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
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
Managerial Cost Accounting Concepts and Standards
for the Federal Government

Statement of Recommended Accounting Standards
Number 4

June 1995
Officials Source of FASAB GAAP

www.fasab.gov

Pronouncements as Amended

Pronouncements as Amended as of June 30, 2009 (15.7 MB)

Individual statements issued since June 30, 2000 and not included in the above volume:

- SFAS 54 - The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board (128 KB)
- SFAS 55 - Estimating the Historical Cost of General Property, Plant, and Equipment - Amending Statements of Federal Financial Accounting Standards 6 and 23 (204 KB PDF)
- SFAS 56 - Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government (392 KB PDF)
- SFAS 27 - Social Insurance: Additional Requirements for Management’s Discussion and Analysis and Basic Financial Statements (279 KB PDF)
- SFAS 28 - 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, 2009

Purpose of the Pronouncements as Amended

The Original Pronouncements complies 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

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<td>SFFAS 4</td>
<td>Managerial Cost Accounting Standards and Concepts</td>
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SFFAS 4, as amended

• Five Standards
  – Requirement for
  – Responsibility Segments / Cost of Outputs
  – Full Cost
  – Inter-entity Costs
  – Methodology
Requirement for SFFAS 4
Requirement For

• Accumulate and report cost of activities
  – Cost accounting systems; or
  – Cost finding techniques
• Regular basis
• Management information purposes
Responsibility Segments / Cost of Outputs
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
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
$1,000,000 Total Costs

Doll Factory
$500,000

- A: $100k
- B: $75k
- C: $275k
- D: $50k

Stuffed Animal Factory
$250,000

- A: $30k
- B: $110k
- C: $75k
- D: $35k

Action Figure Factory
$250,000

- 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
Inter-entity Costs

SFFAS 4
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
Inter-entity Costs, contd.

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

SFFAS
4
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
Results of Research
Reporting Model Project

- Study User Needs
- Inventory User Needs
- Methods of Meeting Needs
- Presentation

Current Phases
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
Research to Date

- Review of Literature
- 2008 CFO Roundtable
- Pre-Survey
- Questionnaire
- Interviews
- Agency Financial Reports
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
• 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 (cont’d.)

• 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
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
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
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
Stay Informed

• www.fasab.gov

• FASAB listserv
  – Bi-monthly FASAB newsletter
  – Requests for comment
  – Press releases
  – Agendas
  – Invitations to serve on task forces

• Public meetings
Online Resources

www.fasab.gov

Managerial Cost Accounting Resources

Due to increased interest in FASAB cost accounting guidance, staff has assembled selected managerial cost accounting resources on this webpage. Presentation of an item on this page does not alter its standing in the GAAP hierarchy and is not intended as an endorsement of the views expressed by the authors of the resources presented.

If you wish to suggest additional resources, please e-mail FASAB staff at fasab@fasab.gov.

FASAB Resources

- SFAS 4, Managerial Cost Accounting Concepts and Standards (PDF)
- SFAS 4, Dictionary of Terms (PDF)
- Interpretation 6: Accounting for Insured Intra-departmental Costs (PDF)
- Technical Release 8, Clarification of Standards Relating to Inter Entity Costs (PDF)

Other Federal Resources

- U.S. Department of the Interior's Activity Based Cost Management
- System Requirements for Managerial Cost Accounting - February 1998
- DGAA Contract Audit Manual - Chapter 8
- Government Accountability Office Resources for the Auditing and Accountability Community
- GAO Cost Estimating and Assessment Guide

Reference Material on Cost Accounting

- GAO - Performance Based Management
- GAO Research Report on Managerial Cost Accounting
- FASAC - Evaluating and Improving Costing in Organizations
- GAO - Perspectives on Cost Accounting for Governments
- The Defense Best Practices: Appraisal and Evaluation in Central Government
- CFO Magazine Article regarding cost performance metrics

Links to Organizational Websites

- Government Performance Management
- IBM Center for the Business of Government
- Institute of Management Accountants
- KPMG Government Institute
- Performance Reporting for Government
- The Performance Institute
- RCA Institute
- Institute of Management Accountants Research Center of Excellence
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Questions?