Federal Accounting Standards Advisory Board

February 10, 2010

Memorandum

To: Members of the Board

From: Julia E. Ranagan, Assistant Director

Through: Wendy M. Payne, Executive Director

Subject: Reporting Model: Managerial Cost Accounting – Tab **G** [1]

OVERALL MEETING OBJECTIVE

The purpose of this 45-minute session on Thursday is to discuss and approve the attached questionnaire on federal managerial cost accounting and reporting so that staff may solicit feedback from the federal community on its experiences attaining the goals of SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, as amended and supplemented.

SPECIFIC MEETING OBJECTIVES

Staff would specifically like to receive the board's (1) suggested edits (additions and deletions) to the questionnaire included as Attachment 2; and, (2) approval to widely distribute the questionnaire throughout the federal community (see box on page 3).

BRIEFING MATERIAL

The following documents are attached to this transmittal memorandum:

- ❑ **Attachment 1** – Project Plan presented at December 2009 board meeting
- ❑ **Attachment 2** – FASAB Managerial Cost Accounting and Reporting Questionnaire

[1] The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

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NEXT STEPS

February 2010 Meeting

- ☑ Provide draft managerial cost accounting and reporting questionnaire for board comment.
- ❑ Receive board member feedback and incorporate into the questionnaire following the meeting.

March 2010

- ❑ Widely distribute the questionnaire on March 1 with comments requested by March 31.
- ❑ Consolidate comments as they are received.
- ❑ Follow up on individual questionnaires, as needed.
- ❑ Send a reminder for comments.
- ❑ Begin conducting interviews in lieu of completing questionnaires, as requested.
- ❑ Research cost accounting best practices and gather information on the experiences of other governments with managerial cost accounting and reporting.

April 2010

- ❑ Complete interviews that are requested in lieu of completing the questionnaires.
- ❑ Finalize consolidation and staff analysis of questionnaires and interviews.
- ❑ Provide results of research, consolidated responses, and staff analysis to members for discussion at the April 28 – 29 board meeting.

BACKGROUND

SFFAS 7, *Accounting for Revenue and Other Financing Sources*, addressed presentation of gross and net cost on the statement of net cost and SFFAS 4 established one concept and five standards on managerial cost accounting. These standards influence not only presentation of information on the statement of net cost but also the development of cost accounting systems internally. To date, the board has not undertaken a comprehensive review of the outcome resulting from these general standards. In late 2008, the Board considered undertaking a project entitled “linking cost to performance.”

At the December 2009 board meeting, the board approved staff undertaking a review of managerial cost accounting and reporting standards as part of the existing reporting model project.

SUMMARY OF QUESTIONNAIRE

In the draft Managerial Cost Accounting and Reporting Questionnaire (questionnaire) included as attachment 2, staff has attempted to develop a comprehensive tool to collect information to document federal entities’ experiences attaining the goals of SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, as amended and supplemented.

The questionnaire includes the following six sections:

- *General Background* – general information on agency experience, audit findings, and future plans;
- *Use of Managerial Cost Information* – uses of cost information, including for performance reporting, management evaluations, user needs, and cost comparisons among agencies;
- *Cost Accounting System* – type of system implemented, if any, and use of XBRL;
- *Cost Allocation* – extent of full costing, identification of inter-entity costs, cost allocation methods, and collection of labor data reporting information;
- *Project Implementation Practices* – use of teams or committees, pilot tests, and interim periods; communication; and, auditor involvement; and,
- *Agency Culture, Management Attitudes, Communication, and Core Competencies* – tone at the top, senior management support, organizational policies, communication, and staff support.

The questionnaire also asks if respondents have any other general comments or would be willing to volunteer for field testing if the board decides to propose additional cost accounting and reporting standards. In consideration of respondents' preferences, the transmittal memo to the questionnaire provides for respondents to request an interview with staff in lieu of completing the questionnaire.

1. Do you have any edits or suggestions (additions or deletions) to the draft questionnaire at Attachment 2?

2. Do you approve the questionnaire at Attachment 2 for wide distribution to the federal community?

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If you require additional information or wish to suggest another alternative not considered in the staff paper, please contact me as soon as possible. Ideally, I would be able to respond to your request for information or develop more fully the alternative you wish considered in advance of the meeting. If you have any questions or comments prior to the meeting, please contact me by telephone at 202.512.7377 or by e-mail at ranaganj@fasab.gov.

Attachments 1 and 2

Managerial Cost Accounting and Reporting Project Plan
(last updated December 2009)

I. Background - Obtain an understanding of current practices utilizing existing research where available.

   a. Survey agencies to determine the costing methods (e.g., ABC, Total Ownership Cost) used. Note that some agencies may use multiple methods. For instance, the DoD may use Total Ownership Costs for acquisitions but ABC for other purposes.

   b. Determine how the costing information is used and its frequency.

   c. Determine the types of decisions taken as a result of using costing information.

   d. Inquire of management and determine views of overall success. In particular, determine if they believe that benefits derived measure up to efforts invested.

   e. For those considered successful, inquire of management views on critical success factors.

   f. Review studies on cost accounting usage in the federal government.

   g. Determine experiences of other governments in using managerial cost information

   h. Determine benefits observed and how challenges were overcome.

   Estimated completion April 2010

II. Determine information needed

   a. As part of reporting model inventory of user needs

      i. Identify external and quasi-external user decisions requiring cost metrics

      ii. Determine metrics to address decisions

   b. Develop task force to evaluate information needed

   Estimated completion August 2010

III. Incorporate results into reporting model

   Estimated completion October 2010