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CCLD 730.5

August 20, 2026
26-CCLD-005(R)

MEMORANDUM FOR DIRECTORATE DIRECTORS, DCAA ASSISTANT DIRECTORS, HQ, DCAA

SUBJECT: Audit Guidance on CAS Board Final Rule - Conformance of Cost Accounting Standards (CAS) to Generally Accepted Accounting Principles (GAAP) for CAS 404, 408, 409, and 411

What You Need to Know

Effective August 7, 2026, the Cost Accounting Standards Board (CASB) officially removed and reserved CAS 404, 408, 409 and 411 to conform these CAS standards to GAAP. From the effective date forward, these four standards no longer apply to any contracts or subcontracts; however, any noncompliance that occurred prior to the effective date must still be resolved. The CASB transferred four unique requirements from CAS 404 and 409 to CAS 405 - Accounting for Unallowable Costs. While CAS 404 and 409 applied strictly to fully CAS-covered contracts, CAS 405 applies to all CAS-covered contracts, meaning these four requirements now extend to contracts under modified coverage as well.

The following table outlines the CAS revisions, highlighting what was retained, how cost accounting practice changes are handled, and other critical implementation requirements.

Summary of CAS Changes by Standard

Standard	Status	Retained Content & Relocations	Cost Accounting Practice Changes (CAPC)	Key Notes & Compliance Details
CAS 404: Capitalization of Tangible Assets	Removed & Reserved	**Yes** • CAS 404-50(d)(1) → CAS 405-40(g)(3) (buyer must capitalize at seller's net book value)	**Voluntary Change** Must undergo the standard cost impact process.	Relocation to CAS 405 prevents the Government from paying duplicative depreciation costs since GAAP uses fair market value during mergers/acquisitions while CAS uses the assets net book value.
CAS 408: Accounting for Costs of Compensated Personal Absence	Removed & Reserved	**None** Reliance placed on GAAP, FAR Part 31, and remaining CAS.	**Exempt Change** Transition to GAAP may cause immaterial changes. Exempt from the required cost impact process.	Contractors must disclose and implement any changes during their fiscal year directly following the final rule's effective date.

Standard	Status	Retained Content & Relocations	Cost Accounting Practice Changes (CAPC)	Key Notes & Compliance Details
CAS 409: Depreciation of Tangible Capital Assets	Removed & Reserved	**Yes** Transferred to CAS 405-40(g): • CAS 409-50(e)(5) → CAS405-40(g)(4) (may agree to shorter service life for specialized assets) • CAS 409-50(j)(1) → CAS 405-40(g)(1) (proper measurement/assignment of gains/losses on asset disposition) • CAS 409-50(j)(4) → CAS405-40(g)(2) (prevents shifting gains/losses in non-arms-length transfers within 12 months)	**Voluntary Change** Must undergo the standard cost impact process.	Specific CAS 409 requirements regarding service life, disposition gains/losses measurement, and non-arms-length transactions were preserved within CAS 405.
CAS 411: Accounting for Acquisition Costs of Material	Removed & Reserved	**None** Reliance placed on GAAP, FAR Part 31, and remaining CAS.	**Voluntary Change** Must undergo the standard cost impact process.	Contractors are expected to maintain existing practices since current compliant practices align with CAS and GAAP.

What Auditors Need to Do

Regardless of the removal of these standards, a core requirement of every contract audit includes testing for compliance with CAS, FAR Part 31, DFARS Part 231, and GAAP. Effective immediately, auditors should take the following actions:

- **In-Process CAS Compliance Audits (19404, 19408, 19409, & 19411):** For audits with known risk or evidence of noncompliance, audit teams must gather appropriate evidence to support the noncompliance. The standards are still applicable to contracts fully CAS-covered prior to the effective date and for determining cost impacts if a material noncompliance is found. If there is no known risk or evidence of noncompliance, audit teams should cancel the engagement.

- **Cease New Audits**: The Agency is removing the audit programs and deactivating activity codes 19404, 19408, 19409, and 19411. Do not plan any new comprehensive CAS compliance audits for these standards.

- **Continue Existing CAS Noncompliance Resolutions**: Continue to work with the Cognizant Federal Agency Official (CFAO) to resolve any material CAS noncompliances identified concerning contractor fiscal years prior to the effective date of August 7, 2026.

- **Forward Pricing Rate / Proposal Audits**: Monitor contractor proposals and rate calculations for noticeable variances from prior submissions, as these may indicate voluntary cost accounting practice changes or a CAS 401 and disclosure consistency noncompliance.

- **Incurred Cost Audits**: Ensure proposed amounts and rate calculations comply with the CAS requirements in effect during the specific contractor fiscal year being audited. When auditing FY 2026 and out years, be aware of any cost accounting practice changes, or a CAS 401 and disclosure consistency noncompliance.

Questions and Further Information

The CASB created a non-regulatory internet page with useful information about these changes, open CAS cases, Practitioner Album discussing CAS Conformance to GAAP, and other key CAS resources (Cost Accounting Standards Board | Acquisition.GOV). Also, the Contract Audit Standards and Assurance Directorate (CASA) will be updating audit guidance to reflect the requirements of this final rule. Branch office personnel with questions regarding this memorandum should contact their Directorate offices. Directorate personnel should direct questions to the CASA CAS and Legislation Division (CCLD) via email at dcaa.belvoir.hq.mbx.casa-ccld@mail.mil.

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