

Cost Accounting Standards Board

Staff Discussion Paper (SDP) – Conformance of CAS to GAAP

Case Number CASB 2019-01

I. Introduction

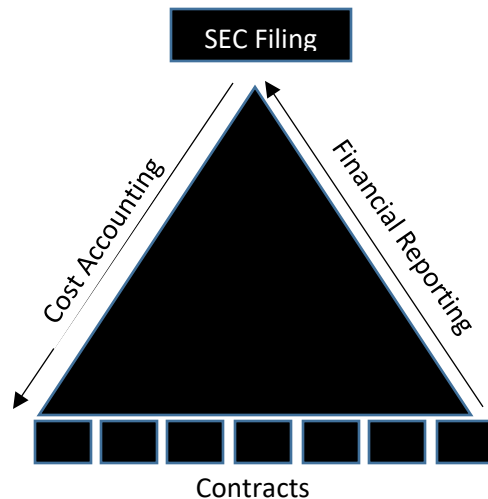
In evaluating where and how Cost Accounting Standards (CAS) may be conformed to Generally Accepted Accounting Principles (GAAP), the Board believes it is important, as a preliminary matter, to take note of differences and similarities in the purpose and application of these overlapping, but distinct, accounting standards. This comparison is driven, in large part, by differences between cost accounting and financial accounting.

Government Cost Accounting Standards (CAS) promulgated pursuant to 41 U.S.C. § 1502 are designed to provide protections to the Federal Government by achieving uniformity and consistency in the cost accounting practices used by contractors for measurement, assignment and allocation of costs to contracts with the United States Government. Uniformity of the standards used across contractors provides the Government the ability to compare contract proposals and performance. Consistency provides the Government protection from the effects of inconsistent or improper contractor cost accounting, which could result in entities shifting costs incurred in one segment to another segment or on one contract to another contract, e.g., between private sector and the government contracts. Pursuant to 41 U.S.C. § 1502(b)(1)(B), each CAS standard establishes principles, practices to be applied, or criteria to select from alternative principles and practices in estimating, accumulating, and reporting costs under contracts subject to the rules of the Board (generally contracts other than for commercial items valued over \$7.5 million that are cost-reimbursement or certain negotiated fixed-price where price reasonableness is established through the use of certified cost and pricing data. See 41 U.S.C. § 1502(b)(1)(C)). The principles in each standard generally give Government contractors implementation flexibility. However, the contractor must select and, depending upon the value of contract awards

subject to CAS, disclose its CAS accounting practices in compliance with CAS. Once a CAS Disclosure Statement is filed with and approved by the Government, the contractor is required to consistently apply its disclosed CAS accounting practices accordingly. If the contractor intends to change its disclosed practices, the contractor is required to notify the Government of the accounting changes and their cost impact on its CAS-covered contracts. In this way, CAS serves to ensure the Government is not harmed by changes to the contractor's disclosed practices.

GAAP is a set of financial accounting standards established by the Financial Accounting Standards Board (FASB) for recording and reporting financial information. The financial statements produced using GAAP focus on the financial performance of segments of the company and the entity as a whole. These financial statements are used internally to operate the business and externally by interested parties, such as shareholders (owners of the company), investment firms, banks and other stakeholders. For example, the Securities and Exchange Commission requires publicly traded entities to file certain statements, which are made available to the public, including financial statements that are published in compliance with GAAP.

While CAS and GAAP record and present the same costs, they do so with different perspectives and for different purposes. CAS is focused at the contract level with a strong focus on the method of cost allocations to contracts to achieve the right recognition of costs for each contract for the benefit of the Government. In contrast to CAS, GAAP is focused on reporting at a product line, segment or entity level, not by individual contract. Costs measured and assigned according to GAAP are consolidated into financial reports at these higher levels.



When considering the need for CAS in 1970, Congress concluded that GAAP and other financial accounting standards could not satisfy the Government’s requirements for evaluating contract costing and pricing because “unlike financial accounting, which concentrates on a company’s total operations for a given period, cost accounting is concerned with allocating a part of a company’s total expenses to a specific product or service.” Senate Report No. 91-890, May 21, 1970. See also House Report No. 91-1330, July 27, 1970.

Over time, since CAS was initially promulgated, changes in GAAP have been driven by the need for improved uniformity and consistency, including in the measurement and assignment of costs, to achieve greater comparability, reliability and transparency of financial reporting used by investors and other users. This need has been the result of growing complexity in business transactions and stakeholder demands for accountability.

Despite the differences in purpose and focus of CAS and GAAP, there appear to be some areas of overlap that have arisen since CAS was first promulgated. This overlap has arisen as GAAP has evolved with the addition of a number of requirements related to the measurement and assignment of costs. Today, in practice, Government contractors follow concurrently a mixed blend of GAAP and CAS. Where there is conflict between CAS and GAAP, the requirements of CAS supersede those of GAAP for Government contract costing and pricing purposes.

The growth in GAAP content presents potential opportunities to modify or eliminate overlapping CAS requirements where GAAP standards may be applied reasonably as a substitute for CAS to support contract cost and pricing. Such reductions might help to reduce overall burden in the procurement process by allowing contractors to more heavily rely on GAAP, which they are already using to report on their daily business activities. Examples of benefits might include fewer unique records and/or processes that contractors must maintain, fewer Government oversight activities required by unique CAS requirements and opportunities for reliance on financial audits being performed by commercial firms for GAAP compliance. At the same time, rolling back CAS and relying on GAAP may create challenges where the standards are similar, but not the same, and leave the Government vulnerable to future GAAP changes that, as explained above, are implemented with a purpose that differs from the goals of CAS.

Accordingly, to effectively analyze where CAS-GAAP conformance may be beneficial, this SDP proposes (1) guiding principles that can serve as guardrails in evaluating the benefits and drawbacks of any proposed action and (2) a global roadmap to help the Board prioritize where it should focus its attention from among the 19 CAS that are currently in effect. The SDP then provides a preliminary comparison of CAS to GAAP for two standards identified in the roadmap as early candidates for analysis: CAS 408, *Accounting for Costs of Compensated Personal Absence*, and CAS 409, *Cost Accounting Standard Depreciation of Tangible Capital Assets*. The requirements of each cost accounting standard are delineated in a chart that shows corresponding coverage in GAAP, if any, and initial Board observations. Finally, the SDP discusses recent changes in GAAP that may require changes to CAS.

The Board welcomes comment on any part of this SDP, including reactions to:

- (1) the cited examples of potential benefits and drawbacks of CAS-GAAP conformance described in the introduction, above;

- (2) the guiding principles proposed for evaluating benefits and drawbacks of actions to conform CAS to GAAP;
- (3) the prioritization for action, and initial thinking on where action may not be beneficial, as outlined in the global roadmap;
- (4) views on the initial analysis of CAS 408 and 409, including the Board's preliminary observations and specific questions for public feedback; and
- (5) the Board's preliminary thinking on where CAS may need to be modified to conform to GAAP.

II. *Guiding Principles*

The Board has provisionally identified the following set of guiding principles to help identify actions that can simultaneously reduce burden on contractors while continuing to protect the interests of the Federal Government:

1. Reduce CAS requirements where practicable to minimize the burden on contractors while protecting the interests of the Federal Government.
2. Consider whether the proposed action would result in a net burden reduction (e.g., would the benefits of eliminating a requirement in one cost accounting standard be outweighed by the burdens made by changes required in other CAS) .
3. Consider whether other CAS requirements may protect the Government's interests when evaluating the potential risk of any gaps created by relying on GAAP instead of CAS. In addition, consider whether existing requirements in other relevant rules (e.g., Federal Acquisition Regulation (FAR)) may protect the Government's interests while not infringing on the Board's exclusive authority over the measurement, assignment, and allocation of costs for Government contracts.

4. Monitor future changes to GAAP and FAR to identify and evaluate their impact to CAS and revise CAS, as necessary, through the rulemaking process.
5. Monitor future significant disputes related to the elimination of any CAS requirements in conformance to GAAP, evaluate whether the Board should address them through clarifying guidance or the rulemaking process, and take action as necessary.

III. Global CAS-GAAP conformance Roadmap

The Board has developed a global roadmap for CAS-GAAP conformance. The roadmap includes three activities. The first activity is to organize the standards into groupings relative to their anticipated opportunity for conformance with GAAP. The second activity is to perform an assessment of each of the standards for potential conformance to GAAP and revise CAS, where practicable, using the prescribed rulemaking process. The third activity is to perform an assessment of changes that have occurred in GAAP to assess the impact to CAS and evaluate the need for revision to CAS to conform to the changed GAAP.

A high-level initial assessment of the standards was performed by the Board and the standards were aligned into four groupings based on their anticipated opportunity for conformance with GAAP. The groupings are as follows:

1. Standards focused primarily on cost measurement and assignment of costs to accounting periods. This group includes CAS 404 *Capitalization of tangible assets*, CAS 407 *Use of standard costs for direct material and direct labor*, CAS 408 *Accounting for costs of compensated personal absence*, CAS 409 *Cost accounting standard depreciation of tangible capital assets*, CAS 411 *Cost accounting standard—accounting for acquisition costs of material*, CAS 415 *Accounting for a the cost of deferred compensation*, and CAS 416 *Accounting for insurance costs*. GAAP contains significant requirements for cost measurement and assignment of costs to accounting periods,

so the standards with content focused primarily on cost measurement and assignment are anticipated to offer the most opportunity to conform CAS to existing content in GAAP.

2. Standards focused primarily on allocation of costs. This group includes CAS 403 *Allocation of home office expenses to segment*, CAS 410 *Allocation of business unit general and administrative expenses to final cost objectives*, CAS 418 *Allocation of direct and indirect costs*, and CAS 420 *Accounting for independent research and development costs and bid and proposal costs*. GAAP contains little content on the allocation of costs to cost objectives, such as intermediate pools and contracts, so the standards focused on cost allocation are anticipated to offer much less opportunity to conform CAS to existing content in GAAP.
3. Standards with complex rules satisfying unique needs of Government contracting. This group includes CAS 412 *Cost accounting standard for composition and measurement of pension cost*, CAS 413 *Adjustment and allocation of pension cost*, CAS 414 *Cost accounting standard—cost of money as an element of the cost of facilities capital*, and CAS 417 *Cost of money as an element of the cost of capital assets under construction*. CAS 412 and CAS 413 requirements include features which mitigate the significant volatility of the defined benefit pension cost measurement, which are beneficial to both the Government and contractors, while GAAP tolerates the market volatility in its measure of the pension costs. In addition, CAS 413 requirements include a specialized mathematical mechanism to achieve a settling up of cumulative pension costs for Government contracts when certain events occur. CAS 414 and CAS 417 provide contractors with an imputed cost of capital, which allows some cost recovery for financing of capital assets, in lieu of interest costs, which are an expressly unallowable cost under the Federal Acquisition Regulation (FAR) and not recoverable on Government contracts. These standards serve very unique purposes in Government contracting and are anticipated to offer little if any opportunity to conform CAS to GAAP.

4. Standards that are generally foundational principles of Government contracting. This group includes CAS 401 *Cost accounting standard—consistency in estimating, accumulating and reporting costs*, CAS 402 *Cost accounting standard—consistency in allocating cost incurred for the same purpose*, CAS 405 *Accounting for unallowable costs*, and CAS 406 *Cost accounting standard—cost accounting period*. GAAP contains limited content in some of these areas, so these standards are anticipated to have limited opportunity to conform CAS to existing content in GAAP.

For the reasons stated above, the Board intends to limit the scope of the project to focus on the standards in the first group. The Board plans to prioritize work beginning with the standards with the most anticipated opportunity for conformance. For each of these standards, a detailed analysis will be performed that will include developing a side-by-side comparison of the CAS requirements with the corresponding GAAP requirements, identifying any potential gaps between CAS and GAAP, evaluating the potential risk of any gaps identified in context of coverage by other CAS requirements and related regulations (e.g., FAR), determining if there is a history of compliance issues, and reviewing the need for the initial promulgation of the Standard with an assessment of the extent to which these needs in the current regulatory environment continue to protect the interests of the Federal Government.

In addition to this SDP which includes a preliminary analysis of CAS 408 and CAS 409, the Board plans to issue the next SDP on CAS-GAAP conformance with a preliminary analysis of two other standards in the first group. The Board welcomes 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.

The Board is also considering whether revision to the CAS contract clause found at 9903.201-4 *Contract clauses* may be necessary as a result of the elimination of any requirements in the standards.

This contract clause applies to compliance with CAS but does not apply to compliance with GAAP. The clause requires that a contractor agree to an adjustment, with interest, payable to the Government if it fails to comply with an applicable Standard in CAS. The calculation of this adjustment for the impact of the non-compliance to Government contracts includes years in which the non-compliance existed and may include years for which indirect costs have been settled. Elimination of any requirements in CAS with reliance on GAAP may result in the adjustment for a noncompliance identified in the current period to being limited to flexibly priced contracts in the current and future periods, because the clause at CAS 9903.201-4 does not apply to a non-compliance with GAAP. The Board welcomes public comments that consider whether this clause should be revised if any requirements in CAS are eliminated to protect the interests of the Government and contractors.

IV. Initial Assessments of CAS and GAAP

The Board has performed a preliminary detailed analysis of CAS 408, *Accounting for costs of compensated personal absence*, and CAS 409, *Cost accounting standard depreciation of tangible capital assets* using the considerations described in the *Global CAS-GAAP Conformance Roadmap* section above. The analyses are included as Appendix 1 to this SDP. The Board welcomes public comment on the analysis.

V. Recent changes in GAAP that may require revision in CAS

As part of the activities to conform CAS to GAAP, the Board recognizes that changes to GAAP may have an impact and require revision to CAS for the standards to remain clear and relevant to those responsible for applying them. The Board recognizes that failure to take action may lead to disputes. Therefore, consistent with the guiding principles described above, the Board plans to monitor and review changes in GAAP more diligently and respond through the prescribed rulemaking process to revise CAS when necessary.

The Board has identified two changes to GAAP that require an assessment of their impact to and the potential need for revision of CAS. The two changes in GAAP are the new lease accounting guidance and revenue recognition rules.

FASB Accounting Standards Update No. 2016-02 requires lessees to report most operating leases as assets and liabilities on the balance sheet effective January 1, 2019. The new accounting for these “right of use” assets may impact areas of CAS which rely on property, plant and equipment asset balances, such as the allocation of residual costs based on the three factor formula in CAS 9904-403-50(c)(1) and the calculation of cost of money in accordance with CAS 9904.414.

FASB Accounting Standards Update No. 2014-09 requires revenue to be recognized when control of promised goods or services transfers to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The GAAP definition of “revenue” has, accordingly, been revised in ASC 606-10-20. This new revenue definition may impact areas of CAS, such as the definition of “operating revenue” in CAS 9904.403-30(a)(3).

The Board is in the process of performing a preliminary assessment of the impact of these GAAP changes to CAS to determine the appropriate action to be taken by the Board. As part of the CAS-GAAP conformance activities, the Board welcomes public comments on recommended actions, if any, the Board needs to take regarding these two GAAP changes. 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 changes. The Board is also interested in any other changes to GAAP and their impact to CAS which merit the Board’s action.

A. Initial Assessment of CAS 408, Accounting for costs of compensated personal absence

Initial promulgation

CAS 408 was initially published September 19, 1974 at 39 FR 33681. The preamble for the original publication of CAS 408 stated that “[t]his 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 the initial promulgation of the Standard. “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 primary disadvantage identified in the initial preamble was in the reliance on the IRC accrual accounting for vacation pay that permitted, but did not require, the accrual of the costs and the lack of rules identifying the amount to be accrued. The preamble made no mention of GAAP rules related to compensated personal absences.

Regulatory developments after initial promulgations

GAAP has been revised significantly with additional content since the original promulgation of CAS 408 in 1974, while CAS for the most part has remained static subsequent to the initial promulgation. A comparison of the requirements in CAS 408 with pertinent GAAP content are provided below.

CAS 408 Compared with GAAP ASC-710-10

For each requirement in CAS 408, the Board identified if a comparable requirement existed in GAAP, FAR or other Standard. There appears to be at least one potential gap on which the Board especially appreciates comments.

The potential gap is the GAAP requirement (see ASC 710-10-25-1) to record both absences for which “the obligation relates to rights that vest or accumulate” [emphasis added]. CAS 408-40(a) requires that the costs “shall be assigned to the cost accounting period or periods in which the entitlement was earned,” where entitlement is considered earned when an employer would be required to pay the employee for the benefit in the event of employee termination on a basis of other than disciplinary action.

ASC 710-10-25-1(b) reads in part, “[v]ested 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.” By comparison, CAS 408-50(b)(1), reads in part, “compensated personal absence is earned at the same time and in the same amount as the employer becomes liable to compensate the employee for such absence if the employer terminates the employee’s employment.”

GAAP includes rights that accumulate, not just those which vest. ASC 710-10-25-1(b) defines accumulated rights as “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.” ASC 710-10-25-3 adds, “[i]f 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 the employees will be paid in subsequent years for the increased

benefits attributable to the accumulated rights and the amount can be reasonably estimated.” The Board is interested in public 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.

Although GAAP is more permissive in allowing accumulated rights to be assigned to the year in which the employee services were performed it also requires that anticipated forfeitures be considered, thereby potentially reducing the risk of recognizing costs that may not be paid in a future cost accounting period. ASC 710-10-25-2 reads in part, “[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.” Thus, the amount accrued would be reduced by estimated forfeitures in the year the recorded.

The Board encourages 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.

Are there any other gaps between CAS 408 and GAAP that the Board did not identify but should consider?

Compliance history

The Board is interested in public comments with facts and data of the history of CAS 408 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?

Detailed comparison

A detailed comparison of the current requirements in CAS 408 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 408 Requirements Comparison with GAAP

CAS 408 Requirement	GAAP Requirement	Queries
CAS 408-40 Fundamental Requirement		
<p>(a) The costs of compensated personable absence shall be assigned to the cost accounting period or periods in which the entitlement was earned.</p>	<p>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.</p> <p>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:</p> <ol style="list-style-type: none"> 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 	<p>“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.</p> <p>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.</p> <p>QUERY: Are these equivalent requirements?</p> <p>QUERY: If these are not equivalent would FAR 31.201-5 – Credits further mitigate the risk to the Government?</p>

CAS 408 Requirement	GAAP Requirement	Queries
	<p>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.</p> <p>c. Payment of the compensation is probable.</p> <p>d. The amount can be reasonably estimated.</p>	
<p>(b) The costs of compensated personal absence for an entire cost accounting period shall be allocated pro-rata on an annual basis among the final cost objectives of that period.</p>	<p>No equivalent content for allocation.</p>	<p>QUERY: Do other CAS for cost allocation address this?</p>
<p>CAS 408-50 Techniques for Application</p>		
<p>(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.</p>	<p>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</p>	<p>In order to apply the GAAP, each compensated absence plan (e.g., vacation time, sick time, military leave) would need to be evaluated separately.</p> <p>QUERY: Are these CAS and GAAP requirements equivalent?</p>

CAS 408 Requirement	GAAP Requirement	Queries
	<p>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.</p>	
<p>(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 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,</p>	<p>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:</p> <ul style="list-style-type: none"> 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 	<p>CAS limits recording cost in the year earned to employees’ being entitled to payment if terminated. The corresponding concept in GAAP is “vested rights”. CAS also allows, however, recognition of costs in the year earned even when an employee must complete a probationary period, so long as this practice is followed consistently.</p> <p>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?</p> <p>QUERY: Do CAS and GAAP align cost recognition in the year in which the employee services were performed upon which the benefit was earned, as long as</p>

CAS 408 Requirement	GAAP Requirement	Queries
<p>provided that he does so consistently.</p>	<p>may be a limit to the amount that can be carried forward.</p> <p>c. Payment of the compensation is probable.</p> <p>d. The amount can be reasonably estimated.</p> <p>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 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.</p> <p>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</p>	<p>future payment has reasonable certainty?</p> <p>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?</p> <p>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 employee is terminated. GAAP also requires anticipated forfeitures to be considered when determining the accrual amount.</p> <p>QUERY: Are these GAAP requirements together materially equivalent to those in CAS?</p>

CAS 408 Requirement	GAAP Requirement	Queries
	<p>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.</p>	
<p>(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 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.</p>	<p>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 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.</p>	<p>QUERY: Are these requirements equivalent?</p>

CAS 408 Requirement	GAAP Requirement	Queries
(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. QUERY: Does this result in equivalent treatment for both CAS and GAAP?
(c) Determination of employer's liability. In computing the cost of compensated personal absence, the computation shall give effect to 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	QUERY: 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)?
(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.	QUERY: Do CAS and GAAP require equivalent treatment?
(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	No explicit language in GAAP to use current or anticipated wage rates.	QUERY: Are liabilities under GAAP recorded based on current wage rates?

CAS 408 Requirement	GAAP Requirement	Queries
<p>employees, but such individual estimates shall not be required if the total cost with respect to all employees in the plan can be estimated with reasonable accuracy by the use of sample data, experience or other appropriate means.</p>		
<p>(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 contractor's previous practice shall be held in suspense and accounted for as described in subparagraph (d)(3) of this subsection.</p>	<p>See ASC 710-10-25-1 and ASC 710-10-25-2 above.</p>	<p>QUERY: Does the GAAP requirement to record accrued personal absence cost in the year earned achieve the equivalent concept of this CAS requirement?</p> <p>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?</p>

CAS 408 Requirement	GAAP Requirement	Queries
<p>(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.</p>	<p>See ASC 710-10-25-1, ASC 710-10-25-2, and ASC 710-10-25-3 above.</p>	<p>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?</p> <p>QUERY: For GAAP, when would the accrual for the new plan or changes to an existing plan be recorded?</p>
<p>(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 (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</p>	<p>No corresponding content in GAAP</p>	<p>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?</p>

CAS 408 Requirement	GAAP Requirement	Queries
increased by the amount of the excess.		
<p>(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.</p>	No corresponding content in GAAP	QUERY: Would CAS 406 address this gap?

B. Initial assessment of CAS 409 Cost accounting standard depreciation of tangible capital assets

Initial promulgation

Based on the preambles for CAS 409 published in the Federal Register for its initial promulgation on January 29, 1975, depreciation cost was considered an issue for contracting purposes going back to the 1960's. A number of contractors at that time primarily relied on the Internal Revenue Code (IRC) to measure depreciation costs. The IRC contained accelerated depreciation methods for tax purposes, and the Board viewed this as being inequitable and improper cost accounting because the methods did not match the depreciation expense over the useful life of the asset.

Regulatory developments after initial promulgation

GAAP now prohibits using the 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. Thus, the principal concern for the promulgation of CAS 409 may no longer exist. GAAP has added significant content since the initial promulgation of CAS 409, while CAS for the most part has not changed subsequent to the initial promulgation. A comparison of the requirements in CAS 409 with GAAP reveal comparable content. Additionally, FAR includes substantive content regarding the allowability of depreciation costs in certain circumstances that may further protect the interests of the Government.

CAS 409 Compared with GAAP ASC-360-10

The Board found corresponding requirements, primarily in GAAP, for nearly all of the requirements of CAS 409. There are, however, a few exceptions of potential gaps as described below on which the Board especially appreciates comments.

1. Service lives

The first potential gap is the requirement for record-keeping of actual service lives of assets and the use of such records as the basis for estimating service lives of tangible capital assets acquired thereafter (see CAS 409-50(e)(2)). GAAP does not explicitly require the same level of record keeping as CAS as it relates to historical service lives experienced on assets.

During the ordinary course of business, a contractor would typically maintain some records of assets through disposition that would include the dates the asset is put into use and disposed. The Board is interested in whether this record keeping would be expected to continue for GAAP accounting regardless of the elimination of requirements in CAS 409. In particular, the Board is interested in respondents providing 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?

ASC 360-10-35-3 reads in part, "Depreciation expense for financial statements for an asset shall be determined based upon the asset's useful life." Thus, GAAP requires that the cost of an asset be spread over the expected useful life of the asset, but does not explicitly require that the "expected useful life" of the asset be based on the contractor's asset history. It may be reasonable to interpret that the expected useful life required by GAAP is based on the individual contractor's expectation of asset life based on their own circumstances, which may include their historical experience with how long similar assets have been used or a future anticipation of how long they will use the asset. It may also be equally reasonable to interpret GAAP based on general circumstances not individually specific to the contractor, relying on broadly accepted useful lives for a category of assets as may be found in accounting reference guides. The Board is interested in respondents providing 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?

2. Certain gains/losses on dispositions within 12 months of transfer

The second potential gap is the CAS requirement to assign to the transferor the gain/loss on disposition of an asset transferred in an other than an arms-length transaction and subsequently disposed of within 12 months of transfer (see CAS 409-50-(j)(4)). There is no similar requirement in GAAP. The concern is without the constraint of this CAS 409 requirement, a contractor may transfer assets between segments with no purpose other than to recover a loss or avoid sharing a gain with the Government on an asset disposition.

The Board is interested in public comments about the frequency of such transfers 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?

3. Residual values

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. Although GAAP is much less prescriptive than CAS, it may offer some mitigation of the risk of eliminating this requirement in CAS 409.

In addition, FAR requirements may further mitigate the risk of a contractor setting no or too low 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.” Therefore, 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.

The Board is interested in public 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.

Are there any other gaps between CAS 409 and GAAP that the Board did not identify but should consider?

Compliance History

The Board is interested in public comments with facts and data of the history of CAS 409 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?

Detailed comparison

A detailed comparison of the current requirements in CAS 409 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 409 Requirements Comparison with GAAP, Other CAS, FAR

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.	QUERY: Are these equivalent concepts for recognizing the cost of a capital asset, or group of assets, over a number of accounting periods?
(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.	QUERY: Are these concepts of residual value and salvage value equivalent?
(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 cost be spread over the expected useful	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.	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.	
(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.	QUERY: Are the selection criteria in CAS and GAAP of matching the pattern of asset consumption to the method of depreciation equivalent?
(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.	QUERY: 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 those assets was included (but see paragraph (f) of this [FAR] subsection).

CAS 409 Requirement	GAAP Requirement	Queries
(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.	<p>QUERY; Are there requirements in other CAS that address this?</p> <p>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.</p> <p>In addition, CAS 418 specifically addresses the allocation of direct and indirect costs.</p>
(2) Where tangible capital assets are part of, or function as, an organizational unit whose 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.	No corresponding content in GAAP.	<p>QUERY: Do requirements in other CAS address this?</p> <p>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:</p> <p>(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</p>

CAS 409 Requirement	GAAP Requirement	Queries
		<p>representative of the activity being managed or supervised.</p> <p>(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:</p> <ul style="list-style-type: none"> (i) A resource consumption measure, (ii) An output measure, or (iii) A surrogate that is representative of resources consumed. <p>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 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.</p> <p>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</p>

CAS 409 Requirement	GAAP Requirement	Queries
		<p>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.</p>
<p>(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.</p>	<p>No corresponding content in GAAP.</p>	<p>QUERY: Do requirements in other CAS address this? CAS 418 and FAR 31.203 (b) & (c) – see above.</p>
<p>(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.</p>	<p>No corresponding content in GAAP.</p>	<p>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).</p> <p>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).</p>

CAS 409 Requirement	GAAP Requirement	Queries
CAS 409-50 Techniques for application		
<p>(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.</p>	<p>ASC 360-10-35-3 Depreciation expense in the financial statements for an asset shall be determined based on an asset's useful life.</p> <p>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.</p> <p>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 component assets other than the primary asset of an asset group.</p> <p>ASC 360-10-35-7 The declining-balance method is an example of one of the methods</p>	<p>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.</p> <p>QUERY: Are these equivalent?</p> <p>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.</p>

CAS 409 Requirement	GAAP Requirement	Queries
	<p>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.</p>	
<p>(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 capital assets shall be accounted for over the service life of the assets.</p>	<p>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.</p>	<p>Both CAS and GAAP require depreciation to begin when an asset is substantially complete and ready for use.</p> <p>CAS provides additional information about partial utilization and spare parts that is not explicitly included in GAAP.</p> <p>QUERY: Based on interpreting GAAP, would it result in the same cost treatment as CAS without the explicit language?</p>
<p>(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</p>	<p>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</p>	<p>QUERY: Are these CAS and GAAP requirements for consistency equivalent?</p> <p>QUERY: In addition, are other requirements of CAS addressing consistency relevant?</p>

CAS 409 Requirement	GAAP Requirement	Queries
<p>ending dates in computing the first and last year depreciable cost.</p>	<p>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</p>	<p>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.</p>
<p>(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.</p>	<p>ASC 360-10-35-4, ASC 250-10-45-1, ASC 250-10-45-2(b) see above</p>	<p>QUERY: Are CAS and GAAP equivalent for the treatment of assets individually or as a group of assets?</p> <p>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)?</p>
<p>(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</p>	<p>ASC 360-10-35-4, ASC 360-10-35-8 and ASC 360-10-35-33 see above.</p> <p>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</p>	<p>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.</p> <p>QUERY: Would the records maintained to support the claim of Facilities Capital Cost</p>

CAS 409 Requirement	GAAP Requirement	Queries
standby or incidental use where adequate records are maintained which reflect the withdrawal from active use.	recoverable. The following are examples of such events or changes in circumstances:	of Money under CAS 417 be similar to those required CAS 409-50(e)(2)?
(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:	<ul style="list-style-type: none"> 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 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. 	<p>QUERY: Would these records be maintained as part of any other ordinary business practice?</p> <p>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.</p>
(i) Changes in expected physical usefulness from that which has been experienced such as changes in the quantity and quality of expected output.		<p>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.</p>
(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	<p>ASC 360-10-35-22 When a long-lived asset (asset group) is tested for recoverability, it</p>	

CAS 409 Requirement	GAAP Requirement	Queries
<p>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.</p>	<p>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 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.</p> <p>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</p>	

CAS 409 Requirement	GAAP Requirement	Queries
	budgets and projections, accruals related to incentive compensation plans, or information communicated to others.	
<p>(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 is not recorded for financial accounting purposes for some non-commercial organizations), if not unreasonable under the criteria specified in paragraph (e) of this subsection, shall be used until adequate supporting records are available.</p>	<p>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.</p>	<p>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.</p>
<p>(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</p>	<p>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.</p>	<p>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</p>

CAS 409 Requirement	GAAP Requirement	Queries
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.		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).
(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:	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	CAS relies on the GAAP method of depreciation today, although with certain exceptions. Both CAS and GAAP generally reject the use of accelerated depreciation using the IRS rules.
(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		

CAS 409 Requirement	GAAP Requirement	Queries
(ii) The method is unacceptable for Federal income tax purposes.	salvage (if any), over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner.	
[(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 the 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.	<p>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.</p> <p>ASC 360-10-35-9 If the number of years specified by the Accelerated Cost Recovery System of the Internal Revenue Service (IRS) 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.</p>	
(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	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.

CAS 409 Requirement	GAAP Requirement	Queries
<p>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.</p>		
<p>(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 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</p>	<p>See ASC 360-10-35-4, ASC 360-10-35-7 and ASC 360-10-35-22 above.</p>	<p>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.</p> <p>QUERY: Is the resulting cost treatment for CAS and GAAP equivalent?</p>

CAS 409 Requirement	GAAP Requirement	Queries
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).		
(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 on the individual items which form the complement.	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. QUERY: Do CAS and GAAP result in equivalent cost treatment of an asset group?
(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	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.

CAS 409 Requirement	GAAP Requirement	Queries
<p>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.</p>		<p>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.</p>
<p>(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 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.</p>	<p>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 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.</p>	<p>QUERY: Are CAS and GAAP equivalent?</p> <p>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 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.</p>

CAS 409 Requirement	GAAP Requirement	Queries
	<p>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.</p> <p>ASC 250-10-45-17 – A change in accounting estimate shall be accounted for in the period of change if the 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.</p>	
(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	No corresponding content in GAAP, except for the measurement of gains and losses described above.	<p>No corresponding GAAP requirements, however, there is applicable content in FAR.</p> <p>FAR 31.205-16(a) – Gains and losses from the sale, retirement, or other disposition (but see 31.205-19) of depreciable property shall</p>

CAS 409 Requirement	GAAP Requirement	Queries
<p>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.</p>		<p>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).</p> <p>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.</p>
<p>(2) Gains and losses on the disposition of tangible capital assets shall not be recognized where:</p>		
<p>(i) Assets are grouped and such gains and losses are processed through the accumulated depreciation account, or</p>	<p>No corresponding content in GAAP</p>	<p>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.</p>
<p>(ii) The asset is given in exchange as part of the purchase price of a similar asset and the</p>	<p>ASC 360-10-40-4 For purposes of this Subtopic, a long-lived asset to be disposed of in</p>	<p>QUERY: Are CAS and GAAP equivalent?</p>

CAS 409 Requirement	GAAP Requirement	Queries
gain or loss is included in computing the depreciable cost of the new asset.	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.	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.
[(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) – <i>[Special considerations for involuntary conversions]</i> 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 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.

CAS 409 Requirement	GAAP Requirement	Queries
<p>(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).</p>	<p>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.</p>	<p>Note that this refers to CAS 404, which will be addressed in future rulemaking by the CAS Board.</p> <p>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.</p>
<p>(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 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.</p>	<p>No corresponding content in GAAP</p>	<p>QUERY: Do other requirement in CAS address this? (See CAS 402 above)</p>
<p>(l) Practices for determining depreciation methods, estimated service lives and estimated residual values need not be changed for assets acquired prior to</p>	<p>No corresponding content in GAAP</p>	<p>QUERY: Is this requirement in CAS necessary?</p>

CAS 409 Requirement	GAAP Requirement	Queries
<p>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].</p>		