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WAR DEPARTMENT TECHNICAL MANUAL

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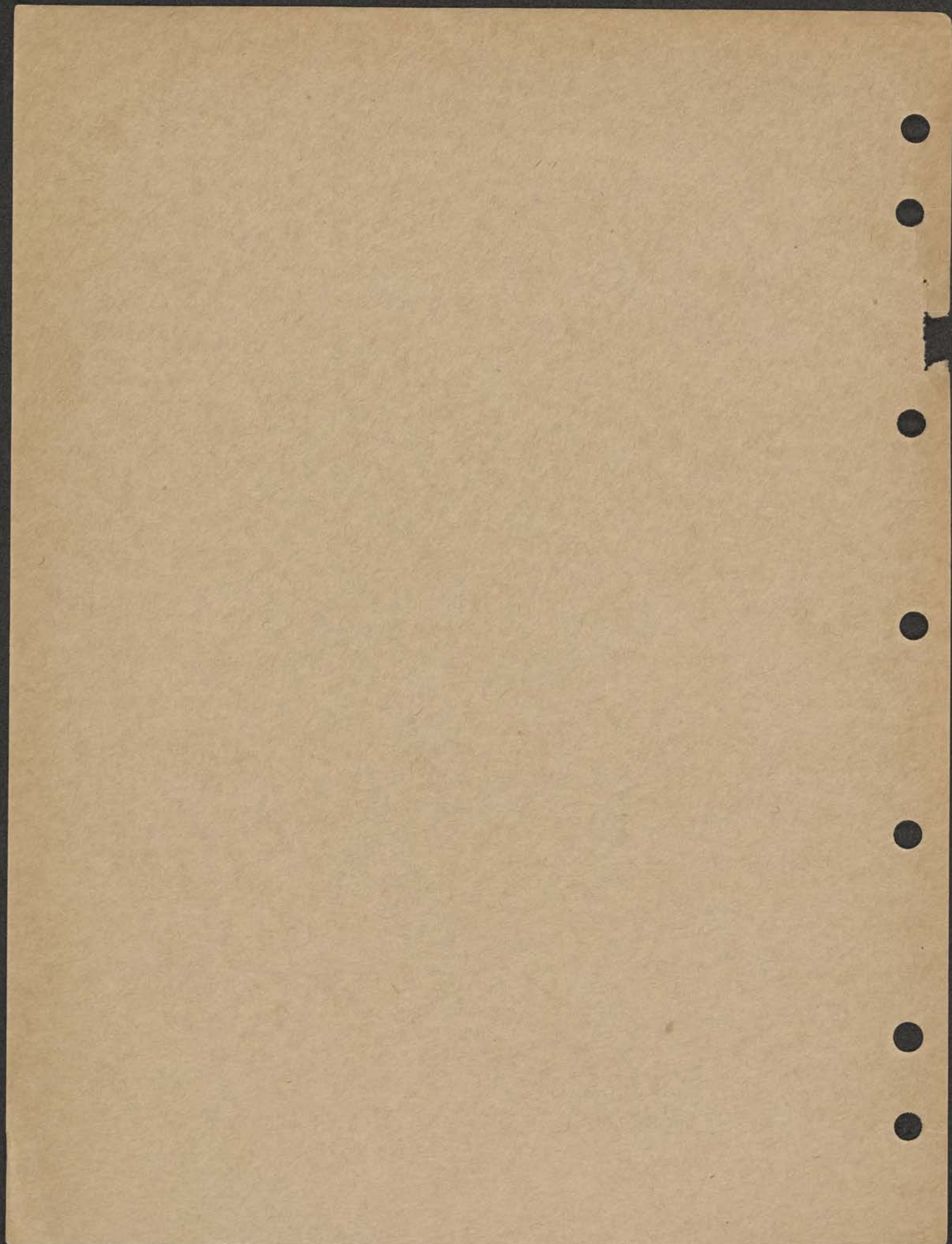
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TECHNICAL MANUAL
TERMINATION ACCOUNTING MANUAL FOR FIXED-
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CHANGES }
No. 1 }

WAR DEPARTMENT,
WASHINGTON 25, D. C., 1 August 1944.

TM 14-1005, 1 June 1944, is changed as follows:

Paragraph 8k, page 3, insert comma after "and" in the second line; delete "and," the first word in the third line.

Paragraph 27, page 9, delete "10 and 11" insert "10 to 13 inclusive."

Paragraph 29, page 9, change "figure 7" to "figure 6."

Paragraph 38b, page 32, change "or" in the second line to "of."

Insert the attached index following page 54.

[A. G. 300.7 (17 Jul 44).]

BY ORDER OF THE SECRETARY OF WAR:

G. C. MARSHALL,
Chief of Staff.

OFFICIAL:

J. A. ULIO,
*Major General,
The Adjutant General.*

DISTRIBUTION:

1st thru 9th SvC (100). No oversea distribution.

For explanation of symbols see FM 21-6.

TOXIC MANUAL

TERMINATION AND CANCELLATION MANUAL FOR NEW
PACED BERRY CONTRACTS

1. The purpose of this manual is to provide a clear and concise guide for the termination and cancellation of new paced berry contracts. This manual is intended for use by all personnel involved in the management of these contracts.

2. The manual is organized into several sections, each covering a specific aspect of the termination and cancellation process. These sections include:

- 2.1. General Principles
- 2.2. Termination Procedures
- 2.3. Cancellation Procedures
- 2.4. Dispute Resolution
- 2.5. Final Remarks

3. The manual is designed to be a practical guide, providing step-by-step instructions for each stage of the process. It is intended to be used as a reference tool for all personnel involved in the management of these contracts.

4. The manual is subject to periodic review and updates to ensure it remains current and relevant. Any changes to the manual will be communicated to all personnel in a timely manner.

5. The manual is a confidential document and should be handled accordingly. It is not to be distributed outside of the organization without prior approval.

WAR DEPARTMENT TECHNICAL MANUAL
TM 14-1005

This manual supersedes TM 14-320, 7 July 1943

TERMINATION ACCOUNTING
MANUAL FOR FIXED-PRICE
SUPPLY CONTRACTS



WAR DEPARTMENT •

1 JUNE 1944

WAR, DEPARTMENT,
WASHINGTON 25, D. C., 1 June 1944.

TM 14-1005, Termination Accounting Manual for Fixed-Price Supply Contracts, is published for the information and guidance of all concerned.

[A. G. 300.7 (29 May 44).]

BY ORDER OF THE SECRETARY OF WAR:

G. C. MARSHALL,
Chief of Staff.

OFFICIAL:

J. A. ULIO,
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The Adjutant General.*

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INTRODUCTION

FOREWORD

Changes to this manual will be supplied on a page basis, and will be published as required. As change pages are received they will be inserted in their proper places and the replaced pages destroyed.

Each page of the manual bears a date in its upper inside corner. This date is the date of the publication. Pages which represent changes will carry the date and number of the change.

Paragraphs are numbered consecutively throughout the entire book. Paragraphs with decimal suffixes indicate added paragraphs. For example, a paragraph numbered 34.1 represents the first main paragraph following paragraph 34.

Pages are numbered consecutively throughout the book. If new pages are added within the book, the added pages will carry alphabetical suffixes—A, B, C, and so on. For example, if a new page is added between 31 and 32, the page will be numbered 31A. A second additional page in the same place would be numbered 31B, and so on.

INTRODUCTION

References will be found in this manual to War Department Procurement Regulations relating to terminations. This manual is not directed to contracting officers but is designed solely to give accounting and auditing instructions consistent with Procurement Regulations. In the event of revisions of the Procurement Regulations, appropriate revisions will be made herein.

When a settlement is to be arrived at by negotiation, reports by personnel making the accounting review or the audit of the contractor's proposed settlement are in the nature of a guide to the contracting officer. Such reports and the procedures set forth in this manual will not limit or restrict the ultimate legal authority of the contracting officer to effect negotiated settlements.

In any accounting review, or in the preparation of accounting reports for the information and guidance of the contracting officer, the "Statement of Principles for Determination of Costs Upon Termination of Government Fixed Price Supply Contracts," issued by the Joint Contract Termination Board, will be followed.

When a settlement is not to be effected by negotiation but by the application of a specific formula provided in the contract, an audit of the contractor's claim will be made in each instance in accordance with specific instructions issued by the Chief of the Technical Service concerned or the Commanding General, Army Air Forces. These instructions will be consistent with Procurement Regulation 15 and with accounting methods prescribed by the Office of the Fiscal Director, Headquarters, Army Service Forces.

Further accounting instructions in the form of Termination Cost Memorandums for the information and guidance of War Department personnel in dealing with the determination of costs and related matters will be issued as chapter 5 of this manual.

Chapter 6 of this manual, to be issued at a later date, will deal with the accounting problems and procedures peculiar to the Field Accounting Representative program for the review of termination settlements.

In addition, accounting instructions consistent with those prescribed in this manual may be issued by each of the Chiefs of the Technical Services and the Commanding General, Army Air Forces. Such instructions will relate to the administration of the audit staffs, and due to varying procedural requirements in the Technical Services and Army Air Forces, some variation in content may exist, but uniformity should be an objective. Copies of all such instructions will be submitted to the Fiscal Director, Army Service Forces, for ratification by that office.

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This manual supersedes TM 14-320, 7 July 1943

CHAPTER 1

INTRODUCTION

SECTION I

GENERAL

1. Purpose of Manual. The purpose of this manual, which is applicable only to negotiated settlements of fixed-price supply contracts terminated at the option or for the convenience of the Government, is to guide Government accounting personnel in their accounting review or examination of settlements proposed by contractors, so that contracting officers may have a factual basis upon which to negotiate settlements. It is intended, also, that this manual will provide useful information on the accounting aspects of terminations.

2. Termination Article. Paragraphs 324 and 15-901 of the War Department Procurement Regulations contain the Uniform Termination Article for insertion in fixed-price supply contracts. The text of this article is set forth in appendix A. The Termination Article previously prescribed and now superseded (see PR 15-901-A) is reproduced in appendix B, since certain contracts containing the old Termination Article are in the process of settlement. Procedures contained in this manual are applicable to negotiated settlements under either article.

3. Manual Does Not Prescribe Regulations for Contracting Officer. Procurement Regulations prescribe the principles and rules for contracting officers in dealing with termination settlements. Wherever statements are made in this manual as to duties of contracting officers, such statements are based on Procurement Regulations and are solely for the purpose of informing accounting personnel. They are not to be interpreted as instructional to contracting officers.

4. Presentation of Proposed Settlement by Contractor. When a War Department fixed-price supply contract is terminated by the Govern-

ment, the contractor prepares a statement setting forth his proposed settlement. The contracting officer has the responsibility of passing upon this proposal and arriving at an agreement with the contractor. In carrying out these functions, it is the further responsibility of the contracting officer to decide the extent to which he requires independent review and verification of the contractor's statement by personnel qualified to deal with accounting matters. In this connection, the accounting personnel will assist the contracting officer in an advisory capacity when such technical assistance is requested by him.

5. Documentary Evidence Requirements. War Department requirements as to documentary evidence, such as are in force with respect to CPFF contracts, are not applicable to fixed-price supply contract termination settlements. In the case of a negotiated settlement, the only documentary evidence to be attached to the voucher will be a copy of the supplemental agreement evidencing the amount and terms of the settlement. The contracting officer, however, should maintain records of the settlement in the manner prescribed by the chief of the technical service in accordance with PR 15-222. Paragraph (h) of the Uniform Termination Article provides that the contractor, for a period of three years after final settlement under the contract, must make available to the Government at all reasonable times at its office all of its books, records, documents, and other evidence bearing on the cost and expenses of the contractor under the contract and with respect to the termination of work thereunder.

6. Detailed Auditing To Be Minimized.

a. It is desirable that auditing be reduced to a minimum consistent with protecting the interest of the Government. Whenever possible, reliance should be placed on intelligent reviews rather than on audits. In cases where audits appear to be necessary, they will be carried out in accordance with the principles of selective auditing.

b. Chapters 1 and 2 of this manual are of general application in all reviews; chapters 3 and 4 apply only in those cases where audits are made. However, a general reading of the latter chapters should be useful in applying the procedures outlined in chapters 1 and 2.

7. Office Review of Proposed Settlement by Accounting Personnel. PR 15-424.1 requires contracting officers to have an office review made by qualified accounting personnel of each statement submitted by a contractor in connection with a fixed-price supply contract termination.

a. The purpose of the office review is to appraise the adequacy of the supporting information submitted by the contractor with his settlement proposal, so that the accounting personnel can recommend to the contracting officer the extent to which reliance can be placed thereon as a basis for a negotiated settlement. In making this appraisal the accounting personnel may be guided by the test of what evidence would be satisfactory in accordance with prudent business standards.

b. Before beginning the office review, the accounting personnel should refer to the terms of the contract or purchase order under which the settlement proposal is being made. They should also avail themselves of any other information pertinent to the contract.

c. Upon completion of the office review, the accountant will furnish the contracting officer an appropriate memorandum expressing his conclusions as to the adequacy of the supporting information and the indicated reliability of the data submitted by the contractor.

d. In making recommendations to the contracting officer, the accountant should consider the following:

(1) Amount and complexity of the proposed settlement.

(2) Result of the office review.

(3) Available reports of independent public accountants.

(4) Information available from War Department personnel having contacts with the operations under the contract.

(5) Information available from price adjustment boards.

(6) Status of renegotiation proceedings.

e. The accountant should realize that the contracting officer will rely to a considerable extent on his recommendations. Therefore, in view of the general need for minimizing auditing to the extent practicable, he should not

recommend further examination when the interests of the Government can be protected adequately by relying on more readily available information.

8. Procedure for Office Review. The fundamental objectives of an office review are the same as those of an audit performed in the field, as discussed in chapters 3 and 4. However, the review is necessarily more limited than the field audit, since it is based upon the supporting evidence submitted by the contractor as a part of his settlement proposal and other information available in the office of the procurement district. In general, the accountant analyzes and tests the information submitted by the contractor to determine inconsistencies or other indications that the items included are overstated or inapplicable. The following summary is suggestive of the major steps in an office review:

a. A check of the mathematical accuracy of the settlement proposal and all supporting or related schedules should be made.

b. The accuracy of the information submitted in connection with outstanding "V" or other Government guaranteed loans and advance payments should be checked.

c. Each item of cost should be reviewed to determine that it conforms with the Statement of Principles for Determination of Costs. (See par. 24.)

d. In examining overhead charges (indirect factory expense or general and administrative expense), a review should be made of the available data with respect to significant items to determine—

(1) That the individual accounts included in the overhead "pool" are proper and reasonable.

(2) That the bases of prorating the overhead to the contract are acceptable.

(3) That the overhead rates are reasonable and have been applied properly.

e. Consideration should be given to the reasonableness of each item of cost in relation to the stage of completion of the contract.

f. Consideration should be given to the reasonableness of the relationships between the amounts of the various items, based on normal commercial standards.

g. A check should be made of the finished units shipped and billed to determine the number of units covered by the termination notice.

h. Quantities of material and work in process on hand should be carefully reviewed to

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determine that they are not in excess of the reasonable requirements for the uncompleted portion of the contract.

i. The available inventory data should be reviewed to determine whether the contractor has included defective items.

j. Reconcilements of inventory quantities of significant items listed by the contractor with quantities disposed of or taken over by the Government should be made to the greatest extent practicable. (See par. 66.) If at the time of the office review the property disposition is not complete, a partial reconciliation should be made subject to completion of the check at the time of final settlement.

k. Consideration should be given to the possibility of common items and where they exist, and the propriety of the allocation of such items to the terminated contract should be carefully appraised.

l. Amounts included for handling charges and post termination charges should be reviewed as to their reasonableness, and to determine any indication that they have been estimated or arbitrarily determined to an unreasonable extent.

m. If the contractor has included a charge for profit, the accountant should review all information pertaining to the indicated rate of profit on this contract, (par. 23a), rates shown by applicable cost estimates, rates allowed in renegotiation, and other similar data. Consideration also should be given to the items of cost to which the rate or rates have been applied.

n. Consideration should be given to other work the contractor is doing and to any indication that costs for tools or other equipment are included which are properly applicable to such other work.

o. Settlement proposals submitted by the same contractor in connection with other terminated contracts should be reviewed for any evidence of inconsistency in the application of procedures or policies.

9. Appropriate Extent of Examination Beyond an Office Review.

a. It is the contracting officer's responsibility to determine what further examination, if any, will be made of the contractor's proposed settlement beyond the office review.

b. The following steps are illustrative of what further examination, if any, the contracting officer may require:

(1) The contractor may be requested to submit additional data or explanations in writing.

(2) Government accounting personnel may be instructed to visit the contractor's plant to discuss the statement and to make any necessary reference to the accounting records.

(3) An audit by qualified accounting personnel may be requested in accordance with the procedures outlined in chapter 3.

c. While it is the contracting officer's responsibility to decide whether or not an audit is to be made, the procedures by which such examinations are actually carried out are dependent upon the judgment and technical knowledge of the accounting personnel.

10. Completion of Negotiated Settlement.

a. The reports of accounting personnel, whether based on office reviews or more extensive examinations, will be submitted in an appropriate manner to the contracting officer. It is then the contracting officer's sole responsibility to negotiate a settlement with the contractor. It is to be emphasized that the reports of the accounting personnel are for the general guidance of the contracting officer and do not limit that officer in arriving at what he considers to be a proper settlement.

b. The accountant's report should include comments, in reasonable detail, upon the bases of the determination of the rate or rates of profit used in the computations. The report should also call to the attention of the contracting officer any special factors relating to the allowance of profit which should be given study in connection with the settlement negotiations and should suggest any qualifications of the results of the computations which may occur to the accounting personnel as deserving consideration by the contracting officer.

11. Coordination in Certain Cases With Renegotiation Proceedings.

a. Where accounting work has been done in connection with renegotiation, it should be utilized so far as practicable to avoid duplication of effort. This is particularly necessary when costs included in the settlement proposal were incurred during a period for which accounting statements were submitted in renegotiation proceedings. However, this policy should not be interpreted to justify delaying termination settlements until renegotiation

proceedings for a given period have been completed. (See PR 15-550.)

b. In other cases, the accounting examination in connection with termination can be used by the Price Adjustment Board. If, for example, all Government contracts were being terminated, the Price Adjustment Board should be advised, so that the one accounting examination can serve the needs of all interested agencies. It is also highly desirable that copies of accounting reports covering terminations be made available to Price Adjustment Boards for their assistance in dealing with renegotiation.

12. Consolidation of Termination Accounting Where More Than One Contract Is Terminated.

a. Where more than one contract with one contractor, for a particular technical service or for Army Air Forces, is being terminated at one time, the termination accounting should be consolidated to the greatest practicable extent with a provision for the apportionment of the total amount of the settlement to the various contracts on some reasonably satisfactory basis. Where more than one War Department agency is involved, the coordination of any audits should be handled through the Audit Division, Office of the Fiscal Director, Headquarters, Army Service Forces.

b. In the case of certain contractors, the responsibility for making the accounting review of all termination settlement proposals under all Government contracts has been assigned to one of the services of the War Department or to another Government agency. This was authorized by a Joint Directive of the Army and Navy dated 18 March 1944, and is known as the Field Accounting Representative program. In such cases Government personnel, as well as other contractors, will be informed that all accounting reviews will be coordinated and performed by the responsible Government agency. While the procedures for making accounting reviews outlined in this manual generally are applicable, the special problems and procedures involved in the FAR program will be covered in greater detail in chapter 6 of this manual, to be issued at a later date.

13. Expediting Partial Payments. The Uniform Termination Article (PR 15-901) provides that "the Government shall make partial payments and payments on account, from time to time,

of the amounts to which the contractor shall be entitled." It is the duty of accounting personnel, when called upon, to facilitate them in every proper manner. For example, in appropriate cases, a brief preliminary office review may suffice as a basis for the advice requested by the contracting officer.

14. Manual Not Applicable to Formula Settlements. This manual does not prescribe auditing procedures for settlements made through the use of the formula set forth in the Uniform Termination Article, as contrasted with settlements made on the negotiated basis. The audit instructions for each formula settlement will be issued by the Commanding General, Army Air Forces, or the Chief of the Technical Service concerned. These instructions will be consistent with Procurement Regulation 15 and with accounting methods prescribed by the Office of the Fiscal Director, Headquarters, Army Service Forces.

15. Examination of Subcontractors' Claims. This manual is prescribed as a guide to the accounting examination of claims of subcontractors when such examinations are to be made by Government personnel. It is also suitable for use by contractors in their examination of subcontractors' claims.

16. Manual Not Applicable to Sections of Contract Already on Cost Basis. Some fixed-price supply contracts provide that certain facilities shall be furnished on a cost basis. Reimbursement is made for these facilities on a cost basis to the extent completed, and no part of this reimbursement is to be included in the settlement proposal covering the supply portion of the contract. Therefore, this manual is not applicable to such portions of the contract. The audit procedures in connection with costs of facilities contracts are set forth in TM 14-1000, "Administrative Audit Procedures for Cost-Plus-A-Fixed-Fee Supply Contracts," 1 March 1944, formerly published as the "Manual for Administrative Audit of Cost-Plus-A-Fixed-Fee Supply Contracts."

17. Review of Previous Termination Settlements with Contractor. Where the contractor has made settlements in connection with other contract terminations, those settlements should be reviewed for such information as may be per-

tinent. Care should be exercised that policies indicated in the various settlements are consistently followed and that there is no duplication of charges as between the individual statements.

18. Definitions and Explanations of Certain Terms Used in Manual.

a. Termination. A termination may involve all or any specified portion of the supplies covered by the contract. It refers to those circumstances where a lump-sum settlement is to be made for costs incurred. It does not include a situation involving a reduction of quantities where adjustment is made for this change through increased unit contract prices for the remainder of the contract.

b. Other work. The term "other work" refers to all work other than the fixed-price supply contract affected by the termination and includes both other Government contracts and civilian business.

c. Subcontractor. The term "subcontractor" includes suppliers, commonly referred to as vendors, whether dealing directly with a prime contractor or dealing through other subcontractors.

d. Common items. A "common item" is one that is normally usable on both the contract and other work. It may be an item of raw material or a part which is either partially or completely processed. The term may also refer to common claims of subcontractors.

SECTION II

GENERAL BASES OF PRESENTING ACCOUNTING INFORMATION FOR NEGOTIATED SETTLEMENTS

19. The Negotiated Settlement. The uniform Termination Article for Fixed Price Supply Contracts (PR 15-901) provides that the contractor and the contracting officer may agree upon "the whole or any part of the amount or amounts to be paid to the contractor by reason of the total or partial termination of the work." It is also provided that in the event a negotiated settlement cannot be agreed upon, for any portion of the proposed settlement, a settlement of that portion shall be made in accordance with a prescribed formula. The negotiated settlement basis gives the contracting officer maximum flexibility in working out a fair settlement of the amount due with a minimum of delay.

20. Presentation of Settlement Proposal for Contractor's Own Charges.

a. Inventory method. Costs applicable to the uncompleted portion of the contract normally will be determined by pricing the inventory in detail at purchase or manufacturing cost and adding any other applicable costs. This is known as the "inventory method." It is especially practicable when the inventory consists largely of purchased materials and parts on which little or no work has been performed. This method is also to be used when dependable unit cost information is available for the pricing of work in process. To the costs thus ascertained the profit allowance, if any, is added.

b. Total cost method. In the absence of dependable unit cost information, and particularly when the contract is terminated in the early stages of performance, there may arise serious problems in determining a fair basis for pricing the inventory and for segregating other costs between the completed and uncompleted portions of the contract. An alternative method of computing the contractor's own charges may be utilized to meet these problems. The costs chargeable to the entire contract to date of termination are summarized and a profit allowance, if any, is added. All payments previously made and to be made by the Government for completed units are then deducted. This is known as the "total cost method."

c. Procedure when a loss on entire contract is indicated. If it is determined that the contractor would have suffered a loss on the entire contract had it been completed, procedure under the inventory method remains unchanged. Procedure under the total cost method, however, is as follows: from the total costs of the contract are deducted the payments for completed units adjusted upward to reflect the fact that the indicated cost of these units exceeds their contract price. Thus, if a 6 percent loss on cost were indicated, the contract price of the completed units would represent 94 percent of the indicated cost. By dividing those contract prices by .94 the indicated cost can be determined. The deduction of the higher amount will leave only the costs applicable to the uncompleted portion of the contract.

21. Treatment of Disposal Credits. The term *costs*, as used in the foregoing, refers to costs on a gross basis, that is, before disposal credits. Disposal credits may arise either from the retention of items by the contractor at prices

mutually agreed upon or from the sale of property to others with the approval of the contracting officer. The total amount thus determined will be deducted from the amount of the proposed settlement of the contractor as otherwise computed.

22. Claims of Subcontractors. The costs arising from the settlement of claims of subcontractors for uncompleted work as of the date of termination will be added to the portion of the proposed settlement covering the contractor's own costs.

23. Accounting Aspects of Profit Allowance. When the contracting officer requests information on which to make a determination of an appropriate profit allowance, the accountant may furnish such information based on the following data:

a. The contractor's indicated rate of profit or loss.

(1) This is the rate which it is indicated, based upon the contractor's accounting data as to performance thus far and expected costs to complete the contract, would have resulted had the contract run to completion.

(2) The computation may take into consideration nonrecurring preparatory costs and other "initial" costs incurred in the early period of the contract which are applicable to the entire contract.

b. The nature of the work done on the uncompleted portion of the contract.

(1) The summary of costs included in the accountant's report should disclose by major classifications the nature of the work done.

(2) Costs representing articles or materials not processed by the contractor should be shown separately.

(3) Costs of an unusual nature and important in amount should be shown separately.

SECTION III

STATEMENT OF PRINCIPLES FOR DETERMINATION OF COSTS UPON TERMINATION OF GOVERNMENT FIXED PRICE SUPPLY CONTRACTS

24. Statement of Principles.

a. The following is the statement of principles for determination of costs upon termination of Government contracts, approved by the

Joint Contract Termination Board, December 31, 1943, referred to in paragraph (h) of the Uniform Termination Article, applicable to the termination of fixed price supply contracts at the option of the Government.

"1. *General Principles.* The costs contemplated by this Statement of Principles are those sanctioned by recognized commercial accounting practices and are intended to include the direct and indirect manufacturing, selling and distribution, administrative and other costs incurred which are reasonably necessary for the performance of the contract, and are properly allocable or apportionable, under such practices, to the contract (or the part thereof under consideration). The general principles set out in this Statement are subject to the application of any special provisions of the contract. Certain costs are specifically described below because of their particular significance, and, as in the case of other costs, should be included to the extent that they are allocable to or should be apportioned to the contract or the part thereof under consideration.

(a) *Common Inventory.* The costs of items of inventory which are common to the contract and to other work of the contractor.

(b) *Common Claims of Subcontractors.* The claims of subcontractors which are common to the contract and to other work of the contractor.

(c) *Depreciation.* An allowance for depreciation at appropriate rates on buildings, machinery and equipment and other facilities, including such amounts for obsolescence due to progress in the arts and other factors as are ordinarily given consideration in determining depreciation rates. Depreciation as defined herein shall not include loss of useful value of the type covered by subparagraph (f).

(d) *Experimental and Research Expense.* General experimental and research expense to the extent consistent with an established pre-war program, or to the extent related to war purposes.

(e) *Engineering and Development and Special Tooling.* Costs of engineering and development and of special tooling; provided that the contractor protects any interests of the Government by transfer of title or by other means deemed appropriate by the Government.

(f) *Loss on facilities—Conditions on Allowance.* In the case of any special facility acquired by the contractor solely for the per-

formance of the contract, or the contract and other war production contracts, if upon termination of the contract such facility is not reasonably capable of use in the other business of the contractor having regard to the then condition and location of such facility, an amount which bears the same proportion to the loss of useful value as the deliveries not made under the contract bear to the total of the deliveries which have been made and would have been made had the contract and the other contracts been completed, provided that the amount to be allowed under this paragraph shall not exceed the adjusted basis of the facility for Federal income tax purposes immediately prior to the date of the termination of the contract, and provided further that no amount shall be allowed under this paragraph unless upon termination of the contract title to the facility is transferred to the Government, except where the Government elects to take other appropriate means to protect its interests.

(g) *Special Leases.* (1) Rentals under leases clearly shown to have been made for the performance of the contract, or the contract and other war production contracts, covering the period necessary for complete performance of the contract and such further period as may have been reasonably necessary; (2) costs of reasonable alteration of such leased property made for the same purpose; and (3) costs of restoring the premises, to the extent required by reasonable provisions of the lease; less (4) the residual value of the lease; provided that the contractor shall have made reasonable efforts to terminate, assign, or settle such leases or otherwise reduce the cost thereof.

(h) *Advertising.* Advertising expense to the extent consistent with a pre-war program or to the extent reasonable under the circumstances.

(i) *Limitation on Costs Described in Subparagraphs (d), (e), (f), (g), and (h).* In no event shall the aggregate of the amounts allowed under subparagraphs (d), (e), (f), (g), and (h) exceed the amount which would have been available from the contract price to cover these items, if the contract had been completed, after considering all other costs which would have been required to complete it.

(j) *Interest.* Interest on borrowings.

(k) *Settlement expenses.* Reasonable accounting, legal, clerical and other expenses necessary in connection with the termination and settlement of the contract and subcontracts

and purchase orders thereunder, including expenses incurred for the purpose of obtaining payment from the Government only to the extent reasonably necessary for the preparation and presentation of settlement proposals and cost evidence in connection therewith.

(l) *Protection and disposition of Property.* Storage, transportation and other costs incurred for the protection of property acquired or produced for the contract or in connection with the disposition of such property.

2. *Initial Costs.* Costs of a non-recurring nature which arise from unfamiliarity with the product in the initial stages of production should be appropriately apportioned between the completed and the terminated portions of the contract. In this category would be included high direct labor and overhead costs, including training, costs of excessive rejections and similar items.

3. *Excluded Costs.* Without affecting the generality of the foregoing provisions in other respects, amounts representing the following should not be included as elements of cost:

(a) Losses on other contracts, or from sales or exchanges of capital assets; fees and other expenses in connection with reorganization or recapitalization, anti-trust or federal income-tax litigation, or prosecution of federal income tax claims or other claims against the Government (except as provided in paragraph 1 (k)); losses on investments; provisions for contingencies; and premiums on life insurance where the contractor is the beneficiary.

(b) The expense of conversion of the contractor's facilities to uses other than the performance of the contract.

(c) Expenses due to the negligence or wilful failure of the contractor to discontinue with reasonable promptness the incurring of expenses after the effective date of the termination notice.

(d) Costs incurred in respect to facilities, materials or services purchased or work done in excess of the reasonable quantitative requirements of the entire contract.

(e) Costs which, as evidenced by accounting statements submitted in renegotiation under Section 403 of the Sixth Supplemental National Defense Appropriation Act, 1942, as amended, were charged off during a period covered by a previous renegotiation, may not be subsequently included in the termination settlement if a re-

fund was made for such period, or to the extent that such charging off is shown to have avoided such refund.

4. To the extent that, they conform to recognized commercial accounting practices and the foregoing Statement of Principles, the established accounting practices of the contractor as

indicated by his books of account and financial reports will be given due consideration in the preparation of statements of cost for the purposes of this article.

5. The failure specifically to mention in this statement any item of cost is not intended to imply that it should be included or excluded."

CHAPTER 2

CONTRACTOR'S PROCEDURES

SECTION I

THE CONTRACTOR AND HIS STATEMENT

25. Responsibility of Contractor to Submit His Statement of Proposed Settlement. The contractor will file with the contracting officer an accounting statement relating to the amount due to the contractor by reason of the termination which shall constitute a proposal for a negotiated settlement covering the work done with respect to the uncompleted portion of the contract.

26. Contractor's Statement and Proposal for Settlement. The contractor's statement of costs and other accounting data showing the amounts due him by reason of the termination should be prepared in accordance with the principles set forth in PR 15 and this manual. This settlement proposal, together with the schedules in support of it, constitute the basic representation of the contractor. In submitting any such statement to the Government, the contractor represents that the facts stated are true. He is subject to penalties for any false certification. (See 18 U. S. Code 80.) All costs claimed to have been incurred by the contractor should be supported by data sufficiently specific to permit satisfactory review or examination. It usually will expedite the preparation of the contractor's statement if the contractor's representatives will confer with the contracting officer and his accounting personnel before undertaking accounting work in connection with this statement.

27. War Department Termination Forms. Standard forms, together with general instructions, have been issued by the War Department for the use of prime contractors and subcontractors in presenting their settlement proposals under terminated fixed-price supply contracts. The general instructions applicable to all of the standard forms are shown on pages 10 and 11.

The standard forms have been filled in to show the general manner in which they are to be used and are shown in figures 1 to 9, inclusive (pars. 28 to 32). However, the amounts of the various items shown in the illustrations, as well as any indicated relationships between those amounts, are not to be considered as significant in respect to the general propriety of such amounts or relationships.

28. Settlement Proposal Over \$10,000—Inventory Basis. The forms normally required for a settlement proposal of \$10,000 or over, before disposal credits, presented on an inventory basis, are shown in figures 1 to 5, inclusive.

29. Settlement Proposal Over \$10,000—Total Cost Basis. The forms required for a settlement proposal over \$10,000, before disposal credits, presented on a total cost basis, are the same as those illustrated in figures 1 to 5, except that Form No. B-1 would be replaced by Form No. B-2. The latter form is illustrated in figure 7. Forms No. A-1, C-1, C-2, and C-3, necessary to complete this settlement proposal, are not shown since their use has already been illustrated in figures 1, 3, 4, and 5.

30. Settlement Proposal Under \$10,000—Inventory Basis. The form to be used when the settlement proposal, before disposal credits, is under \$10,000 and is presented on an inventory basis, is illustrated in figure 7.

31. Settlement Proposal Under \$10,000—Total Cost Basis. The form to be used when the settlement proposal, before disposal credits, is under \$10,000, and is presented on a total cost basis, is illustrated in figure 8.

32. Settlement Proposal Under \$500. The form to be used when the net settlement proposal is under \$500 is shown in figure 9.

GENERAL INSTRUCTIONS

FOR USE OF

STANDARD CONTRACTOR'S PROPOSAL FORMS

In Presenting Settlement Proposals Arising From Total or Partial Termination of Fixed Price Supply Contracts

I. INSTRUCTIONS APPLICABLE TO ALL FORMS

GENERAL POLICY REGARDING USE OF STANDARD FORMS

1. As a means of assisting prime and subcontractors in the preparation of settlement proposals and of expediting the review of such proposals, the War Department has provided standard forms for general use.

2. These forms are to be used in connection with all fixed price supply contracts terminated after 15 May 1944. In exceptional cases, if the forms fail to present the essential facts or are not sufficiently applicable, the contracting officer may authorize some other method of presentation on forms specially designed for the purpose. Contractors having contracts terminated prior to 15 May 1944 should also use the forms, where proposals have not yet been prepared on other forms. All subcontractors should use the standard forms, to the greatest extent practicable.

3. Contracting officers are authorized to permit the omission of data called for by the standard forms in particular instances to the extent that such data are not applicable, are not reasonably obtainable, or are not deemed necessary for the adequate substantiation of proposals for settlement or for disposal of property; and to require additional data when necessary for settlement.

4. Information should be supplied in accordance with the requirements set forth on the forms. Failure to do this may result in delayed settlements.

5. The forms are designed to present information required for settlement of terminated contracts as well as for disposal of property resulting from such terminations. In connection with property disposal, contractors and contracting officers will be guided by the general policy that, without delaying the final settlement, surplus raw materials and work in process should be finally disposed of, to the extent practicable, promptly after termination so that delivery of property or passing of title to the Government will be unnecessary. Where the settlement proposal is less than an amount to be prescribed from time to time in regulations, all property involved should normally be finally disposed of so that no delivery or passing of title to the Government is involved.

TYPES OF STANDARD FORMS PROVIDED

1. The following outline indicates the individual forms provided and when they are to be used:

- (a) Where Settlement Proposal, before Disposal Credits, is \$10,000 or over—Long Form Procedure.

Form A-1, Contractor's Settlement Proposal—Summary Statement.

This statement is supported by a schedule of the contractor's own charges to date of termination—B-1 or B-2.

Form B-1, Contractor's Own Charges Schedule—If contractor is presenting his charges on an *inventory* basis.

Form B-2, Contractor's Own Charges Schedule—If contractor is presenting his charges on a *total cost* basis.

The "B" schedule is supported by inventory forms:

Form C-1, Raw Materials, Purchased Parts, and Supplies.

Form C-2, Work in Process.

Form C-3, Jigs, Tools, Dies, Fixtures, etc.

- (b) Where Settlement Proposal, before Disposal Credits, is under \$10,000—Combination Form Procedure.

The Combination Statement Form to be used:

Form A-2, if contractor is presenting his proposal on the *inventory* basis.

Form A-3, if contractor is presenting his proposal on a *total cost* basis.

- (c) Where Settlement Proposal is under \$500, the Short Form A-4 may be used.

2. Even though a particular settlement proposal, before disposal credits, is under \$10,000 the contractor may use the "C" schedules if he finds them more appropriate, or he may use the entire long form procedure, if he prefers.

INVENTORY VS. TOTAL COST METHODS FOR PRESENTING PROPOSALS

1. Under the inventory method, the costs allocable to the work done on the uncompleted portion of the contract plus profit, if any, are presented in

the proposal. This method should be followed, whenever practicable.

2. Under the total cost method, the costs applicable to all work done on the contract are summarized, plus profit, if any; and deduction is made for payments made or to be made for completed units. This method should be used only when the inventory method is not practicable.

COST DATA PRESENTED IN STANDARD FORMS

1. In presenting all cost data on standard forms, the contractor should be guided by the Statement of Principles for Determination of Costs Upon Termination of Government Fixed Price Supply Contracts issued by the Joint Contract Termination Board, together with any further interpretations which may subsequently be issued.

2. It is of special importance that adequate explanations be submitted as to the methods followed in allocating common items of inventory, common claims of suppliers, indirect factory expense, and general administrative expense.

FINISHED UNITS ON HAND AT DATE OF TERMINATION

1. Normally prime contractors will obtain payment for finished units at the contract price and such units will not be reported on inventory forms.

2. Subcontractors may not in all cases be permitted to obtain payment through regular billing procedure for finished units on hand at date of termination. If such finished units can properly be included in the settlement proposal under the existing contractual arrangements, they should be reported as follows:

Contractors Using Combination Form Procedure:

List and describe in Inventory Schedule provided on Form A-2 or A-3.

Contractors Using Long Form Procedure:

Use a separate page of Form C-1 with headings appropriately modified.

II. INSTRUCTIONS APPLICABLE ONLY TO LONG FORM PROCEDURE

TIME OF PRESENTING INDIVIDUAL FORMS

1. The plan here outlined may be followed, to the extent practicable:

- (a) Submit "C" Inventory Schedules as quickly as possible to facilitate disposition of inventory. Cost data should be completed to the extent practicable, without unduly delaying submission of forms. However, cost information is particularly needed for property disposal purposes in connection with property listed on the C-1 form.
- (b) Submit "B" Contractor's Own Charges Schedule, supported by "C" schedules containing cost data, so that the accounting review of these charges may be started.
- (c) Submit "A" Contractor's Settlement Proposal—Summary Statement, which is the basis for the negotiation of a final settlement.

2. All of above forms and schedules may, however, be filed at one time. In some cases the "C" schedules can be filed first and then

INVENTORIES

1. In filling out the inventory schedules, it is permissible to lump small quantities of items under a "Sundry" caption with a general description of the type of items included, where the aggregate amount involved does not warrant greater detail. As a general rule, the cost of the items included under the "Sundry" caption should not total more than 20 percent of the total cost of the particular inventory classification or \$1,000—whichever is less.

2. If the proposal is submitted on the inventory basis, no item of property for which the contractor does not propose to make a charge need be listed. If, however, the contractor seeks any profit on such items, the basis of such a charge must be clearly set forth.

MISCELLANEOUS INSTRUCTIONS

1. A separate set of forms should be submitted for each contract terminated unless grouping of several contracts of the same contractor for settlement purposes is approved by the contracting officer.

2. All certificates must be signed by authorized representatives of the contractor. Only one executed certificate is required for each form or schedule—irrespective of the number of pages—unless additional certificates are requested by the contracting officer.

OTHER APPLICABLE REGULATIONS—WAR DEPARTMENT CONTRACTS

1. The general procedures for the handling of terminated War Department fixed price supply contracts are contained in Procurement Regulations No. 15. Instructions as to the accounting review of termination settlements by Government personnel are contained in TM 14-320, Termination Accounting Manual for Fixed Price Supply Contracts.

2. These regulations should be consulted by contractors as further guides as to the nature of the data to be presented in these standard forms.

the "B" schedule and "A" form be filed together.

INVENTORY SCHEDULES

1. Where any inventory schedule requires the use of two or more sheets, the entire heading need not be repeated on the second and subsequent sheets. Only the contractor's name and the Government contract number need be repeated, plus the required page number information.

2. Inventory schedules listing Government owned property should be submitted *only* for property disposition purposes and should *not* be filed as a part of the Settlement Proposal. "Contractor Owned" inventory includes all property for which reimbursement may be claimed even though security title may have passed in connection with partial or progress payments.

3. Special instructions for describing inventory in column 2 of all "C" forms have been prescribed to facilitate property disposition and to comply with the requirements of the various property disposal agencies. These instructions are attached as Appendix A. Additional instructions and administrative interpretations may be given from time to time through contracting officers.

APPENDIX A

SPECIAL INSTRUCTIONS FOR DESCRIPTION OF INVENTORY UNDER COLUMN 2 OF STANDARD CONTRACT TERMINATION INVENTORY SCHEDULES (Forms C-1, C-2, and C-3)

GENERAL INSTRUCTIONS

The inventory schedules provided in Form C-1, C-2, and C-3 are intended to assist contractors and property disposal officers in valuing and disposing of property resulting from contract terminations, as well as for the purpose of arriving at the settlement amount.

It is therefore essential that the inventory be classified in general groupings as outlined in these supplementary instructions. The instructions should be carefully studied before inventory lists are prepared and followed to the extent practicable with each contract termination inventory.

OFFERS BY CONTRACTORS

It will greatly facilitate final settlement if that part of the listed property which the contractor is prepared to purchase is segregated under the various subdivisions of the property lists.

CONDITION OF EQUIPMENT

The condition of equipment listed on Schedule C-3, and of any property listed in Schedule C-1 or C-2 which is other than new and excellent, should be indicated, using the following condition codes:

N New.	1 Excellent.
E Used—reconditioned.	2 Good.
O Used—usable without repairs.	3 Fair.
R Used—repairs required.	4 Poor.

For salvage show only "X" and no number.

X—means Salvage—Obsolete Property (no further value for use as originally intended).

Except in case of salvage, a "letter-number" combination must always be used to describe condition. Examples: N2—New and in good condition; R3—Used, repair required, general condition fair.

CLASSIFICATION OF PROPERTY

Specific instructions as to the classification of property listed on each of the three schedules, C-1, C-2, and C-3 are included in the following paragraphs.

RAW MATERIALS, PURCHASED PARTS, AND SUPPLIES (SCHEDULE C-1)

1. Purchased parts and components identified with a particular assembly may be listed together under the group heading in which the assembly would normally fall, notwithstanding the fact that they are standard parts or common components which would otherwise be included under the group headings listed below.

2. With the exception of the above, items should be listed under the following group headings. The group headings should be shown at the top of each group listing. A new page should be started for each group; or, in the case of small inventories, groups may be separated by extra space.

- Crude animal and vegetable products, edible.
- Crude animal and vegetable products, inedible.
- Fibers, vegetable and animal, unmanufactured.
- Leather.
- Boot and shoe cut stock and findings.

- Wood basic materials.

- Pulp, paper, and paperboard.

- Textile basic manufactures.

- Food and beverage basic materials.

- Oils, fats, waxes, and derivatives, animal and vegetable.

- Petroleum and coal products, except raw materials for cement industries.

- Chemicals.

- Paints, varnishes, lacquers, japans, thinners, pigments, driers, fillers, and related products.

- Iron and steel, including pigs, ingots, castings and forgings (before machining), plates, sheets, strips, bars, structural shapes, piling, rails, tubular products, wire, and other shapes and forms.

- Copper and copper-base alloy basic shapes and forms.

- Aluminum and aluminum-base alloy basic shapes and forms.

- Magnesium and magnesium-base alloy basic shapes and forms.

- Other nonferrous basic shapes and forms.

- Fabricated metal basic products, including basic hardware, wire products, insulated wire and cable, stamped, pressed, and perforated metal basic products.

- Nonmetallic mineral basic products, including natural stone products, clay products, glass basic products, hydraulic cements, concrete products, gypsum products, pottery basic products, mineral wool basic products, abrasive basic products, asbestos basic products, graphite and carbon products, mica and refractories.

- Raw materials not classified above.

- Mechanical common components, including engines, pumps, power-transmission equipment, bearings, valves and steam specialties, lubrication equipment (i. e., standard components that can be used in more than one product).

- Electrical common components, including motors, controls, switches, wiring devices, lamps (i. e., standard components that can be used in more than one product).

- Noncommon components, parts, equipment, and accessories (i. e., components that can be used only in the particular industry in which any given product falls). For example, if the product is motor vehicle, the group heading should read "Motor Vehicle Noncommon Components" and should include automotive engines, tires, etc. If the product is aircraft, the group heading would read "Aircraft Noncommon Components" and should include aircraft hardware, aircraft electrical fittings, etc.).

- Containers and closures.

- Purchased parts and supplies not classified above.

WORK IN PROCESS (SCHEDULE C-2)

Property should be segregated into groups of similar items; for instance, component parts of a particular subassembly should be grouped to-

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gether, completed subassemblies should be shown in the same group, partially fabricated items of the same general type should be listed together. Appropriate headings should be used for the different groups so that a prospective buyer may readily locate the type of property in which he is interested. Whenever practicable, the group headings set forth for Schedule C-1 should be used for this purpose.

Parts fabricated by the contractor should be included in the Inventory Schedule C-2 for Work in Process to the extent practicable. Where such parts are not easily segregated by the contractor from similar items of purchased parts, it is permissible to include them with purchased parts in Inventory Schedule C-1 for "Raw Materials, Purchased Parts, and Supplies." The term "Manufactured Parts" is intended to represent completely fabricated units which are identifiable as piece parts or subassemblies and which have been manufactured in the contractor's own plant.

JIGS, TOOLS, DIES, FIXTURES, ETC. (SCHEDULE C-3)

Items should be listed under the following group headings. The group headings should be shown at the top of each group listing. A new page should be started for each group; or, in the case of small inventories, groups may be separated by extra space:

- Gages and precision measuring instruments.
- Perishable tools.
- Jigs, dies, and fixtures.

LARGER ITEMS OF PRODUCTION EQUIPMENT UNDER SCHEDULE C-3

This form should also prove satisfactory for the

listing of major items of production equipment for property disposal, particularly Government-furnished production equipment. When used for such purposes, items should be listed under the following group headings (attachments, accessories, and auxiliaries should be included with the major item of equipment to which they pertain):

General-purpose industrial machinery and equipment, including engines and turbines, compressors and pumps, conveyors, cranes, derricks, hoists and winches, industrial trucks, trailers, tractors, and stackers, and fan and blower equipment.

Electrical machinery and apparatus, including rotating equipment, transmission and distribution equipment, motor starters and controllers.

Special industry machinery (machinery for industries requiring specialized machines).

Metal-working machinery, including machine tools, primary and secondary metal forming and cutting machinery and equipment.

Office machines.

Motor vehicles.

Furniture and fixtures.

Miscellaneous machinery and equipment.

NOTE.—In order to assist in classifying property as specified above, it is expected that a supplement will be issued at an early date setting forth alphabetically some 1,500 items and types of property frequently encountered in contract terminations, and indicating under which of the classifications specified in these Supplementary Instructions particular property should be listed. The Standard Commodity Classification Number for each item and type will also be indicated.

Form No. A-1
Read all instructions before
preparing this form

CONTRACTOR'S SETTLEMENT PROPOSAL SUMMARY STATEMENT

Budget Bureau approval No. 49-1177
Expiration date: 31 July 1944

(Form A-2 or A-3 may be used when total proposal is less than \$10,000 before disposal or other credits)

NAME OF YOUR FIRM Young Manufacturing Company		Check one ☒ This settlement proposal is applicable to a prime contract with the Government. ☐ This settlement proposal is applicable to subcontract or purchase order (identify) with:	
ADDRESS (Street) (City) (State)	*Insert name and address of contractor from whom you received Notice of Termination.		
1234 South East Street, Dayton 12, Ohio			
If monies payable under the contract have been assigned, show name of assignee: None			
EFFECTIVE DATE OF TERMINATION 8 May 1944	GOVERNMENT CONTRACT NO. W-001-ord-100	GOVERNMENT AGENCY Ordnance Department	ITEMS CONTRACTED FOR X22C1 assemblies

SUMMARY

			Do Not Use This Column
1. Contractor's own charges—per Schedule B-1 or B-2—See Instruction 3	\$332,773.98		
2. Adjustments—Schedule A-1-a—See Instruction 4	237.42		
3. Adjusted amount		\$332,536.56	
4. Post termination charges—Schedule A-1-b—See Instruction 5		2,764.10	
5. Settlements with subcontractors—Schedule A-1-c—See Instruction 6		7,297.30	
6. Other charges—Schedule A-1-d		- 0 -	
7. Total charges		\$342,597.96	
8. Disposal credits—See Instruction 7 per summary p.1, Form G-1	\$61,566.97		
9. Other credits—Schedule A-1-e—See Instruction 9	- 0 -		
10. Partial payments—Schedule A-1-f	200,000.00		
11. Advance or progress payment—Schedule A-1-g—See Instruction 8	- 0 -		
12. Total credits		\$261,566.97	
13. Net settlement proposal		\$81,030.99	
14. Contract price of finished units not otherwise billed—See Instruction 10	\$ - 0 -		
15. Disposal credits applicable to finished units	- 0 -		
16. Net charge for finished units		- 0 -	
17. Net settlement proposal including charge for finished units		\$81,030.99	

CERTIFICATE

OWN CHARGES.—The undersigned certifies that, to the best of its knowledge and belief, the summary of charges and supporting schedules and explanations have been prepared from the books of account and records of the undersigned in accordance with recognized commercial accounting practices; that they include only those charges allocable to the terminated portion of this contract; that the charges as stated are fair and reasonable; and that they have been prepared with knowledge that they will, or may, be used by contracting officers acting on behalf of the United States as the basis of settlement with the undersigned or with others.

SUBCONTRACTORS' CHARGES.—The undersigned certifies that it has examined, or caused to be examined, to an extent which it considers adequate in the circumstances, the claims of its immediate suppliers (exclusive of charges arising from termination claims filed against such immediate suppliers by their suppliers) as summarized as item 5, that, in its opinion, the settlements of its immediate supplier's own charges are fair and reasonable, said charges are allocable to the terminated portion of this contract, and said settlements were negotiated in good faith, and are not more favorable to its immediate suppliers than those which the undersigned would make if reimbursement by the Government were not involved. The undersigned certifies that it has no knowledge to doubt the reasonableness of the settlements with more remote suppliers or to doubt that the charges for them are allocable to this contract. The undersigned shall not be deemed to have made any representations with respect to the immediate and more remote suppliers' claims or the settlement thereof other than those expressed in this certificate.

CHIEF ACCOUNTING OFFICER:

[Signature]
(Signature)
Controller
(Title)

Young Manufacturing Company
(Name of contractor)
By *[Signature]*
(Signature)
President
(Title)
12 July 1944
(Date)

SCHEDULE A-1-a

ADJUSTMENTS IN FORM NO. B-1 OR B-2

Item	Explanation	Amount Per "B" Form	Revised Amount	Increase	Decrease	Do Not Use This Column
4 jigs, drill, C56573 - Item 3, page 1		\$208.66	- 0 -		\$208.66	
Form No. C-3-included in error					7.18	
General and administrative expense at 3.44%					\$215.84	
Total					21.58	
Profit at 10%					\$237.42	
Total - line 2 of summary						

SCHEDULE A-1-b

POST TERMINATION CHARGES

Item	Explanation	Amount	Do Not Use This Column
Cost of taking inventory, greasing, packing and boxing material			
Crating lumber		\$ 432.18	
Grease		57.32	
Inventory counters, tag writers, checkers, packers -			
direct labor charges from clock cards		1,742.37	
Clerical help in purchasing and accounting departments		532.23	
Total - line 4 of summary		\$2,764.10	

W. D., A. G. O. Form No. 242
15 April 1944

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Figure 1. Form No. A-1 (W. D., A. G. O. Form No. 242).

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SCHEDULE A-1-c		SETTLEMENTS WITH SUBCONTRACTORS				
Name of Subcontractor or Date of Schedule Previously Submitted	Item	Total on Order at Date of Termination		Quantity Canceled Applicable to Contract	Amount of Actual or Proposed Settlement	Do Not Use This Column
		Quantity	Amount, \$			
O.K. Manufacturing Co.	Part X112B	10,200	15,300.00	10,200	\$5,221.80*	
N.G. Mill Supply Co.	Part 202A4	500	1,625.00	500	50.00*	
Y.Z. Steel Treat Co.	Heat treating Part 302X1A	5,000	10,000.00	3,000	2,025.50*	
Total - line 5 of summary					<u>\$7,297.30</u>	

*per claim attached

SCHEDULE A-1-d		OTHER CHARGES		
Item	Explanation	Amount	Do Not Use This Column	
None				

SCHEDULE A-1-e PARTIAL PAYMENTS, ADVANCE OR PROGRESS PAYMENTS AND OTHER CREDITS			
Date	Explanation	Amount	Do Not Use This Column
15 June 1944 (per supplemental agreement dated 10 June 1944)		\$ 100,000	
30 June 1944 (per supplemental agreement dated 23 June 1944)		100,000	
Total - line 10 of summary		<u>\$ 200,000</u>	

INSTRUCTIONS

1. This Form No. A-1 should be prepared as soon as the contractor can complete his net settlement proposal.
2. Where schedules provided do not provide adequate space, attach schedules in similar form.
3. *Contractor's Own Charges.*—Contractor should attach latest copy of Contractor's Own Charges (Form B-1 or B-2) as filed with the contractor or Government representative who rendered Notice of Termination. "Contractor's Settlement Proposal" copies of inventory schedules showing all disposal credits should also be attached.
4. *Adjustments.*—Schedule A-1-a should be used to explain all adjustments made by contractor to items included in attached Form B-1 or B-2.
5. *Post Termination Charges.*—Should be listed in reasonable detail in Schedule A-1-b with appropriate explanation.
6. *Settlements With Subcontractors.*—This item includes all settlements with subcontractors. Subcontractors' claims may be submitted as soon as they are examined and settlements negotiated. In such cases, the settlements should be listed on a schedule made up with the same headings as shown in Schedule A-1-c. Each such schedule with subcontractors' proposals attached must be accompanied by a certificate as to the examination made by the contractor, and the opinion of the contractor as to the reasonableness of the proposals. The type of certificate to be presented should

- conform to the applicable portion of the certificate shown on this Form No. A-1. In preparing Schedule A-1-c under such circumstances, it is necessary only to list the totals of schedules previously submitted. Subcontractors' settlements not previously submitted should then be listed in detail to bring the total amount of this schedule (A-1-c) into agreement with the amount listed as item 5 in the summary.
7. *Disposal Credits.*—The amount shown here should represent the total of the individual disposal credits listed on the inventory schedules. Each inventory sheet should be totaled separately and a listing of the page totals should be prepared to show the source of the total (Line 8 of Summary) used on the summary.
8. *Advance Payments.*—Attach copy last report covering advance payments account, if any, bringing account transactions to current date.
9. *Other Credits.*—List all other credits. Where statement is on a total cost basis, any payments made for completed units after the filing of the Form No. B-2 should be listed here.
10. Subcontractors may include on line 14 any amounts applicable to finished units completed at date of termination but not otherwise billed. In that case, the inventory and any applicable disposal credits should be listed on a separate sheet of the C-1 Form with the headings appropriately modified. The total of these disposal credits should be shown on line 15 of the Summary.

General Instructions for preparation of Settlement Proposals and for the use of these forms should be procured from the Government representative or contractor from whom the termination notice was received.

U. S. GOVERNMENT PRINTING OFFICE 16-30409-1

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Figure 1. Form No. A-1 (W. D., A. G. O. Form No. 242)—Continued.

Form No. B-1
Read all instructions before
preparing this form

CONTRACTOR'S OWN CHARGES SCHEDULE
CONTRACTOR'S OWN CHARGES TO DATE OF TERMINATION
APPLICABLE TO TERMINATED PORTION OF CONTRACT
Inventory Basis

Budget Bureau approval No. 49-1179
Expiration date: 21 July 1944

Supporting Schedule Form A-1 (Line 1)

NAME OF YOUR FIRM Young Manufacturing Company				Check one ☒ This schedule is applicable to a prime contract with the Government. ☐ This schedule is applicable to subcontract or purchase order (identify) with: * Insert name and address of contractor from whom you received Notice of Termination.
ADDRESS	(Street)	(City)	(State)	
1234 South East Street, Dayton, Ohio				
EFFECTIVE DATE OF TERMINATION 8 May 1944	GOVERNMENT CONTRACT NO. W-001-ORD-100	GOVERNMENT AGENCY Ordnance Department	ITEMS CONTRACTED FOR X22C1 assemblies	

SUMMARY

	Amount	Do Not Use This Column
1. Raw materials, purchased parts, and supplies—per Inventory Schedule C-1—See Instruction 3	\$ 89,468.77	
2. Work in process—per Inventory Schedule C-2 and Schedule B-1-a—See Instruction 3	179,115.39	
3. Jigs, tools, dies, fixtures, etc.—per Inventory Schedule C-3—See Instruction 3	23,876.98	
4. General and administrative expenses—per Schedule B-1-b	10,060.66	
5. Other costs—per Schedule B-1-c—See Instruction 4	- 0 -	
6. Total costs	\$302,521.80	
7. Profit, if any—per Schedule B-1-d—See Instruction 5	30,252.18	
8. Total	\$332,773.98	

CERTIFICATE

The undersigned certifies that, to the best of its knowledge and belief, the summary of charges and supporting schedules and explanations have been prepared from the books of account and records of the undersigned in accordance with recognized commercial accounting practices; that they include only those charges allocable to the terminated portion of this contract; that the charges as stated are fair and reasonable; and that they have been prepared with knowledge that they will, or may, be used by contracting officers acting on behalf of the United States as the basis of settlement with the undersigned or with others.

CHIEF ACCOUNTING OFFICER <i>[Signature]</i> Controller (Title)	Young Manufacturing Company (Name of contractor) By <i>[Signature]</i> President (Title) 12 July 1944 (Date)
---	--

SCHEDULE No. B-1-a INDIRECT FACTORY EXPENSES IN WORK IN PROCESS

In the space provided on reverse, or on an attached sheet, show in a manner conforming to the contractor's accounting system:

- (1) Composition of Indirect Factory Expenses Before Allocation to Inventory. Show beginning and ending date of period used.
- (2) Description of Bases Used in Allocating the Above Indirect Factory Expenses to the Inventory.
- (3) Calculation, to the extent practicable, of Indirect Factory Expenses Applicable to Inventory in Accordance with Bases Indicated in (2).

SCHEDULE No. B-1-b GENERAL AND ADMINISTRATIVE EXPENSES

In the space provided on reverse, or on an attached sheet, show information relating to General and Administrative Expense of the same type as is required in Schedule B-1-a, above.

FINISHED UNIT INFORMATION			INFORMATION REGARDING RENEGOTIATION	
	Number of Units	Total Amount		
Total per contract	2,400	\$2,640,000	Were you renegotiated for last fiscal year?	Yes
Less: Units shipped and billed	1,000	\$1,100,000	If so, by what Government agency?	Ordnance
Units to be shipped and billed	200	220,000	Were costs included for purposes of renegotiation in that period excluded from the above Summary?	Yes
Total billed or to be billed	1,200	\$1,320,000	If not, explain items not excluded	
Units completed but not billed, if any (Line 14 of Form A-1)	- 0 -	1,200		
Units covered by termination notice	1,200	\$1,320,000		

W. D., A. G. O. Form No. 245
19 April 1944

16-50407-1

① Front

Figure 2. Form No. B-1 (W. D., A. G. O. Form No. 245).

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SCHEDULE No. B-1-c		OTHER COSTS	
Item	Explanation	Amount	Do Not Use This Column
None			

SCHEDULE No. B-1-d		PROFIT, IF ANY	
		Amount	Do Not Use This Column
Total contractor's own costs - line 6 of summary		\$302,521.80	
10% thereof - line 7 of summary		\$ 30,252.18	
Indicated rate of profit on units completed under this contract*		11.5%	
Rate of profit after renegotiation prior fiscal year		12%	
* Ed. Note: A statement normally would be attached showing the details of this computation.			

Use this space for information required in Schedules B-1-a and B-1-b or for other purposes

Schedule B-1-a		Schedule B-1-b	
Indirect Factory Expenses in Work in Process		General and Administrative Expenses	
1. Indirect factory expenses for six months ended 30 April 1944:		1. General and administrative expenses for six months ended 30 April 1944:	
Factory supervision and administration	\$ 387,018.90	Officers' salaries	\$ 78,375.50
Indirect labor	761,310.86	Office salaries	122,077.51
Social security taxes	125,829.27	Social security taxes	7,107.48
Supplies	217,564.42	Traveling expenses	13,954.30
Maintenance and repairs	247,783.10	Telephone and telegraph	7,835.40
Depreciation	205,012.66	Professional services	18,303.90
Small tools	82,700.05	Advertising	74,412.53
Taxes	113,526.45	Stationery and postage	7,119.24
Light, heat, power	47,461.55	Depreciation	4,690.37
Insurance	37,472.61	Taxes	10,432.10
Freight and express	24,057.93	Miscellaneous	11,979.97
General	48,531.61		
Total	\$2,298,269.41	Total	\$356,288.30
2. Direct labor for six months ended 30 Apr 1944	\$2,308,658.37	2. Cost of sales	\$10,357,218.02
Per cent of indirect factory expense to direct labor	99.55%	Per cent of general and administrative expense to cost of sales	3.44%
3. Direct labor included in work in process	\$ 67,804.77	3. Total items 1, 2, 3 of summary	\$292,461.14
99.55% thereof	67,499.65	3.44% thereof	\$ 10,060.66

INSTRUCTIONS

1. This Form No. B-1 is to be prepared as soon as all cost information on inventory schedules can be completed.
2. When schedules provided are too small, attach other schedules following the same form.
3. Inventories listed on lines 1, 2, and 3 should be supported by the "Contractor's Schedule" copy of inventory schedules. Where cost information was not available at the time "Property Disposition" copies of the inventories were filed, such cost information must be subsequently listed on the "Contractor's Schedule" copy.

4. Include in Other Costs (Line 5 of Summary and Schedule B-1-c) all costs to date of termination applicable to uncompleted portion of contract not previously included. Where costs are included for loss of useful value of production equipment or facilities of the type specified in Section 1 (f) of the Statement of Principles for Determination of Costs Upon Termination of Government Fixed Price Supply Contracts, attach a statement explaining the determination of the charges.
5. In Schedule B-1-d, show the bases and computation of any profit included on line 7 of the summary.

General Instructions for preparation of Settlement Proposals and for the use of these forms should be procured from the Government representative or contractor from whom the Termination Notice was received.

U. S. GOVERNMENT PRINTING OFFICE 16-50057-1

② Back

Figure 2. Form No. B-1 (W. D., A. G. O. Form No. 245)—Continued.

Form No. C-1

This inventory schedule is to be used for

- ☐ Property disposition
☐ Contractor's own charges schedule (Forms B-1 or B-2)
☒ Contractor's settlement proposal (Form A-1)

NAME OF YOUR FIRM: Young Manufacturing Company
ADDRESS: 1234 South East Street, Dayton 12, Ohio
LOCATION OF PLANT:
CLASSIFICATION OF PROPERTY ON THIS PAGE:

INVENTORY SCHEDULE

Inventory Applicable to Uncompleted Portion of Terminated Contract

RAW MATERIALS, PURCHASED PARTS, AND SUPPLIES

OWNED BY CONTRACTOR ☒ GOVERNMENT ☐

Read Instructions Before Preparing This Schedule

General Instructions for preparation of Settlement Proposals and for the use of these forms with special instructions for description of inventory should be procured from the Government representative or contractor from whom the Termination Notice was received.

NOTE.—The paper on which this form is printed can be used for reproduction by liquid process duplicating machines.

Budget Bureau approval No. 44-1188.
Expiration date: 11 July 1944.

PAGE 1 OF 32 PAGES

CHECK ONE
☒ This inventory is applicable to a prime contract with the Government.
☐ This inventory is applicable to Subcontract or Purchase Order (Identify, with: _____)

(Name and address of contractor from whom you received notice of termination)

Date of inventory 15 May 1944 Government contract No. W-001-ord-100 Government agency Ordnance

Line No.	Description Purchaser name information you would give supplier if you were ordering this material or part. Include principal vendor's name and catalog number for parts, where practicable. (See special instructions for description of inventory)	QUANTITY ON HAND	UNIT (Pcs., Gals., etc.)	ESTIMATED WEIGHT (Total)	Cost		RECONSTRUCTION DISPOSAL	O.D. Catalog No. or Part No. if practicable	CONTRACTOR'S OFFER			PROPERTY DISPOSAL INFORMATION		This Column No. 15 to be filled in by Contractor
					UNIT	TOTAL			Quantity	Amount (Total)	Quantity	Amount of Disposal Credits		
1	Steel, flat, cold rolled bright finish, soft temper, WD - 1010, 2-1/8" x 1/16", in coils	9,900	lbs	9,900	.0458	453.42	D	c.0458	NONE	9,900	425.50			
2	Steel, deep drawing, zinc coated, 30 gage x 3-3/4" wide, in rolls 10" 1D, 16" OD, Federal Spec. 44-1-716, Class E-1	5,559	lbs	5,559	.10	555.90		c.10	500.31	5,559	500.31			
3	Steel, hard, #1, .090" x 2", WD 1010, Coil Stock cold rolled	23,150	lbs	23,150	.033	763.95	D	c.033	NONE	23,150	700.00			
4	Steel, coils 7/8" x .032", WD 1010 1/2 hard spec. 57-136 (18 coils) diameter 30-3/4" core 11 1/2"	4,738	lbs	4,738	.055	260.59		c.055	234.54	4,738	234.54			
	Total - Page 1					2,033.86					1,860.35			
A NEW PAGE SHOULD BE STARTED FOR THE NEXT GROUP														
1	Bearings, ball, #206 part #CAAXIAM, purchased from S.K.F. Industries, Inc.	9,700	each		.90	8,730.00	M	c.90	NONE	9,700	8,700.50			
2	Bearings, ball, #305 part #CAAXIAF, purchased from S.K.F. Industries, Inc.	590	each		.92	542.80	M	c.92	NONE	590	530.27			
	Total - Page 2					9,272.80					9,230.77			
	Page 1					2,033.86					1,860.35			
	Page 2					9,272.80					9,230.77			
	Pages 3 to 12 inclusive (These pages are not shown here in order to conserve space.)					8,162.11					30,728.28			
	Total - line 8 of summary					9,468.77					41,819.40			
	Total disposal credits—raw materials, etc.													

W. D. A. G. O. Form No. 247
13 April 1944

① Front

Figure 3. Form No. C-1 (W. D., A. G. O. Form No. 247).

INSTRUCTIONS

1. PREPARATION OF SCHEDULE.—The number of copies to be prepared will be specified by the Government representative or contractor from whom the Termination Notice was received. Columns 1 through 11 should be filled in immediately on all copies to the extent practicable without unduly delaying submission of the inventory schedule. Columns 6 and 7 will not be filled in for Government-owned property. The inventory schedules will be used for the following purposes:

PROPERTY DISPOSITION COPIES are to be mailed to the Government representative named in the Termination Notice (if you are a prime contractor), or to the contractor from whom you received Notice of Termination (if you are a subcontractor) as soon as the inventory information has been entered.

CONTRACTOR'S OWN CHARGES SCHEDULE COPY is to accompany your charge schedule (Form B-1 or B-2). It will not be necessary to prepare this copy for Government-owned property.

CONTRACTOR'S SETTLEMENT PROPOSAL COPIES, one of which is the original, will accompany your Contractor's Settlement Proposal (Form A-1). By this time, such inventory as will be disposed of by your firm will have been sold, retained, or otherwise disposed of and the disposal information entered in columns 12 and 13 as provided in the columnar instructions.

CONTRACTOR'S FILE COPY should be maintained for your records showing the same information as the original.

CERTIFICATE

This is to certify that the inventory described on the face of this schedule consists of items properly allocable to the contract, that the quantities are not in excess of the reasonable quantitative requirements of the terminated portion of the contract, and that the offers indicated in column 11 are fair and reasonable in the opinion of the undersigned.

Individual responsible for compiling inventory data submitted in this form:

R. L. Mead
(Signature)
Inventory Supervisor
(Title)

Young Manufacturing Company
(Name of contractor or subcontractor)
By Henry Myers
(Name)
President
(Title)
12 July 1944
(Date)

COLUMNAR INSTRUCTIONS

Column 1—LINE NUMBER.—Number each entry in sequence. This will facilitate necessary references in case of adjustments, disposal actions, etc.

Column 2—DESCRIPTION.—Specific instructions as to the method of listing, and the detail of description will be furnished by the Government representative or contractor from whom the Termination Notice was received.

Columns 6 and 7—UNIT AND TOTAL COSTS.—An explanation of your method of computing costs should be attached to the original and to the copy accompanying your cost statement. This explanation should cover your treatment of transportation and discounts, and should also explain whether "first-in-first-out" or some other method is used.

Column 8—RECOMMENDED DISPOSAL.—Whenever practicable, give your recommendation for disposal of those items you do not wish to retain. Use following code:

- D — Sell to distributors.
- M — Sell to manufacturers.
- P — Public sale on bids.
- W — Sell to other war contractors (name on attached statement).

V — Sell to original vendor.

S — Scrap (reasons to be set forth on attached statement).

X — Other recommended method. (Explain on attached statement referring to proper item number.)

Recommendation should represent your opinion of the method which will move the property with greatest speed consistent with the best interest of the Government as to price and other appropriate factors.

Column 9—ENTER OPA CEILING OR MARKET PRICE PER UNIT IF PRACTICABLE.—If ceiling price is used, indicate by letter "c" before price, thus "c12.50."

Columns 10 and 11—CONTRACTOR'S OFFER.—Any offer for inventory for an amount less than your cost must be explained on an attached statement. Such explanations should include reference to line number and page number to facilitate identification.

Columns 12 and 13—DISPOSAL CREDITS.—Materials retained, returned to supplier, or otherwise disposed of. These credits are to be recorded on the copy of this schedule which is submitted with the Contractor's Settlement Proposal (Form A-1), and on the Contractor's File Copy.

U. S. GOVERNMENT PRINTING OFFICE 16-35300-1

② Back

Figure 3. Form No. C-1 (W. D., A. G. O. Form No. 247)—Continued.

Form No. C-2

This inventory schedule is to be used for

- ☐ Property disposition
☐ Contractor's own charges schedule (Forms B-1 or B-2)
☒ Contractor's settlement proposal (Form A-1)

NAME OF YOUR FIRM:
 Young Manufacturing Company
 ADDRESS:
 1234 South East Street, Dayton 12, Ohio
 LOCATION OF PLANT:
 CLASSIFICATION OF PROPERTY ON THIS PAGE:

INVENTORY SCHEDULE

Inventory Applicable to Uncompleted Portion of Terminated Contract

WORK IN PROCESS

OWNED BY CONTRACTOR ☒ GOVERNMENT ☐

Read Instructions Before Preparing This Schedule

General Instructions for preparation of Settlement Proposal and for the use of these forms with special instructions for description of inventory should be procured from the Government representative or contractor from whom the Termination Notice was received.

Date of inventory 15 May 1944

Government contract No. W-001-ord-100 Government agency Ordnance

Budget Bureau approval No. 49-2184.
Expiration date: 31 May 1944.

PAGE 1 OF 45 PAGES

CHECK ONE

☒ This inventory is applicable to a prime contract with the Government.☐ This inventory is applicable to Subcontract or Purchase Order

(Identify) with:

(Name and address of contractor from whom you received notice of termination)

NOTE.—The paper on which this form is printed can be used for reproduction by liquid process duplicating machines.

Page No.	DESCRIPTION AND SPECIFICATION (Show any information that will help a prospective purchaser) (See special instructions for description of inventory)	QUANTITY ON HAND	ESTIMATED WEIGHT (Total)	Cost Data				OFA Ceiling or Price or Practicable	PROPERTY DISPOSAL INFORMATION				This Column to be Used by Contractor
				Material	Direct Labor	Indirect Expenses	Total Factory Cost		Quantity	Amount (Total)	Quantity	Amount of Disposal Credits	
1	Piece No. A 34,659, 10% inspection complete including 62 salvaged	1,100		12.75	28.05	27.92	68.72						
2	Piece No. A 36,496, operations 10, 20, 30, 35, 40, 50, 60, and partly 70	264		112.57	126.64	126.07	365.28						
3	Piece No. A 37,816, cut off only	1,063		211.12	11.73	11.07	234.52						
4	Piece No. BOAXIEF, not polished or sized	467		64.78	118.77	118.23	301.78						
	Total - Page 1			401.22	285.19	283.89	970.30						
A NEW PAGE SHOULD BE STARTED FOR THE NEXT GROUP													
1	Piston and Rod Assembly (Engine) part parts: FVB-203-A, consisting of the following parts: FVB-203-C 1 Piston with pin and retaining ring FVB-209 2 Compression ring FVB-202-2 2 Piston pin FVB-212 1 Piston pin (with piston) FVB-213 1 Connection rod (less bearing) Assembly 99-A-6200 FVB-141 2 Piston pin retainers (with piston) Page 1 Pages 3 to 45 inclusive (These pages are not shown here to conserve space.) Total - line 2 of summary	1,016	2,540 lbs	762.001	676.401	668.86	4,107.26						
	Total disposal credits - Work in process			401.22	285.19	283.89	970.30						
				762.001	676.401	668.86	4,107.26						
				401.22	285.19	283.89	970.30						
				762.001	676.401	668.86	4,107.26						
				401.22	285.19	283.89	970.30						
				762.001	676.401	668.86	4,107.26						
				401.22	285.19	283.89	970.30						
				762.001	676.401	668.86	4,107.26						
				401.22	285.19	283.89	970.30						
				762.001	676.401	668.86	4,107.26						
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				762.001	676.401	668.86	4,107.26						
				401.22	285.19	283.89	970.30						
				762.001	676.401	668.86	4,107.26						
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1 Jun 44

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TM 14-1005

INSTRUCTIONS

1. **PREPARATION OF SCHEDULE.**—The number of copies to be prepared will be specified by the Government representative or contractor from whom the Termination Notice was received. Columns 1 through 12 should be filled in immediately on all copies to the extent practicable without unduly delaying submission of the inventory schedule. Columns 5, 6, 7, and 8 will not be filled in for Government-owned property. The inventory schedules will be used for the following purposes:

PROPERTY DISPOSITION COPIES are to be mailed to the Government representative named in the Termination Notice (if you are a prime contractor), or to the contractor from whom you received Notice of Termination (if you are a subcontractor) as soon as the inventory information has been entered.

CONTRACTOR'S OWN CHARGE SCHEDULE COPY is to accompany your charge schedule (Form B-1 or B-2). It will not be necessary to prepare this copy for Government-owned property.

CONTRACTOR'S SETTLEMENT PROPOSAL COPIES, one of which is the original, will accompany your Contractor's Settlement Proposal (Form A-1). By this time, such inventory as will be disposed of by your firm will have been sold, retained, or otherwise disposed of, and the disposal information entered in columns 13 and 14 as provided in the columnar instructions.

CONTRACTOR'S FILE COPY should be maintained for your records showing the same information as the original.

CERTIFICATE

This is to certify that the inventory described on the face of this schedule consists of items properly allocable to the contract, that the quantities are not in excess of the reasonable quantitative requirements of the terminated portion of the contract, and that the offers indicated in column 12 are fair and reasonable in the opinion of the undersigned.

Individual responsible for compiling inventory data submitted in this form:

R. L. Mead
(Signature)
Inventory Supervisor
(Title)

Young Manufacturing Company
(Name of contractor or subcontractor)
By Henry Mead
(Signature)
President
(Title)
12 July 1944
(Date)

COLUMNAR INSTRUCTIONS

Column 1—LINE NUMBER.—Number each entry in sequence. This will facilitate necessary references in case of adjustments, disposal actions, etc.

Column 2—DESCRIPTION.—Specific instructions as to the method of listing, and the detail of description will be furnished by the Government representative or contractor from whom the Termination Notice was received.

Columns 5, 6, 7, and 8—UNIT AND TOTAL COSTS.—These columns should be completed in accordance with the classification of costs indicated. However, where such a procedure is not practicable, items may be grouped for costing purposes conforming to the cost accounting procedures used by the contractor. In all cases, an explanation of the contractor's method of computing costs should be attached. When the contractor cannot present the minimum cost data with accuracy and has therefore presented his charges on a total cost basis, the cost data should be completed to the greatest extent practicable.

Column 9—RECOMMENDED DISPOSAL.—Whenever practicable give your recommendation for disposal of those items you do not wish to retain. Use following code:

D—Sell to distributors.
M—Sell to manufacturers.

P—Public sale on bids.
W—Sell to other war contractors (name on attached statement).
V—Sell to original vendor.
S—Scrap (reasons to be set forth on attached statement).
X—Other recommended method. (Explain on attached statement referring to proper item number.)

Recommendations should represent your opinion of the method which will move the property with greatest speed consistent with the best interest of the Government as to price and other appropriate factors.

Column 10—ENTER OPA CEILING OR MARKET PRICE PER UNIT IF PRACTICABLE.—If ceiling price is used, indicate by letter "c" before price, thus "c12.50."

Columns 11 and 12—CONTRACTOR'S OFFER.—Any offer for inventory for any amount less than your cost must be explained on an attached statement. Such explanations should include reference to line number and page number to facilitate identification.

Columns 13 and 14—DISPOSAL CREDITS.—Materials retained or otherwise disposed of. These credits are to be recorded on the copy of this schedule which is submitted with the Contractor's Settlement Proposal (Form A-1), and on the Contractor's File Copy.

U. S. GOVERNMENT PRINTING OFFICE 16-50200-1

② Back

Figure 4. Form No. C-2 (W. D., A. G. O. Form No. 248)—Continued.

Budget Bureau approval No. 48-187.
Expiration date: 31 May 1944.

PAGE 1 OF 23 PAGES

INVENTORY SCHEDULE

Inventory Applicable to Uncompleted Portion of Terminated Contract

JIGS, TOOLS, DIES, FIXTURES, ETC.

OWNED BY CONTRACTOR ☒ GOVERNMENT ☐

Read Instructions Before Preparing This Schedule

General Instructions for preparation of Settlement Proposals and for the use of these forms with special instructions for description of inventory should be procured from the Government representative or contractor from whom the Termination Notice was received.

CHECK ONE
☒ This inventory is applicable to a prime contract with the Government.
☐ This inventory is applicable to Subcontract or Purchase Order

(identify), with:

(Name and address of contractor from whom you received notice of termination)

Form No. C-3
This inventory schedule is to be used for:
☐ Property disposition
☐ Contractor's own charges schedule (Forms B-1 or B-2)
☒ Contractor's settlement proposal (Form A-1)

NAME OF YOUR FIRM:
Young Manufacturing Company

ADDRESS:
1234 South East Street, Dayton 12, Ohio

LOCATION OF PLANT: *

CLASSIFICATION OF PROPERTY ON THIS PAGE:

NOTE.—The paper on which this form is printed can be used for reproduction by liquid process duplicating machines.

Date of inventory 15 May 1944 Government contract No. W-001-ord-100 Government agency Ordnance

Line No.	DESCRIPTION Furnish same information you would give if you were ordering this equipment. Where possible, include vendor's name, catalog number, and serial number (See special instructions for description of inventory)	Quantity Handed Over	COST		Estimated Worth (Total)	COST APPLICABLE TO THIS CONTRACT		Recom- mended Disposal	OPA Calling for Price if Practicable	PROPERTY DISPOSAL INFORMATION				This Column Not to be Used by Contractor Col. 16
			Unit Cost	Total Cost		Amount of Applicable Cost	Unamortized Cost			Quantity	Amount (Total)	Quantity	Amount of Credits	
1	Fixture, test gage, 056,921	6	305.95	1,835.70	1,835.70	917.85	8	S		11	NONE	6	25.00	
2	Fixture for engrave numbers, A205350	2	79.10	158.20	158.20	79.10	8	S		11	NONE	2	1.00	
3	Jig, drill, 056573	4	104.33	417.32	417.32	208.66	8	S		11	NONE	4	5.75	
4	Jig, drill, with one slip bushing, A205357-8	2	236.49	472.98	472.98	236.49	8	S		11	NONE	2	6.10	
	Total - Page 1					1,442.10							37.85	
A NEW PAGE SHOULD BE STARTED FOR THE NEXT GROUP														
1	Gage, radius, D74121-1	3	180.64	541.92	541.92	270.96	8	S				3	8.50	
2	Gage, depth setting, 1-3/16", T-290	6	10.00	60.00	60.00	30.00	8	S				6	2.25	
3	Gage, inspection, and tools, T-271-5-6	7	443.26	3,102.82	3,102.82	1,551.41	8	S				7	65.00	
	Total - Page 2					1,852.37							75.75	
	Page 1					1,442.10							37.85	
	Page 2					1,852.37							75.75	
	Pages 1 - 23 inclusive (These pages are not shown here in order to conserve space)					20,582.51							782.50	
	Total - line 3 of summary					23,876.98								
	Total disposal credits - jigs, tools, etc.												896.10	

W. D. A. G. O. Form No. 249
18 April 1944

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Figure 5. Form No. C-3 (W. D., A. G. O. Form No. 249).

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INSTRUCTIONS

1. **PREPARATION OF SCHEDULE.**—The number of copies to be prepared will be specified by the Government representative or contractor from whom the Termination Notice was received. Columns 1 through 12 should be filled in immediately on all copies to the extent practicable without unduly delaying submission of the inventory schedule. Columns 5, 6, 7, and 8 will not be filled in for Government-owned property. The inventory schedules will be used for the following purposes:

PROPERTY DISPOSITION COPIES are to be mailed to the Government representative named in the Termination Notice (if you are a prime contractor), or to the contractor from whom you received Notice of Termination (if you are a subcontractor) as soon as the inventory information has been entered.

CONTRACTOR'S OWN CHARGES SCHEDULE COPY is to accompany your charge schedule (Form B-1 or B-2). It will not be necessary to prepare this copy for Government-owned property.

CONTRACTOR'S SETTLEMENT PROPOSAL COPIES, one of which is the original, will accompany your Contractor's Settlement Proposal (Form A-1). By this time, such inventory as will be disposed of by your firm will have been sold, retained, or otherwise disposed of, and the disposal information entered in columns 13 and 14 as provided in the columnar instructions.

CONTRACTOR'S FILE COPY should be maintained for your records showing the same information as the original.

CERTIFICATE

This is to certify that the inventory described on the face of this schedule consists of items properly allocable to the contract, that the quantities are not in excess of the reasonable quantitative requirements of the terminated portion of the contract, and that the offers indicated in column 12 are fair and reasonable in the opinion of the undersigned.

Individual responsible for compiling inventory data submitted in this form:

E. B. Huff
(Signature)
Plant Superintendent
(Title)

Young Manufacturing Company

(Name of contractor or subcontractor)

By *Henry Myers*
(Signature)
President
(Title)

12 July 1944

(Date)

COLUMNAR INSTRUCTIONS

Column 1—LINE NUMBER.—Number each entry in sequence. This will facilitate necessary references in case of adjustments, disposal actions, etc.

Column 2—DESCRIPTION.—Specific instructions as to the method of listing, and the detail of description will be furnished by the Government representative or contractor from whom the Termination Notice was received.

Columns 5 and 6—UNIT AND TOTAL COSTS.—In these columns show the costs of acquisition or manufacture. An explanation of your method of computing costs should be attached.

Columns 7 and 8—COSTS APPLICABLE TO THIS CONTRACT.—An explanation should be attached of the bases used and calculations made as shown in these columns. When columns 6 and 7 show different amounts, the contractor should show the extent to which amounts applicable to other work have been amortized as of the date of termination of this contract.

Column 9—RECOMMENDED DISPOSAL.—Whenever practicable give your recommendation for disposal of those items you do not wish to retain. Use following code:

- D — Sell to distributors.
- M — Sell to manufacturers.
- P — Public sale on bids.

W — Sell to other war contractors (name on attached statement).

V — Sell to original vendor.

S — Scrap. (Reasons to be set forth on attached statement.)

X — Other recommended method. (Explain on attached statement referring to proper item number.)

Recommendations should represent your opinion of the method which will move the property with greatest speed consistent with the best interest of the Government as to price and other appropriate factors.

Column 10—ENTER OPA CEILING OR MARKET PRICE PER UNIT IF PRACTICABLE.—If ceiling price is used, indicate by letter "c" before price, thus "c12.50."

Columns 11 and 12—CONTRACTOR'S OFFER.—An offer for property at less than unamortized cost must be explained on an attached statement. Such explanations should include reference to line number and page number to facilitate identification.

Columns 13 and 14—DISPOSAL CREDITS.—Where offers made in columns 11 and 12 have resulted in disposals, the credits are to be recorded on the copy of this schedule which is submitted with the Contractor's Settlement Proposal (Form A-1), and on the Contractor's File Copy.

U. S. GOVERNMENT PRINTING OFFICE 16-20307-1

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Figure 5. Form No. C-3 (W. D., A. G. O. Form No. 249)—Continued.

Form No. B-2
Read all instructions before
preparing this form

CONTRACTOR'S OWN CHARGES SCHEDULE
CONTRACTOR'S OWN CHARGES TO DATE OF TERMINATION
APPLICABLE TO TERMINATED PORTION OF CONTRACT

Budget Bureau approval No. 49-B178
Expiration date: 31 July 1944

Total Cost Basis

Supporting Schedule Form A-1 (Line 1)

NAME OF YOUR FIRM P. M. Manufacturing Company		Check one: ☒ This schedule is applicable to a prime contract with the Government. ☐ This schedule is applicable to subcontract or purchase order (identify) with: *Insert name and address of contractor from whom you received Notice of Termination.	
ADDRESS (Street)	(City)	(State)	
8 Spring Street, Milwaukee 7, Wisconsin			
EFFECTIVE DATE OF TERMINATION	GOVERNMENT CONTRACT NO.	GOVERNMENT AGENCY	ITEMS CONTRACTED FOR
18 April 1944	W889-ac112B	Army Air Forces	X131B Assemblies

SUMMARY

	Amount	DO NOT USE THIS COLUMN
1. Direct materials—See Instruction 5	\$243,240.00	
2. Direct labor	63,225.60	
3. Indirect factory expenses—per Schedule B-2-a	49,948.22	
4. General and administrative expenses—per Schedule B-2-b	22,878.74	
5. Other charges—per Schedule B-2-c—See Instruction 3	42,170.50	
6. Total of contractor's own costs	\$421,463.06	
7. Profit, if any—per Schedule B-2-d—See Instruction 4	25,287.78	
8. Total—costs plus profit, if any	\$446,750.84	
9. Less: Total finished units billed or to be billed	180,000.00	
10. Amount of charges	\$266,750.84	

CERTIFICATE

The undersigned certifies that, to the best of its knowledge and belief, the summary of charges and supporting schedules and explanations have been prepared from the books of account and records of the undersigned in accordance with recognized commercial accounting practices; that they include only those charges allocable to this contract; that the charges as stated are fair and reasonable; and that they have been prepared with knowledge that they will, or may, be used by contracting officers acting on behalf of the United States as the basis of settlement with the undersigned or with others.

CHIEF ACCOUNTING OFFICER:

J. D. Richards
(Signature)
Controller
(Title)

P. M. Manufacturing Company
(Name of contractor)
Patrick D. Roesch
(Signature)
President
(Title)
12 July 1944
(Date)

SCHEDULE No. B-2-a

INDIRECT FACTORY EXPENSES

In the space provided on reverse, or on an attached sheet, show in a manner conforming to the contractor's accounting system:

- (1) Composition of Indirect Factory Expenses Before Allocation to Contract. Show beginning and ending date of period used.
- (2) Description of Bases Used in Allocating the Above Indirect Factory Expenses to the Contract.
- (3) Calculation, to the Extent Practicable, of Indirect Factory Expenses Applicable to the Contract in Accordance with Bases Indicated in (2).

SCHEDULE No. B-2-b

GENERAL AND ADMINISTRATIVE EXPENSES

In the space provided on reverse, or on an attached sheet, show information relating to General and Administrative Expense of the same type as is required in Schedule B-2-a, above.

FINISHED UNIT INFORMATION			INFORMATION REGARDING RENEGOTIATION	
	Number of Units	Total Amount		
Total per contract	12,000	\$1,800,000	Were you renegotiated for last fiscal year? Yes	
Less: Units shipped and billed	1,000	\$150,000	If so, by what Government agency? Ordnance	
Units to be shipped and billed	200	30,000	Were costs and sales included for purposes of renegotiation in that period excluded from summary? Yes	
Total billed or to be billed (Line 9 of Summary)	1,200	\$180,000	If not, explain items not excluded	
Units completed but not billed, if any	- 0 -	1,200		
Units covered by termination notice	10,800	\$1,620,000		

W. D., A. G. O. Form No. 246
18 April 1944

10-9400-3

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Figure 6. Form No. B-2 (W. D., A. G. O. Form No. 246).

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SCHEDULE No. B-2-c		OTHER CHARGES	
Item	Explanation	COLUMN	Do Not Use This COLUMN
Special patterns, molds and dies original equipment approved by Army Air Forces for this contract less amortization.*		\$17,049.60	
Engineering, drafting and designing - direct labor charges		25,120.90	
Total - line 5 of summary		\$42,170.50	
* Ed. Note: This charge would be supported by an inventory schedule on Form No. C-3.			

SCHEDULE No. B-2-d		PROFIT, IF ANY	
			Do Not Use This COLUMN
Total contractor's own costs - line 6 of summary		\$421,463.06	
6 per cent thereof		\$ 25,287.78	
Estimated profit if contract had been completed*		8%	
Rate of profit after renegotiation prior fiscal year		9.14%	
* Ed. Note: A statement showing the basis of profit computation normally would be attached.			

Use this space for information required in Schedules B-2-a and B-2-b or for other purposes

Schedule B-2-a		Schedule B-2-b	
Indirect Factory Expenses		General and Administrative Expense	
1. Indirect factory expenses applicable to burden centers A, C, and D for period 1 Oct 43 to 30 Apr 44 inclusive:		1. General and administrative expense for period from 1 Oct 43 to 30 Apr 44 inclusive:	
Factory supervision	\$ 24,748.00	Officers' salaries	\$111,410.00
Indirect labor	40,970.21	Office salaries	82,940.00
Overtime premiums	13,124.71	Social security taxes	1,741.50
Social security taxes	9,804.21	Capital stock tax	8,500.00
Other taxes	8,489.43	Traveling expenses	4,895.40
Insurance	4,105.62	Telephone and telegraph	5,983.50
Power, light and heat	5,841.09	Legal and other professional	5,492.75
Maintenance and repairs	10,402.91	Dues and subscriptions	4,634.50
Supplies	13,847.58	Depreciation	3,449.45
Defective work	5,819.42	Stationery and postage	16,466.41
Depreciation	24,942.77	Miscellaneous	2,633.84
General	4,201.41		
Total	\$166,297.36	Total	\$248,147.35
2. Direct labor expended in burden centers A, C and D during period 1 Oct 43 to 30 Apr 44	\$210,503.15	2. Basis of allocation - total cost of sales 1 Oct 43 to 30 Apr 44	\$4,322,700.61
Per cent of indirect factory expense to direct labor	79.00%	Per cent of general and administrative expense to cost of sales	5.74%
3. Amount of direct labor applicable to item cancelled (8 Oct 43 to 18 Apr 44 incl.)	\$ 63,225.60	3. Total items 1, 2, 3 and 5 above	\$398,584.32
Indirect factory expenses applicable to cancelled item - 79% of \$63,225.60	\$ 49,948.22	5.74% of \$398,584.32	\$ 22,878.74

INSTRUCTIONS

1. This Form No. B-2 is to be prepared as soon as information as to total contract cost can be completed.
2. Where schedules provided are too small, attach other schedules following the same form.
3. Include in Other Charges (Line 5 of Summary and Schedule B-2-c) all other charges applicable to the contract not previously included. Where costs are included for loss of useful value of production equipment or facilities of the type specified in Section 1 (f) of the Statement of Principles for Determination of Costs Upon Termination of Government Fixed Price

- Supply Contracts, attach a statement explaining the determination of the charges.
4. In Schedule No. B-2-d, show the bases and computation of any profit included in line 7 of the summary.
5. While the "Contractor's Own Charges Schedule" copies of the Inventory Schedules C-1, C-2, and C-3 do not constitute the basis for the proposed settlement under the total cost basis, this Form B-2 should be supported by those inventory schedules. In the case of Inventory Schedules C-1, the inventory should be priced. In the case of Inventory Schedules C-2 and C-3, the inventory should be priced to the extent practicable.

General Instructions for preparation of Settlement Proposals and for the use of these forms should be procured from the Government representative or contractor from whom the Termination Notice was received.

U. S. GOVERNMENT PRINTING OFFICE

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Figure 6. Form No. B-2 (W. D., A. G. O. Form No. 246)—Continued.

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Form No. A-2
Read all instructions before
preparing this form

CONTRACTOR'S SETTLEMENT PROPOSAL COMBINATION STATEMENT—INVENTORY BASIS

Budget Bureau approval No. 49-R181
Expiration date: 31 July 1944

(To be used only when total proposal is less than \$10,000 before disposal or other credits)

NAME OF YOUR FIRM <u>The Manufacturing Co., Inc.</u>		Check one ☐ This settlement proposal is applicable to a prime contract with the Government.	
Address (Street)	(City)	(State)	☒ This settlement proposal is applicable to subcontract or purchase order <u>A 4432-44</u> (identify) with: <u>American Industries, Inc.</u> <u>East Chicago, Illinois</u>
<u>1137 North St., Chicago 10, Illinois</u>			
If monies payable under the contract have been assigned, show name of assignee: <u>None</u>			
EFFECTIVE DATE OF TERMINATION <u>8 May 1944</u>	GOVERNMENT CONTRACT NO. <u>W-20-Ord-311</u>	GOVERNMENT AGENCY <u>Ordnance Department</u>	ITEMS CONTRACTED FOR <u>Shell, Practice, 37mm</u>

SUMMARY

	Amount	Do Not Use This Column
1. Raw materials, purchased parts, and supplies—per Schedule No. A-2-a—See Instruction 3	\$ 1,162.50	
2. Work in process—per Schedule No. A-2-a—See Instruction 3:		
2a. Materials	\$ 125.00	
2b. Labor	75.00	
2c. Indirect factory expense	112.50	
Total work in process	\$ 312.50	
3. General and administrative expense—See Instruction 4 Per Schedule A-2-b	73.75	
4. Other charges—per Schedule No. A-2-b—See Instruction 5	0-	
5. Total	\$ 1,548.75	
6. Profit, if any (explain calculation in Schedule No. A-2-c)	154.88	
7. Total	\$ 1,703.63	
8. Settlements with subcontractors—per Schedule No. A-2-d	688.20	
9. Post termination charges—per Schedule No. A-2-e	315.00	
10. Total charges	\$ 2,706.83	
11. Partial or advance payments—per Schedule No. A-2-f	1,000.00	
12. Settlement proposal before disposal credits	\$ 1,706.83	
13. Disposal credits—per Schedule No. A-2-a	525.00	
14. Net settlement proposal	\$ 1,181.83	
15. Contract price of finished units not otherwise billed—See Instruction 6	\$ 1,050.00	
16. Disposal credits applicable to finished units	100.00	
17. Net charge for finished units	950.00	
18. Net settlement proposal including charge for finished units	\$ 2,131.83	

NOTE—The paper on which this form is printed can be used for reproduction by liquid process duplicating machines.

CERTIFICATE

OWN CHARGES.—The undersigned certifies that, to the best of its knowledge and belief, the summary of charges and supporting schedules and explanations have been prepared from the books of account and records of the undersigned in accordance with recognized commercial accounting practices; that they include only those charges allocable to the terminated portion of this contract; that the charges as stated are fair and reasonable; and that they have been prepared with knowledge that they will, or may, be used by contracting officers acting on behalf of the United States as the basis of settlement with the undersigned or with others.

SUBCONTRACTORS' CHARGES.—The undersigned certifies that it has examined, or caused to be examined, to an extent which it considers adequate in the circumstances, the claims of its immediate suppliers (exclusive of charges arising from termination claims filed against such immediate suppliers by their suppliers) as summarized as item 8, that, in its opinion, the settlements of its immediate suppliers' own charges are fair and reasonable, said charges are allocable to the terminated portion of this contract, and said settlements were negotiated in good faith, and are not more favorable to its immediate suppliers than those which the undersigned would make if reimbursement by the Government were not involved. The undersigned certifies that it has no knowledge to doubt the reasonableness of the settlements with more remote suppliers or to doubt that the charges for them are allocable to this contract. The undersigned shall not be deemed to have made any representations with respect to the immediate and more remote suppliers' claims or the settlement thereof other than those expressed in this certificate.

CHIEF ACCOUNTING OFFICER:

J. A. Nichols
(Signature)
Controller
(Title)

The Manufacturing Co., Inc.

(Name of contractor)
R. K. Wilson
(Signature)
President
(Title)
16 June 1944
(Date)

SCHEDULE No. A-2-a	INVENTORIES AT DATE OF TERMINATION		LINES 1, 2, AND 13 OF SUMMARY		
Description	Quantity	Total Cost	Contractor's Best Offer	Disposal Credits	Do Not Use This Column
<u>Raw materials, purchased parts and supplies:</u>					
W.D. 1010 CR Super Strip Steel .062" x 4 1/8" x 96" @ \$3.441 per cwt	10,000 lbs	\$ 344.10	\$ 157.50		
Black acid proof paint	300 gal	108.00	None		
Packing cartons, 12" x 8" x 4"	3,653 pcs	547.95		\$ 525.00*	
Copper	812 lbs	162.45	None		
Total - line 1 of summary		\$ 1,162.50			
* In accordance with terms of authorization letter from Contracting Officer dated 15 May 1944.					
<u>Work in process</u>					
353 shell		\$ 312.50	None		
One lot of shell was in process. Material and labor costs were accumulated by a job order cost system. Indirect factory expense is applied at 150% of direct labor. Indirect factory expense for the fiscal year ended 31 Dec 1943 was 185.7% of direct labor.					
<u>Finished units - See Schedule A-2-f</u>					

W. D., A. G. O. Form No. 243
18 April 1944

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Figure 7. Form No. A-2 (W. D., A. G. O. Form No. 243).

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FINISHED UNIT INFORMATION				INFORMATION REGARDING RENEGOTIATION	
	Number of Units		Total Amount		
Total per contract	20,000		\$42,000	Were you renegotiated for last fiscal year? <u>Yes</u>	
Less: Units shipped and billed	5,000	\$10,500		If so, by what Government agency? <u>Ordnance</u>	
Units to be shipped and billed	0	0		Were costs included for purposes of renegotiation in that period excluded from the above Summary? <u>Yes</u>	
Total billed or to be billed	5,000	\$10,500		If not, explain items not excluded	
Units completed but not billed, if any (Line 15 of Summary)	500	5,500	1,050		
Units covered by termination notice	14,500		\$30,450		

SCHEDULE No. A-2-b	General and	Administrative Expense LINE 3 OF SUMMARY	
Item	Explanation	Amount	Do Not Use This Column
Raw materials - line 1 of summary		\$1,162.50	
Work in process - line 2 of summary		312.50	
Total		\$1,475.00	
5% thereof		\$73.75	
General and administrative expense for the fiscal year ended 31 Dec. 1943 was 6.12% of cost of sales, and it is estimated that the percentage will be at least as high in 1944.			

SCHEDULE No. A-2-c	PROFIT, IF ANY	LINE 6 OF SUMMARY	
Total contractor's own costs - line 5 of summary		\$ 1,548.75	Do Not Use This Column
Profit - 10% thereof		154.88	
Contract price, 20,000 shell @ \$2.10		\$42,000.00	
Costs to date	\$10,340.80		
Estimated cost to complete	26,659.20	37,000.00	
Estimated profit 13.5% of cost		\$ 5,000.00	
Overall profit after renegotiation for year ended 31 Dec. 1943 was 12% of cost of sales			

SCHEDULE No. A-2-d		SETTLEMENTS WITH SUBCONTRACTORS		LINE 8 OF SUMMARY		
Name of Subcontractor	Item	Total on Order at Date of Termination		Quantity Canceled Applicable to Contract	Amount of Actual or Proposed Settlement	Do Not Use This COLUMN
		Quantity	Amount, \$			
John Steele, Inc.	WD 1010 CR Super Strip Steel-.062" x 4-1/8"x 96" @ \$3.441 per cwt.	20,000 lbs	\$3,441.00	20,000 lbs	\$ 688.20	

SCHEDULE No. A-2-e	POST TERMINATION CHARGES	LINE 9 OF SUMMARY	
Item	Explanation	Amount	Do Not Use This Column
Cost of taking inventory, boxing work in process, etc.			
Supervisors - 20 hrs. @ \$1.50		\$30.00	
Inventory takers - 80 hrs. @ \$.90		72.00	
Supplies, packing, grease, etc.		26.00	
Wages of accounting and purchasing departments		\$ 128.00	
Typists - 16 hrs. @ \$.75		\$12.00	
Clerks - 100 hrs. @ \$.85		85.00	
Accountants - 60 hrs. @ \$1.50		90.00	
Total - line 9 of summary		\$ 315.00	

SCHEDULE No. A-2-f	PARTIAL OR ADVANCE PAYMENTS	LINE 11 OF SUMMARY	
Date	Explanation	Amount	Do Not Use This Column
10 June 1944 (per supplemental agreement dated 7 June 1944)		\$1,000.00	
Finished Units Completed but not Billed			
500 Units @ \$2.10		\$1,050.00	
Less disposal credit - Scrap Value		100.00	
Total - line 17 of summary		\$ 950.00	

INSTRUCTIONS

1. This Form No. A-2 is to be prepared by the contractor as soon as cost information required in the summary can be determined.
2. If space provided in these schedules is not sufficient, attach additional sheets, using the same headings.
3. Inventory should be grouped in Schedule No. A-2-a by "Raw Materials, Purchased Parts, and Supplies" and "Work in Process," and separate cost totals should agree with amounts shown on Lines 1 and 2 of Summary. Explanations should be attached describing the methods followed in computing costs as shown in Schedule No. A-2-a and in Lines 2a, 2b, and 2c of the Summary.
4. An explanation should be attached as to the basis of allocation and calculation of the amount of general and administrative expense applicable to the inventory.
5. Include in Other Charges (Line 4 of Summary and Schedule A-2-b) all costs not previously included.
6. Subcontractors may include on line 15 any amounts applicable to finished units completed at date of termination but not otherwise billed. In that case, the inventory and any applicable disposal credits should be listed in Schedule A-2-a. The total of these disposal credits should be shown on line 16 of the Summary.

General Instructions for preparation of Settlement Proposals and for the use of these forms should be procured from the Government representative or contractor from whom the Termination Notice was received.

U. S. GOVERNMENT PRINTING OFFICE 16-39400-1

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Figure 7. Form No. A-2 (W. D., A. G. O. Form No. 243)—Continued.

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Form No. A-3
Read all instructions before
preparing this form

CONTRACTOR'S SETTLEMENT PROPOSAL COMBINATION STATEMENT—TOTAL COST BASIS

Budget Bureau approval No. 49-R180
Expiration date: 31 July 1944

(To be used only when total proposal is less than \$10,000 before disposal or other credits)

NAME OF YOUR FIRM Fabricated Steel Company		Check one ☒ This settlement proposal is applicable to a prime contract with the Government. ☐ This settlement proposal is applicable to subcontract or purchase order (identify) with:	
ADDRESS (Street)	(City)	(State)	
1211 South Street, Cleveland 2, Ohio			
If monies payable under the contract have been assigned, show name of assignee: None			
EFFECTIVE DATE OF TERMINATION 8 May 1944	GOVERNMENT CONTRACT NO. W-099-eng-999	GOVERNMENT AGENCY Corps of Engineers	ITEMS CONTRACTED FOR Landing Mats

SUMMARY (See Instruction 3)

		DO NOT USE THIS COLUMN
1. Direct materials	\$ 4,060.22	
2. Direct labor for design and set up of equipment	1,022.48	
3. Indirect factory expenses—See Instruction 4 (Waived)	- 0 -	
4. General and administrative expenses—See Instruction 4 per Schedule A-3-c	238.09	
5. Other charges—per Schedule A-3-b—See Instruction 5	1,022.20	
6. Total contractor's own costs	\$ 6,342.99	
7. Profit, if any (explain calculation in Schedule A-3-c) (Waived)	- 0 -	
8. Total	\$ 6,342.99	
9. Less: Total finished units billed or to be billed	- 0 -	
10. Net total contractor's own costs	\$ 6,342.99	
11. Settlements with subcontractors—per Schedule A-3-d	- 0 -	
12. Post termination charges—per Schedule A-3-c	100.07	
13. Total charges	\$ 6,443.06	
14. Less: Partial or advance payments—per Schedule A-3-f	- 0 -	
15. Settlement proposal before disposal credits	\$ 6,443.06	
16. Disposal credits—per Schedule A-3-a	- 0 -	
17. Net settlement proposal	\$ 6,443.06	

CERTIFICATE

OWN CHARGES.—The undersigned certifies that, to the best of its knowledge and belief, the summary of charges and supporting schedules and explanations have been prepared from the books of account and records of the undersigned in accordance with recognized commercial accounting practices; that they include only those charges allocable to this contract; that the charges as stated are fair and reasonable; and that they have been prepared with knowledge that they will, or may, be used by contracting officers acting on behalf of the United States as the basis of settlement with the undersigned or with others.

SUBCONTRACTORS' CHARGES.—The undersigned certifies that it has examined, or caused to be examined, to an extent which it considers adequate in the circumstances, the claims of its immediate suppliers (exclusive of charges arising from termination claims filed against such immediate suppliers by their suppliers) as summarized as item 11, that, in its opinion, the settlements of its immediate suppliers' own charges are fair and reasonable, said charges are allocable to this contract, and said settlements were negotiated in good faith, and are not more favorable to its immediate suppliers than those which the undersigned would make if reimbursement by the Government were not involved. The undersigned certifies that it has no knowledge to doubt the reasonableness of the settlements with more remote suppliers or to doubt that the charges for them are allocable to this contract. The undersigned shall not be deemed to have made any representations with respect to the immediate and more remote suppliers' claims or the settlement thereof other than those expressed in this certificate.

CHIEF ACCOUNTING OFFICER:

Sam F. Parker
(Signature)
Chief Accountant
(Title)

Fabricated Steel Company
(Name of contractor)
[Signature]
By
President
(Title)
21 June 1944
(Date)

SCHEDULE A-3-a		INVENTORIES AT DATE OF TERMINATION		SEE INSTRUCTION No. 2	
Description	Quantity	Total Cost	Contractor's Best Offer	Disposal Credits	DO NOT USE THIS COLUMN
Raw Materials:					
Steel					
3/16" x 1" x 12' H. R. Bars	60,625 lbs	\$1,710.11	\$1,000.00		
3/8" H. R. Wire Rods	50,472 lbs	1,348.01	None		
3/16" x 3/4" x 12' H. R. Bars	9,000 lbs	271.87	50.00		
Paint					
T-1103 Olive drab Paint	176 gal	308.00	None		
Supplies					
.035" x 3/4" H. D. Steel Strapping	5,500 lbs	415.25	None		
#107 T.O. Signode Seals	6,980 pcs	6.98	None		
Total - line 1 of summary		\$4,060.22			
Work in Process					
None					

W. D., A. G. O. Form No. 244
18 April 1944

16-50410-1

① Front

Figure 8. Form No. A-3 (W. D., A. G. O. Form No. 244).

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FINISHED UNIT INFORMATION			INFORMATION REGARDING RENEGOTIATION	
	Number of Units	Total Amount		
Total per contract	110,000	sq. ft. \$29,970	Were you renegotiated for last fiscal year? <u>Yes</u>	
Less: Units shipped and billed	- 0 -	\$- 0 -	If so, by what Government agency? . . . <u>Ordinance</u>	
Units to be shipped and billed	- 0 -	- 0 -	Were costs and sales included for purposes of renegotiation in that period excluded from the above Summary? . . <u>Yes</u>	
Total billed or to be billed (Line 9 of Summary)	- 0 -	\$- 0 -	If not, explain items not excluded	
Units completed but not billed, if any	- 0 -	- 0 - \$- 0 -		
Units covered by termination notice	110,000	sq. ft. \$29,970		

SCHEDULE A-3-b OTHER CHARGES			LINE 5 OF SUMMARY	
Item	Explanation	Amount	Do Not Use This Column	
<u>Tooling Charges</u>	<u>Material</u>	<u>Labor</u>		
Feb. 1944	\$112.12	\$368.13		
Mar. 1944	173.20	254.70		
Apr. 1944	94.03	20.02		
Total	\$379.35	\$642.85	\$1,022.20	

SCHEDULE A-3-c General and XXXXXXXXXX Administrative Expense			LINE 7 OF SUMMARY	
Direct materials		\$4,060.22	Do Not Use This Column	
Direct labor		1,022.48		
Tooling charges		1,022.20		
Total		\$6,104.90		
3.9% thereof		\$ 238.09		

General and administrative expense for fiscal year ended 31 Dec 1943 was 3.9% of cost of sales. It is estimated that the percentage will be at least that high in 1944.

SCHEDULE A-3-d SETTLEMENTS WITH SUBCONTRACTORS					LINE 11 OF SUMMARY	
Name of Subcontractor	Item	Total on Order at Date of Termination		Quantity Canceled Applicable to Contract	Amount of Actual or Proposed Settlement	Do Not Use This Column
		Quantity	Amount, \$			

SCHEDULE A-3-e POST TERMINATION CHARGES			LINE 14 OF SUMMARY	
Item	Explanation	Amount	Do Not Use This Column	
<u>Cost of taking and packing inventory</u>				
5 warehousemen - 50 hrs @ \$.20 per hr.		\$ 40.00		
Grease, packing materials		60.07		
Total - line 12 of summary		\$ 100.07		

SCHEDULE A-3-f PARTIAL OR ADVANCE PAYMENTS			LINE 12 OF SUMMARY	
Date	Explanation	Amount	Do Not Use This Column	
None				

INSTRUCTIONS

- This Form No. A-3 is to be prepared by the contractor as soon as cost information required in the Summary can be determined.
- If space provided in these schedules is not sufficient, attach additional sheets, using the same headings. Inventory on hand at the date of termination should be grouped in Schedule A-3-a by "Raw Materials, Purchased Parts, and Supplies," and "Work in Process." Costs should be shown to the greatest extent practicable for items included in this inventory listing. Subcontractors may also use this schedule for listing finished units on hand at date of termination not to be billed.
- The costs shown in this Summary are those costs incurred which are applicable to the entire contract. Where costs applicable to the inventory can be determined accurately, the contractor should present his proposal on Form A-2.
- An explanation should be attached as to the bases of allocation and calculation of the amounts of indirect factory expenses (Line 3 of Summary) and general and administrative expenses (Line 4 of Summary) applicable to the contract.
- Include in Other Charges (Line 5 of Summary and Schedule A-3-b) all costs not previously included.

General Instructions for preparation of Settlement Proposals and for the use of these forms should be procured from the Government representative or contractor from whom the Termination Notice was received.

U. S. GOVERNMENT PRINTING OFFICE 16-30410-1

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Figure 8. Form No. A-3 (W. D., A. G. O. Form No. 244)—Continued.

1 Jun 44

Form No. A-4

Budget Bureau approval No. 48-R189.
Expiration date, 31 July 1944.

CONTRACTOR'S SETTLEMENT PROPOSAL

SHORT FORM TO BE USED ONLY WHEN PROPOSAL IS FOR LESS THAN \$500

Small Manufacturing Corporation (Name of your firm) 717 West Avenue (Street address) Dearborn 11, Michigan (City) (State)		Check One ☐ This settlement proposal is applicable to a prime contract with the Government. ☒ This settlement proposal is applicable to subcontract or purchase order RM-20022B (identify) with: Reliable Manufacturing Co. * Chicago 28, Illinois * Insert name and address of contractor from whom you received Notice of Termination.
If moneys payable under the contract have been assigned, show name of assignee: First Bank and Trust Co., Dearborn 12, Mich.		
Effective Date of Termination	Government Contract No.	Government Agency
8 May 1944	W-210-Ord-280	Ordnance Department

Summary of Termination

ITEMS CONTRACTED FOR	QUANTITY				VALUE OF ORDER			
	ORDERED	SHIPPED AND BILLED	SHIPPED BUT NOT BILLED	CANCELED	ORDERED	SHIPPED AND BILLED	SHIPPED BUT NOT BILLED	CANCELED
X210 gears M2	5,000	3,000	50	1,950	\$10,000	\$6,000	\$100	\$3,900

Finished units which have been shipped and billed should not be included in the proposed settlement.

PROPOSED SETTLEMENT

(Include only items allocable to the contract and properly to be included in settlement on termination under your contract)

- Contract price of finished units shipped but not otherwise billed . . \$ 100.00
 - Contract price of finished units not shipped (less their fair value) . . 95.00
 - Proposed settlement for work in process and materials allocable to contract (explain below) 226.70
- TOTAL OF PROPOSED SETTLEMENT \$ 421.70

Explain below how you determined the amounts shown on lines 2 and 3 of the above Proposed Settlement. If there are finished goods on hand which are not to be shipped, show both the contract price of such items and the value at which you are willing to keep them in your inventory. Enter the resulting net cancellation charge on line 2. Explain also how you determined the settlement due you for work in process and materials, making certain that you have reduced your charge by the fair value of materials or work in process which you are retaining. Enter the net cancellation charge for this portion of the work on line 3 of the above Proposed Settlement.

<u>Item 2</u>		
Finished units on hand	50 @ \$2	\$100.00
Less scrap value		5.00
Total - line 2 above		\$ 95.00
<u>Item 3</u>		
Raw materials on hand - cost		\$397.72
Work in process		
Material	\$67.18	
Labor	48.20	
Indirect factory expense	24.10	139.48
Total		\$537.20
Less: Contractor's best offer to retain		310.50
Total - line 3 above		\$226.70

CERTIFICATE

The undersigned certifies that the above Proposed Settlement includes only charges allocable to the terminated portion of this contract, that the charges and credits explained above are fair and reasonable, and that this proposal has been prepared with knowledge that it will, or may be used by contracting officers acting on behalf of the United States as the basis of settlement with the undersigned or others.

CHIEF ACCOUNTING OFFICER:

Walter T. Torg
(Signature)
 Secretary-Treasurer
(Title)

Small Manufacturing Corporation
(Name of contractor)
 By *Van D. Mark*
(Signature)
 President
(Title) 1 June 1944
(Date)

W. D., A. G. O. Form No. 251
(27 April 1944)

U. S. GOVERNMENT PRINTING OFFICE 16-50450-1

Figure 9. Form No. A-4 (W. D., A. G. O. Form No. 251).

SECTION II

PHYSICAL INVENTORY

33. Introduction. PR 15-351 and paragraph 8 of PR 15-936 provide that the contractor's inventories be taken in accordance with the instructions contained below.

a. The procedures described in this section have to do with the taking and recording of a physical inventory of materials, supplies, and other property applicable to the contract as of the date of termination.

b. Even when the total cost method is used by the contractor in presenting his proposed settlement, it is desirable that the inventory be priced, so far as this can be done with reasonable accuracy. Such pricing of the inventory will assist the contracting officer in passing upon the propriety of disposal prices.

34. Organization for Inventory Taking and Pricing. The contractor should prepare and put into effect inventory instructions appropriate to the size and complexity of the inventory. The instructions should cover the following points:

a. The designation of the persons responsible for the supervision of the inventory taking.

b. The physical arrangement and location of the inventory. These instructions should indicate that materials should be arranged in accordance with natural classifications such as raw materials and work in process. All parts and subassemblies in process should be grouped according to condition and last labor operation performed. Spoiled and defective items should be segregated, as should finished units to be delivered as completed units under the terms of the contract.

c. The accurate and complete description of items and their stage of completion.

d. The checking of the original counts and transcription of original counts to summary sheets.

e. The accounting for inventory tag or sheet numbers before distribution and after collection.

f. The recording of the names of employees who make the original counts, check the original counts, and, if the inventory is priced in detail, price the inventory, check the pricing, make the extensions and footings and check the extensions and footings.

g. The accounting for materials consigned to others for processing.

h. The pricing of the inventory, when this is required. The contractor's procedures for pricing should be in accordance with policies consistently followed in the past. Any acceptable pricing basis may be used, such as first-in, first-out, average cost, or last-in, first-out, as long as it has been consistently followed. Care should be taken that cash discounts, trade discounts, special rebates, and similar price reductions have been reflected in the inventory pricing either in the detail prices or as a single over-all deduction from the total of the inventory.

SECTION III

DISPOSAL CREDITS

35. Introductory. PR 15-357 provides that the contractor's records shall clearly show all sales, with specific detailed identification of the items sold and the individual sales prices. It also states that the contractor's procedures should provide for the separate invoicing of sales and the crediting of these amounts in the proposed settlement, so that such transactions may be traced to the inventory records and the final settlement.

36. Sale of Property to Others.

a. Such sales will ordinarily be made after cessation of operations on the contract and the taking of a partial or complete physical inventory.

b. Any loss on the sale of property approved by the contracting officer will be borne by the Government, although not affecting the gross amount of the proposed settlement. The contractor's procedures should provide for supplying adequate information to enable the contracting officer to pass upon the proposed sale.

37. Retention of Property by Contractor. The values agreed upon by the contracting officer and the contractor for items of the inventory to be retained by the latter are to be shown on the inventory records so that reconciliation may be made with the final settlement records.

SECTION IV

CLAIMS OF SUBCONTRACTORS

38. Introduction.

a. PR 15-431 provides that it is the primary responsibility of the contractor to review or

examine in an appropriate manner all claims of subcontractors arising out of the termination. The problem faced by the contractor's accounting personnel in making the accounting review or examination of claims of subcontractors is similar to the problem faced by the Government auditor with respect to the proposed settlement of the prime contractor. A review or examination of each claim is necessary to some extent.

b. The contractor in this respect should be held to the standard or scrutiny that a businessman would employ in the conduct of his own affairs, but is not required to warrant the accuracy of the facts presented by subcontractors. A certification by the contractor that, upon the basis of his review or examination, he is of the opinion that the claim is fair, just, and reasonable will suffice. (See certificates included in standard termination forms, pars. 28 to 32.)

39. Office Review of Proposed Settlement by Contractor's Accounting Personnel.

a. As a minimum, an office review should be made by qualified accounting personnel of the contractor of each statement submitted by a subcontractor in connection with a fixed-price contract termination.

b. In making the office review, the steps outlined in paragraph 8 should be used as a guide.

c. The accounting personnel will furnish suitable written evidence of the conclusions of the office review.

40. Records of Accounting Reviews. A copy of any report by accounting personnel covering an office review or field examination should be retained in the files of the contractor receiving the claim, together with a copy of the subcontractor's settlement proposal, so that these records will be available to Government accounting personnel if needed by them in making any subsequent review requested by the contracting officer.

41. Appropriate Extent of Examination Beyond Office Review.

a. It is the contractor's responsibility in the first instance to determine what further examination, if any, should be made of the subcontractor's proposed settlement beyond the office review. In making this decision, the following should be considered:

(1) Amount and complexity of the proposed settlement.

(2) Result of the office review.

(3) Available reports of independent public accountants.

(4) Any information available from personnel having contacts with the operations under the subcontract.

b. The contractor should then determine the further examination, if any, which is to be made. The following steps are illustrative:

(1) The subcontractor may be requested to submit additional data or explanations in writing.

(2) Accounting personnel of the contractor may be instructed to visit the subcontractor's plant to discuss the statement and, in some cases, to make any necessary reference to the accounting records.

(3) An audit may be made by qualified accounting personnel of the contractor in accordance with the procedure outlined in chapter 3.

42. Responsibility of Subcontractors. It is the responsibility of subcontractors in each case to prepare their claims accurately in accordance with the terms of their respective contracts when they are presenting such claims to contractors or to intermediate subcontractors. While an individual subcontractor does not make a certification of fact directly to the Government, Procurement Regulations provide that the contractor should advise all subcontractors that the statement of charges submitted by them may be subject to an audit by Government auditors and that an inspection of the supplies and materials covered by the purchase order or subcontract may be made by a Government inspector (PR 15-912.2). The subcontractor is put on notice that his claim will be used by the contractor in compiling the latter's proposed settlement either directly with the Government or through another contractor.

43. Statement of Principles for Determination of Costs. The Statement of Principles for Determination of Costs upon Termination of Government Fixed Price Supply Contracts, quoted in paragraph 24, is applicable to subcontractors' claims, subject to any specific terms of the subcontract.

44. Subcontractors' Inventories. The contractor should ascertain that the subcontractors have taken physical inventories of materials pertaining to the terminated contracts substantially in the manner outlined in paragraphs 33 and 34.

CHAPTER 3

APPLICATION OF ADMINISTRATIVE AUDIT PROCEDURES

SECTION I

GENERAL

45. Purpose of Administrative Audit.

a. The purpose of the administrative audit of a contractor's statement of a proposed settlement is to determine that it is in accordance with the termination provisions of the contract and is substantiated by the contractor's records and other supporting evidence. The role of the auditor is to carry out appropriate auditing procedures to establish the reliability and accuracy of the data submitted by the contractor and thus provide the contracting officer with a factual basis for making a settlement.

b. The major audit objective should be to determine that the costs included in the contractor's settlement proposal are accurately presented in accordance with the terms of the contract and the principles set forth in this manual. Another important objective may be to check the accuracy of the information presented by the contractor with respect to profit.

46. Flexibility of Audit Program. The audits actually made will vary as to the program followed. Not all of the procedures prescribed in this manual are applicable to every audit. On the contrary, it is intended that the auditor select in each case only the procedures which are appropriate and necessary in the individual circumstances, and that he apply them with judgment and without consuming time not necessary to protect the interests of the Government.

47. Preparing Audit Program. The audit program should be developed in accordance with the procedures set forth in this manual, based upon the nature and composition of the proposed settlement and the contractor's system of internal control. The nature and scope of the audit program should also depend upon the completeness of the accounting data available.

48. Type of Audit To Be Made. The audit, made in connection with the termination of a fixed-

price supply contract at the option of the Government, has several major aspects:

a. Detailed checking is to be kept at a minimum. Reliance is to be placed upon the system of internal control, so far as practicable, and major emphasis is to be placed on establishing the reliability of the bases of the individual elements of cost.

b. The costs incurred near the date of termination (as soon as termination might reasonably have been expected) are to be given special attention.

c. Special emphasis is to be placed upon the principles of accounting applied by the contractor and practices based thereon.

d. The auditor is especially concerned with the accuracy of distribution of costs between the contract and other work.

e. It is also important that the auditor consider constantly the adequacy of his program in the light of his day-to-day findings. Where particular checks disclose errors or irregularities, the scope of the audit must be extended to protect the interests of the Government.

49. Examination of Contractor's Internal Control.

a. When the auditor begins his audit of the contractor's proposed settlement, he should first study the individual items included therein and, taking into consideration the amounts involved and the nature of the items, should appraise the complexity of the audit problem. Every item in the statement inescapably involves the contractor's internal control, since the data submitted are based upon underlying papers and records which have been handled by personnel of the contractor. Closely related also are the accounting policies followed by the contractor in maintaining his accounts and developing his proposed settlement. However, there will be considerable variation as to how involved the internal procedures may be which relate to the particular items, and also as to the extent that reliance may be placed upon those internal procedures.

b. In situations where the contractor's proposed settlement is such that the items are not

of a complex nature and can be checked individually, there is less dependence upon the internal procedures of the contractor. In such cases, the auditor need not make a separate review of internal control and can proceed immediately with his audit of those items. He will make inquiries with respect to physical operations, accounting policies, and all related internal procedures at the same time that he carries out his auditing. The examination of the internal procedures is thus interwoven with the audit program and is carried out in a way to satisfy the auditor as to the accuracy of the individual elements of the contractor's statement.

c. In other situations, the items will be of such size and complexity and involve such detail that, instead of making an audit on a direct basis, the auditor must first make a systematic review and appraisal of all, or a substantial portion, of the contractor's system of internal control before he proceeds with his regular audit program. The review of internal control should, in such cases, also be preceded by a brief survey of physical operations, and a statement of accounting policies should be obtained. Working papers should likewise be prepared in which the auditor will set forth the nature and scope of the review and the conclusions. With this preliminary work as a background, the auditor should then proceed with his regular audit in accordance with the principles of selective auditing.

50. Reliance on Audit of Independent Public Accountants. In many contractor organizations involved with terminations, there have been regular audits by independent public accountants. These audits deal to a considerable extent with the system of internal control and otherwise establish the general credibility of the contractor's records and accounts to a substantial degree. The Government auditor should give consideration to this work in reaching a decision as to the extent of the review of the internal control which will be necessary.

51. Use of Reviews of Internal Control Made on CPFF Audits. In certain cases, the contractors involved in terminations will also have had CPFF contracts, and reviews of internal control will therefore have been made in accordance with the audits incident to those contracts. Such reviews should be utilized by the auditor

to the extent that they are appropriate for the present purposes.

52. Emphasis on Distribution. It should be recognized that the internal procedures which involve the distribution of costs as between the contract and other work are of special importance. While the auditor must always be concerned with evidence which establishes the fact that the basic transactions are bona fide, the risk that the recorded transactions are false is ordinarily less than the risk that the allocations or distributions of the results of these transactions are not based upon sound principles or are not accurately handled in accordance with sound principles. The auditor should therefore give special attention to all parts of the internal procedures which bear on these distributions.

53. Supplementary Data for Use in Audits.

a. In making an audit of the proposed settlement, such data as the following, if relevant, should be used to the extent available:

- (1) Cost estimates used in connection with original bid.
- (2) Engineering or other estimates of cost.
- (3) Statistical computations of cost.
- (4) Reports of independent public accountants available in the files of the contractor.
- (5) Federal income tax returns.
- (6) Minutes of conferences with Price Adjustment Boards.
- (7) Data prepared by cost analysis sections of any War Department agency, the Navy Department, or Maritime Commission.

b. It is important to be sure that the data used are compiled according to the same general classification as is shown by the contractor's proposed settlement; the same types and kinds of costs should be included.

c. The auditor should familiarize himself with the terms of the contract, paying particular attention to the terms covering such subjects as free issue materials, Government-furnished equipment, and price redetermination. He should also review all pertinent correspondence bearing on the performance of the contract.

54. Applicability to Subcontractors. The claim of a subcontractor against the prime contractor is similar to the statement of the prime contractor submitted to the Government. The principles and procedures set forth in this chapter for audit of the proposed settlements of prime contractors are equally applicable to the

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claims of immediate and remote subcontractors. The Statement of Principles quoted in paragraph 24 is applicable to the computation of costs in connection with subcontractors' claims, subject to any specific terms of the subcontract affecting costs.

55. Responsibility of Auditor. It is the auditor's responsibility to satisfy himself as to the validity of the data submitted by the contractor. At the same time, it should be recognized that a prompt settlement is desirable in the interests of both the Government and the contractor. Every effort should therefore be made by the auditor to complete his examination without undue delay and with the minimum amount of detailed verification consistent with protecting the interests of the Government.

56. Direction of Audit Effort.

a. The auditor should direct his work in a manner which protects the Government's interests most effectively. The selective method of audit should be applied to the greatest possible extent in the case of those classes of costs concerning the inclusion of which there is ordinarily no question.

b. There should be a more extensive review of other classes of costs concerning the inclusion of which there may be some question. The auditor's working papers should include the analysis of such accounts to disclose the nature of the costs included and their applicability to the contract. Examples of these accounts are executive compensation, depreciation, repairs, donations, and professional services.

c. Special attention should also be given to items which are large in amount, uncommon in nature, or which, because of other circumstances, appear particularly to concern the Government's interests. All unusual matters are to be followed through to a final conclusion.

d. Particular attention should be given to accounts which might contain costs specifically excluded by subparagraphs 3 (a) through 3 (e) of the Statement of Principles for Determination of Costs, set forth in paragraph 24.

57. Audit of a Particular Portion or Phase of the Transactions. In the audit of a given portion of the transactions or phase of the operations, there are certain important requirements to be observed:

a. The portion or phase examined is to be representative of the total group from which it is selected. The selection must be made without regard to convenience or availability of data or to difficulties involved.

b. The portion or phase selected must be checked out completely and without exception.

c. To be effective, the selective auditing procedures must be carried out only after the contractor has completed his accounting distribution and record and has submitted his proposed settlement based on that record.

d. The papers and records of the contractor which are applicable to the portion of the transactions under review must be controlled by the auditor until the examination of the particular portion is completed.

e. If the portion audited indicates numerous errors, the scope of the examination must be extended to a detailed check of that phase of the accounts.

58. Representative Number. In this manual, the term "representative number" is frequently used in respect to selection of groups of transactions for auditing. The interpretation of the term is a matter of individual judgment and will depend upon the particular circumstances in each case. In general, however, the factors to be considered in given situations will include dollar amount of items, points of origin, classes of items, departments involved, etc. In all cases, the objective is to obtain a sufficient cross section to justify reliance on the validity of the transactions of the group under examination.

59. Discussion of Accountant's Conclusions With Contractor. In carrying out his work, the accountant will make all inquiries necessary to pass upon the accuracy of the items in the statement and will afford the contractor full opportunity to make explanations and furnish additional information concerning items which in the accountant's estimation are questionable. Otherwise, the accountants should communicate his findings and conclusions only to the contracting officer for his use in negotiating the settlement. Under no circumstances should the accountant purport to commit the contracting officer in any way as to the negotiation of the settlement.

60. Working Papers. It is essential that adequate working papers be prepared as the audit-

ing procedures are carried out. The form and content of the required working papers are discussed in chapter 4.

SECTION II

PHYSICAL INVENTORY

61. General.

a. The purpose of these procedures is to establish the credibility of the physical inventory taken at date of termination, including quantities, applicability to the contract, and, if the inventory is priced, the basis and mathematical accuracy of the pricing.

b. The physical verification of inventory quantities will normally be made by Government personnel who are engaged in property disposal activities or who are stationed at or visiting the contractor's plant. Government accounting personnel should utilize the results of such verifications and in addition should obtain information from Government engineers, inspectors, and others having any familiarity with inventory matters in connection with operations under the contract. Instructions to the accountant relating to the physical verification of inventory are for application when it is necessary that accounting personnel perform that function.

c. When the contractor's settlement proposal is presented on the *inventory method*, it is especially important to check the physical existence of the items of inventory listed. The importance of such a check lies in the fact that errors in quantities will require in all cases an adjustment of the proposed settlement.

d. When the contractor's proposed settlement is presented on the *total cost method*, the auditor will direct his checks to a greater extent toward ascertaining that all inventory is listed. Greater emphasis must therefore be placed on over-all checks as outlined in paragraphs 84 and 88. Errors may be found by a physical check of the quantities listed, which will require adjustments of the proposed settlement in those cases where they indicate errors in the accounting records.

e. Before determining the audit program and initiating the audit, the auditor will obtain and keep under his control at least one copy of the detailed physical inventory.

f. The audit program will be based upon the review of the contractor's procedures and will

be expanded when deficiencies disclosed by the audit indicate the necessity of more extensive checking.

g. The audit procedure will be extended to inventories of supplies, tools, etc., when they are an important factor in the contractor's proposed settlement.

62. Quantities.

a. Independent physical checks will be made of the quantities shown on the inventory sheets for a representative portion of the inventory. In determining a representative portion, consideration will be given to the following factors:

(1) Money value of items.

(2) Class of inventory, that is, raw material, purchased parts, work in process, and subdivisions under these classes, such as types of material.

(3) Physical location of the items.

b. A record of the extent of the check will be made by appropriate notations on the Government's copy of the contractor's inventory sheets, or on separately prepared schedules. All differences of appreciable amount should be investigated and errors adjusted.

c. Steps should be taken by the Government representative to see that no part of the inventory is physically moved except with his approval during the course of the quantity check.

d. Material on consignment to others for processing should be checked to an appropriate extent by direct communication with the consignee or by physical inspection.

e. The inventory description in respect to stage of completion of the items checked should, where practicable, be compared with the physical condition of the particular items. Notation of the last labor operation performed is essential in checking the pricing of work in process.

f. Since the date of physical check will ordinarily be after the date of termination, appropriate checks should be made for reconciling the physical count with the quantities shown in the inventory at the date of termination, by considering dispositions made with the approval of the contracting officer or other changes during the intervening period. For this purpose, copies of sales invoices, shipping reports, etc., should be utilized, as well as information obtained directly from the contracting officer.

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63. Pricing.

a. If the contractor's settlement proposal is submitted on the inventory method, the reliability of the unit cost data should be established in accordance with the procedures set forth in section III of this chapter.

b. The following checks for mathematical accuracy should be made:

(1) A representative portion of the individual item extensions should be checked.

(2) A representative portion of the page totals should be footed.

(3) All sheet totals should be traced to the summary and the summary should be footed.

64. Applicability to the Contract.

a. For the purpose of determining the propriety of costs charged to the contract, a representative portion of the inventory items will be checked (regardless of whether the inventory has been priced) to ascertain if any items are included which are—

(1) Not in the specifications and therefore not applicable to the contract. If such items are found by a selective check, a more extended check must be made to discover other such items. All costs of these items will be excluded.

(2) Applicable to the contract in part, but applicable also to other work because they are common items. If items of this nature are disclosed, their costs may be included only to the extent that the quantities of such items have been properly allocated between the contract and other work.

b. In checking the existence of inapplicable or common items, the auditor should utilize the services of Government engineers and other qualified Government personnel who are available. If he cannot obtain such assistance, he should make observations to the extent practicable of the physical materials and parts used in the performance of the contract and other work. He also should select a group of representative inventory items and determine whether these items are used on other work by reference to material control records, purchase records, stock records, etc.

65. Finished Units.

a. The auditor should determine that finished units on hand but not yet billed are properly segregated and not included in the inventory as work in process.

b. It is important that the quantities of such units (or parts applicable thereto) are in agreement with the quantities shown in the schedules submitted by the contractor covering total units completed at contract price. It should be determined that all finished units on hand have been subjected to the same inspection and acceptance requirements as previous shipments.

66. Reconciliation of Disposal Quantities With Inventory Quantities. At the time of settlement the auditor should reconcile, to the maximum extent practicable, the quantities listed in the inventory schedules submitted by the contractor with quantities the disposition of which is evidenced by disposal credits or records of items taken over by the Government. This reconciliation may indicate discrepancies in the original inventories which will require adjustments in the charges of the contractor.

SECTION III

EXAMINATION OF UNIT COST DATA

67. Introductory.

a. When the inventory at date of termination, priced in detail, is the primary basis of the proposed settlement, it is necessary to establish the general credibility of the unit cost data which are the basis for inventory pricing. The procedures outlined herein are a guide for this purpose.

b. The priced inventory will ordinarily consist of raw materials (including purchased parts) and work in process. In most cases, the work in process will be priced separately for the material, direct labor, and overhead elements, but in any event it will be necessary to check each such element separately.

c. The pricing must be consistently applied on the basis of an acceptable method, such as first-in, first-out, average cost, or last-in, first-out. Where the pricing is based on standard costs such cost, to be acceptable, must not be in excess of actual costs.

68. Raw Materials. Where materials or parts have been purchased, the accuracy of the prices used in the inventory pricing should be established by selective checking of a representative number of items to purchase invoices, together with purchase orders where necessary. No addition to the invoice cost of materials is permissible for handling, etc., unless the general

accounts provide for the computation and segregation of such overhead as applied to all materials.

WORK IN PROCESS

69. General.

a. Data in respect to unit costs of work in process may have been compiled on any one of the following bases:

(1) *Statistical costs.* Not controlled by general ledger accounts but estimated with varying degrees of care, ranging from rough approximations not in detail to carefully established costs based on thorough engineering studies.

(2) *Controlled costs.* Subject to control and check by general ledger accounts. Controlled systems may be either *historical* (actual), in which costs are compiled from accounting records of actual costs incurred, or *standard*, in which costs are based on specifications, planned manufacturing methods, rates of production, and anticipated prices.

b. The extent of the audit of the unit cost data will depend upon the complexity of the product. If the direct material content, for example, is relatively simple, it will be practicable to check substantially every item of an appreciable amount. If it is complex and consists of a large number of items, a selective check may be used, provided that if important errors are discovered a more intensive or even a complete check will be made in accordance with the principles of selective auditing. The extent of the checking of the direct labor element will be similarly determined.

c. The auditor should make full use of all factory cost reports, including those reports which cover the operations of individual departments and cost centers.

d. Unit cost data, used to price work in process, which are statistical and not controlled by the general ledger accounts, are ordinarily less reliable and should, as a general rule, be subjected to more extensive review and check.

e. A formal list of purchased and manufactured parts and subassemblies entering into the completed product should be obtained by the auditor, preferably from Government sources. If obtained from the contractor, it should be reviewed and checked by a qualified Government representative.

70. Material Content.

a. With respect to prices the problem is similar to establishing the accuracy of prices used

for the raw material inventory. The material cost per part (or other unit) may, however, be predicated on a material quantity per part which includes cutting waste and production spoilage. It is necessary for this reason, as well as the ordinary possibilities of error, to check the quantity basis used for the unit material cost.

b. The quantity basis of the material element of unit costs may be checked by reference to engineering specifications or satisfactory records may be available showing the quantities of material actually used in the manufacture of each part. In the latter case, reference can be made to summaries of material requisitions, the requisitions themselves, and records of production of good pieces of particular parts.

71. Direct Labor Content—Controlled Historical Cost System.

a. If a controlled historical cost system is in effect, the unit labor costs may be stated only in terms of money without showing the labor time per unit and the hourly rate applicable thereto. The labor cost of pieces spoiled in production will generally be reflected in the parts costs of good pieces made.

b. The auditor will make appropriate selective checks of summary labor cost statements and the underlying labor distribution tickets to determine their credibility and the accuracy of reported production quantities.

c. If periodical statements of unit direct labor costs were prepared by the contractor during the life of the contract, such statements should be reviewed for fluctuations in unit costs. The extent of the fluctuations and the general trend in such costs will aid the auditor in determining the direction and extent of the selective check.

72. Direct Labor Content—Controlled Standard Cost System.

a. If a controlled standard cost system is in use, the unit labor costs will commonly be stated in terms of standard direct labor time per unit, a standard labor rate per hour, and the resulting standard unit labor cost. A standard allowance may be added for the labor cost of pieces spoiled in production.

b. Routing or operation sheets will ordinarily be available for each part and subassembly showing the authorized labor operations to be performed on each. A selective test of the standard time for the individual operations should

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be made by reference to the latest underlying approved time study reports.

c. Standard hourly labor rates should be appropriately checked by reference to approved occupational rate schedules or employment and pay-roll records.

73. Direct Labor Content—Historical and Standard Cost Systems. The operations shown as direct labor in all cost sheets should be reviewed to an appropriate extent to determine that such operations are classified as direct labor in the accounting distribution of the pay roll.

74. Overhead.

a. The accuracy of the overhead content of the unit cost data is primarily a problem of the general content of overhead and the computation of rates. (See section IV of this chapter.)

b. The auditor should be satisfied, however, by appropriate tests that the overhead rates have been accurately applied in the unit cost data used.

75. Mathematical Accuracy.

a. Appropriate checks should be made of the mathematical accuracy of the cost data.

b. Certain industries may present special problems in this regard. For example, particular attention should be given to the carrying forward of parts costs into subassembly and final assembly cost summaries. Parts costs frequently are stated in terms of 100 units and are converted into costs per subassembly or per completed product when carried forward. Particular attention should be directed toward selective checking of these conversion computations.

SECTION IV

EXAMINATION OF GENERAL ACCOUNTS AND UNDERLYING RECORDS

76. Introductory.

a. In the case of proposed settlements submitted under the total cost method, it will be necessary to establish the general credibility of the accounts and records from which the total costs are obtained. The procedures outlined herein are a guide for this purpose. This section is also partially applicable to proposed settlements on an inventory basis, since paragraphs 89 to 93, inclusive, cover the examination which should be made in order to determine that the overhead allocations, included in the unit

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cost data used in pricing work in process are proper.

b. Where auditing has been carried on in connection with CPFF contracts with the same contractor, a considerable part of the work previously done may be utilized for the present purposes. This is particularly true in the case of the overhead accounts and to a substantial extent with respect to pay roll distribution. The instructions set forth in this section are necessarily written in terms of a situation where no previous auditing has been done, but the possibility of utilizing previous findings should be kept in mind.

77. Adjusting Journal Entries.

a. All adjusting journal entries affecting the recorded contract cost in any substantial amount should be reviewed as to their nature, accuracy of computations involved, and general propriety.

b. Special care should be exercised with respect to entries which were made in the period or periods just preceding the date of termination or at any time subsequent to that date.

c. Where adjusting entries were made by the contractor to bring book records into agreement with physical inventories, either at date of termination or preceding year ends, these adjustments should be carefully studied as a guide to the general effectiveness of the related internal accounting procedures.

DIRECT MATERIAL COSTS

78. General Objective. The auditor should determine that the amount shown for direct material costs represents materials actually used on the contract or still on hand and which are fairly applicable to the contract at the cost incurred by the contractor.

79. Analysis of Materials Account.

a. The starting point is the general ledger or subsidiary account which shows the total direct material costs applicable to the contract. Where no such account has been kept, the work sheet analyses used when the contractor presented his proposed settlement must be utilized.

b. The debits and credits to the account or work sheet schedule should be classified by source of posting. By this procedure those entries originating from the more usual sources such as purchase distributions, summaries of

stores requisitions, summaries of returned materials, and scrap, may be grouped and those entries originating from journal entries or other adjustments can be segregated for special study.

80. Review of Purchase Distributions.

a. A representative portion of the individual entries originating from purchase distributions should be checked with such summaries.

b. A representative number of the individual summaries examined should be checked for clerical accuracy.

c. A representative number of the items appearing on the individual summaries should then be traced to the underlying invoices.

d. Part of the invoices should be reviewed to determine that they are properly supported by purchase orders and receiving reports.

e. The auditor should determine that cash discounts earned are being reflected as a reduction of material costs. Where these discounts are not specifically applied to the cost of materials, an average percentage of purchases may be used.

81. Review of Stores Requisitions.

a. A representative number of requisitions will be examined to determine that—

(1) Prices used are properly supported by purchase invoices and that pricing is consistently applied on the basis of an acceptable method such as first-in, first-out, average cost, or last-in, first-out.

(2) Using department is indicated by receipt or other designation.

(3) Computations are accurate.

(4) Requisitions are authorized by responsible personnel.

(5) Accounting distribution is proper.

b. Summaries of requisitions will be examined to determine that the summary footings are correct and the requisitions correctly listed.

82. Review of Materials Returned to Vendors.

a. A representative portion of the individual returned materials credit slips should be reviewed to disclose material applicable to the contract.

b. A representative portion of items applicable to the contract should be checked with the summaries covering such items for accuracy of distribution.

c. A representative number of summaries examined should be checked for clerical accuracy.

d. Reference should be made to a representative number of underlying shipping documents to determine that material returned has been covered by debit memoranda which have been properly applied to costs.

83. Scrap.

a. When scrap is an important factor, the auditor should carefully survey the sources from which scrap originates, and should ascertain from engineering estimates and operating records, to the extent practicable, the quantities derived from the various operations. The recorded results should then be compared with these calculations and any significant variations investigated.

b. Quantities disposed of should be compared with quantities obtained from operations and with stocks on hand to determine that all scrap is accounted for within reasonable limits.

c. All sales or other disposition should be checked with the entries appearing as credits to direct material costs, to determine that recoveries from scrap have been fully recognized.

d. In cases where it is not practicable to physically segregate scrap applicable to the contract, the bases of allocation should be reviewed to determine whether they are equitable and accurately applied.

84. Over-All Checks as to Propriety of Total Direct Material Costs.

a. It is desirable that the auditor make certain over-all checks as to the aggregate direct materials costs stated as being applicable to the contract.

b. Where practicable, the quantities indicated as required for each unit, or lots of units, as shown by the original bill of materials may be multiplied by the number of units, or lots of units, produced. The excess of quantities actually charged to the contract over the foregoing computation, after taking normal spoilage into consideration, should be approximately reconciled with stocks on hand and any significant discrepancies investigated.

c. Quantities purchased should also be reviewed in the light of the bill of materials, to determine whether unreasonable quantities were purchased and whether the contract has been charged with materials originally purchased for other work. In this connection, special attention should be given to standard parts which might be usable on other types of manufactured products.

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d. Where practicable, the bill of materials may also be priced and the computations and reconciliation outlined in *b* above carried out in terms of dollars.

DIRECT LABOR COSTS

85. General Objective. The auditor should determine that the amounts shown for direct labor costs represent direct labor services actually employed on the contract and at the costs incurred by the contractor.

86. Analysis of Direct Labor Control Account. As in the case of direct materials, the ledger account or the work sheet schedule covering the total direct labor costs applicable to the contract should be analyzed and the debits and credits to this account classified as to source of postings. The major source will be the pay roll distributions, but other entries may originate from miscellaneous sources.

87. Review of Pay Roll Distributions.

a. A representative portion of the entries in the general ledger account which have originated from pay roll distributions should be checked with the individual summary distributions.

b. Representative pay roll distribution summaries should be checked for clerical accuracy.

c. A representative number of items appearing on the individual summaries should be traced back to the underlying job tickets.

d. To the extent practicable, a representative number of job tickets should be checked with records of floor checks made by the timekeeping department or with other records which establish the accuracy of the job tickets used as a basis for preparing the distribution summaries.

e. A limited check should be made of related time cards, personnel records, and rates of pay, applicable to the job tickets reviewed.

88. Over-All Checks as to Propriety of Direct Labor Costs.

a. Where practicable, some check on the aggregate direct labor costs may be made by comparing labor costs with those incurred on previous contracts covering the same or similar products or, when available, with costs incurred by other manufacturers who are producing similar products, provided proper consideration is given to the circumstances which might justify differences.

b. Where practicable, the labor cost of each finished unit, or lots of units, as indicated by previous contracts or contracts with other manufacturers, may be multiplied by the number of units, or lots of units, of each type produced. The excess of total costs incurred to date over the amounts thus calculated should be approximately reconciled with the labor costs included in the inventory of uncompleted work and any significant discrepancies investigated.

OVERHEAD

89. General. The auditor should determine that the overhead totals, part of which have been allocated to the contract, are composed of items which are proper in the light of the cost principles set forth in paragraph 24, and that the allocation has been proper in terms of acceptable and accurately established bases.

90. Write-off of Prepaid Expenses and Deferred Charges. The auditor should make a sufficient examination of such accounts to determine that the bases of deferment and write-off are sound and in accordance with established policies.

91. Depreciation. The auditor should examine depreciation charges to such an extent as will provide reasonable assurance that the amounts subject to depreciation are proper; that the depreciation charges are stated on a basis consistent with the years preceding the contract; that the depreciation charges are calculated and handled in the accounts in an accurate manner. Where the rates have been reviewed and accepted for Federal income tax purposes, appropriate consideration should be given thereto.

92. Accrued Expenses. Sufficient examination should be made of accrued expenses by the auditor to enable him to determine that the bases of accrual are sound and that the accounts are accurate.

93. Content of Overhead.

a. The overhead statements prepared by the contractor should be reviewed by the auditor to determine the types of items included.

b. Investigation will be made of important monthly fluctuations in the individual overhead accounts.

c. Those overhead accounts which involve the greatest possibility of borderline decisions should be analyzed. Such analyses should put

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the emphasis on the larger items charged to the accounts in question, but may be extended in the light of the findings.

d. Appropriate checks will be made to determine the accuracy and uniformity with which amounts or quantities used as the basis for proration (as, for example, direct labor dollars) are developed. Where possible, such amounts will be tied in to results obtained through other audit procedures.

e. The accuracy and propriety of the overhead proration computations should be established.

f. The auditor should determine whether physical inventories of supplies and indirect materials on hand in storerooms or on the floor have been taken at the date of termination and the relative overhead accounts appropriately adjusted. If such inventories have not been taken and there are indications that quantities on hand have increased during the overhead period, the auditor must consider the necessity of a suitable adjustment.

g. Where available and applicable to the contract, the results of year-end closings should be utilized. In this connection, use may also be made of Federal income tax returns, reports by independent public accountants, and internal financial reports.

h. Comparisons will be made between Federal tax returns and the books to ascertain major differences in accounting policies.

i. The auditor should determine that costs charged off in a renegotiated period have been excluded from the overhead accounts in accordance with paragraph 3(e) of the Statement of Principles for Determination of Costs. (See par. 24.)

MISCELLANEOUS

94. Credits. The auditor should ascertain that all miscellaneous income and other credits properly allocable to operations under the contract have been reflected in the settlement proposal.

SECTION V

DISPOSAL CREDITS

95. Introductory.

a. The auditing problem in connection with disposal credits is to establish the accuracy with which the amounts approved by the contracting officer for disposition of property have been reflected in the proposed settlement.

b. It is not the auditor's responsibility to pass upon the fairness of these values, or to question the judgment of the contracting officer. However, where there is evidence that incorrect or inadequate information was submitted to the contracting officer as a basis for his decision, such facts should be reported by the auditor.

96. Approvals of Disposal Prices. The auditor should ascertain that the disposal prices of the inventory items affected were approved by the contracting officer. For this purpose the auditor should obtain information directly from the files of the contracting officer.

97. Agreement of Detailed Disposal Credits With Deduction From Proposed Settlement. The auditor should satisfy himself that the disposal credits set forth on the inventory records by the contractor are accurately summarized and reflected as a credit in the proposed settlement.

98. Cooperation With Accountable Property Officer. The auditor should cooperate with the accountable property officer in the latter's determination that items to be taken over by the Government are accurately stated.

SECTION VI

SETTLEMENT EXPENSES AND COSTS OF PROTECTION AND DISPOSITION OF GOVERNMENT PROPERTY

99. Introduction.

a. The contractor's settlement proposal may include, in addition to costs incurred in connection with the performance of the contract, certain other costs of the type described in paragraph 1(k) and (l) of the Statement of Principles. (See par. 24.)

b. The audit procedures outlined in sections I to IV, chapter 3, generally are applicable to the costs discussed in this section. However, there are certain special phases of these costs which require further treatment.

100. Current Auditing Procedures. Since costs of the nature allowable under paragraph 1(k) and (l) of the Statement of Principles generally will be currently incurred, where appropriate the auditor will apply current auditing procedures, such as floor checking the presence of the contractor's employees on the job, and observation of receiving and material handling procedures.

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101. Approval of the Contracting Officer. In addition to the applicable auditing procedures, the auditor will make checks to an appropriate extent to satisfy himself that, when required, the written approval of the contracting officer has been obtained by the contractor.

SECTION VII

CLAIMS OF SUBCONTRACTORS

102. Introductory.

a. When audits are made of subcontractor claims the principles and procedures set forth in this chapter are applicable.

b. This section deals with certain general relationships between Government personnel and the prime contractor with respect to the audit of subcontracts.

103. Government Auditor Not to Determine Subcontractor Claims. It is to be emphasized that the subcontractor has the responsibility of preparing his claim and the prime contractor the primary responsibility for the examination and approval of such claims. As in the case of the prime contract itself, the Government auditor is concerned with the accuracy of the accounting or other data relied upon by the contracting officer when this officer approves settlements which are made by the prime contractor.

104. Consultation With Prime Contractor. In the case of large terminations, as soon as the notice of termination has been given to the prime contractor, the Government auditor, where practicable, should consult with the prime contractor and assist him in formulating an adequate program for the review or examination of subcontractors' claims. The Government auditor can be of help to the prime contractor, although he should act only in an advisory capacity. During the subsequent period the checks made by the Government auditor may disclose weaknesses in the prime contractor's program, and those findings should be promptly transmitted to the prime contractor and discussed with him.

105. Audits to Check Effectiveness of Prime Contractor's Examinations. The Government auditor will consider the desirability of making and with the approval of the contracting officer will make independent checks to determine the effectiveness with which the prime contractor is carrying out his program. These checks will include, where practicable, field visits to representative subcontractors to determine whether the examinations and audits actually being made are carried out in an efficient and satisfactory manner.

106. When Audits May Be Made by the Government in First Instance.

a. In certain cases it may be advisable for the Government to make audits of particular subcontractors' claims. Such a case would exist when the desirability of an audit is indicated, but, because of geographical or other circumstances, it is clearly uneconomical for the prime contractor to make the audit. The Government auditor then might request that the audit be made by other Government auditors located in the area in question. In other special cases, the interests of the Government might require that audits be made by Government auditors.

b. When a field accounting representative has been appointed at a contractor's plant (see par. 125), he will perform all necessary reviews and audits of any claims forwarded by that contractor acting in the capacity of a subcontractor.

107. Checking Summaries Prepared by Prime Contractor. The prime contractor will present a schedule of subcontractors' claims, supported by the documents submitted by the claimants and other pertinent papers. The Government auditor will determine that all claims listed are in agreement with settlement proposals made by the subcontractors and agreed to by the prime contractor. The mathematical accuracy of all summarizations will also be appropriately checked.

108. Approval of the Contracting Officer. In addition to the applicable auditing procedures, the auditor will make checks to an appropriate extent to satisfy himself that, when required, the written approval of the contracting officer has been obtained by the contractor.

CHAPTER 4

WORKING PAPERS AND REPORTS

SECTION I

WORKING PAPERS

109. General Objectives. Working papers serve two major purposes: they are an essential historical record of the auditing procedures carried out and of all significant data and findings incident to and arising from the audit; and they are an important means of currently administering the auditing work. Working papers, therefore, should be prepared in such form as to achieve these objectives to the maximum extent.

110. Form of Preparation. Each sheet should show the name of the contractor, contract number, subject matter, date, and name of the staff member who prepared it. No more than one type of subject matter should be covered on each sheet. Wherever practicable, schedules available from the contractor should be incorporated in the working papers without recopying. In preparing working papers, the auditor should keep in mind that they will normally be reviewed by higher authority and may also be used as a source of reference and general information by other interested parties. The auditor, therefore, should endeavor to prepare his working papers in a manner which will facilitate their use by other persons.

111. Indexing of Papers. All working papers should be indexed, so far as practicable, by the major types of costs as listed in the contractor's proposed settlement. A copy of the proposed settlement, as presented by the contractor, should be included in the working papers for this purpose. Other papers, such as the review of internal control and other pertinent memoranda, should be separately grouped.

112. Preservation of Working Papers. The importance of carefully preserving the working papers cannot be overemphasized inasmuch as the auditor must be in a position to justify and support the facts included in his report. When

the audit is completed, the working papers covering the audit should be neatly assembled in the order of the items listed in the contractor's proposed settlement, bound, and turned over to higher authority of the War Department agency involved for safekeeping.

SECTION II

REPORTS

113. Introductory.

a. The auditor's report is the means by which the auditor summarizes the results of his work. In his report he sets forth the nature and extent of the representations made by the contractor in the latter's formal proposed settlement. The function of the auditor is that of investigating the factual accuracy of the contractor's representations, and his report should present the results of such investigation including comments upon the basis of the determination of profit. Information is thereby provided to assist the contracting officer in effecting a settlement with the contractor.

b. It is necessary that such reports cover all matters which will be of significance in determining appropriate settlements, and it is desirable that they follow a uniform pattern as to major types and form of content. The auditor should, however, avoid unnecessary detail in his report, limiting his presentation to main essentials and depending on his working papers as a source of further reference, should additional detail be necessary at some later time.

c. The report of the auditor covering a proposed settlement which requires only an office review may consist only of a memorandum to the contracting officer if the information has been presented in acceptable form by the contractor.

d. Where the terminated contract has been classified as secret, the auditor should not include any description of the product in his report. In instances where this procedure is not feasible, the report will necessarily be classified as secret.

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114. Auditor's Report. The topics which follow cover various sections of the auditor's report in the sequence of their inclusion therein:

GENERAL CONTRACT DATA

The first section of the report should set forth certain general facts with respect to the total contract and the completed and terminated portions.

SECTION I

1. Name and address of contractor.
2. Brief summary of contract.
 - a. Quantity and description of product (or products).
 - b. Prices per unit and total dollar amount.
 - c. Date of contract and original estimated completion date.
 - d. Other facts of importance in the individual case.

3. Summary of termination provisions.
 - a. Date.
 - b. Extent of termination.
 - c. Other pertinent aspects.
4. Overall summary of total contract at sales prices.

	Units	Amount
Product delivered and paid for.		\$
Product delivered and billed but not paid for-----		
Product completed but not delivered and billed-----		
Total portion completed.		\$
Portion of contract terminated.		
Continued portion of contract.		
Total contract-----		\$

SECTION II

Summary of contractor's proposed settlement and auditor's findings

The following form of presentation normally will be suitable for use in the report:

Contractor's own charges to date of termination (exclusive of claims of subcontractors)

Description
(The individual elements of costs should be detailed here in the manner set forth in the contractor's proposed settlement.)

Per contractor	Exceptions per auditor	Referred to negotiator	Audited amount
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Settlements with subcontractors

Description
(Show subcontractor and type of product contracted for.)

Per contractor	Exceptions per auditor	Referred to negotiator	Audited amount
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Post termination charges

Description
(Show individual items in reasonable detail.)

Per contractor	Exceptions per auditor	Referred to negotiator	Audited amount
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NOTES

1. Appropriate references should be made in each case to supporting exhibits and explanatory notes.
2. In the case of particular items on which the accountant has reason to believe that the contractor will not agree with his exceptions, he should include a concise statement of the contractor's position.
3. Items listed in the "Referred to negotiator" column should be of a type regarding which the accountant has satisfied himself that the expenditures have been made, but there is no accounting evidence for determining the amount applicable to the contract. Profit, if any, should also be shown in this column.

a. Each item listed as "Referred to negotiator" should be supported by a statement of any pertinent facts or other considerations, together with any recommendations the accountant can make which will be useful to the contracting officer in negotiating a settlement.

b. So far as costs are concerned, the "Referred to negotiator" column should be used only in rare cases. It is not to be regarded as a substitute for accounting determinations which the accountant should properly make.

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SECTION III

Discussion of each type of cost

Each type of cost listed in the summary presented should be discussed separately, as briefly as possible, covering the following aspects in each case:

- a. Bases upon which the contractor determined his proposed settlement.
- b. Description of exceptions and explanations of why exception was taken.
- c. Other pertinent information relating to the audit of the costs involved.

SECTION IV

General scope of the examination

In this section the auditor should briefly describe the scope of his examination including—

- a. Period covered by audit.
- b. Date of beginning and end of audit work.

c. Any important deviations from prescribed manual procedures and reasons therefor.

d. Other pertinent information bearing on the proposed settlement.

SECTION V

Subsidiary schedules

In this section will be presented all subsidiary schedules which support the amounts shown in the main summaries.

Number of copies to be prepared

The number of copies of the audit report to be prepared will be governed by the requirements established by the contracting officer and the particular War Department agency.

Signature

The report will be dated and signed by the auditor who has made the examination and by the reviewing supervisor.

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APPENDIX I

Uniform Termination Articles for Fixed Price Supply Contracts As Set Forth in War Department Procurement Regulations Paragraphs 324 and 15-901

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UNIFORM TERMINATION ARTICLE FOR FIXED PRICE SUPPLY CONTRACTS

Article ----- Termination at the Option of the Government. (a) The performance of work under this contract may be terminated by the Government in accordance with this Article in whole, or from time to time in part, whenever the contracting officer shall determine any such termination is for the best interests of the Government. Termination of work hereunder shall be effected by delivery to the contractor of a Notice of Termination specifying the extent to which performance of work under the contract shall be terminated, and the date upon which such termination shall become effective. If termination of work under this contract is simultaneous with, a part of, or in connection with, a general termination (1) of all or substantially all of a group or class of contracts made by the ----- Department for the same product or for closely related products, or (2) of war contracts at, about the time of, or following, the cessation of the present hostilities, or any major part thereof, such termination shall only be made in accordance with the provisions of this Article, unless the contracting officer finds that the contractor is then in gross or wilful default under this contract.

(b) After receipt of a Notice of Termination and except as otherwise directed by the contracting officer, the contractor shall (1) terminate work under the contract on the date and to the extent specified in the Notice of Termination; (2) place no further orders or subcontracts for materials, services of facilities except as may be necessary for completion of such portions of the work under the contract as may not be terminated; (3) terminate all orders and subcontracts to the extent that they relate to the performance of any work terminated by the Notice of Termination; (4) assign to the Government, in the manner and to the extent directed by the contracting officer, all of the right, title and interest of the contractor under the orders or subcontracts so terminated; (5) settle all claims arising out of such termination of orders and subcontracts with the approval or ratification of the contracting officer to the extent that he may require, which approval or ratification shall be final for all the purposes of this Article; (6) transfer title and deliver to the Government in the manner, to the extent and at the times di-

rected by the contracting officer (i) the fabricated or unfabricated parts, work in process, completed work, supplies and other material produced as a part of, or acquired in respect of the performance of, the work terminated in the Notice of Termination, and (ii) the plans, drawings, information and other property which, if the contract had been completed, would be required to be furnished to the Government; (7) use his best efforts to sell in the manner, to the extent, at the time, and at the price or prices directed or authorized by the contracting officer any property of the types referred to in subdivision (6) of this paragraph provided, however, that the contractor (i) shall not be required to extend credit to any purchaser and (ii) may retain any such property at a price or prices approved by the contracting officer; (8) complete performance of such part of the work as shall not have been terminated by the Notice of Termination; and (9) take such action as may be necessary or as the contracting officer may direct for protection and preservation of the property, which is in the possession of the contractor and in which the Government has or may acquire an interest.

(c) The contractor and the contracting officer may agree upon the whole or any part of the amount or amounts to be paid to the contractor by reason of the total or partial termination of work pursuant to this Article, which amount or amounts may include a reasonable allowance for profit, and the Government shall pay the agreed amount or amounts. Nothing in paragraph (d) of this Article prescribing the amount to be paid to the contractor in the event of failure of the contractor and the contracting officer to agree upon the whole amount to be paid to the contractor by reason of the termination of work pursuant to this Article shall be deemed to limit, restrict or otherwise determine or affect the amount or amounts which may be agreed upon to be paid to the contractor pursuant to this paragraph (c).

(d) In the event of the failure of the contractor and contracting officer to agree as provided in paragraph (c) upon the whole amount to be paid to the contractor by reason of the termination of work pursuant to this Article, the

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Government, but without duplication of any amounts agreed upon in accordance with paragraph (c), shall pay to the contractor the following amounts:

(1) For completed articles delivered to and accepted by the Government (or sold or retained as provided in paragraph (b) (7) above) and not theretofore paid for, forthwith a sum equivalent to the aggregate price for such articles computed in accordance with the price or prices specified in the contract;

(2) In respect of the work under the contract terminated as permitted by this Article, the total (without duplication of any items) of (i) the cost of such work exclusive of any cost attributable to articles paid or to be paid for under paragraph (d) (1) hereof; (ii) the cost of settling and paying claims arising out of the termination of work under subcontracts or orders as provided in paragraph (b) (5) above, exclusive of the amounts paid or payable on account of supplies or materials delivered by the subcontractor prior to the effective date of the notice of termination of this contract, which amounts shall be included in the cost on account of which payment is made under subdivision (i) above; and (iii) a sum equal to -----%¹ of the part of the amount determined under subdivision (i) which represents the cost of articles or materials not processed by the contractor, plus a sum equal to -----%² of the remainder of such amount, but the aggregate of such sums shall not exceed 6% of the whole of the amount determined under subdivision (i), which for the purpose of this subdivision (iii) shall exclude any charges for interest on borrowings;

(3) The reasonable cost of the preservation and protection of property incurred pursuant to paragraph (b) (9) hereof; and any other reasonable cost incidental to termination of work under this contract, including expense incidental to the determination of the amount due to the contractor as the result of the termination of work under this contract.

The total sum to be paid to the contractor under subdivisions (1) and (2) of this paragraph (d) shall not exceed the total contract price reduced by the amount of payments previously made for articles delivered prior to termination and by the Contract price of work not terminated. Except to the extent that the Government shall have otherwise expressly assumed the risk of loss, there shall be excluded from the amounts payable to the contractor as provided in paragraph (d) (1) and paragraph (d) (2) (i), all amounts allocable to or payable in respect of property, which is destroyed, lost, stolen or damaged so as to become undeliverable prior to the transfer of title to the Government or to a buyer pursuant to paragraph (b) (7) or prior to the 60th day after delivery to the Government of an inventory covering such property, whichever shall first occur.

(e) The obligation of the Government to make any payments under this article: (1) shall be subject to deductions in respect of (i) all unliquidated partial or progress payments, payments on account theretofore made to the contractor and unliquidated advance payments, (ii) any claim which the Government may have against the contractor in connection with this contract, and (iii) the price agreed upon or the proceeds of sale of any materials, supplies or other things retained by the contractor or sold, and not otherwise recovered by or credited to the Government, and (2) in the discretion of the contracting officer shall be subject to deduction in respect of the amount of any claim of any subcontractor or supplier whose subcontract or order shall have been terminated as provided in paragraph (b) (3) except to the extent that such claim covers (i) property or materials delivered to the contractor or (ii) services furnished to the contractor in connection with the production of completed articles under this contract.

¹ Not to exceed 2 percent.

² To be established at a figure which is fair and reasonable under the circumstances.

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(f) In the event that, prior to the determination of the final amount to be paid to the contractor as in this article provided, the contractor shall file with the contracting officer a request in writing that an equitable adjustment should be made in the price or prices specified in the contract for the work not terminated by the Notice of Termination, the appropriate fair and reasonable adjustment shall be made in such price or prices.

(g) The Government shall make partial payments and payments on account, from time to time, of the amounts to which the contractor shall be entitled under this Article, whether determined by agreement or otherwise, whenever in the opinion of the contracting officer the aggregate of such payments shall be within the amount to which the contractor will be entitled hereunder.

(h) For the purposes of paragraphs (d) (2) and (d) (3) hereof, the amounts of the payments to be made by the Government to the contractor shall be determined in accordance with the Statement of Principles for Determination of Costs upon Termination of Government Fixed Price Supply Contracts approved by the Joint Contract Termination Board, December 31, 1943.³ The contractor for a period of three years after final settlement under the contract shall make available to the Government at all reasonable times at the office of the contractor all of its books, records, documents, and other evidence bearing on the costs and expenses of the contractor under the contract and in respect of the termination of work thereunder.

³ This statement of Principles is quoted in paragraph 24 of this manual.

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APPENDIX II

Former War Department Standard Termination Article As Set Forth in PR 15-901-A

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FORMER WAR DEPARTMENT STANDARD TERMINATION ARTICLE

Article-----Termination for the Convenience of the Government.

(a) The Government may, at any time, terminate this contract in whole or in part by a notice in writing from the Contracting Officer to the Contractor that the contract is terminated under this Article. Such termination shall be effective in the manner and upon the date specified in said notice and shall be without prejudice to any claims which the Government may have against the Contractor, or any claims which the Contractor may have against the Government. Upon receipt of such notice the Contractor shall, except as the Contracting Officer directs otherwise, (1) discontinue all work and the placing of all orders for materials and facilities in connection with performance of this contract, cancel all existing orders chargeable to this contract, and terminate all subcontracts chargeable to this contract; (2) transfer to the Government, by deliver f. o. b. ----- or by such other means as the Contracting Officer may direct, title to all completed supplies (including spare parts, drawings, information and other things) called for herein not previously delivered, and partially completed supplies, work in process, materials, fabricated parts, plans, drawings, and information acquired or produced by the Contractor for the performance of this contract; and (3) take such action as may be necessary to secure to the Government the benefits of any rights remaining in the Contractor under orders or subcontracts wholly or partially chargeable to this contract to the extent that such orders or subcontracts are so chargeable. If and as the Contracting Officer so directs or authorizes, the Contractor shall sell at a price approved by the Contracting Officer, or retain at a price mutually agreeable, any such supplies, partially completed supplies, work in process, materials, fabricated parts or other things. The proceeds of such sale or the agreed price shall be paid or credited to the Government in such manner as the Contracting Officer may direct so as to reduce the amount payable by the Government under this Article.

(b) The Government shall, upon such termination of this contract, pay to the Contractor the contract price of all supplies (including

ing spare parts, drawings, information, and other things), called for herein which have been completed in accordance with the provisions of this contract and to which title has been received by the Government under the provisions of paragraph (a) (2) of this Article and for which payment has not previously been made.

(c) In addition to, and without duplication of, the payments provided for in paragraph (b), or of payments made prior to the termination of this contract, the Government shall pay to the Contractor such sum as the Contracting Officer and the Contractor may agree by Supplemental Agreement is reasonably necessary to compensate the Contractor for his costs, expenditures, liabilities, commitments, and work in respect to the uncompleted portion of the contract so far as terminated by the notice referred to in paragraph (a). The Contracting Officer shall include in such sum such allowance for anticipated profit with respect to such uncompleted portion of the contract as is reasonable under all the circumstances.

(d) If the Contracting Officer and the Contractor, within 90 days from the effective date of the notice of termination referred to in paragraph (a) or within such extended period as may be agreed upon between them, cannot agree upon the sum payable under the provisions of paragraph (c), the Government, without duplication of any payment made pursuant to paragraph (b) or prior to the termination of this contract, shall in the above events compensate the Contractor for the uncompleted portion of the contract as follows:

(1) By reimbursing the Contractor for all actual expenditures and costs certified by the Contracting Officer as having been made or incurred with respect to the uncompleted portion of the contract;

(2) By reimbursing, or providing for the payment or reimbursement of, the Contractor for all expenditures made and costs incurred with the prior written approval of the Contracting Officer in settling or discharging that portion of the outstanding obligations or commitments of the Contractor which had been incurred or entered into with respect to the uncompleted portion of the contract; and

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(3) By paying the Contractor, as a profit on the uncompleted portion of the contract insofar as a profit is realized hereunder, a sum to be computed by the Contracting Officer in the following manner:

(A) The Contracting Officer shall estimate the profit which would have been realized on the uncompleted portion of the contract if the contract had been completed and labor and material costs prevailing at the date of termination had remained in effect.

(B) Estimate, from a consideration of all relevant factors, the percentage of completion of the uncompleted portion of the contract.

(C) Multiply the anticipated profit determined under (A) by the percentage determined under (B). The result is the amount to be paid to the Contractor as a proportionate share of profit, if any, as above provided.

Notwithstanding the above provisions, no compensation shall be paid under this paragraph (d) by way of reimbursement for expenditure, including expenditures made in settling or discharging obligations or commitments, or by way of profit on account of supplies or other things which are undeliverable because of destruction or damage, whether or not because of the fault of the Contractor.

(e) The Government shall pay to the Contractor such sum as the Contracting Officer and the Contractor may agree upon for expenditures made and costs incurred with the approval of the Contracting Officer (a) after the date of termination for the protection of Government property, and (b) for such other expenditures and costs as may be necessary in connection with the settlement of this contract, and in the absence of such agreement as to the amount of such expenditures and costs shall reimburse the Contractor for the same.

(f) The obligation of the Government to make any of the payments required by this Article shall be subject to any unsettled claim for labor or material and to any claim which the Government may have against the Contractor under or in connection with this contract, and payments under this Article shall be subject to reasonable deductions by the Contracting Officer on account of defects in the

materials or workmanship of completed or partially completed supplies delivered hereunder.

(g) The sum of all amounts payable under this Article, plus the sum of all amounts previously paid under this contract, shall not exceed the total contract price, adjusted in the event that this contract contains an article providing for price adjustment, on the basis of the estimate of the Contracting Officer to the extent which would have been required by such article if this contract had been completed and labor and materials costs prevailing at the date of termination had remained in effect.

(h) Should the above provisions of this Article not result in payment to the Contractor of at least \$100, then that amount shall be paid to the Contractor in lieu of any and all payments hereinbefore provided for in this Article.

(i) The Government shall promptly make partial payments to the Contractor

(1) on account of the amounts due under paragraphs (b), (c) and (d) of this Article to the extent that, in the judgment of the Contracting Officer, such payments are clearly within the amounts due under such paragraphs, and

(2) of such amounts as the Contracting Officer may direct, on account of proposed settlements of outstanding obligations or commitments, to be made by the Contractor pursuant to paragraph (d) (2) of this Article, if such settlements shall have been approved by the Contracting Officer and subject to such provisions for escrow or direct payment to the persons entitled to receive such settlement payments as the Contracting Officer may require.

(j) Any disputes arising out of termination under this Article shall be decided in accordance with the procedure prescribed in Article 12 of this contract.

(k) Upon the making of the payments called for by this Article, all obligations of the Government to make further payments or to carry out other undertakings hereunder shall cease forthwith and forever, except that all rights and obligations of the respective parties under the Articles, if any, of this contract applicable to patent infringements and reproduction rights shall remain in full force and effect.

(l) The Government shall terminate this contract only in accordance with this Article,

except as otherwise provided by law or by Article----- (Delays-Damages). Notwithstanding Article----- (Delays-Damages) and any defaults of the Contractor, the Government shall terminate this contract only in accordance with this Article if such termination is simultaneous with or part of or in connection with a

general termination of war contracts at, about the time of, or following the cessation of the present hostilities or the end of the present war, unless the Contracting Officer finds that the defaults of the Contractor (1) have been gross or willful and (2) have caused substantial damage to the Government.

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