



**To: Cost Accounting Standards Board, Office Federal Procurement Policy, Office of Management and Budget. [CASB@omb.eop.gov](mailto:CASB@omb.eop.gov)**

**Attention: Raymond Wong, Cost Accounting Standards Board Director**

**Subject: Public comments concerning a Staff Discussion Paper (SDP) on conformance of the Cost Accounting Standards (CAS) to Generally Accepted Accounting Principles (GAAP). [Cost Accounting Standards Board - whitehouse.gov](http://www.whitehouse.gov/wp-content/uploads/2019/03/2019-01-SDP-suppl.pdf) <https://www.whitehouse.gov/wp-content/uploads/2019/03/2019-01-SDP-suppl.pdf>**

**Case: CASB 2019-01.**

**From: Asset Leadership Network (ALN) and submitted by Richard C. Culbertson [Richard.c.culbertson@gmail.com](mailto:Richard.c.culbertson@gmail.com) (609-410-0108) Senior Fellow of ALN**

**Date: May 12, 2019**

**Purpose:**

The National Defense Authorization Act of FY2017 (Pub. L. 114-328, 130 Stat. 2273) amended 41 U.S.C. 1501(c)(2) to require the Board to review CAS and conform them, where practicable, to GAAP. ... [T]o minimize the burden on contractors while protecting the interests of the Federal Government.

The SDP solicits the public's views with respect to the Board's statutory requirement to conform CAS to GAAP. The SDP reflects research accomplished to date by the Board in the respective subject area and is issued by the Board in accordance with the requirements of 41 U.S.C. 1502(c). Respondents are encouraged to provide comments to the questions raised by the Board, although the Board also welcomes identification and comment on any other important issues related to conformance of CAS to GAAP. The Board continues to be especially appreciative of comments and suggestions that attempt to consider the concerns of all parties to the contracting process.

**About Asset Leadership Network:** <https://assetleadership.net/> ALN came from a group of asset management experts that was involved the writing, vetting and promulgating ASTM Asset Management and ISO 55000 Asset Management consensus standards. Our web site provides information of our activities. Collectively our members have a vast amount of knowledge and experience of various forms and aspects of asset management and accounting.

**ALN Opening Statement: Case - CASB 2019-01, is good work of the CASB and is a good basis for the proper consideration of the topic.**

**In short, our opinion is to retire in full both CAS 408 and 409 along with major modifications of the CAS Disclosure Statement.**

ALN applauds and welcomes the beginning process to eliminate unnecessary, out of date and inefficient Cost Accounting Standards. This is a great opportunity to make improvements that

will result in cost savings, and more efficient and effective contracting environment. Most of these standards were not maintained since promulgation. Starting with the two of the cost accounting standards that probably provide a largest amount of opportunity to eliminate or improve but at the same time are not extremely complex to understand is a wise starting point. The approach ALN will be commenting from the perspective of either a large amount of direct experience as with CAS 409 or indirect experience with the Government accounting process with CAS 408. We will also comment on the perspective of using and being in compliance with GAAP while concurrently being in compliance with the CAS.

We also applaud starting with the identification of guiding principles of the CAS. We suggest also adding that improvements or elimination of the CAS also reflect requirements of FAR -- Part 1 Federal Acquisition Regulations System and in particular 1.102 -- Statement of Guiding Principles for the Federal Acquisition System; The GAO Green Book, Standards for Internal Control in the Federal Government; GAO-14-704G (This reflects The Committee of Sponsoring Organizations of the Treadway Commission (COSO) updated its internal control guidance in 2013 with the issuance of a revised Internal Control - Integrated Framework.) Section 1 of the Green Book will be useful; and the GAO Yellow Book, GOVERNMENT AUDITING STANDARDS, GAO-18-568G. Each of these documents were issued subsequent to the CAS and are applicable to those who are subject to the CAS. Future Cost Accounting Standards must be harmonized with these three documents.

We believe it is very important to define and understand the task. The NDAA requires “to review CAS and conform them, where **practicable**<sup>1,2</sup>, to GAAP. Many confuse the term practicable with practical. Many things may be practicable but may not be practical. Practicable pertains to feasible, possible, viable, workable, achievable, attainable, doable, within the realm of possibility..., In the realm of standards, OMB in Circular A-119 provides some guidance with the definition of impractical.

““Impractical” includes circumstances in which such use would fail to serve the agency's regulatory, procurement, or program needs; be infeasible; be inadequate, ineffectual, inefficient, or inconsistent with the agency mission or the goals of using voluntary consensus standards; be inconsistent with a provision of law; or impose more burdens, or be less useful, than the use of another standard.”

What is practicable may or may not be the most advantageous or practical to the one who must achieve an objective, it may not be the approach that is the least expensive or the one with the least risk. Doing what is practical provides the doer subjective and objective freedom. Doing

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<sup>1</sup> Understanding the term “practicable” does not necessarily mean “practical” and can make the difference in the desired outcomes: “At the battle of Gettysburg Lee ordered General Richard Ewell, now commander of the late Stonewall Jackson's old units, to attack this position **“if practicable”**, a vague order that Jackson normally took to mean launch an all-out attack. Ewell was not Jackson. He decided not to attack once he saw the Union artillery atop the hill. Had he attacked and succeeded, it might have changed the course of the war.”

<http://www.eyewitnesstohistory.com/gtburg.htm>

<sup>2</sup> Definition of practicable. 1 : capable of being put into practice or of being done or accomplished : FEASIBLE a practicable plan. 2 : capable of being used : USABLE a practicable weapon. <https://www.merriam-webster.com/dictionary/practicable>

where practicable does not provide the same type of discretion. Doing away with CAS 408 and 409 is both practical and practicable.

**In this ALN comments document we will provide answers or comments in the sequence as presented in the CASB document.**

**ALN Response 1, Page 1**

*I. Introduction*

- It is important to recognize the changes to the approach to accounting from the 1970s. In 1970 accounting was largely considered an art. The desired result could be achieved or greatly influenced by the accounting technique or the approach taken.
  - In the 1970s the accounting standards boards recognized their needed to be improvements to accounting standards and issued FAS1 Disclosure of Foreign Currency Translation Information. FAS2 was Accounting for Research and Development Costs. These statements were not issued in a logical sequence. In recent years recodification changed that.
  - Issuance of the 1984 Federal Acquisition Regulation.
  - Executive Orders regarding regulations
    - Executive Order 12866 of September 30, 1993.
    - [Executive Order 13563](#) of January 18, 2011
    - [Executive Order 13777](#) of February 24, 2017 ... identify regulations that: (i) eliminate jobs, or inhibit job creation; (ii) are outdated, unnecessary, or ineffective; (iii) impose costs that exceed benefits; (iv) create a serious inconsistency or otherwise interfere with regulatory reform initiatives and policies; ... Seek to repeal, replace or modify.
  - 1998 OMB issued revision of Circular No. A-119 -- Federal Register (Federal Participation in the Development and Use of Voluntary Consensus Standards and in Conformity Assessment Activities). This was based upon National Technology Transfer and Advancement Act of 1995.
  - The approach to accounting started to change with SEC Staff Accounting Bulletin:  
No. 99 – Materiality. This document addressed materiality (quantitatively and qualitatively), abusive earnings management...
  - Around 2000 the various accounting scandals occurred and Sarbanes Oxley Act became law. The Accounting approach changed ... accounting was no longer an art but compliance to standards and internal controls (Section 404).
  - Around 2000 acquisition reform efforts occurred as well as reinvention of Government. See FAR Part 1.
  - Rediscovery of the Securities and Exchange Act of 1934 78m regarding financial reporting and internal controls. 15 U.S. Code § 78m. Periodical and other reports (b)(2) <https://www.law.cornell.edu/uscode/text/15/78m>
  - Throughout the regulatory and standards since the 1970s, GAAP accounting changed, the FAR changed, the GAO Yellow Book was written and updated many times, the international accounting standards changed, the PCAOB became into existence and CAS remained the same.
- CAS was written for the 1970s. The CASB current efforts should bring the CAS up to

date and make it more consistent with the approach of GAAP and the current approach to accounting, auditing and internal controls and FAR Part 1.102 -- Statement of Guiding Principles for the Federal Acquisition System.

- Major suggested changes.
  - Changes in the CAS will result in changes to the CAS Disclosure Statement CASB DS- 1 (REV 2/96) [https://www.whitehouse.gov/wp-content/uploads/2017/11/CASB\\_DS-1.pdf](https://www.whitehouse.gov/wp-content/uploads/2017/11/CASB_DS-1.pdf)
    - Modify the Disclosure Statement to reflect the new CAS and current GAAP. CAS 408, for example is not mentioned in the Disclosure Statement, because of lack of importance. CAS 409 elements are included.
    - The Disclosure Statement is a representation and is enforceable on the contractual parties. (A **representation** is a statement of fact that induces a party to enter into the contract. The statement, made before or at the time of making the contract, regards a past fact or existing circumstance related to the contract which influences such party to enter the contract.)
    - The Disclosure Statement should require assertion of compliance of the CAS and GAAP ... with noted exceptions and material explanations.
  - Start with a Government default approach to the Disclosure Statement. If a contractor uses the default approach there is no Government approval of the Disclosure Statement. The Government saves administrative efforts and so do contractors.
  - One Disclosure Statement per Corporation.
  - Disclosure Statements do not provide competitive advantage. Transparency is more important and, in the public's interest. Any disputes regarding unfair, abusive or non-compliant practices of a competitor are issues that need to be resolved. Acting in good faith and fair dealing are assumed in the contractual process.
  - Make Disclosure Statements public information.
    - Variation in Disclosure Statements and practice adds substantial administrative cost to contractors and to those auditing Government Contractors. In the end variations in practices become unreasonable cost.
    - The CASB should look very carefully at the default approach in the major off the shelf accounting products. Modifying these products to conform to a Disclosure Statement is very expensive and in the end, little value is added ... cost is still cost but there may be some presentation or timing differences.
    - FAR 52.230-2 -- Cost Accounting Standards. (a)(1) Disclosure Statements should not include: "If the Contractor has notified the Contracting Officer that the Disclosure Statement contains trade secrets and commercial or financial information which is privileged and confidential, the Disclosure Statement shall be protected and shall not be released

outside of the Government.” Accounting activities in compliance with CAS and GAAP are not a trade secret nor is the approach to compliance trade secrets, privileged and confidential. Private information should not be included in a CAS Disclosure Statement. Transparency over the art form of accounting.

- 52.230-1 -- Cost Accounting Standards Notices and Certification. Includes “Caution: In the absence of specific regulations or agreement, a practice disclosed in a Disclosure Statement shall not, by virtue of such disclosure, be deemed to be a proper, approved, or agreed-to practice for pricing proposals or accumulating and reporting contract performance cost data.” This statement and practice should be eliminated. The Disclosure Statement is a representation, representations are binding on the contracting parties. The contract price was calculated based upon the contents of the Disclosures Statement and the contractor accounting and estimating systems of which are consistent with the Disclosure Statement.

#### FAR 52.215-8 -- Order of Precedence

Any inconsistency... in this contract shall be resolved by giving precedence...:

- (a) The Schedule (excluding the specifications).
  - (b) **Representations** and other instructions.
  - (c) Contract clauses.
  - (d) Other documents, exhibits, and attachments.
  - (e) The specifications.
- Recognize in accounting and management systems standards, adopt international standards to as much as practicable. Summary of the National Technology Transfer and Advancement Act 15 U.S.C. §3701 et seq. (1996).

The CASB document includes “B. Background and Summary... Board to consult with interested persons concerning the advantages, disadvantages, and improvements anticipated in the pricing and administration of Government contracts as a result of the adoption of a proposed Standard prior to the promulgation of any new or revised CAS.”

This is a good approach. It is important to remember cost is cost the only issues will be timing of recognition. Some the cost accounting standards deferred recognition to the benefit of the Government and in these cases a more neutral approach is better. Some Cost Accounting Standards require an unreasonable amount of administrative cost to comply and in those cases administrative cost must be reduced, which will probably be the GAAP approach. If there are no material differences in outcome between CAS and GAAP, then CAS should be eliminated in favor of GAAP. The Document in the Federal Register provides little discussion of the CAS Disclosure Statement. The Disclosure Statement is out of date ... last modified in 1996, too many options, some may be conflicting. This document should be shortened and simplified.

An interested diverse group should be tasked to provide revision and a default document.

Unreasonable, unreliable and excessively administratively burdensome should be declared unreasonable thus unallowable.

Take the Disclosure Statement sections and create teams ...to provide suggested improvements ---one who have experience with the subject matter. Review all standards. As would be done with consensus standards CAS ...must be reviewed every 5 years or retired.

#### **Response 2, Page 4**

“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;”

ALN: There are multiple potential benefits such as minimizing variations from what a Government contractor must comply by law for reporting purposes. Managing those variations is expensive and the benefits of CAS do not offset the added administrative cost of CAS. CAS allows and encourages multiple Disclosure Statements within an organization GAAP does not. There would be very few drawbacks of CAS GAAP conformance.

- (2) “the guiding principles proposed for evaluating benefits and drawbacks of actions to conform CAS to GAAP;”

ALN: The stated Guided Principles are a good start, but others needed to be added as provided such as the use of the GAO Green Book, GAO Yellow Book, FAR Part 1 Guiding Principles and Principles within Executive Orders concerning regulations.

- (3) “the prioritization for action, and initial thinking on where action may not be beneficial, as outlined in the global roadmap;”

ALN: As provide in answers.

- (4) “views on the initial analysis of CAS 408 and 409, including the Board’s preliminary observations and specific questions for public feedback; and”

ALN: As provide in answers.

- (5) “the Board’s preliminary thinking on where CAS may need to be modified to conform to GAAP.”

ALN: As provide in answers.

#### **Response 3, Page 5**

##### ***II. Guiding Principles***

ALN:

- As stated previously, the Guiding Principles of the Current CASB effort should reflect occurrences and documents mentions in the Introduction Section ... Materiality, Cost-benefit, Best value, OMB and GAO Documents as well as Executive Orders. Harmonization and appropriate alignment with existing requirements.

- The CAS should recognize the importance of following existing standards but also improving upon existing standards, improving internal controls and providing safeguards against waste, fraud and abuse.

#### Response 4, Page 9

#### *III. Global CAS-GAAP conformance Roadmap*

##### **ALN:**

- We generally agree with the intimal assessment Grouping 1 having the greatest opportunity of improvement and conformance. We would add CAS 414 and CAS 417. The cost of money concept is outdated not in conformance with GAAP, has had unanticipated consequences, is problematic with the changes in GAAP regarding lease accounting and is not in the best interest of the Government.
- We recommend an independent study and the consequence of forcing the cost of money concept on government contractors. What would be probably found, since 1970 major Government contractors have leased real property rather than buying. The cost of money or Treasury rate is about 2.4 percent. Borrowing cost at prime is about 5.5 percent. Leases are allowable cost. The spread between the treasury rate and prime is unallowable cost. Companies frequently do not believe they are in the real estate business ... so they do not invest in real estate. The Government and contractors have benefited greatly from contractor owned real property acquired prior to 1970. Contractor owned property purchased since 2000 probably not much. Competitive advantage of major contractors that have wisely invested in real property ... great.  
The incentives need to be adjusted. The Government should make interest cost allowable to some extent to where there are long term incentives to own property rather than lease property.
- Another area that needs to be evaluated is startup cost. Capitalized or expense? GAAP has determined that startup cost is period cost. This area is particularity important regarding the acquisition, ownership, and charging of initial special tooling and test equipment. What are the most effective and efficient systems and approaches?
- “The Board is also considering whether revision to the CAS contract clause found at 9903.201-4 ... 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.” Non-compliance with GAAP and CAS should be included. Protections should also be included for contractors ... when contractor has submitted a Disclosures Statements, which are representations and the Government has accepted the Disclosure Statement by awarding a contract, those representations should not be evaluated a breached after the fact by those who were not in the initial procurement process.
- The CAS should consider selected improvements to standards in other grouping as provided by interested parties. It is important to complete the task as defined in the

NDA. If reviewed and not changed may be appropriate. Not reviewed is not appropriate.

- The CASB should be mindful of the Coopers and Lybrand study of 1994, which calculated the cost of compliance with DoD-unique statutes and regulations at 18 percent and the Rand study of 2006 Measuring the Statutory and Regulatory Constraints on DoD Acquisition ...  
[https://www.rand.org/content/dam/rand/pubs/technical\\_reports/2006/RAND\\_TR347.pdf](https://www.rand.org/content/dam/rand/pubs/technical_reports/2006/RAND_TR347.pdf)
- Those who approve a Disclosure Statement should not be permitted to audit the Disclosure Statement after the fact ... Auditors should not audit their own work.
- **The schedule of completion should be defined. Activities to complete the task should happen concurrently. CASB should draw upon other experts and based upon the parts of the CAS Disclosure Statement** [https://www.whitehouse.gov/wp-content/uploads/2017/11/CASB\\_DS-1.pdf](https://www.whitehouse.gov/wp-content/uploads/2017/11/CASB_DS-1.pdf)

### Response 5, Page 11

“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. ... 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.”

ALN: The Contract clause should be reviewed and modified concurrently with the CAS.

### Response 6, Page 12

*IV. Initial Assessments of CAS and GAAP*

#### **CAS 408 Accounting for costs of compensated personal absence. Comments and recommendations**

- CAS 408 is probably one of the least important standards. It is not mentioned in the CAS Disclosure Statement, which shows to some extent its relative or deemed importance.
- Any difference between GAAP and CAS are timing differences. In the whole scheme of things, differences are immaterial.
- Administrative cost to identify and account the differences would result in greater cost than benefits.
- Generally, when Enterprise Resource Planning (ERP) (Gartner's annual market share reports places SAP, Oracle, Sage, Microsoft and NetSuite among the top vendors) are installed. The out of the box accounting approach is intended to follow GAAP. Company experts then identify what are the variances of the out of the box system with what has been disclosed on the organization's CAS Disclosure Statement and initiate changes or adjustments to the software. This is very expensive and should be considered and eliminated as much as possible. Administratively this is expensive as well. Anything that must be handled differently is expensive and error prone.
- The Board is interested in public comments and especially recommendations of any changes to the Standard to conform it to GAAP.



Eliminate or rescind CAS 408. The differences are not material. This is essentially the same type accounting as for accounting for warranties. Reasonable estimates are used and are eventually adjusted by actuals.

### **Response 7, Pages 12 - 13**

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

[T]he Board welcomes public comments on recommended actions, if any, the Board needs to take regarding these two GAAP changes (leases and revenue recognition).

ALN: We agree there will have to be CAS changes or additions regarding leases and revenue recognition.

Having leases on the balance sheet improves transparency. For going concerns where there is reasonable assurance that the organization is a going concern and will be in the same location for the foreseeable future purchasing real property is generally wise. Leases per GAAP have an element of interest, interest is unallowable cost. If nothing changes, Government contractors will have a new source of unallowable cost. There needs to be a rebalancing in Government contracting for the new GAAP in lease accounting.

Currently, we have no opinion on changes to revenue recognition.

“The Board is also interested in any other changes to GAAP and their impact to CAS which merit the Board’s action.”

ALN: Under CAS 409 Depreciation of Tangible Capital Assets, the capitalization of period cost in the form of overhead and G&A will need to be reviewed and changed. The capitalization of self-constructed software (intangible assets) should be also be reviewed and perhaps included in CAS 404 or another new standard. The capitalization of special tooling, special test equipment and testbeds should be clarified some.

### **CAS 408 Response 1, Pages 16 - 17**

“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.

ALN: In the long run there appears to be no material difference. The DCAA Contract Audit Manual does not address the issue. Chances are most contractors have gone in the direction GAAP because accounting software out of the box would be based upon GAAP unless either internal experts of GAAP and CAS caught the technical difference. When the out of the box accounting approach is modified, it is believed generally done based the CAS Disclosure Statement. This CAS appears to try to perfect the amounts of accruals.

FASB Statement of Financial Accounting Concepts No.3 (**Superseded by No. 6**) 1980 and No. 6 Elements of Financial Statements defines “35. Liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events.”

Concept 6 was issued by the FASB in 1985 ... years after CAS 408 was issued.

The differences between CAS and GAAP are considered immaterial based upon Amendments to Statement of Financial Accounting Concepts No. 8, August 2018.

[https://www.fasb.org/jsp/FASB/Document\\_C/DocumentPage?cid=1176171111614&acceptedDisclaimer=true](https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176171111614&acceptedDisclaimer=true)

### CAS 408 Responses 2 and 3, Page 15

CAS 408 Requirement	GAAP Requirement	Queries
CAS 408-40 Fundamental Requirement(a)		<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>

ALN: No material differences. In the long run there should be no differences. The desired outcome is the same.

ALN: FAR 31.201-5 – Credits would further mitigate the risk to the Government.

### CAS 408 Responses 4 – 5, Page 16

CAS 408-40 Fundamental Requirement(b)		QUERY: Do other CAS for cost allocation address this?
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ALN: It is assumed both GAAP and CAS are under accrual accounting.

### CAS 408 Responses 6, Page 16

CAS 408-50 Techniques for Application (a)		QUERY: Are these CAS and GAAP requirements equivalent?
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ALN: Yes

### CAS 408 Responses 7 – 10, Pages 17 - 18

CAS 408-50 Techniques for Application (b)		QUERY: Is this extension of entitlement in CAS similar to GAAP's requirements to recognize the costs in the year earned when payment is probable?
		QUERY: Do CAS and 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?
		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?
		QUERY: Are these GAAP requirements together materially equivalent to those in CAS?

ALN: Yes
<p>ALN: No. "Reasonable certainty" is a term used in legal matters. In Accounting for contingencies, the term "probable" is used. Probable is at least more likely than not. What is "probable" is important to define for accounting operations. FAS Concept 6 provides some guidance with the definition of "assets" 25. Assets are probable<sup>18</sup> future economic benefits obtained or controlled by a particular entity as a result of past transactions or events.</p> <p><sup>18</sup> Probable is used with its usual general meaning, rather than in a specific accounting or technical sense (such as that in FASB Statement No. 5, Accounting for Contingencies, par. 3), and refers to that which can reasonably be expected or believed on the basis of available evidence or logic but is neither certain nor proved (Webster's New World Dictionary of the American Language, 2d college ed. [New York Simon and Schuster 1982], p. 1132). Its inclusion in the definition is intended to acknowledge that business and other economic activities occur in an environment characterized by uncertainty in which few outcomes are certain (pars. 44–48).</p> <p>FASB Statement No. 5, Accounting for Contingencies, par. 3): Probable. The future event or events are likely to occur. (more likely than not ... no ties)</p> <p>The understanding of terms related to the extent of certainty is important and needs to be defined that is understandable in the confines of accounting.</p> <p>Amounts recorded should best estimates.</p>

ALN: No. Both require accrual accounting. An accrual is a form of recognition.
ALN Yes.

### CAS 408 Response 11, Page 19

CAS 408-50 Techniques for Application (b)(2)		QUERY: Are these requirements equivalent?
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ALN: Yes. There may be distinctions, but no differences.
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### CAS 408 Response 12, Page 20

CAS 408-50 Techniques for Application (b)(3)		QUERY: Does this result in equivalent treatment for both CAS and GAAP?
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ALN: Yes. The business rules used should result in equivalent treatment.

### CAS 408 Response 13, Page 20

CAS 408-50 Techniques for Application (c)(1)		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)?
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ALN: Yes.

### CAS 408 Response 14, Page 20

CAS 408-50 Techniques for Application (c)(2)		QUERY: Do CAS and GAAP require equivalent treatment?
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ALN: Yes. There is a certain work flow and the work flow does not change whether operating to CAS or GAAP.

### CAS 408 Response 15, Page 20

CAS 408-50 Techniques for Application (c)(3)		QUERY: Are liabilities under GAAP recorded based on current wage rates?
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ALN: Probably not. Companies most likely have different techniques for estimating. Identifying and using current wage rates may require unreasonable administrative efforts. Probably better to use seasonally adjust past performance data to make estimates.

### CAS 408 Response 16 and 17, Page 21

CAS 408-50 Techniques for Application (d)(1)		QUERY: Does the GAAP requirement to record accrued personal absence cost in the year earned achieve the equivalent concept of this CAS requirement?
		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?

ALN: Yes.

ALN: Unknown ... Becoming CAS covered on requirements such as CAS 408 becomes a problem for contractors. They may not have the expertise to understand their own systems and may not understand the requirements of CAS. This situation requires outside experts and they may see needed changes where changes may not exist. This increases overhead cost to the company and eventually what the Government pays for goods and services.

### CAS 408 Response 18 and 19, Page 22

CAS 408-50 Techniques for Application (d)(2)		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?
		QUERY: For GAAP, when would the accrual for the new plan or changes to an existing plan be recorded?

ALN: Unknown.

ALN: As required by current practices.

### CAS 408 Response 20, Page 22

CAS 408-50 Techniques for Application (d)(3)		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?
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ALN: Unknown.

### CAS 408 Response 21, Page 22

CAS 408-50 Techniques for Application (e)		QUERY: Would CAS 406 address this gap?
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ALN: Unknown.

## **B. Initial assessment of Cost Accounting Standard 409 Depreciation of Tangible Capital Assets**

**ALN: We believe there is no compelling reason to keep CAS 409, as it is practicable to use existing GAAP instead.** “The Board found corresponding requirements, primarily in GAAP, for nearly all of the requirements of CAS 409.” ALN agrees CAS 409 and GAAP are essentially the same in concept. What has changed since 1975 is the recognition of constraints in the process of accounting and administrative cost, which include materiality, cost-benefit and best value. Allowable cost must be reasonable cost, achieving best value and the requirement of minimize administrative cost reasonable.

The Guiding Principles of the CASB must not conflict with FAR 1.102 -- Statement of Guiding Principles for the Federal Acquisition System. “(a) The vision for the Federal Acquisition System is to deliver on a timely basis the **best value product or service to the customer**, while maintaining the public’s trust and fulfilling public policy objectives.

1.102-1 -- Discussion. (b) Vision. All participants in the System are responsible for making acquisition decisions that deliver the **best value** product or service to the customer. **Best value** must be viewed from a broad perspective and is achieved by balancing the many competing interests in the System. The result is a system which works better and costs less.

“Best value” means the expected outcome of an acquisition that, in the Government’s estimation, provides the greatest overall benefit in response to the requirement.

Other areas that have also influenced contractors in their approach to administrative cost and operations is the use of tools such as Lean Six Sigma, particularly in the identification of waste and the refocusing of desired outcome over prescriptive processes.

CAS 409 has been very difficult to for contractors to comply. See for example the 1983 GAO audit. <https://www.gao.gov/assets/210/206629.pdf>

Historically publicly traded corporations are required to keep records of assets based upon the Securities and Exchange Act of 1934 78(m) (b)(2) <https://www.law.cornell.edu/uscode/text/15/78m>

“(2) Every issuer which has a class of securities registered pursuant to section 78l of this title and every issuer which is required to file reports pursuant to section 78o(d) of this title shall—

(A) make and keep books, records, and accounts, which, in **reasonable detail**, accurately and fairly reflect the transactions and dispositions of the assets of the issuer;

(B) devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that—

(i) transactions are executed in accordance with management’s general or specific authorization;

(ii) transactions are recorded as necessary (I) to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements, and (II) to maintain accountability for assets;

(iii) access to assets is permitted only in accordance with management’s general or specific authorization; and

(iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences;”

The Exchange Act requires traded companies to keep and maintain records in reasonable detail. The record keeping requirements in CAS 409 are not reasonable. About the same time CAS 409 was issued FASB issued SFAS No. 5 ACCOUNTING FOR CONTINGENCIES. These

two accounting standards have similar objectives and desired outcomes ... based upon past experience, project the future. At the time, the FASB in order to achieve some reliability of estimates required that whatever is estimated be estimated in homogeneous pools. The Federal Reserve deals with the issue in their Chapter 8 of their Financial Accounting Manual for Federal Reserve Banks, January 2017

81.02 Recognizing an allowance for loan losses. <https://www.federalreserve.gov/federal-reserve-banks/fam/chapter-8-special-topics.htm>. Banks have an easier environment to do estimates of losses as each segment can be stratified with by FICO scores and other criterion.

Fixed assets Government contractors do not have the same type of, proven reliability, third party scoring systems. Placing assets in homogeneous pools of asset that may last up to forty years is next to impossible because of the variations of experiences of assets within the ever-changing corporate environment.

CAS 409 conflicts with itself. CAS 409 allows for unit accounting and group accounting. For unit accounting it is practicable to comply and accumulate service life data, but not practical. For group accounting, it is not possible to accumulate service life data as service life data is not kept on individual items in the group.

CAS 409 assumes the Fixed Asset Accounting Function performs property management functions of which they do not. Property management functions are somewhat aligned with the fixed asset accounting functions. What is tracked for accounting purposes are not the same items in detail that are tracked the property management functions.

CAS 409 opens the door for abusive contractor practices. Useful lives can be manipulated to reduce period operating cost and to achieve project or profit goals. There are less incentives to maintain property beyond the depreciable service life as longer lives can reduce cash flow or investment recovery. Details of the useful life of equipment must be maintained by those who use the equipment ... the work is direct charge work and can be distracting to the more important project goals.

With the current accounting requirements there is a large amount of opportunities to save administrative cost with the elimination of prescriptive requirements of CAS 409.

### **CAS 409 Response 1, Page 25**

#### 1. Service lives

“[T]he 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?”

ALN: Record keeping would probably be the same. The effort to try to estimate a service life would stop, Generally, the accounting records are in a Fixed Asset Accounting System and just includes the basic data elements required for accounting. Accounting records generally do not include asset management records.

The Accounting records do not include service or useful life data or activity. They do keep records of acquisitions and dispositions. It should not be assumed that disposition date is equivalent to end of service life. Contractors do not write down an asset once it is determined that the unit is no longer an asset as defined in GAAP. Concept 6 Paragraph 25. Nor do contractors write down assets down to fair value as an impairment.

[https://www.fasb.org/jsp/FASB/Document\\_C/DocumentPage?cid=1218220132831&acceptedDisclaimer=true](https://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1218220132831&acceptedDisclaimer=true)

For group accounting of assets, since there are no individual accountability requirements, records are not kept. It is assumed that assets within the group will be retired ...some before the useful life date and some after. On group accounting, once a group of assets reach then ended of their designated service life, the group asset is retired.

Contractors also keep extensive records on items that require some type of tracking and accountability, e.g. calibration databases, maintenance databases, security systems, computer maintenance and software systems, inventories. These records are for the most part demand driven. Many Government contractors also have property management system that keeps account of all identification tags ... company owned and Government owned. On Company capital each asset has an owning cost center and a depreciating cost center (overhead pool). Much of the data, however, is unstructured.

Periodically inventories are taken and these established records and provide evidence of existence. Generally, companies use barcode labels CODE 39 1D BARCODE and may use DATA MATRIX 2D. Inventories can be very expensive and disruptive, so the inventory must be planned to be effective, efficient, and worthwhile. Company experience shows essentially everything can be found with enough time and effort. Effective and efficient efforts must include recognition of materiality, cost- benefits and reasonableness. Generally, the process is first to scan all barcodes within the plant; identify items not scanned; sort those items based upon net book value; those items above a given threshold are sent to the owning manager of the owning cost center to locate; once located an inventory taker would come back and scan those items as well. Items not located are evaluated as to the most likely reason for not locating the tag. Professional judgement is used. Items that are believed to be no longer assets are written off. The major purpose of the inventory is to determine if there are material misstatements on the balance sheet for PP&E... not to account for every tag ever issued. The inventory process and records would be established regardless of operating to GAAP or CAS.

CAS 409-50 Techniques for application, has created implementation problems for contractors from inception. The status of items, active, inactive, standby, and incidental use and timing thereof. The major problem with trying to set up a system and process to track usage is unworkable. Standby and incidental use for the most part can only be determined months after the fact.

FAR 31 Applies: "FAR 31.201-3 -- Determining Reasonableness.

(a) A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business." In a competitive business, decision makers would not pay employees to figure out when an item is or is not on standby. This is particularly true for organizations that have tens of thousands of assets. Professional judgement is more appropriate to use.

The only way to track usage is by establishing some form of usage log, manual or electronic system for capital assets. These are expensive to administer and enforce. For Government Property, FAR 45 changed in June 2007 that eliminated this type of requirement.

### **CAS 409 Response 2, Pages 25 - 26**

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?

ALN: Precision in estimating service lives is unattainable. There are too many unknowns. On program driven assets, it is unknown as most programs are to a certain extent indefinite delivery / indefinite quantity. <https://www.gsa.gov/buying-selling/new-to-gsa->



[acquisitions/how-to-sell-to-the-government/indefinite-delivery-indefinite-quantity-contracts](#)

Experience may not be a good criterion for future performance. In the past, when most things were mechanical prior to 1970. Mechanical items could have a predictable useful life. Now, when items are more digital and perhaps deemed expendable, these items will probably not last as before. Conditions have changed.

Most companies to a large extent adopt the IRS model. Assets fall into classes; those classes have an established useful life by IRS guidelines. Whatever that is, that is what is used. The useful life for CAS or GAAP based upon experience is nothing more than a bad guess. Unreliable useful life data going in and unreliable useful life averages going out. The system is biased to longer useful lives than exists. Those biases should be minimized.

Programs, management and customers want to capitalize items rather than charge directly. This reduces cost on the program. Cost performance looks better. When competing on price, there is an advantage ... recognized cost is pushed out to future periods. Eventually, however there will be a day of reckoning.

The expectation would be contractors would gravitate to the IRS useful lives based upon: "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." The inverse of this is: 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~~s within a reasonable range of the asset's useful life, the recovery deductions ~~shall not~~ **may** be used as depreciation for financial reporting.

The difference between the IRS and GAAP is immaterial. Capital expenditures for large government contractors generally is less than three percent of sales. The only difference is between GAAP and CAS is timing. Operating to GAAP provides a more level playing field for contractors. Back in 1970 it was believed that the useful lives in the IRS tables were biased toward accelerated depreciation ... that may not be true. In special situations adjustments should be made to the useful life estimate based upon facts and circumstances.

The difficulty of producing reliable internal useful life tables cannot be overstated.

### CAS 409 Response 3, Page 26

"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?"

ALN: Transferring assets to other segments of the company is relatively rare, except when there is a reorganization causing a plant shutdown or a down size. There is no good way to determine when the new owning segment disposes the transferred items. But it would be very rare. There are times when a segment takes assets from a closing plant believing they could use but after a year in a warehouse upon further review the stored asset has no known future use and is disposed.

The acquiring site usually would pay for the transportation. Generally, what is transferred is the specific item. Any installation, material and labor cost would not be transferred. At the taking site installation material and labor cost may be capitalized (causal – benefit factors apply).

We are not aware of cases of deliberate abuse within an organization. Once there was an internal study on Government property and the actual value of transferred equipment to the recipient of excess Government Property. We found one operation that was trying to acquire excess Government property just to de-componentize and sell these items and apply proceeds to their overhead.

The best way to mitigate risk of losses or gains at disposition is in the capital appropriation document, where the requester is asked what the expected useful life of the item. If it is known, the item will have a significantly less useful life included in asset class, then special depreciation can be used. Example a large chiller is used to cool equipment in a leased building under a five-year lease. It is expected the lease will not be extended. The used chiller is expected to have a residual value of zero. Here the useful live would be reduced to 5 years.

#### **CAS 409 Response 4, Page 27**

“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.”

ALN: Many years ago, a large Government contractor conducted a study on proceeds from the sale of excess capital type personal property. The gross proceeds amounted to less than one percent of first cost. There are cases where certain items can sell for about 30 percent of first cost, but these are rare. These items are generally in common use, have long useful lives and there is a robust market. Frequently there is a net loss on the sale of excess property ...when considering current care and handling cost such as labor, transportation, inventories, warehousing and sales expenses.

#### **CAS 409 Response 5, Page 28**

“The Board is interested in public comments and especially recommendations of any changes to the Standard to conform it to GAAP.”

ALN: At the time CAS 409 was issued, it may have had value but now with existing GAAP, other requirement that influence GAAP, the charter of the CASB “to require the Board to review CAS and conform them, where practicable, to GAAP. ... [T]o minimize the burden on contractors while protecting the interests of the Federal Government.” and the in substance the same requirements, we believe the better approach would be to rescind CAS 409. Furthermore CAS 409 provides an unreasonable barrier to new entrants to Government contracting. At the time of retention, it is recommended to provide a statement in the Federal Register and guidance in transition to GAAP and expectations to outcomes and minimization of administrative cost.

#### **CAS 409 Response 6, Page 29**

<b>CAS</b>	<b>GAAP</b>	<b>QUERY:</b>
<b>CAS 409-40 Fundamental Requirement (a)</b>		QUERY: Are these equivalent concepts for recognizing the cost of a capital asset, or group of assets, over a number of accounting periods?

ALN: Yes, so long as there are consistent internal controls.

### CAS 409 Response 7, Page 29

CAS	GAAP	QUERY:
(1)		QUERY: Are these concepts of residual value and salvage value equivalent?

ALN: Yes. Residual value is probably more technically correct. But salvage value is understandable and is generally true. Some fully depreciated assets have more than salvage value.

It is important to note most companies use asset classes. All assets fall into an asset class rather the same type of asset being used for the same purpose in like circumstances but different opinions of individuals as to useful life. CAS indirectly requires the use of asset classes.

9904.409-60 Illustrations.

The following examples are illustrative of the provisions of this Standard.

(a) Companies X, Y, and Z purchase identical milling machines to be used for similar purposes.

(1) Company X estimates service life for tangible capital assets on an individual asset basis. Its experience with similar machines is that the average replacement period is 14 years. Under the provisions of the Standard, Company X shall use the estimated service life of 14 years for the milling machine unless it can demonstrate changed circumstances or new circumstances to support a different estimate.

### CAS 409 Response 8, Page 30

CAS	GAAP	QUERY:
(2)		QUERY: Are these concepts of estimated service life and useful life equivalent?

ALN: Yes. Neither are technically correct in practice.

Companies will adopt asset classes and each asset unit will fall into an asset class... This is used for tax, recovery, and financial reporting. This practice is based upon the concepts of materiality, consistency and cost-benefit and what is reasonable cost. It is not practical to have multiple workers to estimate useful lives on individual asset units.

Exceptions are managed.

### CAS 409 Response 9, Page 30

CAS	GAAP	QUERY:
(3)		QUERY: Are the selection criteria in CAS and GAAP of matching the pattern of asset

		<b>consumption to the method of depreciation equivalent?</b>
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**ALN:** Yes.

### CAS 409 Response 10, Page 30

CAS	GAAP	QUERY:
(3)		QUERY: Are the CAS and GAAP requirements for recognition of a gain or loss on disposition in the period in which it occurs equivalent?

**ALN:** Yes.

In addition, FAR 31.205-16(a), FAR 31.201-5 – Credits are also considered.

Many items sold are included in scrap sales or sold in lots. Scrap may include production scrap and credits would be credited to an overhead account such as manufacturing overhead. Lot sales of capital items would be credited to depreciation expense. Both are small dollar transactions. What is wrong is all cases, these sales proceeds should never be credited as Miscellaneous Income.

### CAS 409 Response 11, Page 31

CAS	GAAP	QUERY:
(b)(1)		QUERY; Are there requirements in other CAS that address this?

**ALN: No.** We don't believe so. GAAP did include in the old Statement of Position 81-1 Accounting for Performance of Construction-Type and Certain Production-Type Contracts with discussions of direct and indirect cost. These concepts are now included in GAAP under revenue recognition.

### CAS 409 Response 12, Page 31

CAS	GAAP	QUERY:
(b)(2)		QUERY; Are there requirements in other CAS that address this?

**ALN:** No. Don't believe so. We would expect the allocation process to remain the same as it is logical and choosing another would cause a change in the accounting system, which would not be worthwhile.

### CAS 409 Response 13, Page 33

CAS	GAAP	QUERY:
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(b)(3)		QUERY: Do requirements in other CAS address this? CAS 418 and FAR 31.203 (b) & (c) – see above.
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ALN: No. Don't believe so. The general concept ... depreciation, except rarely, is charged to overhead.

#### CAS 409 Response 14, Page 34

CAS	GAAP	QUERY:
CAS 409-50 Techniques for application (a)		QUERY: Are these equivalent?

ALN: Yes.

#### CAS 409 Response 15, Page 35

CAS	GAAP	QUERY:
CAS 409-50 Techniques for application (b)		QUERY: Based on interpreting GAAP, would it result in the same cost treatment as CAS without the explicit language?

ALN: Yes. Both imply the use of componentization.

In practice the management of spare parts can vary depending on the circumstances. Examples: A spare tire on an automobile is part of the asset and depreciated with the asset. A replacement tire is acquired when needed and expensed. Spare tires for a fleet of automobile may be acquired and inventoried... not depreciated. A spare transmission on a large piece of dirt moving equipment maybe acquired at the time of the piece of equipment. If the transmission is componentized and is believed to last ten years but the piece of equipment twenty years. The spare transmission would remain in inventory until needed, and when needed the old transmission would be retired and the unused transmission would be taken from inventory, put in place and capitalized. If the transmission was not componentized and the transmission reached the end of its actual useful life, then this becomes an expensive repair so that the equipment lasts to its expected useful life. Needed expendables would be expensed. Spares meeting the capitalization thresholds would be capitalized.

CAS 409 in this portion is too prescriptive. Accounting treatment should not drive the management of spares.

The circumstances drive the accounting treatment.

In most cases now, knowledge of spare parts is more accessible than in 1970 and companies do not inventory spare parts or purchase spare part with the unit. They only acquire spare parts when needed.

With the current use of management tools such as Lean Six Sigma. Storing spare parts is

considered wasteful. Back in the 1970s purchase of spare parts along with the equipment may have been considered necessary.

### CAS 409 Response 16, Page 35

CAS	GAAP	QUERY:
CAS 409-50 Techniques for application (c)		QUERY: Are these CAS and GAAP requirements for consistency equivalent?

ALN: Yes.

### CAS 409 Response 17, Page 35

CAS	GAAP	QUERY:
CAS 409-50 Techniques for application (c)		QUERY: In addition, are other requirements of CAS addressing consistency relevant?

ALN: Yes. But the concepts and practices would be the same with GAAP.

### CAS 409 Response 18, Page 36

CAS	GAAP	QUERY:
CAS 409-50 Techniques for application (d)		QUERY: Are CAS and GAAP equivalent for the treatment of assets individually or as a group of assets?

ALN: Yes.

Clarification: The fixed asset database and associated depreciation generator are generally strictly for accounting purposes.... Not property management purposes. Generally, the only ones that have access to the fixed asset database are fixed asset accountants. Many companies along with a fixed asset database will frequently have a property management database that is interfaced with the fixed asset system. Most companies do not have the processes or system to keep track of when fixed assets are retained for standby or incidental use then go back into active use.

With Government furnished property, companies will generally have a custodian-based system to track and manage each item as required under FAR 45 and associated clause. Those systems are very expensive and are not reasonable in cost ~\$250—500 per item per year. A large contract facility may have 30,000 items, or up to \$15,000,000 per year. Sometimes the Government will order items in appropriated years, other times items are order in batch infrequently. Administratively, it is difficult to determine when items remain on the manufacturing floor or tool cribs and the like, to determine what is active or inactive, or on standby.

If items are in groups, then it becomes more of a mixed bag and as a group are probably active.

**CAS 409 Response 19, Page 36**

<b>CAS</b>	<b>GAAP</b>	<b>QUERY:</b>
CAS 409-50 Techniques for application (d)		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)?

ALN: Yes. Contractors are faced now with compliance with CAS, GAAP and FAR and try to establish polices and processes that satisfy all requirement. Those approaches would continue.

**CAS 409 Response 20, Page 36**

<b>CAS</b>	<b>GAAP</b>	<b>QUERY:</b>
CAS 409-50 Techniques for application (e)		QUERY: Would the records maintained to support the claim of Facilities Capital Cost of Money under CAS 417 be similar to those required CAS 409-50(e)(2)?

ALN: CAS 417 is for the calculation a portion of the interest cost to be recognize as an element of capitalized construction cost during construction on generally large and lengthy capital projects. Generally, these types of projects are few. In the whole scheme of things, the amounts are immaterial. Contractors will normally establish threshold as to what types of projects CAS 417 applies; e.g. lengthy self-constructed project costing over one million dollars.

CAS 409-50(e)(2) concerns another topic of service life.

These topics do not have much in common CAS 417 applies from the beginning of construction to the time the asset is substantially ready for use and is capitalized. CAS 409 applies, once an asset is capitalized.

**CAS 409 Response 21, Page 37**

<b>CAS</b>	<b>GAAP</b>	<b>QUERY:</b>
CAS 409-50 Techniques for application (e)(1)		QUERY: Would these records be maintained as part of any other ordinary business practice?

ALN: Yes. Capitalized interest is part of GAAP and is part of CAS. Contractors are required to keep records of acquisitions and dispositions.

**CAS 409 Response 22, Page 42**

CAS	GAAP	QUERY:
CAS 409-50 Techniques for application (f)(3)		QUERY: Is the resulting cost treatment for CAS and GAAP equivalent?

**ALN: Yes.**

#### CAS 409 Response 23, Page 42

CAS	GAAP	QUERY:
CAS 409-50 Techniques for application (f)(3)		QUERY: Is the resulting cost treatment for CAS and GAAP equivalent?

**ALN: Yes, how this is applied should be in corporate policy.**

#### CAS 409 Response 24, Page 43

CAS	GAAP	QUERY:
CAS 409-50 Techniques for application (g)		QUERY: Do CAS and GAAP result in equivalent cost treatment of an asset group?

ALN: Yes.

Here, it is important to look at this in a historical perspective. When CAS 409 was initially vetted in the 1970s it did not include group. During the vetting process group was added. There has been little guidance in the use of group in either CAS or GAAP. As a result, little guidance, lack of reliable records, the requirements to make accounting change, using group among major government contractors is under used.

Group accounting, management and depreciation is much more efficient than with the individual unit approach. Administrative cost would be reduced substantially. Group focuses on accounting ... not property management.

In practice, group has been basically limited to the fit out of leased buildings.

On the GAAP side there has also been a lack of standards. There was an attempt to draft and publish STATEMENT OF POSITION ACCOUNTING FOR CERTAIN COSTS AND ACTIVITIES RELATED TO PROPERTY, PLANT, AND EQUIPMENT, Prepared by the Accounting Standards Executive Committee American Institute of Certified Public Accountants this; however, never reached conclusion.<sup>3</sup> Some current thought:

<https://www.pwc.com/us/en/cfodirect/publications/accounting-guides/property-plant->

<sup>3</sup> This was an excellent document and may still be available through AICPA. [www.aicpa.org](http://www.aicpa.org).



[equipment-accounting-guide.html](http://equipment-accounting-guide.html) The earlier attempt:  
<http://archives.cpajournal.com/2004/304/essentials/p34.htm> STATEMENT OF POSITION  
 ACCOUNTING FOR CERTAIN COSTS AND ACTIVITIES RELATED TO PROPERTY, PLANT, AND EQUIPMENT

#### CAS 409 Response 25, Page 44

CAS	GAAP	QUERY:
CAS 409-50 Techniques for application (i)		QUERY: Are CAS and GAAP equivalent?

ALN:  
 Mostly Yes.

The impairment reviews are different. Reviews of when circumstances change significantly for Government contractor would generally be performed from an overhead pool standpoint. Even with a plant closing there are many unknowns regarding the useful lives of transferred assets and adjustments are not made.

FAR 31.205-11(g)(2) recognize impairment are just accelerated depreciation. Depreciation is allowable cost. Write down of assets occur only upon disposition when there is remaining book value. Not at the time when it is reasonably certain an item is no longer an asset.

There is a timing difference in GAAP what is expected vs. what occurred.

CAS is probably better even with delayed recognition as once an item is written down, after the fact it cannot be written up again.

#### CAS 409 Response 26, Pages 46 - 47

CAS	GAAP	QUERY:
CAS 409-50 Techniques for application (j)(2)(ii)		QUERY: Are CAS and GAAP equivalent?

ALN Comment: No.

CAS "(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."

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."

ASC 360-10-40-4 as GAAP recognizes the transaction as a disposition.

CAS and FAR 31 are consistent ... consistently wrong.

A trade-in is a disposition. Dispositions must be recognized. Securities and Exchange Act of 1934 78(m) (b)(2) <https://www.law.cornell.edu/uscode/text/15/78m>

“(2) Every issuer ...shall—

(A) make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the issuer;

Statement of Financial Accounting Concepts No. 8, Conceptual Framework for Financial Reporting QC4. “If financial information is to be useful, it must be relevant and faithfully represent what it purports to represent.”

Netting or bundling transactions is not a good practice and may not faithfully represent the transaction. The CAS and the regulation should be corrected.

The acquisition cost is the acquisition cost. The first cost of an assets would be the acquisition cost in the records. Payment terms should not be reflected in the price either cash or other assets that distorts the acquisition cost or depreciable value.

#### CAS 409 Response 27, Pages 46unit.

CAS	GAAP	QUERY:
CAS 409-50 Techniques for application (j)(4)		<p>Suggest eliminating the requirement of a future proceed be credited to the prior original unit if sold within one year. The current requirement is ineffective and would be extremely rare.</p> <p>Any abusive transactions are prohibited and would be unreasonable and unallowable, including cost to overhead.</p> <p>Tracking and identifying such transactions is not included in fixed asset databases.</p> <p>There can be reasonable situations where in a plant closing, one from another unit believes an available excess unit would be useful but upon receipt and closer evaluation by others, the item is</p>

		<p>determined not useful. Essentially a judgement error.</p> <p>The better solution is to immediately dispose of the newly acquired excess item. Not to store it for a year then sell.</p> <p>Normal internal controls will prevent and detect abusive actions.</p>
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**CAS 409 Response 28, Pages 48**

CAS	GAAP	QUERY:
CAS 409-50 Techniques for application (k)		QUERY: Do other requirement in CAS address this? (See CAS 402 above)

<p>ALN: Not directly.</p> <p>But with CAS 404.40 Fundamental Requirement. (a) The acquisition cost of tangible capital assets shall be capitalized. Capitalization shall be based upon a written policy that is reasonable and consistently applied.</p> <p>There are also portions of the CAS that cost shall be allocated on a basis of a beneficial or causal relationship.</p> <p>Based upon the business model companies try to stay away from having to keep tract of direct charges of the use of equipment. Administratively it is difficult to get reliable data. On the income side, companies on commercial transactions may charge based on usage ... car rentals, hotel rooms, etc.</p>
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**CAS 409 Response 29, Pages 48**

CAS	GAAP	QUERY:
CAS 409-50 Techniques for application (k)		QUERY: Is this requirement in CAS necessary?

ALN: No
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## Final CAS 409 ALN Comments.

- When the corporation of reporting segment are stable ... systems have been designed and operate as designed.
- When corporate acquisitions or corporate consolidations occur, complying to CAS 409 becomes next to impossible.
  - In general accounting systems do not include use data.... when acquired and when disposed. Use data is indirectly within other systems, e.g., calibration,

maintenance, or computer network systems. However, those systems may not be reliable to capture when items go on standby or used incidentally.

- When different reporting units are bought together there is significant variations in practice that must be dealt with. Some former reporting units may have had as many as 600 asset classes others may have had as few as 11. In that case the challenge if the new entity choses to have just 11 asset classes then the 600 asset classes must fit into the 11 asset classes. Reliable use data is nonexistent.
  - The number of asset classes should be limited ... asset classes should be consistent among government contractors ... limit to less than 20. Management of variations is expensive and opens exposure to imprudent internal controls.
- In that CAS 409 has not been updated based upon more mature thinking, more updated accounting standards and experience in using the standard, CAS 409 is old but still immature. Standards making bodies generally have business rules that require standards be reviewed and validated or improved periodically, e.g. every five years, otherwise the standard is retired. After the 1970s, conditions have changed, GAAP is more mature, and CAS 409 is no longer needed. Regardless, Government Contractors, generally as publicly traded corporations must conform with GAAP. The Board must decide if CAS 409 provides enough added value to maintain.

We, ALN, believe CAS 409 does not provide enough added value to retain and is practicable and reasonable to do without.

Respectfully Submitted,



Richard C. Culbertson on behalf of Asset Leadership Network