Cost Accounting Standards Board

Staff Discussion Paper

Conformance of the Cost Accounting Standards to Generally Accepted Accounting Principles for Capitalization of Tangible Assets and Accounting for Acquisition Costs of Material

Case Number CASB 2020-01

I. *Overview*

The Office of Federal Procurement Policy (OFPP), Cost Accounting Standards Board (CAS Board or the Board), is releasing this Staff Discussion Paper (SDP) to discuss the potential conformance of two cost accounting standards (CAS) to Generally Accepted Accounting Principles (GAAP): CAS 404, Capitalization of Tangible Assets, and CAS 411, CAS Accounting for Acquisition Costs of Material, to GAAP. Notice of this action was published in the Federal Register on September 18, 2020 (85 FR 58399).

As explained in the notice, the Board is statutorily required to conform CAS to GAAP to the maximum extent practicable. In furtherance of this requirement, the Board is giving priority to those standards focused on cost measurement and assignment of costs to accounting periods, including CAS 404 and 411. In conducting its analyses, the Board is taking into account the Guiding Principle for Conforming CAS to GAAP set forth in its March 19, 2020 notice. 85 FR 15817. The Board developed these principles with public input to help in modifying or eliminating overlapping CAS requirements where GAAP standards may be applied reasonably as a substitute for CAS. The Board welcomes public feedback on the initial assessments set forth below as well as in response to the specific questions raised throughout the analysis and in the comparison tables.

II. *Initial Assessment of CAS 404, Capitalization of tangible assets*

CAS 404 requires contractors, for the purposes of cost measurement, to establish and adhere to policies with respect to capitalization of the acquisition costs of tangible assets. CAS 404 establishes criteria which the contractor's policies and procedures should satisfy. CAS 404 was initially published February 27, 1973 at 38 FR 5318. The preamble for the original publication of CAS 404 acknowledged that:

> *Work preliminary to the development of this Standard was initiated as the result of recognition that the general subject of fixed asset accounting has been the source of continuing problems between contractors and the Government concerning equitable determinations of the costs attributable to performance of specific contracts.*

Four general issues related to fixed asset accounting were identified but the Board ultimately decided after careful consideration of public comments that this standard would establish the beginning point for fixed assets and focus solely on the "determination of the acquisition costs to be capitalized as opposed to those which are charged against revenues of the current period [as depreciation]".

a. Regulatory developments after initial promulgations

GAAP has been revised significantly with additional content and changes in requirements since the original promulgation of CAS 404 in 1973. The majority of the CAS 404 standard has remained static since the initial promulgation. The standard, however, has been changed three times to incrementally increase the minimum acquisition cost criterion for capitalization by raising the prescribed threshold from the original amount of $500 to the current $5,000, with the most recent increase published in 1996. CAS 404 was also changed in 1996 by the addition of CAS 404-50(d) to address issues relating to the treatment of gains or losses attributable to tangible capital assets subsequent to mergers or business combinations by government contractors. This added language requires tangible capital assets of an acquired company to be capitalized by the buyer at the seller's net book value, if the assets generated cost on government contracts in the most recent cost accounting period prior to the business combination; otherwise, the assets, which did not generate cost on government contracts, may be assigned a portion of the purchase price of the acquired entity not to exceed their fair value.

b. CAS 404 Compared with GAAP

For each requirement in CAS 404, the Board identified if a comparable requirement existed in GAAP, FAR or other Standard. The Board found corresponding requirements, primarily in GAAP, for nearly all of the requirements of CAS 404. There appears, however, to be at least three potential gaps on which the Board especially appreciates comments.

1. Minimum capitalization threshold

The first potential gap is the requirement to use a capitalization threshold not to exceed $5,000 (see CAS 404-40(b)(1)). GAAP does not establish a specific dollar threshold, allowing each company to establish their own threshold for capitalization that will be followed consistently.

In the original CAS 404 preamble, which set a threshold not to exceed $500, the Board at the time observed "most contractors have policies which comply with the criteria," but promulgated the threshold so the total cost would be "placed under some uniform constraints." Although the initial promulgation cited the establishment of "uniform constraints," there was still opportunity for variability because contractors could select a lower capitalization threshold. The current Board is considering if explicit constraint on the capitalization threshold is necessary. The Board notes that at the time the initial CAS 404 was promulgated there was little variability in capitalization thresholds and with the growth in GAAP content since the promulgation of the initial CAS 404, perhaps the threshold in CAS 404 is no longer a necessary constraint. *Would GAAP requirements provide some reasonable limitations for selecting capitalization thresholds?*

2. Written statements of accounting policies and practices

The second potential gap is the requirement to have a written policy for capitalization. GAAP does not explicitly require a written statement for capitalization policy; however, typically written documentation would exist because it would be required as evidence of internal controls during audits of Sarbanes-Oxley compliance and of financial reporting.

It seems likely, as a practical matter, contractors would have some written policies and procedures for capitalization, and the Board would especially appreciate comments as to the kind of documentation for capitalization policies maintained by contractors and whether the documents would be maintained regardless of the CAS requirement.

The Board is considering whether the content in the Disclosure Statement would effectively mitigate this concern. A contractor is required to submit a Disclosure Statement for "any business unit that is selected to receive a CAS-covered contract or subcontract of $50 million or more" before award or for "any company which, together with its segments, received net awards of negotiated prime contracts and subcontracts subject to CAS totaling $50 million or more in its most recent cost accounting period" before award of the first CAS-covered contract in the immediately following cost accounting period but not within the first 90 days of the start of it cost accounting period. The Board notes the use of the same $50 million threshold for a single contract or accumulation of contract awards within the same accounting period for determining both full CAS coverage and submission of a Disclosure Statement. Does this mean that contractors subject to CAS 404 would also be required to submit a Disclosure Statement?

The Disclosure Statement Part IV, Depreciation and Use Allowances, requires that a contractor describe cost accounting practices for capitalization, depreciation, and gains/losses on dispositions. *How satisfactorily does the level of detail required in the Disclosure Statement address the requirement for written policies in the current Standard?*

3. Assets acquired through a business combination

Another potential gap is the requirements in CAS for treatment of tangible assets acquired in a business combination. CAS 404-50(d) and (e) refer to two financial accounting treatments for business combinations: "purchase method" and "pooling of interest method." These methods could be found in financial accounting literature at APB Opinion 16. Subsequently, financial accounting treatment has been revised several times.

In June 2001, FASB revised its approach for accounting for business combinations in Statement Financial Accounting Standards No. 141, which superseded APB Opinion 16 and adopted single-method approach requiring that all business combinations be accounted for by the purchase method. The purchase method requires that the cost attributed to the plant and equipment of the acquired entity be "the current replacement cost for similar capacity unless the expected future use of the assets indicates a lower value to the acquiring entity." July 2009, the FASB Accounting Standards Codification (ASC) became authoritative for GAAP, and ASC 805-20-30-1 requires acquirers to measure tangible capital assets at the acquisition date fair values, which would be the same as replacement values at acquisition date. Replacement value refers to the amount a similar condition and used asset would cost. The CAS Board notes, however, that FASB Topic 105 – *Generally Accepted Accounting Principles* provides APB Opinion 16 and FASB Statement No. 141 are considered grandfathered guidance allowing for the continued application of the superseded accounting standards for business combination transactions that have an ongoing effect in an entity's financial statements. As part of the codification, GAAP has also transitioned to the term "acquisition method" rather than "purchase method" for this accounting treatment of business combinations.

Regarding the cost treatment of tangible assets acquired in a business combination accounted for under the purchase method, CAS 404-50(d) requires -

(1) All the tangible capital assets of the acquired company that during the most recent cost accounting period prior to a business combination generated either depreciation expense or cost of money charges that were allocated to Federal government contracts or subcontracts negotiated on the basis of cost, shall be capitalized by the buyer at the net book value(s) of the asset(s) as reported by the seller at the time of the transaction.

(2) All the tangible capital asset(s) of the acquired company that during the most recent cost accounting period prior to a business combination did not generate either depreciation expense or cost of money charges that were allocated to Federal government contracts or subcontracts negotiated on the basis of cost, shall be assigned a portion of the cost of the acquired company not to exceed their fair value(s) at the date of acquisition. When the fair value of identifiable assets less liabilities assumed exceeds the purchase price of the acquired company in an acquisition under the "purchase method," the value otherwise assignable to tangible capital assets shall be reduced by a proportionate part of the excess.

The Board notes that in (d)(2) when the acquired company has tangible assets that did not generate depreciation or cost of money allocated to Federal contracts the assets are assigned a portion of the purchase price of the acquired company, not to exceed their fair value. In (d)(1) when the acquired company has tangible assets that generated depreciation or cost of money allocated to Federal contracts, the assets are measured by the acquirer at the net book value. By comparison, for both circumstances, GAAP would require that the assets be measured by the acquirer at fair value. The risk to the government would seem to be if an asset was increased in value such that the combined depreciation recognized by the both the acquired company and the acquiring company for government contracts exceeds the historic cost for which the asset was originally purchased for use.

In CAS 404-50(d)(2), the acquired company has tangible assets that did not generate depreciation or cost of money allocated to Federal contracts and the assets would be valued by the acquirer at no more than the fair value, and GAAP limits the value of the assets to fair value. *Are these two requirements for measurement at the fair value equivalent?*

In CAS 404-50(d)(1), the acquired company has tangible assets that generated depreciation or cost of money allocated to Federal contracts, and the assets would be valued at net book value of the acquired company. In comparison, GAAP limits the value of the assets to the fair value. *How comparable are net book value and fair value? As a practical matter, how* *are these requirements in GAAP and CAS applied by government contractors who acquire another government contractor, meaning are two different sets of books for CAS (net book value) and financial accounting (fair value) kept or is there a harmonization for one measurement with perhaps the net book value considered the fair value?*

The Board also recognizes that this potential gap between CAS and GAAP may be somewhat mitigated by requirements found in the Federal Acquisition Regulation. FAR 31.205-52 seeks to address this excess cost as an unallowable cost. FAR 31.205-52 reads as follows:

(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 allowable.

(b) For intangible capital assets, when the purchase method of accounting for a business combination is used, allowable amortization and cost of money shall be limited to the total of the amounts that would have been allowed had the combination not taken place.

The Board notes that FAR 31.205-52(a) currently refers to CAS and if CAS 404-50(d) was to be eliminated, this content in FAR would need to be revised to protect the government's interests. The Board observes that one potential approach for the FAR revision would be to add language to limit the allowable amortization and cost of money to the total of the amounts that would have been allowed had the combination not taken place, as FAR 31.205-52(b) does currently for intangible assets.

The CAS Board is considering the action it should take not only on CAS 404 taken as a whole with respect to the current CAS-GAAP conformance case, but if CAS 404-50(d) and (e) are retained, what action should the Board take, if any, in response to the change in financial accounting requirements and terms? For example, with elimination of the pooling of interest method to new transactions as of June 2001 in GAAP, what action should the Board take to revise CAS 404-50(e)? Similarly, with elimination of the term "purchase method" in GAAP, what action should the Board take to revise CAS 404-50(d)?

Are there any other gaps between CAS 404 and GAAP that the Board did not identify but should consider?

c. Compliance history

The Board is interested in public comments with facts and data of the history of CAS 404 non-compliance 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?*

d. Detailed comparison

A detailed comparison of the current requirements in CAS 404 and corresponding GAAP requirements is provided below. The Board is interested in public comments and especially recommendations of any changes to the Standard to conform it to GAAP.

CAS 404 Requirement	GAAP Requirement	Observations and Queries
CAS 404-40 Fundamental Requirement		
(a) The acquisition cost of tangible capital assets shall be capitalized. Capitalization shall be based upon a written policy that is reasonable and consistently applied.	ASC 360-10-05-3Property, plant and equipment typically consist of long-lived tangible assets used to create and distribute and entity's products and services and include: (a) Land and Improvements, (b) Buildings, (c) Machinery and equipment, and (d) Furniture and fixtures. ASC 235-10-50-1 Information about the accounting policies adopted by an entity is essential for financial statement users…a description of all significant accounting policies of the entity shall be included as an integral part of the financial statements. ASC 210-10-S99-13 Property Plant & Equipment requires entities to include the basis for determining amounts. (Applicable only to publicly traded companies subject to the Securities & Exchange Commission rules) FASB Statements on Accounting Concepts No. 6 contains a detailed definition and characteristics of Assets, which include tangible and other forms	*Would contractors maintain written policies for capitalization regardless of a requirement to do so in CAS?* Disclosure Statement Part IV - Depreciation and Use Allowances, requires that a contractor describe cost accounting practices for capitalization, depreciation, and gains/losses on dispositions. *How satisfactorily does the level of detail required in the Disclosure Statement address the requirement for written policies in the current Standard?*

CAS 404 Requirement	GAAP Requirement	Observations and Queries
	of assets. By definition assets are capitalized. FASB Statements on Accounting Concepts No. 5 also states under 67a; "Historical cost (historical proceeds). Property, plant, and equipment and most inventories are reported at their historical cost, which is the amount of cash, or its equivalent, paid to acquire an asset, commonly adjusted after acquisition for amortization or other allocation" ASC 210-10-45-4 Excludes depreciable assets from consideration as current assets. Current assets are expected to be used in one year (operating cycle) ASC 360-10-35-4The 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 periods which services are obtained from the use of the facility. This procedure is known as depreciation accounting, a	

CAS 404 Requirement	GAAP Requirement	Observations and Queries
	system of accounting which aims to distribute cost or other basic value of tangible 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. It is a process of allocation not valuation.	
(b) The contractor's policy shall designate economic and physical characteristics for capitalization of tangible assets. (1) The contractor's policy shall designate a minimum service life criterion, which shall not exceed 2 years, but which may be a shorter period. The policy shall also designate a minimum acquisition cost criterion which shall not exceed $5,000, but which may be a smaller amount. (2) The contractor's policy may designate other specific characteristics which are pertinent to his capitalization policy decisions (e.g., class of asset, physical size, identifiability and	ASC 360-10-05-3 Property, plant and equipment typically consist of long-lived tangible assets used to create and distribute an entity's products and services and include: (a) Land and Improvements, (b) Buildings, (c) Machinery and equipment, and (d) Furniture and fixtures. FASB Statements on Accounting Concepts No. 6 contains a detailed definition and characteristics of Assets. ASC 360-10-35-4 - requires that the asset 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.	Disclosure Statement Part IV - Depreciation and Use Allowances, requires that a contractor describe cost accounting practices for capitalization, depreciation, and gains/losses on dispositions. *How satisfactorily does the level of detail required in the Disclosure Statement address the requirement for written policies in the current Standard?* GAAP does not have a minimum dollar threshold. *Would GAAP requirements provide some reasonable limitations for selecting capitalization thresholds?*

CAS 404 Requirement	GAAP Requirement	Observations and Queries
controllability, the extent of integration or independence of constituent units). (3) The contractor's policy shall provide for identification of asset accountability units to the maximum extent practical. (4) The contractor's policy may designate higher minimum dollar limitations for original complement of low cost equipment and for betterments and improvements than the limitation established in accordance with paragraph (b)(1) of this subsection, provided such higher limitations are reasonable in the contractor's circumstances.		The CAS Disclosure Statement would provide a description of the contractor's accounting practices.
(c) Tangible assets shall be capitalized when both of the criteria in the contractor's policy as required in paragraph (b)(1) of this subsection are met, except that assets described in subparagraph (b)(4) of this subsection shall be capitalized in accordance with the criteria established in accordance with that paragraph.	ASC 835-20-25-5 –The capitalization period shall end when the asset is substantially complete and ready for its intended use.	*Are these requirements equivalent?*
(d) Costs incurred subsequent to the acquisition of a tangible capital asset which result in extending the life or increasing the productivity of that asset	ASC 360-10-35-33 -- Estimates of future cash flows used to test the recoverability of a long-lived asset (asset group) that is in use, including a long-lived asset (asset group) for	*Are these requirements equivalent?*

CAS 404 Requirement	GAAP Requirement	Observations and Queries
(e.g., betterments and improvements) and which meet the contractor's established criteria for capitalization shall be capitalized with appropriate accounting for replaced asset accountability units. However, costs incurred for repairs and maintenance to a tangible capital asset which either restore the asset to, or maintain it at, its normal or expected service life or production capacity shall be treated as costs of the current period.	which development is substantially complete, shall be based on the existing service potential of the asset (asset group) at the date it is tested. 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 component assets other than the primary asset of an asset group. Those estimates shall exclude cash flows associated with future capital expenditures that would increase the service potential of a long-lived asset (asset group).	
CAS 404-50 Techniques for Application		
(a) The cost to acquire a tangible capital asset includes the purchase price of the asset and costs necessary to prepare the asset for use. (1) The purchase price of an asset shall be adjusted to the extent practical by premiums and extra charges paid or discounts and credits received which	ASC 835-20-05-1 states that the historical cost of acquiring an asset includes the costs necessarily incurred to bring it to the condition and location necessary for its intended use. ASC 360-10-20 Defines Activities – The term is construed broadly. It encompasses physical construction of the asset. In addition, it includes all the	*Are these requirements equivalent?*

CAS 404 Requirement	GAAP Requirement	Observations and Queries
properly reflect an adjustment in the purchase price. (i) Purchase price is the consideration given in exchange for an asset and is determined by cash paid, or to the extent payment is not made in cash, in an amount equivalent to what would be the cash price basis. Where this amount is not available, the purchase price is determined by the current value of the consideration given in exchange for the asset. For example, current value for a credit instrument is the amount immediately required to settle the obligation or the amount of money which might have been raised directly through the use of the same instrument employed in making the credit purchase. The current value of an equity security is its market value. Market value is the current or prevailing price of the security as indicated by recent market quotations. If such values are unavailable or not appropriate (thin market, volatile price movement, etc.), an acceptable alternative is the fair value of the asset acquired.	steps required to prepare the asset for its intended use. For example, it includes administrative and technical activities during preconstruction stage, such as development of plans or the process of obtaining permits form governmental authorities. It also includes activities after construction has begun in order to overcome unforeseen obstacles such as technical problems, labor disputes, or litigation. ASC 845-10-30-1 In general, the accounting for nonmonetary transactions should be based on the fair values of the assets (or services) involved, which is the same basis as that used in monetary transactions. Thus, the cost of a nonmonetary assets acquired in exchange for another nonmonetary asset is the fair value of the asset surrendered to obtain it, and a gain or loss shall be recognized on the exchange. The fair value of the asset received shall be used to measure the cost if it is more clearly evident than the fair value of the asset surrendered. Similarity, a nonmonetary asset received in a nonreciprocal transfer shall be	

CAS 404 Requirement	GAAP Requirement	Observations and Queries
(ii) Donated assets which, at the time of receipt, meet the contractor's criteria for capitalization shall be capitalized at their fair value at that time. (2) Costs necessary to prepare the asset for use include the cost of placing the asset in location and bringing the asset to a condition necessary for normal or expected use. Where material in amount, such costs, including initial inspection and testing, installation and similar expenses, shall be capitalized.	recorded at the fair value of the asset received. A transfer of a nonmonetary asset to a stockholder or to another entity in a nonreciprocal transfer shall be recorded at the fair value of the asset transferred and a gain or loss shall be recognized on the disposition of the asset. ASC 845-10-50-1 An entity that engages in one or more nonmonetary transactions during a period shall disclose in financial statements for the period all of the follow: (a) the nature of the transactions, (b) The basis of accounting for the assets transferred, and (c) Gains or losses recognized on transfers. ASC 820-10-05 (Details Measuring “Fair Value”)	
(b) Tangible capital assets constructed or fabricated by a contractor for its own use shall be capitalized at amounts which include all indirect costs properly allocable to such assets. This requires the capitalization of general and administrative expenses when such expenses are identifiable with the constructed asset and are material in	ASC 835-20-05-1 states that the historical cost of acquiring an asset includes the costs necessarily incurred to bring it to the condition and location necessary for its intended use. As indicated in that paragraph, if an asset requires a period of time in which to carry out the activities necessary to bring it to that condition and location, the interest cost incurred during	*Are these requirements equivalent?*

CAS 404 Requirement	GAAP Requirement	Observations and Queries
amount (e.g., when the in-house construction effort requires planning, supervisory, or other significant effort by officers or other personnel whose salaries are regularly charged to general and administrative expenses). When the constructed assets are identical with or similar to the contractor's regular product, such assets shall be capitalized at amounts which include a full share of indirect costs.	that period as a result of expenditures for the asset is a part of the historical cost of acquiring the asset. ASC 360-10-20 Defines Activities – The term is construed broadly. It encompasses physical construction of the asset. In addition, it includes all the steps required to prepare the asset for its intended use. For example, it includes administrative and technical activities during preconstruction stage, such as development of plans or the process of obtaining permits form governmental authorities. It also includes activities after construction has begun in order to overcome unforeseen obstacles such as technical problems, labor disputes, or litigation.	
(c) In circumstances where the acquisition by purchase or donation of previously used tangible capital assets is not an arm's length transaction, acquisition cost shall be limited to the capitalized cost of the asset to the owner who last acquired the asset through an arm's-length transaction, reduced by depreciation charges from	ASC 805-50-30-5 When accounting for a transfer assets or exchange of shares between entities under common control, the entity that receives the net assets or the equity interests shall initially measure the recognized assets and liabilities transferred at the carrying amounts in	Are these requirements equivalent?

CAS 404 Requirement	GAAP Requirement	Observations and Queries
date of that acquisition to date of gift or sale	the accounts of the transferring entity at the date of transfer.	
(d) The capitalized values of tangible capital assets acquired in a business combination, accounted for under the "purchase method" of accounting, shall be assigned to these assets as follows: (1) All the tangible capital assets of the acquired company that during the most recent cost accounting period prior to a business combination generated either depreciation expense or cost of money charges that were allocated to Federal government contracts or subcontracts negotiated on the basis of cost, shall be capitalized by the buyer at the net book value(s) of the asset(s) as reported by the seller at the time of the transaction. (2) All the tangible capital asset(s) of the acquired company that during the most recent cost accounting period prior to a business combination did not generate either depreciation expense or cost of money charges that were allocated to Federal government contracts or subcontracts negotiated on the basis of cost, shall be assigned a portion of the	ASC 805-10-25-1: An Entity shall account for each business combination by applying the acquisition method ASC 805-20-30-1: The acquirer shall measure the identifiable assets acquired, the liabilities, and any non-controlling interest in the acquiree at their acquisition-date fair values.	The Board has identified this as a potential gap between CAS and GAAP. *How comparable are fair value and net book value?* *Are these two requirements in CAS and GAAP for measurement at the fair value equivalent?* *How comparable are net book value and fair value? How are these requirements in GAAP and CAS applied by government contractors who acquire another government contractor, meaning are two different sets of books for CAS (net book value) and financial accounting (fair value) kept or is there a harmonization for one measurement with perhaps the net book value considered the fair value?* With elimination of the term "purchase method" in GAAP, what action should the Board take to revise CAS 404-50(d)?

CAS 404 Requirement	GAAP Requirement	Observations and Queries
cost of the acquired company not to exceed their fair value(s) at the date of acquisition. When the fair value of identifiable acquired assets less liabilities assumed exceeds the purchase price of the acquired company in an acquisition under the "purchase method," the value otherwise assignable to tangible capital assets shall be reduced by a proportionate part of the excess.		
(e) Under the "pooling of interest method" of accounting for business combinations, the values established for tangible capital assets for financial accounting shall be the values used for determining the cost of such assets.	Current under GAAP the only acceptable method is now the acquisition method as required by ASC 805-10-25-1 ….."An Entity shall account for each business combination by applying the acquisition method" ASC 105-10-70-2 Pooling of interest was one of the specific grandfathered items which allowed for continued application for transactions that had an ongoing effect in the entity's financial statements at the time of ASC Codification.	*With elimination of the pooling of interest method to new transactions as of June 2001 in GAAP, what action should the Board take to revise CAS 404-50(e)?*
(f) Asset accountability units shall be identified and separately capitalized at the time the assets are acquired.	ASC-205-10-20 Asset Group is the unit of accounting for a long-lived asset or assets to be held	*Are these requirements equivalent?*

CAS 404 Requirement	GAAP Requirement	Observations and Queries
However, whether or not the contractor identifies and separately capitalizes a unit initially, the contractor shall remove the unit from the asset accounts when it is disposed of and, if replaced, its replacement shall be capitalized.	and used, which represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets.	

III. *Initial Assessment of CAS 411, Cost accounting standard—accounting for acquisition costs of material*

CAS 411 provides criteria for the accounting for acquisition costs of material used during the course of a contract. CAS 411 includes provisions on the use of inventory costing methods. CAS 411 was initially published May 5, 1975 at 40 FR 19425. The preamble for the original publication of CAS 411 acknowledged that -

> *Preliminary work on the development of this Standard resulted from the absence of a requirement in agency regulations that the same costing method be used for similar categories of material within the same business unit and that the method be consistently applied.*

The Board undertook research of available accounting literature and ultimately decided after careful consideration of public comments that this standard would "provide consistency in the application of material costing methods."

a. Regulatory developments after initial promulgations

GAAP has been revised significantly with additional content and changes in requirements since the original promulgation of CAS 411 in 1975. The majority of the CAS 411 standard has remained static since the initial promulgation. The standard, however, was corrected in 1992 (57 FR 34167) to make clear that it does not cover accounting for the acquisition costs of tangible capital assets nor accountability for Government-furnished materials.

b. CAS 411 Compared with GAAP

For each requirement in CAS 411, the Board identified if a comparable requirement existed in GAAP, FAR or other Standard. The Board found corresponding requirements, primarily in GAAP, for nearly all of the requirements of CAS 411. There appears, however, to be at least two potential gaps on which the Board especially appreciates comments.

1. Written statements of accounting policies and practices

The first potential gap is the requirement to have "written statements of accounting policies and practices for accumulating the costs of material and for allocating costs of material to cost objectives" (see CAS 411-40(a)). GAAP does not explicitly require a written statement of accounting policies and practices.

In the original CAS 411 preamble, the Board responded to comments on the need for written policies related to two concerns. First, commenters expressed that they already had "manuals and similar written documents [which] were available to Government auditors and provided sufficient information concerning the contractor's accounting practices." The Board responded that “these are the kinds of documents that should contain written policies that are needed to permit effective implementation of this Standard.” We note that based on the respondents’ comments, written policies were being kept before the requirement for doing so existed in this Standard or the requirements for a Disclosure Statement had been established. This seems to imply that, as a practical matter, companies may maintain written documentation regardless of an explicit requirement to do so in CAS.

The second concern related to the requirement for written policies in the Standard and in addition the requirement to include the same practices in the Disclosure Statement. Contractors who submitted Disclosure Statements felt that such submission should exempt them from a requirement for written policies. In responding to these comments, The Board noted that “many companies which are subject to Cost Accounting Standards are not required to file Disclosure Statements.” This seems to imply that if most companies subject to the Standard were required to submit Disclosure Statements, perhaps the content in the Disclosure Statement itself may be sufficient in lieu of written policies. In considering this point for the current CAS-GAAP promulgation activity, the Board will need to evaluate whether contractors subject to this Standard today are also subject to the Disclosure Statement requirements, and if the Disclosure Statement content is sufficient written policy.

Contracts subject to CAS 411 are only those subject to full CAS coverage. Modified CAS coverage is applied “to a covered contract of less than $50 million awarded to a business unit that received less than $50 million in net CAS-covered awards in the immediately preceding cost accounting period” (CAS 9903.201-2(b)). Modified coverage includes only CAS 401, Consistency in Estimating, Accumulating, and Reporting Costs, CAS 402, Consistency in Allocating Costs Incurred for the Same Purpose, CAS 405, Accounting for Unallowable Costs and CAS 406, Cost Accounting Standard—Cost Accounting Period. Regardless of award value, contracts and subcontracts with foreign entities are only subject to CAS 401, Consistency in Estimating, Accumulating, and Reporting Costs, CAS 402, Consistency in Allocating Costs Incurred for the Same Purpose. The Board notes that despite these limitations on the application of Standards applied through CAS rules, compliance with certain Standards may still be required of these contractors through Federal Acquisition Requirements for contracts with the Allowable Cost and payment clause (FAR 52.216-7) which requires compliance with FAR Part 31. For example, FAR 31.205-6(j) requires that pension costs be measured, assigned, and allocated in compliance with CAS 412—Cost Accounting Standard for Composition and measurement of Pension Cost in FAR 31.205-6(j). Notably, however, FAR does not require compliance with CAS 411 (see FAR 31.205-26 Material costs, especially). Therefore, only contractor business units with contracts subject to full CAS coverage are subject to CAS 411. Full CAS-coverage applies to a contractor business unit that “receive[s]a single CAS-covered contract award of $50 million or more; or received $50 million or more in net CAS-covered awards during its preceding cost accounting period.

A contractor is required to submit a Disclosure Statement for "any business unit that is selected to receive a CAS-covered contract or subcontract of $50 million or more" before award or for "any company which, together with its segments, received net awards of negotiated prime contracts and subcontracts subject to CAS totaling $50 million or more in its most recent cost accounting period" before award of the first CAS-covered contract in the immediately following cost accounting period but not within the first 90 days of the start of it cost accounting period. The Board notes the use of the same $50 million threshold for a single contract or accumulation of contract awards within the same accounting period for determining both full CAS coverage and submission of a Disclosure Statement. *Does this mean that all contractors subject to CAS 411 would also be required to submit a Disclosure Statement? If not, in what circumstances would a contractor be subject to CAS 411 but not be required to submit a Disclosure Statement?*

The Disclosure Statement Part II, Direct Costs, requires that a contractor describe cost accounting practices for material, including the description of costs to be treated as direct material, method of charging direct material, timing of charging direct material, and treatment of variance from standard costs. *How satisfactorily does the level of detail required in the Disclosure Statement address the requirement for written policies in the current Standard?*

2. Average cost method for inventory costing

The second potential gap relates to the average cost method for measuring inventory. CAS provides for the use of the moving average cost method or the weighted average cost method. Both of these methods are explicitly defined in CAS 411-30, including how the cost would be computed under each method. CAS 411-30(a)(6) defines "moving average" as "an inventory costing method under which an average unit cost is computed after each acquisition by adding the cost of the newly acquired units to the cost of the units of inventory on hand and dividing this figure by the new total number of units." CAS 411-40(a)(7) defines "weighted average cost" as "an inventory costing method under which an average unit cost is computed periodically by dividing the sum of the cost of beginning inventory plus the cost of acquisitions by the total number of units included in these two categories." By comparison, GAAP simply provides for the use of an "average" method without defining or describing specific average methods. GAAP does make clear in ASC 330-10-30-9 that "the major objective in selecting a method [for inventory costs] should be to choose the one which, under the circumstances, most clearly reflects periodic income." The Board understands this to mean that the method selected must result in a measurement of costs matched again revenue from a sale. This matching principle between cost and revenue in GAAP seems similar to the CAS concept of matching the cost to a contract—both of which result in periodic income. It seems that although GAAP doesn't explicitly define acceptable average methods, there is some constraint to the variations a contractor could elect to use in compliance with GAAP. *Are there any average methods in use other than weighted average and moving average? Are there* *circumstances in which the use of an average method compliant with GAAP should not be acceptable for accounting for government contracts?*

Are there any other gaps between CAS 411 and GAAP that the Board did not identify but should consider?

c. Compliance history

The Board is interested in public comments with facts and data of the history of CAS 411 non-compliance 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?*

d. Detailed comparison

A detailed comparison of the current requirements in CAS 411 and corresponding GAAP requirements is provided below. The Board is interested in public comments and especially recommendations of any changes to the Standard to conform it to GAAP.

CAS 411 Requirement	GAAP Requirement	Observations and Queries
CAS 411-40 Fundamental Requirement		
(a) The contractor shall have, and consistently apply, written statements of accounting policies and practices for accumulating the costs of material and for allocating costs of material to cost objectives.	**ASC 330 - Inventory** ASC 330-10-30-15 Consistency Required: Because of the common use and importance of periodic [financial] statements, a procedure adopted for the treatment of inventory items shall be consistently applied in order that the results reported may be fairly allocated between years. ASC 330-10-50-1 Basis for Stating Inventories: The basis for stating inventories shall be consistently applied and shall be disclosed in the financial statements; whenever a significant change is made therein, there shall be disclosure of the nature of the change and, if material, the effect on income. **ASC 340-40 – Contracts with Customers** ASC 340-40-25-7 Recognition – General: Costs that relate directly to a contract (or a specific anticipated contract) include any of the following: a. Direct labor (for example, salaries and wages of employees who provide the promised services directly to the customer) b. Direct materials (for example, supplies used in providing the promised services to a customer) c. Allocation of costs that relate directly to the contract or to contract activities (for example, costs of contract management, and supervision, insurance, and	In addition to the corresponding GAAP content, there is additional content in FAR, DFARS and CAS as outlined below: CAS 9903.201-4(c)(1-2) Disclosure and Consistency of Cost Accounting Practices: The Contracting Officer shall insert the clause set forth below….requires the Contractor to comply with CAS 9904.401, 9904.402, 9904.405, and 9904.406, to disclose….actual cost accounting practices , and to follow consistently disclosed and established cost accounting practices. DFARS 252.242-7004(d)(1) Material Management and Accounting System Criteria: The MMAS shall have adequate internal controls to ensure system and data integrity, and shall have an adequate system description including policies, procedures, and operating instructions that comply with FAR and Defense FAR Supplement. CAS 9904.401-40 Fundamental Requirement: (a) A contractor's practices used in estimating costs in pricing a proposal shall be consistent with his cost accounting practices used in accumulating and reporting costs. (b) A contractor's cost accounting practices used in accumulating and reporting actual costs for a contract shall be consistent with his practices used in estimating costs in pricing the related proposal. Cost Accounting Standards Board Disclosure Statement Section 2.1.0 and 2.2.0 Description of Direct Material and Method of Charging Direct Material: Direct material as used here is not limited to those items of material actually

CAS 411 Requirement	GAAP Requirement	Observations and Queries
	depreciation of tools and equipment used in fulfilling the contract) d. Costs that are explicably chargeable to the customer under the contract e. Other costs that are incurred only because an entity entered into the contract (for example, payments to subcontractors) **ASC 606 – Revenue Recognition** ASC 606-10-05-3: The core principle of this topic is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASC 606-10-05-4: An entity recognizes revenue in accordance with that core principle by applying the following steps: a. Step 1: Identify the contract(s) with a customer…..The guidance in this topic applies to each contract that has been agreed upon with a customer and meets specific criteria.	incorporated into the end product; they also include material, consumable supplies, and other costs when charged to Federal contracts or similar cost objectives as Direct Material. (Describe on a continuation sheet the principal classes or types of material and services which are charged as direct material; group the material and service costs by those which are incorporated in an end product and those which are not.) *QUERY: Are these requirements equivalent?* *QUERY: Is the CAS 411 requirement for written policies and procedures adequately addressed by other requirements in CAS or GAAP?*
(b) The cost of units of a category of material may be allocated directly to a cost objective provided the cost objective was specifically identified at the time of	ASC 606-10-05-3: The core principle of this topic is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.	While there is no corresponding GAAP content related to the allocation of material costs to contract, there is additional content in CAS and FAR as outlined below: FAR 2.101, CAS 402-30 and CAS 418-30 Definitions: "Direct cost" means any cost that is identified

CAS 411 Requirement	GAAP Requirement	Observations and Queries
purchase or production of the units.	ASC 606-10-05-4: An entity recognizes revenue in accordance with that core principle by applying the following steps: b. Step 1: Identify the contract(s) with a customer…..The guidance in this topic applies to each contract that has been agreed upon with a customer and meets specific criteria.	specifically with a particular final cost objective. Direct costs are not limited to items that are incorporated in the end product as material or labor. Costs identified specifically with a contract are direct costs of that contract All costs identified specifically with other final cost objectives of the contractor are direct costs of those cost objectives. CAS 418-50(a)(3): Labor or material costs identified specifically with one of the particular cost objectives listed in paragraph (d)(3) of this subsection shall be accounted for as direct labor or direct material costs CAS 418-50(d)(3): (i) final cost objectives, (ii) good produced for stock or product inventory…. FAR 31.205-26(d) Material costs: When materials are purchased specifically for and are identifiable solely with the performance under a contract, the actual purchase cost of those materials should be charged to the contract. *QUERY: Are these equivalent requirements?*
(c) The cost of material which is used solely in performing indirect functions, or is not a significant element of production cost, whether or not incorporated in an end product, may be allocated to an indirect cost pool. When significant, the cost of such indirect material not consumed in a cost accounting period shall be	GAAP Master Glossary Definition – Inventory: The aggregate of those items of tangible personal property that have any of the following characteristics: a. Held for sale in the ordinary course of business b. In process of production for such sale c. To be currently consumed in the production of goods or services to be available for sale The term inventory embraces goods awaiting sale (the merchandise of a trading concern and the finished goods of a manufacturer), goods in the course of production (work in process), and goods to be	FAR 2.101, CAS 402-30 and CAS 418-30 Definitions: “Indirect cost” means any cost not directly identified with a single final cost objective, but identified with two or more final cost objectives or with at least one intermediate cost objective. CAS 402-50(e) Techniques for Application: Any direct cost of a minor dollar amount may be treated as an indirect cost for reasons of practicality where the accounting treatment for such cost is consistently applied to all final cost objectives, provided that such treatment produces results which are substantially the same as the results which would have been obtained if such costs had been treated as a direct cost.

CAS 411 Requirement	GAAP Requirement	Observations and Queries
established as an asset at the end of the period.	consumed directly or indirectly in production (raw materials and supplies). <u>ASC 360 Property, Plant and Equipment</u>: Spare parts…..should be capitalized and included in property. If their aggregate cost is not significant, however, they may, less desirably, be classified as prepaid expenses or with maintenance supply inventories…..various accounting techniques may be used for these items, including: Expensing items on purchase – this method is appropriate only when aggregate costs are relatively small or lives are relatively short.	<u>DFARS 252.242-7004(d)7-8) Material Management and Accounting System Criteria</u>: The MMAS shall have adequate internal controls to ensure system and data integrity, and shall maintain a consistent, equitable, and unbiased logic for costing of material transactions The MMAS shall have adequate internal controls to ensure system and data integrity, and where allocations from common inventory accounts are used, have controls …. to ensure that— (i) Reallocations and any credit due are processed no less frequently than the routine billing cycle; (ii) Inventories retained for requirements that are not under contract are not allocated to contracts; and (iii) Algorithms are maintained based on valid and current data; *QUERY: Are these equivalent requirements?*
(d) Except as provided in paragraphs (b) and (c) of this subsection, the cost of a category of material shall be accounted for in material inventory records.	<u>ASC 606-10-05-3</u>: The core principle of this topic is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. <u>ASC 606-10-05-4</u>: An entity recognizes revenue in accordance with that core principle by applying the following steps: a. Step 1: Identify the contract(s) with a customer…..The guidance in this topic applies to each contract that has been agreed	<u>DFARS 252.242-7004(d)(5) Material Management and Accounting System Criteria</u>: The MMAS shall have adequate internal controls to ensure system and data integrity, and shall Establish and maintain adequate levels of record accuracy, and include reconciliation of recorded inventory quantities to physical inventory by part number on a periodic basis. A 95 percent accuracy level is desirable. If systems have an accuracy level below 95 percent, the Contractor shall provide adequate evidence that— (i) There is no material harm to the Government due to lower accuracy levels; and

CAS 411 Requirement	GAAP Requirement	Observations and Queries
	upon with a customer and meets specific criteria. <u>GAAP Master Glossary Definition – Inventory</u>: The aggregate of those items of tangible personal property that have any of the following characteristics: a. Held for sale in the ordinary course of business b. In process of production for such sale c. To be currently consumed in the production of goods or services to be available for sale The term inventory embraces goods awaiting sale (the merchandise of a trading concern and the finished goods of a manufacturer), goods in the course of production (work in process), and goods to be consumed directly or indirectly in production (raw materials and supplies).	(ii) The cost to meet the accuracy goal is excessive in relation to the impact on the Government CAS 411-30 Definitions: Material inventory record means any record used for the accumulation of actual or standard costs of a category of material recorded as an asset for subsequent cost allocation to one or more cost objectives. *QUERY: Are these equivalent requirements?*
(e) In allocating to cost objectives the costs of a category of material issued from company-owned material inventory, the costing method used shall be selected in accordance with the provisions of 9904.411-50, and shall be used in a manner which results in systematic and rational costing of issues of material to cost objectives. The same costing method shall, within the same	See GAAP requirements outlined below for costing methods under the various CAS 411-50 cites. <u>ASC 330-10-05-02: A</u>n inventory has financial significance because revenues may be obtained from its sale, or from the sale of the goods or services in the production of which it is used. Normally such revenues arise in a continuous repetitive process or cycle of operations in which goods are acquired, created, and sold, and further goods are acquired for additional sales. <u>ASC 330-10-05-3: </u>Thus, the inventory at any given date is the balance of costs applicable to goods on hand remaining after the matching of absorbed costs with the concurrent revenues.	<u>DFARS 252.242-7004(d)7-8) Material Management and Accounting System Criteria</u>: The MMAS shall have adequate internal controls to ensure system and data integrity, and shall maintain a consistent, equitable, and unbiased logic for costing of material transactions The MMAS shall have adequate internal controls to ensure system and data integrity, and where allocations from common inventory accounts are used, have controls …. to ensure that— (i) Reallocations and any credit due are processed no less frequently than the routine billing cycle;

CAS 411 Requirement	GAAP Requirement	Observations and Queries
business unit, be used for similar categories of materials.	ASC 330-10-30-9: The major objective in selecting a method should be to choose the one which, under the circumstances, most clearly reflects periodic income. ASC 330-10-30-1: The primary basis of accounting for inventories is cost, which has been identified generally as the price paid or consideration given to acquire an asset. As applied to inventories, cost means in principle the sum of applicable expenditures and charges directly or indirectly incurred in bringing an article to its existing condition and location. ASC 330-10-30-14: Although selection of the method should be made on the basis of the individual circumstances, financial statements will be more useful if uniform methods of inventory pricing are adopted by all entities within a given industry.	(ii) Inventories retained for requirements that are not under contract are not allocated to contracts; and (iii) Algorithms are maintained based on valid and current data; Cost Accounting Standards Board Disclosure Statement Section 2.2.1 and 2.2.2 Direct Charge Not Through and Inventory Account and Charged Direct from a Contractor-Owned Inventory Account *QUERY: Are these equivalent requirements?*
CAS 411-50 Techniques for application		
(a) Material cost shall be the acquisition cost of a category of material, whether or not a material inventory record is used. The purchase price of material shall be adjusted by extra charges incurred or discounts and credits earned. Such adjustments shall be charged or credited to the same cost objective as the purchase price of the material, except that where it is not practical to do so, the contractor's policy may provide for the consistent	ASC 330-10-30-1 Initial Measurement: The primary basis of accounting for inventories is cost, which has been defined generally as the price paid or consideration given to acquire an asset. As applied to inventories, cost means in principle the sum of the applicable expenditures and charges directly or indirectly incurred in bringing an article to its existing condition and location. It is understood to mean acquisition and production cost, and its determination involves many considerations.	FAR 31.201-5 Credits: The applicable portion of any income, rebate, allowance, or other credit relating to any allowable cost and received by or accruing to the contractor shall be credited to the Government either as a cost reduction or by cash refund. FAR 31.205-26 Material Costs (a) Material costs include the costs of such items as raw materials, parts, subassemblies, components, and manufacturing supplies, whether purchased or manufactured by the contractor, and may include such collateral items as inbound transportation and in-transit insurance. In computing material costs, the contractor shall consider reasonable overruns, spoilage, or defective work (unless otherwise provided in any contract provision relating to inspecting and correcting defective work).

CAS 411 Requirement	GAAP Requirement	Observations and Queries
inclusion of such charges or credits in an appropriate indirect cost pool.		(b) The Contractor shall—(1) Adjust the costs of material for income and other credits, including available trade discounts, refunds, rebates, allowances, and cash discounts, and credits for scrap, salvage, and material returned to vendors; and (2) Credit such income and other credits either directly to the cost of the material or allocate such income and other credits as a credit to indirect costs. FAR 52.216-7(h)(2) Allowable Cost and Payment Clause, Final Payment: The Contractor shall pay to the Government any refunds, rebates, credits, or other amounts (including interest, if any) accruing to or received by the Contractor or any assignee under this contract, to the extent that those amounts are properly allocable to costs for which the Contractor has been reimbursed by the Government. *QUERY: Are these in combination equivalent requirements?*
(b) One of the following inventory costing methods shall be used when issuing material from a company-owned inventory: (1) The first-in, first-out (FIFO) method. (2) The moving average cost method. (3) The weighted average cost method. (4) The standard cost method.	ASC 330-10-30-9 Determination of Inventory Costs: Costs for inventory purposes may be determined under any one of several assumptions as to the flow of cost factors, such as first-in first-out (FIFO), average, and last-in first-out (LIFO). ASC 330-10-30-12 Determination of Inventory Costs: Standard costs are acceptable if adjusted at reasonable intervals to reflect current conditions so that at the balance-sheet date standard costs reasonably approximate costs computed under one of the recognized bases.	CAS 411-30 Definitions: Moving average cost means an inventory costing method under which an average unit cost is computed after each acquisition by adding the cost of the newly acquired units to the cost of the units of inventory on hand and dividing this figure by the new total number of units. Weighted average cost means an inventory costing method under which an average unit cost is computed periodically by dividing the sum of the cost of beginning inventory plus the cost of acquisitions by the total number of units included in these two categories.

CAS 411 Requirement	GAAP Requirement	Observations and Queries
(5) The last-in, first-out (LIFO) method.		*QUERY: Are these equivalent requirements? In addition to weighted average and moving average, are there any other average methods in use acceptable for GAAP?*
(c) The method of computation used for any inventory costing method selected pursuant to the provisions of this Standard shall be consistently followed.	<u>ASC 330-10-50-1 Basis for Stating Inventories</u>: The basis of stating inventories shall be consistently applied and shall be disclosed in the financial statements; whenever a significant change is made therein, there shall be disclosure of the nature of the change and, if material, the effect on income. A change of such basis may have an important effect upon the interpretation of the financial statements both before and after that change, and hence, in the event of a change, a full disclosure of its nature and of its effect, if material, upon income shall be made	<u>CAS 418-40(a) Fundamental Requirements</u>: A business unit shall have a written statement of accounting policies and practices for classifying costs as direct or indirect which shall be consistently applied. <u>Cost Accounting Standards Board Disclosure Statement Section 2.1.0 and 2.2.0 Description of Direct Material and Method of Charging Direct Material</u>: Direct material as used here is not limited to those items of material actually incorporated into the end product; they also include material, consumable supplies, and other costs when charged to Federal contracts or similar cost objectives as Direct Material. (Describe on a continuation sheet the principal classes or types of material and services which are charged as direct material; group the material and service costs by those which are incorporated in an end product and those which are not.) *QUERY: Are these equivalent requirements?*
(d) Where the excess of the ending inventory over the beginning inventory of material of the type described in 9904.411-40(c) is estimated to be significant in relation to the total cost included in the indirect cost pool, the cost of such unconsumed material shall be established as an asset at the end	<u>GAAP Master Glossary Definition – Inventory</u>: The aggregate of those items of tangible personal property that have any of the following characteristics: a. Held for sale in the ordinary course of business b. In process of production for such sale c. To be currently consumed in the production of goods or services to be available for sale	<u>FAR 2.101 and CAS 402-30 Definitions</u>: "Indirect cost" means any cost not directly identified with a single final cost objective, but identified with two or more final cost objectives or with at least one intermediate cost objective. <u>CAS 402-50(e) Techniques for Application</u>: Any direct cost of a minor dollar amount may be treated as an indirect cost for reasons of practicality where the accounting treatment for such cost is consistently

CAS 411 Requirement	GAAP Requirement	Observations and Queries
of the period by reducing the indirect cost pool by a corresponding amount.	The term inventory embraces goods awaiting sale (the merchandise of a trading concern and the finished goods of a manufacturer), goods in the course of production (work in process), and goods to be consumed directly or indirectly in production (raw materials and supplies).	applied to all final cost objectives, provided that such treatment produces results which are substantially the same as the results which would have been obtained if such costs had been treated as a direct cost. *QUERY: Are these equivalent requirements?*