as a directly associated cost of the un-
allowable entertainment expense.

[57 FR 14153, Apr. 17, 1992; 57 FR 34167, Aug.
3, 1992; 57 FR 43776, Sept. 22, 1992]

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,
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.

(3) Fiscal year means the accounting
period for which annual financial state-
tments are regularly prepared, gen-
erally 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
the 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-
mulated 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).

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

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:
(1) Material in amount,
(2) Accumulated in a separate indirect cost pool, and
(3) Allocated on the basis of an appropriate direct measure of the activity or output of the function during that part of the period.

(b) The practices required by 9904.406-40(b) of this Standard shall include appropriate practices for deferrals, accruals, and other adjustments to be used in identifying the cost accounting periods among which any types of expense and any types of adjustment to expense are distributed. If an expense, such as taxes, insurance or employee leave, is identified with a fixed, recurring, annual period which is different from the contractor’s cost accounting period, the Standard permits continued use of that different period. Such expenses shall be distributed to cost accounting periods in accordance with the contractor’s established practices for accruals, deferrals, and other adjustments.

(c) Indirect cost allocation rates, based on estimates, which are used for the purpose of expediting the closing of contracts which are terminated or completed prior to the end of a cost accounting period need not be those finally determined or negotiated for that cost accounting period. They shall, however, be developed to represent a full cost accounting period, except as provided in paragraph (a) of this subsection.

(d) A contractor may, upon mutual agreement with the Government, use as his cost accounting period a fixed annual period other than his fiscal year, if the use of such a period is an established practice of the contractor and is consistently used for managing and controlling the business, and appropriate accruals, deferrals or other adjustments are made with respect to such annual periods.

(e) The contracting parties may agree to use an annual period which does not coincide precisely with the cost accounting period for developing the data used in establishing an allocation base: Provided,

(1) The practice is necessary to obtain significant administrative convenience,
(2) The practice is consistently followed by the contractor,
(3) The annual period used is representative of the activity of the cost accounting period for which the indirect costs to be allocated are accumulated, and
(4) The practice can reasonably be estimated to provide a distribution to cost objectives of the cost accounting period not materially different from that which otherwise would be obtained.

(f) When a transitional cost accounting period is required under the provisions of 9904.406-40(a)(3), the contractor may select any one of the following:

(1) The period, less than a year in length, extending from the end of his previous cost accounting period to the beginning of his next regular cost accounting period,
(2) A period in excess of a year, but not longer than 15 months, obtained by combining the period described in paragraph (f)(1) of this subsection with the previous cost accounting period, or
(3) A period in excess of a year, but not longer than 15 months, obtained by combining the period described in paragraph (f)(1) of this subsection with the next regular cost accounting period.

A change in the contractor’s cost accounting period is a change in accounting practices for which an adjustment in the contract price may be required in accordance with paragraph (a)(4)(ii) or (iii) of the contract clause set out at 9903.201-4(a).

9904.406-60 Illustrations.

(a) A contractor allocates general management expenses on the basis of total cost input. In a proposal for a covered negotiated fixed-price contract, he estimates the allocable expenses based solely on the estimated amount of the general management expense pool and the amount of the total cost input base estimated to be incurred during the 8 months in which performance is scheduled to be commenced and completed. Such a proposal would be in violation of the requirements of this Standard that the calculation of the amounts of both the indirect cost pools and the allocation bases be based on the contractor’s cost accounting period.

(b) A contractor whose cost accounting period is the calendar year, installs