs wherever economically feasible, (b) using cause and effect, and (c) allocating costs on a reasonable and consistent basis. (SFFAS 4 Glossary)

190208. Cost Center

A cost center is a logical or physical grouping of one or more similar services for the purpose of identifying obligations or developing the cost identification for the services. Services are grouped into cost centers in order to (a) normalize between services that use similar resources with different capabilities, (b) apply surcharges and discounts to services, (c) identify costs for different classes of the same service, or (d) identify obligations. This is the lowest level (that is, unit) or activity that is used to identify obligations or expend resources to produce a unit of work, and the lowest level of activity to segregate costs for management in order to assess items such as efficiency, usage, and examine trends. (MCAIG Glossary)

190209. Cost Finding

Cost finding techniques produce cost data by analytical or sampling methods. Cost finding techniques are appropriate for certain kinds of costs, such as indirect costs, items with costs below set thresholds within programs, or for some programs in their entirety. Cost finding techniques support the overall managerial cost accounting process and can represent nonrecurring analysis of specific costs. (SFFAS 4 Glossary)

190210. Cost Object (Also Referred to as Cost Objective)

A cost object is an activity, output, or item whose cost is to be measured. In a broad sense, a cost object can be an organizational division, function, task, good, service, or customer. It is also defined as an activity, operation, or completion of a unit of work to complete a specific job for which management decides to identify, measure, and accumulate costs. The cost object must be discrete enough and described in writing to such a level of detail as to form a basis to establish cost centers and output products. (MCAIG Glossary)
190211. Direct Costs

Direct costs are the cost of resources directly consumed by an activity. Direct costs are assigned to activities by direct tracing of units of resources consumed by individual activities. They are a cost that is identified specifically with a single cost object. (SFFAS 4 Glossary)

190212. Financial Accounting (Also Known as Proprietary Accounting)

Financial accounting is the accounting for assets, liabilities, net position, revenues, and expenses as a basis for reports to external parties. (Appendix E, noted as “proprietary account”) It is a methodology that focuses on reporting financial information primarily for use by owners, external organizations, and financial institutions. This methodology is constrained by rule making bodies such as the Financial Accounting Standards Board, Securities Exchange Commission, and the American Institute of Certified Public Accountants. (MCAIG Glossary) For Federal Agencies, the rule making bodies include FASAB, the Department of Treasury, and the Office of Management and Budget (OMB).

190213. Fixed Cost

A fixed cost is a cost that does not vary in the short term (usually less than one year) with the volume of activity. Fixed cost information is useful for cost savings by adjusting existing capacity or by eliminating idle facilities. (SFFAS 4 Glossary)

190214. Full Cost

A. Full costs are the sum of all costs required by a cost object including the costs of activities performed by other entities regardless of funding sources. More specifically, the full cost of an output produced by a responsibility segment is the sum of (a) the costs of resources consumed by the responsibility segment that directly or indirectly contributes to the output, and (b) the costs of identifiable supporting services provided by other responsibility segments within the reporting entity and by other reporting entities. (SFFAS 4 Glossary)

B. Full cost is all direct and indirect costs to any part of the Federal Government of providing goods, resources, or services. (OMB Circular A-25)

190215. Indirect Cost

Indirect costs are costs that cannot be identified specifically with or traced to a given cost object in an economically feasible way. (SFFAS 4 Glossary)

190216. Inter-Entity Costs

Inter-entity is a term meaning between or among different federal reporting entities. It commonly refers to activities or costs between two or more agencies, departments, or bureaus. (SFFAS 4 Glossary)
190217. Intra-Entity Costs

Intra-entity costs are costs from organizational components within the reporting entity that provide support for the responsibility segment’s programs, projects, or activities. These costs include the direct and indirect costs of other organizational components of the reporting entity. (MCAIG Glossary)

190218. Job Order Costing

Job order costing is a method of cost accounting that accumulates costs for individual jobs or lots. A job may be a service or manufactured item, such as the repair of equipment or the treatment of a patient in a hospital. (SFFAS 4 Glossary)

190219. Latest Acquisition Cost

Latest acquisition cost is a method in which all units are valued at the invoice price of the most recent items purchased less any discounts, plus any additional costs incurred to bring the item to a form and location suitable for its intended use. (FASAB Appendix E)

190220. Managerial Cost Accounting

Managerial cost accounting is the process of accumulating, measuring, analyzing, interpreting, and reporting cost information useful to both internal and external groups concerned with the way in which the organization uses, accounts for and controls its resources to meet its objectives. Managerial cost accounting is the integration of budgetary accounting, financial accounting, and management reporting because it provides information for decision making purposes and performance measurement.

190221. Outcome

A. Outcome is defined in broad terms in Statements of Federal Financial Accounting Concepts (SFFAC) 1, “Objectives of Federal Financial Reporting (OFFR)”, paragraphs 204-208, as accomplishments or results that occur (at least partially) because of the service efforts of government entities. Some authorities use terms like “impact,” “effect,” or “results” to distinguish the change in outcomes specifically caused by the government activity from the total change in conditions that can be caused by many factors. (SFFAS 4 Glossary)

B. Outcome is an assessment of the results of a program compared to its intended purpose. Outcomes should: (a) be capable of being described in financial, economic, or quantitative terms, and (b) provide a plausible basis for concluding that the program has had or will have this intended effect. For measuring outcomes for research and development programs, results may be reported by a narrative discussion of the major results achieved by the program during the year. (SFFAS 8, paragraphs 93 and 99)
190222. Output

Output is any good or service generated from the consumption of resources. It can include information or paperwork generated by the completion of the tasks of an activity. (SFFAS 4 Glossary)

190223. Performance Measurement

Performance measurement is a means of evaluating efficiency, effectiveness, and results. A balanced performance measurement scorecard includes financial and nonfinancial measures focusing on quality, cycle time, and cost. Performance measurement should include program accomplishments in terms of outputs (quantity of goods or services provided, e.g., how many items are efficiently produced) and outcomes (results of providing outputs, e.g., are outputs effectively meeting intended agency mission objectives). (MCAIG Glossary)

190224. Pricing

Pricing is the process to determine the amount at which to sell a product or service. (Adapted from SFFAS 3)

190225. Product

A product is any discrete, traceable, or measurable good or service provided to a customer. Often goods are referred to as tangible products, and services are referred to as intangible products. A good or service is the product of a process resulting from the consumption of resources. (MCAIG Glossary)

190226. Program

Program is defined as a mission program, whose products or services the Agency delivers as part of its strategic plan. (MCAIG Glossary)

190227. Project

A project is a planned undertaking, usually related to a specific activity, such as the research and development of a new product or the redesign of the layout of a plant. (MCAIG Glossary)

190228. Process Costing

Process costing is a method of cost accounting that first collects costs by processes and then allocates the total costs of each process equally to each unit of output flowing through it during an accounting period. (SFFAS 4 Glossary)
190229. Proprietary Accounting

See Financial Accounting (paragraph 190212).

190230. Recovery of Cost

Recovery of cost is the method of recovering the costs of any given expenditure. (Adapted from SFFAS 4)

190231. Relevant Costs

Relevant costs are those cost elements that are necessary for particular management analyses and/or decision making purposes when full cost is not appropriate. Relevant costs may include expected or potential costs that differ among alternative courses of action. (MCAIG Glossary)

190232. Resource

A resource is an economic element that is applied or used in the performance of activities. Salaries and materials, for example, are resources used in the performance of activities. (MCAIG Glossary)

190233. Responsibility Segment

A responsibility segment is a significant organizational, operational, functional, or process component which has the following characteristics: (a) its manager reports to the entity’s top management, (b) it is responsible for carrying out a mission, performing a line of activities or services, or producing one or a group of products, and (c) for financial reporting and cost management purposes, its resources and results of operations can be clearly distinguished, physically and operationally, from those of other segments of the entity. (SFFAS 4 Glossary).

190234. Service

A service is an intangible product or task rendered directly to a customer. (SFFAS 4 Glossary) (Also, see Product as defined in paragraph 190225.)

190235. Service Department

A service department is also known as an Intermediate Cost Object. A service department is an organizational unit of a facility that has the responsibility for providing support for the work of the production departments. Examples are purchasing, building and ground personnel, and power departments. All of these activities are necessary parts of the production process and primarily supportive of production departments. Service department costs must be allocated to production departments before overhead rates are determined. (MCAIG Glossary)
190236. Standard Costing

Standard costing is a costing method that attaches costs to cost objects based on reasonable estimates or cost studies and by means of budgeted rates rather than according to actual costs incurred. It is the anticipated cost of producing a unit of output. It is a predetermined cost to be assigned to products produced. Standard cost implies a norm, or what costs should be. Standard costing may be based on either absorption or direct costing principles, and may apply to all or some cost elements. (SFFAS 4 Glossary) Refer to Volume 11B and Volume 3, Chapter 19 for use of standard costing in the Working Capital Fund (WCF).

190237. Unit Price

Unit price is the cost of a selected unit of a good or service. (Adapted from SFFAS 3)

190238. Variable Cost

Variable cost is a cost that varies with changes in the level of an activity, when other factors are held constant. The cost of material handling to an activity, for example, varies according to the number of material deliveries and pickups to and from that activity. (SFFAS 4 Glossary)

1903. MANAGERIAL COST ACCOUNTING OVERVIEW

190301. Managerial Cost Accounting Concepts

A. As described in SFFAS 4, the concepts and standards of managerial cost accounting explain the relationship among budgetary, financial, and cost accounting. Managerial cost accounting is the process of accumulating, measuring, analyzing, and reporting cost information useful to both internal and external groups concerned with how DoD uses, accounts for, and controls its resources to meet its objectives. Cost information is an essential component of a well-managed, cost effective organization. Cost accounting is used to achieve cost effective performance and provide full financial program accountability.

B. Budgetary, financial, and managerial cost accounting use information from common transactional data sources. The combined use of the three types of accounting tie cost related data to the Department’s audited financial statements, general ledger, and sub-ledgers to achieve cost accountability and transparency to stakeholders.

190302. Managerial Cost Accounting Standards

A. SFFAS 4 requires the Federal Government to implement cost accounting for management information purposes. The standard provides flexibility based on organization size, capabilities, and resources. Agencies are allowed to be flexible in designing a cost accounting methodology that reflects and aligns with the mission needs and operations of the organization as the DoD structure and purpose is extensive and diverse.
B. The following are the five managerial cost accounting standards referenced in SFFAS 4 and their section:

1. Accumulate and report costs of activities on a regular basis for management information purposes (see section 1904),

2. Establish responsibility segments (e.g., Department of the Army, Battle Carrier Group, Depot Maintenance Activity Group, Supply Management Activity Group, or Combatant Commanders) to match costs with outputs (see section 1905),

3. Determine the full cost of goods and services (see sections 1904, 1905, and 1906),

4. Recognize the cost of goods and services provided among federal entities (see sections 1905 and 1906), and

5. Use appropriate costing methodologies to accumulate and assign costs to outputs (see section 1905).

190303. Uses of Managerial Cost Accounting

In managing DoD programs, cost accounting information assists managers and other stakeholders in making informed decisions in the areas of budget and cost control, performance measurement, reimbursement and fee/price setting, program evaluations, and economic choice decisions. By complying with SFFAS 4, an organization should be able to answer the following types of questions:

A. Given the current spend plan and rate of execution, at what interval (if applicable) could the program experience a cost over-run?

B. What are the full costs to deliver goods and/or services by organization, line of business, or region?

C. How well is the organization managing its available resources in terms of mission effectiveness and cost efficiency?

D. How well has the organization met its strategic plan and the expected outcomes based on resources available?

190304. Cost Assignment and Costing Methodologies

A. Cost assignment methods link expenses from a financial accounting perspective using the USSGL, as further defined in the DoD Standard Chart of Accounts (SCOA), to outputs of an organization. According to SFFAS 4, users should assign costs with one of the following methods listed in the order of preference:
1. Directly tracing costs wherever feasible and economically practicable,
2. Assigning costs on a cause and effect basis, or
3. Allocating costs on a reasonable and consistent basis.

B. Costing methodologies are processes used to accumulate and allocate costs to specific outputs. Although SFFAS 4 does not require the use of a particular costing methodology, it does offer several costing methodologies to meet the broad range of diverse operations within DoD. The four costing methodologies described in section 1905 include (a) job order costing, (b) process costing, (c) standard costing, and (d) ABC. The DoD must select the costing methodologies that best meet the organization’s operational need and mission requirement.

190305. Data Systems and Sources and Cost Finding

A. Data sources from financial and operational systems support reporting, performance measurements, budgeting, and financial accounting. An efficient data system standardizes data elements shared between budgetary, financial accounting, and managerial cost accounting. Costs are traced using the accounts described in the USSGL as the standard. This allows data systems to produce concise and informative financial and performance reports. Cost accumulation should comply with the Standard Line of Accounting (SLOA) Accounting Classification and the Standard Financial Information Structure (SFIS) Implementation Policy. Additional information regarding SLOA, USSGL, and SFIS are available in Volume 1, Chapters 4 and 7.

B. When data systems are unable to provide the needed cost information, cost finding techniques may provide the needed results through analytical or sampling methods. Cost finding techniques may also be useful for computing costs when the information is not needed on a recurring basis. Cost finding techniques are also useful for budget estimates, Business Case Analysis, Cost Benefit Analysis, and/or Analysis of Alternatives (AOA) but should not replace consistent and regular managerial cost reporting when available.

1904. COST REPORTING AND ANALYSIS

190401. Cost Reporting and Analysis Overview

A. Cost reporting and analysis provides tools to better understand the costs of resources, activities, and cost objects (such as programs, products, and services) for reporting budgetary, financial, and managerial cost accounting information and for making informed business decisions. Additional benefits are derived when planned and actual performance data is aligned, such as the ability to capture full costs of products and/or manpower, transparency into pricing and fees, and consistency in standardized cost reporting for historic and forecasting value. Benefits derived will vary based on organization, model maturity, and department mission.
B. Managerial cost accounting improves both federal financial management and managerial decision making processes by providing:

1. An understanding of the reporting requirements as seen by management,
2. The type of information that management is interested in having reported, and
3. An approach to developing the analysis that will eventually support the reporting and performance structure.

190402. Relationship Between Budgetary, Financial, and Managerial Cost Accounting

Managerial cost accounting is the integration of budgetary accounting, financial accounting, and management reporting because it provides information for decision making purposes and performance measurement.

A. Relationship Between Financial and Managerial Cost Accounting

1. Financial accounting provides the ability to track the effects of financial events on the financial position of the Federal Reporting Entities and results of operations, including assets, liabilities, changes in net position, revenues, and expenses. (MCAIG Glossary, page A-xc) Financial accounting, through the USSGL and the DoD SCOA, provides a normalization of the general ledger across the Department to provide a trial balance from which the Department and its reporting components produce their financial statements.

2. Managerial cost accounting is the process of accumulating, measuring, analyzing, interpreting, and reporting cost information useful to both internal and external groups concerned with the way in which the organization uses, accounts for and controls its resources to meet its objectives. (MCAIG Glossary, page A-xcvi)

B. Relationship Between Budgetary and Managerial Cost Accounting

1. Accounting for costs in appropriation accounts often is undertaken for congressional reporting purposes related to obligations and expenditures recorded against such accounts, but it is not always the most effective way to accumulate cost information about and for analysis of entity operations. While appropriations made for budgetary accounts designate and control the level of federal resources available for specific purposes, measuring the execution of budgetary resources does not necessarily facilitate an understanding of the full costs of federal resources needed to achieve policy or program goals.

2. Managerial cost accounting can play an important role in the budget process and assist congressional and executive decision makers who allocate federal resources during budget formulation by informing them of the full cost of federal resources required to
support policy and program goals. Managerial cost accounting also assists the budget execution process by consistently accumulating and reporting the costs of the federal resources consumed, and by comparing actual against planned federal resource consumption (MCAIG Glossary, page I-19). Managerial cost accounting uses the defined data elements prescribed by SLOA Accounting Classification and can produce a more detailed Statement of Net Cost (SNC) for budget reconciliation.

190403. Users of Cost Reporting and Analysis Overview

A. Useful Information

One of the primary objectives of managerial cost accounting is to provide useful information that supports improved federal financial management reporting and managerial decision making processes. Regardless of a stakeholder’s function, users need accurate reporting to identify cash, disbursements, collections, full cost of resources, activities, capabilities, and operations for various needs. Specifically, for the DoD reporting components, some of these needs include:

1. Making better decisions at the cost element levels,
2. Knowing the cost of operations and accounting for the cost of activities,
3. Linking budget planning and budget allocations to actual expenditures, providing cost traceability,
4. Responding to both external and internal cost related inquiries, and
5. Making costs visible to DoD leadership, component leadership, operational commanders, and program managers.

B. Internal Users of Cost Reporting and Analysis

1. DoD financial managers are the primary users of internal cost information. They are responsible for carrying out program objectives with resources entrusted to them. Accurate, reliable, and timely cost information helps them ensure that resources are spent to achieve expected results and outputs, and alerts them to waste and inefficiency.

2. Government executive managers depend on internal cost reports for determining the costs of specific resources, activities, capabilities, and for understanding changes in those costs.

C. External Users of Cost Reporting and Analysis

Congress makes policy decisions on program priorities and allocates resources among programs through the appropriations process. These officials and ordinary citizens need cost information to compare alternative courses of action and to make program authorization decisions
by weighing costs against benefits derived. They also need cost information to evaluate program performance in terms of outcomes (such as results and benefits) and not necessarily outputs (such as goods and services).

190404. Costing for Decision Making Purposes Overview

A. To interpret cost data appropriately, it is important to distinguish between direct and indirect costs, fixed and variable costs, and full and relevant costs. Analysis of these cost components helps managers understand the demand their program places on federal resources of other organizational units and contributes to their organizational costs. The accurate recording and availability of detailed historical cost information is important in providing insight into budgets, cost estimates, and performance metrics.

B. The cost information should allow an organization to be able to address the following statements:

1. Given the current spend plan, the program expense status is…

2. The full costs to deliver goods and/or services by an organization, line of business, or region are…

3. The organization’s management of its available resources is…

C. In managing Federal Government programs, cost information assists managers in making decisions in these areas: budget and cost control, performance measurement, reimbursement and fee/price setting, program evaluations, and economic choice decisions.

190405. Budget and Cost Control

A. Budget planning and control serves an important function within the Federal Government. Information on the costs of recent or current program activities will be used as a basis in estimating future budgets. Historical costs are a good measure of program performance and provide insight into the future expenses.

B. Once budgets are approved and executed, current cost information serves as feedback on the budgets. Budgets provide an annual spending constraint per Anti-Deficiency Act (Title 31 United States Code, Section 1517(a)), whereas DoD financial managers will use the feedback derived from the current costs to budget analysis to control and reduce costs, as well as, find and avoid waste. With appropriate cost information collected through managerial cost accounting, federal managers can:

1. Explain variances between actual and budgeted costs of a cost object,

2. Compare cost changes over time and identify their causes,

3. Compare costs of similar activities and identify cost differentials, and
4. Produce budgets at a detailed level which will improve accuracy, insight, and increased transparency of an agency’s expenditures.

C. Organizations should produce a SNC (actual to budget) by appropriation, budget object class as defined by SFIS, activity, organization and/or Command, and good or service. This serves as a performance measure and control for financial managers.

190406. Performance Measurement

A. GPRA requires Federal Agencies to develop five year strategic plans and annual performance plans and report annually on actual performance compared to goals. GMRA allowed the Executive Branch to reduce duplicative or obsolete reports to provide for more efficient workload distribution or improve the quality of reports. Shortly thereafter, the FFMIA was enacted to help improve compliance with accounting standards resulting in reporting full costs of programs and activities, which increases accountability and improves cost efficiency, performance, and productivity. FFMIA builds upon and complements the CFO Act, GPRA, and GMRA, and increases the capability of agencies to monitor execution of the budget by more readily permitting reports that compare spending of resources to results of activities. Cost information is necessary to aid organizations in evaluating and comparing actual costs to planned performance measures, outputs, and outcomes to meet these regulations.

B. In defining annual performance plans, program managers can establish performance goals based upon an understanding of both the direct and indirect costs of their programs, and thereby align strategic resources to results.

C. Results are often stated in terms of an “output,” because they are easier to identify and measure. Leading practice in performance management prefers to measure an “outcome” or a result or measureable goal, which is often more difficult to identify and measure. The utilization of managerial cost accounting can provide the performance details useful to leadership for determining whether the organization achieves an “outcome” or not. Defined cost goals will assist managers in deploying resources more efficiently to achieve the desired performance.

D. An annual performance plan defines measurements for each major activity, good, and service. Plans and performance goals are developed based upon anticipated resource levels. In the budget formulation process, program managers begin to connect federal resources to results. Managerial cost accounting policies require that financial managers base their planning upon all federal resources allotted to their programs. This includes resources for both direct and indirect costs. The indirect allocated support for activities, goods, and services that are separately appropriated or covered through relevant activities are often overlooked and not included. A complete and fully inclusive performance report will include both direct and indirect (from all sources within program or support programs) costs of the cost object. When the cost of a program is managed through managerial cost accounting, and cost goals are defined, the costs of the activity, good, and service can be monitored and managed more efficiently.
E. Performance measurement can be viewed as the government equivalent of private sector profitability measurements. However, selecting appropriate measurements is quite difficult and requires exercise of judgment. Cost itself can be a performance metric, but cost should also be combined with an effectiveness measure, such as the percent of a goal achieved at a level of expected performance, to ensure the resulting output is cost effective.

F. As suggested by SFFAS 4, paragraph 35, the goods and service efforts and accomplishments of a cost object can be evaluated with some of the following measures:

1. Measures of organization’s efforts (which include the costs of resources used or consumed, and non-financial measures),

2. Measures of accomplishments which are outputs (the quantity of goods and services provided) and outcomes (the results of those goods and services), or

3. Measures that relate efforts to accomplishments, such as cost per unit of output or cost effectiveness.

190407. Reimbursements and Fee/Price Setting

A. Cost information is an important element of the decision making process for setting prices and user fees for government provided goods and services. Pricing and costing, however, conceptually use cost information differently. In the Federal Government, setting prices is a policy matter, sometimes governed by statutory provisions and regulations, and at other times, by department or managerial policies.

B. SFFAS 4, paragraph 37 and OMB Circular A-25 requirements include:

1. With respect to goods and services that the government provides in its sovereign capacity to a particular group of individuals as a special benefit, user charges should be sufficient to recover the full cost of those goods and services.

2. With respect to goods and services that the government provides under business-like conditions, user charges for those goods and services need not be limited to the recovery of full cost and may yield net revenue. WCFs are revolving funds that rely on a cost recovery methodology to finance operations. WCF activities are designated as zero profit/loss or breakeven activities. The full costs of the goods and services delivered are reimbursed through the associated sales. Those sales represent receipts from the appropriated funds. For this to happen, it is critical that reimbursement rates be as accurate as possible. If the rates are set too high, the organization will overcharge its customers. If rates are set too low, costs will not be fully recovered. To set rates accurately, the DoD needs to have a comprehensive understanding of the goods and services that are delivered, the activities and tasks required for delivery, and the resources consumed by those activities. For more information on Defense WCF see Volume 3, Chapter 19 and Volume 11B.
C. Cost information is also important in calculating reimbursements for goods and services provided by one federal agency to another. Hence, reimbursable accounting allows one federal organization to recover its cost from another federal organization for the direct and indirect costs of providing those goods and services. The reimbursable fee structure, best displayed in the reimbursement of communication, data, and accounting services by some of the DoD agencies, is specifically established for providing those goods and services. Even if fees or reimbursements do not recover the full costs due to policy or economic constraints, management needs to be aware of the difference between cost and price. With this information, program managers can properly inform the public, Congress, and federal executives about the costs of providing the goods or services. For more information on reimbursable fees, see Volumes 11A and 11B.

190408. Program Evaluations

The cost of federal resources required by programs is an important factor in making policy decisions related to program authorization, modification, consolidation, or discontinuation. These decisions are usually subject to policy constraints. They often require the consideration of both social and economic costs and benefits affecting different sectors of the economy and society. For complete program cost evaluation, it may be necessary to obtain advice from outside the entities’ data systems. The Office of the Director, Cost Assessment and Program Evaluation (CAPE), provides independent analytic advice to the Secretary of Defense on all aspects of the Defense program, including alternative weapon systems and force structures, the development and evaluation of defense program alternatives, and the cost effectiveness of defense systems.

190409. Economic Choice Decisions

As noted in SFFAS 4, agencies and programs often face decisions involving choices among alternative actions, such as whether to do a project in-house or contract it out, to accept or reject a proposal, or to continue or discontinue a good or service. Making these decisions requires cost comparisons among available alternatives. In the case of outsourcing, decisions may involve comparing the incremental cost and benefits of continuing a government activity with the incremental cost and benefits of turning the project over to a private sector business. In federal terms, it may use an AOA, for example, in the selection of software application, an upgrade to an enhanced good or service, or a capital investment project. Cost studies of various types can help to decide whether to accept or reject a proposal for a government capital project, to continue or drop a government good or service, or to contract with a private sector vendor.

1905  COST ASSIGNMENT AND COSTING METHODOLOGY

190501. Cost Assignment and Costing Methodology Overview

A. A planned and managed managerial cost accounting system provides detailed cost models, budget preparation, and financial reports for identified cost objects within the reporting segment. DoD financial managers need to establish the costing methodology and standards for cost recognition and performance measurements appropriate for each segment’s
operational needs. Financial managers should take into consideration the following when establishing their cost accounting practices:

1. Nature of the entity’s operations,
2. Precision desired and needed in cost information (accuracy, frequency, granularity, transparency, and cost benefit of obtaining data),
3. Practicality of data collection and processing,
4. Availability of service departments for indirect services,
5. Cost of installing, operating, and maintaining the cost accounting processes, and
6. Any specific information needs of management.

B. SFFAS 4 states that cost accumulation and assignment methods are economically feasible if the benefits resulting from implementing the methods outweigh the costs. It is not advantageous to use a costing method if it requires a large amount of resources to produce information of little value to users. Agencies should establish a costing methodology system that is appropriate for their operational needs at the right investment of resources to produce.

C. Consistently using costing methodologies provides reliable results in performance measurement. Consistency provides cost information that is comparable year after year, which establishes relevant historic data and reliable forecasting. This requirement for consistency does not preclude improvements or refinements to the system and methodology. Documenting changes is a requirement and may also require noting in the financial statements. Documenting the changes assists in appropriately incorporating the new processes over historic years and provides support to any forecast adjustments.

190502. Cost Accumulation

A. SFFAS 4 states that cost accumulation is the process of collecting cost data in an organized way and responsibility segments are required to accumulate costs. Cost accumulation does not involve cost assignment or allocation from other supporting segments.

B. Of the five standards in SFFAS 4, two reference cost accumulation:

1. Accumulating and reporting costs of activities on a regular basis for management information purposes, and
2. Using appropriate costing methodologies to accumulate and assign costs to outputs.
C. Cost accumulation occurs through establishing costing methods for cost objectives or outputs, or by using cost findings to estimate costs for allocation. For more information on cost finding techniques, see section 1906.

D. SFFAS 4 requires organizations to accumulate costs for the identified types of outputs produced for various programs or projects. Organizations may establish a network of cost centers to accomplish this cost accumulation task. Cost centers are a tool that groups relevant costs that support a consistent output or objective. Cost centers can be used to simplify the various costs incurred by aggregating costs into a cost center that provides a product, be it a service or a good. A project management office is a common type of cost center.

E. Responsibility segments should accumulate the costs of resources consumed by the type of resource, such as costs of employees, employee benefits, and office space or rent. Accumulating the costs incurred by resource type supports detailed reporting and provides transparency of cost by type. Segments should also accumulate outputs and products to capture the full cost, if the purpose is to support billing a customer. (Refer to Volumes 11A and 11B) Where practical, the costs should be captured at a measure of unit.

190503. Cost Assignment Authoritative Guidance

A. The USSGL is the basis from a financial accounting perspective when assigning costs to the activities and/or the cost objects of an organization. The DoD USSGL Transaction Library is a decomposition of the USSGL accounting transactions for DoD. The DoD USSGL Transaction Library breaks down the generalized USSGL transaction postings that contain multiple debits and credits, into appropriate pairings of debits and credits of budgetary, proprietary, and memorandum accounts. The result is general transactions mapped to individual DoD Transaction Codes. SFIS is a common business language that enables budgeting, performance based management, and the generation of financial statements using the USSGL. For more information on SFIS and USSGL, see Volume 1, Chapters 4 and 7.

B. SLOA Accounting Classification was developed to improve financial information, improve interoperability between business systems, provide better end-to-end funds traceability and linkage between budget and expenditures, comply with Treasury requirements, and help achieve audit readiness through business process reengineering. SLOA provides additional granularity to accounting transactions that improves the appropriate assignment of costs for a segment.

190504. Cost Assignment Methods

A. Cost assignment is the process and procedure to identify the accumulated costs and cost objects (an activity or item whose cost is measured). As per SFFAS 4, there are three methods to assign costs to outputs listed in order of preference:

1. Directly tracing costs wherever feasible and economically practicable,
2. Assigning costs on a cause and effect basis, and

3. Allocating costs on a reasonable and consistent basis. (See Table 19-1 for more on the prescribed methods)

Table 19-1. Cost Assignment Methods

<table>
<thead>
<tr>
<th>Method</th>
<th>General Cost Behaviors</th>
<th>Accuracy/ Frequency</th>
<th>Granularity/ Transparency</th>
<th>Project/ Program Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directly Traceable</td>
<td>Job Order Direct and/or Indirect Actual or Standard</td>
<td>High</td>
<td>High to Moderate</td>
<td>Activity / Task Level</td>
</tr>
<tr>
<td>Cause and Effect</td>
<td>Job Order Direct and/or Indirect Process Direct and/or Indirect Variable Actual or Standard</td>
<td>High to Moderate</td>
<td>High to Moderate</td>
<td>Task / Delivery Order</td>
</tr>
<tr>
<td>Allocation</td>
<td>Job Order Indirect Process Indirect Fixed Actual or Standard</td>
<td>Lowest</td>
<td>Lowest</td>
<td>Project / Program</td>
</tr>
</tbody>
</table>

B. Agencies and responsibility segments select the appropriate cost assignment method(s) based on their operational needs. This generally occurs when establishing the operational needs and tends to follow historic practices (if reliable historic data is available); however, cost assignment methods can change if the operating environment or regulations change. SFFAS 4 requires organizations to identify the full cost of outputs (the goods or services produced, the missions or tasks performed, and the customers or markets served) including:

1. Direct and indirect costs incurred within the responsibility segment,

2. Intra-entity costs from other responsibility segments, and

3. Inter-entity costs recognized by the receiving entity.

C. Responsibility segments that produce only one output assign costs of the resources used in production to the output. Responsibility segments that deliver intermediate goods or provide supporting services assign the costs to the segments that receive the goods and services. Inter-entity costs are assigned to the responsibility segments that use the inter-entity goods and services. A receiving entity should also recognize assigned inter-entity costs from other Federal Entities.

D. It is a requirement to document changes to a cost assignment method. Documenting changes may also require noting in the financial statements. It is important to maintain a consistent cost assignment method, where possible, for reporting and pricing efforts.
190505. Directly Traceable Cost Assignment

A. Direct tracing applies to resources directly used in the production of an output. Examples include materials used in production, employees providing direct effort, facilities, and equipment used exclusively in the production of the output, and goods or services received from other entities (inter-entity) directly used in support of the output. Direct tracing also applies to specific resources dedicated to particular outputs, such as resources tracked to a single task or objective.

B. Direct costs tend to originate internally by program, responsibility segment, or reporting entity; however, outside entities may also assign direct costs to a segment. Additionally, the directly traceable method is not limited to direct costs. Indirect costs from these outside entities can also use the directly traceable method to capture costs in more detail. Regardless of origin or funding profile, all direct costs are included in the cost of the output.

C. As noted in Table 19-1, directly tracing costs provides the highest level of granularity and yields the highest level of reporting information; however, it is not necessary to apply a direct tracing methodology to all elements of a cost object or output. For example, directly tracing office supplies to a particular weapon system upgrade would not be cost effective, but if a program or activity explicitly budgets for administrative or clerical services, then direct traceability is relevant for costing purposes.

190506. Cause and Effect Basis Cost Assignment

A. Costs that cannot be traced directly to a final output (such as activities or work elements), or it is cost prohibitive to do so, but a relationship can be made between the resource costs and outputs, are assigned to intermediate cost objects. The cause and effect basis recognizes that activities have incurred costs, outputs have required these activities, and therefore, a reasonable relationship can be derived between the two. The causal beneficial relationship permits the activity costs to be accumulated and assigned using the cause and effect basis.

B. Establishing an intermediate cost object requires the identification of homogenous activities to an output and determining the rate of allocation to receiving cost objects. For example, a laboratory’s costs can first be assigned to various tests it runs. The costs of the tests can then be assigned to the operating units that ordered the tests.

C. The cause and effect basis is useful when production is consistent and manageable. The cause and effect basis must not be used if cost cannot be normalized or linked to a final output; instead, costs are assigned using a more general process.

190507. Cost Allocation

A. Cost allocation is the process of assigning costs that cannot be directly traced or assigned using the cause and effect basis. General and Administrative support services used by various common segments apply the cost allocation method to assign costs to benefiting cost objects.
Cost allocation is a process that provides the least detail in costs incurred and is used for indirect costs only.

B. General and Administrative support costs are allocated initially to the segments and then to the outputs of that segment on a pro rata basis. This involves two steps:

1. Allocate the accumulated costs of support services to the segment, and
2. Allocate the accumulated costs to the outputs of each segment.

C. The usual basis for cost allocations is the relevant common denominator. The basis of cost allocation may include the number of employees, direct hours worked, or the amount of direct costs incurred in segments. The common denominator is also referred to as the allocation base. Grouped costs should be accumulated and assigned using a consistent and relevant base. The allocation frequency and base should remain consistent to allow cost comparison over a period of time.

D. Cost allocation is similar to cause and effect in that it may use an intermediate cost object to accumulate costs; however, it differs in that a single benefiting segment or output is unable to be identified for allocation purposes. Cost allocation method is commonly used for general and administrative costs. A responsibility segment may use more detailed costing methods to accumulate costs within the intermediate cost object for more detailed internal reporting, but the allocation remains based on the accumulated cost.

E. Costs accumulated for intermediate cost objects must be homogeneous. Examples in homogeneity accumulation include, but are not limited to: human resource departments, program management offices, and general and administrative offices. Activities within these examples are often difficult to measure in meaningful amounts per unit or per cost object.

190508. Costing Methodologies and Cost Behaviors

Costing methodologies described in SFFAS 4 are intended to improve cost data detail used in budgetary, financial, and managerial accounting purposes. It is important to note that the costing methodologies described in paragraphs 190509 through 190512 are not mutually exclusive nor all inclusive, and can be utilized in combination based on the objective, job order, or process costing and can be applied to both ABC and standard costing systems.

190509. Job Order Costing

A. Job order costing is a costing methodology that accumulates and assigns costs to discrete jobs. Job order costing accumulates costs for each job-work order, internal order, contract, unit of production, or batch. Job order costing is used if:

1. The production or service is being performed to meet customer specifications or requirements,
2. Different components are made for inventory,

3. Projects are undertaken to construct real property, or

4. Tracking a work or job order is required for an organizational unit.

B. In a job order costing system, different products with varying degrees of production time and different amounts of direct materials consumed are tracked separately by work orders. Job order costing provides more control, less estimation, and more direct and reliable allocation of costs.

C. Direct materials and supplies owned by the performing activity, acquired from a Defense WCF or from an inventory account financed by appropriated funds, are charged to a job order in accordance with established costing procedures for the segment.

D. The structure for job order data must be consistent with the SFIS and the SFIS Business Rules. Volume 1, Chapters 4 and 7 provide specific guidance on SFIS and the DoD SCOA. Where relevant, subsidiary ledger accounts or proprietary accounts will need to be incorporated into the structure for job order data.

E. A job order number is given to each identified cost object, similar to a project Work Breakdown Structure, in which a number is assigned to each task that is being tracked or reported. Job order numbers are the framework for identifying each job and a means of accumulating departmental direct labor, direct material, and overhead (indirect, general, and administrative) cost by job order. Detailed DoD specific transactions are available in the DoD USSGL Transaction Library and must be consistent with Volume 1, Chapters 4 and 7. Refer to Volumes 11A and 11B - for reimbursable policies applicable to activities financed with annual appropriations and WCFs.

190510. Process Costing

A. Process costing accumulates costs by individual processing cost center. These processing cost centers are involved in a continuous flow of effort, with each center contributing towards the completion of the end products. The output of a processing center either becomes the input of the next processing cost center or becomes a part of the end product. Process costing works best when the end product is clearly measurable and identifiable.

B. Process costing is appropriate for production of goods or services with the following characteristics:

1. The production involves a regular pattern of repetitive processes or procedures to deliver a large volume of goods or services, or

2. The output consists of homogeneous or similar goods or services.
C. Each cost center accumulates costs, assigns the costs to its outputs, and calculates the unit cost of its output (good or service). For each period, cost centers prepare a cost and performance report showing the costs, the completed effort, and the work-in-process volume (if any). When completed goods or services are transferred from the cost center to the benefiting cost object, the costs of those efforts are also transferred and are eventually incorporated into the costs of the end product.

D. Process costing used for financial accounting purposes must be fully integrated with other modules of the financial accounting system—it must interface with the payroll and fund control modules. Cost accounting functionality subsidiary accounts are controlled by general ledger accounts.

E. Detailed DoD specific transactions are available in the DoD USSGL Transaction Library. The components for process costing structure must be consistent with the SFIS and the SFIS Business Rules.

190511. Standard Costing

A. The standard costing method attaches costs to cost objects based on reasonable estimates by means of planned rates rather than actual costs incurred. The standard rate is the anticipated cost of producing a good or service of output. Standard cost is used when goods, services, or end product have reached a state of normalcy where planned costs can be estimated with consistency and reasonableness. Standard costing may be based on either absorption or direct costing principles, and may apply to all or some cost elements.

B. Standard costs are predetermined or planned costs established for activities, goods, services, or end product. Standard costing can be done for components such as direct materials, direct labor, and indirect costs. Standard costs are a fixed price per unit and are commonly used in production or service center models.

C. In standard costing, a standard cost per unit of measure (square feet, hours, or yards) is established in the budget planning phase for expected costs and utilization. Organizations that establish a standard costing methodology will need to evaluate their costs periodically to assess that expenses are consistent with the planned cost or are in alignment with the business operations. (Refer to Volumes 11A for Reimbursable Operations and 11B for WCF activities)

190512. ABC

A. ABC is a costing methodology used for managerial accounting purposes. It focuses on activities of an organization, based on the following:

1. Organizational activities produce an output, and
2. Activities consume resources.
B. ABC uses cost drivers to assign costs through activities to outputs.

C. The ABC cost assignment process is a two-stage process. The first stage identifies activities performed and their relevant resources consumed within a segment. The second stage identifies outputs and the necessary activities to complete them.

D. Identifying activities within a segment may require an in-depth analysis of the operating processes, as some processes may consist of one or more activities. Activities may be classified into unit level, batch level, product sustaining, and facility sustaining activities. Management may combine related small activities into larger activities to avoid excessive costing efforts.

E. It is necessary to assign resource costs to activities to capture the full cost of the final output. Assigned resource costs should include direct and indirect costs as well as any inter- or intra-department costs relevant to the activity. Resource costs are assigned to activities in three ways, depending on feasibility and cost benefit considerations:

   1. Direct tracing,

   2. Standard costing or cost finding report, or

   3. Allocations.

F. In an ABC cost assignment, activities are mapped to outputs. Outputs are any good or service generated by a segment, and can include information or paperwork generated by the completion of the tasks or customers (persons or entities to whom a federal agency is required to provide goods or services). Omitting a resource cost, activity, or output in the ABC process will result in overcharging costs to other outputs.

G. Activity costs are assigned to outputs using activity drivers based on individual outputs’ consumption or demand for activities. For example, a driver may be the number of times an activity is performed or the length of time an activity is performed in the production of an output. These are referred to as transactional and durational drivers, respectively.

H. ABC can be used in conjunction with job order costing or process costing. Job order or process costing would be costing activities that occur in the production of a final output. For example, a contracting office has many activities that lead into the finalization of a contract. There are routine processes relevant to all contracts, such as document formatting, printing, and delivery activities, that are likely allocated using a standard cost methodology (established rate per output), while other activities such as research and negotiation are not common and vary depending on contract type, are allocated using ABC methods.

I. By tracing costs through activities, ABC can provide more accurate good or service costs. Some ABC methodologies rank activities by the degree to which they add value to the organization or its outputs, encouraging management to evaluate the efficiency and cost effectiveness of activities. An ABC method starts with identifying and examining the following:
1. What value-added activities are needed in order to accomplish a mission, deliver a service, or meet customer demand?

2. How can activities be modified to achieve cost savings or product improvements?

3. What activities do not actually add value to services or products?

4. Where can our cycle time analysis and value-added analysis be incorporated?

1906 DATA SYSTEMS AND SOURCES AND COST FUNDING

190601. Data Systems and Sources

A. Data systems are the source of cost information used for reporting to management on performance, budget, and financial management for programs and activities within a reporting entity. Data systems are generally a collection of automated data sources, systematic tools, and other statistical sampling techniques used to support reporting and cost analysis for the DoD.

B. SFFAS 4 states the information flow within a financial management system begins with a basic common data source/system. A data system consists of all financial and programmatic source information used by the budgetary and financial accounting processes. It may also include non-financial data, such as human capital, logistical, and operational data that is necessary for full cost reporting.

C. As noted in SFFAS 4, data systems will be used to support:

1. Performance measurement,

2. Cost reduction and control,

3. Determination of reimbursements and fee or price setting,

4. Program authorization, modification, and discontinuation decisions, and

5. Decisions to contract out work or make other changes in the methods of production.

D. System based reporting should be used first before relying on cost finding reports. Cost finding techniques may be used for a number of different circumstances, but do not have the same level of accuracy or precision as reporting derived from the data system. (See paragraph 19606 for more information on cost finding.)
E. Data entered into a data system must comply with SLOA Accounting Classification and SFIS. Additional information regarding SLOA, USGGL, and SFIS is available in Volume 1, Chapters 4 and 7. When managerial cost accounting is used to supply information for use by financial accounting and reporting, that information should be consistent with the basis of accounting and recognition/measurement standards required by federal accounting principles applied within the DoD.

190602. Data System

A. A data “system” is an organized grouping of methods, source information, and activities surrounding data collection used to produce reliable cost information on a consistent basis. Data systems include a collection of system tools and sources used for automating managerial cost accounting reporting, but can also include manual processes, such as cost finding reports. Data systems will integrate sources of information across an organization and may need to include data sources that cross multiple reporting segments of an entity in order to provide the proper cost information, such as accounting information, time records, or asset data. A data system can also include evaluation and decision source information derived as a result of prior reporting and feedback.

B. Cost information developed for managerial cost accounting purposes from established data systems should be reconcilable to financial, budgetary, or managerial accounting items. When possible, information produced from a data system should be corroborated with other reporting tools to validate the content in the systems (quantity of line items or sum of dollars). This task may be included in a recurring internal control assessment to reduce redundancy. DoD financial managers will decide the best approach based on the complexity of the data and its reliance.

C. DoD data systems, to the extent practicable, should be integrated with an organization’s accounting, budgetary, and financial system(s). As SFFAS 4, paragraph 72 prescribes, a system should take into consideration:

1. The nature of the entity’s operations,
2. Precision needed in cost information,
3. Practicality of data collection and processing,
4. Availability of electronic data handling,
5. Expected cost of the system itself, and
6. Any specific management information needs.

D. Data systems will support cost analyses used to compare actual to predetermined or anticipated costs. To meet managerial cost accounting needs, data systems should use uniform and basic cost, transactional, or programmatic data. Examples of these data
points are units of output produced and input used including the amount of labor in terms of employees or employee hours.

190603. Data Sources

A. Data sources contain information needed to attain specific objectives through reporting useful information. Common data sources will include information about financial transactions found in the standard general ledger along with various other data types. The use of the term “data source” is not limited to the use of computerized systems for information, but includes a broad array of sources of information (for example, manually prepared reports or audit findings).

B. Data sources integrated into the data system must be relevant to the reporting segment and its reporting requirements. Data sources may originate from within the reporting segment or from an external entity. Data sources must be capable of retaining pertinent data over periods sufficient to provide historical reference and allow for forecasting. Data sources that are not systematic should be examined for content, accuracy, and reliability on a recurring basis.

C. Reporting needs will vary depending upon the circumstances and purpose for which the measurement is used. Data sources established within an entity’s data system may need to change as the operational needs change. However, as stated in SFFAC 1, the focus is on developing generally accepted accounting standards for reporting on the financial operations, financial position, and financial condition of the Federal Government and its component entities and other useful financial information. This implies a variety of data sources that complements the information available in the budget will be required and must be adapted to fit OFFR, SFIS, and SLOA standards.

190604. Reporting Relationship

A. Proper financial management requires that the three accounting processes work closely together to provide useful reporting to both internal and external users using the data systems established. Per FASAB, OFFR should consider the needs of both internal and external users and the decisions they make and consider the information needs of both internal and external users. The established data systems must follow the DoD USSGL Transaction Library and DoD SCOA for consistency of the cost information. Additionally, per OFFR, common users of this information will be program managers, executives, Congress, and citizens.

B. Federal financial reporting derived from managerial cost accounting data systems will encompass general and special purpose report capabilities to meet the needs of the four user groups (program managers, executives, Congress, and citizens). Information produced by managerial cost accounting appears in or influences both general and special purpose reports.

C. Data systems for managerial cost accounting should provide sufficient cost detail on a timely basis to support performance reporting. Measuring and reporting actual performance against established goals is essential to assess governmental accountability. Cost
information is necessary in establishing strategic goals, measuring service efforts, determining whether expected outcomes were achieved, and relating efforts to accomplishments.

D. Data systems that use different accounting bases or different recognition and measurement methods than the norm should be reconcilable and should fully explain the accounting bases and measurement methods. Regardless of the type of report in which it is presented, cost information should ultimately be traceable back to the original source.

E. As per SFFAS 4, to be reconcilable, the amount of the differences in the information reported should be ascertainable and the reasons for the differences should be explainable. In some situations, informational differences may be clearly understandable without further explanation. However, other cases may require a narrative statement concerning the differences. In complicated situations, a schedule or table may be required to fully explain the differences. Any variances observed in data system reports to budgetary, financial, or managerial accounting reports must be documented noting the reason for the variance (if discernable), the source of the variance, and the resolution, if applicable.

190605. Cost Finding

A. Cost finding is a tool used to perform cost examinations when a data system cannot provide sufficient data. Cost finding techniques produce cost data by analytical or sampling methods. Cost finding techniques are only appropriate for certain kinds of projects or programs that have limited scopes or costs. Organizations may use thresholds to limit the use of cost finding technique. When cost finding techniques are used, the value of the report should be limited and a timeframe for updating the cost finding report established. As cost information becomes available and normalized on the project or program, the cost finding report should be replaced with actual data.

B. Special purpose cost reports and analyses, or cost finding techniques, can be performed for financial based decision making. Cost finding techniques will vary depending on the type, level, and significance of the financial decision, e.g., planning decisions for replacement costs, capital costs, or sustainment of operations. It is important that the basis and method used be appropriate for the circumstances and consistent with the intended purpose.

C. Cost finding techniques produce cost data by analytical or sampling methods. Cost finding techniques are used for indirect costs, items with costs below set thresholds within programs, or for programs in their entirety. Cost finding techniques support the overall managerial cost accounting process and can represent nonrecurring analysis of specific costs.

190606. Cost Finding Application

A. Cost findings generated manually outside of the standard reporting tools should utilize an established managerial cost accounting data system where possible for data. Cost finding techniques will vary. It is crucial that the process be thoroughly documented. Documentation must be sufficient to replicate the cost finding process used with consistent results.
B. Within the DoD, cost finding techniques will be used to compare costs of different organizational units or operations performing the similar output. Cost finding is one tool in estimating full costs, and can be used to compare organizational efficiency. For example, the costs for an intermediate object, such as processing a personnel action at a personnel office, can be compared with the cost at other personnel offices to determine the efficiency of one over the other or value of both.

C. Cost finding techniques are used for a number of different circumstances, but there are four general drivers:

1. A cost accounting system is not in place for full cost (direct and indirect) of a cost objective.

2. The data system does not have the full costs (direct and indirect) incurred to provide an output or product. In this scenario, the output is often new or unique.

3. Activities do not have formal cost accounting capability as part of their financial management system, but periodically provide outputs to other DoD Components, Federal agencies, or to the public.

4. The cost of an item has not been recorded in the accounting system and the item is being transferred, sold, or recorded in the accounting system for the first time.

D. When the purpose of a cost finding includes the preparation of an internal report or an external report for another Federal agency or non-Federal organization, the guidance contained in Volume 11B, Chapter 1, should be followed to assure that all applicable costs are considered. When the purpose is to establish the cost of an activity associated with the Security Cooperation Program, the guidance contained in Volume 15, Chapter 7, should be followed.

190607. Cost Finding Requirements

A. When cost finding techniques are used, they must be repeatable. They must be set up in a manner that is consistent with similar prior cost finding reports in the cost collection approach, even if the effort is associated with a one-time cost accounting requirement. This is required to sustain an audit or assessment of the cost later.

B. Although cost finding practices are outside of the standard processes, cost finding techniques must align with the SFIS Business Rules for financial data.

C. A thoroughly documented cost finding approach requires documented statement of the following:

1. The cost objects or outputs (both intermediate and final) to which cost finding techniques are to be applied, in addition to the relevant funds used to support the organization (WCF and general funds),
2. The organizations involved in performing the cost objects and the tasks performed by each,

3. The applicable cost elements,

4. A plan that includes the specific cost finding techniques to be used and the criteria followed in selecting the specific cost finding technique, and

5. A description of how those techniques will be used to estimate the cost object.

D. The documented statement and the related work papers should be retained for the same length of time as other documentation used to support billings to federal agencies or the public. Refer to Volume 1, Chapter 9, for document retention and audit readiness.

E. Identifying and describing cost objects are an important element of the documentation requirement. When the cost object identified is at a reporting entity or organizational level, the cost finding approach could rely on more estimation techniques and fewer details in the cost estimates. If the cost object identified is at the specific function or operation level, additional granularity will be required to provide useful cost object data. At the specific function or operation level, the data may not be available in the legacy financial systems.

F. The task is to classify the direct or indirect cost objects. A cost object responsible for actually performing the work is direct. A cost object that provides support or performs an administrative function is indirect.

G. Organizations or cost objects may be either direct or indirect costs depending on the activities identified. For example, when using cost finding techniques to collect costs for paying a contractor invoice, the costs of the accounting technicians at the Defense Finance and Accounting Service (DFAS) disbursement function would be considered direct costs, as they are assigning their time directly to the specific customer. However, when using cost finding to collect costs for the operation of an aircraft carrier battle group, the disbursing function at DFAS is considered an indirect cost and allocated to all benefiting organizations. In the two examples, the difference is the activity scope performed and how cost is recognized as a singular cost easily identifiable in a cost summary or multiple cost aggregated into a single assignment.

H. An organization classified as indirect cost will not always be recognized in the computation of costs for a final cost object. At the macro level, service center type organizations generally will be recognized as indirect and the related costs allocated among direct organizations. At the micro level, materiality and usefulness will be determining factors on recording the costs as direct. Specifically, if some cost assignment amounts are not readily available, and they are estimated to be relatively insignificant in the context of the total costs, cost finding techniques would allow them to be excluded from the overall costs with a notation that they are not material.
I. An important aspect of any cost finding technique is identifying the direct and indirect cost elements applicable to the good or service. Even within a direct cost organization, there may be indirect cost elements. Both the direct and indirect activities may have the same cost elements, such as civilian personnel costs. The difference is in whether the costs are considered direct or indirect. If they are indirect, they would be allocated across the direct cost elements.

J. All possible cost elements must be identified and determined if they are significant. Personnel compensation, purchased services, supplies, and materials are typical major categories within the SFIS Cost Element Code. General ledger accounts are described in the USSGL, in DoD SCOA, and in SFIS, which provide detailed information on transactions and required cost information.

K. After the potential elements are identified, it must be decided which cost elements are sufficiently significant to the final cost object and if they warrant separate consideration. An evaluation of the elements would also include the relevance and materiality of each cost element to the cost object. Materiality is determined by analyzing whether excluding the data could distort the computed value for the final cost object.

L. Before the values for each cost finding can be determined, the source documents for the required data must be identified and physical hardcopies or softcopies retained for audit or performance examination purposes. Source documentation is cost information on a prior project, effort, or purchase that is the same or similar in nature. Examples include: invoices of procurements, contracts, statement on costs, and funding reports. In those instances where WCF organizations are part of the cost finding, cost or pricing detailed documentation should already be available since cost and price data are needed for the customer rate setting process. Depending on the significance and intended use of the cost finding report, the identification of specific documents may not be necessary if it is insignificant to the operating costs to which it will be applied.

M. The following principles are intended to help guide the collection of comprehensive data for cost finding:

1. Provide a comprehensive data structure for the cost object that specifies the source of all data,

2. Rely on the financial management system to the maximum extent possible and ensure the source data is complete and representative for its intended purpose (reflective of all debits, credits, cost transfers, and journal adjustments),

3. Document the rationale for direct and indirect costs,

4. Pricing lists, costing sheets, benchmarking studies on standard items such as direct and indirect labor and materials, and

5. Create an auditable, repeatable process to support cost management analysis over time.
N. The following guidance using cost finding techniques should be applied when determining the individual costs of intermediate and final cost objects:

1. Civilian direct labor costs are computed using the average pay grade for applicable General Schedule series personnel (e.g., step 5). For Wage Grade employees, use the average applicable pay grade (e.g., step 4). Amounts included as direct labor costs should recognize only productive time that is, the time actually used to perform the function. All other times, such as training or annual leave, are indirect labor and are included in indirect costs. Actual costs may be used, if known, provided appropriate documentation is available to support their substitution. Prior to applying the labor costs, it will be necessary to develop an approach for collecting the number of hours associated with an activity reflected in a cost object.

2. Civilian personnel benefit costs are computed using the rates contained in the Office of the Under Secretary of Defense, Comptroller financial management website "Financial Management Reports".

3. Costs for Military personnel are calculated using standard military composite rates in accordance with guidance in Volume 11A, Chapter 1 and Chapter 6, Appendix I.

4. Both military and civilian labor should be included, as applicable. Labor that is directly traceable to jobs should be recorded as direct labor. Indirect labor (labor that cannot be charged to a specific job) should be used in computing indirect costs. Volume 11A, Chapter 1, reimbursable policy controls whether military labor costs actually are includable in charges to other DoD entities.

5. Direct material cost is determined using standard prices, unless the actual cost is known from vendor invoices. Standard prices can be obtained from vendor catalogs, supply system stock databases, recent contract purchases of similar items, or any other available data source.

6. Depreciation and amortization of capitalized property and real property represent an additional cost of an activity, project, or service. Volume 4, Chapter 6 provides additional guidance on calculation of depreciation for general equipment, assets under capital leases, internal use software, government furnished equipment, contractor acquired property, and real property.

7. Other costs that can be directly related to the cost object are determined using source documents, such as vendor invoices and travel vouchers.

Pricing for a Cost Finding Report

Pricing elements (labor, materials and overhead) for cost finding reports are estimates based on prior same or similar purchases, projects, or programs. When pricing for a cost finding primarily uses financial system data, it improves the accuracy and confidence in the estimate. Common elements such as labor, raw materials, and materiel are examples of standard costs found
in financial systems. Pricing practices and standards should be researched for each agency before developing a new practice or procedure.

A. Information available from CAPE, such as full cost of manpower, and defense employment and purchase projection system are available to support pricing of labor costs. In addition to base pay, these sources provide additional costs related to labor, including fringe benefits and training. When pricing labor, it is important to include the full cost of labor, as fringe benefits will increase total labor costs significantly.

B. Materials and supply pricing tools are also available from CAPE. These tools can support costs for common purchase items. Pricing for materials and supplies should include the full cost of procurement, which can include material handling and destination charges. Supporting agencies like Washington Headquarters Services or Defense Logistics Agency may supply the full cost of procurement. It is important to identify where services and goods originate from as part of the pricing documentation. The life cycle of a procurement will need to be included as part of a procurement pricing estimate.

C. A pricing Basis of Estimate (BoE) will vary for services provided under a WCF versus a reimbursable fund. A WCF-financed activity must include general administrative costs and overhead in a BoE to satisfy requirements for full cost recovery. Under reimbursable policies set forth in Volume 11A, Chapter 1, DoD activities that finance reimbursable operations using annual appropriations generally do not include such costs in charges to customer activities within the DoD.