

August 23, 2024

VIA E-MAIL: [OMBCASB@omb.eop.gov](mailto:OMBCASB@omb.eop.gov)

ATTN: Mr. John L. McClung, Manager  
Cost Accounting Standards Board (CASB)  
Office of Federal Procurement Policy  
Office of Management and Budget  
725 17<sup>th</sup> Street NW  
Washington, DC 20503

RE: Conformance of Cost Accounting Standards to US Generally Accepted Accounting Principles (GAAP) for Operating Revenue and Lease Accounting,  
Reference Case: 2021-01

Section 820 of the 2017 National Defense Authorization Act directed the Board to conform CAS to GAAP to the maximum extent practicable. The CASB has proposed two rule changes affecting five Cost Accounting Standards, which serve to conform these Standards to GAAP for Operating Revenue and Lease Accounting.

**1 Operating Revenue:** The proposed rule change:

- i. Modifies § 9904.403 to rely on GAAP for revenue,
- ii. Exempts properly disclosed changes related to this conformance effort from the contract price and adjustment requirements of § 9903, and
- iii. Removes the term “operating” in relation to revenue in § 9904.403.

COMMENT: This proposed rule change is desirable.

- a. The definition of Revenue in GAAP is consistent with the intent and prior definition of operating revenue contained in § 9904.403,
- b. The Financial Accounting Standards Board (FASB), Accounting Standards Codification 606, Revenue Recognition adoption dates for public and non-public business entities have passed and are in effect, and
- c. This would reduce administrative record keeping tracking exclusion of portions of GAAP Revenue for the Prime Contractor and Subcontractor performing contracts subject to CAS.

The Board requests specific input on whether there are any instances where an entity might not consider itself an agent, based on ASC 606-10-55-38, when performing on a GOCO contract.

**COMMENT:**

A contractor may be both an agent and a principal in a GOCO Facilities contract. This occurs when the contractor partially performs the contracted effort and has control over the goods or services until the performance obligations are satisfied. For example, the contractor may design and produce the architectural drawings for the building and arrange for the construction and outfitting of the building. The contractor would be the principal for the performance of the design and architectural drawings, and an agent for the construction and outfitting of the building. Under ASC 606-10-25, the contractor would identify the performance obligations separately and using the criteria established within ASC 606, allocate the price to the performance obligations. The Contractor would recognize the cost and fee associated with the design and architectural drawings and only the fee for the construction and outfitting of the facility.

In the above scenario, the revenue recognized by the contractor would be consistent with the intent of § 9904.403.

- a. The contractor would recognize revenue only for the portion arising from activities that constitute the contractor's ongoing major or central operations, and
- b. The contractor would recognize revenue for the fee portion arising from the work performed by the subcontractor for constructing and outfitting the building.

**2 Lease Accounting:** The proposed rule clarifies which assets should be included in the calculations of Facilities Capital Cost of Money (FCCM), specifically:

- i. Clarifying the definition of Tangible capital assets in § 9904.403, § 9904.404, § 9904.409, § 9904.414, and § 9904.417 to include assets classified as finance leases for financial accounting purposes and excludes those right-of-use assets that were formerly known as operating leases,
- ii. Clarifying the definition of Intangible capital assets in § 9904.414 to include assets classified as finance leases for financial accounting purposes and excludes those right-of-use assets that were formerly known as operating leases, and
- iii. Clarifying the Appendix A to § 9904.414 – Instructions for Form CASB CMF to exclude Leases classified as right-of-use assets for financial accounting purposes that were formerly known as operating leases.

COMMENT: This proposed rule change is desirable.

- a. The exclusion of right-of-use assets formerly known as operating leases does not change the prior values previously included in the three-factor formula for allocation of general & administrative costs, calculation of facilities capital cost of money, or the completion of the CASB CMF,
- b. Clarifying the definition of tangible and intangible assets aligns with the GAAP financial statement disclosures and simplifies classification of tangible and intangible assets, and
- c. This would reduce requirements for reconciliation and reclassification for purposes of compliance with § 9904.403, § 9904.404, § 9904.409, § 9904.414, and § 9904.417 for the Prime Contractor and Subcontractor performing contracts subject to CAS and/or FAR 31.205-10, Cost of Money.

The conformance of Cost Accounting Standards to Generally Accepted Accounting Principles for operating revenue and lease accounting as stated benefits all parties, reducing the likelihood of misapplication and noncompliance in practice.

Respectfully submitted,



Anne Marie Hicks, CPA, CGMA  
Senior Manager  
Capital Edge Consulting, LLC

[amhicks@capitaledgeconsulting.com](mailto:amhicks@capitaledgeconsulting.com)