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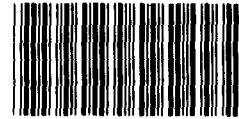


United States  
General Accounting Office  
Washington, D.C. 20548

Accounting and Financial  
Management Division

B-250974

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Mr. Richard C. Loeb  
Executive Secretary  
Cost Accounting Standards Board  
Office of Federal Procurement Policy  
Office of Management and Budget

Dear Mr. Loeb:

We have reviewed the Cost Accounting Standards Board's (CASB) "Statement of Objectives, Policies, and Concepts" which appeared in a recent issue of the Federal Register. The statement provides the conceptual basis for the standards that the CASB will develop and issue. It also is intended to outline the CASB's approach to the issues and its procedures for developing standards.

We believe that such a statement will prove valuable to those interested in the work of the CASB, as did similar documents issued by the former CASB. Although this statement is a final publication, it states that comments are welcome and that it will be revised from time to time. This letter contains several comments on the statement.

#### THE CONCEPT OF EQUITY

Under the section "Fairness and Equity," the CASB discusses fairness as an unbiased attitude when considering cost accounting standards. It also states that the concept of equity will be considered when a standard is written and/or amended but does not discuss the concept any further.

The concept of equity has several different meanings in an accounting context and creates confusion when included with fairness as a cost accounting concept. We believe fairness is a sufficient concept in this context and suggest that you delete the reference to the equity concept when the statement is revised.

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MATERIALITY

Most of the one-paragraph discussion on materiality in the statement deals with the concept of a cost-benefit relationship. While costs and benefits are important aspects in promulgating cost accounting standards, they do not by themselves define or explain the concept of materiality. For this section, we believe it would be more appropriate to define materiality and include criteria that can be used to determine what is or is not material.

The former CASB issued requirements on materiality, listing several criteria to help determine whether amounts are material or immaterial. We suggest that when the statement is revised, the information contained in the materiality section be replaced with (1) a definition of materiality and (2) the criteria listed in the regulations issued by the former CASB.

RELATIONSHIP TO OTHER AUTHORITATIVE BODIES

We agree with the CASB's position that it will take the pronouncements of other authoritative accounting standard-setting bodies into account to the extent it can in accomplishing its objectives. However, this section also indicates that the CASB may issue standards that deviate from the pronouncements of other standard-setting bodies.

We believe that the CASB should explain the circumstances under which it may deviate from the pronouncements of other authoritative bodies. We suggest that the CASB state that the reasons for deviations will be fully disclosed.

BENEFICIAL RELATIONSHIP

Under the section, "Hierarchy for Allocating Costs," the CASB states that a cost should be assigned to a cost objective that (1) was intended to benefit from it or (2) caused the cost to be incurred. Also, the cost accounting standards and other CASB pronouncements repeatedly contain the phrase, "benefiting or causal cost objective" or "beneficial or causal relationship." This concept and the current cost accounting standards give equal weight to the causal and beneficial relationship and allow either to be applied.

The terms beneficial and causal are not synonymous and the relationship between the two should be clarified. While we agree with the adoption of causality as a criterion in

developing cost accounting standards, we question the use of "benefit" as a concept of equal validity because its application is likely to be more subjective. As a general rule, a cost objective does not receive a benefit; rather, the objective causes costs to be incurred. Therefore, the CASB should focus on causal relationships. We suggest that CASB revise its statement to clarify that a causal relationship is the primary basis for allocating costs to an objective and that a beneficial relationship is secondary and may be applied in certain circumstances as a supplement or surrogate to the basic causal concept.

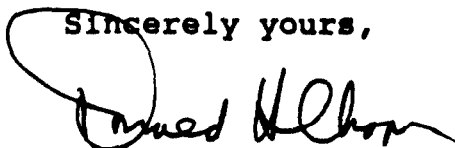
SEPARATE PUBLICATION

Lastly, we believe that since this statement is an important pronouncement containing the basis on which the CASB operates, it should be readily available to those having an interest in the CASB's work. The former CASB published its statement of Policies, Procedures, and Objectives in a small, easy-to-read document. It was readily available as a stand-alone document to those interested in cost accounting and it was published in the Federal Register. However, according to your staff the new CASB intends to publish the statement only in the Federal Register. We urge the CASB to publish this statement, as well as the standards it issues, in a separate loose leaf document which can be readily provided to those interested in cost accounting standards as reference material.

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We hope our views are helpful to you. If you have any questions, please contact Mr. John Hill, Director, Audit Support and Analysis, at (202) 275-8549.

Sincerely yours,



Donald H. Chapin  
Assistant Comptroller General