

UNIT 34: COST ACCOUNTING STANDARDS

September 2004

UNIT CERTIFICATION

Statement of Completion

_____ has satisfactorily completed training in the duty of this Unit under the conditions described below and in accordance with the overall standard(s) for this Unit.

Overall Duty	Assure that a firm properly discloses its accounting practices when required by Government cost accounting standards (CAS) and that the disclosed practices comply with CAS requirements.
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Overall Conditions	Given acquisition planning.
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Overall Standard	Require a firm to disclose its accounting practices unless a CAS exemption applies. If disclosed accounting practices do not comply with CAS requirements, require compliance and make a reasonable cost impact adjustment when appropriate.
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Part A: Determining Appropriate Cost Accounting Standards Coverage

Sub-Duty	Include appropriate cost accounting standards (CAS) coverage in the solicitation, contract, and contract administration.
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Sub-Duty Standard	Include an appropriate CAS clause in a contract unless an exemption applies. Obtain an adequate Disclosure Statement when required. Assign a CAS-covered contract for CAS administration.
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Part B: Reviewing Disclosure Statements

Sub-Duty Assure that a CAS-covered contractor complies with its disclosed accounting practices and CAS requirements.

Additional Conditions Given a Disclosure Statement.

Sub-Duty Standard Require a CAS-covered contractor to comply with its disclosed accounting practices and CAS requirements. Make a reasonable cost impact adjustment when appropriate.

Evaluator
_____ Name
_____ Title
_____ Date

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Insert documentation to support completed training.

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Policies

<i>FAR</i>	<i>Agency Suppl.</i>	<i>Subject</i>
2.1		Definitions: The change adds the definition of “direct cost” and revises the definition of “indirect cost” at FAR 2.101, Definitions, to be consistent with the terminology used in the cost accounting standards (CAS).
12.214		Cost accounting standards.
30		Cost accounting standards.
31.1		Contract cost principles and procedures. The change revises the definitions of direct and indirect cost.
31.2		31.202 Direct costs. The change revises the cost principles by improving clarity and structure, and removing unnecessary and duplicative language.
52.230-1		Cost accounting standards notices and certification.
52.230-2		Cost accounting standards.
52.230-3		Disclosure and consistency of cost accounting practices.
52.230-4		Consistency of cost accounting practices.
52.230-5		Cost accounting standards – educational institution.
52.230-6		Administration of cost accounting standards.
52.233-1		Disputes.
Appendix B		Cost accounting standards and Cost Accounting Standards Board rules and regulations (48 CFR 99).

Other KSAs

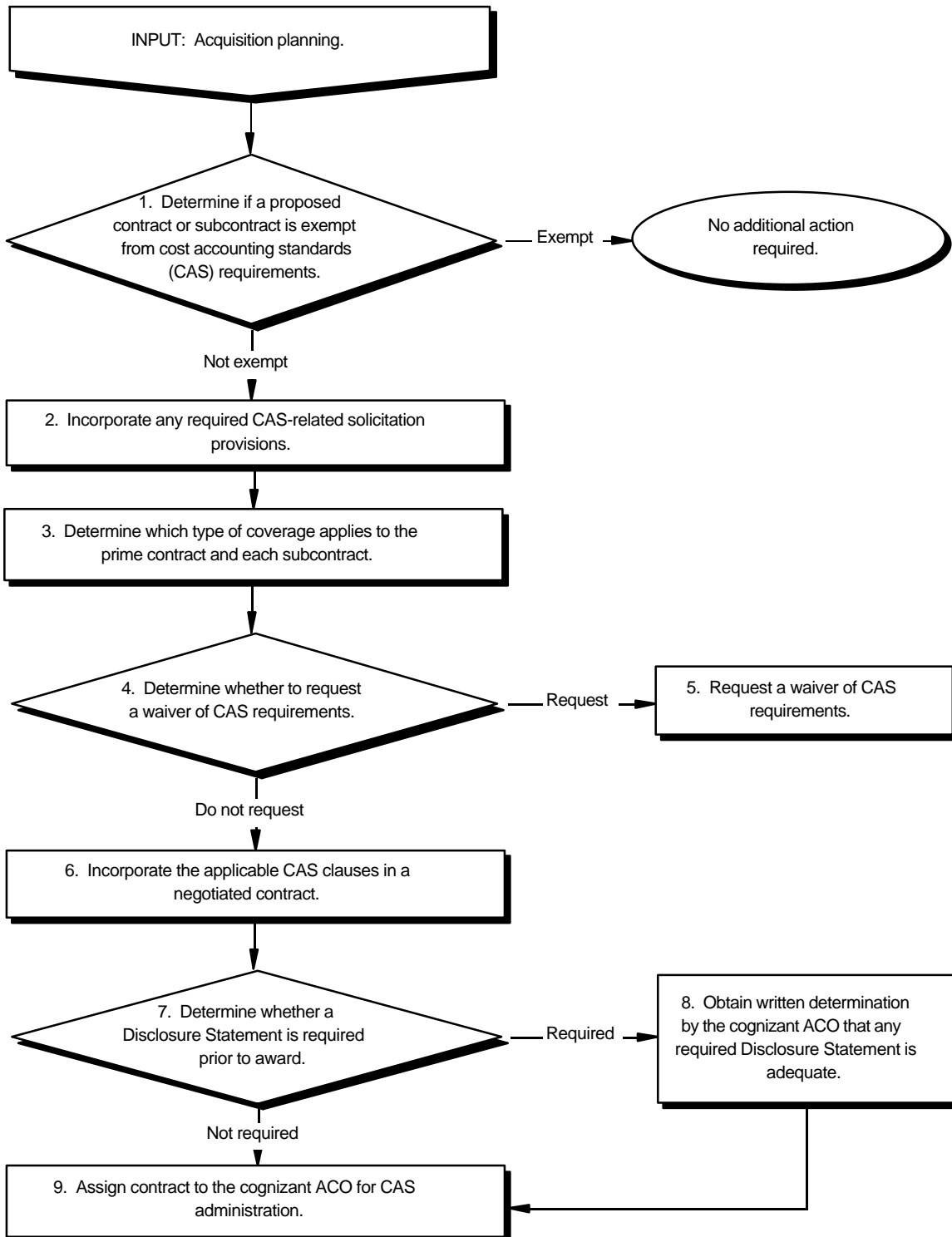
1. Knowledge of accounting principles and practices.
2. Ability to conscientiously evaluate information related to a firm’s accounting system.
3. Ability to solve practical problems related to a firm’s accounting system.
4. Ability to communicate orally and in writing concerning accounting system issues.
5. Ability to identify accounting system problems and use sound judgment in resolving them.
6. Ability to maintain the honesty and integrity of the acquisition process.

Other Policies and References (Annotate As Necessary):

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Part A: Determining Appropriate Cost Accounting Standards Coverage

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Part A: Determining Appropriate Cost Accounting Standards Coverage

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Tasks	Related Standards
1. Determine if a proposed contract or subcontract is exempt from cost accounting standards (CAS) requirements.	<p>The following categories of contracts and subcontracts are exempt:</p> <ul style="list-style-type: none">• Sealed bid contracts.• Negotiated contracts and subcontracts not in excess of \$500,000.• Contracts and subcontracts with small businesses.• Contracts and subcontracts with foreign governments or their agents or instrumentalities. In addition, CAS coverage of any award to a foreign concern is limited to CAS 401 and 402.• Contracts and subcontracts in which the price is set by law or regulation.• Firm fixed-priced and fixed-price with economic price adjustment (provided that price adjustment is not based on actual costs incurred) contracts and subcontracts for the acquisition of commercial items.• Contracts or subcontracts of less than \$7.5 million, unless at the time of award, the business unit is performing a CAS-covered contract or subcontract valued at \$7.5 million or more.• Contracts and subcontracts awarded to a United Kingdom contractor for performance substantially in the United Kingdom, provided that the contractor has filed a properly completed disclosure statement with the United Kingdom Ministry of Defense.• Subcontracts under the NATO PHM Ship program to be performed outside the United States by a foreign concern.• Contracts and subcontracts to be executed and performed entirely outside the United States, its territories, and possessions.• Firm fixed-price contracts or subcontracts

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Tasks	Related Standards
	awarded on the basis of adequate price competition without submission of cost or pricing data.
2. Incorporate any required CAS-related solicitation provisions.	If the contract will not obviously be exempt from CAS (e.g., a small business set-aside), include Cost Accounting Standards Notices and Certification (FAR 52.230-1) in the solicitation.
3. Determine which type of coverage applies to the prime contract and each subcontract.	<p>Consider the following types of coverage for contracts and subcontracts:</p> <ul style="list-style-type: none"> • Full coverage requires that the business unit comply with all standards in effect on the date of the contract award and with any standard that becomes applicable because of later award of a CAS-covered contract. It applies to contractor business units that: <ul style="list-style-type: none"> - Receive a single CAS-covered contract award of \$50 million or more; or - Received \$50 million or more in net CAS-covered awards during its preceding cost accounting period. • Modified coverage requires that the contractor comply with CAS 401, 402, 405, and 406. <ul style="list-style-type: none"> - It may be applied to a covered contract of less than \$50 million awarded to a business unit that received less than \$50 million in net CAS-covered awards in the immediately preceding cost accounting period; - Once it applies to one contract, it applies to all CAS-covered contracts awarded to the business unit during that cost accounting period. However, if the business unit receives a single CAS-covered contract of \$50 million or more: <ul style="list-style-type: none"> ▪ That contract is subject to full CAS coverage; and ▪ Any covered contract awarded thereafter in the same cost accounting

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Tasks	Related Standards
	<p>period is also.</p> <ul style="list-style-type: none"> - A contract awarded with modified CAS coverage shall remain subject to such coverage throughout its life. • Educational institutions coverage applies to educational institutions, except as otherwise provided at 48 CFR 9903.201-2(c) or 9903.202-1(f). • Foreign concerns coverage limits CAS-coverage of foreign concerns to CAS 401 and 402.
<p>4. Determine whether to request a waiver of CAS requirements.</p>	<p>The head of the agency (or a delegated official no lower than the senior policymaking level) may grant a waiver when one of the following conditions exists:</p> <ul style="list-style-type: none"> • The contract or subcontract value is less than \$15 million and the official makes a written determination that the segment of the firm that will perform the contract or subcontract: <ul style="list-style-type: none"> - Is primarily engaged in the sale of commercial items; and - Has no contracts or subcontracts that are subject to CAS; or • Exceptional circumstances exist whereby a waiver of CAS is necessary to meet the needs of the agency. Exceptional circumstances exist only when the benefits to be derived from waiving the CAS outweigh the risk associated with the waiver. The official's determination that exceptional circumstances exist must: <ul style="list-style-type: none"> - Be set forth in writing; and - Include a statement of the specific circumstances that justify granting the waiver.
<p>5. Request a waiver of CAS requirements.</p>	<p>When a waiver appears appropriate, the request for waiver should include the following:</p> <ul style="list-style-type: none"> • The amount of the proposed award; • A description of the contract or

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Tasks	Related Standards
	<p>subcontract type (e.g., firm fixed-price);</p> <ul style="list-style-type: none"> • Whether the segment(s) that will perform the contract or subcontract has CAS-covered contracts or subcontracts; • A description of the item(s) being procured; • When the contractor or subcontractor will not accept the contract or subcontract if CAS applies, a statement to that effect; • Whether cost or pricing data will be obtained, and if so, how the data will be used in negotiating the contract or subcontract price; • The benefits to the Government of waiving CAS; • The potential risk to the Government of waiving CAS; • The date by which the waiver is needed; and • Any other information that may be useful in evaluating the request.
<p>6. Incorporate the applicable CAS clauses in a negotiated contract.</p>	<p>Based on the firm's response to Cost Accounting Standards Notices and Certification (FAR 52.230-1) and other available information, select the appropriate clauses. Insert the:</p> <ul style="list-style-type: none"> • Cost Accounting Standards clause (FAR 52.230-2), unless the: <ul style="list-style-type: none"> - Contract is exempted from CAS coverage; - Contract is subject to modified coverage; or - Consistency in Cost Estimating Practices clause (FAR 52.230-4) is used. • Disclosure and Consistency of Cost Accounting Practices clause (FAR 52.230-3), in negotiated contracts when the: <ul style="list-style-type: none"> - Contract amount is over \$500,000, but less than \$50 million;

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Tasks	Related Standards
	<ul style="list-style-type: none"> - Offeror certifies it is eligible for and elects to use modified CAS coverage; and - Consistency in Cost Estimating Practices clause (FAR 52.230-4) is not used. • Consistency in Cost Accounting Practices clause (FAR 52.230-4), in contracts exempt from CAS requirements solely because the contract is to be awarded to a United Kingdom contractor and is to be performed substantially in the United Kingdom. • Cost Accounting Standards – Educational Institution (FAR 52.230-5), in contracts awarded to educational institutions, unless the: <ul style="list-style-type: none"> - The contract is exempted from CAS coverage; - The contract is to be performed by a Federally Funded Research and Development Center (FFRDC); or - 48 CFR 9903.201-2(c)(6) applies. • Administration of Cost Accounting Standards clause (FAR 52.230-6), in contracts containing any of the clauses above.
<p>7. Determine whether a Disclosure Statement is required prior to award.</p>	<p>Unless the agency head determines that it is impractical, secure a completed Disclosure Statements from:</p> <ul style="list-style-type: none"> • Any business unit that is selected to receive a CAS-covered contract or subcontract of \$50 million or more before award. • Any company which, together with its segments, received net awards of negotiated prime contracts and subcontracts subject to CAS totaling \$50 million or more in its most recent cost accounting period, before award of its first CAS-covered contract in the immediately

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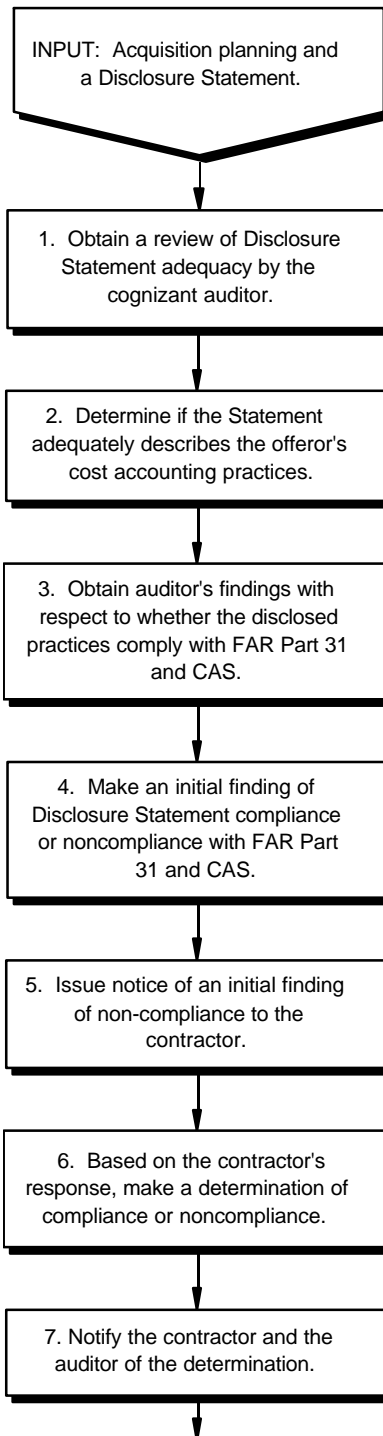
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Tasks	Related Standards
	<p>following cost accounting period. However, if the first CAS-covered contract is received within 90 days of the start of the cost accounting period, the contractor is not required to file until the end of 90 days.</p> <ul style="list-style-type: none">• Any other business unit required to submit a Disclosure Statement before contract award in accordance with 48 CFR 9903.202. <p>When the agency head determines that it is impractical to secure a required Disclosure Statements prior to contract award, the agency head must, within 30 days, report all material facts to the Cost Accounting Standards Board.</p>
8. Obtain written determination by the cognizant ACO that any required Disclosure Statement is adequate.	Do not award a CAS-covered contract until the cognizant ACO has made a written determination that a required Disclosure Statement is adequate unless, in order to protect the Government's interest, the Contracting Officer waives the requirement for an adequacy determination before award. In that event, obtain a determination of adequacy as soon as possible after contract award.
9. Assign contract to the cognizant ACO for CAS administration.	Within 30 days after award of any new CAS-covered contract or subcontract subject, request the cognizant ACO to perform administration for CAS matters. Request CAS administration even when the Contracting Officer retains other contract administration functions.

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Part B: Reviewing Disclosure Statements

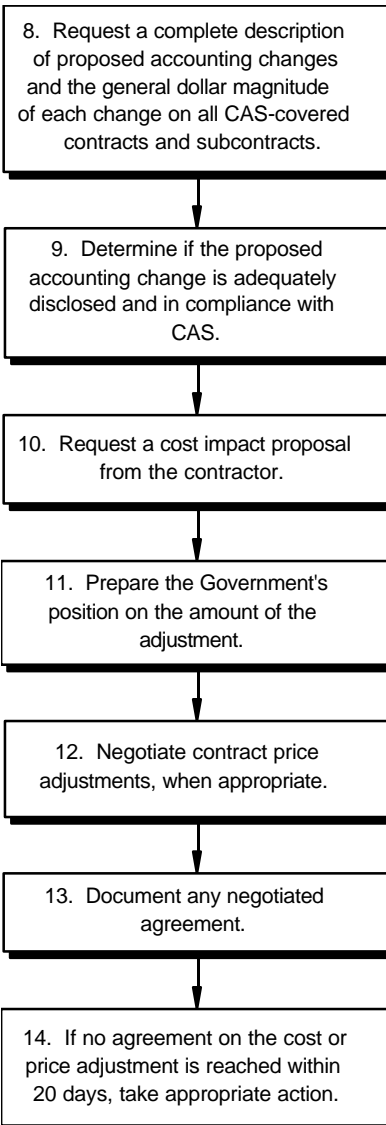
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Tasks	Related Standards
1. Obtain a review of Disclosure Statement adequacy by the cognizant auditor.	<p>The cognizant auditor is responsible for:</p> <ul style="list-style-type: none"> • Reviewing the Disclosure Statement to ascertain whether it is current, accurate, and complete; and • Reporting the results to the cognizant ACO.
2. Determine if the Statement adequately describes the offeror's cost accounting practices.	<p>Based on the results from the Disclosure Statement review by the cognizant auditor and other available information, the cognizant ACO must determine whether or not it adequately describes the offeror's cost accounting practices.</p> <ul style="list-style-type: none"> • If any inadequacy is identified, request a revised Disclosure Statement. • If the Disclosure Statement is adequate, notify the offeror in writing, with copies to the cognizant auditor and Contracting Officer. <ul style="list-style-type: none"> - Generally, furnish the contractor notification of adequacy or inadequacy within 30 days after the Disclosure Statement has been received by the ACO. - In the notification, state that a disclosed practice must not, by virtue of disclosure, be considered an approved practice for: <ul style="list-style-type: none"> ▪ Pricing proposals; or ▪ Accumulating and reporting contract performance cost data.
3. Obtain auditor's findings with respect to whether the disclosed practices comply with FAR Part 31 and CAS.	<p>After notification of Disclosure Statement adequacy, the cognizant auditor must:</p> <ul style="list-style-type: none"> • Conduct a detailed Disclosure Statement review to ascertain whether or not the disclosed practices comply with Part 31 and CAS; and • Report the results to the cognizant ACO.
4. Make an initial finding of Disclosure Statement compliance or noncompliance with FAR Part 31 and	<p>Within 15 days of the receipt of a report of alleged noncompliance from the cognizant auditor, make an initial finding of compliance</p>

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Tasks	Related Standards
CAS.	or noncompliance and advise the auditor.
5. Issue notice of an initial finding of non-compliance to the contractor.	If an initial finding of noncompliance is made: <ul style="list-style-type: none"> • Immediately notify the contractor in writing of the exact nature of the noncompliance; and • Allow the contractor 60 days within which to agree or to submit reasons why the existing practices are considered to be in compliance.
6. Based on the contractor's response, make a determination of compliance or noncompliance.	In making the determination: <ul style="list-style-type: none"> • If the contractor agrees with the initial finding of noncompliance, consider that agreement. • If the contractor disagrees with the initial noncompliance finding, review the reasons why the contractor considers the existing practices to be in compliance. • If necessary, consult with the cognizant auditor.
7. Notify the contractor and the auditor of the determination.	Notify the contractor and the auditor in writing of the determination. If the contractor's practices are: <ul style="list-style-type: none"> • In compliance with FAR Part 31 and CAS clearly state that in the determination. • Not in compliance with FAR Part 31, process the matter in accordance with normal contract administration procedures. • Not in compliance with CAS: <ul style="list-style-type: none"> - Provide a written explanation concerning areas of disagreement with the contractor; and - Require the contractor to propose changes to bring the accounting system into compliance.
8. Request a complete description of proposed accounting changes and the general dollar magnitude of each change on all CAS-covered contracts and subcontracts.	Require the contractor to submit a description of any cost accounting practice change when: <ul style="list-style-type: none"> • A CAS-covered contract award will require a change to established cost accounting practices affecting existing contracts and subcontracts.

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	<ul style="list-style-type: none"> • A determination of noncompliance has been made. • The contractor proposes a voluntary change to disclosed or established cost accounting practices. <p>If the contractor does not submit a required description of a proposed cost accounting practice, change in the form and manner specified, take appropriate action in accordance with FAR 30.602-1(d), 30.602-2(d), or 30.602-3(d).</p>
9. Determine if the proposed accounting change is adequately disclosed and in compliance with CAS.	Review the proposed change concurrently for adequacy and compliance. Obtain any support from the cognizant auditor required to complete the review.
10. Request a cost impact proposal from the contractor.	<p>If the description of the proposed change is both adequate and in compliance with CAS, notify the contractor and request submission of a cost impact proposal.</p> <p>If the contractor does not submit a required cost impact proposal in the form and manner specified, take appropriate action in accordance with FAR 30.602-1(d), 30.602-2(d), or 30.602-3(d).</p>
11. Prepare the Government's position on the amount of the adjustment.	<p>Promptly analyze the cost impact proposal with the assistance of the cognizant auditor. For a proposal that results from:</p> <ul style="list-style-type: none"> • A new or modified standard, determine the impact of the proposal on CAS-covered contracts. • An identified noncompliance with existing standards: <ul style="list-style-type: none"> - Determine the impact of the proposal on CAS-covered contracts; and - Include and separately identify applicable interest on any increased costs paid to the contractor as a result of the noncompliance. • A voluntary change, determine whether or

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	<p>not the proposed change will result in increased costs being paid by the Government. Increased costs from a voluntary change may only be allowed if the ACO determines that the change is desirable and not detrimental to the interest of the Government.</p>
<p>12. Negotiate contract price adjustments, when appropriate.</p>	<p>Invite Contracting Officers to participate in negotiations when the price of any of their contracts may be increased or decreased by \$10,000 or more.</p>
<p>13. Document any negotiated agreement.</p>	<p>When a negotiated agreement is reached:</p> <ul style="list-style-type: none"> • Execute any necessary supplemental agreement(s) to agency contracts. If additional funds are required, request them from the appropriate Contracting Officer. • Prepare a negotiation memorandum and send copies to the: <ul style="list-style-type: none"> - Cognizant auditors; - Contracting Officers of other agencies having prime contracts that require adjustment as a result of the agreement; and - ACO for the next higher-tier subcontractor or prime contractor, as appropriate, for any subcontract that requires adjustment as a result of the agreement. <p>If a contract from another agency requires adjustment as a result of the agreement, that agency must execute a supplemental agreement in the amount required.</p> <p>For a subcontract, the negotiation memorandum serves as the basis for:</p> <ul style="list-style-type: none"> • Negotiation between the subcontractor and the next higher-tier subcontractor or prime contractor; and • Execution of a supplemental agreement

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Tasks	Related Standards
14. If no agreement on the cost or price adjustment is reached within 20 days, take appropriate action.	to the subcontract. Alternatives include: <ul style="list-style-type: none">• Continuing to negotiate; or• Making a unilateral adjustment, subject to contractor appeal as provided under the Disputes clause (52.233-1). If the decision is to make a unilateral adjustment, also take action to collect any amount due the Government as a result of that adjustment.