

9904.400

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9904.400 [Reserved]

9904.401 Cost accounting standard—consistency in estimating, accumulating and reporting costs.

9904.401-10 [Reserved]

9904.401-20 Purpose.

The purpose of this Cost Accounting Standard is to ensure that each contractor's practices used in estimating costs for a proposal are consistent with cost accounting practices used by him in accumulating and reporting costs. Consistency in the application of cost accounting practices is necessary to enhance the likelihood that comparable transactions are treated alike. With respect to individual contracts, the consistent application of cost accounting practices will facilitate the preparation of reliable cost estimates used in pricing a proposal and their comparison with the costs of performance of the resulting contract. Such comparisons provide one important basis for financial control over costs during contract performance and aid in establishing accountability for cost in the manner agreed to by both parties at the time of contracting. The comparisons also provide an improved basis for evaluating estimating capabilities.

9904.401-30 Definitions.

(a) The following are definitions of terms which are prominent in this Standard. Other terms defined elsewhere in this part 99 shall have the meanings ascribed to them in those definitions unless paragraph (b) of this subsection, requires otherwise.

(1) *Accumulating costs* means the collecting of cost data in an organized manner, such as through a system of accounts.

(2) *Actual cost* means an amount determined on the basis of cost incurred (as distinguished from forecasted cost), including standard cost properly adjusted for applicable variance.

(3) *Estimating costs* means the process of forecasting a future result in terms of cost, based upon information available at the time.

(4) *Indirect cost pool* means a grouping of incurred costs identified with two or more objectives but not identified specifically with any final cost objective.

(5) *Pricing* means the process of establishing the amount or amounts to be paid in return for goods or services.

(6) *Proposal* means any offer or other submission used as a basis for pricing a contract, contract modification or termination settlement or for securing payments thereunder.

(7) *Reporting costs* means provision of cost information to others.

(b) The following modifications of terms defined elsewhere in this chapter 99 are applicable to this Standard: None.

9904.401-40 Fundamental requirement.

(a) A contractor's practices used in estimating costs in pricing a proposal shall be consistent with his cost accounting practices used in accumulating and reporting costs.

(b) A contractor's cost accounting practices used in accumulating and reporting actual costs for a contract shall be consistent with his practices used in estimating costs in pricing the related proposal.

(c) The grouping of homogeneous costs in estimates prepared for proposal purposes shall not per se be deemed an inconsistent application of cost accounting practices under paragraphs (a) and (b) of this section when such costs are accumulated and reported in greater detail on an actual cost basis during contract performance.

9904.401-50 Techniques for application.

(a) The standard allows grouping of homogeneous costs in order to cover those cases where it is not practicable to estimate contract costs by individual cost element or function. However, costs estimated for proposal purposes shall be presented in such a manner and in such detail that any significant cost can be compared with the actual cost accumulated and reported therefor. In any event the cost accounting practices used in estimating costs in pricing a proposal and in accumulating and reporting costs on the resulting contract shall be consistent with respect to:

(1) The classification of elements or functions of cost as direct or indirect;

(2) The indirect cost pools to which each element or function of cost is charged or proposed to be charged; and

(3) The methods of allocating indirect costs to the contract.

(b) Adherence to the requirement of 9904.401-40(a) of this standard shall be determined as of the date of award of the contract, unless the contractor has submitted cost or pricing data pursuant to 10 U.S.C. 2306a or 41 U.S.C. 254(d) (Pub. L. 87-653), in which case adherence to the requirement of 9904.401-40(a) shall be determined as of the date

of final agreement on price, as shown on the signed certificate of current cost or pricing data. Notwithstanding 9904.401-40(b), changes in established cost accounting practices during contract performance may be made in accordance with part 99.

9904.401-60 Illustrations.

(a) The following examples are illustrative of applications of cost accounting practices which are deemed to be consistent.

Practices used in estimating costs for proposals	Practices used in accumulating and reporting costs of contract performance
<ol style="list-style-type: none"> Contractor estimates an average direct labor rate for manufacturing direct labor by labor category or function. Contract estimates an average cost for minor standard hardware items, including nuts, bolts, washers, etc. Contractor uses an estimated rate for manufacturing overhead to be applied to an estimated direct labor base. He identifies the items included in his estimate of manufacturing overhead and provides supporting data for the estimated direct labor base. 	<ol style="list-style-type: none"> Contractor records manufacturing direct labor based on actual cost for each individual and collects such costs by labor category or function. Contractor records actual cost for minor standard hardware items based upon invoices or material transfer slips. Contractor accounts for manufacturing overhead by individual items of cost which are accumulated in a cost pool allocated to final cost objectives on a direct labor base.

(b) The following examples are illustrative of application of cost accounting practices which are deemed not to be consistent.

Practices used for estimating costs for proposals	Practices used in accumulating and reporting costs of contract performance
<ol style="list-style-type: none"> Contractor estimates a total dollar amount for engineering labor which includes disparate and significant elements or functions of engineering labor. Contractor does not provide supporting data reconciling this amount to the estimates for the same engineering labor cost functions for which he will separately account in contract performance. Contractor estimates engineering labor by cost function, i.e. drafting, production engineering, etc. Contractor estimates a single dollar amount for machining cost to cover labor, material and overhead. 	<ol style="list-style-type: none"> Contractor accounts for engineering labor by cost function, i.e. drafting, designing, production, engineering, etc. Contractor accumulates total engineering labor in one undifferentiated account. Contractor records separately the actual costs of machining labor and material as direct costs, and factory overhead as indirect costs.

9904.401-61 Interpretation.

(a) 9904.401, Cost Accounting Standard—Consistency in Estimating, Accumulating and Reporting Costs, requires in 9904.401-40 that a contractor’s “practices used in estimating costs in pricing a proposal shall be consistent with his cost accounting practices used in accumulating and reporting costs.”

(b) In estimating the cost of direct material requirements for a contract, it is a common practice to first estimate the cost of the actual quantities to be incorporated in end items. Provisions are then made for additional direct material costs to cover expected material losses such as those which

occur, for example, when items are scrapped, fail to meet specifications, are lost, consumed in the manufacturing process, or destroyed in testing and qualification processes. The cost of some or all of such additional direct material requirements is often estimated by the application of one or more percentage factors to the total cost of basic direct material requirements or to some other base.

(c) Questions have arisen as to whether the accumulation of direct material costs in an undifferentiated account where a contractor estimates a significant part of such costs by means of percentage factors is in compliance