### **Course Materials**

- Course Instructions
- Course Outline
- What Accountants Need to Know About Cost Accounting for Government Contracts, Companion Publication
- **Glossary of Terms**
- Source Materials (Federal Regulations and Publications Referenced within the course, included by module)
- Learning Resources (Sample accounting data, reports, and other assets to support the learning activities, included by module)

### **Course Learning Objectives**

- ☑ Identify the compliance requirements that arise from the award of certain contract types.
- Differentiate types of costs and associated methods used for cost accounting in Government contracts.
- Relate the configuration of a contractor's accounting system to the criteria in Standard Form 1408.
- Provide examples of how the contractor's accounting system satisfies the auditor based on the audit program.
- Recognize the requirements for establishing and monitoring provisional billing rates pursuant to FAR Subpart 42.7.
- Evaluate the adequacy of each schedule included in a contractor's Final Indirect Cost Rate Proposal, pursuant to FAR Clause 52.216-7.
- ☑ Identify relevant source regulations and guidance pertaining to accounting system compliance, provisional billing rates, and final indirect cost rate proposals.

## Part I. Determining Accounting System Adequacy

### **Module 1. Government Contract Cost Accounting Basics**

Lesson 1 – Fundamental Concepts of Federal Contract Cost Accounting

Topics:

- Composition of Contract Costs: Direct Costs vs. Indirect Costs
- Lesson 2 Regulations Concerning Federal Contract Accounting

Topics:

- Contract Type and timing of due diligence on pricing
- Accounting System Administration DFARS 252.242-7006
- The Allowable Cost and Payment Clause FAR Clause 52.216-7
- Provisional Billing Rates FAR 42.704

Module 1 Learning Objectives

After completing Module 1, you should be able to:

- ☑ Distinguish between direct costs and indirect costs in Government contracts.
- Associate types of contracts awarded by the Government with the timing of due diligence over contract pricing.
- Recognize the compliance requirements that arise from the award of certain contract types.

- FAR Part 31.2 Contracts with Commercial Organizations
- DFARS 252.242-7006 Accounting System Administration
- Standard Form 1408 Preaward Survey of Prospective Contractor Accounting System
- FAR Part 16 Types of Contracts
- FAR 15.404 Proposal Analysis
- FAR 52.216-7 Allowable Cost and Payment Clause
- FAR 42.704 Billing Rates
- FAR 42.705 Final Indirect Cost Rates



## Module 2. Accounting System Adequacy

Lesson 1 – Federal Acquisition Regulation – Defining Accounting System Adequacy

Topics:

- FAR 16.301-3(a)(3): Cost-Reimbursement contract limitations regarding accounting system
- Purpose of an adequate accounting system

## Lesson 2 – Accounting System Adequacy Criteria

Topics:

- DFARS 252.242-7006 - Accounting System Administration



Lesson 3 - Standard Form 1408

Topics:

- SF 1408 Section 1, Is the Accounting System in Accord with Generally Accepted Accounting Principles?
- SF 1408 Section 2, The Accounting Provides For
- SF 1408 Section 3-5

Module 2 Learning Objectives

After completing Module 2, you should be able to:

- ✓ State the purpose of an adequate accounting system.
- Identify the provisions of DFARS Section 252.242-7006.  $\mathbf{\nabla}$
- Recognize the elements included on the form used to determine adequacy in the audit of a  $\mathbf{\nabla}$ contractor's accounting system.

- ₽ FAR Part 16 – Types of Contracts
- Standard Form 1408 Preaward Survey of Prospective Contractor Accounting System
- ₽ DFARS 252.242-7006 – Accounting System Administration
- FAR 52.232-20 Limitation of Cost Ð
- ₽ FAR 52.232-22 – Limitation of Funds
- ₽ FAR 52.216-7 – Allowable Cost and Payment Clause
- DFARS 252.242-7005 Contractor Business Systems ₽

## Module 3. Configuring the Accounting System

Lesson 1 – Segregating Direct Costs from Indirect Costs

Topics:

- SF 1408 Section 2a. Proper Segregation of Direct Costs from Indirect Costs
- Direct Cost and Indirect Cost Definitions

## Lesson 2 – Accumulating Direct Costs by Contract

Topics:

- SF 1408 Section 2b. Identification and Accumulation of Direct Costs by Contract

## Lesson 3 – Allocating Indirect Costs

Topics:

- SF 1408 Section 2c. A Logical and Consistent Method for the Allocation of Indirect Costs to Intermediate and Final Cost Objectives (a contract is a final cost objective)
- Indirect Rate Calculation
- Intermediate Allocation
- FAR 31.203

Lesson 4 – Indirect Cost Pools

Topics:

- Establish indirect cost pools based on the reasons for incurring such costs.
- Define allocation bases according to the benefits accruing to cost objectives.
- Process for indirect cost allocation to intermediate and final cost objectives.
- Lesson 4.1 Indirect Cost Pools: Fringe Benefits
- Lesson 4.2 Indirect Cost Pools: Facilities
- Lesson 4.3 Indirect Cost Pools: Overhead
- Lesson 4.4 Indirect Cost Pools: G&A
- Lesson 4.5 Indirect Cost Pools: Summary of Accumulation & Allocation of Indirect Costs

### Lesson 5 – Accumulation of Costs under General Ledger Control

Topics:

- SF 1408 Section 2d. Accumulation of Costs Under General Ledger Control

### Module 3 Learning Objectives

After completing Module 3, you should be able to:

- ☑ Differentiate between the accounting methods for direct costs and indirect costs in Government contracts.
- ☑ Establish allocation bases for indirect cost pools.
- ☑ Calculate indirect rates.
- Show allocation of indirect costs to intermediate and final cost objectives.
- Recognize how contract costs are accumulated under general ledger control.

### Source References

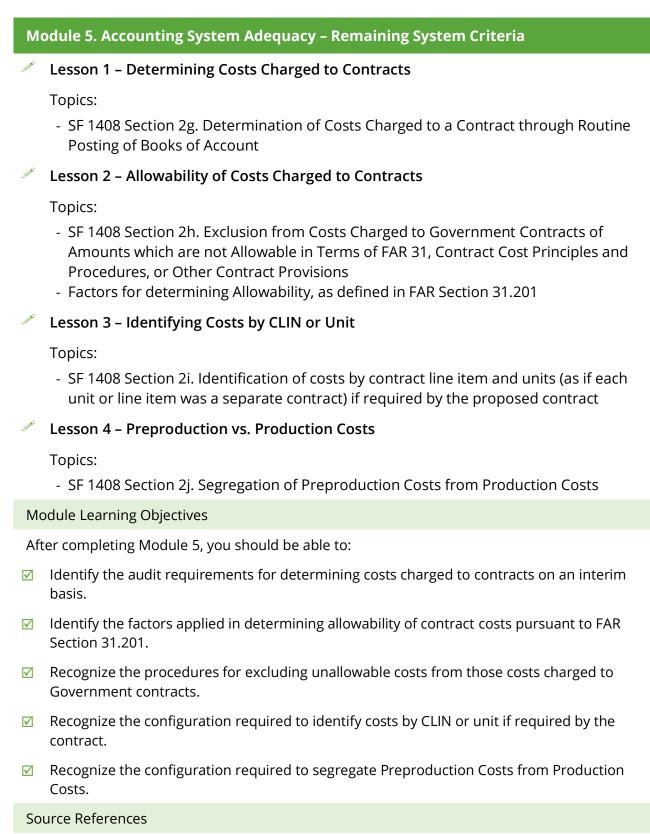
- Standard Form 1408 Preaward Survey of Prospective Contractor Accounting System
- DFARS 252.242-7006 Accounting System Administration
- FAR Part 31.2 Cost Principles for Contracts with Commercial Organizations
- 48 CFR 9904.420 Accounting for independent research and development costs and bid and proposal costs
- DCAA Audit Program: Preaward Survey of Prospective Contractor Accounting System (Activity Code 17740 on the DCAA website)

### Supporting Documents

The following sample data and reports will be referenced in Module 3:

- Sample Chart of Accounts
- C Sample Profit & Loss
- Sample Contract Profit & Loss
- C Sample Indirect Rate Calculation

# Module 4. Accounting System Adequacy – Labor Charging System Lesson 1 – Adequate Timekeeping Topics: - SF 1408 Section 2e. A Timekeeping System that Identifies Employees' Labor by Intermediate or Final Cost Objectives - DCAA guidance on policies, procedures, and controls for the contractor's Labor Charging System and Timekeeping System Lesson 2 – Labor Distribution Topics: - SF 1408 Section 2f. A Labor Distribution System that Charges Direct and Indirect Labor to the Appropriate Cost Objectives Module 4 Learning Objectives After completing Module 4, you should be able to: $\checkmark$ Indicate why significant audit effort is devoted to the contractor's labor charging system. Recognize authoritative resources with guidance on the elements of an acceptable timekeeping system and labor charging system. ☑ Identify policies, procedures, and controls that provide for accurate recording of labor hours for charging of labor costs to contracts. Indicate how labor costs charged to contracts can be traced to supporting documentation. Source References ₽ Standard Form 1408 – Preaward Survey of Prospective Contractor Accounting System DFARS 252.242-7006 – Accounting System Administration Ð Information for Contractors, Enclosure 3 (DCAA Manual 7641.90) Ð DCAA Contract Audit Manual, sections 5-200 and 5-300 ₽ DCAA Audit Program: Preaward Survey of Prospective Contractor Accounting System (Activity Code 17740 on the DCAA website) Supporting Documents The following sample data and reports will be referenced in Module 4: Sample Labor Distribution Report



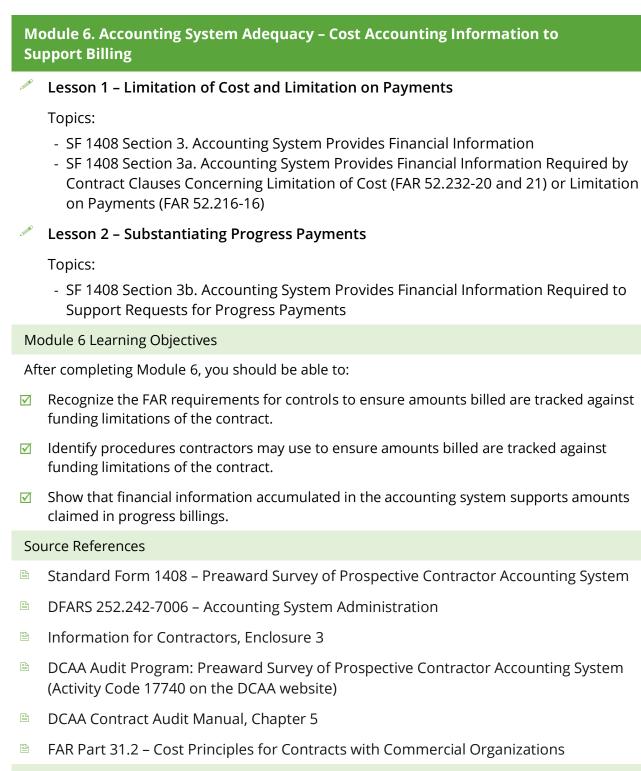
- Standard Form 1408 Preaward Survey of Prospective Contractor Accounting System
- DFARS 252.242-7006 Accounting System Administration

- Information for Contractors, Enclosure 3 (DCAA Manual 7641.90)
- DCAA Audit Program: Preaward Survey of Prospective Contractor Accounting System (Activity Code 17740 on the DCAA website)
- FAR Part 31.2 Cost Principles for Contracts with Commercial Organizations

## Supporting Documents

The following sample data and reports will be referenced in Module 5:

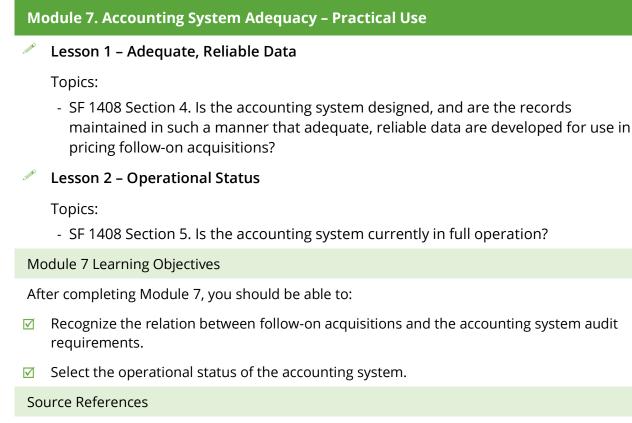
- Sample Contract Cost Report
- Common Unallowable Cost Categories



### Supporting Documents

The following sample data and reports will be referenced in Module 6:

- Sample Contract Status Report T&M Format
- C Sample Contract Status Report Cost Reimbursement Format



- Standard Form 1408 Preaward Survey of Prospective Contractor Accounting System
- DFARS 252.242-7006 Accounting System Administration
- Information for Contractors, Enclosure 3 (DCAA Manual 7641.90)
- DCAA Audit Program: Preaward Survey of Prospective Contractor Accounting System (Activity Code 17740 on the DCAA website)

## Part II. Establishing Provisional Billing Rates

### **Module 8. Provisional Billing Rates**

Lesson 1 – What are Provisional Billing Rates

Topics:

- FAR Section 42.704
- Lesson 2 Establishing Billing Rates

Topics:

- Resources for Guidance on Provisional Billing Rates

Lesson 3 – Submitting the Proposal

Topics:

- Provisional Billing Rate Proposals
- Provisional Billing Rate Adjustments
- Lesson 4 Billing and Monitoring Rates

Topics:

- Indirect Rate Variances

Module 8 Learning Objectives

After completing Module 8, you should be able to:

- ☑ Identify the role of provisional billing rates in cost-reimbursement contracts.
- ☑ Recall the process for establishing Provisional Billing Rates pursuant to the provisions of FAR Section 42.704.
- Identify the information required to be included in a Provisional Billing Rate Proposal.
- ☑ Compare amounts billed on a provisional basis to actual indirect costs incurred.

- FAR Subpart 42.7 Indirect Cost Rates
- DCAA Presentation on Provisional Billing Rates
- DCAA Audit Program: Establishment of Provisional Billing Rates (Activity Code 15500 on the DCAA website)

## Supporting Documents

The following sample data and reports will be referenced in Module 8:

C Sample Indirect Rate Variance Report

## Part III. Submitting a Final Indirect Cost Rate Proposal

### **Module 9. Final Indirect Cost Rates**

Lesson 1 – Determining Final Indirect Cost Rates

Topics:

- FAR Section 42.705
- Lesson 2 Final Indirect Cost Rate Proposal Requirements

Topics:

- FAR 52.216-7(d)(2)(iii)

Lesson 3 – Proposal Adequacy

Topics:

- Illustrations and Guidance for Preparing a Final Indirect Cost Rate Proposal

Module 9 Learning Objectives

After completing Module 9, you should be able to:

- Recognize the process for establishing final indirect cost rates.
- Recognize and relate FAR Clause 52.216-7's requirements to each required schedule of a Final Indirect Cost Rate Proposal.
- Employ DCAA's *Checklist for Determining Adequacy of Contractor Incurred Cost Proposal* to evaluate the adequacy of each required schedule of a Final Indirect Cost Rate Proposal.

- FAR Subpart 42.7 Indirect Cost Rates
- FAR Section 42.705 Final Indirect Cost Rates
- DCAA Checklist for Determining Adequacy of Contractor Incurred Cost Proposal
- FAR Clause 52.216-7 Allowable Cost and Payment Clause
- FAR Clause 52.242-4 Certification of Indirect Costs

## Supporting Documents

The following sample data and reports will be referenced in Module 9:

Sample Final Indirect Cost Rate Proposal, including the following:

- Schedule A
- Schedule B
- Schedule C(1)
- Schedule C(2)
- Schedule D
- C Schedule E
- C Schedule G
- Schedule H
- Schedule H(1)
- Schedule I
- Schedule J
- Schedule K
- C Schedule L
- Schedule M
- Schedule N
- C Schedule O