

**FINANCIAL MANAGEMENT REQUIREMENTS**

**VOLUME 7**

**COST ACCRUALS**

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**OFFICE OF THE CHIEF FINANCIAL OFFICER**

**CHAPTER 1. COST ACCRUALS**

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**CHAPTER 1. COST ACCRUALS****1.1 OVERVIEW.**

- 1.1.1 NASA's accounting records are maintained on an accrual basis, i.e., revenues are recorded in the accounts when earned and expenses are recorded when incurred, even though disbursements and collections are not recorded until funds are paid and collected. Use of the accrual method is mandated by 31 USC 3512(e).
- 1.1.2 Use of accrual accounting enables NASA's management to more accurately measure the Agency's performance and financial position using the financial data available.

**1.2 POLICY.**

- 1.2.1 Every practicable effort shall be made to ensure cost accruals are as accurate as possible. Generally accepted accounting methods shall be used in developing accruals. Accruals shall be recorded in the appropriate accounts as of the end of each month. Estimated cost recorded through the Contractor Cost Report (CCR) Extension to the financial system shall be reversed on the first day of the following month. Simplified methods for monthly accruals such as estimates based on prior month reporting may be used when demonstrated to be reasonably reliable.
- 1.2.2 NASA personnel shall manage costs within obligated levels and not permit costs to exceed existing obligated amounts. This requirement applies to all types of obligations including contracts. Cost shall be accrued in accordance with generally accepted accounting principles.
- 1.2.3 Personnel Compensation, Personnel Benefits, and Related Payments.
  - A. Gross Compensation. Gross compensation, including overtime, shall be accrued through the end of each month. A labor distribution system shall be used to distribute actual charges to cost accounts and to credit accounts payable. A month-end record cutoff shall be implemented if practicable, such as where daily time records are kept and the only additional effort required is an interim cutoff and report. If a record cutoff is not feasible, cost must be accrued through the end of the month using the most reliable estimating techniques available. Labor cost accruals shall be distributed to the appropriate benefiting project(s) and functions. Merit bonuses and awards shall be accrued in the month in which the Center Financial Management Office is notified of the liability for payment. The cost of unused annual leave, compensatory time, and credit hours earned shall be accrued at fiscal yearend, based upon the difference between the leave liabilities at the end of the prior and current fiscal years.

- B. Benefits. Benefits, including NASA contributions to Social Security, retirement funds, the Thrift Savings Plan, and group health and life insurance programs shall be accrued in the same manner as gross compensation. Other benefits, such as relocation-related real estate costs and personnel allowances, shall be accrued in the month in which notification of liability for payment is received.
- C. Reemployed Annuitants And Severance Pay. Payments to the Office of Personnel Management for reemployed annuitants and severance pay for former employees shall be accrued in the same manner as gross compensation.
- D. Recruitment and relocation bonuses and retention allowances. Recruitment and relocation bonuses and retention allowances shall be accrued in the month in which the Center Financial Management Office is notified of the requirement for payment.

#### 1.2.4 Travel and Transportation of Persons.

- A. The accrual for transportation, per diem, and miscellaneous costs will be based upon the estimated cost of the trip and accrued in their entirety in the month travel commences. Accrued costs shall be adjusted to actuals when invoices and travel vouchers are paid. At fiscal yearend, recorded per diem and miscellaneous costs accruals shall be reduced by the amount of travel not billed during the fiscal year.
- B. Travel costs not documented by travel orders, such as contracts for the rental of passenger-carrying vehicles not associated with TDY travel will be based upon contractor billings, or estimates.
- C. Permanent change of station travel and transportation costs shall be accrued when incurred.

#### 1.2.5 Transportation of Things. Costs evidenced by copies of Government Bills of Lading (GBL) issued to carriers shall be accrued when the certified invoice is received, concurrent with the obligation. At the end of the fiscal year, costs not yet documented by a GBL shall be accrued based upon billings received or other reliable notices that transportation has been accomplished.

#### 1.2.6 Rents, Communications, and Utilities.

- A. Leases and Rents. Accruals for leases and rents shall be based upon lease or rental agreements. In the absence of language to the contrary, 1/12 of the total annual rent shall be accrued each month.
- B. Communications and Utility Service. Accruals for communications and utility service costs shall be based upon billings received. If billings are not available or usage fluctuates significantly, meter readings or estimates of usage shall be obtained and priced according to the appropriate schedule of charges.

- 1.2.7 Other Contractual Services. Costs of contracted services shall be accrued as of the end of the month during which the services are performed. If invoices covering the services have not been received or approved, the accrual will be estimated, based upon the known level of activity, previous billings, or the estimates of cognizant NASA personnel.
- 1.2.8 Supplies and Materials.
- A. Accruals shall be based upon invoice prices, when available or receiving reports using purchase order prices.
  - B. Direct project or program support purchases for which the end use classification is predetermined shall be accrued to the appropriate end use classifications in the month the items are received.
  - C. Stores and standby stock shall be accrued initially against the applicable inventory cost object.
  - D. All invoices supported by receiving reports and all receiving reports will be accrued.
- 1.2.9 Grants and Cooperative Agreements. The Grant and Cooperative Agreement accrual is calculated monthly, as part of NASA's internal monthly financial reporting process as well as quarterly, and annually, as part of NASA's external financial reporting process. The calculation is performed using data feeds from NASA's core accounting system. The data used to calculate the accrual is based upon historical Grant and Cooperative Agreement Cycle obligations, cash draw downs, and expenditures reported on the Federal Cash Transactions Report, SF 272, through the last day of the current financial reporting period. The Financial Management Directorate (FMD), within the Office of the Agency Chief Financial Officer, prepares, calculates, validates, documents, and posts the Grant and Cooperative Agreement accrual(s) in the financial records on a monthly basis. FMD enters a reversal of the accrual in the subsequent month (accounting period), after completion of the reporting cycle.
- 1.2.10 Contracts and Purchase Orders.
- A. Accruals for Cost Type Contracts. Under cost-type contracts, the contractor performs in accordance with instructions and specifications prior to delivery and Government acceptance of the product. In such cases, the accrual takes place as the work is performed, since constructive acceptance of the end product occurs during each accounting period as the contractor earns a portion of the contract price. The same concept applies to prime contractor accruals of subcontractor costs.
    - 1. Contracts with NASA Contractor Cost Reporting.

- a. When submittal is contractually required, contractor cost reports (usually NF 533M (monthly) and NF 533Q (quarterly) reports) will be the basis for the cost accrual. (See the current versions of NPD 9501.1, "NASA Contractor Financial Management Reporting System," and NPR 9501.2\_, "NASA Contractor Financial Management Reporting," for detailed information on NF 533 M and Q reporting.) The monthly NF 533M report is due ten (10) work days after the close of the contractor's accounting period or as negotiated. No due dates shall be later than the date by which the Center DCFO (F) requires the report for entering accrued cost data into the Contractor Cost Report (CCR) Extension so the accruals may be posted to the accounting system by the end of the month. NASA Centers should encourage contractors to use the electronic NF 533 submission process.
- b. The NF 533 reports are not normally received in time to permit recording of the contractors' actual costs for the current month. When they are not, the cost accrual shall be based on the contractor's estimate for the current month.
- c. Contractors' accounting periods commonly differ from the calendar month basis used for NASA accounting. Monthly cost accruals, however, need not include an estimate for the cost to be incurred during the period from the end of the contractor's accounting period to the end of the month, except at the end of each quarter and the end of the fiscal year.
- d. If monthly analysis of the accuracy of a contractor's estimates indicates they are usually significantly inaccurate, appropriate corrective actions shall be promptly taken to ensure future estimates are reasonably accurate. (See Section 2.2.8.A.1.e.(1) below for guidance on determining reasonably accurate.) In the interim, reported estimates may be increased or decreased to improve the accuracy of NASA's accruals. If, for a given month, there is reason to believe the contractor's estimate will be significantly inaccurate, that estimate shall be increased or decreased to improve the accuracy of the accrual for the month. Any such adjustments, whether for an individual month or a period of months, are exceptions and must be explained to the DCFO(F)'s satisfaction and documented in the CCR Extension. If the explanation cannot be fully recorded on the Cost Entry Sheet line, the Center OCFO must maintain documentation of the complete explanation. The CCR Administrator will review the explanation prior to acceptance of the accrual. If it is necessary to make adjustments to a contractor's estimates for a number of months while corrective actions are implemented to improve the accuracy of the estimates, the effect of such adjustments should be analyzed each month to ensure they are resulting in more accurate accruals. Contractor's actual costs shown on NF 533 reports shall not be adjusted.

e. Monitoring NF 533 Timeliness, Contractor Estimates and CCR Accruals.

- (1) Timeliness of receipt of the NF 533 reports and the accuracy of accruals shall be monitored each month. The CCR Extension provides Analysis of Accrued Cost, CCR Timeliness, and CCR Adjustment Explanation Reports to assess the timeliness and accuracy of Center accruals and contractor estimates. CCR Analysts shall review Analysis of Accrued Cost Reports each month to assess the accuracy of the accruals and document explanations for consistently excessive variances. Variances shown in the Report measure accuracy of the contractor estimates and the effect of any CCR Analyst adjustments to those estimates. CCR Administrators shall review Analysis of Accrued Cost Reports each month for those contracts which account for the majority (at least 85%) of the Center's total monthly cost accrued on contracts with contractor cost reports. Where consistently excessive variances of +/- 10% occur, CCR Administrators shall request and review explanations of causes and corrective actions taken to improve the accuracy of contractors' accruals. The variances measure the accuracy of contractor estimates and the effect of any CCR Analyst adjustments to those estimates. Performance shall be tracked against established goals. Center DCFO(F)s shall regularly review these metrics, along with data assessing timeliness of 533 report submission, with Center CFOs.
- (2) The DCFO (F) shall notify the contracting officer when contractors' NF 533 reports are frequently late or not received or the estimates reported show consistent, significant variances to subsequently reported actuals, so the contracting officer may pursue corrective action.
- (3) NF 533 reports should be structured to facilitate accrual accounting in accordance with NASA's prescribed coding structure, in categories that directly relate to the proper funding appropriations. Reporting structures should also be designed to provide cost data in the program/functional management classifications by which NASA managers relate in-house activity. The current versions of NPD 9501.1, "NASA Contractor Financial Management Reporting System," and NPR 9501.2, "NASA Contractor Financial Management Reporting," provide requirements and guidance regarding development of NF 533 reporting structures. Where a direct correlation between reporting categories and the prescribed coding structure is not feasible, the CCR provides cost allocation methods for the distribution of cost within reporting categories. The distribution methodology should reflect work being performed by the contractor and ensure matching of

costs to the proper funding appropriation. The DCFO (F) shall periodically review allocations made to ensure conformance with Agency costing policy and the approved contract methodology.

- f. Centers are required to use the CCR Extension within Core Finance for processing NF 533 contracts. The CCR will serve as the basis of record for the accrual of contractor costs.
  - (1) Termination liability. If reported by a contractor, termination liability represents the contractor's estimate of costs incident to stopping work on the contract, in the event of termination. Since these are not costs incurred to date, they shall not be accrued.
  - (2) Discounts. The effects on accrued cost of discounts taken on contractors invoices are handled internally in the accounting system through SGL postings.
  - (3) Award and Incentive Fees. Fees shall be accrued as earned and reported on NF 533 reports or billed by contractors. In the case of award fees, only the base fee shall be accrued each month, and if historical evidence or contract provisions exist to support accrual of an estimated portion of the award fee that portion shall also be accrued. Incentive fees shall be accrued when earned in accordance with the incentive fee provisions in the contract. Any accrual adjustments for fees shall be explained in the CCR Extension to provide an audit trail from the NF 533 report to the amount accrued in the accounting system.

## 2. Contracts Without NF 533 Reporting.

- a. The financial system provides for straight-line or miscellaneous accruals for contracts without NF 533 contractor cost reporting. Costs will be accrued through Straight-line Extension where appropriate based upon the nature of the contract. Otherwise, they shall be costed on a manual basis as a miscellaneous cost accrual. Centers shall review the accrued cost recorded using the Straight-Line Extension prior to year end closing to confirm that the period of performance (POP) has not been revised and to ensure adequate costs have been recorded.
- b. Miscellaneous cost accruals shall be based upon the most appropriate, reliable data available, such as recent statements of costs, contractor billings, or other reasonable projections.
- c. When the contract provides for advance payments through the Department of Health and Human Services (HHS) Payment Management System, cost accruals will be automatically

generated based upon the recipient's drawdowns. For HHS contracts where a contractor cost report is received, the cost shall be recorded based upon the cost report.

B. Accruals for Fixed-Price Contracts and Purchase Orders.

1. Contracts and Purchase Orders Requiring Specific Performance.

Accruals for fixed-price contracts and purchase orders requiring performance in accordance with specific contractual instructions or specifications, as opposed to goods available for sale to the general public, shall be based upon the constructive receipts concept discussed in section A. above.

2. Contracts and Purchase Orders for "Off-the-Shelf" Items. Accruals for fixed-price orders for products which the contractor has available for sale to others will be made when the Government receives and takes title to the goods, including instances where the contractor delivers the goods to a carrier acting on the Government's behalf. Accruals shall be based upon receiving reports, invoices, or similar documents. A percentage of the total contract value may be used for partial deliveries if documentation is not available.

3. Purchase Orders with Other Government Agencies. Cost accruals for purchase orders with other Government agencies shall be calculated using the most accurate method considering the type of order.

- a. Preferably through the CCR Extension based on NF 533 reports. Where possible, contractor cost reports shall be obtained from other Government agencies' prime contractors performing NASA work.
- b. When NF 533 reporting is not appropriate, the Straight-Line Extension should be used for orders when the delivery of services will occur at a steady rate over a specific period of performance.
- c. When neither of the preceding methods is appropriate, the accrual shall be recorded as a miscellaneous entry. Monthly accruals will be recorded through manual Service Entry Sheets and shall be confirmed by cognizant NASA personnel. Examples of data sources include:
  - (1) NASA Defense Purchase Requests, (NASA Form 523), receiving reports, and cost estimates obtained from the Government agency involved.
  - (2) Estimates of construction work in place obtained from the Department of the Army Corps of Engineers, or other Government agency. Cost curves may be used to evaluate estimates.

(3) Purchase order terms and prior billings when incurred cost estimates cannot be obtained from the performing Government agency.

C. Procurement Purchase Cards. Typically cost is recorded at the time the bankcard statement is reconciled in P-Card and posted for disbursement. An accrual shall be recorded at the end of each quarter and at year end to account for any un-reconciled bankcard statements received at the end of a quarter. The accrual shall be reversed in the subsequent month (accounting period), after completion of the reporting cycle.

- 1.2.11 Minor Items. Minor items of a petty cash nature and such things as COD deliveries may be recorded as costs when payment or final settlement is made without regard to the specific period of actual use.
- 1.2.12 Cost Curves. In the absence of more accurate data, cost curves may be used to calculate accruals. The cost curve selected should be appropriate for the particular contract. Minor modifications and contract change orders may be included in the total contract amount and applied to the curve percentage. Substantial modifications shall be computed independently of the basic contract based upon appropriate factors.
- 1.2.13 Miscellaneous Revenue. Revenue shall be accrued in the month earned. Unrecorded accounts receivable estimated to aggregate less than \$10,000 need not be accrued at the end of each month, except at the end of each quarter and the fiscal year.
- 1.2.14 Cost Reports. The Analysis of Accrued Cost section of the CCR Timeliness, Analysis of Accrued Cost, and CCR Adjustment Explanation Report does not allow for the input of explanations for variances. Therefore, the explanations of variances must be documented and tracked manually.

### 1.3 AUTHORITIES AND REFERENCES.

- 1.3.1 The Chief Financial Officers Act of 1990, Public Law 101-576
- 1.3.2 The Government Performance and Results Act (GPRA) of 1993, Public Law 103-62
- 1.3.3 The Federal Managers Financial Integrity Act of 1982, Public Law 97-255
- 1.3.4 Federal Accounting Standards Advisory Board (FASAB), Statement of Federal Financial Accounting Standards (SFFAS) No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government [SFFAS 4]
- 1.3.5 The Government Management and Reform Act of 1994, Public Law 103-356
- 1.3.6 Federal Financial Management Improvement Act of 1996, Public Law, 104-208

1.3.7 31 USC 3512(e), Executive Agency Accounting and other Financial Management Reports and Plan

1.4 ROLES AND RESPONSIBILITIES.

1.4.1 Agency Management.

A. The Chief Financial Officer (CFO) shall:

1. Establish policy on recording cost and cost accruals.
2. Ensure cost accruals are recorded and reported in accordance with the authorities and policy presented.

1.4.2 Mission and Mission Support Program Managers shall:

- A. Plan and review program costs reported to ensure it represents goods or services received or a reasonable estimate of the goods and services to be received for the reporting period.
- B. Report cost accruals in accordance with the authorities and policy presented.

1.4.3 Center CFOs shall:

- A. Record and report cost accruals in accordance with the authorities and policy presented.
- B. Implement proper procedures to ensure reliable accruals, including accruals developed by personnel outside the Financial Management Office, such as resources personnel.

1.4.4 Center Project Managers shall:

- A. Plan and review program costs reported to ensure it represents goods or services received or a reasonable estimate of the goods and services to be received for the reporting period.
- B. Report cost accruals in accordance with authorities and policy.