

Understanding the Basics of FAR and CAS

If you're a federal contractor, at some point you will be faced with understanding—and complying with—federal regulations regarding acquisitions and accounting: FAR and CAS.

FEDERAL ACQUISITION REGULATION (FAR)

According to the government, FAR is “the primary regulation for use by all Federal Executive agencies in their acquisition of supplies and services with appropriated funds.” The purpose of FAR is to provide a set of consistent, uniform policies and procedures within the federal acquisition process.

COST ACCOUNTING STANDARDS (CAS)

A set of standards and rules established by the federal government to help achieve uniformity and consistency in the cost accounting principles within federal contracting. CAS also sets forth regulations that require contractors to disclose their cost accounting practices, to follow the disclosed practices consistently, and to comply with specified standards.



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In a Nutshell:

- » FAR is all about allowability. It says what you can charge to the government through a government contract—and therefore to the government—and what you cannot. It defines when, and to what extent, costs can be recovered under a government contract.
- » CAS are all about allocability. It says how you charge to contracts, what gets charged to which contracts, dictates how you maintain your accounting systems, and tells you how the costs have to flow from incursion to the final costs. It also instructs contractors on how to account for certain types of costs.

FAR OVERVIEW

FAR is one of the major differences between contracting with the federal government versus contracting with a commercial entity. One of the most common questions contractors have relating to FAR is: “Does FAR apply to all government agencies?” The answer is: No.

FAR only governs contracts with the agencies of the Executive branch. Contracts with the Legislative branch and the Judicial branch come under separate regulations. Contracts with the Legislative branch (i.e., Congress) are governed by a document entitled “Doing Business with the Congressional Budget Office (CBO)”; contracts with the Judicial branch are governed by the Judiciary Policy – Volume 14 (Procurement).

That said, most contracts with the federal government are governed by FAR and each contract will contain specific FAR clauses that are applicable to the contract. Specifically, FAR is applicable to:

- » Solicitations (IFB, RFP, RFQ, RFI),
- » Federal Prime Contracts, and
- » Subcontracts under Federal Prime Contracts.

It is the contractor’s responsibility to read each contract and understand each FAR clause referenced in the contract prior to signing a binding agreement.



FAR is an extensive system of uniform policies and procedures governing the acquisition and contracting actions of all executive agencies of the federal government. The purpose of FAR is to ensure that the purchasing procedures of the government are standard, consistent and applied in a fair and impartial manner.

REGULATION AT-A-GLANCE

The FAR is organized into eight subchapters with a total of 53 parts, as follows:

Description	Subchapter	Part
General Information	Subchapter A	Parts 1 – 4
Competition and Acquisition Planning	Subchapter B	Parts 5 – 12
Contract Methods and Contract Types	Subchapter C	Parts 13 – 18
Socioeconomic Programs	Subchapter D	Parts 19 – 26
General Contract Requirements	Subchapter E	Parts 27 – 33
Special Categories of Contracting	Subchapter F	Parts 34 – 41
Contract Management	Subchapter G	Parts 42 – 51
Clauses and Forms	Subchapter H	Parts 52 – 53

That is a lot of information to digest. However, two of the most relevant parts are FAR Parts 31 and 52. These contain the guidance on Cost Principles and Contract Clauses. Let’s take a closer look at each of these.

FAR PARTS 31 AND 52

You should be knowledgeable in both FAR Parts 31 and 52 in order to be able to correctly allocate and record costs incurred (FAR Part 31) and abide by all contract provisions referenced in your contracts (FAR Part 52). In terms of knowing the ins and outs of each, however, most accountants work with FAR Part 31 and then rely on the contracts department for their expertise on matters related to FAR Part 52.

FAR Part 31

Contract Cost Principles and Procedures

- » The pricing of contracts, subcontracts, and modifications to contracts and subcontracts whenever cost analysis is performed, and
- » The determination, negotiation, or allowance of costs when required by a contract clause.
- » Specifically, FAR Part 31 describes the allowability of cost (allowable vs. unallowable) and the allocability of cost (direct vs. indirect), as well as expressly mapping out unallowable costs.

A CLOSER LOOK AT FAR PART 31

THE FOLLOWING SEVERAL SECTIONS WITHIN FAR PART 31 DESERVE CLOSER ATTENTION, AND ARE THE ONES OF MOST INTEREST TO FEDERAL CONTRACTORS.

FAR Part 31.201-3

Determining Reasonableness

A cost is deemed reasonable if, in its nature and amount, it does not exceed that which would be incurred in the process of conducting business. While “reasonable” depends upon a variety of considerations and circumstances, it would be up to the contractor to bear the burden of establishing that costs are reasonable.

FAR Part 31.201-4

Determining Allocability

A cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship. For example, a cost is allocable to a government contract if it:

- » Is incurred specifically for the contract;
- » Benefits both the contract and other work, and can be distributed to them in reasonable proportion to the benefits received; or
- » Is necessary to the overall operation of the business, although a direct relationship to any particular cost objective cannot be shown.

FAR Part 31.201-6

Accounting for Unallowable Costs

Contractors must identify and segregate unallowable costs in their Chart of Accounts. In fact, employees should be properly trained in identifying specifically unallowable costs, as all unallowable costs must be identified and excluded from all cost claims. Penalties will be assessed if contractors knowingly include unallowable costs in claims.

THE FOLLOWING TABLE PROVIDES A LIST OF UNALLOWABLE COSTS.

Unallowable Costs	FAR Reference	Exclusion
Advertising Costs	31.205-1	Usually unallowable, excludes advertising relating to recruiting
Bad Debts	31.205-3	Always Unallowable
Contributions/Donations	31.205-8	Always Unallowable
Employee Morale	31.205-13	Usually Unallowable, but several exceptions
Gifts	31.205-13(b)	Always Unallowable
Recreation	31.205-13(c)	Unusually Unallowable
Entertainment Costs	31-205.14	Always Unallowable
Fines and Penalties	31.205-15	Always Unallowable
Lobbying Costs	31.205-27	Always Unallowable
Organization Costs	31.205-27	Usually Unallowable
Interest/Financing Costs	31.205-20	Always Unallowable, but one rare exception
Plant Reconversion Costs	31.205-31	Usually Unallowable
Federal Income Taxes	31.205-41(b)	Always Unallowable
Travel Costs	31.205-46	Usually Allowable, but some limitations
Costs related to legal proceedings	31.205-47(b)	Unallowable as provided in this section
Deferred R&D Costs	31.205-48	Usually Unallowable
Goodwill	31.205-51	Always Unallowable
Alcoholic Beverages	31.205-51	Always Unallowable

FAR Part 31.202

Accounting for Unallowable Costs

A Direct Cost is a cost that is specifically attributable to a single, final cost objective, such as a contract. The treatment of specific costs must be consistently followed and applied to all final cost objectives. It's important to note that the treatment of small dollar value items that could be charged direct can be charged to indirect as long as this practice is consistently followed

FAR Part 31.2

Indirect Costs

Indirect Costs are costs that remain after all other costs have been identified to a final cost objective. Indirect Costs are to be allocated via Indirect Rates. The allocation of Indirect Costs is specific to each individual contractor and is based on each contractor's individual business practices.

FAR PART 31 ALLOWABLE COST AND PAYMENTS

WHILE THERE ARE SEVERAL SECTIONS UNDER FAR PART 31 THAT ARE CRITICAL FOR CONTRACTORS, THE PRIMARY THING TO BECOME AWARE OF WITHIN FAR PART 52 IS FAR PART 52.216-7—ALLOWABLE COST AND PAYMENTS

FAR Part 52.216-7

Allowable Cost and Payments

This section covers things like invoicing, cost reimbursements, bill rates, and payments to contractors.

One of the most important things to note in this section are the list of Reimbursable Costs. These include:

- » Direct Labor
- » Direct Travel
- » Materials Issued from Inventory
- » Supplies
- » Services
- » Indirect Expenses.

Other important billing and payment information in FAR Part 52.216-7 can be found in these sections:

- » 52.216-7(d) Submission of Final Indirect Cost Rate Proposal
- » 52.216-7(e) Indirect Expense Rates for Billing Purposes
- » 52.216-7(g) Audit of Interim Billings
- » 52.216-7(h) Stipulates Requirements for Final Payment.



The purpose of CAS is to promote uniformity & consistency in cost accounting. Congress established the original Cost Accounting Standards Board (CASB) in 1970 with 19 standards. The CASB was dissolved in 1980, but re-established in 1988 within the Office of Federal Procurement Policy (OFPP).

CAS OVERVIEW

The basic requirements of CAS implore contractors to:

- » Disclose accounting practice
- » Follow accounting practice
- » Comply with standards (19 in all).

It's important to note that CAS does not apply to all contractors, nor to all contracts. Let's take a closer look.

REAPPLICABILITY AND EXEMPTIONS

Some contractors will be subject to full CAS coverage (they must follow all 19 CAS standards), while others will be subject to modified CAS coverage (they must follow only four of the 19 CAS standards). Others may be exempt all together.

Coverage Type	Description
Full CAS Coverage Awards of \$50 million or more including option amounts	<ul style="list-style-type: none"> » Disclosure Statement required » Comply with all standards » Negotiated contracts and subcontracts » Exceeding \$700,000 including all options » CAS coverage at award remains for life of contract
Modified CAS Coverage Awards from \$7.5 million to \$50 million	<ul style="list-style-type: none"> » Disclosure Statement normally not required » Comply with CAS 401, 402, 405, and 406 only » Negotiated contracts and subcontracts » Exceeding \$700,000 including all options » CAS coverage at award remains for life of contract
CAS Exemption	<ul style="list-style-type: none"> » Sealed bid contracts » Negotiated contracts and subcontracts (including interdivisional work orders) less than \$700,000 » Contracts and subcontracts with small business concerns » Contracts and subcontracts with foreign governments or their agents (Foreign contractors must comply with CAS 401 and 402) » Contracts and subcontracts where the price is set by law or regulation » Firm-fixed-price contracts and subcontracts for the acquisition of commercial items » Contracts less than \$7.5 million provided that the contractor is not currently performing a CAS contract of \$7.5 million or greater » Firm-fixed-price contracts awarded on the basis of adequate price competition without cost or pricing data

A BRIEF SUMMARY OF STANDARDS BY TYPE

As you might imagine, with rules regarding costs and accounting there are many details that are important for contractors. While an accountant will likely have the greatest understanding, there are a range of CAS Standards in a range of different areas that every contractor should be aware of. The most important ones are mapped out below, along with each CAS standard's connection to the FAR.

CAS Standard	CAS Description	FAR Reference
Consistency Standards	CAS 401 – Consistency in Estimating, Accumulating and Reporting Costs (Bid = Book = Bill)	31.201-1 31.203
	CAS 402 – Consistency in Allocating Costs Incurred for the Same Purpose (This says that cost must be treated the same in like circumstance)	31.202 31.203
General Standards	CAS 405 – Accounting for Unallowable Costs (This requires proper segregation, but does not address allowability)	31.201-2 31.201-6
	CAS 406 – Cost Accounting Period (This defines a contractor's cost accounting period)	31.203
Standards in Cost Allocation	CAS 403 – Allocation of Home Office Expenses	31.203 31.201.4
	CAS 410 – Allocation of Business Unit General and Administrative Expense	31.203 31.201.4
	CAS 418 – Allocation of Direct and Indirect Costs	31.203 31.201.4
	CAS 420 – Accounting for Independent Research and Development and Bid and Proposal Costs	31.205.18
Standards on Property	CAS 404 – Capitalization of Tangible Assets	31.205-11 31.205-16
	CAS 409 – Depreciation of Tangible Capital Assets	31.205-11
Standards on Compensation	CAS 408 – Accounting for the Cost of Compensated Personal Absences	31.205-6
	CAS 412 – Composition and Measurement of Pension Cost	31.205-12
	CAS 413 – Adjustment and Allocation of Pension Cost	31.205-12
	CAS 415 – Accounting for the Cost of Deferred Compensation	31.205-6
Cost of Money Standards	CAS 414 – Cost of Money as an Element of the Cost Facilities Capital	
	CAS 417 – Cost of Money as an Element of the Cost of Capital Assets Under Construction	31-205-10

DISCLOSURE STATEMENTS

Once fully CAS covered, contractors must submit a Disclosure Statement (Form CASB DS-1) to the Administrative Contracting Officer (ACO) to document cost accounting practices in writing (see FAR 52.230-2). While this process is not difficult, it is time consuming and requires a good amount of specificity. The Disclosure Statement must include:

PART I	PART II	PART III	PART IV	PART V	PART VI	PART VII	PART VIII
General Information	Direct Costs	Direct vs. Indirect Cost	Indirect Costs	Depreciation and Capitalization Practices	Other Costs and Credits	Deferred Compensation and Insurance Cost	Home Office Expenses (Corporate)

Contractors should be sure to take great care when completing a Disclosure Statement. This statement will be reviewed by the Defense Contract Audit Agency (DCAA); any future changes to your accounting practices will require a revision to your Disclosure Statement. On the plus side, in the event of an accounting practice change, you only need to submit the changed part and pages rather than an entirely new Disclosure Statement.

Also be aware that there are requirements for when, within the contracting process, the contractor must submit the Disclosure Statement:

- » Any business unit that is selected to receive a CAS-covered contract or subcontract estimated to exceed \$50 million, including option amounts, shall submit a Disclosure Statement before award.
- » Any company which, together with its segments received CAS-covered awards totaling more than \$50 million in its most recent cost accounting period shall submit a Disclosure Statement. When a Disclosure Statement is required under this criteria, it must be submitted before award of the first CAS-covered contract in the immediately following cost accounting period. However, if the first covered award is made within 90 days of the start of the cost accounting period, the contractor is not required to file until the end of the 90 days.

CONCLUSION

Federal contracting can be one of the most lucrative, long-term business industries to enter. That said, there are a broad range of rules and regulations that go along with that potential success. FAR and CAS are far and away the most important.

This white paper has provided a high-level look at each, as well as additional details where most important to the contractor. Become familiar with these, and get more information where and when you need it. The benefits will be hard to beat.

ADDRESSING FAR AND CAS WITH DELTEK

A government contracting firm's business processes plays a pivotal role in meeting FAR and CAS compliance requirements and standards. Successfully managing those processes from beginning to end are innately part of the DNA of the Deltek Costpoint solution. Designed with FAR and CAS in mind, key functionalities of Costpoint allow for:

1. A logical and consistent method for the allocation of indirect costs to intermediate and final cost objectives
2. Accumulation of costs under general ledger control
3. Proper segregation of direct costs from indirect costs
4. Exclusion from costs charged to government contracts of amounts which are not allowable in terms of FAR 31, Contract Cost Principles and Procedures, or other contract provisions
5. Identification of costs by contract line item and by units based on a contract's requirements.

RESOURCES

WHERE TO FIND THE FAR

There is a lot of information available on the FAR in a variety of places online. That said, the official GSA-maintained site is www.acquisition.gov. Another good site for FAR research is <http://farsite.hill.af.mil/>. You can also do your research offline by downloading a PDF of the FAR directly from the GSA site.

However, be aware: sites like FAR.com are NOT official government sites. Your best bet is to stick with the sites that are maintained by government entities.

WHERE TO FIND CAS

As with the FAR, there are places you can go to get more information about CAS. These include:

- » At DCAA in the Defense Contract Audit Manual (DCAM):
 - » http://www.dcaa.mil/cam/Chapter_08_-_Cost_Accounting_Standards.pdf (The Standards)
 - » <http://www.dcaa.mil/cas.html> (the Disclosure Statement forms)

- » In the FAR, Part 30 (CAS Administration)
 - » <https://www.acquisition.gov/far/html/FARTOCP30.html>
 - » <http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/farapndx1.htm>

Learn More

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