

Understanding Government Contract Accounting with Stratosphere

Managing a compliant accounting system to support government contracts is not rocket science. If you design your system with Generally Accepted Accounting Principles (GAAP) and common sense visibility for management reporting, QuickBooks is fully capable of supporting your needs.

DCAA Requirements

The Defense Contract Audit Agency (DCAA) provides a Pre-Award Accounting System Checklist here: http://www.dcaa.mil/Preaward_Survey_of_Prospective_Contractor_Accounting_System_Checklist.pdf

This provides the best checklist outline for your recommended setup.

You'll want to map your general business rules to the checklist to ensure it's tailored to your needs. Here are the core elements for your QuickBooks set-up:

General Ledger

1. GAAP – a logical General Ledger account structure allows for easy review with segregations of costs in the G/L.

- A meaningful structure for your costs to support an Income Statement and management reporting
- Segregate Direct and Indirect Costs:

Direct Costs – Costs directly associated with contracts.

- Direct Labor
- Direct Travel
- Subcontractors
- Materials
- Other Direct Costs

Indirect Costs – Costs associated with supporting your business. They are not easily assigned directly to contracts.

- Logical allocation of Indirect Costs.

Typically Indirect Costs are broken out to Overhead and G&A. It's best to break out fringe benefits as well since they grow so fast.

Fringe Benefits – costs associated with your employee labor, payroll taxes, leave, health care etc. Fringe should be allocated based on total labor.

Overhead – costs not directly associated with a single project, but incurred to support all projects (contracts). Office space, utilities, supplies and indirect labor for project personnel. Overhead should be allocated based upon direct labor costs.

General & Administrative – costs to run the overall business: legal, accounting, executive indirect costs. G&A should be allocated on total project costs.

Unallowable – specific costs the government will not allow to be included in an indirect cost pool or charged directly to a project. This includes travel costs in excess of per diems, alcohol, entertainment, and more.

- If you establish your General Ledger Accounts with these pools in mind, you will address most DCAA requirements.

2. Set up your G/L – Understand what charges go into each account and evaluate for management reporting, then have an expert review and edit your work if needed. This approach will not only save you significant time and cost, it will also help you better understand your financial system.

3. Suggested Account Structure

- 2-Level Accounts (only charge down to level 2)
- By using a logical sequence you can quickly review your account codes and compare them to your account names for proper setup.

When you establish your indirect pools, you'll be able to visually review your set-up.

- 0100-xxx for Assets
- 0200-xxx for Liabilities
- 0300-xxx for Owners' Equity
- 0400-xxx for Direct Project Costs
- 0500-xxx for Fringe
- 0600-xxx for Overhead
- 0700-xxx 2nd Overhead (if needed)
- 0800-xxx for G&A
- 0900-xxx for Unallowables

Periodically confirm all transactions charged to the 0400 include a project charge.

- Since all of your costs are in the G/L with a logical structure, you can readily reconcile and audit your system.

4. Contracts (Projects)

- Proper segregation of costs – segregate Direct Project Costs from Indirect Costs (per pools above). Not only is this required for government contract accounting, but by logically segregating costs by project management you'll immediately see the gross profit on a project.
- Identify costs by contract – set up a project for each contract, and charge all direct costs to the correct project.

5. Project / Contract Management

- Define your contract line items as an "effort" or deliverable
- If there are multiple accounts to support these items (direct labor, direct travel, etc.), they should be a project or project task
- If there is an overall funded ceiling, this is your project level
- Use up to a 5-Level project structure in QuickBooks (Customer + Job + Tasks)

6. Project Labor Categories – i.e. Senior Engineer, Engineer etc. – should be defined with a Service Item in QuickBooks. These include billing rates (rate per hour) for Time & Material (T&M) projects.

With your accounts defined by type of costs (labor versus travel, for instance), and your costs segregated by Directs and Indirects, all you need are timekeeping procedures to establish your timekeeping system.

Timekeeping & Labor

1. Labor should be posted in the accounting period incurred (not paid). This is ACCRUAL BASIS accounting.

2. Labor for salaried exempt employees should be allocated based upon effective hourly rates to support *Total Time Accounting* requirements.

- Total labor cost is equal to the employee's periodic salary (i.e. a 2-week time period)
- Costs per hour are allocated across all hours worked
- When an employee works more than the standard hours in the timesheet period, their hourly rate will get reduced to evenly allocate their total labor cost

3. Stratosphere for QuickBooks provides proper labor accrual plus the ability to post labor based upon effective hourly rates (Total Time Accounting).

“Minding” your Books

1. Cash Basis versus Accrual Basis. As your business grows you will eventually be required to convert to Accrual Basis accounting. If you adopt Accrual Basis now rather than later, you'll immediately improve your understanding of your company's financial activities, and prepare yourself for the future. Accrual Basis accounting matches your costs and revenues with the period in which they are incurred, as opposed to Cash Basis which is accounting when cash is collected or paid, typically months later.

2. Formally closing your books each month and reconciling your accounts helps you manage your business, and generate monthly project cost reports.

Define your fiscal year and periods. Keep your life simple (and costs down) by utilizing a calendar year-end for your fiscal year and monthly accounting periods.

- Match your pay periods within your accounting periods
- If you have a calendar month-end use a semi-monthly timesheet period, the 15th of the month and last day of the month

3. Don't be afraid to close your books. Get it done and move on! By following your design, any unforeseen corrections may easily be made during next accounting period.

4. Consider an outside payroll service to address payroll, payroll taxes and deposits.

- Payroll is very labor intensive, whether run in-house or by a 3rd party.
- Using an automated payroll provider reduces costs and your margin of error.
- Invest your time in your initial implementation. By getting it right the first time you can leverage technology for ongoing savings and efficiencies.

Help

Stratosphere for QuickBooks from TBS makes it even easier to set up and manage your accounting system. As always, utilize an expert to review your set-up and, periodically, to review your financial statements

QuickBooks can be utilized as a General Ledger to support government contracting, if configured per the guidelines above.

Stratosphere wraps QuickBooks with compliant controls and helpful automation for government contracts.

- Define and allocate your Indirect Costs
- Use the guidelines above for your account codes to make review easier
- Define your Project revenue rules to support reporting in Claritas
- Use up to a 5-Level project in QuickBooks formed by Customer and Job (and Tasks) so your employees understand your charge codes
- Assign T&M Labor Category rates for revenue and reporting purposes
- Time Ade (Stratosphere timekeeping) supports your timekeeping needs, including approvals, tracking of changes, etc. Time-Ade supports DCAA compliance and integrates with QuickBooks. By utilizing Time Ade Charge Categories users select a Project Number (Customer plus Job), and Time Ade defaults the proper Account and Labor Category
- Claritas (Stratosphere reporting) reports and manages your project costs and revenue needs. Claritas supports all sizes of government contractors and is upgraded quarterly with additional functionality, keeping up with your growing company. Claritas provides Project Cost reports based upon contract type, a live Statement of Indirect Expenses, and the ability to view cost reports on a daily basis