(i) The segregation of unallowable costs in separate accounts maintained for this purpose in the regular books of account,
(ii) The development and maintenance of separate accounting records or workpapers, or
(iii) The use of any less formal cost accounting techniques which establishes and maintains adequate cost identification to permit audit verification of the accounting recognition given unallowable costs.
(2) Contractors may satisfy the visibility requirements for estimated costs either:
(i) By designation and description (in backup data, workpapers, etc.) of the amounts and types of any unallowable costs which have specifically been identified and recognized in making the estimates, or
(ii) By description of any other estimating technique employed to provide appropriate recognition of any unallowable costs pertinent to the estimates.
(c) Specific identification of unallowable cost is not required in circumstances where, based upon considerations of materiality, the Government and the contractor reach agreement on an alternate method that satisfies the purpose of the Standard.
9904.405–60 Illustrations.
(a) An auditor recommends disallowance of certain direct labor and direct materials costs, for which a billing has been submitted under a contract, on the basis that these particular costs were not required for performance and were not authorized by the contract. The contracting officer issues a written decision which supports the auditor's position that the questioned costs are unallowable. Following receipt of the contracting officer's decision, the contractor must clearly identify the disallowed direct labor and direct materials costs in his accounting records and reports covering any subsequent submission which includes such costs. Also, if the contractor's base for allocation of any indirect cost pool relevant to the subject contract consists of direct labor, direct material, total prime cost, total cost input, etc., he must include the disallowed direct
labor and material costs in his allocation base for such pool. Had the contracting officer's decision been against the auditor, the contractor would not, of course, have been required to account separately for the costs questioned by the auditor.

(b) A contractor incurs, and separately identifies, as a part of his manufacturing overhead, certain costs which are expressly unallowable under the existing and currently effective regulations. If manufacturing overhead is regularly a part of the contractor's base for allocation of general and administrative (G&A) or other indirect expenses, the contractor must allocate the G&A or other indirect expenses to contracts and other final cost objectives by means of a base which includes the identified unallowable manufacturing overhead costs.

(c) An auditor recommends disallowance of the total direct and indirect costs attributable to an organizational planning activity. The contractor claims that the total of these activity costs are allowable under the Federal Acquisition Regulation (FAR) as "Economic planning costs" (48 CFR 31.205-12); the auditor contends that they constitute "Organization costs" (48 CFR 31.205-27) and therefore are unallowable. The issue is referred to the contracting officer for resolution pursuant to the contract disputes clause. The contracting officer issues a written decision supporting the auditor's position that the total costs questioned are unallowable under the FAR. Following receipt of the contracting officer's decision, the contractor must identify the disallowed costs and specific other costs incurred for the same purpose in like circumstances in any subsequent estimating, cost accumulation or reporting for Government contracts, in which such costs are included. If the contracting officer's decision had supported the contractor's contention, the costs questioned by the auditor would have been allowable "Economic planning costs," and the contractor would not have been required to provide special identification.

(d) A defense contractor was engaged in a program of expansion and diversification of corporate activities. This involved internal corporate reorganiza-
as a directly associated cost of the un-
allowable entertainment expense.

9904.405–61 Interpretation. [Reserved]

9904.405–62 Exemption.
None for this Standard.

9904.405–63 Effective date.
This Standard is effective as of April
17, 1992.

9904.406 Cost accounting standard—
cost accounting period.

9904.406–10 [Reserved]

9904.406–20 Purpose.
The purpose of this Cost Accounting
Standard is to provide criteria for the
selection of the time periods to be used
as cost accounting periods for contract
cost estimating, accumulating, and re-
porting. This Standard will reduce the
effects of variations in the flow of costs
within each cost accounting period. It
will also enhance objectivity, consist-
ency, and verifiability, and promote
uniformity and comparability in con-
tract cost measurements.

(a) The following are definitions of
terms which are prominent in this
Standard. Other terms defined else-
where in this part 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) Cost objective means a function, or-
ganizational 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.

(3) Fiscal year means the accounting
period for which annual financial state-
ments are regularly prepared, generally
a period of 12 months, 52 weeks, or
53 weeks.

(4) Indirect cost pool means a grouping
of incurred costs identified with two or
more cost objectives but not identified
specifically with any final cost objec-
tive.

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

9904.406–40 Fundamental require-
ment.
(a) A contractor shall use this fiscal
year as his cost accounting period, ex-
cept that:

(1) Costs of an indirect function
which exists for only a part of a cost
accounting period may be allocated to
cost objectives of that same part of the
period as provided in 9904.406-50(a).

(2) An annual period other than the
fiscal year may, as provided in 9904.406-
50(d), be used as the cost accounting
period if its use is an established prac-
tice of the contractor.

(3) A transitional cost accounting pe-
riod other than a year shall be used
whenever a change of fiscal year oc-
curs.

(4) Where a contractor’s cost ac-
counting period is different from the
reporting period used for Federal in-
come tax reporting purposes, the latter
may be used for such reporting.

(b) A contractor shall follow con-
sistent practices in his selection of the
cost accounting period or periods in
which any types of expense and any
types of adjustment to expense (includ-
ing prior-period adjustments) are accu-
ulated and allocated.

(c) The same cost accounting period
shall be used for accumulating costs in
an indirect cost pool as for establishing
its allocation base, except that the
contracting parties may agree to use a
different period for establishing an al-
location base as provided in 9904.406-
50(e).

9904.406–50 Techniques for applica-
tion.
(a) The cost of an indirect function
which exists for only a part of a cost
accounting period may be allocated on
the basis of data for that part of the
cost accounting period if the cost is: