AEROSPACE INDUSTRIES ASSOCIATION

May 13, 2019

Cost Accounting Standards Board
ATTN: Raymond Wong
Office of Federal Procurement Policy
725 17th Street NW
Washington, DC 20503

Submitted via email to: CASB@omb.eop.gov

SUBJ: Aerospace Industries Association (AIA) Comments on CASB Case Number 2019-01; Staff Discussion Paper (SDP) on "Conformance of CAS to GAAP"

Dear Mr. Wong:

I am pleased to offer the following comments on the subject *Federal Register* notice on behalf of the Aerospace Industries Association of America (AIA), the premier trade association representing nearly 340 of the nation's leading aerospace and defense manufacturers and suppliers. For 100 years, AIA has been the industry voice shaping the policies that matter most to our members. AIA's expertise represents the interests of manufacturers and suppliers of civil, military, and business aircraft, helicopters, unmanned aerial systems, space systems, aircraft engines, missiles, materiel, and related components, equipment, services, and information technology.

AIA strongly supports conformance of Cost Accounting Standards (CAS) with Generally Accepted Accounting Principles (GAAP) "to the maximum extent practicable" in accordance with Section 820 of the National Defense Authorization Act (NDAA) for Fiscal Year (FY) 2017. Eliminating CAS requirements where there is sufficient GAAP or Federal Acquisition Regulation (FAR) coverage epitomizes the type of initiative AIA believes will streamline the acquisition system most effectively: taking incremental, risk-informed steps to apply the more efficient mechanisms and market incentives found in commercial best practices, while also providing reasonable assurance that the Government's interests are protected. AIA believes this effort strikes the optimal balance between the Federal Acquisition System's objectives to "minimize administrative operating costs" while still conducting business "with integrity, fairness, and openness."

Cost Accounting Standards were promulgated to fulfill the government-unique need to achieve uniformity in the measurement, assignment and allocation of costs to U.S. Government (USG) contracts, whereas GAAP provides a uniform and consistent standard for financial reporting. All types of organizations must prepare financial statements and are audited against GAAP; failure to comply with GAAP will make companies less attractive to shareholders and investors and reduce their access to capital on favorable terms. While the Government will always have unique needs that differ from the commercial marketplace, every deviation between government and commercial business practices brings significant opportunity costs for both government and industry through additional administrative burdens and barriers for companies seeking to do business with the Government.

Such government-unique policies and their associated cost should be measured regularly against their benefits. The nineteen CAS Standards were established in the 1970s and early 1980s and have remained virtually unchanged,[1] even as technology, economic practices, and financial accounting (i.e., GAAP) have evolved. Organizations have inherent incentives to ensure they are GAAP compliant and are contractually obligated to comply with the FAR – thus, this SDP is a long overdue and well-reasoned approach to make government accounting more effective and efficient.

In the enclosure that follows, AIA has provided comments on each of the five topic areas addressed within the SDP. Notably, we concur with the assessment of the Cost Accounting Standards Board (CASB) that the grouping of "standards focused primarily on cost measurement and assignment of costs to accounting periods" provides the greatest opportunity to conform CAS with GAAP. CAS 408, *Accounting for Costs of Compensated Personal Absences*, and CAS 409, *Depreciation of Tangible Capital Assets*, present excellent examples of where GAAP provides sufficient coverage to render CAS standards redundant. Accordingly, CAS 408 and 409 should be eliminated.

Thank you for your attention to our comments. Please direct any questions to AIA's Director of Acquisition Policy, Mr. Ronald Youngs at ronald.youngs@aia-aerospace.org or (703) 358-1045.

Sincerely,

John Luddy
Vice President, National Security Policy

Enclosure: AIA Responses to Specific Questions within CASB Case Number 2019-01, Staff Discussion Paper on "Conformance of CAS to GAAP"

[1] There have been a few minor changes such as modifications to thresholds for CAS 404/409 in 1996 and changes to the CAS 412/413 in 1995 and 2012 for emerging pension issues.

AIA Responses to Specific Questions within CASB Case Number 2019-01, Staff Discussion Paper on "Conformance of CAS to GAAP"

Contents

(1) Examples of Potential Benefits and Drawbacks of CAS-GAAP Conformance

Provide comment on the cited examples of potential benefits and drawbacks of CAS-GAAP conformance described in the introduction.

AIA agrees with the CASB's cited examples of potential benefits of CAS-GAAP conformance. We encourage the CASB to take a holistic approach towards considering the potential benefits for all parties in the acquisition process. Eliminating redundant CAS requirements where GAAP coverage is sufficient will free up time and resources — especially those of the Government – for higher priorities. For example, fewer regulations will need to be maintained by the CASB, contractors will not need to maintain as many unique records, DCAA can shift their limited resources away from unique CAS audits to higher priority/risk areas, and there will be one fewer regulatory barrier for new entrants and non-traditional contractors with each government-unique CAS standard eliminated.

(2) Proposed Guiding Principles for Evaluating Benefits and Drawbacks of CAS-GAAP Conformance

Provide comment on the guiding principles proposed for evaluating benefits and drawbacks of actions to conform CAS to GAAP.

AIA agrees with the guiding principles proposed by the CASB for evaluating the benefits and drawbacks of actions to conform CAS to GAAP. A balanced approach must be struck to ensure the interests of the Federal Government are protected and non-value-added burdens on contractors are minimized. If elimination of a requirement in one CAS standard requires a corresponding change in another CAS standard or the Federal Acquisition Regulation (FAR), its overall benefit should be carefully weighed in the aggregate. Above all, there must be a guard against the desire to add requirements to other relevant rules (i.e., the FAR) that infringe on the CASB's exclusive authority over the measurement, assignment and allocation of costs for Government contracts. We believe that future monitoring will be necessary; whether it be future changes in GAAP or FAR, or significant disputes related to the elimination of any CAS requirement to conform to GAAP. The monitoring may result in the need for clarifying guidance or revisions to CAS through the rulemaking process.

(3) Priorities for Action and Initial Thinking on Where Action May Not be Beneficial

Provide comment on the prioritization for action, and initial thinking on where action may not be beneficial, as outlined in the global roadmap.

a. Comments on the approach to conformance, groupings of standards, the assignment of each standard to a particular grouping, the proposed limited scope of the project to only the first grouping of standards and the considerations the Board anticipates using as the basis for the conformance assessments.

AIA agrees with all aspects of the global roadmap that the CASB has set forth for CAS-GAAP conformance. The CASB has appropriately grouped and prioritized the standards for an assessment of conformance.

b. Comments that consider whether CAS 9903.201-4 should be revised if any requirements in CAS are eliminated to protect the interests of the Government and contractors.

In conforming CAS to GAAP, the CASB may introduce new requirements where there is no existing CAS coverage. Such action should be taken sparingly, and only in situations where clarity is needed in the application of CAS. AIA is opposed to the introduction of any overarching requirement (i.e., to 'comply with GAAP') being added to CAS. There is a recognized hierarchy for interpretation of the CAS provisions, which begins with the CASB's standards, rules and regulations, followed by the FAR, then agency FAR supplements, and last, GAAP. *See Rumsfeld v. United Techs. Corp.*, 315 F.3d 1361, 1373 (Fed. Cir. 2003); *Excelis, Inc.,* ASBCA No. 60131, 2016 ASBCA LEXIS 336 (Aug. 29, 2016). Bearing this in mind, we reiterate our agreement with the guiding principles proposed by the CASB for evaluating the benefits and drawbacks of actions to conform CAS to GAAP. As discussed below, implementation of new CAS requirements through the prescribed rulemaking process will apply prospectively and may be priced into future contracts. Retroactive application would result in a breach of contract in accordance with *General Dynamics Corp. v. United States*, 47 Fed. Cl. 514, 545-6 (2000).

CAS 9903.201-4 (the "CAS Clause") is adequate to protect the interests of the Government and contractors. As the CASB observed in the SDP, elimination of CAS requirements in favor of reliance on GAAP would result only in current and prospective application of requirements for purposes of noncompliance determinations. *See* CAS 9903.201-4(a)(3) ("Such compliance shall be required prospectively from the date of applicability of such contract or subcontract.") To the extent the SDP inquires whether changing the CAS Clause could or should permit retroactive noncompliance determinations, such determinations would constitute a breach of contract, which would harm both the Government and contractors. *See General Dynamics Corp. v. United States*, 47 Fed. Cl. 514, 545-6 (2000); *United States v. Winstar Corporation, et al.*, 518 U.S. 839, 135 L. Ed. 2d 964, 116 S. Ct. 2432 (1996). If the CASB revises CAS to conform with GAAP – whether through the elimination or addition of requirements – so long as the CAS revision follows the prescribed rulemaking process, the current CAS Clause will continue to protect the Government and contractors.

The CASB may consider whether this remedy remains desirable to the acquisition process or represents another barrier to entry for new contractors. AIA does not believe Congress intended in Section 820 of the FY17 NDAA for regulations to be expanded exponentially through revisions to the CAS Clause to cover well beyond the 19 CAS to cover every possible methodology under GAAP. We believe there are alternative techniques for Government oversight that would mitigate the risk of a material non-compliance with GAAP, such as real-time annual audits to minimize the length of time a non-compliance may exist before it is found. Additionally, GAAP audits already performed by commercial auditing firms can be relied upon.

(4) Views on the Initial Analysis of CAS 408 and 409 and the Board's Preliminary Observations and Specific Questions for Public Feedback

CAS 408 – Accounting for costs of compensated personal absence
CAS 408 was initially published September 19, 1974 at 39 FR 33681. The preamble for the original publication of CAS 408 states, "this Standard deals primarily with the amount and time recognition of costs of compensated personal absence…detailed criteria for the allocation of costs of compensated personal absence are not included in this Standard."

The preamble identified the following needs for CAS 408: "the most significant problems and issues relate to the amount and timing of recognition of costs of compensated personal absence appear to stem from the reliance of existing procurement regulations on the Internal Revenue Code (IRC) and income tax regulations to govern accounting for these costs." The problem with this reliance was that accrual accounting for vacation pay is permitted, but not required, in the IRC and no rules specified the amount to be accrued.

GAAP has been revised significantly since the original promulgation of CAS 408. GAAP now contains requirements that align closely to those found in CAS 408, enough so to render CAS 408 duplicative of GAAP and unnecessary to protect the Government from the risks identified by the CASB that required the original promulgation of the Standard.

Removal of this Standard eliminates the time and cost of the CASB's maintenance of the Standard, Government audit agencies' maintenance of related audit programs, fieldwork and issuance of audit reports, contractors' support of audits, and Government disposition of audit reports issued. In addition, while CAS 408 is not a deterrent to doing business with the Government on its own, it represents an opportunity to incrementally reduce burdens that deter commercial and nontraditional companies from doing business with the Government.

AIA recommends removing CAS 408 and allowing contractors to follow GAAP in its place. We have provided answers to the CASB's requests for comments within the SDP text below and to the specific queries posed by CASB within its "CAS 408 Requirements Comparison with GAAP" table in Appendix A.

Comments about whether the GAAP requirement of generally assigning the cost of benefits in the year the employee performed services upon which the benefit was earned would result in a materially different result than the requirement in CAS 408-40(a) to accrue only vested benefits earned.
AIA's response is in Appendix A, CAS 408-40 Fundamental Requirement.

Respondents to identify the magnitude of compensated personal absence costs that accumulate but don't vest, as described in GAAP, taking into consideration the reduction for estimated forfeitures.
This request is a significant undertaking that this association could not reasonably undertake in the timeframe provided for response.

Are there any other gaps between CAS 408 and GAAP that the Board did not identify but should consider?
AIA has not identified any additional gaps between CAS 408 and GAAP not already noted by the CASB.

Comments with facts and data of the history of CAS 408 noncompliance issues raised and how they were resolved. In particular, what is the frequency and magnitude of the issues identified on Government contracts? Furthermore, could the issue raised have been considered non-compliant with GAAP, other CAS or FAR?
There is virtually no history of CAS 408 non-compliance issues raised at AIA member companies.

Comments and especially recommendations of any changes to the Standard to conform it to GAAP.
This standard is unnecessary, and AIA recommends that it be rescinded.

CAS 409 – Depreciation of tangible capital assets
The SDP provides us with a framework to consider areas where CAS 409 overlaps with GAAP and in some instances the FAR, with a pause for thought as to whether the requirements set side-by-side are equivalent. We presume if equivalency is determined, either GAAP or the FAR would be considered sufficient, and eliminate the need for duplicative regulation in CAS 409 without materially impacting the way contractors measure, assign or allocate costs to contracts with the United States Government (USG).

The underlying concept of CAS 409 and GAAP pertaining to depreciation is the consistent or equitable assignment of the costs of a depreciable asset to the period which benefits from its use. CAS 409 provides criteria for assigning costs of tangible capital assets to cost accounting periods and for consistent allocation of those costs to benefited cost objectives over the service lives of the assets. GAAP similarly requires that the cost of an asset be spread over the expected useful life of the asset in such a way as to allocate it as equitably as possible to the periods during which services are obtained from the use of the asset. Depreciation should reflect the pattern of consumption of services over the estimated service life of the asset. The majority of CAS 409 requirements are incorporated in FAR 31.2015-11, which states, “depreciation is a charge to current operations that distributes the cost of a tangible capital asset, less estimated residual value, over the estimated useful life of the asset in a systematic and logical manner.” In accordance with this clause, allowable depreciation shall not exceed the amount used for financial accounting purposes and shall be determined in a manner consistent with the depreciable policies and procedures followed in the same segment on non-Government business.

Based on the preamble for CAS 409 published in the *Federal Register* when it was initially promulgated on January 29, 1975, depreciation cost was considered an issue for contracting purposes going back to the 1960s. A number of contractors at that time were relying on the Internal Revenue Code (IRC) to measure depreciation costs. Even then, if contractors used the

IRC method and it yielded materially different assignment of costs to periods than a method that spread the costs over the expected useful life of the asset that resulted in costs being allocated as equitably as possible to the periods in which services were obtained, the contractor would not have been compliant with GAAP. Regardless, GAAP has been updated since then to prohibit use of accelerated depreciation methods in the IRC for financial reporting purposes if the amounts do not fall within a reasonable range of the asset's useful life.

In reviewing and answering the questions and comments posed by the CASB in the SDP, particularly those on depreciation base, useful life, residual value, method of depreciation, allowability and allocation of depreciation cost, AIA concluded that eliminating CAS 409 will not result in a loss of protection for the government envisioned by CAS 409 when it was promulgated. As long as an appropriate service life, depreciation method, and residual value for a tangible capital asset is selected, the result will be a net book value during the asset's lifetime that mitigates the risk of a significant loss/gain at disposition for assets transferred within 12 months.

AIA recommends that CAS 409 be eliminated. We have provided answers to the CASB's requests for comments within the SDP text below, and AIA's responses to specific queries found within "CAS 409 Requirements Comparison with GAAP, Other CAS, FAR" can be found in Appendix B.

Comments about what detailed records contractors would keep and for what purpose (e.g., GAAP compliance) if the requirement in CAS 409 to support service lives with actual historic records was eliminated.

AIA agrees that during the ordinary course of business most contractors maintain some records of assets through disposition that would include dates the assets were put in use and disposed. Notably, contractors that are not subject to CAS 409 are able to demonstrate allowability of their depreciation costs by keeping records that support allowability. Other factors that would encourage recordkeeping on asset acquisition and disposition include; Enterprise Resource Planning (ERP) system asset modules, tax record keeping requirements, the FAR recordkeeping clause and GAAP requirements to match expected expenses with period of benefit.

Comments about the impact to estimated service lives used, if any, anticipated if the requirement to use estimated service lives based on contractor historical experience was eliminated.

Estimated useful life determines the cost allocated to an accounting period for financial reporting purposes and for cost accounting purposes. GAAP requires that the cost of an asset be spread over the expected useful life of an asset. If a contractor uses arbitrary useful lives with no basis to support the useful life of the asset, they would violate GAAP. Historical context is important, but its utility is diminished due to rapid advances in technology in modern day. Historically, automobile lives were often impaired by corrosion of ferrous metals, whereas today, more and more automobile parts are made of composites impervious to corrosion. On the other end of the spectrum, a personal computer may have historically had a certain useful life that coincided with its physical durability, over time the pace of technical obsolescence has reduced practical useful lives.

Fortunately, widespread availability of information via the internet permits consideration of more contemporaneous experience of other users of the same or similar assets at the same technology level and access to suppliers and testing services analyses of an asset that would be more relevant than just the contractor's own experience. Currency is essential, even for historical data. Depreciation costs are subject to annual incurred costs audits, which require a contractor to support claimed cost. These audits, if done timely and focusing on new capitalizations when they occur, would act as a mitigating factor against any perceived risk that needed historical data would not be retained in the absence of CAS 409. The statutory requirement to conduct incurred cost submission audits within a year of submission and standard risk-based auditing precepts support timely review of asset acquisition records, thus affirming accuracy of information then retained in a contractor's information systems to meet the needs of availability of necessary historical experience.

Comments about the frequency of such transfers when asset is disposed within 12 months of the transfer and data about the magnitude of the gains/losses experienced on the assets transferred. In addition, how could the selection of service life, depreciation method, and residual value mitigate the risk of a significant gain/loss at disposition?
This CAS 409 requirement seemingly intends to address a contractor seeking to thwart sharing a gain that offsets previous depreciation with the government by a non-arms-length transfer, such as through a related party at less than fair market value. This action would seem to run afoul of other prohibitions with more serious consequences than those resulting from violating a CAS regulation. The U.S. Securities and Exchange Commission (SEC) would find such a practice fraudulent and manipulative. AIA believes that the elimination of CAS 409 and the requirement related to asset dispositions within 12 months of transfer will have no influence on the practices used by contractors that maintain fair and transparent financial reporting. In general, selection of an appropriate service life, depreciation method, and residual value for a tangible capital asset would result in a net book value during the asset's lifetime that mitigates the risk of a significant gain/loss at disposition.

Comments about how contractors set residual or salvage values for categories of assets and the frequency that for a particular asset the residual value used for CAS and a salvage value used for GAAP are the same.
Residual value is determined by the value a contractor believes an asset will be worth after its period of use. GAAP requires the cost of an asset be spread over the expected useful life of the asset in such a way as to allocate it as equitably as possible to the periods during which services are obtained from the use of the asset. Incorrect residual value would consistently lead to unexpected gains or losses during asset disposition that would indicate incorrect application (thus a violation) of the fundamental GAAP matching principle.

Are there any other gaps between CAS 409 and GAAP that the Board did not identify but should consider?
To rephrase the question, are there any shortcomings in GAAP that fail to measure and assign to periods the costs of tangible fixed assets such that the users of financial statements are not adequately informed and that CAS 409 would remedy? AIA does not envision any. GAAP's

purview, which is not limited to job order costing, is not comprehensive regarding allocation of these expenses once measured and assigned. While CAS 409-40(b) specifically addresses allocation, it seems CAS 418, that purports to address allocation of all costs, should not be wanting if it alone provided the requirements for allocation of depreciation costs assigned to a period.

Comments with facts and data of the history of CAS 409 noncompliance issues raised and how they were resolved. In particular, what is the frequency and magnitude of the issues identified on Government contracts? Furthermore, could the issue raised have been considered non-compliant with GAAP, other CAS or FAR?

There is little history of CAS 409 non-compliance issues raised and resolved at individual contractors. Where identified, these issues did not have a significant monetary impact on the Government and could have been identified by other accounting rules (i.e., GAAP, FAR). Of note, the few CAS 409 non-compliances identified by contractors were generally immaterial and were resolved without direct payments to the Government. Instead they were typically corrected through contract adjustments to the distribution of depreciation costs between accounting periods and contracts. Since adjustments are a redistribution of cost between contracts, there is likely not a significant cost impact to the Government as a whole.

Nevertheless, AIA has provided analysis below to address areas of recent CAS 409 non-compliance experience to the CASB. This non-compliance experience shows three primary categories of issues raised; each is described with a corresponding analysis as to coverage under other rules outside of CAS 409 and potential risk.

1. **Multi-year depreciation**

Contractors were found to have recognized multiple years of depreciation for an asset during a single year because they failed to begin recognizing depreciation beginning in the year the asset was put into service. This would be a GAAP violation. Such circumstances would also be covered as a non-compliance with CAS 406-40(b).

2. **Service lives**

Contractors were found to have selected service lives for assets that were not based on historical experience and contractors could not justify the shorter service lives selected, as required by CAS 409-50(e)(2). As described later in the side-by-side comparison of CAS 409 with GAAP ASC-360-10 pertaining to service lives, GAAP does require the distribution of the cost of a capital asset equitably over its “expected useful life” but the language is not as prescriptive as CAS regarding how to select the length of the service life.

Under GAAP, the service life of the asset is to be the contractor’s best estimate of the useful life and not expressly required (nor blindly constrained) to be based on the contractor’s actual asset history. Neither is there a requirement that a contractor justify estimated service lives which are shorter than such experienced lives when the persuasive justification exists for the service life assigned. In addition, as described earlier, contractors would be expected to continue recordkeeping for not only GAAP, but also due to tax law and other information needs of operating their business.

The use of a longer or shorter service life than what is appropriate may be inequitable to one of the parties when the mix of contract types varies over the years as depreciation is recognized. For example, in situations where a contractor may have a higher percentage of Government flexibly priced contracts in the short run, the Government would effectively fund a greater proportion of the assets' depreciation, if a shorter than appropriate service life was selected. Conversely a contractor's non-flexible USG business may fund a greater proportion of the asset's depreciation if the situation was reversed. The use of inappropriate service lives is also a violation of GAAP because it would mislead users of financial statements.

3. **Residual values**

Contractors did not establish appropriate residual value amounts for assets. This condition would result in higher depreciation being recognized for the asset during its useful life, potentially creating a gain to be recognized when the asset was dispositioned later. Both the depreciation and the later gain would be allocated to Government contracts; however, this influences the timing of cost recognition and reimbursement for the assets cost in an inequitable manner.

CAS 409-50(h) requires that:

> Estimated residual values shall be determined for all tangible capital assets (or groups of assets). For tangible personal property, only estimated residual values that exceed 10 percent of the capitalizable cost of the asset (or group of assets) need to be used in establishing depreciable costs. Where either the declining balance method of depreciation or the class life asset depreciation range system is used consistent with the provisions of this Standard, the residual value need not be deducted from capitalized cost to determine depreciable costs. No depreciation cost shall be charged which would significantly reduce book value of a tangible capital asset (or group of assets) below its residual value.

(Note that the 10 percent threshold does not apply to real property assets).

GAAP (see ASC 360-10-35-4) includes a requirement to deduct the salvage value, which has the same meaning as residual value in CAS, from the value of the tangible capital asset to be depreciated. In addition, FAR further mitigates the risk of a contractor setting no or too low of a residual value. FAR 31.205-11(a) reads in part, "depreciation cost that would significantly reduce the book value of a tangible capital asset below its residual value is unallowable." If a contractor depreciated a tangible capital asset significantly below its residual value, the Government's interests are protected by recovering the excess depreciation as an unallowable cost.

Comments and especially recommendations of any changes to the Standard to conform it to GAAP.

This standard is unnecessary, and AIA recommends that it be rescinded.

(5) Comments on the Board's Preliminary Thinking on Where CAS May Need to be Modified to Conform to GAAP

FASB Accounting Standards Update No. 2016-02 – New Lease Accounting Guidance

Comments on recommended actions, if any, the Board needs to take regarding this GAAP change. The action suggested by respondents may include, but are not limited to, specific revisions to standards or interpretive guidance about specific CAS requirements related to the GAAP change.

Accounting Standards Update (ASU) No. 2016-02 requires organizations that lease assets with lease terms of more than 12 months to recognize on their balance sheet an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments. This concept of "right of use" assets was not contemplated by the original CASB. Since GAAP now requires operating leases to be identified as assets in the financial statement balances for property, plant and equipment (PP&E), the CASB must issue a clarification or interpretation for CAS 403 to state that contractors may use financial statement PP&E balances, excluding operating leases, in the three-factor formula and other PP&E allocation bases. Without such a clarification or interpretation, contractors could experience significant distortion in the allocation of home office expenses and other PP&E based allocations to segment rates, causing unexpected and unwarranted rate changes.

Industry believes there are two simple alternatives to provide the needed clarification. The first alternative would be to add language to CAS 403-50(c)(iii) stating that only the net book value of recorded capital (financing) leases shall be included in the computation and expressly state that the net book value of operating leases shall be excluded from the computation.

Alternatively, the CASB can change the definition of "tangible capital assets" in CAS 403 and CAS 404 to add a sentence after the existing definition (i.e., "tangible capital assets means an asset that has physical substance, more than minimal value, and is expected to be held by an enterprise for continued use or possession beyond the current accounting period for the service it yields) that states "tangible capital assets includes the recorded value of capital (financing) leases and excludes the recorded value of operating leases."

FASB Accounting Standards Update No. 2014-09 – Revenue Recognition

Comments on recommended actions, if any, the Board needs to take regarding this GAAP change. The action suggested by respondents may include, but are not limited to, specific revisions to standards or interpretive guidance about specific CAS requirements related to the GAAP change.

The issuance of Accounting Standards Codification (ASC) 606 provides a new definition of revenue, rendering the definition in CAS 403-30(a)(3) outdated. In response to Section 820 of the FY20NDAA that requires CAS/GAAP conformity where possible, the CASB must now update the CAS definition.

AIA believes that there are several simple alternatives that could be implemented to address the needed changes. First, the CASB could change CAS 403-30(a)(3) to conform to GAAP ASC 606-10-20 by stating: “Operating revenue means inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity’s ongoing major or central operations.” However, if this alternative is used, a special allocation would be required to include non-Government-Owned, Contractor-Operated (GOCO) agency contracts in operating revenue.

A second alternative is to remove the current definition of operating revenue contained in CAS 403-30(a)(3) and revise CAS 403-50(c)(1)(ii) to state: “The percentage of the segment’s operating revenue to the total revenue of all segments. For this purpose, the method used for determining operating revenue for financial accounting and reporting shall be used; however, the operating revenue for any segment shall include amounts charged to other segments and shall be reduced by amounts charged by other segments for purchases.” If this alternative is used, a special allocation would be required to include non-GOCO agency contracts in operating revenue.

A final possible alternative is to leave the current definition in CAS 403-30(a)(3), but add a sentence stating that the revenue method used for financial accounting and reporting may be used.

Any other changes to GAAP and their impact to CAS which merit the Board’s action.
AIA reiterates our agreement with the guiding principles posed by the CASB for evaluating the benefits and drawbacks of actions to conform CAS to GAAP.

Appendix A: AIA Reponses to CASB Queries in CAS 408 Comparison Table

CAS 408 Requirement	GAAP Requirement	Queries
CAS 408-40 Fundamental Requirement		
(a) The costs of compensated personable absence shall be assigned to the cost accounting period or periods in which the entitlement was earned.	ASC 710-10-25-2 A liability for amounts to be paid as a result of employees' rights to compensated absences shall be accrued, considering anticipated forfeitures, in the year in which earned…Furthermore, the definition of a liability does not limit an employer's liability for compensated absences solely to rights to compensation for those absences that eventually vest. The definition also encompasses a constructive obligation for reasonably estimable compensation for past services that, based on the employer's past practices, probably shall be paid and can be reasonably estimated. ASC 710-10-25-1 An employer shall accrue a liability for employees' compensation for future absences is all of the following conditions are met: a. The employer's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered. b. The obligation relates to rights that vest or accumulate. Vested rights are those for which the employer has an obligation to make payment even if an employee terminated; thus, they are not contingent on an employee's future service. Accumulate means that earned but unused rights to	"Entitlement" is defined in CAS 408- 30(a)(2) – an employee's right, whether conditional or unconditional, to receive a determinable amount of compensated personal absence, or pay in lieu thereof. CAS requires the cost to be accrued in the year that an employee becomes entitled to payment. GAAP requires an employee to have rights, either vested or accumulated, to the compensated absences, less those anticipated to be forfeited, to be recorded in the year earned. **CASB QUERY:** *Are these equivalent requirements?* **CASB QUERY:** *If these are not equivalent would FAR 31.201-5 – Credits further mitigate the risk to the Government?* **AIA Response:** Yes, the requirements from CAS and GAAP in this area are equivalent. In identifying compensated personal absences to which rule applies, GAAP refers to the same types as CAS, that is compensated time off for vacation, sick pay, holidays, jury duty, voting or other reasons, unless the amounts are immaterial. Additionally, GAAP requires accrual if certain conditions are met, which

CAS 408 Requirement	GAAP Requirement	Queries
	compensated absences may be carried forward to one or more periods subsequent to that in which they are earned, even though there may be a limit to the amount that can be carried forward. c. Payment of the compensation is probable. d. The amount can be reasonably estimated.	closely mirror the definition of entitlement. In close alignment with CAS, there is a requirement that if a liability (obligation to pay the employee) exists, then the costs are to be accrued; otherwise, as with CAS, the cost of the benefits would be recognized in the year taken on a cash basis. Specifically, GAAP requires accrual of employee's compensation for future absences if all of these criteria are met: (1) The employer's obligation is attributable to employee's services already rendered; (2) The obligation relates to rights that either: • vest—those rights for which the employer has an obligation to make payment even if an employee terminates; thus, they are not contingent on an employee's future service; or • accumulate—those rights that are earned and when unused may be carried forward to one or more periods subsequent to that in which they are earned (although the amount an employee can carry forward may be limited); (3) Payment of the compensation is probable; and (4) The amount can be reasonably estimated.
(b) The costs of compensated personal absence for an entire cost accounting period	No equivalent content for allocation.	**<u>CASB QUERY:</u>** *Do other CAS for cost allocation address this?*

CAS 408 Requirement	GAAP Requirement	Queries
shall be allocated pro-rata on an annual basis among the final cost objectives of that period.		**AIA Response:** There is alignment between CAS and GAAP on the accounting period assignment to recognize the costs. The basis for the accrual under GAAP "is that accumulating or vesting benefits are earned by employees as services are rendered. Accordingly, they should be accrued over the period when the services are performed in accordance with the enterprise's formal policies or, if such policies do not exist, past practices." This is the same for CAS. CAS 418 would provide coverage for proper allocation to final cost objectives of the period.

CAS 408 Requirement	GAAP Requirement	Queries
CAS 408-50 Techniques for Application		
(a) Determinations. Each plan or custom for compensated personal absence shall be considered separately in determining when entitlement is earned. If a plan or custom is changed or a new plan or custom is adopted, then a new determination shall be made beginning with the first cost accounting period to which such new or changed plan or custom applies.	ASC 710-10-25-3, Individual facts and circumstances must be considered in determining when nonvesting rights to compensated personal absences are earned by services rendered. The requirement to accrue a liability for nonvesting rights to compensated absences depends on whether the unused rights expire at the end of the year in which earned or accumulate and are carried forward to succeeding years, thereby increasing the benefits that would otherwise be available in those later years. If the rights expire, a liability for future absences shall not be accrued at year-end because the benefits to be paid in subsequent years would not be attributable to employee services rendered in prior years. (Jury duty and military active leave benefits generally do not accumulate if unused and, unless they accumulate, a liability for those benefits shall not be accrued at year-end.) On the other hand, if unused rights do accumulate and increase the benefits otherwise available in subsequent years, a liability shall be accrued at year-end to the extent that it is probable that employees will be paid in subsequent years for the increased benefits attributable to the accumulated rights and the amount can be reasonably estimated.	In order to apply the GAAP, each compensated absence plan (e.g., vacation time, sick time, military leave) would need to be evaluated separately. **CASB QUERY:** *Are these CAS and GAAP requirements equivalent?* **AIA Response:** Yes, the requirements from CAS and GAAP in this area are equivalent. The rules are written to set out criteria that need to be applied separately to each type of compensated personal absence, as CAS requires. GAAP requires that if benefits are changed during a period, the full effect of the change should be reflected in that period and not deferred and spread over subsequent periods. The timing of recognizing the costs for benefit changes is the same for CAS and GAAP—the period in which the change occurs.
(b) Measurement of entitlement. (1) For purposes of compliance with 9904.408-40(a), compensated personal absence is earned at the same time and in the same amount as the	ASC 710-10-25-1 An employer shall accrue a liability for employees' compensation for future absences if all of the following conditions are met:	**CASB QUERY:** *Is this extension of entitlement in CAS similar to GAAP's requirements to recognize the costs in the year earned when payment is probable? QUERY: Do CAS and*

CAS 408 Requirement	GAAP Requirement	Queries
employer becomes liable to compensate the employee for such absence if the employer terminates the employee's employment for lack of work or other reasons not involving disciplinary action, in accordance with a plan or custom of the employer. Where a new employee must complete a probationary period before the employer becomes liable, the employer may nonetheless treat such service as creating entitlement in any computations required by this Standard, provided that he does so consistently.	a. The employer's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered. b. The obligation relates to rights that vest or accumulate. Vested rights are those for which the employer has an obligation to make payment even if an employee terminates; thus, they are not contingent on an employee's future service. Accumulate means that earned but unused rights to compensated absences may be carried forward to one or more periods subsequent to that in which they are earned, even though there may be a limit to the amount that can be carried forward. c. Payment of the compensation is probable. d. The amount can be reasonably estimated. ASC 710-10-25-2 A liability for amounts to be paid as a result of employees' rights to compensated absences shall be accrued, considering anticipated forfeitures, in the year in which earned. For example, if new employees receive vested rights to two weeks' paid vacation at the beginning of their second year of employment with no pro rata payment in the event of termination during the first year, the two-weeks' vacation shall be	*GAAP align cost recognition in the year in which the employee services were performed upon which the benefit was earned, as long as future payment has reasonable certainty?* **CASB QUERY:** *Do CAS and GAAP avoid cost recognition in the current year of benefits paid in the current year that were earned in the prior year?* **CASB QUERY:** *Are these GAAP requirements together materially equivalent to those in CAS?* **AIA Response:** Yes, the cost measurement requirements from CAS and GAAP in this area are together materially equivalent. Please see response above under CAS 408-40(a) Fundamental Requirement. CAS limits recording cost in the year earned to employees' being entitled to payment if terminated. The corresponding concept in GAAP is "vested rights." However, CAS also allows recognition of costs in the year earned even when an employee must complete a probationary period, so long as this practice is followed consistently. GAAP provides for cost recognition in the year earned of "accumulated rights," meaning earned benefits that may be carried forward to future periods although not paid if an

CAS 408 Requirement	GAAP Requirement	Queries
	considered to be earned by work performed in the first year and an accrual for vacation pay shall be required for new employees during their first year of service, allowing for estimated forfeitures due to turnover. ASC 710-10-15-3 The requirement to accrue a liability for nonvesting rights to compensated absences depends on whether the unused rights expire at the end of the year in which earned or accumulate and are carried forward to succeeding years, thereby increasing the benefits that would otherwise be available in those later years. If the rights expire, a liability for future absences shall not be accrued at year-end because the benefits to be paid in subsequent years would not be attributable to employee services rendered in prior years. (Jury duty and military leave benefits generally do not accumulate if unused and, unless they accumulate, a liability for those benefits shall not be accrued at year-end.) On the other hand, if unused rights do accumulate and increase the benefits otherwise available in subsequent years, a liability shall be accrued at year-end to the extent that it is probable that employees will be paid in subsequent years for the increased benefits attributable to the accumulated rights; and the amount can be reasonably estimated.	employee is terminated. GAAP also requires anticipated forfeitures to be considered when determining the accrual amount.
(b)(2) Where a plan or custom provides for entitlement to be determined as of the first calendar day or the first business day of a cost	ASC 710-10-25-2 A liability for amounts to be paid as a result of employees' rights to compensated absences shall be accrued,	**CASB QUERY:** *Are these requirements equivalent?*

CAS 408 Requirement	GAAP Requirement	Queries
accounting period based on service in the preceding cost accounting period, the entitlement shall be considered to have been earned, and the employer's liability to have arisen, as of the close of the preceding cost accounting period.	considering anticipated forfeitures, in the year in which earned. For example, if new employees receive vested rights to two weeks' paid vacation at the beginning of their second year of employment with no pro rata payment in the event of termination during the first year, the two-weeks' vacation shall be considered to be earned by work performed in the first year and an accrual for vacation pay shall be required for new employees during their first year of service, allowing for estimated forfeitures due to turnover.	**AIA Response:** Yes, the requirements from CAS and GAAP in this area are equivalent. See response to CAS 408-40 (a) Queries above.
(b)(3) In the absence of a determinable liability, in accordance with paragraph (b)(1) of this subsection, compensated personal absence will be considered to be earned only in the cost accounting period in which it is paid.	ASC 710-10-25-1, An employer shall accrue a liability for employees' compensation for future absences if all of the following conditions are met…	No explicit language is in ASC 710-10- 25-1 for absence of a liability. For GAAP, however, no accrual would be recorded when the conditions for a liability are not met and the cost would be recorded in the period in which it is paid. **CASB QUERY:** *Does this result in equivalent treatment for both CAS and GAAP?* **AIA Response:** Yes, the requirements from CAS and GAAP in this area are equivalent. In close alignment with CAS, there is a requirement that if a liability (obligation to pay the employee) exists, then the costs are to be accrued; otherwise, as with CAS, the cost of the benefits would be recognized in the year taken on a cash basis.
(c) Determination of employer's liability. In computing the cost of compensated personal absence, the computation shall give effect to		

CAS 408 Requirement	GAAP Requirement	Queries
the employer's liability in accordance with the following paragraphs.		
(c)(1) The estimated liability shall include all earned entitlement to compensated personal absence which exists at the time the liability is determined, in accordance with paragraph (b) of this subsection.	See ASC 710-10-25-1, ASC 710-10-25-2 and ASC 710-10-25-3 above	**<u>CASB QUERY:</u>** *Do CAS and GAAP require equivalent treatment, notwithstanding the discussion of GAAP recognition of "accumulated rights" versus CAS entitlement shown in comments of CAS 408-50(b)(1)?* **<u>AIA Response:</u>** Yes, the requirements from CAS and GAAP in this area are equivalent. In alignment with CAS, GAAP establishes that the timing of recording the accrual is when "accumulating, or vesting, benefits are earned by employees as services are rendered. Accordingly, they should be accrued over the period when the services are performed..."
(c)(2) The estimated liability shall be reduced to allow for anticipated nonutilization, if material.	ASC 710-10-25-2 A liability for amounts to be paid as a result of employees' rights to compensated absences shall be accrued, considering anticipated forfeitures, in the year in which earned.	**<u>CASB QUERY:</u>** Do CAS and GAAP require equivalent treatment? **<u>AIA Response:</u>** Yes, CAS and GAAP require equivalent treatment in this area. GAAP explicitly addresses nonutilization in alignment with CAS, as "the accrual should be reduced for estimated amounts, if any, that will not be paid due to nonuse, termination, or other reasons."
(c)(3) The liability shall be estimated consistently either in terms of current or of anticipated wage rates. Estimates may be made with respect to individual employees, but such individual estimates shall not be required if he total cost with respect to all employees in the plan can be estimated with	No explicit language in GAAP to use current or anticipated wage rates.	**<u>CASB QUERY:</u>** *Are liabilities under GAAP recorded based on current wage rates?* **<u>AIA Response:</u>** Yes, liabilities under GAAP are recorded based on current wage rates. GAAP addresses salary rates used for the estimates in alignment with CAS as, "Vacation and sick

CAS 408 Requirement	GAAP Requirement	Queries
reasonable accuracy by the use of sample data, experience or other appropriate means.		pay should be accrued using current salary rates, and the accrual should be adjusted when the rates change. It is equally acceptable, though less common, to accrue benefits based on the salary rates expected to be in effect when the employee uses the vacation or sick days." Note that GAAP rules aren't limited to vacation and sick pay, stating that other compensated time off should be accrued in the same manner as vacation or sick pay, unless the amounts are immaterial.
(d) Adjustments. (1) The estimate of the employer's liability for compensated personal absence at the beginning of the first cost accounting period for which a contractor must comply with this standard shall be based on the contractor's plan or custom applicable to that period, notwithstanding that some part of that liability has not previously been recognized for contract costing purposes. Any excess of the amount of the liability as determined in accordance with paragraph (c) of this subsection over the corresponding amount of the liability as determined in accordance with the contactor's previous practice shall be held in suspense and accounted for as described in subparagraph (d)(3) of this subsection.	See ASC 710-10-25-1 and ASC 710-10-25-2 above.	**CASB QUERY:** *Does the GAAP requirement to record accrued personal absence cost in the year earned achieve the equivalent concept of this CAS requirement?* **AIA Response:** Yes, the requirements from CAS and GAAP in this area are equivalent. In close alignment with CAS, there is a requirement that if a liability (obligation to pay the employee) exists, then the costs are to be accrued; otherwise, as with CAS, the cost of the benefits would be recognized in the year taken on a cash basis. **CASB QUERY:** *That is, if a contractor became CAS covered, would the personal absence costs from prior years already have been recognized as cost and not be chargeable to government contracts in the current period?* **AIA Response:** Yes, the GAAP requirement is that when a liability (obligation to pay the

CAS 408 Requirement	GAAP Requirement	Queries
		employee) exists, then the costs are to be accrued.
(d)(2) If a plan or custom is changed or a new plan or custom is adopted, and the new determination made in accordance with paragraph (a) of this subsection results in an increase in the estimate of the employer's liability for compensated personal absence at the beginning of the first cost accounting period for which the new plan is effective over the estimate made in accordance with the contractor's prior practice, then the amount of such increase shall be held in suspense and accounted for as described in paragraph (d)(3) of this subsection.	See ASC 710-10-25-1, ASC 710-10-25-2, and ASC 710-10-25-3 above.	**CASB QUERY:** *Based on experience, are plan changes prospective and recognized beginning in the first period to which the change applies, or are plan changes retroactive to earlier cost accounting periods?* **AIA Response:** Yes, GAAP requires that if benefits are changed during a period, the full effect of the change should be reflected in that period and not deferred and spread over subsequent periods. The timing of recognizing the costs for benefit changes is the same for CAS and GAAP—the period in which the change occurs. **CASB QUERY:** *For GAAP, when would the accrual for the new plan or changes to an existing plan be recorded?* **AIA Response:** As noted above, the timing of recognizing the costs for benefit changes is the same for CAS and GAAP—the period in which the change occurs.
(d)(3) At the close of each cost accounting period, the amount held in suspense shall be reduced by the excess of the amount held in suspense at the beginning of the cost accounting period over the employer's liability	No corresponding content in GAA	**CASB QUERY:** *Based on experience, are plan changes prospective and recognized beginning in the first period to which the change applies, or are plan changes retroactive to earlier cost accounting periods?*

CAS 408 Requirement	GAAP Requirement	Queries
(as estimated in accordance with paragraph (c) of this subsection) at the end of that cost accounting period. The cost of compensated personal absence assigned to that cost accounting period shall be increased by the amount of the excess.		**<u>AIA Response:</u>** In alignment with paragraph (d)(2) in CAS 408-50, GAAP includes rules about changes in personal absence benefit plans. GAAP reads, "If vacation or sick pay benefits are changed during a period, the full effect of the change should be reflected in that period and not deferred and spread over subsequent periods." The "past service" cost associated with the adoption of new plans should be treated similarly. CAS 408-50 paragraphs (d)(1) and (d)(3) refer to adjustments to the accrued liability balance ("suspense"). The CAS language reflects that the personal absence cost for the period will be only that which is earned during the period. Paragraph (d)(1) describes that accrued liabilities related to benefits earned in prior years before CAS coverage cannot be recognized as personal absence costs for Government contracts in the current period. Because GAAP would have required those benefits to be accrued in those prior years, this would not be an issue. Paragraph (d)(3) describes a circumstance where employees would have a liability for accrued time, (e.g., vacation time) which was earned in the current accounting period but will "roll over" for use in the next accounting period and requires that this "excess" liability amount be assigned to the current accounting

CAS 408 Requirement	GAAP Requirement	Queries
		period in which it was earned. Both CAS and GAAP agree on this point, which is that benefits for which a liability exists are to be accrued in the period earned.
(e) Allocations. Except where the use of a longer or shorter period is permitted by the provisions of the Cost Accounting Standard on Cost Accounting Period (9904.406), the cost of compensated personal absence shall be allocated to cost objectives on a pro-rata basis which reflects the total of such costs and the total of the allocation base for the entire cost accounting period. However, this provision shall not preclude revisions to an allocation rate during a cost accounting period based on revised estimates of period totals.	No corresponding content in GAAP	**CASB QUERY:** *Would CAS 406 address this gap?* **AIA Response:** Yes, CAS 406 essentially requires contractors to use their fiscal year as their cost accounting period for the allocation of Government contract costs. There are very few acceptable deviations from using fiscal year and those include the following: 1. if the period used is the contractor's established practice, 2. the period used for Federal income tax reporting, 3. or if the contractor and US Government mutually agree. Additionally, CAS 406 further protects the interests of the Government and contractors as once a contractor selects a cost accounting period, it must be followed consistently, and any change is treated as a cost accounting practice change.

Appendix B: AIA Reponses to CASB Queries in CAS 409 Comparison Table

CAS 409 Requirement	GAAP Requirement	Queries
CAS 409-40 Fundamental Requirement		
(a) The depreciable cost of a tangible capital asset (or group of assets) shall be assigned to cost accounting periods in accordance with the following criteria:	ASC 360-10-35-4 The cost of a productive facility is one of the costs of the services it renders during its useful economic life. Generally accepted accounting principles (GAAP) require that this cost be spread over the expected useful life of the facility in such a way as to allocate it as equitably as possible to the periods during which services are obtained from the use of the facility. This procedure is known as depreciation accounting, a system of accounting which aims to distribute the cost or other basic value of tangible capital assets, less salvage (if any), over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner.	**CASB QUERY:** *Are these equivalent concepts for recognizing the cost of a capital asset, or group of assets, over a number of accounting periods?* **AIA Response:** Yes, they both address how the cost of an asset is spread over its useful economic life. *See* CAS 409-20 Purpose. "The Standard is based on the concept that depreciation costs identified with cost accounting periods and benefiting cost objectives within periods should be a reasonable measure of the expiration of service potential of the tangible assets subject to depreciation. Adherence to this Standard should provide a systematic and rational flow of the costs of tangible capital assets to benefitted cost objectives over the expected service lives of the assets."
(1) The depreciable cost of a tangible capital asset shall be its capitalized cost less its estimated residual value.	ASC 360-10-35-4 - This procedure is known as depreciation accounting, a system of accounting which aims to distribute the cost or other basic value of tangible capital assets, less salvage (if any), over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner.	**CASB QUERY:** *Are these concepts of residual value and salvage value equivalent?* **AIA Response:** Yes. The needs of financial statement users supported by GAAP dictate the equivalency. Same as well for queries herein for -40(a)2, 3, and 4; -50(a), (b), (c), (d), (e), (f), (g) and (i).
(2) The estimated service life of a tangible capital asset (or group of assets) shall be used	ASC 360-10-35-4 - Generally accepted accounting principles (GAAP) require that this	**CASB QUERY:** *Are these concepts of estimated service life and useful life equivalent?*

CAS 409 Requirement	GAAP Requirement	Queries
to determine the cost accounting periods to which the depreciable cost will be assigned.	cost be spread over the expected useful life of the facility in such a way as to allocate it as equitably as possible to the periods during which services are obtained from the use of the facility.	**<u>AIA Response:</u>** Yes
(3) The method of depreciation selected for assigning the depreciable cost of a tangible capital asset (or group of assets) to the cost accounting periods representing its estimated service life shall reflect the pattern of consumption of services over the life of the asset.	ASC 360-10-35-4 –above ASC 360-10-35-7 – The declining-balance method is an example of one of the methods that meet the requirements of being systematic and rational. If the expected productivity or revenue earning power of the asset is relatively greater during the earlier years of its life, or maintenance charges tend to increase during later years, the declining-balance method may provide the most satisfactory allocation of cost. That conclusion also applies to other methods, including the sum -of- the-years'-digits method that produces substantially similar results.	**<u>CASB QUERY:</u>** *Are the selection criteria in CAS and GAAP of matching the pattern of asset consumption to the method of depreciation equivalent?* **<u>AIA Response:</u>** Yes
(4) The gain or loss which is recognized upon disposition of a tangible capital asset shall be assigned to the cost accounting period in which the disposition occurs.	ASC 360-10-40-5 A gain or loss not previously recognized that results from the sale of a long-lived asset (disposal group) shall be recognized at the date of sale.	**<u>CASB QUERY:</u>** *Are the CAS and GAAP requirements for recognition of a gain or loss on disposition in the period in which it occurs equivalent?* In addition, FAR 31.205-16(a) requires that – Gains and losses from the sale, retirement, or other disposition (but see 31.205-19) of depreciable property shall be included in the year in which they occur as credits or charges to the cost grouping(s) in which the depreciation or amortization applicable to

CAS 409 Requirement	GAAP Requirement	Queries
		those assets was included (but see paragraph (f) of this [FAR] subsection). **AIA Response:** Yes
(b) The annual depreciation cost of a tangible capital asset (or group of assets) shall be allocated to cost objectives for which it provides service in accordance with the following criteria:	No corresponding content in GAAP.	
(1) Depreciation cost may be charged directly to cost objectives only if such charges are made on the basis of usage and only if depreciation costs of all like assets used for similar purposes are charged in the same manner	No corresponding content in GAAP.	**CASB QUERY:** *Are there requirements in other CAS that address this?* For example, CAS 402-40 – All costs incurred for the same purpose, in like circumstances, are either direct costs only or indirect costs only with respect to final cost objectives. In addition, CAS 418 specifically addresses the allocation of direct and indirect costs. **AIA Response:** Yes, allocation of direct and indirect costs is covered by other CAS. There is no rationale for treating depreciation costs measured and assigned to a period differently from all the other costs (both direct and indirect) for which CAS 418 provides requirements for allocation.
(2) Where tangible capital assets are part of, or function as, an organizational unit whose	No corresponding content in GAAP.	**CASB QUERY:** *Do requirements in other CAS address this?*

CAS 409 Requirement	GAAP Requirement	Queries
costs are charged to other cost objectives based on measurement of the services provided by the organizational unit, the depreciation cost of such assets shall be included as part of the cost of the organizational unit.		For example, CAS 418-40(c) – Pooled costs shall be allocated to cost objectives in reasonable proportion to the beneficial or causal relationship of the pooled costs to cost objectives as follows: (1) If a material amount of the costs included in a cost pool are costs of management or supervision of activities involving direct labor or direct material costs, resource consumption cannot be specifically identified with cost objectives. In that circumstance, a base shall be used which is representative of the activity being managed or supervised. (2) If the cost pool does not contain a material amount of the costs of management or supervision of activities involving direct labor or direct material costs, resource consumption can be specifically identified with cost objectives. The pooled cost shall be allocated based on the specific identifiability of resource consumption with cost objectives by means of one of the following allocation bases: (i) A resource consumption measure, (ii) An output measure, or (iii) A surrogate that is representative of resources consumed. There is related content in FAR as well. FAR 31.203(b) –After direct costs have been determined and charged directly to the contract or other work, indirect costs are those remaining to be allocated to

CAS 409 Requirement	GAAP Requirement	Queries
		intermediate or two or more final cost objectives. No final cost objective shall have allocated to it as an indirect cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included as a direct cost of that or any other final cost objective. FAR 31.203(c) – The contractor shall accumulate indirect costs by logical cost groupings with due consideration of the reasons for incurring such costs. The contractor shall determine each grouping so as to permit use of an allocation base that is common to all cost objectives to which the grouping is to be allocated. The base selected shall allocate the grouping on the basis of the benefits accruing to intermediate and final cost objectives. When substantially the same results can be achieved through less precise methods, the number and composition of cost groupings should be governed by practical considerations and should not unduly complicate the allocation. **AIA Response:** Yes
(3) Depreciation costs which are not allocated in accordance with paragraph (b) (1) or (2) of this subsection, shall be included in appropriate indirect cost pools.	No corresponding content in GAAP.	**CASB QUERY:** *Do requirements in other CAS address this? CAS 418 and FAR 31.203 (b) & (c) – see above.* **AIA Response:** Yes

CAS 409 Requirement	GAAP Requirement	Queries
(4) The gain or loss which is recognized upon disposition of a tangible capital asset, where material in amount, shall be allocated in the same manner as the depreciation cost of the asset has been or would have been allocated for the cost accounting period in which the disposition occurs. Where such gain or loss is not material, the amount may be included in an appropriate indirect cost pool.	No corresponding content in GAAP.	Typically, the gain or loss on disposition of an asset is recorded in the same cost pool as the depreciation cost would have been. This would be consistent with the requirements of CAS 418 (see above). In addition, see FAR 31.205-16(a) – Gains and losses from the sale, retirement, or other disposition (but see 31.205-19) of depreciable property shall be included in the year in which they occur as credits or charges to the cost grouping(s) in which the depreciation or amortization applicable to those assets was included (but see paragraph (f) of this [FAR] subsection).

CAS 409 Requirement	GAAP Requirement	Queries
CAS 409-50 Techniques for Application		
(a) Determination of the appropriate depreciation charges involves estimates both of service life and of the likely pattern of consumption of services in the cost accounting periods included in such life. In selecting service life estimates and in selecting depreciation methods, many of the same physical and economic factors should be considered. The following are among the factors which may be taken into account: Quantity and quality of expected output, and the timing thereof; costs of repair and maintenance, and the timing thereof; standby or incidental use and the timing thereof; and technical or economic obsolescence of the asset (or group of assets), or of the product or service it is involved in producing.	ASC 360-10-35-3 Depreciation expense in the financial statements for an asset shall be determined based on an asset's useful life. ASC 360-10-35-4 The cost of a productive facility is one of the costs of the services it renders during its useful economic life. Generally accepted accounting principles (GAAP) require that this cost be spread over the expected useful life of the facility in such a way as to allocate it as equitably as possible to the periods during which services are obtained from the use of the facility. This procedure is known as depreciation accounting, a system of accounting which aims to distribute the cost or other basic value of tangible capital assets, less salvage (if any), over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner. ASC 360-10-35-33 The service potential of a long-lived asset (asset group) encompasses its remaining useful life, cash-flow-generating capacity, and for tangible assets, physical output capacity. Those estimates shall include cash flows associated with future expenditures necessary to maintain the existing service potential of a long-lived asset (asset group), including those that replace the service potential of component parts of a long-lived asset (for example, the roof of a building) and	The determination of depreciation amounts for both CAS and GAAP include the elements of service life (useful life) of the asset and a methodology that results in recognition of the cost in the periods during which the asset provides services and in a pattern reflective of the relative productivity of the asset. **CASB QUERY:** *Are these equivalent?* In addition, FAR 2.101(b) – "Depreciation" means a charge to current operations that distributes the cost of a tangible capital asset, less estimated residual value, over the estimated useful life of the asset in a systematic and logical manner. It does not involve a process of valuation. Useful life refers to the prospective period of economic usefulness in a particular contractor's operations as distinguished from physical life; it is evidenced by the actual or estimated retirement and replacement practice of the contractor. **AIA Response:** Yes

CAS 409 Requirement	GAAP Requirement	Queries
	component assets other than the primary asset of an asset group. ASC 360-10-35-7 The declining-balance method is an example of one of the methods that meet the requirements of being systematic and rational. If the expected productivity or revenue-earning power of the asset is greater during the earlier years of its life, or maintenance charges tend to increase in later years, the declining-balance method may provide the most satisfactory allocation of cost. ASC 360-10-35-8 – In practice, experience regarding loss or damage to depreciable assets is in some cases one of the factors considered in estimating the depreciable lives of a group of depreciable assets, along with such other factors as wear and tear, obsolescence, and maintenance and replacement policies.	
(b) Depreciation of a tangible capital asset shall begin when the asset and any others on which its effective use depends are ready for use in a normal or acceptable fashion. However, where partial utilization of a tangible capital asset is identified with a specific operation, depreciation shall commence on any portion of the asset which is substantially completed and used for that operation. Depreciable spare parts which are required for the operation of such tangible	ASC 835-20-25-5 –The capitalization period shall end when the asset is substantially complete and ready for its intended use. ASC 360-10-35-4 see above.	Both CAS and GAAP require depreciation to begin when an asset is substantially complete and ready for use. CAS provides additional information about partial utilization and spare parts that is not explicitly included in GAAP. **CASB QUERY:** *Based on interpreting GAAP, would it result in the same cost treatment as CAS without the explicit language?*

CAS 409 Requirement	GAAP Requirement	Queries
capital assets shall be accounted for over the service life of the assets.		**<u>AIA Response:</u>** Yes, the “substantially complete and ready for its intended use” language would meet the requirement of when depreciation should begin.
(c) A consistent policy shall be followed in determining the depreciable cost to be assigned to the beginning and ending cost accounting periods of asset use. The policy may provide for any reasonable starting and ending dates in computing the first and last year depreciable cost.	ASC 250-10-45-1 – A presumption exists that an accounting principle once adopted shall not be changed in accounting for events and transactions of a similar type. Consistent use of the same accounting principle from one accounting period to another enhances the utility of financial statements for users by facilitating analysis and understanding of comparative accounting data.” ASC 250-10-45-2(b) – A reporting entity shall change an accounting principle only if either of the following apply: a. The change is required by a newly issued Codification update. b. The entity can justify the use of an allowable alternative accounting principle on the basis that it is preferable.	**<u>CASB QUERY:</u>** *Are these CAS and GAAP requirements for consistency equivalent?* **<u>CASB QUERY:</u>** *In addition, are other requirements of CAS addressing consistency relevant?* 48 CFR 9903.201-4(a)(2), CAS clause [FAR 52.230-2] (a)(2) – Follow consistently the Contractor's cost accounting practices in accumulating and reporting contract performance cost data concerning this contract. If any change in cost accounting practices is made for the purposes of any contract or subcontract subject to CAS requirements, the change must be applied prospectively to this contract and the Disclosure Statement must be amended accordingly. If the contract price or cost allowance of this contract is affected by such changes, adjustment shall be made in accordance with subparagraph (a)(4) or (a)(5) of this clause, as appropriate. **<u>AIA Response:</u>** Yes, and yes. We concur with the examples provided here as providing coverage for consistency in depreciation method.

CAS 409 Requirement	GAAP Requirement	Queries
(d) Tangible capital assets may be accounted for by treating each individual asset as an accounting unit, or by combining two or more assets as a single accounting unit, provided such treatment is consistently applied over the service life of the asset or group of assets.	ASC 360-10-35-4, ASC 250-10-45-1, ASC 250-10-45-2(b) see above.	**CASB QUERY:** *Are CAS and GAAP equivalent for the treatment of assets individually or as a group of assets?* **CASB QUERY:** *Could consistency in the cost treatment be addressed as described above in ASC 250-10-45-1 and ASC 250-10-45-2(b) and 48 CFR 9903.201-4(a)(2)?* **AIA Response:** Yes, and yes.
(e) Estimated service lives initially established for tangible capital assets (or groups of assets) shall be reasonable approximations of their expected actual periods of usefulness, considering the factors mentioned in paragraph (a) of this subsection. The estimate of the expected actual periods of usefulness need not include the additional period tangible capital assets are retained for standby or incidental use where adequate records are maintained which reflect the withdrawal from active use. (1) The expected actual periods of usefulness shall be those periods which are supported by records of either past retirement or, where available, withdrawal from active use (and retention for standby or incidental use) for like assets (or groups of assets) used in similar circumstances appropriately modified for specifically identified factors expected to influence future lives. The factors which can be used to modify past experience include:	ASC 360-10-35-4, ASC 360-10-35-8 and ASC 360-10-35-33 see above. ASC 360-10-35-21 A long-lived asset (asset group) shall be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The following are examples of such events or changes in circumstances: a. A significant decrease in the market price of a long-lived asset (asset group) b. A significant adverse change in the extent or manner in which a long-lived asset (asset group) is being used or in its physical condition c. A significant change in legal factors or in the business climate that could affect the value of a long-lived asset (asset group), including an adverse action or assessment by a regulator	Although CAS and GAAP both require the selection of a service life within a reasonable range of the asset's useful life, CAS is more prescriptive and certain record keeping is explicitly required. **CASB QUERY:** *Would the records maintained to support the claim of Facilities Capital Cost of Money under CAS 417 be similar to those required CAS 409-50(e)(2)?* **CASB QUERY:** *Would these records be maintained as part of any other ordinary business practice?* Both CAS and GAAP require some consideration of actual asset experience when selecting service lives and depreciation methods for assets, although CAS is more prescriptive.

CAS 409 Requirement	GAAP Requirement	Queries
(i) Changes in expected physical usefulness from that which has been experienced such as changes in the quantity and quality of expected output. (ii) Changes in expected economic usefulness, such as changes in expected technical or economic obsolescence of the asset (or group of assets), or of the product or service produced. (2) Supporting records shall be maintained which are adequate to show the age at retirement or, if the contractor so chooses, at withdrawal from active use (and retention for standby or incidental use) for a sample of assets for each significant category. Whether assets are accounted for individually or by groups, the basis for estimating service life shall be predicated on supporting records of experienced lives for either individual assets or any reasonable grouping of assets as long as that basis is consistently used. The burden shall be on the contractor to justify estimated service lives which are shorter than such experienced lives.	d. An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset (asset group) e. A current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset (asset group) f. A current expectation that, more likely than not, a long-lived asset (asset group) will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. ASC 360-10-35-22 When a long-lived asset (asset group) is tested for recoverability, it also may be necessary to review depreciation estimates and method as required by Topic 250 or the amortization period as required by Topic 350. Paragraphs 250-10-45-17 through 45-20 and 250-10-50-4 address the accounting changes in estimates, including changes in the method of depreciation, amortization, and depletion. Paragraphs 350-30-35-1 through 35-5 address the determination of the useful life of an intangible asset. Any revision to the remaining useful life of a long-lived asset resulting from that review also shall be	In addition, FAR 2.101(b) – "Depreciation" means a charge to current operations that distributes the cost of a tangible capital asset, less estimated residual value, over the estimated useful life of the asset in a systematic and logical manner. It does not involve a process of valuation. Useful life refers to the prospective period of economic usefulness in a particular contractor's operations as distinguished from physical life; it is evidenced by the actual or estimated retirement and replacement practice of the contractor. **AIA Response:** Yes, and yes. In the ordinary course of business, contractors maintain records of assets through disposition that would include dates the assets were put in use and disposed. Beyond for just GAAP purposes, the records would also be maintained for tax requirements and general management information needs. Contractors not subject to CAS 409 are able to demonstrate allowability of their depreciation costs by keeping records that support allowability. Other factors include the commonality of systems for asset management including ERP asset modules, and FAR recordkeeping clauses.

CAS 409 Requirement	GAAP Requirement	Queries
	considered in developing estimates of future cash flows to test the asset (asset group) for recoverability (see paragraphs 360-10-35-31 through 35-32). However, any change in the accounting method for the asset resulting from that review shall be made only after applying this Subtopic. ASC 360-10-35-30 Estimates of future cash flows used to test the recoverability of a long-lived asset (asset group) shall incorporate the entity's own assumptions about its use of the asset (asset group) and shall consider all available evidence. The assumptions used in developing those estimates shall be reasonable in relation to assumptions used in developing other information used by the entity for comparable periods, such as internal budgets and projections, accruals related to incentive compensation plans, or information communicated to others.	
(3) The records required in subparagraphs (e)(1) and (2) of this subsection, if not available on the date when the requirements of this Standard must first be followed by a contractor, shall be developed from current and historical fixed asset records and be available following the second fiscal year after that date. They shall be used as a basis for estimates of service lives of tangible capital assets acquired thereafter. Estimated service lives used for financial accounting purposes (or other accounting purposes where depreciation	No corresponding content for explicit record keeping in GAAP, however see ASC 360-10- 35-21, ASC 360-10-35-22 and ASC 360-10-35- 30 above.	GAAP does not require the same prescriptive record-keeping as CAS nor explicit reliance on historical records for selecting service lives. GAAP does, however, refer to using actual experience to review depreciation estimates and methods and making changes to them.

CAS 409 Requirement	GAAP Requirement	Queries
is not recorded for financial accounting purposes for some noncommercial organizations), if not unreasonable under the criteria specified in paragraph (e) of this subsection, shall be used until adequate supporting records are available.		
(4) Estimated service lives for tangible capital assets for which the contractor has no available data or no prior experience for similar assets shall be established based on a projection of the expected actual period of usefulness, but shall not be less than asset guideline periods (mid-range) established for asset guideline classes under Internal Revenue Procedures which are in effect as of the first day of the cost accounting period in which the assets are acquired. Use of this alternative procedure shall cease as soon as the contractor is able to develop estimates which are appropriately supported by his own experience.	No corresponding content for explicit record keeping in GAAP, however, see ASC 360-10-35-4, .ASC 360-10-35-21 ,ASC 360-10-35-22 and ASC 360-10-35-30 above.	GAAP does not require the same prescriptive record-keeping as CAS nor explicit reliance on historical records for selecting service lives. GAAP does, however, refer to using actual experience to review depreciation estimates and methods and making changes to them. The record keeping for service lives is identified as a gap by the Board.
(5) The contracting parties may agree on the estimated service life of individual tangible capital assets where the unique purpose for which the equipment was acquired or other special circumstances warrant a shorter estimated service life than the life determined in accordance with the other provisions of this 9904.409-50(e) and where the shorter life can be reasonably predicted.	No corresponding content in GAAP.	There are regulatory provisions for a contractor and the government to make agreements. See FAR 31.109(a) – To avoid possible subsequent disallowance or dispute based on unreasonableness, unallocability or unallowability under the specific cost principles at Subparts 31.2, 31.3, 31.6, and 31.7, contracting officers and contractors should seek advance agreement on the treatment of special or unusual costs and on statistical sampling methodologies at 31.201-6(c).

CAS 409 Requirement	GAAP Requirement	Queries
(f)(1) The method of depreciation used for financial accounting purposes (or other accounting purposes where depreciation is not recorded for financial accounting purposes) shall be used for contract costing unless: (i) Such method does not reasonably reflect the expected consumption of services for the tangible capital asset (or group of assets) to which applied, or (ii) The method is unacceptable for Federal income tax purposes. [(f)(1) continued.] If the contractors' method of depreciation used for financial accounting purposes (or other accounting purposes as provided above) does not reasonably reflect he expected consumption of services or is unacceptable for Federal income tax purposes, he shall establish a method of depreciation for contract costing which meets these criteria, in accordance with subparagraph (f)(3) of this subsection.	ASC 360-10-35-4 – The cost of a productive facility is one of the costs of the services it renders during its useful economic life. Generally accepted accounting principles (GAAP) require that this cost be spread over the expected useful life of the facility in such a way as to allocate it as equitably as possible to the periods during which services are obtained from the use of the facility. This procedure is known as depreciation accounting, a system of accounting which aims to distribute the cost or other basic value of tangible capital assets, less salvage (if any), over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner. ASC 360-10-35-7 – The declining-balance method is an example of one of the methods that meet the requirements of being systematic and rational. If the expected productivity or revenue earning power of the asset is relatively greater during the earlier years of its life, or maintenance charges tend to increase during later years, the declining-balance method may provide the most satisfactory allocation of cost. That conclusion also applies to other methods, including the sum-of-the-years'-digits method, that produce substantially similar results. ASC 360-10-35-9 If the number of years specified by the Accelerated Cost Recovery System of the Internal Revenue Service (IRS)	CAS relies on the GAAP method of depreciation today, although with certain exceptions. Both CAS and GAAP generally reject the use of accelerated deprecation using the IRS rules.

CAS 409 Requirement	GAAP Requirement	Queries
	for recovery deductions for an asset does not fall within a reasonable range of the asset's useful life, the recovery deductions shall not be used as depreciation for financial reporting.	
(2) After the date of initial applicability of this Standard, selection of methods of depreciation for newly acquired tangible capital assets, which are different from the methods currently being used for like assets in similar circumstances, shall be supported by projections of the expected consumption of services of those assets (or groups of assets) to which the different methods of depreciation shall apply. Support in accordance with paragraph (f)(3) of this subsection shall be based on the expected consumption of services of either individual assets or any reasonable grouping of assets as long as the basis selected for grouping assets is consistently used.	No corresponding content for explicit record keeping in GAAP, however see ASC 360-10- 35-4, .ASC 360-10-35-21, ASC 360-10-35-22 and ASC 360-10-35-30 above.	GAAP does not require the same prescriptive record-keeping as CAS nor explicit reliance on historical records for selecting depreciation methods. GAAP does, however, refer to using actual experience to review depreciation estimates and methods and making changes to them.
(3) The expected consumption of asset services over the estimated service life of a tangible capital asset (or group of assets) is influenced by the factors mentioned in paragraph (a) of this subsection which affect either potential activity or potential output of the asset (or group of assets). These factors may be measured by the expected activity or the expected physical output of the assets, as for example: Hours of operation, number of operations performed, number of units produced, or number of miles traveled. An acceptable surrogate for expected activity or	See ASC 360-10-35-4, ASC 360-10-35-7 and ASC 360-10-35-22 above.	CAS is more prescriptive than GAAP regarding the factors for selecting a depreciation method, however both CAS and GAAP require selection of a method which aligns with the pattern of consumption or productivity of the asset. **<u>CASB QUERY:</u>** *Is the resulting cost treatment for CAS and GAAP equivalent?* **<u>AIA Response:</u>** Yes. CAS 409 provides criteria for assigning costs of tangible capital assets to cost accounting periods and for consistent

CAS 409 Requirement	GAAP Requirement	Queries
output might be a monetary measure of that activity or output generated by use of tangible capital assets, such as estimated labor dollars, total cost incurred or total revenues, to the extent that such monetary measures can reasonably be related to the usage of specific tangible capital assets (or groups of assets). In the absence of reliable data for the measurement or estimation of the consumption of asset services by the techniques mentioned, the expected consumption of services may be represented by the passage of time. The appropriate method of depreciation should be selected as follows: (i) An accelerated method of depreciation is appropriate where the expected consumption of asset services is significantly greater in early years of asset life. (ii) The straight-line method of depreciation is appropriate where the expected consumption of asset services is reasonably level over the service life of the asset (or group of assets).		allocation of those costs to benefited cost objectives over the service lives of the assets. GAAP similarly require that the cost of an asset be spread over the expected useful life of the asset in such a way as to allocate it as equitably as possible to the periods during which services are obtained from the use of the asset.
(g) The estimated service life and method of depreciation to be used for an original complement of low-cost equipment shall be based on the expected consumption of services over the expected useful life of the complement as a whole and shall not be based	ASC 360-10-35-4 see above.	CAS is more detailed than GAAP, but both rules have content for an original complement or asset group. **<u>CASB QUERY:</u>** *Do CAS and GAAP result in equivalent cost treatment of an asset group?*

CAS 409 Requirement	GAAP Requirement	Queries
on the individual items which form the complement.		**AIA Response:** Yes
(h) Estimated residual values shall be determined for all tangible capital assets (or groups of assets). For tangible personal property, only estimated residual values which exceed ten percent of the capitalized cost of the asset (or group of assets) need be used in establishing depreciable costs. Where either the declining balance method of depreciation or the class life asset depreciation range system is used consistent with the provisions of this Standard, the residual value need not be deducted from capitalized cost to determine depreciable costs. No depreciation cost shall be charged which would significantly reduce book value of a tangible capital asset (or group of assets) below its residual value.	ASC 360-10-35-4 and ASC 360-10-35-33 see above.	CAS has more prescriptive requirements for establishing residual values. GAAP refers to salvage value being a reduction to the depreciable asset value and is more focused on the reasonableness of the carrying value of the asset going forward in comparison to the remaining productivity of the asset. This has been identified as a gap by the Board. The CAS 409 language can also be found in FAR 31.205-11(a) – For tangible personal property, only estimated residual values that exceed 10 percent of the capitalized cost of the asset need be used in establishing depreciable costs. Where either the declining balance method of depreciation or the class life asset depreciation range system is used, the residual value need not be deducted from capitalized cost to determine depreciable costs. Depreciation cost that would significantly reduce the book value of a tangible capital asset below its residual value is unallowable.
(i) Estimates of service life, consumption of services, and residual value shall be reexamined for tangible capital assets (or groups of assets) whenever circumstances change significantly. Where changes are made to the estimated service life, residual value, or method of depreciation during the life of a tangible capital asset, the remaining	ASC 250-10-20 – Change in Accounting Estimate. A change that has the effect of adjusting the carrying amount of an existing asset or liability or altering the subsequent accounting for existing or future assets or liabilities. A change in accounting estimate is a necessary consequence of the assessment, in conjunction with the periodic presentation of	**CASB QUERY:** *Are CAS and GAAP equivalent?* In addition, FAR 31.205-11(g)(2) – In the event of a write-down from carrying value to fair value as a result of impairments caused by events or changes in circumstances, allowable depreciation of the impaired assets is limited to the amounts that would have been allowed

CAS 409 Requirement	GAAP Requirement	Queries
depreciable costs for cost accounting purposes shall be limited to the undepreciated cost of the assets and shall be assigned only to the cost accounting period in which the change is made and to subsequent periods.	financial statements, of the present status and expected future benefits and obligations associated with assets and liabilities. Changes in accounting estimates result from new information. Examples of items for which estimates are necessary are uncollectible receivables, inventory obsolescence, service lives and salvage values of depreciable assets, and warranty obligations. ASC 360-10-35-22 – When a long-lived asset (asset group) is tested for recoverability, it also may be necessary to review depreciation estimates and method as required by Topic 250 or the amortization period as required by Topic 350. Paragraphs 250-10-45-17 through 45-20 and 250-10-50-4 address the accounting for changes in estimates, including changes in the method of depreciation, amortization, and depletion. Paragraphs 350-30-35-1 through 35-5 address the determination of the useful life of an intangible asset. Any revision to the remaining useful life of a long-lived asset resulting from that review also shall be considered in developing estimates of future cash flows used to test the asset (asset group) for recoverability (see paragraphs 360-10-35-31 through 35-32). However, any change in the accounting method for the asset resulting from that review shall be made only after applying this Subtopic. ASC 250-10-45-17 – A change in accounting estimate shall be accounted for in the period of change if the	had the assets not been written down (see 31.205-16(g)). However, this does not preclude a change in depreciation resulting from other causes such as permissible changes in estimates of service life, consumption of services, or residual value. Other causes such as permissible changes in estimates of service life, consumption of services, or residual value. **AIA Response:** Yes, they both allude to consistency in useful life and process in changing established depreciation method or useful life.

CAS 409 Requirement	GAAP Requirement	Queries
	change affects that period only or in the period of change and future periods if the change affects both. A change in accounting estimate shall not be accounted for by restating or retrospectively adjusting amounts reported in financial statements of prior periods or by reporting pro forma amounts for prior periods.	
(j)(1) Gains and losses on disposition of tangible capital assets shall be considered as adjustments of depreciation costs previously recognized and shall be assigned to the cost accounting period in which disposition occurs except as provided in subparagraphs (j) (2) and (3) of this subsection. The gain or loss for each asset disposed of is the difference between the net amount realized, including insurance proceeds in the event of involuntary conversion, and its undepreciated balance. However, the gain to be recognized for contract costing purposes shall be limited to the difference between the original acquisition cost of the asset and its undepreciated balance.	No corresponding content in GAAP, except for the measurement of gains and losses described above.	No corresponding GAAP requirements, however, there is applicable content in FAR. FAR 31.205-16(a) – Gains and losses from the sale, retirement, or other disposition (but see 31.205-19) of depreciable property shall be included in the year in which they occur as credits or charges to the cost grouping(s) in which the depreciation or amortization applicable to those assets was included (but see paragraph (f) of this [FAR] subsection). However, no gain or loss shall be recognized as a result of the transfer of assets in a business combination (see 31.205-52). FAR 31.205-16(c) – Gains and losses on disposition of tangible capital assets, including those acquired under capital leases (see 31.205-11(h)), shall be considered as adjustments of depreciation costs previously recognized. The gain or loss for each asset disposed of is the difference between the net amount realized, including insurance proceeds from involuntary conversions, and its undepreciated balance.

CAS 409 Requirement	GAAP Requirement	Queries
(2) Gains and losses on the disposition of tangible capital assets shall not be recognized where:		
(i) Assets are grouped and such gains and losses are processed through the accumulated depreciation account, or	No corresponding content in GAAP	FAR 31.205-16(f) – Gains and losses on the disposition of depreciable property shall not be recognized as a separate charge or credit when --(1) Gains and losses are processed through the depreciation reserve account and reflected in the depreciation allowable under 31.205-11.
(ii) The asset is given in exchange as part of the purchase price of a similar asset and the gain or loss is included in computing the depreciable cost of the new asset.	ASC 360-10-40-4 For purposes of this Subtopic, a long-lived asset to be disposed of in an exchange measured based on the recorded amount of the nonmonetary asset relinquished or to be distributed to owners in a spinoff is disposed of when it is exchanged or distributed.	**<u>CASB QUERY:</u>** *Are CAS and GAAP equivalent?* In addition, FAR 31.205-16(f)(2) – The property is exchanged as part of the purchase price of a similar item, and the gain or loss is taken into consideration in the depreciation cost basis of the new item. **<u>AIA Response:</u>** Yes **<u>*Unsolicited AIA Comment*:</u>** AIA believes that the CASB has cited the incorrect GAAP reference, and it instead should cite ASC 360-10-35-4 and ASC 360-10-35-40.
[(j)(2) continued] Where the disposition results from an involuntary conversion and the asset is replaced by a similar asset, gains and losses may either be recognized in the period of disposition or used to adjust the depreciable cost base of the new asset.	ASC 360-10-40-4 see above.	FAR 31.205-16(e)(2) – [*Special considerations for involuntary conversions*] When the converted asset is replaced, the contractor shall either --(i) Adjust the depreciable basis of the new asset by the amount of the total realized gain or loss; or (ii) Recognize the gain or loss in the period of disposition, in which

CAS 409 Requirement	GAAP Requirement	Queries
		case the Government shall participate to the same extent as outlined in subparagraph (e)(1) of this [FAR] subsection.
(3) The contracting parties may account for gains and losses arising from mass or extraordinary dispositions in a manner which will result in treatment equitable to all parties.	No corresponding content in GAAP.	FAR 31.205-16(g) – Gains and losses arising from mass or extraordinary sales, retirements, or other disposition other than through business combinations shall be considered on a case-by-case basis.
(4) Gains and losses on disposition of tangible capital assets transferred in other than an arms-length transaction and subsequently disposed of within 12 months from the date of transfer shall be assigned to the transferor.	No corresponding content in GAAP.	This is a gap identified by the Board.
(5) The provisions of this subsection 9904.409-50(j) do not apply to business combinations. The carrying values of tangible capital assets acquired subsequent to a business combination shall be established in accordance with the provisions of subsection 9904.404-50(d).	ASC 805-20-25-1 As of the acquisition date, the acquirer shall recognize, separately from goodwill, the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquire.	Note that this refers to CAS 404, which will be addressed in future rulemaking by the CAS Board. FAR 31.205-52 (a) – For tangible capital assets, when the purchase method of accounting for a business combination is used, whether or not the contract or subcontract is subject to CAS, the allowable depreciation and cost of money shall be based on the capitalized asset values measured and assigned in accordance with 48 CFR 9904.404-50(d), if allocable, reasonable, and not otherwise unallowable.
(k) Where, in accordance with 9904.409-40(b)(1), the depreciation costs of like tangible capital assets used for similar purposes are directly charged to cost objectives on the basis of usage, average charging rates based on cost shall be established for the use of such assets. Any variances between total depreciation cost	No corresponding content in GAAP	**CASB QUERY:** *Do other requirement in CAS address this? (See CAS 402 above)* **AIA Response:** Yes

CAS 409 Requirement	GAAP Requirement	Queries
charged to cost objectives and total depreciation cost for the cost accounting period shall be accounted for in accordance with the contractor's established practice for handling such variances.		
(l) Practices for determining depreciation methods, estimated service lives and estimated residual values need not be changed for assets acquired prior to compliance with this Standard if otherwise acceptable under applicable procurement regulations. However, if changes are effected such changes must conform to the criteria established in this Standard and may be effected on a prospective basis to cover the undepreciated balance of cost by agreement between the contracting parties pursuant to negotiation under subdivision (a)(4) (ii) or (iii) of the contract clause set out at 9903.201-4(a) [CAS clause, FAR 52.230-2].	No corresponding content in GAAP	**CASB QUERY:** *Is this requirement in CAS necessary?* **AIA Response:** If CAS 409 was rescinded as is recommended, the question would be relevant to contractors not previously subject to CAS in general, who were for some reason not compliant with GAAP in their asset accounting. Without this provision, such a contractor would be required to adopt GAAP and revise its accounting for existing assets when it became subject to full CAS coverage. AIA cannot envision a situation where this might occur, but if in some exceptionally rare case it did, the government and the contractor could address the circumstances at the time of a CAS-triggering contract action by some means of agreement to the effect of this provision.