

May 10, 2019

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

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

Subject: Financial Executives International Committee on Government Business Comments on CASB Staff Discussion Paper on Conformance of the Cost Accounting Standards (“CAS”) to Generally Accepted Accounting Principles (“GAAP”)

Reference: CASB Case Number 2019-01

Dear Mr. Wong:

I am pleased to offer the following comments on the Cost Accounting Standards Board (“CASB”) Staff Discussion Paper (“SDP”) on conformance of CAS to GAAP (*Federal Register* notice dated March 13, 2019) on behalf of the Financial Executives International – Committee on Government Business (“FEI-CGB”). FEI is a professional association representing the interests of more than 10,000 chief financial officers, treasurers, controllers, tax directors and other senior financial executives from major companies throughout the United States. FEI represents both the providers and users of financial information. CGB formulates policy opinions on government contracting issues for FEI in line with the views of the membership.

FEI-CGB reviewed the CASB SDP prepared in response to the National Defense Authorization Act of FY2017 (Pub. L. 114–328, 130 Stat. 2273) which amended 41 U.S.C. 1501(c)(2) to require the Board to review CAS and conform them, to the extent practicable, to GAAP. As the SDP points out, CAS was designed to achieve uniformity and consistency in determining costs on US Government contracts. CAS focuses on the measurement, assignment and allocation of cost at the contract level. GAAP is a common set of accounting pronouncements that prescribe how financial statements are prepared, including recognition, measurement, presentation and disclosure. The purpose of GAAP is to provide a conceptual framework and acceptable accounting methods and practices for financial reporting.

Given that there is some overlap in membership between FEI-CGB and the Aerospace Industries Association (“AIA”) Cost Principles Committee, FEI-CGB is aware of, and generally endorses, the technical content of AIA’s comments on CASB Case Number 2019-01. Specifically, FEI-CGB agrees with AIA’s responses to the queries on the comparisons to the GAAP and CAS requirements presented in the appendices to the AIA letter, and thus incorporates those appendices to this response. FEI-CGB’s comments concerning other aspects of the SDP are presented below.

Comments on the Guiding Principles for Evaluating Benefits and Drawbacks:

On the surface, the initiative to streamline the US Government procurement process by shifting reliance for government cost accounting from CAS to GAAP makes sense. Specifically, all public companies and nonprofit organizations are already required to prepare financial statements based on GAAP. Accordingly, using GAAP to govern government contract cost accounting would seem to eliminate the administrative effort needed to maintain an additional “set of CAS books” (i.e., the CAS specific entries) to meet CAS requirements. For example, the SDP considers using GAAP accounting for personal absences and depreciation on property, plant and equipment (“PP&E”). GAAP would be used not only for financial reporting, but also for estimating, reporting, and accumulating costs for Government contracting purposes. However, FEI-CGB strongly believes that any significant potential benefit from the conformance of CAS to GAAP will be achieved only if (i) compliance is based solely upon GAAP requirements and (ii) compliance determinations reflect the results of reviews performed by the individual company’s outside audit firms who have both the proficiency and practical experience to determine compliance with GAAP.

Any incorporation of GAAP into CAS that results in multiple parties determining GAAP compliance stands to prevent this conformance initiative from achieving any significant success. Actually, conformance by incorporation of all or part of GAAP into CAS could lead to lengthening, rather than shortening, the procurement process by creating uncertainty concerning compliance and CAS administrative requirements (e.g., how are GAAP materiality considerations applied for CAS?), as well as increased administration effort or disputes where there are differences of opinion between outside audit firms and US Government oversight agencies on GAAP compliance.

Furthermore, elimination of a requirement in one CAS standard that leads to an additional requirement in another CAS standard or Federal Acquisition Regulation (FAR) will reduce or eliminate the benefit of conformance to GAAP and is contrary to the stated purpose of streamlining the acquisition process. We understand that some have considered incorporating certain CAS into FAR if they are eliminated in favor of GAAP. Such an action would take away any benefit sought by conformance, create unnecessary complexity for the Government and contractors, and could also lead to situations that would infringe on the CASB’s exclusive authority over the measurement, assignment, and allocation of costs for Government contracts.

Comments on CAS-GAAP Conformance Roadmap:

The SDP’s grouping of the standards relative to the anticipated opportunity for conformance with GAAP appears reasonable. However, the underlying theory of the CAS-GAAP conformance initiative appears to be that a combination of CAS 401, CAS 402, and CAS 406 (i.e., the Principal Three CAS) combined with increases in the scope of GAAP requirements since the earlier establishment of the individual Standards potentially renders CAS coverage in some areas as more or less redundant and unnecessary.

A careful study of the chronology of the CAS promulgation history indicates otherwise. Specifically, CAS 408 and CAS 409 were published even though the Principal Three CAS were already in effect. At that time, the CASB concluded the Principal Three CAS did not adequately address the practices for the cost

accounting treatment of personal absences or depreciation. The CASB found that more specific requirements than those in GAAP were warranted when those Standards were promulgated.

GAAP coverage in these areas has increased significantly over the years to the point where the CAS and GAAP concepts are much the same in many respects. A survey of FEI-CGB's membership shows virtually no history of contractor noncompliance with CAS 408 and minimal history of noncompliance with CAS 409. The issues that were identified with CAS 409 generally had immaterial impacts to US Government contracts and were corrected through contract adjustments to the distribution of depreciation costs between accounting periods and contracts (i.e., generally a net zero adjustment). This minimal history of noncompliance indicates an understanding and consistent application of the CAS requirements by contractors. Thus, CAS 408 and CAS 409 appear to be good candidates for conforming CAS and GAAP. However, there are requirements in the Standards that are not present in GAAP. These requirements, such as the CAS 409 provisions covering agreements on special asset lives and accounting for gains and losses on disposition of assets, may be needed to provide appropriate results in specific circumstances that may be encountered by the Government and contractors.

Removal of a Standard has the potential to eliminate time and expense for the US Government (i.e., the CASB, Government audit agencies, and Government contracting officers) and contractor support for CAS audits (e.g., Government requested briefings and data for reviews and testing). However, as cautioned in our comments above on the Guiding Principles, for any meaningful benefits to be realized the Government must avoid incorporation of GAAP requirements into CAS or FAR and rely on the compliance reviews of the individual company's outside audit firms. This is equally true for CAS 408 and CAS 409 as it is for the other Standards that were mentioned in the SDP as potential candidates for conformance. The reason for the promulgation of those CAS was the need to cover substantial elements of costs, notwithstanding the general coverage of the Principal Three CAS. This need continues and should not be undermined by changes that eliminate important provisions of the Standards.

FEI-CGB is concerned that the SDP appears to indicate that the CASB believes that the interests of the US Government can only be protected by:

- Having multiple organizations review a company's GAAP compliance,
- Adopting a "GAAP Plus" approach by incorporating key aspects of GAAP into CAS, and/or
- Revising the CAS contract clause found at 9903.201-4 to presumably provide an avenue by which a noncompliance with GAAP in an area where a Standard is eliminated can require contract adjustments, with interest.

As discussed, FEI-CGB sees no benefit from the first two options which are likely to lengthen and add uncertainty to the procurement process. Additionally, if the CASB revises CAS to incorporate all or part of the GAAP requirements, not only is it committing itself to monitor and make timely adjustments for any future changes to GAAP, such changes would be viewed as a required change subject to equitable adjustment under the requirements of CAS 9903.201-4. Lastly, if the intent of the SDP query related to the necessity of a revision to CAS 9903.201-4 refers to a situation where there is an elimination of CAS requirements with reliance on GAAP; such a revision would only apply prospectively from the date of

applicability for purposes of noncompliance determinations. As long as CAS revisions follow the prescribed rulemaking process, the interests of both the Government and contractors will continue to be protected. However, FEI-CGB contends that the pertinent question is whether such a revision will provide any streamlining and cost savings for the procurement process, which is the ultimate goal of CAS-GAAP conformance.

Considering the SDP and our experience with the Standards, FEI-CGB recommends that this project be curtailed and suggests that CASB's limited resources be better directed towards the emerging issues that were discussed in the SDP, such as the impact of Financial Accounting Standards Board ("FASB") changes on leases and revenue recognition. These changes to GAAP require immediate, yet relatively simple, revisions to CAS. The needed actions would include:

- Clarifying that contractors may use financial statement PP&E balances, excluding operating leases, in the CAS 403 three factor formula allocation base, and other PP&E allocation bases; and
- Updating the definition of revenue in CAS 403-30(a)(3) to conform to Accounting Standards Codification ("ASC") 606-10-20.

FEI-CGB also believes that the CASB should focus its attention on the Section 809 Panel's CAS subcommittee recommended revisions to CAS applicability/thresholds, as well as its completed projects on disclosure statement update and streamlining of the cost impact process. Additionally, the CASB should concentrate on timely issuance of the Advance Notice of Proposed Rulemaking ("ANPRM") for CAS 413.

If you wish to engage with the FEI-CGB on this matter, we would be amenable to meeting with you at your convenience. Please contact Ms. Marisa Peacock at the FEI office in Morristown, NJ at phone number (973) 765-1007 or email at mpeacock@financialexecutives.org for arrangements.

Thank you for your consideration in this matter.

Sincerely,



Ms. Barbara F. Michael

Chairman, Financial Executives International – Committee on Government Business

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Appendix A: FEI-CGB Responses to CASB Queries in CAS 408 Comparison Table

CAS 408 Requirement	GAAP Requirement	CASB 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. 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 that earned but unused rights to compensated absences may be carried forward to one or more periods subsequent to that in which they are earned, even though there may be a limit to the amount that can be carried forward. c. Payment of the compensation is probable. d. The amount can be reasonably estimated. 	<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>CASB Query: <i>Are these equivalent requirements?</i></p> <p>CASB Query: <i>If these are not equivalent would FAR 31.201-5 – Credits further mitigate the risk to the Government?</i></p> <p>Response: Yes, the requirements from CAS and GAAP in this area are equivalent. In identifying compensated personal absences to which its rule applies, GAAP refers to the same types as CAS, that is compensated time off for vacation, sick pay, holidays, jury duty , voting or other reasons, unless the amounts are immaterial. Additionally, GAAP requires accrual if certain conditions are met, which closely mirror the definition of entitlement. In close alignment with CAS, there is a requirement that if a liability (obligation to pay the employee) exists, then the costs are to be accrued; otherwise, as</p>

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		<p>with CAS, the cost of the benefits would be recognized in the year taken on a cash basis. Specifically, GAAP requires accrual of employee’s compensation for future absences if all of these criteria are met:</p> <ol style="list-style-type: none"> 1) The employer’s obligation is attributable to employee’s services already rendered; 2) The obligation relates to rights that either: <ul style="list-style-type: none"> • <u>vest</u>—those rights for which the employer has an obligation to make payment even if an employee terminates; thus, they are not contingent on an employee’s future service; or • <u>accumulate</u>—those rights that are earned and when unused may be carried forward to one or more periods subsequent to that in which they are earned (although the amount an employee can carry forward may be limited); 3) Payment of the compensation is probable; and 4) The amount can be reasonably estimated.
<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>CASB Query: <i>Do other CAS for cost allocation address this?</i></p> <p>Response: There is alignment between CAS and GAAP on the accounting period assignment to recognize the costs. The basis for the accrual under GAAP “is that accumulating or vesting benefits are earned by employees as services are rendered. Accordingly, they should be accrued over the period when the services are performed in accordance with the enterprise’s</p>

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		formal policies or, if such policies do not exist, past practices.” This is the same for CAS.
CAS 408-50 Techniques for Application		
<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 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>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>CASB Query: <i>Are these CAS and GAAP requirements equivalent?</i></p> <p>Response: Yes, the requirements from CAS and GAAP in this area are equivalent. The rules are written to set out criteria that need to be applied separately to each type of compensated personal absence, as CAS requires. GAAP requires that if benefits are changed during a period, the full effect of the change should be reflected in that period and not deferred and spread over subsequent periods. The timing of recognizing the costs for benefit changes is the same for CAS and GAAP—the period in which the change occurs.</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</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> <p>a. The employer’s obligation relating to employees’ rights to receive compensation for future absences is attributable to</p>	<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</p>

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CAS 408 Requirement	GAAP Requirement	CASB Queries
<p>absence if the employer terminates the employee’s employment for lack of work or other reasons not involving disciplinary action, in accordance with a plan or custom of the employer. Where a new employee must complete a probationary period before the employer becomes liable, the employer may nonetheless treat such service as creating entitlement in any computations required by this Standard, provided that he does so consistently.</p>	<p>employees’ services already rendered.</p> <p>b. The obligation relates to rights that vest or accumulate. Vested rights are those for which the employer has an obligation to make payment even if an employee terminates; thus, they are not contingent on an employee’s future service. Accumulate means that earned but unused rights to compensated absences may be carried forward to one or more periods subsequent to that in which they are earned, even though there may be a limit to the amount that can be carried forward.</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</p>	<p>a probationary period, so long as this practice is followed consistently.</p> <p>CASB Query: <i>Is this extension of entitlement in CAS similar to GAAP’s requirements to recognize the costs in the year earned when payment is probable?</i></p> <p>CASB Query: <i>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 future payment has reasonable certainty?</i></p> <p>CASB Query: <i>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?</i></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>CASB Query: <i>Are these GAAP requirements together materially equivalent to those in CAS?</i></p> <p>Response: Yes, the cost measurement requirements from CAS and GAAP in this area are together materially equivalent. Please see response above under CAS 408-40(a) Fundamental Requirement.</p>

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CAS 408 Requirement	GAAP Requirement	CASB Queries
	<p>accumulate and are carried forward to succeeding years, thereby increasing the benefits that would otherwise be available in those later years. If the rights expire, a liability for future absences shall not be accrued at year-end because the benefits to be paid in subsequent years would not be attributable to employee services rendered in prior years. (Jury duty and military leave benefits generally do not accumulate if unused and, unless they accumulate, a liability for those benefits shall not be accrued at year-end.) On the other hand, if unused rights do accumulate and increase the benefits otherwise available in subsequent years, a liability shall be accrued at year-end to the extent that it is probable that employees will be paid in subsequent years for the increased benefits attributable to the accumulated rights; and the amount can be reasonably estimated.</p>	<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." However, CAS also allows recognition of costs in the year earned even when an employee must complete a probationary period, so long as this practice is followed consistently.</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>CASB Query: <i>Are these requirements equivalent?</i></p> <p>Response: Yes, the requirements from CAS and GAAP in this area are equivalent. See response to CAS 408-40 (a) Queries above.</p>
<p>(b)(3) In the absence of a determinable liability, in accordance with paragraph (b)(1) of this subsection, compensated personal</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</p>	<p>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</p>

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CAS 408 Requirement	GAAP Requirement	CASB Queries
<p>absence will be considered to be earned only in the cost accounting period in which it is paid.</p>	<p>met...</p>	<p>for a liability are not met and the cost would be recorded in the period in which it is paid.</p> <p>CASB Query: <i>Does this result in equivalent treatment for both CAS and GAAP?</i></p> <p>Response: Yes, the requirements from CAS and GAAP in this area are equivalent. In close alignment with CAS, there is a requirement that if a liability (obligation to pay the employee) exists, then the costs are to be accrued; otherwise, as with CAS, the cost of the benefits would be recognized in the year taken on a cash basis.</p>
<p>(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.</p>		
<p>(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.</p>	<p>See ASC 710-10-25-1, ASC 710-10-25-2 and ASC 710-10-25-3 above</p>	<p>CASB Query: <i>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)?</i></p> <p>Response: Yes, the requirements from CAS and GAAP in this area are equivalent. In alignment with CAS, GAAP establishes that the timing of recording the accrual is when “accumulating, or vesting, benefits are earned by employees as services are rendered. Accordingly, they should be accrued over the period when the services are performed...”</p>
<p>(c)(2) The estimated liability shall be reduced to allow for anticipated nonutilization, if</p>	<p>ASC 710-10-25-2 A liability for amounts to be paid as a result of employees’ rights to compensated</p>	<p>CASB Query: <i>Do CAS and GAAP require equivalent treatment?</i></p>

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CAS 408 Requirement	GAAP Requirement	CASB Queries
material.	absences shall be accrued, considering anticipated forfeitures, in the year in which earned.	<p>Response: Yes, CAS and GAAP require equivalent treatment in this area. GAAP explicitly addresses nonutilization in alignment with CAS, as “the accrual should be reduced for estimated amounts, if any, that will not be paid due to nonuse, termination, or other reasons.”</p>
(c)(3) The liability shall be estimated consistently either in terms of current or of anticipated wage rates. Estimates may be made with respect to individual employees, but such individual estimates shall not be required if 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.	No explicit language in GAAP to use current or anticipated wage rates.	<p>CASB Query: <i>Are liabilities under GAAP recorded based on current wage rates?</i></p> <p>Response: Yes, liabilities under GAAP are recorded based on current wage rates. GAAP addresses salary rates used for the estimates in alignment with CAS as, “Vacation and sick pay should be accrued using current salary rates, and the accrual should be adjusted when the rates change. It is equally acceptable, though less common, to accrue benefits based on the salary rates expected to be in effect when the employee uses the vacation or sick days.” Note that GAAP rules aren’t limited to vacation and sick pay, stating that other compensated time off should be accrued in the same manner as vacation or sick pay, unless the amounts are immaterial.</p>
(d) Adjustments. (d)(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	See ASC 710-10-25-1 and ASC 710-10-25-2 above.	<p>CASB Query: <i>Does the GAAP requirement to record accrued personal absence cost in the year earned achieve the equivalent concept of this CAS requirement?</i></p> <p>Response: Yes, the requirements from CAS and GAAP in this area are equivalent. In close alignment with CAS, there is a requirement that if a liability (obligation to pay the employee) exists, then the costs are to be accrued;</p>

Appendix A: FEI-CGB Responses to CASB Queries in CAS 408 Comparison Table

CAS 408 Requirement	GAAP Requirement	CASB Queries
<p>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>otherwise, as with CAS, the cost of the benefits would be recognized in the year taken on a cash basis.</p> <p>CASB Query: <i>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?</i></p> <p>Response: Yes, the GAAP requirement is that when a liability (obligation to pay the employee) exists, then the costs are to be recognized as costs.</p>
<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>CASB Query: <i>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?</i></p> <p>Response: Yes, GAAP requires that if benefits are changed during a period, the full effect of the change should be reflected in that period and not deferred and spread over subsequent periods. The timing of recognizing the costs for benefit changes is the same for CAS and GAAP—the period in which the change occurs.</p> <p>CASB Query: <i>For GAAP, when would the accrual for the new plan or changes to an existing plan be recorded?</i></p> <p>Response: As noted above, the timing of recognizing the costs for benefit changes is the same for CAS and GAAP—the period in which</p>

Appendix A: FEI-CGB Responses to CASB Queries in CAS 408 Comparison Table

CAS 408 Requirement	GAAP Requirement	CASB Queries
<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 increased by the amount of the excess.</p>	<p>No corresponding content in GAAP.</p>	<p>the change occurs.</p> <p>CASB Query: <i>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?</i></p> <p>Response: In alignment with paragraph (d)(2) in CAS 408-50, GAAP includes rules about changes in personal absence benefit plans. GAAP reads, “If vacation or sick pay benefits are changed during a period, the full effect of the change should be reflected in that period and not deferred and spread over subsequent periods. The “past service” cost associated with the adoption of new plans should be treated similarly. CAS 408-50 paragraphs (d)(1) and (d)(3) refer to adjustments to the accrued liability balance (“suspense”). Said simply, the CAS language reflects that the personal absence cost for the period will be only that which is earned during the period.</p> <p>Paragraph (d)(1) describes that accrued liabilities related to benefits earned in prior years before CAS coverage cannot be recognized as personal absence costs for Government contracts in the current period. Because GAAP would have required those benefits to be accrued in those prior years, this would not be an issue.</p> <p>Paragraph (d)(3) describes a circumstance where employees would have a liability for accrued time, e.g., vacation time, which was</p>

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CAS 408 Requirement	GAAP Requirement	CASB Queries
		<p>earned in the current accounting period but will “roll over” for use in the next accounting period and requires that this “excess” liability amount be assigned to the current accounting period in which it was earned. Both CAS and GAAP agree on this point, which is that benefits for which a liability exists are to be accrued in the period earned.</p>
<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>	<p>No corresponding content in GAAP</p>	<p>CASB Query: <i>Would CAS 406 address this gap?</i></p> <p>Response: Yes, CAS 406 essentially requires contractors to use their fiscal year as their cost accounting period for the allocation of Government contract costs. There are very few acceptable deviations from using fiscal year and those include the following:</p> <ol style="list-style-type: none"> 1. if the period used is the contractor’s established practice, 2. the period used for Federal income tax reporting, 3. or if the contractor and US Government mutually agree. <p>Additionally, CAS 406 further protects the interests of the Government and contractors as once a contractor selects a cost accounting period, it must be followed consistently, and any change is treated as a cost accounting practice change.</p>

Appendix B: FEI-CGB Responses to CASB Queries in CAS 409 Comparison Table

CAS 409 Requirement	GAAP Requirement	Queries
CAS 409-40 Fundamental Requirement		
(a) The depreciable cost of a tangible capital asset (or group of assets) shall be assigned to cost accounting periods in accordance with the following criteria:	ASC 360-10-35-4 The cost of a productive facility is one of the costs of the services it renders during its useful economic life. Generally accepted accounting principles (GAAP) require that this cost be spread over the expected useful life of the facility in such a way as to allocate it as equitably as possible to the periods during which services are obtained from the use of the facility. This procedure is known as depreciation accounting, a system of accounting which aims to distribute the cost or other basic value of tangible capital assets, less salvage (if any), over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner.	<p>CASB Query: <i>Are these equivalent concepts for recognizing the cost of a capital asset, or group of assets, over a number of accounting periods?</i></p> <p>Response: Yes, they both address how the cost of an asset is spread over its useful economic life.</p> <p>See CAS 409-20 Purpose. “The Standard is based on the concept that depreciation costs identified with cost accounting periods and benefiting cost objectives within periods should be a reasonable measure of the expiration of service potential of the tangible assets subject to depreciation. Adherence to this Standard should provide a systematic and rational flow of the costs of tangible capital assets to benefitted cost objectives over the expected service lives of the assets.”</p>
(a)(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.	<p>CASB Query: <i>Are these concepts of residual value and salvage value equivalent?</i></p> <p>Response: Yes. The needs of financial statement users supported by GAAP dictate the equivalency. Same as well for queries herein for -40 (a) 2, 3, and 4; -50 (a), (b), (c), (d), (e), (f), (g) and (i).</p>
(a)(2) The estimated service life of a tangible capital asset (or group of assets) shall be used to determine the cost accounting periods to which the depreciable cost will be assigned.	ASC 360-10-35-4 - 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.	<p>CASB Query: <i>Are these concepts of estimated service life and useful life equivalent?</i></p> <p>Response: Yes</p>
(a)(3) The method of depreciation	ASC 360-10-35-4 –above ASC 360-10-35-7 – The	CASB Query: <i>Are the selection criteria in CAS</i>

Appendix B: FEI-CGB Responses to CASB Queries in CAS 409 Comparison Table

CAS 409 Requirement	GAAP Requirement	Queries
<p>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.</p>	<p>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.</p>	<p><i>and GAAP of matching the pattern of asset consumption to the method of depreciation equivalent?</i></p> <p>Response: Yes</p>
<p>(a)(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.</p>	<p>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.</p>	<p>CASB Query: <i>Are the CAS and GAAP requirements for recognition of a gain or loss on disposition in the period in which it occurs equivalent?</i></p> <p>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).</p> <p>Response: Yes</p>
<p>(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:</p>	<p>No corresponding content in GAAP.</p>	
<p>(b)(1) Depreciation cost may be charged directly to cost objectives only if such</p>	<p>No corresponding content in GAAP.</p>	<p>CASB Query: <i>Are there requirements in other CAS that address this?</i></p>

Appendix B: FEI-CGB Responses to CASB Queries in CAS 409 Comparison Table

CAS 409 Requirement	GAAP Requirement	Queries
<p>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</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> <p>Response: Yes, allocation of direct and indirect costs is covered by other CAS.</p> <p>There is no rationale for treating depreciation costs measured and assigned to a period differently from all the other costs (both direct and indirect) for which CAS 418 provides requirements for allocation.</p>
<p>(b)(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.</p>	<p>No corresponding content in GAAP.</p>	<p>CASB Query: <i>Do requirements in other CAS address this?</i></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> <ol style="list-style-type: none"> 1) If a material amount of the costs included in a cost pool are costs of management or supervision of activities involving direct labor or direct material costs, resource consumption cannot be specifically identified with cost objectives. In that circumstance, a base shall be used which is representative of the activity being managed or supervised. 2) If the cost pool does not contain a material amount of the costs of management or

Appendix B: FEI-CGB Responses to CASB Queries in CAS 409 Comparison Table

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

Appendix B: FEI-CGB Responses to CASB Queries in CAS 409 Comparison Table

CAS 409 Requirement	GAAP Requirement	Queries
		<p>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>Response: Yes</p>
<p>(b)(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>CASB Query: <i>Do requirements in other CAS address this? CAS 418 and FAR 31.203 (b) & (c) – see above.</i></p> <p>Response: Yes</p>
<p>(b)(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). 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 409-50 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</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</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>

Appendix B: FEI-CGB Responses to CASB Queries in CAS 409 Comparison Table

CAS 409 Requirement	GAAP Requirement	Queries
<p>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>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 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.</p> <p>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</p>	<p><u>CASB Query:</u> <i>Are these equivalent?</i></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> <p><u>Response:</u> Yes</p>

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CAS 409 Requirement	GAAP Requirement	Queries
	depreciable lives of a group of depreciable assets, along with such other factors as wear and tear, obsolescence, and maintenance and replacement policies.	
<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.</p> <p>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>CASB Query: <i>Based on interpreting GAAP, would it result in the same cost treatment as CAS without the explicit language?</i></p> <p>Response: Yes, the “substantially complete and ready for its intended use” language would meet the requirement of when depreciation should begin.</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 ending dates in computing the first and last year depreciable cost.</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 accounting period to another enhances the utility of financial statements for users by facilitating analysis and understanding of comparative accounting data.”</p> <p>ASC 250-10-45-2(b) – A reporting entity shall change an accounting principle only if either of the following apply:</p> <ol style="list-style-type: none"> a. The change is required by a newly issued Codification update. b. The entity can justify the use of an allowable 	<p>CASB Query: <i>Are these CAS and GAAP requirements for consistency equivalent?</i></p> <p>CASB Query: <i>In addition, are other requirements of CAS addressing consistency relevant?</i></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</p>

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CAS 409 Requirement	GAAP Requirement	Queries
	<p>alternative accounting principle on the basis that it is preferable.</p>	<p>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>Response: Yes, and yes. We concur with the examples provided here as providing coverage for consistency in depreciation method.</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>CASB Query: <i>Are CAS and GAAP equivalent for the treatment of assets individually or as a group of assets?</i></p> <p>CASB Query: <i>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)?</i></p> <p>Response: Yes, and yes.</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 standby or incidental use where adequate records are maintained which reflect the</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 recoverable. The following are examples of such events or changes in circumstances:</p> <ol 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 	<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>CASB Query: <i>Would the records maintained to support the claim of Facilities Capital Cost of Money under CAS 417 be similar to those required CAS 409-50(e)(2)?</i></p> <p>CASB Query: <i>Would these records be</i></p>

Appendix B: FEI-CGB Responses to CASB Queries in CAS 409 Comparison Table

CAS 409 Requirement	GAAP Requirement	Queries
<p>withdrawal from active use.</p> <p>(e)(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:</p> <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> <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.</p> <p>(e)(2) Supporting records shall be maintained which are adequate to show the age at retirement or, if the contractor so chooses, at withdrawal from active use (and retention for standby or incidental use) for a sample of assets for each significant category. Whether assets are accounted for individually or by groups, the basis for estimating service life shall</p>	<p>group) is being used or in its physical condition</p> <p>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</p> <p>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)</p> <p>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)</p> <p>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> <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 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</p>	<p><i>maintained as part of any other ordinary business practice?</i></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> <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> <p>Response: Yes, and yes. In the ordinary course of business, contractors maintain records of assets through disposition that would include dates the assets were put in use and disposed. Beyond for just GAAP purposes, the records would also be maintained for tax requirements and general management information needs. Contractors not subject to CAS 409 are able to demonstrate allowability of their depreciation costs by keeping records that support allowability. Other factors include the commonality of systems for asset management including ERP asset modules, and FAR</p>

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CAS 409 Requirement	GAAP Requirement	Queries
<p>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>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 budgets and projections, accruals related to incentive compensation plans, or information communicated to others.</p>	<p>recordkeeping clauses.</p>
<p>(e)(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 noncommercial organizations), if not unreasonable under the criteria specified in paragraph (e) of this subsection, shall be used until adequate supporting</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>

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CAS 409 Requirement	GAAP Requirement	Queries
records are available.		
(e)(4) Estimated service lives for tangible capital assets for which the contractor has no available data or no prior experience for similar assets shall be established based on a projection of the expected actual period of usefulness, but shall not be less than asset guideline periods (mid-range) established for asset guideline classes under Internal Revenue Procedures which are in effect as of the first day of the cost accounting period in which the assets are acquired. Use of this alternative procedure shall cease as soon as the contractor is able to develop estimates which are appropriately supported by his own experience.	No corresponding content for explicit record keeping in GAAP, however, see ASC 360-10-35-4, .ASC 360-10-35-21 ,ASC 360-10-35-22 and ASC 360-10-35-30 above.	GAAP does not require the same prescriptive record-keeping as CAS nor explicit reliance on historical records for selecting service lives. GAAP does, however, refer to using actual experience to review depreciation estimates and methods and making changes to them. The record keeping for service lives is identified as a gap by the Board.
(e)(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) (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	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	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.

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CAS 409 Requirement	GAAP Requirement	Queries
<p>contract costing unless:</p> <p>(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</p> <p>(ii) The method is unacceptable for Federal income tax purposes.</p> <p>If the contractors' method of depreciation used for financial accounting purposes (or other accounting purposes as provided above) does not reasonably reflect he expected consumption of services or is unacceptable for Federal income tax purposes, he shall establish a method of depreciation for contract costing which meets these criteria, in accordance with subparagraph (f)(3) of this subsection.</p>	<p>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 360-10-35-7 – 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>	
<p>(f)(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</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 depreciation methods. GAAP does, however, refer to using actual experience to review depreciation estimates and methods and making changes to them.</p>

Appendix B: FEI-CGB Responses to CASB Queries in CAS 409 Comparison Table

CAS 409 Requirement	GAAP Requirement	Queries
<p>different methods of depreciation shall apply. Support in accordance with paragraph (f)(3) of this subsection shall be based on the expected consumption of services of either individual assets or any reasonable grouping of assets as long as the basis selected for grouping assets is consistently used.</p>		
<p>(f)(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</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>CASB Query: <i>Is the resulting cost treatment for CAS and GAAP equivalent?</i></p> <p>Response: Yes. CAS 409 provides criteria for assigning costs of tangible capital assets to cost accounting periods and for consistent allocation of those costs to benefited cost objectives over the service lives of the assets. GAAP similarly require that the cost of an asset be spread over the expected useful life of the asset in such a way as to allocate it as equitably as possible to the periods during which services are obtained from the use of the asset.</p>

Appendix B: FEI-CGB Responses to CASB Queries in CAS 409 Comparison Table

CAS 409 Requirement	GAAP Requirement	Queries
<p>represented by the passage of time. The appropriate method of depreciation should be selected as follows:</p> <p>(i) An accelerated method of depreciation is appropriate where the expected consumption of asset services is significantly greater in early years of asset life.</p> <p>(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).</p>		
<p>(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.</p>	<p>ASC 360-10-35-4 see above.</p>	<p>CAS is more detailed than GAAP, but both rules have content for an original complement or asset group.</p> <p>CASB Query: <i>Do CAS and GAAP result in equivalent cost treatment of an asset group?</i></p> <p>Response: Yes</p>
<p>(h) Estimated residual values shall be determined for all tangible capital assets (or groups of assets). For tangible personal property, only estimated residual values which exceed ten percent of the capitalized cost of the asset (or group of assets) need be used in establishing depreciable costs. Where either the declining balance method of depreciation or the class life asset depreciation range system is used consistent with the provisions of this</p>	<p>ASC 360-10-35-4 and ASC 360-10-35-33 see above.</p>	<p>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.</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</p>

Appendix B: FEI-CGB Responses to CASB Queries in CAS 409 Comparison Table

CAS 409 Requirement	GAAP Requirement	Queries
<p>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>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>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</p>	<p>CASB Query: <i>Are CAS and GAAP equivalent?</i></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> <p>Response: Yes, they both allude to consistency in useful life and the process in changing established depreciation method or useful life.</p>

Appendix B: FEI-CGB Responses to CASB Queries in CAS 409 Comparison Table

CAS 409 Requirement	GAAP Requirement	Queries
	<p>intangible asset. Any revision to the remaining useful life of a long-lived asset resulting from that review also shall be considered in developing estimates of future cash flows used to test the asset (asset group) for recoverability (see paragraphs 360-10-35-31 through 35-32). However, any change in the accounting method for the asset resulting from that review shall be made only after applying this Subtopic. ASC 250-10-45-17 – A change in accounting estimate shall be accounted for in the period of change if the 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>	
<p>(j) (j)(1) Gains and losses on disposition of tangible capital assets shall be considered as adjustments of depreciation costs previously recognized and shall be assigned to the cost accounting period in which disposition occurs except as provided in subparagraphs (j) (2) and (3) of this subsection. The gain or loss for each asset disposed of is the difference between the net amount realized, including insurance proceeds in the event of involuntary conversion, and its undepreciated balance. However, the gain to be recognized for contract costing purposes shall be limited to the difference between the original acquisition cost of the asset and its undepreciated balance.</p>	<p>No corresponding content in GAAP, except for the measurement of gains and losses described above.</p>	<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 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</p>

Appendix B: FEI-CGB Responses to CASB Queries in CAS 409 Comparison Table

CAS 409 Requirement	GAAP Requirement	Queries
		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.
(j)(2) Gains and losses on the disposition of tangible capital assets shall not be recognized where:		
(i) Assets are grouped and such gains and losses are processed through the accumulated depreciation account, or	No corresponding content in GAAP	FAR 31.205-16(f) – Gains and losses on the disposition of depreciable property shall not be recognized as a separate charge or credit when --(1) Gains and losses are processed through the depreciation reserve account and reflected in the depreciation allowable under 31.205-11.
(ii) The asset is given in exchange as part of the purchase price of a similar asset and the gain or loss is included in computing the depreciable cost of the new asset.	ASC 360-10-40-4 For purposes of this Subtopic, a long-lived asset to be disposed of in an exchange measured based on the recorded amount of the nonmonetary asset relinquished or to be distributed to owners in a spinoff is disposed of when it is exchanged or distributed.	<p>CASB Query: <i>Are CAS and GAAP equivalent?</i></p> <p>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.</p> <p>Response: Yes – although it appears the CASB has cited the incorrect GAAP reference, and it instead should cite ASC 360-10-35-4 and ASC 360-10-35-40.</p>
[(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

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CAS 409 Requirement	GAAP Requirement	Queries
		extent as outlined in subparagraph (e)(1) of this [FAR] subsection.
(j)(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.
(j)(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.
(j)(5) The provisions of this subsection 9904.409-50(j) do not apply to business combinations. The carrying values of tangible capital assets acquired subsequent to a business combination shall be established in accordance with the provisions of subsection 9904.404-50(d).	ASC 805-20-25-1 As of the acquisition date, the acquirer shall recognize, separately from goodwill, the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquire.	Note that this refers to CAS 404, which will be addressed in future rulemaking by the CAS Board. FAR 31.205-52 (a) – For tangible capital assets, when the purchase method of accounting for a business combination is used, whether or not the contract or subcontract is subject to CAS, the allowable depreciation and cost of money shall be based on the capitalized asset values measured and assigned in accordance with 48 CFR 9904.404-50(d), if allocable, reasonable, and not otherwise unallowable.
(k) Where, in accordance with 9904.409-40(b)(1), the depreciation costs of like tangible capital assets used for similar purposes are directly charged to cost objectives on the basis of usage, average charging rates based on cost shall be established for the use of such assets. Any variances between total depreciation cost charged to cost objectives and total	No corresponding content in GAAP	CASB Query: <i>Do other requirement in CAS address this? (See CAS 402 above)</i> Response: Yes

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