

**9904.407-61**

comply with 9904.407-50(b)(2) of this Cost Accounting Standard.

(e)(1) Contractor E recognizes material-price variances at the time purchases of material are entered into the books of account and allocates variances at the end of each month. During the month of May, a homogeneous grouping of material has accumulated the following data:

|                         | Material cost at standard | Material price variance |
|-------------------------|---------------------------|-------------------------|
| Inventory, May 1 .....  | \$150,000                 | \$20,000                |
| Additions in May .....  | 1,850,000                 | 120,000                 |
| <b>Total .....</b>      | <b>2,000,000</b>          | <b>140,000</b>          |
| Requisitions:           |                           |                         |
| Production Unit 1 ..... | 900,000                   | .....                   |
| Production Unit 2 ..... | 450,000                   | .....                   |
| Production Unit 3 ..... | 300,000                   | .....                   |
| Production Unit 4 ..... | 150,000                   | .....                   |
| Inventory, May 31 ..... | 200,000                   | .....                   |

(2) Contractor E establishes a material-price variance rate of 7% (\$140,000 ÷ \$2,000,000) and allocates as follows:

|  | Material cost at standard | Material price variance rate (%) | Material price variance allocation |
|--|---------------------------|----------------------------------|------------------------------------|
| Production Unit 1 .....                              | \$900,000                 | 7                                | \$63,000                           |
| Production Unit 2 .....                              | 450,000                   | 7                                | 31,500                             |
| Production Unit 3 .....                              | 300,000                   | 7                                | 21,000                             |
| Production Unit 4 .....                              | 150,000                   | 7                                | 10,500                             |
| Ending inventory of homogeneous grouping of material | 200,000                   | 7                                | 14,000                             |
| <b>Total .....</b>                                   | <b>2,000,000</b>          | <b>.....</b>                     | <b>140,000</b>                     |

Contractor E's practice complies with provisions of 9904.407-50(b)(3)(ii) of this Cost Accounting Standard.

(f)(1) Contractor F makes year-end adjustments for variances attributable to covered contracts. During the year just ended, a covered contract was processed in four production units, each with homogeneous outputs. Data with respect to output and to labor of each of the four production units are as follows:

| Production unit | Total units of output | Total units used by the covered contract | Total labor costs at standard | Total labor-cost variance |
|-----------------|-----------------------|--|-------------------------------|---------------------------|
| 1 .....         | 100,000               | 10,000                                   | \$400,000                     | \$20,000                  |
| 2 .....         | 30,000                | 6,000                                    | 900,000                       | 30,000                    |
| 3 .....         | 20,000                | 5,000                                    | 600,000                       | 10,000                    |

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| Production unit | Total units of output | Total units used by the covered contract | Total labor costs at standard | Total labor-cost variance |
|-----------------|-----------------------|--|-------------------------------|---------------------------|
| 4 .....         | 10,000                | 4,000                                    | 500,000                       | 20,000                    |

(2) Since the outputs of each production unit are homogeneous, Contractor F uses the units of output as the basis of making memorandum worksheet adjustments concerning applicable variances, and establishes the following figures:

|   | Labor-cost variance per unit of unit | Units used by the covered contract | Labor-cost variance attributable to the covered contract |
|---|--------------------------------------|------------------------------------|--|
| Production Unit 1 .....   | \$0.20                               | 10,000                             | \$2,000  |
| Production Unit 2 .....   | 1.00                                 | 6,000                              | 6,000  |
| Production Unit 3 .....   | .50                                  | 5,000                              | 2,500  |
| Production Unit 4 .....   | 2.00                                 | 4,000                              | 8,000  |
| <b>Total labor-cost variance attributable to the covered contract</b> | <b>.....</b>                         | <b>.....</b>                       | <b>18,500</b>  |

(3) Contractor F makes a year-end adjustment of \$18,500 as the labor-cost variances attributable to the covered contract. Contractor F's practice complies with provisions of 9904.407-50(e) of this Cost Accounting Standard.

[57 FR 14153, Apr. 17, 1992; 57 FR 34167, Aug. 3, 1992]

**9904.407-61 Interpretation. [Reserved]**

**9904.407-62 Exemption.**

None for this Standard.

**9904.407-63 Effective date.**

This Standard is effective as of April 17, 1992. Contractors with prior CAS-covered contracts with full coverage shall continue this Standard's applicability upon receipt of a contract to which this Standard is applicable. For contractors with no previous contracts subject to this Standard, this Standard shall be applied beginning with the contractor's next full fiscal year beginning after the receipt of a contract to which this Standard is applicable.