The Federal Accounting Standards Advisory Board

Overview of SFFAS 4, Results of Agency Questionnaires, Next Steps

Managerial Cost Accounting:
Requirements, Uses, and Best Practices

June 15, 2010

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Disclaimer

Views expressed are those of the speaker. Official positions of the FASAB are determined only after extensive due process and deliberations.

Overview

- Requirements

- Results of Research

- Observations / Next Steps

Requirements

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Federal Accounting Standards Advisory Board

Managerial Cost Accounting Concepts and Standards for the Federal Government

Statement of Recommended Accounting Standards
Number 4

June 1995

Official Source of FASAB GAAP

Pronouncements as Amended

- Managerial Cost Accounting Resources
- News Releases
- Meetings
- Active Projects
- Archived Projects
- Exposure Drafts And Documents for Comment
- Strategic Directions
- Agency Financial and Performance Reports
- Reports and Documents
- FASAB News
- FASAB E-Mail Service
- Pronouncements as Amended
- Implementation Guide to Statement of Financing in SFFAS 7: Detailed Information on the Statement of Financing (2002) (PDF)
- Implementation Guide Accounting for Revenue and Other Financing Sources(1996)
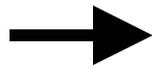
Pronouncements as Amended as of June 30, 2009 (16.7 MB)

Individual statements issued since June 30, 2008 and not included in the above volume:

- SFFAS 34 - The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board (128 KB)
- SFFAS 35 - Estimating the Historical Cost of General Property, Plant, and Equipment -- Amending Statements of Federal Financial Accounting Standards 6 and 23 (264 KB PDF)
- SFFAS 36 - Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government (392 KB PDF)
- Technical Bulletin 2009-1, Deferral of the Effective Date of Technical Bulletin 2006-1, Recognition and Measurement of Asbestos-Related Cleanup Costs (153 KB PDF)
- SFFAS 37 - Social Insurance: Additional Requirements for Management's Discussion and Analysis and Basic Financial Statements (279 KB PDF)
- SFFAS 38 - Accounting for Federal Oil and Gas Resources (287 KB PDF)
- Technical Release 10 - Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment (362 KB PDF)
- Technical Release 11- Implementation Guidance on Cleanup Costs Associated with Equipment (526 KB PDF)

Archived June 30, 2008

Purpose of the Pronouncements as Amended

The Original Pronouncements compiles and codifies the documents produced by the FASAB and incorporates amendments in each pronouncement. It is designed to meet the needs of users for an authoritative reference to concepts, standards, interpretations, technical bulletins, technical releases, and other issuances. It contains extensive cross-referencing and indexing

FASAB Cost Accounting-Related Pronouncements

Pronouncement	Title	Year Issued	Year Effective
SFFAS 4	*Managerial Cost Accounting Standards and Concepts*	1995	1998 (per SFFAS 9)
SFFAS 9	*Deferral of the Effective Date of SFFAS 4*	1997	1998
Interpretation 6	*Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS 4*	2003	2005
SFFAS 30	*Inter-Entity Cost Implementation: Amending SFFAS 4*	2005	2009
Technical Release 8	*Clarification of Standards Relating to Inter-Entity Costs*	2008	Upon issuance

SFFAS 4, as amended

- Five Standards

  - Requirement for
  - Responsibility Segments / Cost of Outputs
  - Full Cost
  - Inter-entity Costs
  - Methodology

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Requirement for

Requirement For

- Accumulate and report cost of activities
  - Cost accounting systems; or
  - Cost finding techniques
- Regular basis
- Management information purposes

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Responsibility Segments / Cost of Outputs

SFFAS 4

Responsibility Segments / Cost of Outputs

- Define and establish responsibility segments
- Measure and report costs of each segment's outputs
- Calculate cost per unit of each output

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Total Costs (Resources)

Responsibility Segment

A B C D

Responsibility Segment

A B C D

Responsibility Segment

A B C D
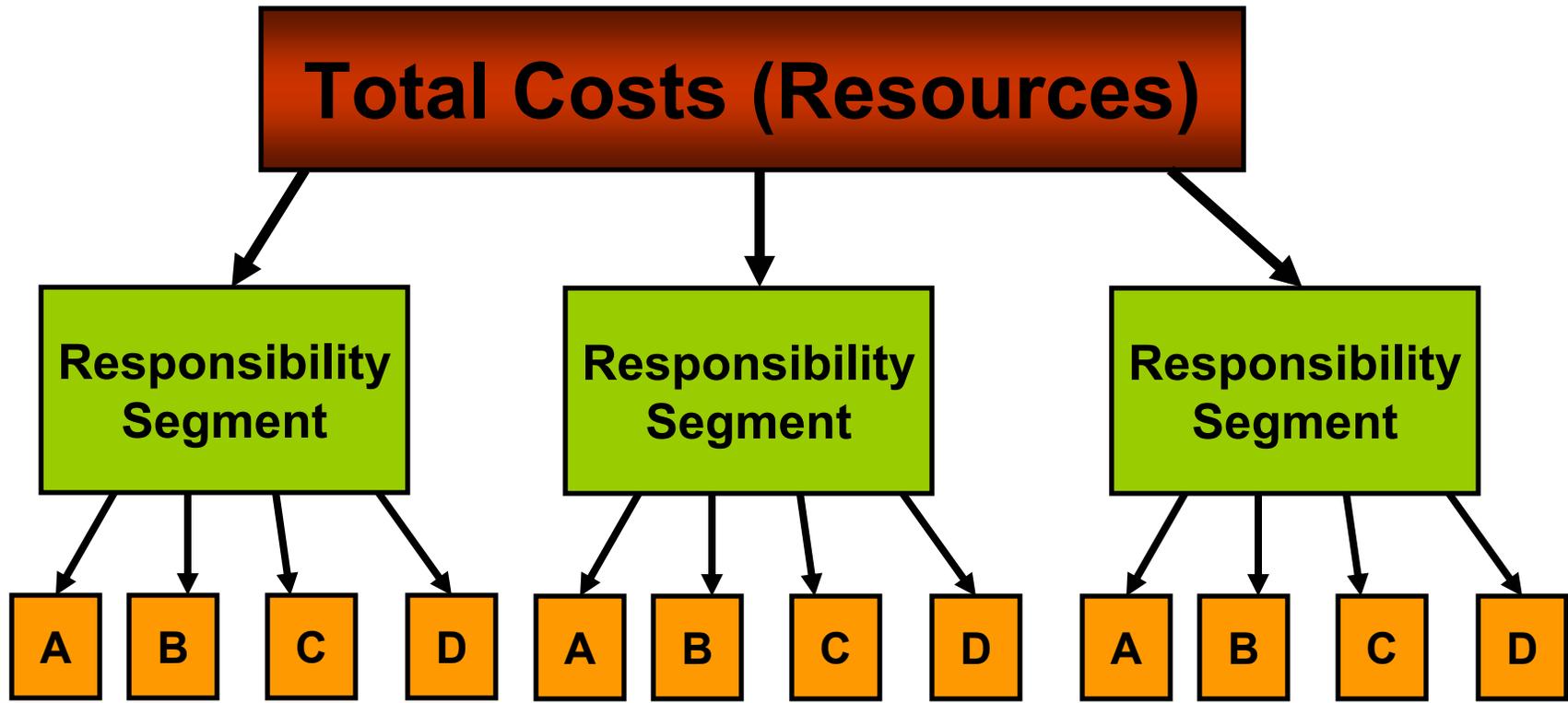
Then, calculate cost per output unit for each type of output:
e.g., Total dollar cost of output A ÷ number of units of output A =
per unit cost of output A

"X" = Outputs

Toy Manufacturing Example

$1,000,000 Total Costs

Doll Factory $500,000

Stuffed Animal Factory $250,000

Action Figure Factory $250,000

A 100k	**B** 75k	**C** 275k	**D** 50k

A 30k	**B** 110k	**C** 75k	**D** 35k

A 100k	**B** 75k	**C** 25k	**D** 50k
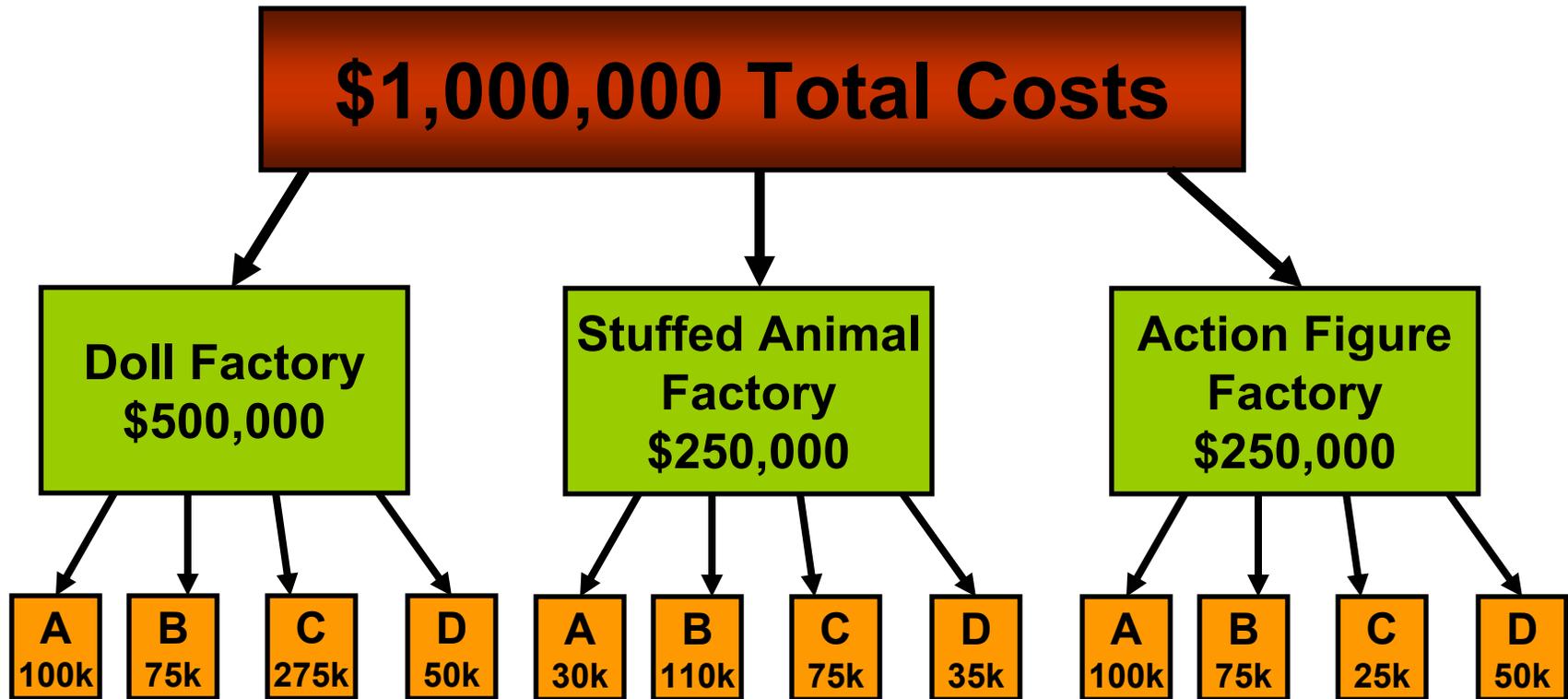
Then, calculate cost per output unit for each type of output:
e.g., Cost of Doll A = $100,000 ÷ 36,360 dolls = $2.75 per doll
Cost of Doll B = $75,000 ÷ 25,000 = $3.00 per doll

"X" = Outputs

Full Costs

SFFAS 4

Full Costs

- Report in general purpose financial reports
- Include all costs
  - Direct and indirect
  - Resources consumed by entity
  - Identifiable supporting services provided by others (within or outside entity)
- Some costs may be unassigned to programs

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Inter-entity Costs

- Elaborates on meaning of full cost
- Products / services provided by other entities
- Provider has responsibility to disclose full costs to recipient entity
- Recipient recognizes offsetting imputed financing sources / costs

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Inter-entity Costs, contd.

- Ideally, all inter-entity costs recognized
- In reality, limited by following considerations:
  - Materiality
    - Significance to the entity
    - Directness of relationship
    - Indentifiability
  - Broad and general support

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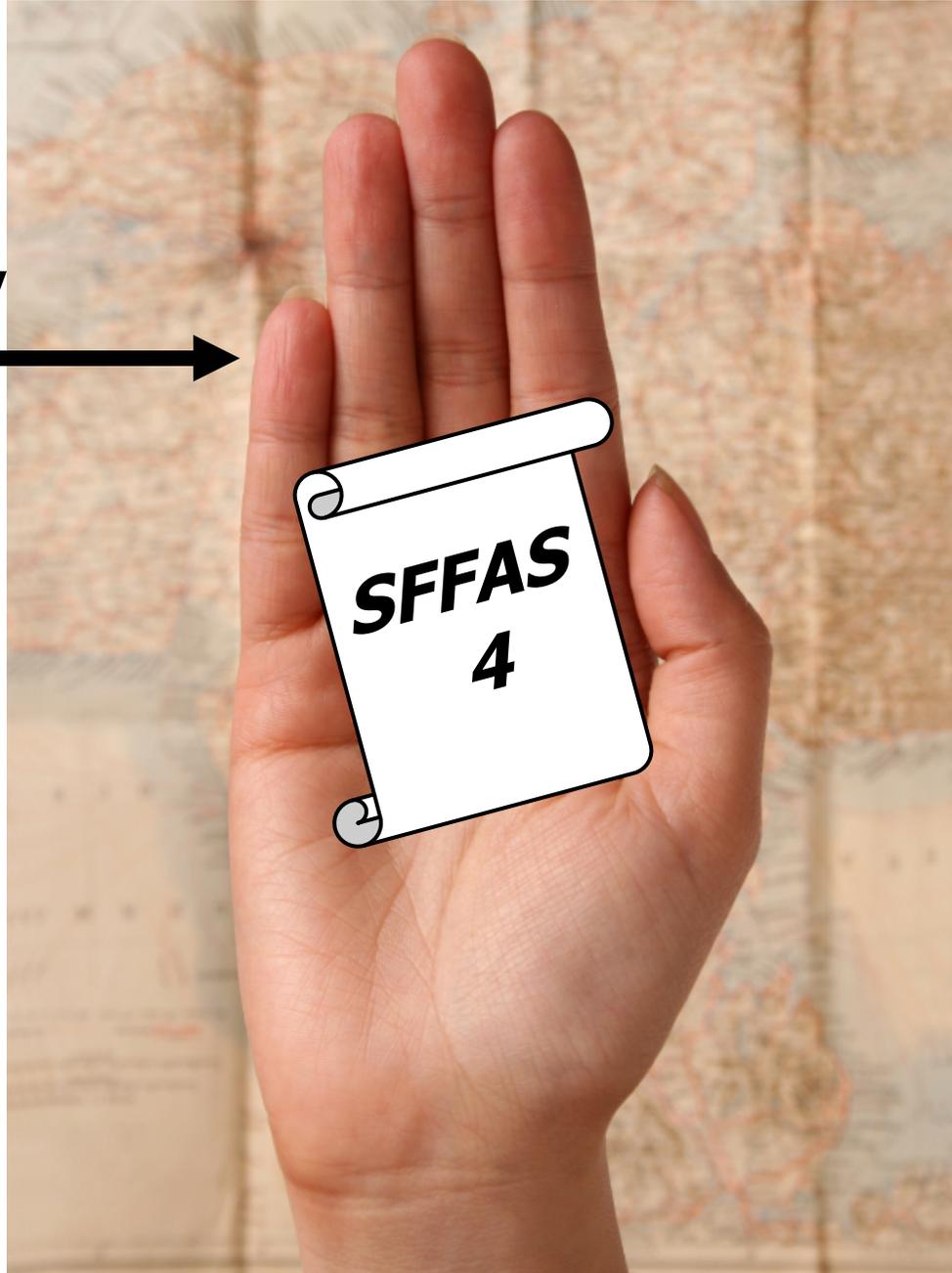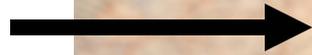
Methodology

Costing Methodology

- Costs accumulated by type of resource
- Full costs of resources assigned to outputs
  - Direct tracing
  - Cause and effect
  - Allocation
- Does not require particular system or methodology
- Does require consistency

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Results of Research

Reporting Model Project
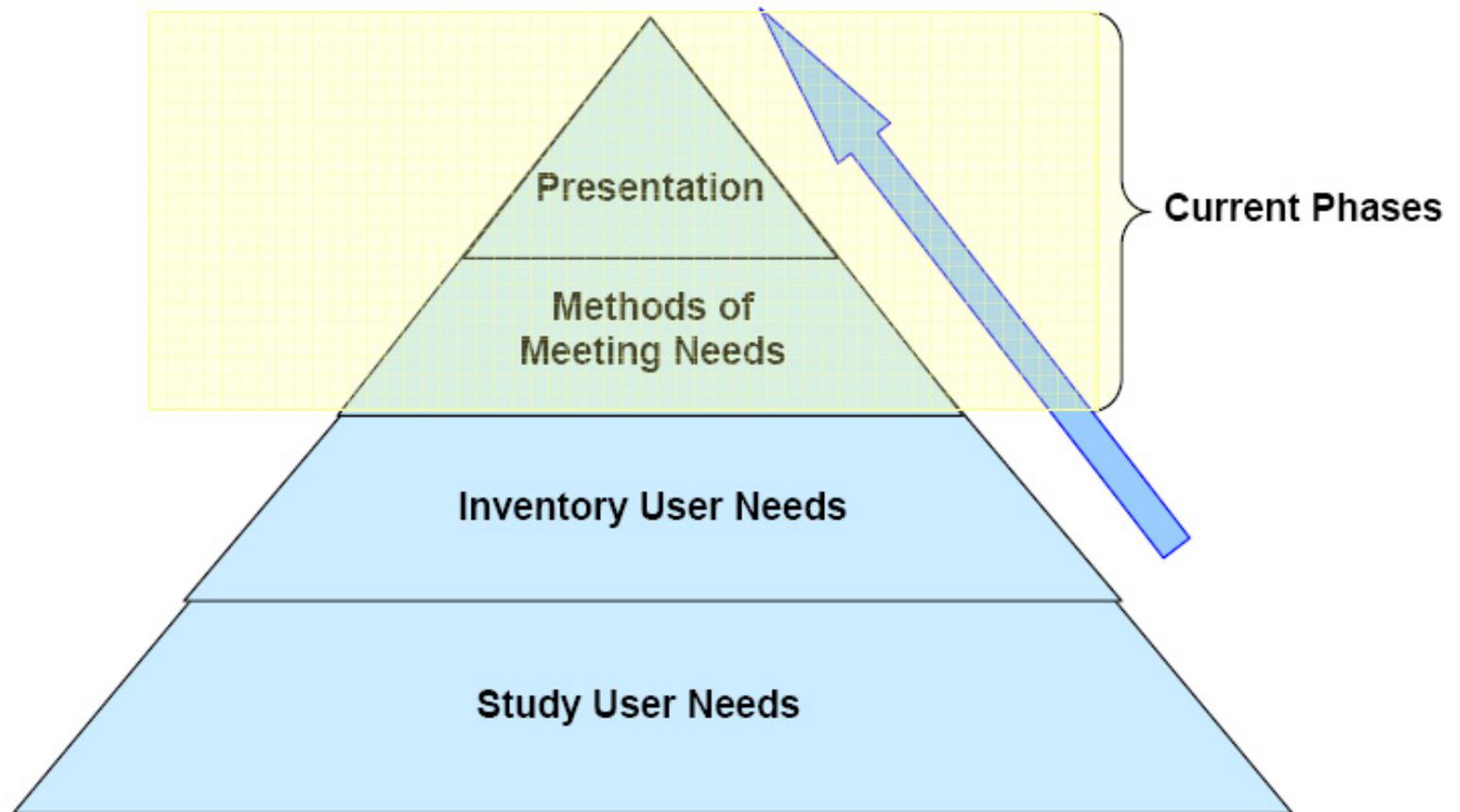
Cost Accounting Project Objectives

- Evaluate the effectiveness of existing managerial cost accounting standards
- Survey federal agencies
  - Learn more about practices
  - Identify best practices
- Focus on linking cost to performance and efforts to encourage that linkage

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Research to Date

- Review of Literature
- 2008 CFO Roundtable
- Pre-Survey
- Questionnaire
- Interviews
- Agency Financial Reports

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Agency Culture and Attitudes

General Background

Implemen-tation Practices

Questionnaire

Use

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–Teams / Committees
–Pilot Tests
–Communication
–Pre-implementation period
–Auditor Involvement

Methodology/ Assignment

System

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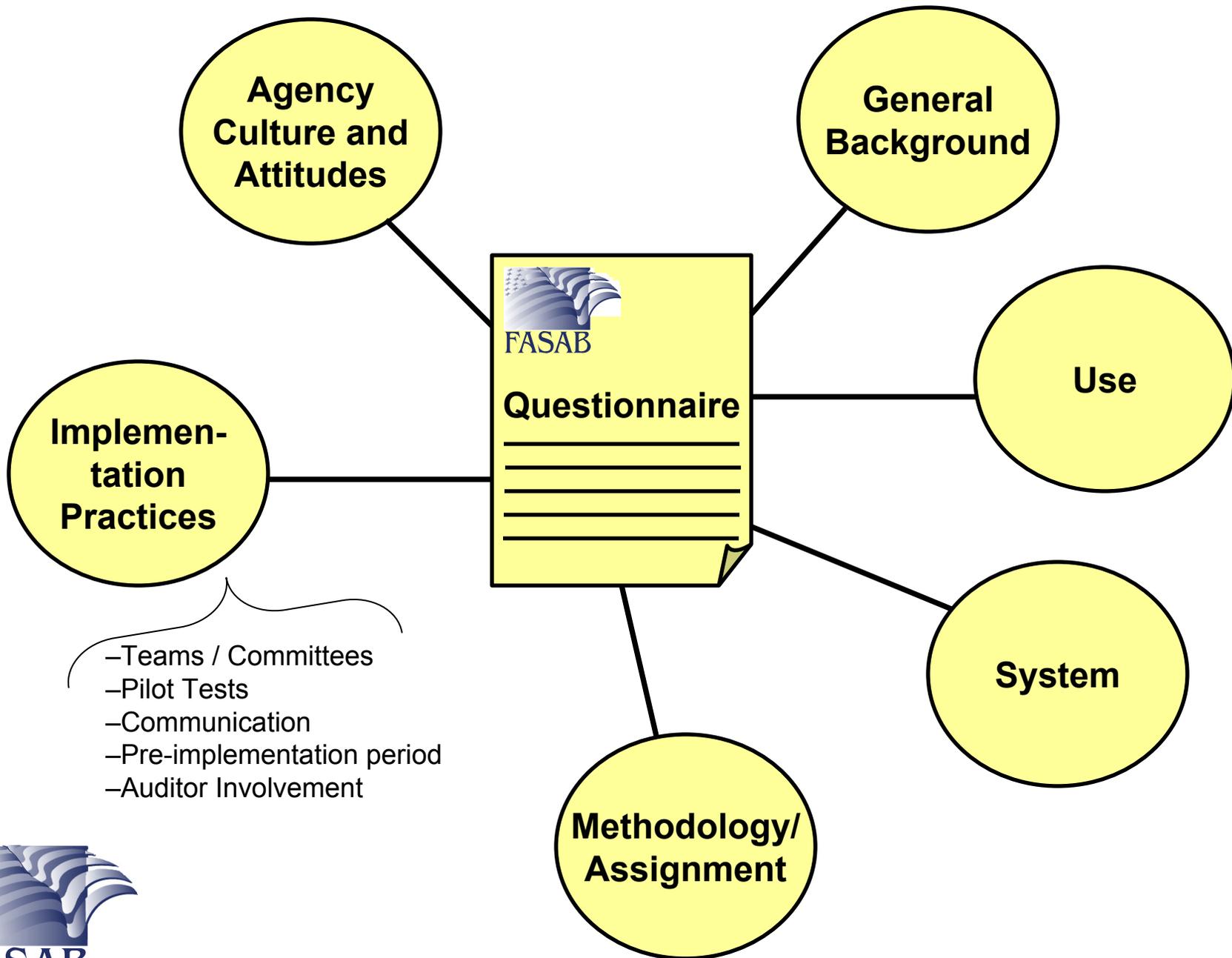
Questionnaire Results – General Background

- 18 responses
- 70% said cost accounting implemented for entire agency or division
- 78% had not received audit finding
- 47% plan to do more cost accounting
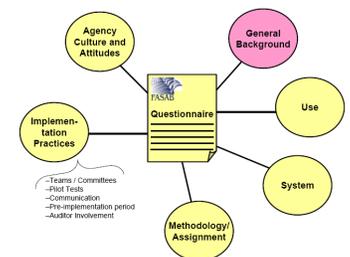
Questionnaire Results – Use of Managerial Cost Information

- Primary Uses of Cost Information:
  - Determining costs of services and user fees (5)
  - Financial reporting (4)
  - Budgeting (3)
  - Workload analysis (2)
  - Performance reporting (2)
  - Management information (2)
  - Reporting on working capital fund (1)
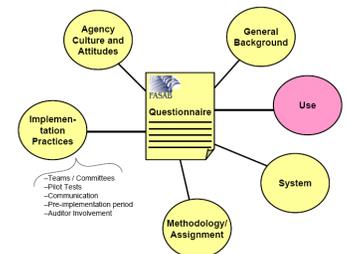
Questionnaire Results – Use of Managerial Cost Information (contd.)

- Other uses of cost information for decision-making:
  - Organizational realignment decisions
  - Outsourcing decisions
  - Negotiating contracts
  - Project management (better transparency of costs)
  - Cost recovery
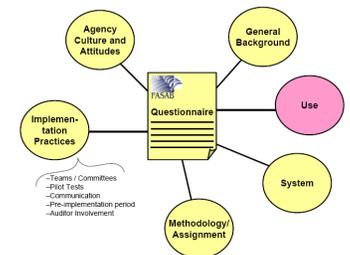
Questionnaire Results – Use of Managerial Cost Information (contd.)

- • Successes in using MCA:
  - – Allows for more accurate cost recovery and analysis
  - – Able to support budget requests and cost benefit analyses
  - – Able to establish cost targets
  - – Customer billings are more defensible
  - – Increasing transparency of construction costs
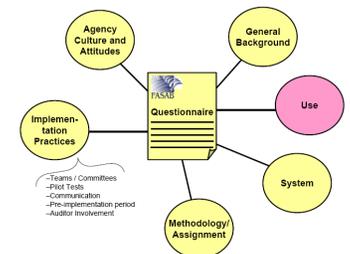
Questionnaire Results – Use of Managerial Cost Information (contd.)

- Challenges in using MCA:
  - Training and education
  - Standardization of data across responsibility segments
  - Getting managers to actually use the data for decision-making
  - Inability to influence budgets / resource allocation
  - Internal controls over data sources
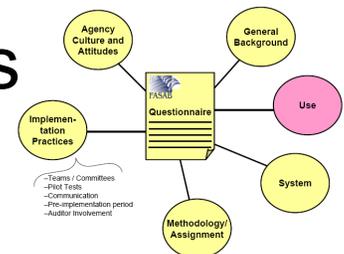
Questionnaire Results – Use of Managerial Cost Information (contd.)

- Lessons Learned in using MCA:
    - Train and educate all involved
    - Include stakeholders in decision-making processes
    - Ensure executive-level buy-in
    - Start with a pilot before taking on the whole organization
    - Develop requirements / user needs up front
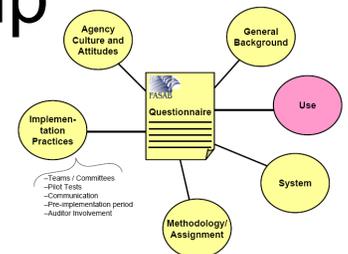
Questionnaire Results – Use of Managerial Cost Information (contd.)

- Comparing costs within and across agencies:
  - Benefits and Uses
    - Compare cost changes over time and identify their causes
    - Compare costs of similar activities and find causes for cost differences
    - Identify efficiencies and determine best practices
    - Increase competition, incentives to find cost savings
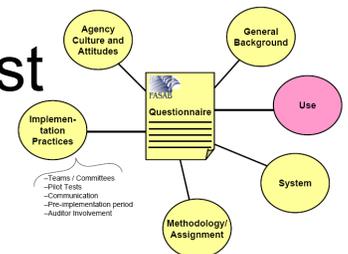
Questionnaire Results – Use of Managerial Cost Information (contd.)

- Comparing costs within and across agencies:
  - Barriers or obstacles
    - Lack of standardized methodology across agencies
    - Inconsistent data
    - Lack of willingness to share information or change processes
    - Differences among agencies (e.g., regulatory requirements)
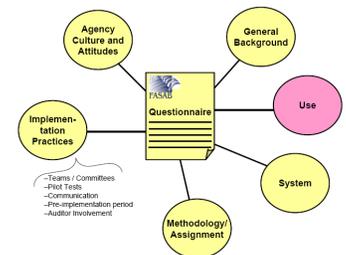
Questionnaire Results – Cost Accounting System

- 82% have automated cost accounting system
- 71% of those use Activity-Based Costing
- Nearly every respondent uses a different system
- Alternatives include Access databases and Excel spreadsheets
- 89% of respondents had not considered XBRL
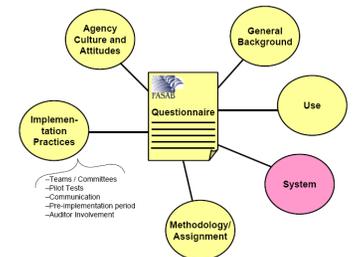
Questionnaire Results – Cost Accounting Methodology

- No consistency in defining responsibility segments
  - Strategic goals
  - Major programs
  - Products / services
  - Lines of business
  - Offices / operating units / branches / divisions
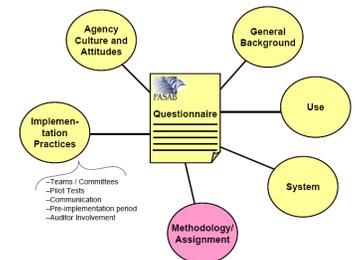
Questionnaire Results – Cost Accounting Methodology (contd.)

- No consistency in defining cost objects:
  - Projects and tasks
  - Programs
  - Products, services and customers
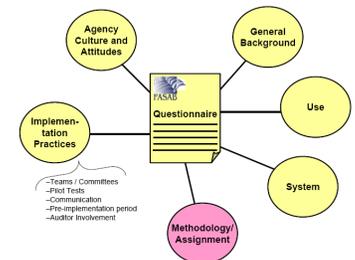
Questionnaire Results – Cost Accounting Methodology (contd.)

- 72% said they have implemented full costing

- 85% of those allocate a portion of administrative costs to mission-related programs

- 61% do not have costs unassigned to programs
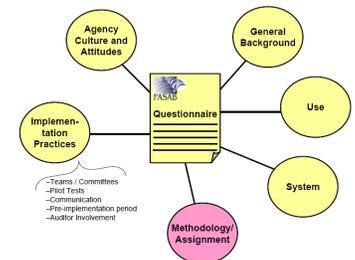
Questionnaire Results – Cost Accounting Methodology (contd.)

- 33% use direct tracing, cause and effect, and allocation

- Another 44% use direct tracing and allocation

- 82% of respondents said they use labor data reporting to assign personnel time
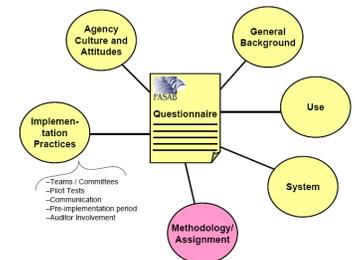
Questionnaire Results – Project Implementation Practices

- Use of MCA-Related Teams or Committees:
  - 83% during development and implementation
  - 87% for MCA-related policy decisions
  - 87% to develop details of the MCA process
  - 75% to obtain and disseminate information
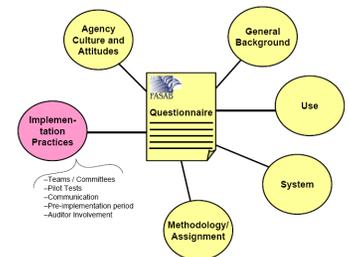
Questionnaire Results – Project Implementation Practices (contd.)

- Use of MCA-Related Teams or Committees (contd.):

  – 87% of the teams included different levels of staff

  – 69% said one person was common to all teams or committees

  – 94% included user-level staff like project managers

  – 94% had clearly defined objectives or charters
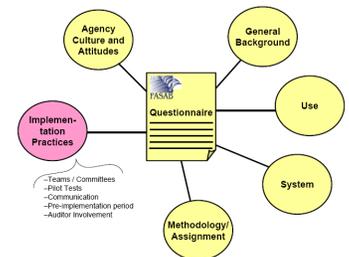
Questionnaire Results – Project Implementation Practices (contd.)

- Use of MCA-Related Teams or Committees (contd.):
    - Lessons learned or challenges
        - Varying levels of understanding of the process as a whole
        - Lack of staff resources
        - Teams should not be too large or have too many competing priorities
        - All stakeholders should be included in the process
        - Information should be disseminated as early and as often as possible
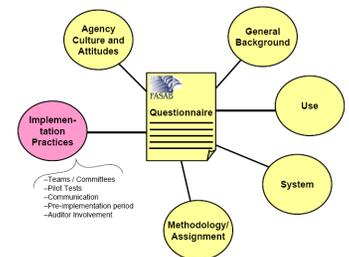
Questionnaire Results – Project Implementation Practices (contd.)

- Use of Pilot Tests:
  - 44% started with a pilot test
  - Of those, majority started by piloting the system in one business line or division
  - Majority found pilot test to be very helpful
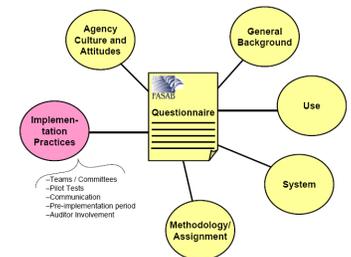
Questionnaire Results – Project Implementation Practices (contd.)

- Communication:
    - 72% had clearly defined agency guidance
    - 67% said they had frequent outreach to support the guidance
    - 89% asked for feedback to identify needs from managers
    - 83% held training sessions to educate as many people as possible
    - Training mostly provided just prior to and during implementation
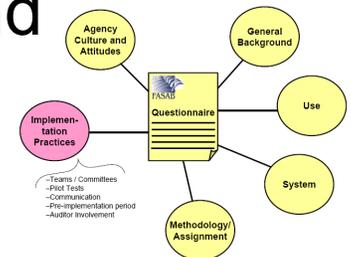
Questionnaire Results – Project Implementation Practices (contd.)

- Pre-Implementation Period:
  - 61% used pre-imp period to help encourage buy-in
  - 39% used pre-imp period for experimentation

- Auditor Involvement:
  - Only 28% said auditor involved in the development and implementation process
  - Level of involvement varied significantly
  - Early auditor involvement considered beneficial
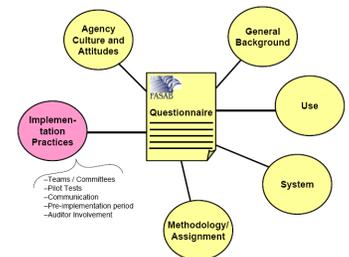
Questionnaire Results – Agency Culture and Attitudes

- 89% said management supports attempts to implement cost accounting
- 72% stated that they have an MCA "champion"
- 55% have developed an organization-wide policy
- 70% said the strategy for achieving the MCA objectives was shared with all levels of staff
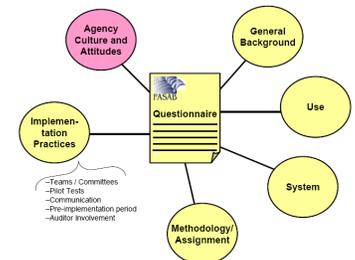
Observations / Next Steps

Preliminary Observations

- Significant variance in the nature and type of cost information that is captured, used, and reported:
  - Lack of consistency in defining responsibility segments and outputs
  - Inability to make meaningful comparisons of statements of net cost
  - Lack of reporting on output costs and per unit costs
- Lack of link between cost and performance

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Preliminary Observations (contd.)

- Lack of integration between budget and cost data

  - Budgetary data – obligations – is the primary source of data for management decision-making

  - "…the culture is based on managing by 'obligations' rather than 'expense' data."

    – Questionnaire respondent

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Preliminary Observations (contd.)

- Lack of compliance with FFMIA of 1996
  - Requires that federal financial management systems comply with federal accounting standards **at the transaction level**

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Next Steps

- Continue accepting questionnaires / conducting interviews
- FASAB board meeting June 23, 2010
- If approved, cost accounting task force
- Update reporting model user needs inventory
- Incorporate results into reporting model, if applicable

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Questions?