Date: June 6, 1997

To: Doris Chew, Acting Executive Director
Joint Financial Management Improvement Program

From: Judy Yuran, Chairman
Standard General Ledger - Issues Resolution Committee

Subject: Issues Resolution Committee (IRC) Comments on Managerial Cost Accounting System Requirements Exposure Draft

Thank you for the opportunity to comment on the Managerial Cost Accounting System Requirements Exposure Draft (ED). The following are comments from IRC members based on the ED dated April 11, 1997. Our comments consist of items of concern which are more general in nature, as well as items which are specific to the questions posed in the beginning of the ED.

GENERAL COMMENTS:

1) **Issue:** Page III-4 states that "the managerial cost accounting system should allow for direct input of cost information...". It is our belief, however, that the cost accounting system should **not** be the system for point of original entry. This document should illustrate the cost accounting system as providing cost information. Instead, it is portrayed more like a GPRA system, which is even more broad in scope, making it extremely difficult for agencies to purchase off-the-shelf software.

   Suggestion: It needs to be made clear that in a fully integrated accounting system, there should be one point of entry for data. In a relational database it may or may not be the cost accounting system. In a less than fully integrated system, the cost module should accumulate costs from the core accounting system and other subsystems and then distribute them. It should **not** be an original point of entry, nor an Executive Information System (EIS). The EIS is the appropriate system to provide GPRA performance measurement information and analysis. The cost accounting system **supports** that process in one aspect (Cost), but it cannot satisfy all of the requirements by itself.

2) **Issue: Appendix, Page A-9, definition of the U.S. Government Standard General Ledger (SGL):** It needs to be made clear to the readers that pro forma transactions are not all-inclusive; instead, they provide a core guidance to which federal agencies may refer.

   Suggestion: Add the word "general" to the first sentence of definition so that it reads,

   > "A uniform chart of accounts and **general** pro forma transactions used to standardize federal agency accounting and to support the preparation of standard external reports required by central agencies."

3) **Issue: Page III-7:** In the first paragraph that follows the Cost and Revenue Calculations heading, the sentence that begins, "Revenue calculation involves recognition of exchange revenues..." is narrow in scope and precludes service type activities. It should be evident that the revenue calculation is applicable to items other than manufacturing type operations.

Suggestion: Revise the sentence so that it reads,

> "Revenue calculation involves recognition of exchange revenues related to costs incurred for inventory or related property**, provision of services, purchase of products, or other types of sales of goods by agencies** being produced to order under a contract."

4) **Issue: Page III-9:** The paragraph that begins, "Stewardship investments are items treated as expenses..." lists only examples (investment in human capital, research and development, and non-federal physical property). What the readers need are specific requirements, which are stated throughout SRAS #8.

Suggestion: Make reference to SRAS #8 - Supplementary Stewardship Reporting.

COMMENTS ON "QUESTIONS FOR RESPONDENTS":

The following responses pertain to the questions addressed in the beginning of the ED which the IRC feels the need to answer and/or have clarified.

Question 3: From your perspective as a CFO, CIO, systems analyst, systems accountant, or software developer, indicate whether these requirements are sufficiently clear and specific enough to be addressed in accordance with your responsibilities. If not, please specify where the requirements document should be amplified or clarified.

Response: The Exposure Draft presents information that is very broad and conceptual in nature, rather than being a set of specific requirements for a managerial cost accounting system. This guidance is acceptable for agencies with viable compliant cost accounting systems already established. However, for contractors and agencies having never done cost accounting, there is a need for concrete requirements, scenarios and models of working compliant systems. Additionally, cost requirements related to service providing agencies should be delineated separately from requirements related to a manufacturing or job order type environment (See Attachments 1, 2, and 3).

Question 4: **Should cost distributions be recorded in the general ledger, or merely shown on reports? Explain your reasoning.**

Response: Where the assignment of cost does **not** change the balance of SGL accounts, then it should **not** be required to be posted in the general ledger. Where the assignment of cost **does** result in changes to SGL account balances (e.g. reclassifications), then it **should** be recorded in the general ledger, at least at summary level. We will **not**, however, need to create any additional SGL accounts.

Question 5: **How should variances from standard costs be recorded?**

Response: Most IRC members agree that variances from standard costs should not always be separately identified in the SGL. Agencies that use a traditional standard cost methodology should continue to record cost variances.

Question 8: **Should reconciliation of cost assigned to responsibility segments with obligations associated to budget accounts be included as a requirement?**

Response: No. The process of producing a Statement of Financing fulfills the reconciliation requirement.

Thank you again for the opportunity to comment on this exposure draft. Please feel free to call me on (202) 874-6308 if you would like to discuss these comments or need additional information.