items inventory accounts, each representing a homogeneous grouping of material, and maintain a material-price variance account for each of these homogeneous groupings of material, Contractor D’s practice would 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:

<table>
<thead>
<tr>
<th>Material</th>
<th>Cost at Standard</th>
<th>Material Price Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory, May 1</td>
<td>$150,000</td>
<td>$20,000</td>
</tr>
<tr>
<td>Additions in May</td>
<td>$1,850,000</td>
<td>$120,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,000,000</strong></td>
<td><strong>$140,000</strong></td>
</tr>
<tr>
<td>Requisitions:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production Unit 1</td>
<td>900,000</td>
<td></td>
</tr>
<tr>
<td>Production Unit 2</td>
<td>450,000</td>
<td></td>
</tr>
<tr>
<td>Production Unit 3</td>
<td>300,000</td>
<td></td>
</tr>
<tr>
<td>Production Unit 4</td>
<td>150,000</td>
<td></td>
</tr>
<tr>
<td><strong>Inventory, May 31</strong></td>
<td>200,000</td>
<td></td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>Production Unit</th>
<th>Total Units of Output</th>
<th>Total Labor Costs at Standard</th>
<th>Total Labor Cost Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 ...............</td>
<td>100,000</td>
<td>10,000</td>
<td>$400,000</td>
</tr>
<tr>
<td>2 ...............</td>
<td>30,000</td>
<td>6,000</td>
<td>$900,000</td>
</tr>
<tr>
<td>3 ...............</td>
<td>20,000</td>
<td>5,000</td>
<td>$600,000</td>
</tr>
<tr>
<td>4 ...............</td>
<td>10,000</td>
<td>4,000</td>
<td>$500,000</td>
</tr>
</tbody>
</table>

(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:

<table>
<thead>
<tr>
<th>Production Unit</th>
<th>Labor Cost Variance per Unit of Output</th>
<th>Units Used by the Covered Contract</th>
<th>Labor Cost Variance Attributable to the Covered Contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 ...............</td>
<td>$0.20</td>
<td>10,000</td>
<td>$2,000</td>
</tr>
<tr>
<td>2 ...............</td>
<td>1.00</td>
<td>6,000</td>
<td>6,000</td>
</tr>
<tr>
<td>3 ...............</td>
<td>0.50</td>
<td>5,000</td>
<td>2,500</td>
</tr>
<tr>
<td>4 ...............</td>
<td>2.00</td>
<td>4,000</td>
<td>8,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$18,500</strong></td>
<td><strong>30,000</strong></td>
<td><strong>$18,500</strong></td>
</tr>
</tbody>
</table>

(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.