

Clarifying CAS for Small Businesses



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- 20+ years of experience guiding government contractors on FAR and CAS compliance
- Expertise in incurred cost submissions, forward pricing rate proposals, CAS disclosures, and cost impact calculations
- Skilled in evaluating accounting systems, business systems, and internal controls reviewed by DCAA
- Led contractors through corrective action plans, purchasing system reviews, and contract close-outs
- Instructor on CAS, FAR Part 31, incurred cost submissions, and accounting system compliance for Federal Publications Seminars



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What is the Meaning of “CAS”

The acronym “CAS” can stand for:

- **Cost Accounting Standards** – a set of requirements addressing the measurement, assignment, and allocation of costs under Federal Government contracts within Code of Federal Regulations Title 48 Chapter 99
- **Cost Accounting Structure** – the requirement that based on FAR part 31 a contractor maintains an adequate accounting system that provides for:
 - **Job Cost Accounting** – direct and indirect costs are segregated and assigned to each individual contract or contract line item to which the Government has tied funding requirements



**Small businesses often get these two
acronyms confused.**

Let's discuss each in more detail.

CAS – Cost Accounting Structure



Cost Accounting Structure

- To be awarded any contracts other than firm fixed price with milestone payments, you must have the right Cost Accounting Structure
- In other words, an Adequate Accounting System

Adequate Accounting System (SF 1408)

Basic Requirements

- GAAP compliant
- Accounting system must be operational

Cost Accounting Requirements

- Segregation between direct and indirect costs
- Accumulation of direct costs by contract
- Adequate method for allocation of indirect costs
- Sufficient timekeeping and labor distribution system
- Ability to identify and exclude unallowable costs from proposals and billings to government
- Interim determination of costs by contract through routine posting of books
- Reliable tracking of costs to contract ceilings
- System can support progress billings
- System provides reliable cost history for pricing follow-on proposals
- Segregation of pre-production costs

Cost Accounting Structure

- These requirements all tie back to requirements within FAR part 31
- For Example:
 - Identification and accumulation of direct costs by contract (labor, materials, ODC, SubK)
 - Indirect Rate Structure (Pool and Base Structure)
 - Segregate Unallowable Cost
 - Consistency in approach

Structure of FAR Part 31 – Cost Principles



- 31.001 – Definitions
- 31.1 – Applicability
- 31.2 – Commercial Organizations
 - 31.201-1 Composition of total cost
 - 31.201-2 Determining allowability
 - 31.201-3 Determining reasonableness
 - 31.201-4 Determining allocability
 - 31.201-5 Credits
 - 31.201-6 Accounting for unallowable costs
- 31.205 Selected cost

FAR Part 31 – Cost Principles

- Only FAR part that defines parameters for cost accounting system requirements for Government contractors
- Requirements of other FAR sections (Part 9, Part 15, etc.) that allude to acceptable cost accounting and estimating systems are tied to FAR Part 31
- Audit findings/recommendations related to cost accounting systems will be driven by FAR Part 31 and potentially Cost Accounting Standards
- FAR 52.216-7 Allowable Cost and Payment clause makes this part of your contract

FAR Part 31 – Cost Principles

- Direct and Indirect cost identification and segregation
- Allocation of cost by contract
- Indirect cost grouping and allocation bases
- Allowable vs. Unallowable (addresses specific costs)
- Reasonableness and Allocability
- Documentation (coupled with records retention FAR part 4.7)

CAS – Cost Accounting Standards



Cost Accounting Standards (CAS)

FAR Part 30 & 48 CFR Chapter 99

Statutory authority for Government contractors, to which CAS is applicable, to account for contract costs in cost accounting environment.

Enacted to ensure uniformity among Government contractors in charging costs by project.

For purposes of contractor compliance, must consider verbiage in both:

- FAR Part 30 and clauses 52.230
- 48 CFR Chapter 99

Cost Accounting Standards (CAS)

FAR Part 30: Administrative Requirements

Provides Cognizant Federal Acquisition Official (CFAO), likely your Defense Contract Management Agency (DCMA) ACO, responsibilities for CAS oversight and outlines what the ACO should expect of contractors adhering to CAS

Detailed requirements for:

- Contract clauses effecting CAS coverage
- Changes in accounting practices
- Consequences of CAS noncompliance
- Contracting officer oversight – ACO or CFAO

Cost Accounting Standards (CAS)

48 CFR Chapter 99: Cost Accounting Standards

Establishes requirements for contractors in measurement and assignment of costs allocated to Government contracts

Individual standards setting forth how direct and indirect costs should be accounted for:

- Measurement
- Assignment
- Allocation

Identifies:

- CAS Applicability
- Disclosure statement requirements
- Handling changes in cost accounting practices, etc.

Cost Accounting Standards (CAS)

- CAS coverage is determined on a contract-by-contract basis
- Three types of coverage:
 1. Full CAS coverage
 2. Modified CAS coverage
 3. Foreign Companies
- Applicability and type of coverage will drive cost accounting system requirements

Two Points to Remember:

1. CAS trumps FAR Part 31 in regulatory authority for having acceptable cost accounting practices (in terms of cost allocations)
2. Just because CAS makes a cost allocable does not mean it has to be allowable per FAR

Cost Accounting Standards (CAS)

Basic Applicability

- Must have received, or be performing, a “trigger” CAS covered contract of \$7.5 million or more
- If above condition is met, other contract awards of \$2M (TINA threshold)* or above will be CAS covered (unless exempted)
- If exemption applies, contract will not be CAS covered regardless of dollar value
- Subcontracts are also covered, if prime covered; CAS is a required “flow-down” provision

**** TINA threshold increasing to \$2.5M – Oct. 1, 2025***

Cost Accounting Standards (CAS)

CAS Exemptions for Contracts and Subcontracts

- Sealed bid Awards
- Negotiated contracts below \$2M*, after \$7.5M trigger contract
- Any contracts awarded to Small Business
- Any contracts awarded to Foreign Government
- Contracts where price is set by law or regulation
- Contracts for Commercial Products or Services
- Subcontracts under the NATO PHM Ship program performed outside the US by a foreign concern
- FFP contracts awarded based on adequate price competition

*** TINA threshold increasing to \$2.5M – Oct. 1, 2025**

Modified Cost Accounting Standards (CAS) Coverage

Comply with CAS 401, 402, 405, and 406 and all administrative provisions of FAR Part 30, including accounting practice change and cost impact calculation requirements

Modified CAS coverage applies if:

- Receive a CAS-covered “trigger” contract greater than \$7.5 million, but less than \$50 million
- Contractor, in its preceding cost accounting period, received CAS covered contracts awards LESS than \$50 million

May or may not require disclosure statement

Full Cost Accounting Standards (CAS) Coverage

Must comply with all 19 individual standards and all FAR 30 administrative provisions

Subject to full coverage if:

- Received a single CAS covered contract of \$50 million or more; or
- Received \$50 million in CAS covered contract awards in the preceding cost accounting period

Contractor required to file a disclosure statement

Cost Accounting Standards (CAS)

- 401** - Consistency in Estimating, Accumulating and Reporting Costs
- 402** - Consistency in Allocating Costs Incurred for the Same Purpose
- 403** - Allocation of Home Office Expenses to Segments
- 404** - Capitalization of Tangible Assets
- 405** - Accounting for Unallowable Costs
- 406** - Cost Accounting Period
- 407** - Use of Standard Costs for Direct Material and Direct Labor
- 408** - Accounting for Costs of Compensated Personal Absence
- 409** - Depreciation of Tangible Capital Assets
- 410** - Allocation of Business Unit General and Administrative Expenses to Final Cost Objectives
- 411** - Accounting for Acquisition Costs of Material
- 412** - Composition and Measurement of Pension Costs
- 413** - Adjustment and Allocation of Pension Cost
- 414** - Cost of Money as an Element of the Cost of Facilities Capital
- 415** - Accounting for the Cost of Deferred Compensation
- 416** - Accounting for Insurance Cost
- 417** - Cost of Money as an Element of the Cost of Capital Assets Under Construction
- 418** - Allocation of Direct and Indirect Costs
- 419** - *Reserved*
- 420** - Accounting for Independent Research and Development Costs and Bid and Proposal Costs (IR&D and B&P)

CAS/FAR Part 31 Cross Reference

CAS Reference	FAR Reference	CAS Reference	FAR Reference
401	31.201-1 & 31.203	411	31.205-26
402	31.202 & 31.203	412	31.205-6(j)
403	31.203 & 31.201-4	413	31.205-6(j)
404	31.201-2 (ASC-IFRS)	414	31.205-10
405	31.201-2 & 31.201-6	415	31.205-6(k)
406	31.203(g)	416	31.205-19
407	31.001 & 31.201-1	417	31.205-10
408	31.001 & 31.205-6(m)	418	31.201-4 & 31.203
409	31.205-11 & 31.205-16	420	31.205-18
410	31.203 & 31.201-4		

CAS Summary

- ✓ Contracts are CAS covered not Contractors
- ✓ CAS applies to both prime and subcontracts
- ✓ CAS is all about measurement, assignment, and allocation
- ✓ An allocable cost may still be unallowable
- ✓ If you change your accounting practice you must give the Government 60-day advance notice
- ✓ If your change results in increase cost to the Government, you will have to pay it back plus interest

What Is the Difference Between FAR and CAS?



Federal Acquisition Regulations (FAR)

- FAR part 31 provides a general set of cost principles for both cost re-determinable (including Fixed Price Incentive) and fixed price where cost analysis is performed addressing:
 - The assignment and allocation of costs to contracts
 - The allowability of those allocated contract costs

Cost Accounting Standards (CAS)

- Applicable to all non-exempt contracts (biggest exemptions are small business, FAR part 12 commercial, and contracts below TINA threshold - \$2M)
- Requires contractors to comply with Cost Accounting Standards (CAS) and provide a written disclosure of cost accounting practices it follows consistently – measurement, assignment, and allocation
- No increased cost to Government when accounting practices change

CAS Even Applies to Non-CAS Covered Contracts

CAS does not apply to me.

I am a Small Business and have never had a contract greater than \$7.5M, Right?

Not really. The FAR incorporates many of the cost accounting standards in the FAR Part 31 Cost Principles.

FAR Bringing in CAS

FAR	CAS (Modified Coverage)
31.201-1, Composition of total cost – Any generally accepted method of determining or estimating costs that is equitable and is consistently applied may be used.	401 Consistency in estimating, accumulating, & reporting.
31.202, Direct costs and 31.203, Indirect costs – No contract shall have allocated to it as a direct cost any cost, if other costs incurred for the same purpose in like circumstances have been included in any indirect cost pool to be allocated to that or any other contract.	402 Consistency in allocating costs incurred for the same purpose.
31.201-6, Accounting for unallowable costs – The practices for accounting for and presentation of unallowable costs must be those described in 48 CFR 9904.405, Accounting for Unallowable Costs.	405 Accounting for unallowable costs.
31.001 Fiscal year means the accounting period for which annual financial statements are regularly prepared, generally a period of 12 months, 52 weeks, or 53 weeks.	406 Cost accounting period.

FAR Bringing in CAS

FAR	CAS
31.205-6(j), Pension costs – The contractor shall measure, assign, and allocate the costs of all defined-benefit pension plans and the costs of all defined-contribution pension plans in compliance with 48 CFR 9904.412-Cost Accounting Standard for Composition and Measurement of Pension Cost, and 48 CFR 9904.413-Adjustment and Allocation of Pension Cost.	412 Composition and measurement of pension cost. 413 Adjustment and allocation of pension cost.
31.205-6(k), Deferred compensation other than pensions – The costs shall be measured, assigned, and allocated in accordance with 48 CFR 9904.415, Accounting for the Cost of Deferred Compensation.	415 Accounting for the cost of deferred compensation.
31.205-6(q), Employee stock ownership plans (ESOP) – Costs of ESOPs are allowable when the contractor measures, assigns, and allocates costs in accordance with 48 CFR 9904.415.	415 Accounting for the cost of deferred compensation.

FAR Bringing in CAS

FAR	CAS
31.205-10, Cost of money – Cost of money is allowable, provided it is measured, assigned, and allocated to contracts in accordance with 48 CFR 9904.414 or measured and added to the cost of capital assets under construction in accordance with 48 CFR 9904.417.	414 Cost of money as an element of the cost of facilities capital. 417 Cost of money as an element of the cost of capital assets under construction.
31.205-18, Independent research and development and bid and proposal costs – The requirements of 48 CFR 9904.420, Accounting for independent research and development costs and bid and proposal costs, are incorporated in their entirety – there is an exception for existing non-CAS and modified CAS covered contracts related to home office and multi-segment organizations.	420 Accounting for independent research and development costs and bid and proposal costs.

FAR Bringing in CAS

FAR	CAS
31.205-19, Insurance and indemnification – The contractor shall measure, assign, and allocate costs in accordance with 48 CFR 9904.416, Accounting for Insurance Costs.	416 Accounting for insurance costs.
31.205-52, Asset valuations resulting from business combinations – Under a business combination, capitalized asset values are measured and assigned in accordance with 48 CFR 9904.404-50(d).	404 Capitalization of tangible assets.

What Does This Mean If You Have No CAS Covered Contracts?

- You must still gain an understanding of the CAS requirements to appropriately measure, assign, and allocate costs in accordance with the applicable cost accounting standards incorporated into the FAR.
- **Remember** – Just because an amount is correctly measured, assigned, and allocated as required by CAS, it does not mean the entire amount is allowable.
- Examples:
 - **48 CFR 9904.416-50(a)** establishes the measurement of projected average loss for self-insurance; however, FAR 31.205-19(c)(3) makes any self-insurance charge plus administration expenses in excess of the cost of comparable purchased insurance unallowable.
 - **48 CFR 9904.415-50(f)** establishes the measurement of ESOP contributions; however, FAR 31.205-6(q)(ii) makes the contributions exceeding the IRS limits unallowable.
 - **48 CFR 9904.414 and 417** establish the measurement, assignment, and allocation to contracts of cost of money; however, FAR 31.205-10(b)(3) makes the amount unallowable on any contract where it was not proposed.

What Does This Mean If You Have No CAS Covered Contracts?

- No requirement to file a disclosure statement with the Government
- No 60-day requirement to notify the government when you make changes to your cost accounting structure
- No requirement to pay the government back if changes to cost accounting structure shifts cost on contract types
- No CAS specific audits by DCAA

What Does Your First CAS Covered Contract Bring With It?

If Modified CAS – nothing because FAR 31.201 – 31.203 already has the (CAS 401, 402, 405, and 406) requirements.

A few more Cost Accounting Standards for Full CAS:

- 403 Allocation of home office expenses
- 407 Use of standard costs for direct material and direct labor
- 408 Accounting for costs of compensated personal absence
- 409 Depreciation of tangible capital assets
- 410 Allocation of G&A
- 411 Accounting for Acquisition cost of material
- 418 Allocation of direct and indirect costs

Requirement to: ***This is the real Impact***

- Notify the Government 60 days before you change an accounting practice
- Pay the Government for any increased cost, plus interest, due to the change (which includes if the change reduced costs related to an already awarded fixed price contract)
- File a Disclosure Statement

When Should a Company Prepare a Disclosure Statement?



- Sooner rather than later
- Outgrowing small business status is on the horizon
- Commercial company (large business) that starts bidding on negotiated contracts

Best practice is to have a draft disclosure statement

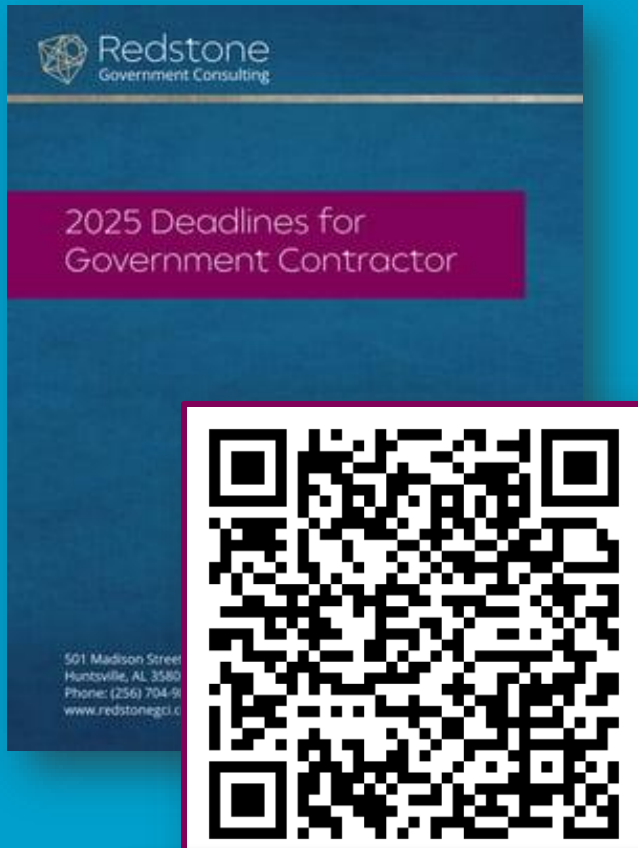
Questions and Discussion



2025 Critical Deadlines for Government Contractors

This guide provides you with all of the essential information and dates you need to know, including:

- Important deadlines for your internal departments
 - Accounting,
 - Human Resources,
 - Contracts & Subcontracts, and
 - Government Compliance
- Contract performance and delivery deadlines
- Deadlines for reporting and compliance requirements
- Deadlines for audits and reviews





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