

would be represented by a cost allocation based on inclusion of the contract cost in the total cost input base.

(h)(1) The home office of Segment H separately allocates to benefiting or causing segments significant home office expenses of staff management functions relative to manufacturing, staff management functions relative to engineering, central payment of health insurance costs, and residual expenses. Segment H receives these expenses as separate allocations and maintains three indirect cost pools; i.e., G&A expense, manufacturing overhead, and engineering overhead; all home office expenses allocated to Segment H are included in Segment H's G&A expense pool.

(2) This accounting practice of Segment H does not comply with 9904.410-50(g)(2). Home office residual expenses should be in the G&A expense pool, and the expenses of the staff management functions relative to manufacturing and engineering should be included in the manufacturing overhead and engineering overhead pools, respectively. The health insurance costs should be allocated in proportion to the beneficial and causal relationship between these costs and Segment H's cost objectives.

9904.410-61 Interpretation. [Reserved]

9904.410-62 Exemption.

This Standard shall not apply to contracts and grants with state, local, and Federally recognized Indian tribal governments.

9904.410-63 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.

APPENDIX A TO 9904.410—TRANSITION FROM A COST OF SALES OR SALES BASE TO A COST INPUT BASE

A business unit may use the method described below for transition from the use of a cost of sales or sales base to a cost input base.

(1) Calculate the cost of sales or sales base in accordance with the cost accounting practice disclosed or established prior to the date established by 9904.410-80(b) of the original Cost Accounting Standard.

(2) Calculate the G&A expense allocation rate using the base determined in subparagraph (1) of this appendix and use that rate to allocate from the G&A expense pool to the final cost objectives which were in existence prior to the date on which the business unit must first allocate costs in accordance with the requirements of this Cost Accounting Standard.

(3) Calculate a cost input base in compliance with 9904.410-50(d).

(4) Calculate the G&A expense rate using the base determined in subparagraph (3) of this appendix and use that rate to allocate from the G&A expense pool to those final cost objectives which arise under contracts entered into on or after the date on which the business unit must first allocate costs in accordance with the requirements of this Cost Accounting Standard.

(5) The calculations set forth in subparagraphs (1)-(4) of this appendix shall be performed for each cost accounting period during which final cost objectives described in (2) are being performed.

(6) The business unit shall establish an inventory suspense account. The amount of the inventory suspense account shall be equal to the beginning inventory of contracts subject to the CAS clause of the cost accounting period in which the business unit must first allocate costs in accordance with the requirements of this Cost Accounting Standard.

(7) In any cost accounting period, after the cost accounting periods described in subparagraph (5) of this Appendix, if the ending inventory of contracts subject to the CAS clause is less than the balance of the inventory suspense account, the business unit shall calculate two G&A expense allocation rates, one to allocate G&A expenses to contracts subject to the CAS clause and one applicable to other work.

(a) The G&A expense pool shall be divided in the proportion which the cost input of the G&A expense allocation base of the contracts subject to the CAS clause bears to the total of the cost input allocation base, selected in accordance with 9904.410-50(d), for the cost accounting period.

(b) The G&A expenses applicable to contracts subject to the CAS clause shall be reduced by an amount determined by multiplying the difference between the balance of the inventory suspense account and the ending inventory of contracts subject to the CAS clause by the cost of sales rate, as determined under subparagraph (1) of this Appendix, of the cost accounting period in which a business unit must first allocate costs in accordance with the requirements of this Cost Accounting Standard.

(8) In any cost accounting period in which such a reduction is made, the balance of the inventory suspense account shall be reduced to be equal to the ending inventory of contracts subject to the CAS clause of that cost accounting period.

The following illustrates how a business unit would use this transition method.

1. Business Unit R has been using a cost of sales base to allocate its G&A expense pool to final cost objectives. Unit R uses a calendar year as its cost accounting period. On October 1, 1976 (assumed for purposes of this illustration) Cost Accounting Standard 410 becomes effective. On October 2, 1976, Unit R receives a 3-year contract containing the Cost Accounting Standards clause. As a result, Unit R must comply with the requirements of the Standard in the cost accounting period beginning in January 1978. As of January 3, 1978, Business Unit R has the following contracts:

(1) Contract I—A 4-year contract awarded in January 1975.

(2) Contract II—A 3-year contract which was negotiated in March 1976, and was awarded on October 2, 1976.

(3) Contract III—A 4-year contract awarded on January 2, 1978.

If Business Unit R chooses to use the transition method provided in 9904.410-50(e), it will allocate the G&A expense pool to these contracts as follows:

(a) Contract I—Since Contract I was in existence prior to January 1, 1978, the G&A expense pool shall be allocated to it using a cost of sales base as provided in 9904.410-50(e).

(b) Contract II—Since this contract was in existence prior to January 1, 1978, the G&A expense pool shall be allocated to it using a cost of sales base as provided in 9904.410-50(e).

(c) Contract III—Since this contract was awarded after January 1, 1978, the G&A expense pool shall be allocated to this contract using a cost input base.

Having chosen to use 9904.410-50(e), Business Unit R will use the transition method of allocating the G&A expense pool to final cost objectives until all contracts awarded prior to January 1, 1978, are completed (1979 if the contracts are completed on schedule). Beginning with the cost accounting period subsequent to that time, 1980, Unit R will use a cost input base to allocate the G&A expense pool to all cost objectives. Unit R will also carry forward an inventory suspense account in accordance with the requirements of this Standard.

2.A. Business Unit N is first required to allocate its costs in accordance with the requirements of 9904.410 during the fiscal year beginning January 1, 1978. Unit N has used a cost of sales base to allocate its G&A expense pool.

During the years 1978, 1979, 1980, Business Unit N reported the following data:

	Contracts prior to Jan. 1, 1978				Contracts prior to Jan. 1, 1978		
	Total	Non-CAS work	CAS-fixed price work	CAS-cost contract	Non-CAS work	CAS-fixed price work	CAS-cost contracts
Year 1978:							
Beginning inventory ...	\$500	300	200	0	0	0	0
Cost input	+3000	400	600	700	500	500	300
Total	3500	700	800	700	500	500	300
Cost of sales	-3000	600	550	700	450	400	300
Ending inventory	500	100	250	0	50	100	0
Year 1979:							
Beginning inventory ...	500	100	250	0	50	100	0
Cost input	+3000	400	600	700	500	500	300
Total	3500	500	850	700	550	600	300
Cost of sales	-2500	450	650	700	150	250	300
Ending inventory	1000	50	200	0	400	350	0
Year 1980:							
Beginning inventory ...	1000	50	200	0	400	350	0
Cost input	+3000	400	600	700	500	500	300
Total	4000	450	800	700	900	850	300
Cost of sales	-3250	450	800	700	450	550	300
Ending inventory	750	0	0	0	450	300	0

Notes:

Operating data is in thousands of dollars.
G. & A. expense \$375,000 in accordance with the requirements of this standard.

Work existing prior to January 1, 1978, may include—

- (1) Government contracts which contain the CAS clause;
- (2) Government contracts which do not contain the CAS clause;
- (3) Contracts other than Government contracts or customer orders; and
- (4) Production not specifically identified with contracts or customer orders under production or work orders existing prior to the date on which a business unit must first allocate its costs in compliance with this Standard

ard and which are limited in time or quantity.

Production under standing or unlimited work orders, continuous flow processes and the like, not identified with contracts or customer orders are to be treated as final cost objectives awarded after the date on which a business unit must first allocate its costs in compliance with the requirements of this Standard.

Business Unit N may allocate the G&A expense pool as follows:

[In dollars]

	Year 1978	Year 1979	Year 1980
1. G.&A. expense pool	375	375	375
Cost of sales rate	375/3,000=.125	375/2,500=.150	375/3,250=.115
Cost input	375/3,000=.125	375/3,000=.125	375/3,000=.125
2. G.&A. allocations:			
Prior contracts:			
Non-CAS work	600×0.125=75.00	450×0.15=67.50	450×0.115=51.75
CAS-fixed price work	550×0.125=68.75	650×0.15=97.50	800×0.115=92.00
CAS-cost contracts	700×0.125=87.50	700×0.15=105.00	700×0.115=80.50
After contracts:			
Non-CAS work	500×0.125=62.50	500×0.125=62.50	500×0.125=62.50
CAS-fixed price work	500×0.125=62.50	500×0.125=62.50	500×0.125=62.50
CAS-cost contracts	300×0.125=37.50	300×0.125=37.50	300×0.125=37.55
3. Inventory suspense account ¹	393.75	432.50	386.80
G.&A. rate applicable	200		
G.&A. rate applicable125		

¹ Beginning inventory of contracts subject to the CAS clause, January 1978.

2.B. In cost accounting period 1982, Business Unit N has an ending inventory of contracts subject to the CAS clause of \$100,000. This is the first cost accounting period after the transition in which the amount of the ending inventory is less than the amount of the inventory suspense account. During this cost accounting period, Business Unit N had G&A expenses of \$410,000 and cost input of \$3,500,000; \$1,500,000 applicable to contracts subject to the CAS clause and \$2,000,000 applicable to other work.

Business Unit N would compute its G&A expense allocation rate applicable to contracts subject to the CAS clause as follows:

(1) Amount of inventory suspense account	\$200,000
Amount of ending inventory	100,000
Difference	100,000
G. & A. rate applicable (see 2.A. above)	×0.125
Adjustment to G. & A. expense applicable to contracts subject to the CAS clause	12,500

(2) G. & A. expense pool	410,000
G. & A. expenses applicable to contracts subject to the CAS clause (\$1,500,000/\$3,500,000 × \$410,000)	175,890
G. & A. expenses applicable to other work	234,110
(3) G. & A. expenses applicable to contracts subject to the CAS clause	175,890
Adjustment to G. & A. expenses applicable to contracts subject to the CAS clause	- 12,500
G. & A. expenses allocable to contracts subject to the CAS clause	163,390
(4) G. & A. expense allocation rate applicable to contracts subject to the CAS clause for cost accounting period 1982-\$163,390/\$1,500,000=0.109.	

The amount of the inventory suspense account would be reduced to \$100,000.

9904.411

48 CFR Ch. 99 (10-1-01 Edition)

[57 FR 14153, Apr. 17, 1992; 57 FR 34081, 34167, Aug. 3, 1992]

**9904.411 Cost accounting standard—
accounting for acquisition costs of
material.**

9904.411-10 [Reserved]

9904.411-20 Purpose.

(a) The purpose of this Cost Accounting Standard is to provide criteria for the accounting for acquisition costs of material. The Standard includes provisions on the use of inventory costing methods. Consistent application of this Standard will improve the measurement and assignment of costs to cost objectives.

(b) This Cost Accounting Standard does not cover accounting for the acquisition costs of tangible capital assets nor accountability for Government-furnished materials.

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

9904.411-30 Definitions.

(a) The following are definitions of terms which are prominent in this Standard. Other terms elsewhere in this chapter 99 shall have the meanings ascribed to them in those definitions unless paragraph (b) of this subsection, requires otherwise.

(1) *Allocate* means to assign an item of cost, or a group of items of cost, to one or more cost objectives. This term includes both direct assignment of cost and the reassignment of a share from an indirect cost pool.

(2) *Business unit* means any segment of an organization, or an entire business organization which is not divided into segments.

(3) *Category of material* means a particular kind of goods, comprised of identical or interchangeable units, acquired or produced by a contractor, which are intended to be sold, or consumed or used in the performance of either direct or indirect functions.

(4) *Cost objective* means a function, organizational subdivision, contract or other work unit for which cost data are desired and for which provision is made to accumulate and measure the cost of processes, products, jobs, capitalized projects, etc.

(5) *Material inventory record* means any record used for the accumulation of actual or standard costs of a category of material recorded as an asset for subsequent cost allocation to one or more cost objectives.

(6) *Moving average cost* means an inventory costing method under which an average unit cost is computed after each acquisition by adding the cost of the newly acquired units to the cost of the units of inventory on hand and dividing this figure by the new total number of units.

(7) *Weighted average cost* means an inventory costing method under which an average unit cost is computed periodically by dividing the sum of the cost of beginning inventory plus the cost of acquisitions by the total number of units included in these two categories.

(b) The following modifications of terms defined elsewhere in this chapter 99 are applicable to this Standard: None.

9904.411-40 Fundamental requirement.

(a) The contractor shall have, and consistently apply, written statements of accounting policies and practices for accumulating the costs of material and for allocating costs of material to cost objectives.

(b) The cost of units of a category of material may be allocated directly to a cost objective provided the cost objective was specifically identified at the time of purchase or production of the units.

(c) The cost of material which is used solely in performing indirect functions, or is not a significant element of production cost, whether or not incorporated in an end product, may be allocated to an indirect cost pool. When significant, the cost of such indirect material not consumed in a cost accounting period shall be established as an asset at the end of the period.

(d) Except as provided in paragraphs (b) and (c) of this subsection, the cost of a category of materials shall be accounted for in material inventory records.

(e) In allocating to cost objectives the costs of a category of material issued from company-owned material inventory, the costing method used