

Accounting and Estimating Systems

[Resources](#)[Glossary](#)[Help](#)

Module Introduction

Welcome to Accounting and Estimating Systems!

You might be wondering, "How will the information in this module help me in my job as a contract specialist?"

As a contract specialist, you will need to determine if a price is fair and reasonable. But how will you know that the contractor's systems of internal control are up to the task of providing accurate cost or pricing data?

This module presents a basic understanding of the contractor's systems of internal control, including accounting and estimating systems. It also discusses two commonly used cost accounting systems: job-order and process.

*Accounting and Estimating
Systems? Internal Control?
What do I need to know?*



User Instructions: Select Next to continue.

[D](#)

1 of 17

[Back](#)[Next](#)

Accounting and Estimating Systems

Module Objectives

At the end of this module, you will be able to:


- Discuss the characteristics of an acceptable cost estimating system.
- Describe the characteristics of an adequate cost accounting system.
- Identify the two commonly used systems for cost accounting.

User Instructions: Select Next to continue.

Resources

Glossary

Help



2 of 17

Back

Next

Accounting and Estimating Systems

[Resources](#)[Glossary](#)[Help](#)

Overview - Cost Estimating System

What is the contractor's cost estimating system?

The contractor's cost estimating system is the policies, procedures, and practices for generating cost estimates and other data included in cost proposals submitted to customers in the expectation of receiving contract awards.

Review the following documents for more information before you continue.

- [FAR 15.407-5](#)
- [DFARS 215.407-5-70\(a\)](#)
- [DFARS 215.407-5-70\(d\)](#)
- [DFARS 252.215-7002](#)

User Instructions: Select Next to continue.

[D](#)

Accounting and Estimating Systems

ResourcesGlossaryHelp


Overview - Cost Accounting System

The accounting system is the primary source of information for the cost estimating system. It is not the only source, but it is the primary one.

The contractor's cost accounting system consists of the methods and records established to identify, assemble, analyze, classify, record, and report the firm's transactions and to maintain accountability for the related assets and liabilities.

User Instructions: Select Next to continue.

"If the cost estimating system integrates applicable information from a variety of systems, where does this information come from?"



4 of 17

BackNext

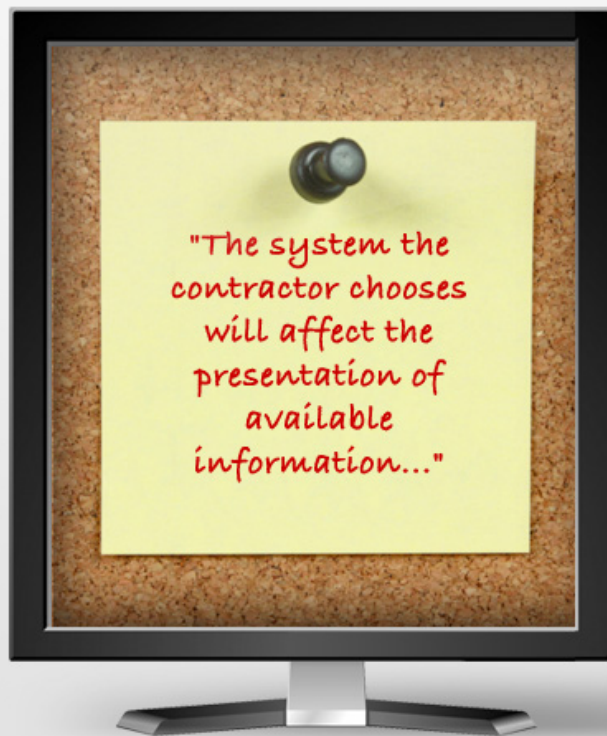
Accounting and Estimating Systems

[Resources](#)[Glossary](#)[Help](#)

Overview - Job Order and Process

There are two commonly used systems for cost accounting: **job-order** and **process**.

Either system can provide adequate results when it is properly maintained by the firm.



User Instructions: Select Next to continue.

[D](#)

5 of 17

[Back](#)[Next](#)

Accounting and Estimating Systems

[Resources](#)[Glossary](#)[Help](#)

Module Resources

Review the graphic to the right to see what specific resources are used as references for the content in this module.

It is strongly recommended that you review these resources before proceeding with the module. Doing so will put you "ahead of the game" and will help you to answer the challenge questions to come!

Select the Resources tab for links to these and other references.

Content Resources

- ✓ CRPG Volume 3, Chapters 1.3, Defining The Cost Estimating And Cost Accounting Relationship and 1.4, Describing Cost Estimating Methods
- ✓ FAR 15.407-5
- ✓ DFARS 215.407-5-70(a)
- ✓ DFARS 215.407-5-70(d)
- ✓ DFARS 252.215-7002
- ✓ FAR 16.104(h)

6 of 17 Back Next

User Instructions: Select Next to continue.

[D](#)

Accounting and Estimating Systems

[Resources](#)[Glossary](#)[Help](#)

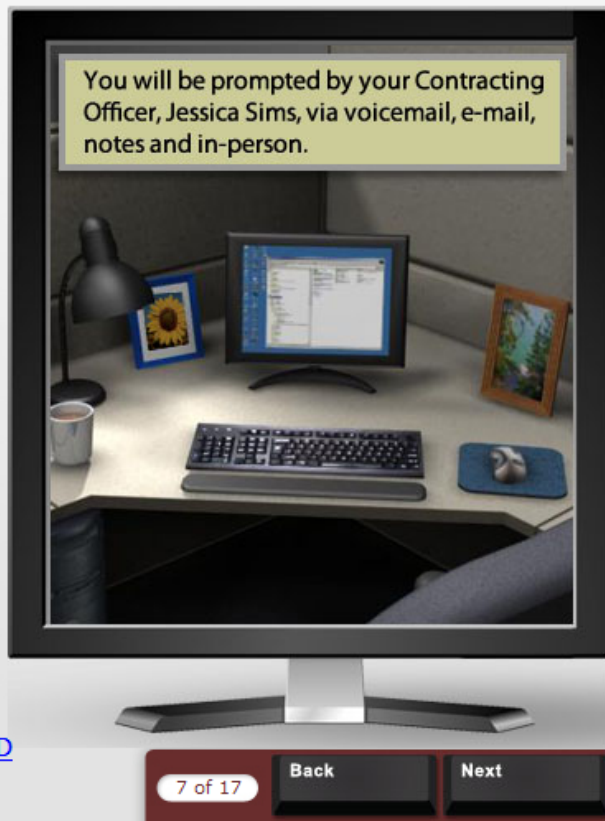
Simulation Overview

In this module, you are going to answer a series of Challenge Questions about accounting and estimating systems. Do not worry if you miss a question - you will be directed to pertinent content and then given a chance to answer the question again.

Even if you get a question right the first time, it is strongly recommended that you elect to review the pertinent content by selecting the Review button. This review will help you answer the practice test questions at the end of the module.

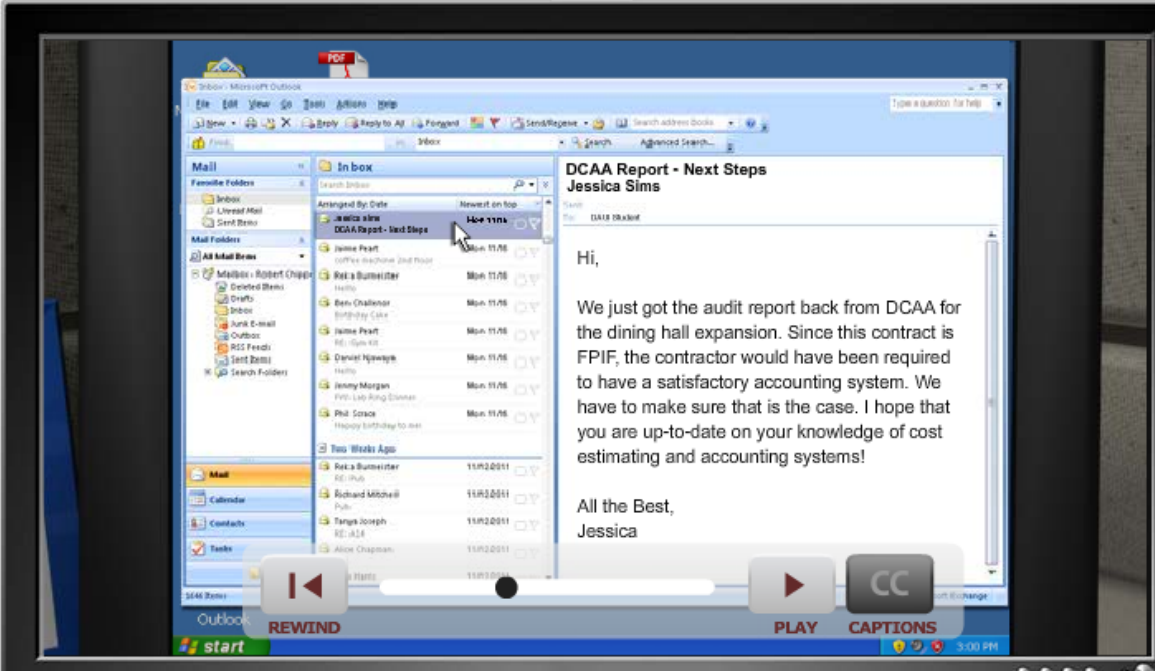
Remember to use the Resources and Glossary tabs at any time during the simulation to access helpful information.

User Instructions: Select Next to continue.



Accounting and Estimating Systems

ResourcesGlossaryHelp



Hi, We just got the audit report back from DCAA for the dining hall expansion. Since this contract is FPIF, the contractor would have been required to have a satisfactory accounting system. We have to make sure that is the case. I hope that you are up-to-date on your knowledge of cost estimating and accounting systems!

All the Best,
Jessica

User Instructions: Select Next to continue.

8 of 17BackNext

Accounting and Estimating Systems

ResourcesGlossaryHelp

The video player displays a screenshot of a Microsoft Outlook inbox. The inbox is titled 'Inbox' and shows a list of emails. The email titled 'DCAA Report - Next Steps' from Jessica Sims is selected. The email content is as follows:

DCAA Report - Next Steps
Jessica Sims

Hi,

We just got the audit report back from DCAA for the dining hall expansion. Since this contract is FPIF, the contractor would have been required to have a satisfactory accounting system. We have to make sure that is the case. I hope that you are up-to-date on your knowledge of cost estimating and accounting systems!

All the Best,
Jessica

Below the email content, there is a text box with the following text:

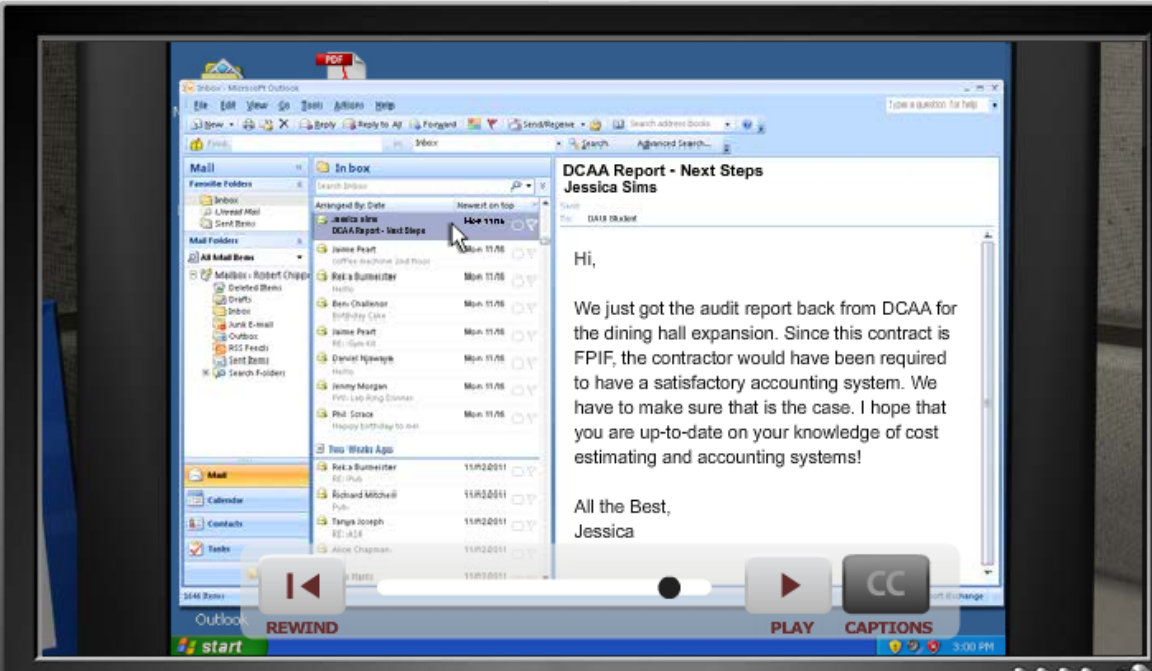
Since this contract is FPIF , the contractor would have been required to have a satisfactory accounting system.

User Instructions: Select Next to continue.

8 of 17BackNext

Accounting and Estimating Systems

ResourcesGlossaryHelp



The screenshot shows a Microsoft Outlook window. The left sidebar displays the 'Mail' folder selected, with sub-folders like 'Inbox', 'Deleted Items', 'Drafts', 'Outbox', 'Sent Items', and 'Search Folders'. The main pane shows an email titled 'DCAA Report - Next Steps' from Jessica Sims. The email body contains the following text:

Hi,

We just got the audit report back from DCAA for the dining hall expansion. Since this contract is FPIF, the contractor would have been required to have a satisfactory accounting system. We have to make sure that is the case. I hope that you are up-to-date on your knowledge of cost estimating and accounting systems!

All the Best,
Jessica

At the bottom of the Outlook window, there is a video player interface with controls for 'REWIND', 'PLAY', and 'CAPTIONS'. The 'PLAY' button is highlighted.

User Instructions: Select Next to continue.

8 of 17BackNext

Accounting and Estimating Systems

ResourcesGlossaryHelp

The screenshot shows a video player interface. The main content is a screenshot of a Microsoft Outlook inbox. The inbox list shows several emails, with the selected email titled "DCAA Report - Next Steps" from Jessica Sims. The email body text is visible on the right side of the Outlook window. The video player controls at the bottom include a progress bar, a "REWIND" button, a "PLAY" button, and a "CAPTIONS" button. The system tray at the bottom right shows the time as 3:00 PM.

DCAA Report - Next Steps
Jessica Sims

Hi,

We just got the audit report back from DCAA for the dining hall expansion. Since this contract is FPIF, the contractor would have been required to have a satisfactory accounting system. We have to make sure that is the case. I hope that you are up-to-date on your knowledge of cost estimating and accounting systems!

All the Best,
Jessica

All the Best, Jessica

User Instructions: Select Next to continue.

8 of 17BackNext

Accounting and Estimating Systems[Resources](#)[Glossary](#)[Help](#)**Challenge Question #1**

Which of the following are characteristics of an acceptable cost estimating system? Select all of the correct answers.

- ☐ A. Provides for detection and timely correction of errors
- ☐ B. Identifies the sources of data and the estimating methods and rationale used in developing cost estimates
- ☐ C. Relies heavily on individual personal judgment where historical experience or commonly utilized standards are available
- ☐ D. Provides a written description of the organization and duties of the personnel responsible for preparing, reviewing, and approving cost estimates

[Check Answer](#)

User Instructions: Select the correct answers and then select the Check Answer button.

9 of 17

[Back](#)[Next](#)

Accounting and Estimating Systems

[Resources](#)[Glossary](#)[Help](#)

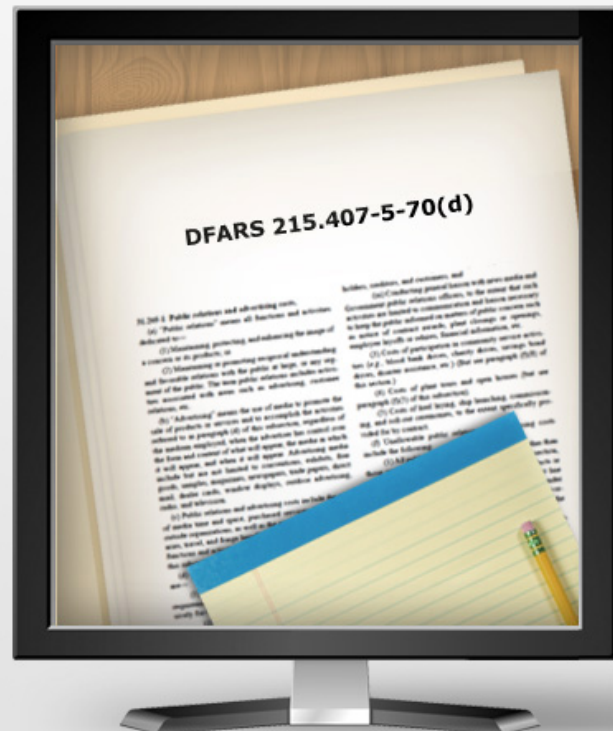
Acceptable or Unacceptable?

How do you know if a contractor's cost estimating system is acceptable?

An acceptable cost estimating system should:

- Provide for the use of appropriate source data
- Utilize sound estimating techniques and good judgment
- Maintain a consistent approach
- Adhere to established policies and procedures

Review [DFARS 215.407-5-70\(d\)](#) to learn more.



User Instructions: Select Next to continue.

9 of 17

[Back](#)[Next](#)

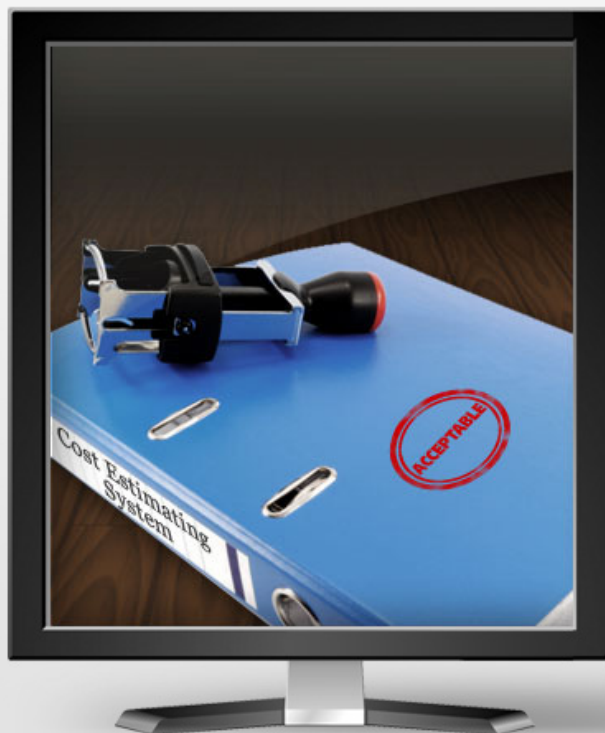
Accounting and Estimating Systems

[Resources](#)[Glossary](#)[Help](#)

Acceptable or Unacceptable? (cont.)

In general, an acceptable cost estimating system:

- Establishes clear responsibility for preparation, review and approval of cost estimates
- Provides a written description of the organization and duties of the personnel responsible for preparing, reviewing, and approving cost estimates
- Assures that relevant personnel have sufficient training, experience and guidance to perform estimating tasks in accordance with the contractor's established procedures
- Identifies the sources of data and the estimating methods and rationale used in developing cost estimates
- Provides for appropriate supervision throughout the estimating process

[D](#)

User Instructions: Select Next to continue.

9 of 17

[Back](#)[Next](#)

Accounting and Estimating Systems[Resources](#)[Glossary](#)[Help](#)**Acceptable or Unacceptable? (cont.)**

In addition, an acceptable cost estimating system:

Provides	Requires
<ul style="list-style-type: none">• Consistent application of estimating techniques• Detection and timely correction of errors• Use of historical experience, including historical vendor pricing information (where appropriate)• Internal review of, and accountability for, the adequacy of the estimating system, including the comparison of projected results to actual results and an analysis of any differences• Provides procedures to update cost estimates in a timely manner throughout the negotiation process	<ul style="list-style-type: none">• Use of appropriate analytical methods• Management review including verification that the company's estimating policies, procedures and practices comply with applicable regulations• Integration of information available from other management systems, where appropriate• Responsibility for review and analysis of the reasonableness of subcontract prices• Protection against cost duplication and omissions

User Instructions: Select Next to continue.

9 of 17

[Back](#)[Next](#)

Accounting and Estimating Systems

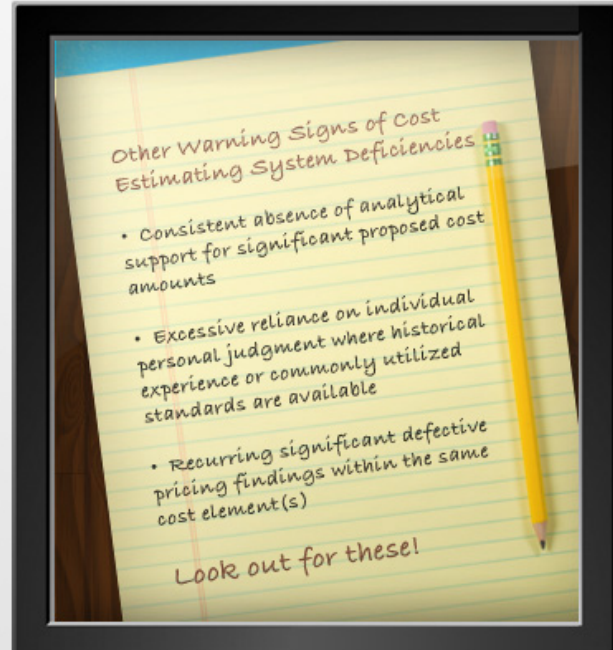
[Resources](#)[Glossary](#)[Help](#)

Cost Estimating System Deficiencies

Be on the lookout for conditions that may produce or lead to significant estimating deficiencies. These deficiencies can include the failure to:

- Ensure that historical experience is available to and utilized by cost estimators
- Analyze material costs or failure to perform subcontractor cost reviews as required
- Integrate relevant parts of other management systems (e.g., production control or cost accounting) with the estimating system so that the ability to generate reliable cost estimates is impaired
- Provide established policies, procedures, and practices to persons responsible for preparing and supporting estimates

Be sure to review [DFARS 215.407-5-70\(d\)](#) for more information.

[D](#)

User Instructions: Select Next to continue.

9 of 17

[Back](#)[Next](#)

Accounting and Estimating Systems

ResourcesGlossaryHelp



Hi. It sounds like you've got a good handle on cost estimating systems. But remember, the contractor's cost estimating system relies on their cost accounting system to provide reliable information.

User Instructions: Select Next to continue.

10 of 17BackNext

Accounting and Estimating Systems

ResourcesGlossaryHelp



REWIND PAUSE CAPTIONS

We have to make sure that it is adequate for the job. Let me know when you're done reviewing the cost accounting systems information and I'll bring over the DCAA audit report. Catch you in a bit. Jessica

User Instructions: Select Next to continue.

10 of 17 Back Next

Accounting and Estimating Systems

[Resources](#)[Glossary](#)[Help](#)

Challenge Question #2

What are the disadvantages of an inadequate Cost Accounting System?

- ☐ A. It will provide reliable accounting data.
- ☐ B. It will provide data that is not current, accurate, and complete.
- ☐ C. It will prevent mistakes that would otherwise occur.
- ☐ D. It will contain sufficient refinements to provide cost segregation for preproduction work and special tooling.

[Check Answer](#)

User Instructions: Select the correct answer.

11 of 17

[Back](#)[Next](#)

Accounting and Estimating Systems


ResourcesGlossaryHelp

Cost Accounting Systems

As you have learned, the accounting system is the primary source of information for the cost estimating system. It is not the only source, but it is the primary one.

The contractor's cost accounting system consists of the methods and records established to identify, assemble, analyze, classify, record, and report the firm's transactions and to maintain accountability for the related assets and liabilities.

User Instructions: Select Next to continue.



Identify	Assemble	Analyze
Classify	Record	Report

11 of 17 Back Next

Accounting and Estimating Systems

[Resources](#)[Glossary](#)[Help](#)

Adequate or Inadequate?

An inadequate cost accounting system can provide data that is not current, accurate, and complete.

For this reason, the contractor's cost accounting system **must** contain sufficient refinements to provide (where applicable) cost segregation for:

- Preproduction work and special tooling
- Prototypes, static test models, or mockup
- Production by individual production centers, departments, or operations-as well as by components, lots, batches, runs or time periods
- Engineering by major task
- Each contract item to be separately priced
- Scrap, rework, spoilage, excess material, and obsolete items resulting from engineering changes
- Packaging and crating when substantial
- Other non-recurring or other direct cost items requiring separate treatment



User Instructions: Select Next to continue.

[D](#)

11 of 17

[Back](#)[Next](#)


Accounting and Estimating Systems

ResourcesGlossaryHelp

Jessica Left You a Note...

It looks like Jessica left a note on your desk while you were away.

Review the note and select Next to continue.



User Instructions: Select Next to continue.

[D](#)

12 of 17BackNext

Accounting and Estimating Systems[Resources](#)[Glossary](#)[Help](#)**Challenge Question #3**

Under which cost accounting system does the firm accounts for output by specifically identifiable physical units?

- ☐ A. Process
- ☐ B. Purchasing
- ☐ C. Direct cost
- ☐ D. Job-order

[Check Answer](#)

User Instructions: Select the correct answer.

13 of 17

[Back](#)[Next](#)

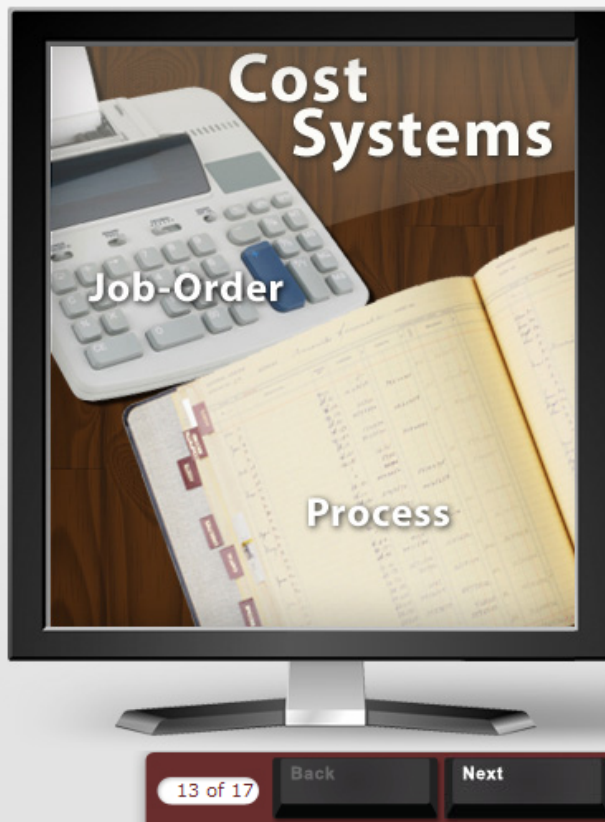
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[Resources](#)[Glossary](#)[Help](#)

Cost Accounting Systems: Job-Order and Process

There are two commonly used systems for cost accounting: **job-order** and **process**. Either system can provide adequate results when it is properly maintained by the firm, but remember that the system the contractor chooses will affect the presentation of available information.

Select the adding machine and accounting ledger to the right to learn more about job-order and process cost accounting systems.



User Instructions: Select Next to continue.

13 of 17

[Back](#)[Next](#)

Accounting and Estimating Systems

Job-Order Cost System

In a job-order cost system, when a contract is for a limited number of units that are neither very complex nor costly, the costs of all units may be accumulated under one job order without any further breakdown.

When the contract is for items that are both complex and costly, however, the total quantity may be broken down into smaller production [lots](#). The job order for the total contract may be supported by a separate job order for each lot.

Experience with the product normally determines the number of units for which costs are to be accumulated.

Select the graphic to the right to learn more.

User Instructions: Select Next to continue.

Resources
Glossary
Help



13 of 17
Back
Next

Accounting and Estimating Systems

[Resources](#)[Glossary](#)[Help](#)

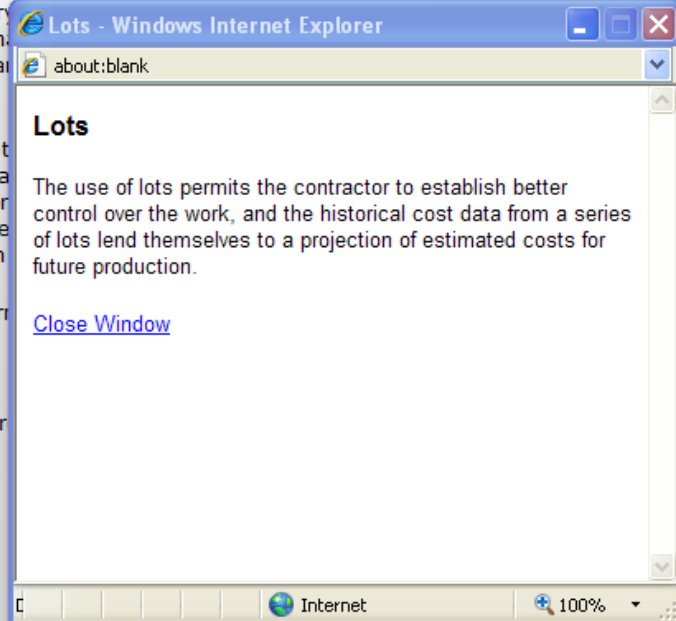
Job-Order Cost System

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When the contract is for items that are both complex and costly, however, the total quantity may be broken down into smaller production runs. The job order for the total contract may be supported by a separate job order for each run.

Experience with the product normally determines the number of units for which costs are to be accumulated.

Select the graphic to the right to learn more.



User Instructions: Select Next to continue.

13 of 17

[Back](#)[Next](#)

Accounting and Estimating Systems

[Resources](#)[Glossary](#)[Help](#)

Process Cost Systems

Process cost systems are typically used by firms that continuously manufacture a particular end item like automobiles, chemicals, screws, rivets, etc. which require identical or highly similar production processes.

In a process cost system, costs are not identified with individual units produced. Instead, the cost per unit is determined by taking the total costs accumulated per period divided by the total number of units produced.

The greater the similarity between two end items, the more likely they are to go through the same process, during the same period of time, with factory laborers devoting a part of their time to each item.

How do you assign costs to end items in a process cost system?

Select the graphic to the right to learn more.



User Instructions: Select Next to continue.

13 of 17

[Back](#)[Next](#)

Accounting and Estimating Systems

ResourcesGlossaryHelp

Process Cost Systems

Process cost systems are typically used by firms that continuously manufacture a particular end item, such as automobiles, chemicals, screws, rivets, etc., which require identical or highly similar production processes.

In a process cost system, costs are not identified with individual units produced. Instead, the cost of a unit is determined by taking the total costs accumulated per period divided by the total number of units produced.

The greater the similarity between two end items, the more likely they are to go through the same production process, during the same period of time, with factory laborers devoting a part of their time to each item.

How do you assign costs to end items in a process cost system?

Select the graphic to the right to learn more.

User Instructions: Select Next to continue.

13 of 17BackNext

Process Cost Example

An example of a product that might be manufactured by a company with a process cost system is a small arms manufacturer – let's call them "Bob's Bullets" – making bullets.

Many bullets are comprised of two sections: the bullet core and the bullet jacket. A company involved in the assembly of the final product might have direct materials such as lead alloy, copper and various oils and lubricants. The bullet may need to be machined by using a lathe. The point is, each and every bullet goes through the same manufacturing process because it is the same product, which is being mass produced.

So, let's say that Bob's Bullets is responsible for assembly of the core and jacket only. They have two departments:

Accounting and Estimating Systems

ResourcesGlossaryHelp

Process Cost Systems

Process cost systems are typically used by firms that continuously manufacture a particular end item, such as automobiles, chemicals, screws, rivets, etc., which require identical or highly similar production processes.

In a process cost system, costs are not identified with individual units produced. Instead, the cost per unit is determined by taking the total costs accumulated per period divided by the total number of units produced.

The greater the similarity between two end items, the more likely they are to go through the same process, during the same period of time, with factory laborers devoting a part of their time to each item.

How do you assign costs to end items in a process cost system?

Select the graphic to the right to learn more.

User Instructions: Select Next to continue.

Process Cost Example - Windows Internet Explorer

about:blank

the core and jacket only. They have two departments: Assembly and Quality Assurance.

In a process cost system, the costs generally include Direct Materials, manufacturing labor, labor overhead, manufacturing overhead, facility use and occupancy costs, etc. We assume that each item receives the same amount of these costs. Therefore, in the simplest example where we assume all units are started and completed in the same accounting period, we simply take the total costs divided by the number of units produced to get a cost per unit.

There are other methods of assigning costs in the instances where there is beginning work in process, ending work in process, etc.

[Close Window](#)

Internet 100%

13 of 17BackNext

Accounting and Estimating Systems

[Resources](#)[Glossary](#)[Help](#)

Process Cost Systems (cont.)

If all of the items being processed are identical, the contractor may add the costs incurred during the accounting period to the cost of the beginning work-in-process inventory.

They can then subtract the estimated cost of the ending work-in-process inventory to arrive at the total costs of items completed. In this case, unit cost is determined by dividing the total cost by the number of units completed.

If all items being processed are not identical, the contractor may use standard costs and, at the end of the accounting period, multiply the standard cost for each item by the number of units completed to arrive at a total cost.

Note that you can generally add standard cost and a factor for variances and arrive at an acceptably close approximation of actual labor cost.

Select each image to the right to learn more.

User Instructions: Select Next to continue.



13 of 17

[Back](#)[Next](#)

Accounting and Estimating Systems

ResourcesGlossaryHelp

Process Cost Systems (cont.)

If all of the items being processed are identical, the contractor may add the costs incurred during the accounting period to the cost of the beginning work-in-process inventory.

They can then subtract the estimated cost of the ending work-in-process inventory to arrive at the total costs of items completed. In this case, the cost is determined by dividing the total cost by the number of units completed.

If all items being processed are not identical, the contractor may use standard costs and, at the end of the accounting period, multiply the standard cost for each item by the number of units completed to arrive at a total cost.

Note that you can generally add standard cost to a factor for variances and arrive at an acceptable close approximation of actual labor cost.

Select each image to the right to learn more.

User Instructions: Select Next to continue.

Automobile - Windows Internet Explorer

about:blank

Automobile

Normally an item will go through more than one process. When an item comes out of one process and enters another, its cost from the process just completed will be charged to the next process, usually as material cost. This continues until the completed end-item emerges from its last process.

[Close Window](#)

Internet 100%

13 of 17 Back Next

Accounting and Estimating Systems

ResourcesGlossaryHelp

Process Cost System

If all of the items being produced by a contractor may add to the accounting period to work-in-process inventory.

They can then subtract the ending work-in-process inventory from the total costs of items to determine the cost is determined by the number of units completed.

If all items being produced by a contractor may use the same of the accounting period for each item by the time they arrive at a total cost.

Note that you can get a factor for variance to get a close approximation.

Select each image to the right to learn more.

Factory workers - Windows Internet Explorer


about:blank

Factory workers

A process cost system can identify which factory employees charged their time to which processes, what their rates of pay were, and the total cost charged to the process. Unlike a job-order cost system, you cannot determine the actual labor cost for specific end-items that have gone through a process, because cost elements lose their identity when they are charged to the next process as material costs.

[Close Window](#)

Internet100%

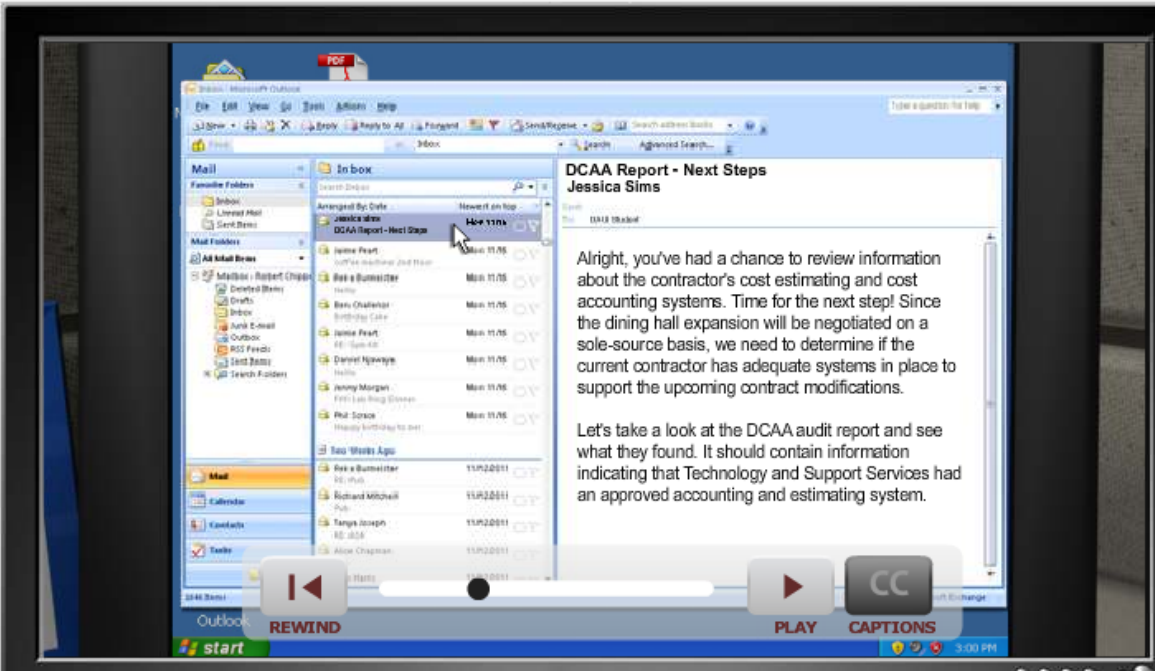


User Instructions: Select Next to continue.

13 of 17BackNext

Accounting and Estimating Systems

ResourcesGlossaryHelp



DCAA Report - Next Steps
Jessica Sims

Alright, you've had a chance to review information about the contractor's cost estimating and cost accounting systems. Time for the next step! Since the dining hall expansion will be negotiated on a sole-source basis, we need to determine if the current contractor has adequate systems in place to support the upcoming contract modifications.

Let's take a look at the DCAA audit report and see what they found. It should contain information indicating that Technology and Support Services had an approved accounting and estimating system.

REWIND PLAY CAPTIONS

1:00 PM

Alright, you've had a chance to review information about the contractor's cost estimating and cost accounting systems.

User Instructions: Select Next to continue.

14 of 17BackNext

Accounting and Estimating Systems

ResourcesGlossaryHelp

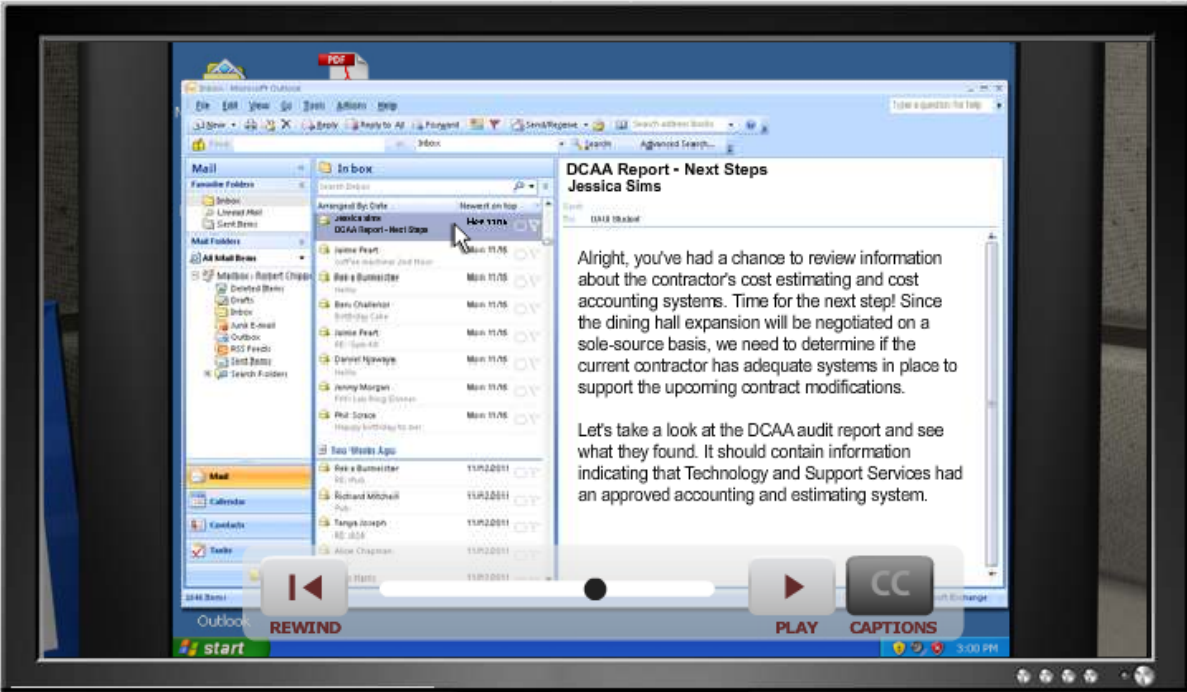
Time for the next step! Since the dining hall expansion will be negotiated on a sole-source basis,

User Instructions: Select Next to continue.

14 of 17 Back Next

Accounting and Estimating Systems

ResourcesGlossaryHelp



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User Instructions: Select Next to continue.

14 of 17BackNext

Accounting and Estimating Systems

ResourcesGlossaryHelp

DCAA Report - Next Steps
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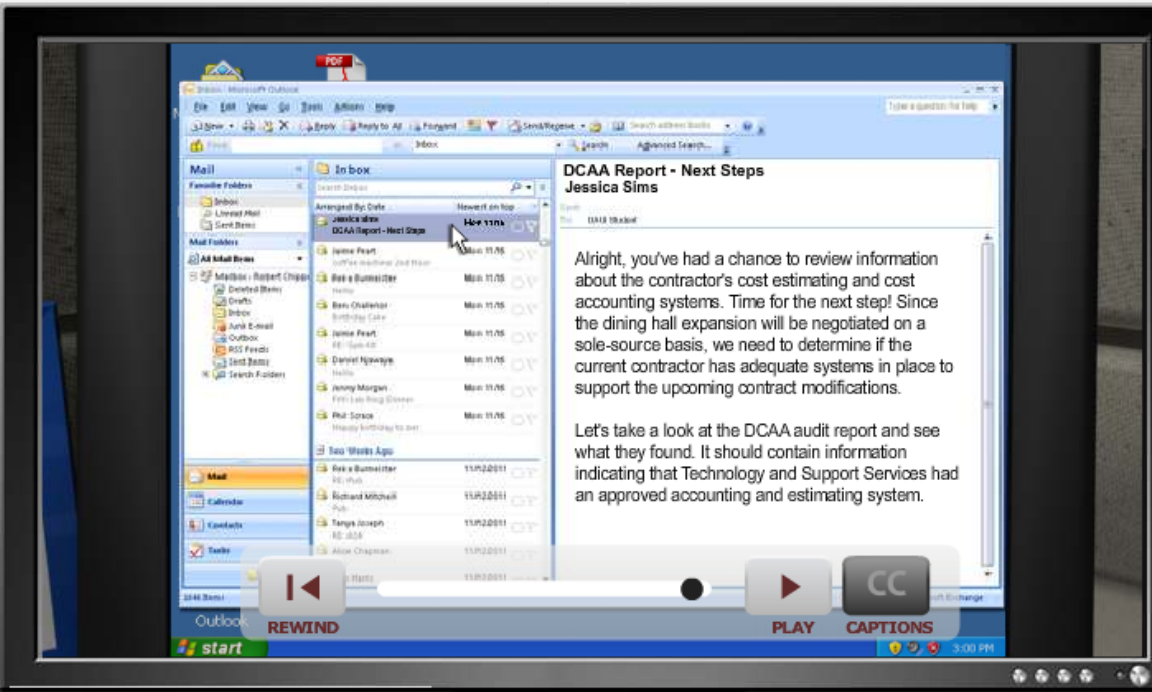
Let's take a look at the DCAA audit report and see what they found. It should contain information indicating that Technology and Support Services had an approved accounting and estimating system.

User Instructions: Select Next to continue.

14 of 17BackNext

Accounting and Estimating Systems

ResourcesGlossaryHelp



DCAA Report - Next Steps
Jessica Sims

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User Instructions: Select Next to continue.

14 of 17 Back Next

Accounting and Estimating Systems

[Resources](#)[Glossary](#)[Help](#)

Challenge Question #4

Select the Resources tab to review the DCAA audit report. After reviewing the report, answer the following question:

What step should you take next?

- ☐ A. Contact the DCMA to verify that Technology and Support Services' accounting and estimating systems are still considered adequate.
- ☐ B. Contact Technology and Support Services and ask them if there have been any substantive changes in their organizational systems since they were last audited.
- ☐ C. Do nothing. Since their systems are approved, you can cross this item off your list of things to be worried about.

[Check Answer](#)

User Instructions: Select the correct answer.

15 of 17

[Back](#)[Next](#)

Accounting and Estimating Systems

Systems Approved by the Government?

Are the offeror's cost estimating and cost accounting systems currently approved by the government?

ACO estimating or cost accounting system approval means that the system has the controls to consistently produce adequate estimates. A disapproved system is a red flag indicating that the firm's estimating and accounting systems do not consistently provide adequate proposals.

Normally, proposals from a firm with a disapproved system should be subjected to closer scrutiny, particularly by audit professionals.

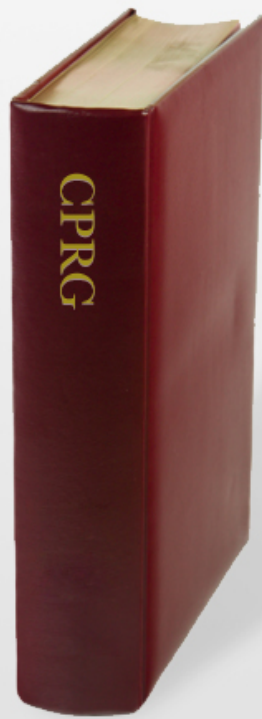
Select the Resources tab and review CPRG Volume 3, Chapter 4, Section 4.1 for more information.

User Instructions: Select Next to continue.

Resources

Glossary

Help



15 of 17

Back

Next

Accounting and Estimating Systems

[Resources](#)[Glossary](#)[Help](#)

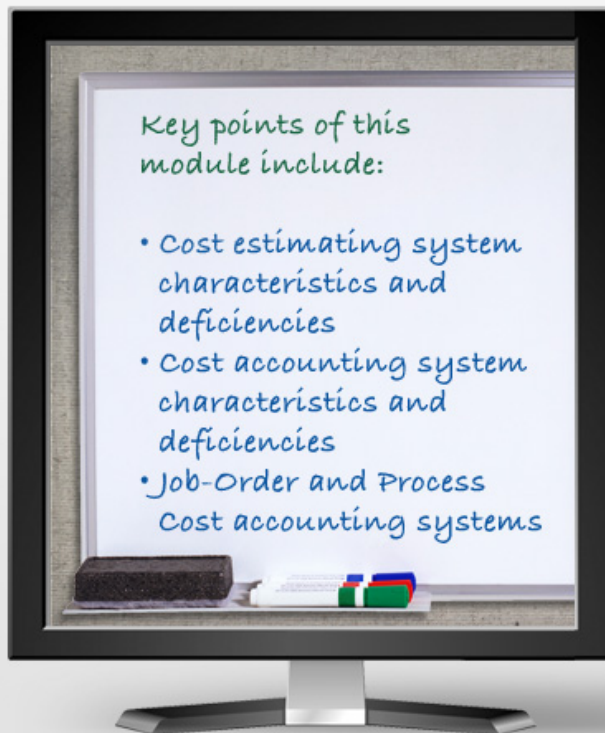
Summary

Congratulations! You have finished this module on cost accounting and estimating systems.

You learned the characteristics of an acceptable cost estimating system and how to identify a deficient one.

You also learned about what makes for an adequate cost accounting system and you identified the two most commonly used systems for cost accounting: job-order and process cost.

Review the graphic on the right to see the key points for this module.

[D](#)

User Instructions: Select Next to continue.

16 of 17

[Back](#)[Next](#)

Accounting and Estimating Systems

[Resources](#)[Glossary](#)[Help](#)

Summary (cont.)

Now that you have completed this module, you should be able to:

- Discuss the characteristics of an acceptable cost estimating system.
- Describe the characteristics of an adequate cost accounting system.
- Identify the two commonly used systems for cost accounting.



User Instructions: Select the next module from the Table of Contents to continue.

17 of 17

[Back](#)[Next](#)