







Self Study Course Outline

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.
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Self Study Course Outline

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.

Source References

-  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
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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.
- Recognize the elements included on the form used to determine adequacy in the audit of a contractor's accounting system.

Source References

-  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
-  FAR 52.232-22 – Limitation of Funds
-  FAR 52.216-7 – Allowable Cost and Payment Clause
-  DFARS 252.242-7005 – Contractor Business Systems

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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






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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
 -  Sample Profit & Loss
 -  Sample Contract Profit & Loss
 -  Sample Indirect Rate Calculation
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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:

- 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
-  Information for Contractors, Enclosure 2 – Preaward Surveys (DCAA Manual 7641.90)
-  DCAA Contract Audit Manual, Chapter 5, 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

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Module 5. Accounting System Adequacy – Remaining System Criteria

Lesson 1 – Determining Costs Charged to Contracts

Topics:

- SF 1408 Section 2g. Determination of Costs Charged to a Contract through Routine Posting of Books of Account

Lesson 2 – Allowability of Costs Charged to Contracts

Topics:

- SF 1408 Section 2h. 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
- Factors for determining Allowability, as defined in FAR Section 31.201

Lesson 3 – Identifying Costs by CLIN or Unit

Topics:

- SF 1408 Section 2i. Identification of costs by contract line item and units (as if each unit or line item was a separate contract) if required by the proposed contract

Lesson 4 – Preproduction vs. Production Costs

Topics:




- SF 1408 Section 2j. Segregation of Preproduction Costs from Production Costs

Module Learning Objectives



After completing Module 5, you should be able to:

- Identify the audit requirements for determining costs charged to contracts on an interim basis.
- Identify the factors applied in determining allowability of contract costs pursuant to FAR Section 31.201.
- Recognize the procedures for excluding unallowable costs from those costs charged to Government contracts.
- Recognize the configuration required to identify costs by CLIN or unit if required by the contract.
- Recognize the configuration required to segregate Preproduction Costs from Production Costs.

Source References



-  Standard Form 1408 – Preaward Survey of Prospective Contractor Accounting System
-  DFARS 252.242-7006 – Accounting System Administration
-  Information for Contractors, Enclosure 2 – Preaward Surveys (DCAA Manual 7641.90)

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-  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
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Module 6. Accounting System Adequacy – Cost Accounting Information to Support Billing

Lesson 1 – Limitation of Cost and Limitation on Payments

Topics:

- SF 1408 Section 3. Accounting System Provides Financial Information
- SF 1408 Section 3a. Accounting System Provides Financial Information Required by Contract Clauses Concerning Limitation of Cost (FAR 52.232-20 and 21) or Limitation on Payments (FAR 52.216-16)

Lesson 2 – Substantiating Progress Payments

Topics:







- SF 1408 Section 3b. Accounting System Provides Financial Information Required to Support Requests for Progress Payments

Module 6 Learning Objectives

After completing Module 6, you should be able to:



- Recognize the FAR requirements for controls to ensure amounts billed are tracked against funding limitations of the contract.
- Identify procedures contractors may use to ensure amounts billed are tracked against funding limitations of the contract.
- Show that financial information accumulated in the accounting system supports amounts claimed in progress billings.

Source References

-  Standard Form 1408 – Preaward Survey of Prospective Contractor Accounting System
-  DFARS 252.242-7006 – Accounting System Administration
-  Information for Contractors, Enclosure 2 – Preaward Surveys (DCAA Manual 7641.90)
-  DCAA Audit Program: Preaward Survey of Prospective Contractor Accounting System (Activity Code 17740 on the DCAA website)
-  DCAA Contract Audit Manual, Chapter 5, Section 5-305
-  FAR Part 31.2 – Cost Principles for Contracts with Commercial Organizations

Supporting Documents

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

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

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Module 7. Accounting System Adequacy – Practical Use

Lesson 1 – Adequate, Reliable Data

Topics:

- SF 1408 Section 4. Is the accounting system designed, and are the records maintained in such a manner that adequate, reliable data are developed for use in pricing follow-on acquisitions?

Lesson 2 – Operational Status

Topics:





- SF 1408 Section 5. Is the accounting system currently in full operation?

Module 7 Learning Objectives

After completing Module 7, you should be able to:

- Recognize the relation between follow-on acquisitions and the accounting system audit requirements.
- Select the operational status of the accounting system.

Source References

-  Standard Form 1408 – Preaward Survey of Prospective Contractor Accounting System
 -  DFARS 252.242-7006 – Accounting System Administration
 -  Information for Contractors, Enclosure 2 – Preaward Surveys (DCAA Manual 7641.90)
 -  DCAA Audit Program: Preaward Survey of Prospective Contractor Accounting System (Activity Code 17740 on the DCAA website)
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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.

Source References

-  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)

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Supporting Documents

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

-  Sample Indirect Rate Variance Report
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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.

Source References

















-  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

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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
 -  Schedule E
 -  Schedule G
 -  Schedule H
 -  Schedule H(1)
 -  Schedule I
 -  Schedule J
 -  Schedule K
 -  Schedule L
 -  Schedule M
 -  Schedule N
 -  Schedule O
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