

COST ACCOUNTING STANDARDS BOARD

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ARTHUR SCHOENHAUT
Executive Secretary

January 6, 1978

To the Speaker of the House of Representatives
and the President of the Senate

In accordance with Section 719(k) of the Defense Production Act of 1950,
as amended, I respectfully submit the progress report of the Cost Accounting
Standards Board for the year ended September 30, 1977.

A handwritten signature in cursive script that reads "Elmer B. Staats".

Chairman

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INTRODUCTION

The Cost Accounting Standards Board was created as an agent of the Congress in August 1970 by an amendment (Public Law 91-379) to the Defense Production Act of 1950. The Board has submitted Progress Reports to the Congress since 1972.

The Comptroller General of the United States is designated by Public Law 91-379 as Chairman of the Cost Accounting Standards Board. Pursuant to that law, the Chairman, Elmer B. Staats, appoints four other members to serve on the Board for a term of 4 years each. The Board Members at September 30, 1977, were:

--*Herman W. Bevis*, formerly the Senior Partner of the firm of Price Waterhouse & Co., Certified Public Accountants

--*Robert K. Mautz*, Partner in the firm of Ernst & Ernst, Certified Public Accountants

--*Fred P. Wacker*, Assistant Secretary of Defense (Comptroller)

--*John M. Walker*, Senior Vice President and Corporate Treasurer, Texas Instruments, Incorporated.

This report describes the activities of the Board since June 30, 1976. Because of the change in the Federal fiscal year, it covers the 15-month period ended September 30, 1977.

HIGHLIGHTS OF ACTIVITIES

Summarized below are the highlights of the activities of the Board during the 1977 reporting period.

1. The Board promulgated one Cost Accounting Standard, one formal interpretation, and several important changes in its regulations:

-- Standard No. 413, Adjustment and Allocation of Pension Cost, new Standard to be effective March 10, 1978. (See page 5.)

-- Interpretation No. 1 to Cost Accounting Standard No. 401, Consistency in Estimating, Accumulating, and Reporting Costs. This interpretation deals with Accounting for Direct Materials Not

Incorporated Into End Items. (See page 6.)

-- Exemption of small business. (See page 10.)

-- Reduced requirements for commercially oriented companies with small volume of covered contracts. (See page 10.)

-- Criteria for determining whether amounts are "material" or "immaterial" for purposes of contract administration. (See page 8.)

2. The Board issued a booklet entitled "Restatement of Objectives, Policies, and Concepts." This publication is designed to help interested persons understand the Board's views. Those who comment on the Board's work can do so most effectively when they have an understanding of the Board's objectives. The Restatement is described on page 7 of this report.

3. Major contractors are required to disclose their cost accounting practices to the Government. At September 30, 1977, the Board had copies of 1,488 Disclosure Statements. The information is maintained in a computerized data bank to facilitate analysis and correlation of the data for research purposes. The Disclosure Statement activity is described on page 4 of this report. Information contained in Disclosure Statements filed with the Board is presented in aggregate statistical form as Appendix C to this report.

4. The Board has a continuing responsibility to evaluate the effectiveness of materials which it promulgates. The evaluation process is facilitated by obtaining annual reports from Federal agencies. For calendar year 1976 Federal agencies reported they resolved 412 noncompliance determinations. In addition, there were 290 noncompliance determinations remaining unresolved at year end. Comments from the agency reports are summarized starting on page 8.

5. The Board has an extensive program for the research of potential Cost Accounting Standards. The Board's research procedures is outlined starting on page 2. The current projects are described on pages 6 and 7.

BOARD ORGANIZATION AND OPERATIONS

The Board's Executive Secretary is Arthur Schoenhaut who has served with the Board from the beginning of its operations in 1971. As of September 30, 1977, the Board had a full-time staff of 31 employees—22 professional and 9 administrative and clerical. Appendix A to this report contains a brief background description of each of the Board members and the professional staff members.

The Board generally holds monthly meetings lasting 1 or 2 days. Staff papers are distributed to Board members throughout the month and are discussed with Board members individually by the staff in advance of each Board meeting. Board members are in frequent communication with the staff on materials being developed by the staff.

Since its inception, the Board has encouraged the cooperation of all those who might be interested in Cost Accounting Standards. The Board continues to benefit from the participation, cooperation and communication with over 2,000 representatives of industry, the public accounting profession, the academic community and other Government agencies.

The Board's promulgations are used in connection with procurement contracts which are negotiated by agencies in the Executive Branch of the Government. An Interagency Advisory Committee to the Cost Accounting Standards Board, under the chairmanship of the Administrator of the Office of Federal Procurement Policy, provides valuable advice to the Board and its staff in minimizing problems which might otherwise interfere with the effective application of the Board's Standards, rules, and regulations. This Committee includes procurement and accounting officials from the agencies which are affected by the Board's work.

Accounting for the costs of Government contracts often deals with the same expenditures and the same problems of assigning costs to time periods as are of interest in financial and income tax

accounting. The Board, therefore, believes that cooperation and coordination with other authoritative bodies will be of considerable benefit to all organizations having responsibilities for issuing pronouncements involving accounting matters. The Board discusses accounting concepts with the representatives of various professional accounting organizations. The Board continues to coordinate with the Financial Accounting Standards Board.

RESEARCH AND DEVELOPMENT OF STANDARDS

The process which precedes the promulgation of any Cost Accounting Standard is characterized by an in-depth study of the subject areas and by participation of interested parties. The Board is not committed to any specific research process, but uses techniques and resources which are appropriate to the subject at hand. The Board encourages those who are interested in its work to participate at every stage in the development. The typical research steps leading to promulgation of Standards are briefly described below.

1. *Selection of topics*—A specific subject for research and possible development of Cost Accounting Standards is selected after considering the nature and magnitude of the costing problems related to the subject, as well as the relationship of the subject to other Standards and other staff research projects. Board approval of a work project and of its continuance does not necessarily result in promulgation of a Standard.

2. *Research of the existing situation*—Early research typically involves review of the accounting literature and the accounting concepts involved. It often involves interactions with representatives of professional accounting organizations. Early research also usually involves review of the treatment of the cost in connection with negotiated contracts and review of Government procurement regulations and the decisions of courts and Boards of Contract Appeals.

3. *Analysis of alternatives*—The Board develops analytical discussions of cost

accounting issues, and prepares questions designed to elicit both opinions and relevant empirical data concerning the subject.

4. *Preliminary draft Standard*—Analysis of problems, current practices, and the possible choices for action leads to the development of a specific proposal as a possible Cost Accounting Standard. During 1977, preliminary draft Standards were distributed on five subjects: (a) distinguishing between direct and indirect costs, (b) accounting for service centers, (c) allocation of material-related overhead, (d) accounting for independent research and development and bid and proposal costs, and (e) accounting for insurance.

5. *FEDERAL REGISTER exposure*—After consideration of all the results of the earlier research steps, the Board reviews the entire topic and determines whether to proceed with the process of development of a Standard. If the Board decides to proceed, the proposed Cost Accounting Standard is published in the FEDERAL REGISTER as part of the research process. Such publication serves as a formal public solicitation by the Board for comments on the proposal. Official exposure is supplemented by direct mailing to the organizations and individuals on the Board's research mailing list. During fiscal year 1977, the Board published exposure drafts of Standards in the FEDERAL REGISTER on the subjects of (a) adjustment and allocation of pension cost and (b) accounting for insurance. The Board also published proposed changes in its regulations dealing with (a) the applicability of Standard No. 403, dealing with home office expenses, (b) the techniques for measuring increased costs in connection with changes of cost accounting practice, (c) a threshold for applicability of Standards to contractors who have not had significant amounts of negotiated defense contracts, (d) applicability to small businesses, (e) definition of "cost accounting practice," and (f) criteria for determining "materiality."

6. *Evaluation of benefits and costs and inflationary impact*—An important aspect of the entire development process is the constant consideration of the likely benefits

and the likely costs of implementation of Standards, both one-time and recurring. This analysis is not a step in a sequential process; rather it is a continuing part of the entire development process.

After evaluation of the costs of implementation and benefits of each Standard, the Board, prior to promulgation, gives careful consideration to any inflationary impact that might result from the issuance of a Standard. The Board has consistently sought to improve its techniques for evaluation of the probable costs and of the likely advantages and improvements in pricing, administration and settlement of contracts. The Board's second Evaluation Conference, held in October 1977, was called to assist the Board in this regard.

7. *Promulgation*—After careful consideration of all comments and further discussions held with interested parties, the Board makes appropriate revisions to the proposed Cost Accounting Standard, and the promulgated version is published in the FEDERAL REGISTER along with the Board's analysis of the major issues identified in the comments received. The Board's prefatory comments, published with the promulgated Standard, explain the reasons for any significant changes made and also the reasons for not making changes which were suggested. During 1977 the Board promulgated one Standard, one Interpretation, and three significant changes in regulations.

A tabulation of the major rules, regulations and Cost Accounting Standards promulgated by the Board from 1972 through the present is contained in Appendix B.

8. *Congressional consideration*—Standards promulgated by the Board are sent to the Congress at the time of final publication in the FEDERAL REGISTER. The Standards become effective unless the Congress, within 60 days of continuous session, passes a concurrent resolution stating in substance that it does not favor the proposed Standard. Unless disapproved, the Board's promulgations have the full force and effect of law.

9. *Continuing review*—The Board has provided for annual reports from

Government agencies and held Evaluation Conferences in June 1975 and October 1977 to obtain the views of industry and others on issued Standards and regulations. The Board stands ready to publish authoritative interpretations where there are widespread and serious questions of the Board's intent in any of its promulgations and will also modify any of its promulgations if experience shows that modification is desirable.

TRAINING AND ORIENTATION

The Board has long recognized that there is a continuing need for formalized training programs for Government officials concerned with Cost Accounting Standards. Accordingly, the Board's staff members have cooperated fully in this mission. The Office of Federal Procurement Policy has undertaken the establishment of a Federal Procurement Institute. According to its plans, this Institute will take the lead in developing training throughout the Government for all officials engaged directly or indirectly in the procurement process, and such training will encompass Cost Accounting Standards. The Board is prepared to provide assistance as the Institute develops its programs. The Board continues to participate in the formulation and instruction of the training program offered by the Army Logistics Management Center. In addition, representatives of the Board participate frequently in seminars and workshops held by professional associations.

DISCLOSURE OF COST ACCOUNTING PRACTICES

Public Law 91-379, which established the Board, requires that contractors shall disclose in writing their cost accounting practices and agree to follow these disclosed practices consistently. The Board has established requirements for the submission of Disclosure Statements by contractors based on prime and subcontract awards received by a company and its subsidiaries. From time to time the Board has revised its filing requirements. In September 1977, the Board issued a regulation, effective

March 10, 1978, stating that a business unit will be required to submit a Disclosure Statement if it is a company or a segment of a company which received awards of national defense prime contracts and subcontracts subject to Cost Accounting Standards in excess of \$10 million during its preceding cost accounting period.

As of September 30, 1977, reporting units of 219 contractors have sent 1,488 Disclosure Statements to the Board. Data from these Disclosure Statements are maintained in a computerized data bank to facilitate analyses.

Any company which submitted or was obligated to submit a Disclosure Statement to the Government under any filing requirement by virtue of having received a covered contract remains subject to the requirement so long as it has any contract subject to Standards. Such Disclosure Statements must be maintained in current form.

The Board has provided that Disclosure Statements will not be made public in any case where the contractor files its statement specifically conditioned on the Government's agreement to treat the Disclosure Statement as privileged and confidential. An action challenging the validity of that regulation was brought under 5 U.S.C. 552, the Freedom of Information Act (Petkas v. Staats, Civil Act. No. 2238-72.) This action which was awaiting a further hearing in the District Court for the District of Columbia was dismissed on June 7, 1977, based on a stipulation between the parties. In the stipulation the Board agreed to furnish the requestor with data from its data bank on Disclosure Statements, provided it could do so without violating its obligation to maintain the confidentiality of individual Disclosure Statements. The dismissal of this action concludes the only outstanding challenge to the Board's regulations on confidentiality of the Disclosure Statement.

Appendix C of this report presents Disclosure Statement information in aggregate statistical form.

COST ACCOUNTING STANDARDS

The Board had promulgated 14 Cost Accounting Standards by the beginning of

fiscal year 1977. During the year an additional Standard was promulgated, and one Interpretation was published. The promulgations and the status of current studies of other subjects in various stages of research and development are summarized below.

ADJUSTMENT AND ALLOCATION OF PENSION COST

This Cost Accounting Standard was published in its final form in the FEDERAL REGISTER of July 20, 1977, and will become effective on March 10, 1978. The Standard provides guidance for adjusting pension cost by measuring actuarial gains and losses and assigning such gains and losses to cost accounting periods. The Standard also provides the bases on which pension cost shall be allocated to segments of an organization.

This Standard is the second Standard dealing with pension costs. The first Standard establishes requirements covering the composition of pension cost and the bases to be used for measuring such cost. Both Standards recognize the existence of, and are compatible with, the provisions of ERISA. Notwithstanding the differences in objectives between these Standards and ERISA, the Board believes that compliance with the provisions of these Standards will not violate any provision of ERISA.

The Standard provides that actuarial gains and losses shall be calculated annually and shall be assigned to the cost accounting period for which the actuarial valuation is made and subsequent periods. Actuarial gains and losses determined under a pension plan whose costs are measured by an immediate-gain actuarial cost method shall be amortized over a 15-year period; actuarial gains and losses applicable to a pension plan whose costs are measured by a spread-gain actuarial cost method shall be spread over the remaining average working lives of the work force. The Standard provides also that the value of all pension fund assets shall be determined under an asset valuation method which takes into account unrealized appreciation and depreciation of pension fund assets, and shall be used in measuring

the components of pension cost. The Standard establishes parameters for recognizing such unrealized appreciation and depreciation. In addition, the Standard requires that pension cost be allocated to each segment of an organization having participants in a pension plan. Such allocation may be made by means of an allocation base unless the use of a base results in an inequitable allocation to a segment; in such a circumstance, the Standard requires a separate calculation of pension cost for the segment.

The Board's research included an extensive review of available literature and a review of decisions of Boards of Contract Appeals. The Board identified a number of issues which were incorporated into an issues paper. The issues paper and a subsequent preliminary Standard were sent to a cross-section of companies, Government agencies, industry and professional associations, actuaries and other interested individuals. Following receipt of their comments, the Board developed a proposed Standard which was published in the FEDERAL REGISTER of February 3, 1977. The Board received 67 sets of comments on the proposed Standard. All of these comments were considered by the Board prior to promulgating the Standard in July 1977.

In its research leading to the development of this Standard, the Board gave consideration to the anticipated benefits and costs of implementing the Standard. The anticipated benefits are increased consistency and uniformity in measuring actuarial gains and losses and assigning them to cost accounting periods, and better allocation of pension costs to segments of an organization. The Board believes that such improved measurements and allocations will result in more equitable allocation of pension costs to cost objectives, including Government contracts. By providing criteria for controversial aspects of pension cost accounting, the Standard is also expected to reduce disagreements among contracting parties. The Board recognizes that the implementation of this Standard may result in some increased administrative costs by contractors. The Board's research shows that

any incremental administrative costs incurred will be predominantly related to increased actuarial fees. After discussing with actuaries the nature and scope of increased actuarial work required, the Board is confident that the increased administrative costs required to implement this Standard are relatively small and do not approach the benefits that will be achieved by the Standard.

ACCOUNTING FOR DIRECT MATERIALS NOT INCORPORATED INTO END ITEMS

On November 30, 1976, the Board published Interpretation No. 1 to its Standard No. 401, which deals with Consistency in Estimating, Accumulating and Reporting Costs. This interpretation is the culmination of extensive research over a period of several years on the subject of accounting for the costs of direct materials not incorporated into end items. The research indicated that, as a general rule, the cost of such materials is being allocated properly among contracts and other work done by the contractors. Accordingly, the Board concluded there was not a current need for a Cost Accounting Standard on the subject. The research did indicate, however, that frequent questions were raised with respect to the requirements of Standard No. 401 regarding consistency between cost estimates for certain direct materials when used in pricing and the accounting practices used for accumulating and reporting actual costs for the same materials. Estimates are often made as a percentage of basic direct material requirements. The questions relate to the level of support which is appropriate in connection with such percentage factors.

In issuing this Interpretation, the Board noted that Standard No. 401 does not prescribe the amount of detail required in accumulating and reporting costs. The Board noted further that the amount of accounting detail required may vary considerably, depending on the percentage factors used in estimating, the support provided for such percentage factors, and the

significance of the amounts. The Board's Interpretation, therefore, provided that the amount of accounting and statistical detail required to account for direct materials not incorporated in end items is a matter to be decided by Government procurement authorities on the basis of the individual facts and circumstances.

CURRENT STUDIES

The following research projects which may later result in Cost Accounting Standards were given attention during the year. The factors considered by the Board in the selection of topics are set forth on page 2. During the year, major effort was devoted to research on problems related to the allocation of indirect costs. This effort is expected to result in five separate, but closely related, Standards, summarized in items 2 through 6 below. These five Standards are expected to be published at the same time so that interested parties can consider their total impact.

1. Accounting for Insurance Costs. This project deals with criteria for the measurement and allocation of insurance costs, including self-insurance. A preliminary draft Standard was distributed in January 1977. Responses to that draft were analyzed, and a revised proposal was published in the FEDERAL REGISTER in October 1977 for comment.

2. Distinguishing Between Direct and Indirect Costs. This study covers the accounting concepts and principles governing consistent classification of costs as direct or indirect, and the bases for making distinctions. A preliminary draft Standard was distributed in October 1976.

3. Accounting for Indirect Costs. It has become apparent that there will be benefit from the development of a general Standard on indirect cost allocations, incorporating the Board's hierarchy of preferred allocation techniques.

4. Allocation of Service Center Costs. Research on this subject involves the development of concepts for use in accounting for costs of service centers. A preliminary Standard was distributed in October 1976.

5. Allocation of Manufacturing, Engineering, and Comparable Overhead. This project covers the allocation of pools of manufacturing, engineering, and comparable overhead. A preliminary draft Standard on manufacturing overhead was distributed in 1976.

6. Allocation of Material-Related Overhead Costs. This project deals with criteria for creation of cost pools and selection of allocation bases pertaining to material-related costs. A preliminary draft Standard was distributed in January 1977.

7. Independent Research and Development and Bid and Proposal Costs. This subject covers the accounting for costs of performing independent research and development and cost of preparing bids and proposals by contractors engaged in Government contracts. A preliminary draft Standard was distributed in April 1977.

8. Indirect Costs of Colleges and Universities. This study involves an inquiry into the nature and composition of indirect cost rates of colleges and universities which have defense contracts, with special attention to coverage of Federally funded research and development centers.

9. Accounting for Contract Terminations. This study concerns the inquiry into cost accounting practices applicable to contracts which are terminated for the convenience of the Government. The research also involves consideration of capacity-related costs which continue when direct manufacturing activity ceases.

10. Joint Product Costing. This study involves special cost accounting problems related to manufacturing processes in which multiple products are produced in a joint operation. Such processes are usually used in, although not necessarily limited to, the chemical and petroleum refining industries.

11. Cost of Money as an Element of the Cost of Operating Capital. This project developed during the research which led to the promulgation of the Cost Accounting Standard on Cost of Money as an Element of the Cost of Facilities Capital.

12. Contract Changes. This research deals with the nature and magnitude of cost

accounting problems resulting from modifications of contract work requirements. Included in this project is research into the types of negotiated modifications to be covered by Standards.

13. Other Topics. The staff continues to work on a group of other topics which may later become the subjects of Cost Accounting Standards. Among the more significant in this group are the following:

- a. Allocation of Selling and Marketing Costs
- b. Accounting for Intracompany Transfers
- c. Accounting for the Impact of Inflation
- d. Costs of Government-owned Facilities used for Commercial Purposes
- e. Accounting for Costs of Intangible Capital Assets

OTHER PROMULGATIONS

The Board's primary activity is the preparation of Cost Accounting Standards to increase uniformity and consistency. The Board, during 1977, has also issued other important materials which are summarized below.

RESTATEMENT OF OBJECTIVES, POLICIES, AND CONCEPTS

In May 1977, the Board issued a "Restatement of its Objectives, Policies, and Concepts." This publication, like the one issued in March 1973, is intended to make known the current views of the Board so that interested persons will be better able to focus on the complex and difficult issues which the Board faces in promulgating Cost Accounting Standards. The May 1977 Restatement discusses the Board's objectives in implementing P.L. 91-379. It deals with uniformity, consistency, allowability and allocability, fairness, and verifiability.

The Restatement also sets forth in considerable detail the cost allocation concepts used by the Board in developing Standards. It establishes that the Board will adhere to the concept of full costing

whenever appropriate. Under the full costing concept, all costs of a period, including general and administrative expenses are allocated to the work of the period. The cost allocation concepts also include the characteristics of costs which are to be directly identified with contracts and other final cost objectives. Costs which do not have these characteristics, in accordance with these concepts, should be grouped into logical and homogeneous expense pools for allocation to contracts and other cost objectives in accordance with a hierarchy of preferable allocation techniques.

The publication explains the Board's operating policies with respect to (1) the relationships with other authoritative bodies, (2) methods for converting from preexisting cost accounting practices to practices required by new Standards, (3) applicability of Standards to nondefense contracts, (4) the contractor's ability to deal with a single contracting officer concerning all cost accounting matters, (5) the responsibilities of the Board and the contracting agencies, (6) interpretations, and (7) exemptions and waivers.

The document also contains a restatement of the process the Board uses in developing Standards. This subject is also dealt with on pages 2, 3 and 4 of this Progress Report.

MATERIALITY

The Board has always recognized that the administration of its rules, regulations and Cost Accounting Standards must be reasonable. One aspect of reasonableness is to avoid undue attention to insignificant amounts of cost. In 1973 the Board published its views on the criteria which should be considered in determining whether an item of cost was immaterial. Representatives of contractors expressed general approval of the concepts, but urged that the publication be given official regulatory status. At the end of 1975 the Board's materiality criteria were republished in the Federal Procurement Regulations. Contractors, however, continued to feel that contract administrators devoted unwarranted

attention to relatively minor matters in connection with compliance with the Board's promulgations. During 1977 the Board continued to consider the practical problems encountered in applying Standards. The Board became convinced that further guidance concerning materiality could facilitate the implementation and administration of Board pronouncements.

In February 1977 the Board published for comment a proposed amendment to the Board's regulations. Those who responded felt generally that the proposed materiality criteria were a necessary, positive, and useful step. The Board modified the proposed amendment in response to a number of suggestions received from commentators, and the final amendment was promulgated in September 1977.

The Board's regulations now include not only a specific set of criteria for determining whether amounts of cost are material or immaterial but also guidance with respect to the impact of materiality on contract price adjustments related to compliance with Board pronouncements.

DEFINITION OF "COST ACCOUNTING PRACTICE"

In February 1977 the Board published for comment a proposed amendment to its regulations to define the terms "cost accounting practice" and "change to either a disclosed cost accounting practice or an established cost accounting practice" as these terms are used in contract administration. The proposal also included definitions and illustrations designed to assist those who must apply the regulations in specific business situations. After review of the comments received from interested parties the Board has proposed a further change in the terms of the contract clause which apply to changes of cost accounting practice. The revised proposal was published in October 1977.

EFFECTIVENESS OF BOARD PROMULGATIONS

AGENCY REPORTS

Federal agencies report to the Board, each year, on the effectiveness of its

promulgations. Twenty-two agencies submitted reports for calendar year 1976. These reports are used by the Board to assess the effectiveness of its promulgations and to identify problem areas that indicate the need for new or revised Standards, rules and regulations.

Adequacy of Disclosure Statements

Agencies reported that reviews were performed during the year to assure that the initial submissions, required by Board regulations, of 160 Disclosure Statements by contractors were accurate, current, and complete. Similar reviews were performed on changes in accounting practices proposed by contractors affecting 442 Disclosure Statements. The reports show that 99 Disclosure Statements and proposed changes were returned by contracting officers because of inadequate descriptions of cost accounting practices.

Failure to Follow Disclosed Practices and to Comply with Standards

Public Law 91-379 provides that contractors are required to follow their disclosed practices and to comply with Cost Accounting Standards in pricing contract proposals and in accumulating and reporting contract performance cost data. If there are increased costs to the Government due to failure to comply with disclosed practices or Standards, contractors are required to repay to the Government the increased costs, with interest. Agency reports for calendar year 1976 indicates the following status of contracting officer noncompliance determinations dealing with failure to follow disclosed practices and violations of promulgated Standards:

<u>Noncompliance Determinations</u>	<u>Total</u>
Unresolved, January 1, 1976	208
Issued during year	<u>494</u>
	702
Less resolved during year	<u>412</u>
Unresolved, December 31, 1976	<u><u>290</u></u>

General Evaluation of Promulgations

The general evaluation of Board promulgations as reported by agencies is summarized below. These reports are being studied by the Board.

1. *Contractor Proposals* – Several agencies reported that more detailed and accurate reporting data is being submitted in contract proposals thereby increasing confidence in the accuracy of the proposals. One agency stated:

The effect of greater uniformity and consistency is reflected among contractors' proposals. As a result of CAS requirements, many contractors have corrected their practices of proposing certain costs direct on some proposals and including similar costs in overhead on others.

2. *Cost Estimation* – The agencies reported observing greater visibility of cost and pricing data in cost proposals. One agency stated:

The CASB promulgations have caused all Government procurement functions to be more aware of the contractor's accounting practices and how they influence equitable cost distributions among Government contracts. In the surveillance of the contractor's accounting system, overall improvement to the contractor's proposals, cost estimating, contract negotiations, and contract administration is evident.

3. *Contract Negotiation* – Several agencies reported on the effect of Standards on contract negotiation. One agency stated:

The promulgation of a Standard of the type of CAS 414 has made negotiations more complex.

Another agency stated:

Negotiation periods have been shortened.

4. *Contract Administration* – Several agencies reported on the effect of Standards, rules and regulations in the administration of contracts. One agency stated:

Contract administration time has increased over that which we experienced in CY 1975. This additional effort involved the interpretation and

administration of CAS 410 and 414.
Another agency stated:

Disclosure Statement requirements and issued Standards have provided increased awareness of the contractor's cost accounting and estimating practices. This is beneficial to Contract Administration personnel in the analysis and negotiation of overhead rates and in assessing the impact of cost decisions.

5. Audits of Contract Proposals and Incurred Costs – The Defense Contract Audit Agency reported that Cost Accounting Standards continue to be a valuable resource in the conduct of initial pricing reviews and incurred cost audits in that CAS provides the auditor with (a) a statutory basis for supporting questioned cost allocation, (b) greater visibility into a contractor's accounting practices, and (c) firm guidelines for treating certain costs which contractors previously accounted for in various ways.

* * * * *

The reports from the agencies also contained comments and suggestions regarding CASB promulgations to (a) improve their effectiveness, (b) facilitate the conduct of negotiations, (c) facilitate the effectiveness of the procurement functions, and (d) facilitate the effectiveness of the audit function. These comments and suggestions are being studied by the Board.

EVALUATION CONFERENCE

As noted in an earlier section of this report, the Board considers the continuing review of its Standards, rules and regulations to be an important part of the process of developing Cost Accounting Standards. Annual Reports received from Government agencies are valuable to the Board. The Board also invites representatives of Government agencies, defense contractors and professional and industry associations to Board meetings from time to time. The discussions may relate to particular concerns of those who are invited or their general reactions to and evaluations of

Board promulgations. Views on promulgated Standards and regulations are also received from interested parties at Evaluation Conferences held for this purpose.

During 1977, arrangements were made for an Evaluation Conference to be held in October 1977 in Reston, Virginia. The Conference was attended by about 300 persons. The Board received 26 written responses to its invitation for comments. At the Conference, oral presentations were made by the representatives of five professional accounting associations, one public accounting firm, four industry associations, four contractors, and one Government agency. The Board also heard extemporaneous remarks from several individuals at the Conference.

This Evaluation Conference was held after the end of the period covered by this report. The Board is considering the suggestions received.

EXEMPTIONS AND WAIVERS

EXEMPTIONS

During the past year the Board completed its study on the matter of further exemptions from its Standards, rules and regulations. A proposed modification to the Board's regulation was published in the FEDERAL REGISTER of February 16, 1977, with a request for comments. Over 125 written comments were received and after consideration of these comments, the Board published amendments to its regulations in the FEDERAL REGISTER of September 12, 1977. The amended regulations will become effective in early 1978. In summary the Board's action results in the following:

1. None of the Board's requirements apply to a business unit unless it has received an award of at least one covered contract of more than \$500,000. Thereafter covered contracts of more than \$100,000 are subject to the Board's requirements.

2. Contracts awarded to any business unit which received less than \$10 million in awards of covered contracts in its

preceding cost accounting period are subject to:

(a) Standards 401 and 402, if the dollar amount of such awards is equal to less than 10 percent of the business unit's total sales during that period; or

(b) All Standards, if the dollar amount of such awards is equal to 10 percent or more of the business unit's total sales during that period.

3. Any single award of a covered contract of \$10 million or more is subject to all Standards and requires submission of a Disclosure Statement.

4. Contracts awarded to any business unit which received \$10 million or more in awards of covered contracts during the preceding cost accounting period are subject to all Standards.

5. Notwithstanding the foregoing, all businesses which qualify as small business concerns under the rules and regulations of

the Small Business Administration are exempt from all Cost Accounting Standards Board requirements.

A formal request was received from the Federal Republic of Germany that an exemption be established for all contracts and subcontracts awarded to German concerns. Several meetings have been held to explore this matter, and the Board still has the request under consideration.

WAIVERS

The Board's regulations provide that a waiver may be granted for a particular contract or subcontract from all or a portion of the requirements of the Cost Accounting Standards Board's rules, regulations and Standards if the Board determines there is adequate justification. During the past year the following requests for waivers have been acted on by the Board.

WAIVERS GRANTED

<u>Agency</u>	<u>Contractor</u>	<u>Requirement</u>	<u>Amount</u>
USN	Ministry of Defence (U.K.)	Pegasus Engine Support Program for FY 7T and FY 77	\$ 3,850,000
USN	Ministry of Defence (U.K.)	Harrier Aircraft, Documentation and Support	25,635,000
USAF	Ladish Co.	Forgings	*

*A waiver was granted authorizing use of a modified CAS clause in contracts and subcontracts awarded to Ladish Co. for two years. The modification would delete the requirement to apply new Standards on existing contracts.

In addition to the overall waiver actions, the Board has provided in its regulations that under certain circumstances the head of a procurement agency may waive the requirement that a Disclosure Statement be submitted. Waiver action by the agency

head must be reported to the Board within 30 days. During the past year the Board has been notified that the requirement for the submission of the Disclosure Statement has been waived in the following contractual action.

<u>Agency</u>	<u>Contractor</u>	<u>Requirement</u>	<u>Amount</u>
USAF	Delco-Remy, Division of General Motors Corporation	Batteries	\$588,000

BUDGET ESTIMATES

For fiscal year 1977, the Congress appropriated \$1,700,000 for the operation of the Board. Of this amount \$1,611,000 was obligated and the remainder, \$89,000, lapsed on June 30, 1977.

The Board was appropriated \$1,837,000 for fiscal year 1978. Most of the \$137,000

increase over fiscal year 1977 was to cover Federal pay increases.

A comparative schedule of accrued expenditures, obligations incurred, and amounts appropriated for fiscal years 1976 through 1978 is shown below. The schedule includes amounts for the transition quarter at the end of fiscal year 1976.

Schedule of Accrued Expenditures Obligations Incurred, and Amounts Appropriated

	<u>1976</u> <u>Actual</u>	<u>TQ</u> <u>Actual</u>	<u>1977</u> <u>Actual</u>	<u>1978</u> <u>Estimated</u>
	—————(thousands of dollars)—————			
Accrued expenditures:				
Personnel compensation	\$1,045	\$273	\$1,145	\$1,292
Personnel benefits	90	22	98	97
Travel and transportation	51	5	57	70
Rent, communications and utilities	112	4	131	148
Printing and reproduction	12	1	9	13
Other services	105	34	69	165
Supplies and materials	5	1	5	6
Equipment	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
Total accrued expenditures	1,421	341	1,515	1,792
Adjustment for undelivered orders	<u>36</u>	<u>12</u>	<u>96</u>	<u>45</u>
Total obligations incurred	1,457	353	1,611	1,837
Unobligated balance	<u>178</u>	<u>57</u>	<u>89</u>	<u>—</u>
Total appropriation	<u><u>\$1,635</u></u>	<u><u>\$410</u></u>	<u><u>\$1,700</u></u>	<u><u>\$1,837</u></u>

APPENDIX A
**BACKGROUNDS OF COST
ACCOUNTING
STANDARDS BOARD**

THE BOARD

STAATS, Elmer B., Chairman

Elmer B. Staats is Comptroller General of the United States. He was appointed to that position by President Johnson on March 8, 1966, after 26 years' service in the Federal Government. Mr. Staats joined the Bureau of the Budget in 1939 serving in various capacities prior to his appointment by President Truman as Deputy Director in 1950. He served in that position under Presidents Truman, Eisenhower, Kennedy and Johnson. Mr. Staats is a native of Kansas and a graduate of McPherson College, McPherson, Kansas. He has an M.A. degree from the University of Kansas and a Ph.D. degree from the University of Minnesota. He was a fellow of the Brookings Institute from 1938 to 1939, is a member of Phi Beta Kappa, an honorary member of Alpha Kappa Psi, and received the Rockefeller Public Service Award in 1961. Mr. Staats received distinguished service awards from the University of Kansas (1966) and the University of Minnesota (1964) and honorary degrees from the George Washington University, McPherson College, Duke University, and the University of South Dakota. He is currently serving on the Board of Trustees of American University in Washington and McPherson College in Kansas.

BEVIS, Herman W., Member

Mr. Bevis served with Price Waterhouse & Co., Certified Public Accountants, from 1933 to 1969 and was Senior Partner from 1961. Mr. Bevis was Executive Director of the Banking and Securities Industry Committee, 1970-1974. He is a member of the New York State Society of Certified Public Accountants and the American Institute of Certified Public Accountants;

he was formerly a member of the Institute's Accounting Principles Board. Mr. Bevis of Greenwich, Connecticut, served as a member of the President's Task Force on Improving the Prospects of Small Business which reported to the President in March 1970. He was a consultant in financial management for the United States Air Force from 1952 to 1958. He is a graduate of Southwestern at Memphis and the Harvard Graduate School of Business Administration and is the author of numerous books and articles on accounting and financial management.

MAUTZ, Robert K., Member

Mr. Mautz is a partner in the firm of Ernst & Ernst, Certified Public Accountants. He was formerly Weldon Powell Memorial Professor of Accountancy at the University of Illinois where he taught accounting from 1948 to 1972. Mr. Mautz of Rocky River, Ohio, is a member of the American Institute of Certified Public Accountants and has served on its Council of Committees. He has served as a President of the American Accounting Association and as editor of its *Accounting Review* from 1958 to 1961. He is a graduate of the University of Illinois and is the author of many books and articles on accounting.

WACKER, Fred P., Member

Mr. Wacker, Assistant Secretary of Defense (Comptroller), joined the Department of the Navy as a management intern in 1951. He has served continuously with the Department of Defense since that time. A native of Washington, D.C., he was graduated magna cum laude with a bachelor of Arts degree in Economics from American University. He also holds a Master of Arts degree in Financial Management from George Washington University. He was sworn in as a member of the Board on April 25, 1977.

WALKER, John M., Member

Before joining Texas Instruments, Mr. Walker served in the United States Navy

and with Westinghouse Electric Company. Mr. Walker joined Metals and Controls Inc. in 1955 and served as Assistant to the Treasurer. In 1959, Metals and Controls merged with Texas Instruments, and Mr. Walker became Operations Controller in 1962, an officer of TI and Controller in 1966, and Vice President and Controller in 1967. Mr. Walker of Dallas, Texas, is a member of the Financial Executives Institute. He is a graduate of the Georgia Institute of Technology and the Harvard Graduate School of Business Administration.

PROFESSIONAL STAFF

ABEL, Rein

Mr. Abel comes to the Cost Accounting Standards Board from the Wharton School of the University of Pennsylvania where he served as an assistant professor of accounting. His prior work experience includes several years with a national public accounting firm and some industrial cost accounting experience in England. Mr. Abel has a B.Sc. (Econ.) degree from the London University, a Diploma in Business Administration from the London School of Economics and M.B.A. and Ph.D. degrees from the Columbia University, where he was elected to Beta Gamma Sigma. He is a member of the American Accounting Association, American Institute of Certified Public Accountants, New York State Society of Certified Public Accountants, Pennsylvania Institute of Certified Public Accountants and the Institute of Cost and Management Accountants (U.K.).

ADAMS, Clark G.

Mr. Adams, an attorney, has a broad and comprehensive background in contract administration within the aerospace industry. He worked most recently with the Rockwell International Corporation where he directed the contracts management activities for the corporation's Los Angeles division and held the position of Director of Contracts Management. Mr. Adams was directly responsible for the negotiation and

administration of contracts for the B-70 and B-1 aircraft. Mr. Adams received his B.S. in Law and J.D. degrees from the University of Utah. He is also active in the National Contract Management Association, having been its president in 1966; he was recently elected an Honorary Life Member and serves with its Board of Advisors.

ANDERSON, Lane K.

Mr. Anderson comes to the Cost Accounting Standards Board from Brigham Young University where he served as an assistant professor of accounting. He was previously on the staff of the public accounting firm of Arthur Andersen & Co. Mr. Anderson received B.S. and Masters of Accountancy degrees from Brigham Young University and M.B.A. and Ph.D. degrees from the University of Wisconsin-Madison. He is a Certified Public Accountant and a member of the American Accounting Association, the American Institute of Certified Public Accountants, the Association of Government Accountants, the Association for Systems Management, and the National Association of Accountants. He is the author of several articles on management/cost accounting and on financial information systems.

BELL, Elmer S.

Mr. Bell comes to the Cost Accounting Standards Board from the aerospace industry where he held various positions of increasing responsibility. His last position was Assistant Controller of TRW Systems Group, Redondo Beach, California, where he participated in negotiations of overhead rates with Government representatives. Mr. Bell received a B.A. degree in Business Administration and Accounting from Chapman College, Orange, California. He has attended the Graduate School of the University of California at Los Angeles. Mr. Bell is a member of the Association of Government Accountants.

BODENHEIMER, Bertold

Mr. Bodenheimer brings to the Cost Accounting Standards Board extensive experience in the contract auditing field. He worked as a Contract Auditor and an Assistant Branch Chief of the Air Force Auditor General's Office and was a Project Manager of the Defense Contract Audit Agency (DCAA). Most recently, Mr. Bodenheimer was DCAA's representative to, and served as Chairman of, the ASPR, Part 2, Section XV, Standing Subcommittee. This subcommittee is responsible for developing principles and procedures for use in supply and research contracts with commercial organizations. Mr. Bodenheimer received a B.S. Degree in Accounting from the University of Maryland. In 1969, he attended the Executive Seminar Center, Kings Point, New York.

BRUNNER, James J.

Mr. Brunner brings to the Cost Accounting Standards Board extensive experience in the field of Government contract accounting in the aerospace industry. While with Rockwell International Corporation (formerly North American Rockwell) he served as Controller at several divisions, with his last position being Vice President-Finance of the Los Angeles Division. Mr. Brunner has also had broad financial and administrative responsibilities with other non-aerospace companies. Mr. Brunner has a B.S. degree in Accounting and an M.B.A. in Finance from the University of Southern California. He is a member of the National Association of Accountants.

DELMORE, John R.

Before entering Government service, Mr. Delmore had several years' experience with the public accounting firm of Arthur Andersen & Co., and as Chief Accountant and Controller in private industry. With the Government, before joining the Board, Mr. Delmore was an Assistant Director, General Accounting Office; Assistant Commissioner, Public Housing Administration; Director

of Audits, Department of Commerce; and Special Assistant to the Assistant Controller for Auditing, Atomic Energy Commission. Mr. Delmore has a B.S. degree in Business Administration from Marquette University where he was elected to Beta Alpha Psi, Beta Gamma Sigma, and Alpha Sigma Nu. He also graduated from the Federal Executives Institute. He is a member of the American Institute of Certified Public Accountants, the Wisconsin Society of Certified Public Accountants, and the American Accounting Association.

DiGUISEPPI, James L.

Mr. DiGuseppi was formerly an Associate Director in the Defense Division of the General Accounting Office (GAO). In that capacity, he was responsible for planning, directing, and carrying out GAO's accounting and auditing functions including contract examination in the Department of the Navy. Subsequently, his responsibilities were broadened to cover all of GAO's activities involving manpower matters in the Department of Defense. Mr. DiGuseppi received a B.S. degree in Accounting from Bucknell University, undertook graduate studies at the American University, and attended the Program for Management Development at the Graduate School of Business Administration, Harvard University. He is a member of the American Institute of Certified Public Accountants and the Association of Government Accountants.

FUKUDA, Albert N.

Mr. Fukuda has had extensive experience as an auditor with the Army Audit Agency and later with the Defense Contract Audit Agency (DCAA). In August 1968, he was assigned as a Special Assistant to the Deputy Director of DCAA. In this role, Mr. Fukuda was responsible for performing research for and rendering assistance to the General Accounting Office team studying the feasibility of developing uniform Cost Accounting Standards. Mr. Fukuda received a B.S. degree in Accounting from

Kwanseigakuin University, Japan, and an A.B. degree in Accounting from San Francisco State College. He is a member of the American Institute of Certified Public Accountants and the Association of Government Accountants.

HELLENTHAL, Alverne S.

Prior to coming to the Cost Accounting Standards Board, Mrs. Hellenthal was Treasurer and Corporate Controller of Rocket Research Corporation, Redmond, Washington. In this capacity, she was for many years deeply involved in cost accounting for defense contracts and was responsible for all financial functions of the company and its subsidiaries. She has also had broad finance and management responsibilities in commercial and service firms. Mrs. Hellenthal received a B.A. degree in Accounting from the University of Washington, where she was elected to Beta Gamma Sigma, and an M.B.A. degree in Finance from Seattle University. She is a member of the Financial Executives Institute, the National Association of Accountants, the American Society of Women Accountants, the Association of Government Accountants, and Executive Women in Government.

LI, David H.

Mr. Li comes to the Cost Accounting Standards Board from the University of Washington where he served as a Professor of Accounting. He received a B.A. degree in Economics from St. John's University, Shanghai, and an M.B.A. degree in Industrial Management from the Wharton School, University of Pennsylvania. His doctoral work at the University of Illinois included a dissertation on approaches to uniformity in accounting for industrial enterprises. He held controllership and research positions with industrial, service, and educational organizations, and was on the audit staff of two national public accounting firms. He is a member of the American Accounting Association, American Institute of Certified Public Accountants,

Association of Government Accountants, and National Association of Accountants. He is the author of four books and many articles on management/cost accounting and on computerized information systems.

McCLENON, Paul R.

Mr. McClenon has had diverse experience in the accounting, analytical, and academic fields. Prior to coming to the Cost Accounting Standards Board, he was a Senior Cost Analyst for the Rand Corporation of Santa Monica, California. Mr. McClenon had diversified experience with Government agencies and with a national public accounting firm. Mr. McClenon has an A.B. degree in Public Administration from the George Washington University and an M.B.A. degree in Accounting from the Wharton School of Finance, University of Pennsylvania. He is a member of Phi Beta Kappa and belongs to Accountants for the Public Interest, the American Accounting Association, the American Institute of Certified Public Accountants, and the Pennsylvania Institute of Certified Public Accountants.

McCORMICK, J. Jett

Mr. McCormick, an attorney, has a broad background in contract management in the defense industry. Before coming to the Cost Accounting Standards Board, he was with General Dynamics Corporation, where he was Director of Contracts at its Pomona Division, responsible for contracts, pricing, and legal activities. Prior to that, he was Director of Contracts and Material for its Dynatronics Operation. He has also been with the Navy Office of General Counsel. He received an A.B. degree from Princeton University and a J.D. degree from the University of Virginia. He has been admitted to practice in Virginia.

MINKIN, Noah

Prior to joining the staff of the Cost Accounting Standards Board, Mr. Minkin was an Attorney-Advisor for the U.S.

Postal Service. He has held legal positions in other Government agencies, including the Department of Defense and the General Services Administration. Mr. Minkin has a B.S. degree and an L.L.B. degree from the University of Wisconsin. Mr. Minkin was selected for the Wisconsin Law Review and had a Research Fellowship in Public Utility Law. He is a member of the Wisconsin State Bar Association and was admitted to practice before the Wisconsin Supreme Court and the U.S. District Court, Western District, Wisconsin.

PEARLMAN, Gary N.

Mr. Pearlman comes to the Cost Accounting Standards Board from the University of Maryland, where he recently received a B.S. degree in Accounting. He is a member of Beta Alpha Psi and the Association of Government Accountants.

ROSEN, Louis I.

Mr. Rosen comes to the staff from the University of Maryland, where he served as an instructor in Accounting. He received a B.S. degree in Accounting, an M.B.A. degree in Management and a D.B.A. in Accounting from the University of Maryland. Mr. Rosen has also received a J.D. degree from the University of Maryland School of Law. He is a member of Beta Gamma Sigma and Beta Alpha Psi and belongs to the American Institute of Certified Public Accountants, the Maryland Association of Certified Public Accountants, and the Association of Government Accountants. In June 1976 Mr. Rosen received the Association of Government Accountants' Special Achievement Award. He is also a member of the Bar of the State of Maryland.

SACKS, Bernard

Mr. Sacks was formerly an Assistant Director in the Civil Division of the General Accounting Office (GAO). He was responsible for all of the accounting and auditing work for GAO in the Department of

Transportation, and immediately prior to coming to the Cost Accounting Standards Board, was in charge of GAO's work at the Department of Agriculture. Mr. Sacks attended Cornell University and the University of West Virginia. He received a B.B.A. degree in Accounting from the City University of New York and did graduate work at New York University. Mr. Sacks belongs to the American Institute of Certified Public Accountants, the Association of Government Accountants, and the Interprofessional Pension Actuarial Advisory Group.

SCHOENHAUT, Arthur

Mr. Schoenhaut brings to the Cost Accounting Standards Board (CASB) outstanding experience in accounting. From 1967 until accepting the position as CASB Executive Secretary in April 1971, he was Deputy Controller of the Atomic Energy Commission. Prior to that time, he was with the General Accounting Office serving as Deputy Director of its Civil Division from 1964 until 1967. Mr. Schoenhaut received his B.B.A. degree from the City University of New York, attended the Graduate School of Education of New York University, and is a graduate of the Advanced Management Program of the Harvard Graduate School of Business. He is an honorary member of Beta Alpha Psi, and received the Distinguished Leadership Award from the Federal Government Accountants Association in 1974. Mr. Schoenhaut is a Certified Public Accountant and a member of the American Institute of Certified Public Accountants and the Association of Government Accountants. He is the National President-Elect of the latter organization.

SHAPIRO, Nelson H.

Mr. Shapiro brings to the Board a variety of backgrounds in accounting. He was most recently with the public accounting firm of Peat, Marwick, Mitchell and Co., and, as manager in the Dallas Office, provided consulting service to Government contractors. Prior to his association with Peat,

Marwick, Mitchell, he spent 7 years with audit agencies of the Federal Government. Prior to his Federal service, Mr. Shapiro was Treasurer and Controller of the General Automatic Products Corporation in Baltimore, Maryland. Mr. Shapiro was graduated from the University of Baltimore with a B.S. degree in Accounting. He is a member of the American Institute of Certified Public Accountants, the Maryland Association of Certified Public Accountants, and the Association of Government Accountants, where he is President of the Montgomery-Prince Georges Chapter.

SJOSTEN, Stanley M.

Mr. Sjosten brings to the Cost Accounting Standards Board industry experience in Government contract accounting. For many years he was Comptroller of Melpar, Inc. His most recent employment in industry was as a consultant for the M-R Division (formerly Melpar Division) of American Standard, Inc. He also did consultant work for the Aerospace Industries Association of America, Inc., and was employed by the National Security Industrial Association as Project Director of that Association's widely distributed Defense Acquisition Study. While the General Accounting Office (GAO) feasibility study was being developed, he was a member of the Council of Defense and Space Industry Associations' task group on Uniform Cost Accounting Standards, established to provide industry viewpoints to GAO. Mr. Sjosten received a B.B.A. degree in Accounting from the University of Minnesota, where he was elected to Beta

Gamma Sigma. He is a member of the National Association of Accountants.

STRAITH, Robert S.

Mr. Straith brings to the Board the wide range of experience which he obtained in 14 years of diversified professional management consulting with national firms of CPAs. Prior to entering the consulting profession, Mr. Straith held responsible accounting and controllership positions in the automotive and in the mortgage-banking industry. Mr. Straith has B.B.A. and M.B.A. degrees from the University of Michigan where he was elected to membership in Beta Gamma Sigma and Phi Kappa Phi. Mr. Straith is both a CPA and a Registered Professional Industrial Engineer. He is a member of the American Accounting Association, the American Institute of Industrial Engineers, the California Society of Certified Public Accountants, and the American Institute of Certified Public Accountants.

YOCUM, Harry F., Jr.

Prior to coming to the Cost Accounting Standards Board, Mr. Yocum was a programmer-analyst for Westinghouse Tele-Computer Systems Corporation at the Atomic Energy Commission. He was responsible for the programming, analysis, maintenance and operation of major systems in the budget and financial areas of operations. Mr. Yocum attended Villanova University and received a B.S. degree in Business Administration from the University of Maryland. He is a member of the Association for Computing Machinery.

APPENDIX B

MAJOR RULES, REGULATIONS AND COST ACCOUNTING STANDARDS PROMULGATED BY THE COST ACCOUNTING STANDARDS BOARD AS OF SEPTEMBER 30, 1977

Description	Effective Date
1. Contract Clause	July 1, 1972
2. Disclosure Statement	July 1, 1972
3. Disclosure Statement – Lowering floor for filing to new awards of \$10 million	April 1, 1974
4. Minimum amount for covered contracts increased from \$100,000 to \$500,000	January 1, 1975
5. Modified coverage for certain classes of business units	March 10, 1978
6. Criteria for Materiality	October 4, 1977
7. Standard 401 – Consistency in Estimating, Accumulating and Reporting Costs	July 1, 1972
8. Interpretation No. 1 to Standard 401	July 1, 1972
9. Standard 402 – Consistency in Allocating Costs Incurred for the Same Purpose	July 1, 1972
10. Interpretation No. 1 to Standard 402	July 1, 1972
11. Standard 403 – Allocation of Home Office Expenses to Segments	July 1, 1973
12. Standard 404 – Capitalization of Tangible Assets	July 1, 1973
13. Standard 405 – Accounting for Unallowable Costs	April 1, 1974
14. Standard 406 – Cost Accounting Period	July 1, 1974
15. Standard 407 – Use of Standard Costs for Direct Material and Direct Labor	October 1, 1974
16. Standard 408 – Accounting for Costs of Compensated Personal Absence	July 1, 1975
17. Standard 409 – Depreciation of Tangible Capital Assets	July 1, 1975
18. Standard 410 – Allocation of Business Unit General and Administrative Expenses to Final Cost Objectives	October 1, 1976

Description	Effective Date
19. Standard 411 – Accounting for Acquisition Costs of Material	January 1, 1976
20. Standard 412 – Composition and Measurement of Pension Cost	January 1, 1976
21. Standard 413 – Adjustment and Allocation of Pension Cost	March 10, 1978
22. Standard 414 – Cost of Money as an Element of the Cost of Facilities Capital	October 1, 1976
23. Standard 415 – Accounting for the Cost of Deferred Compensation	July 10, 1977

APPENDIX C

AGGREGATED DISCLOSURE STATEMENT RESPONSES

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INTRODUCTION

This annual report of "Aggregated Disclosure Statement Responses" includes responses contained in all Statements and revisions that were received by the Board from the inception of reporting in July 1972 through September 30, 1977, and that were still in effect on the latter date.

Included in this report for the first time is a table showing the allocation bases of all Independent Research and Development costs (IR&D) and Bid and Proposal costs (B&P). In prior reports this type of information was shown only for separately pooled IR&D and B&P costs. Another change in the present report is the expansion of tables on pension and other deferred compensation plans to permit analysis of this type of information by company size expressed in terms of total annual sales groupings.

Except for the tables on deferred compensation plans, coverage of detailed tables is limited to units owned and operated by profit-oriented contractors; that is, Government-owned-and-operated (GOCO) facilities, educational and not for profit institutions, and intra-company service support organizations are excluded. In addition, the deferred compensation data refer to the number of different pension and incentive payment plans rather than the number of units reporting. Because of incomplete replies and duplication, this report continues to exclude data contained in Disclosure Statement Part VI, Other Costs and Credits and the Insurance Costs section of Part VII.

Each response to a question permitting more than one reply has been tabulated separately. Multiple responses to a single question frequently occur because a profit center or business unit may engage in a variety of activities or functions. For example, a unit primarily engaged in manufacturing activities, but also performing development work, might employ a standard cost-process accounting system for manufacturing functions and an actual cost-job order system for the development work.

Users of the data in this report will find it helpful to refer to the Disclosure Statement for the precise wording of the question or instructions to the respondent. Headnotes in the upper right corner of each table indicate the item number that is the source for the table.

It should be noted that while the Disclosure Statement provides useful statistical information, its principal purpose is to furnish procurement and audit personnel with a tool to help them understand what cost accounting practices contractors plan to follow and to help assure consistency in estimating and accounting for the cost of Government contracts.

Number and Types of Respondents

In the 18-month period from April 1, 1976 through September 30, 1977, an additional 43 companies and institutions filed 89 Statements with the Board. This compares with 19 companies which filed 44 Statements in the year ended March 31, 1976. In addition to the longer time interval, increased reporting was attributable to the change in reporting criteria requiring defense subcontracts as well as prime contracts to be counted in the \$10 million threshold. Companies already in the file at the beginning of the current 18-month period submitted 90 Statements for units not previously reported, and cancelled 29 Statements of previously reported units. The net effect of these transactions for the period April 1, 1976 to September 30, 1977 was to increase the number of active companies and institutions in the CASB file from 177 to 219 and the number of active Statements from 1,338 to 1,488 (Table 1).

Of the 1,488 active Statements, 1,446 were submitted by profit-oriented companies, and covered 1,036 operating and 410 home office units. Excluding the 45 GOCO and 24 intra-company service support facilities from the operating unit count provides the 967 units which are the basis for all detailed tables in this report except Tables 22 and 23 on deferred compensation.

Table 2 shows that 157 profit-oriented companies filed a corporate level Statement and that 39 companies did not file such a report. Of those filing, 37 or almost 24% obtained over half of their sales from Government work, and most of these were smaller companies with total annual sales of \$100 million or less. Only 2 of the 60 companies in the over \$1 billion sales group were predominantly Government-oriented. However, many large companies with a low corporate percentage of Government sales operated business units engaged primarily in Government work. Thus, while less than one-fourth of the companies were Government oriented, 60.8% of the operating units reported Government sales in excess of 50% of their total, and a much greater proportion of the military hard goods producers depended on Government work for most of their sales: aircraft units – 67%, missiles – 100%, and electronics – 69%. Also, about 69% of the commercial R&D laboratories obtained over half their business from Government contracts (Table 3).

Composition of Tables

Table 4 contains a time series as of specified dates in the years 1974 through

1977 showing the number and percentage distribution of operating units according to the principal class of product or service sold to the Government. In 1974 when the \$30 million threshold was in effect, the aircraft, missile, and electronics units together comprised about 49% of the total number of reporting units. With the lowering of the threshold to \$10 million in subsequent years a steady decline occurred in the proportion of these groups so that they comprised about 42% of the total in 1977. Conversely, the services and construction group increased from 22% in 1974 to almost 28% in 1977.

Table 5 portrays the number of operating units according to the predominant type of sales to the Government, i.e., manufacturing, research and development (R&D), and services and construction. More than half of the R&D and services reporting units had annual total sales of \$10 million or less, compared to about 28% for manufacturing units. Almost 39% of the R&D units and 44% of the services group depended on Government business for more than 95% of their sales, whereas only about 19% of the manufacturing units were dependent to this extent.

1. NUMBER OF DISCLOSURE STATEMENTS
AS OF MARCH 31, 1974, 1975 AND 1976, AND SEPTEMBER 30, 1977

Type of Unit	As of			
	March 31, 1974	March 31, 1975	March 31, 1976	September 30, 1977
A. Units of All Companies				
Receipts cumulative through end of period	1,006	1,296	1,407	1,586
Cancellations through end of period	<u>8</u>	<u>25</u>	<u>69</u>	<u>98</u>
Active as of end of period	998	1,271	1,338	1,488
B. Active Units of All Companies – Total				
Operating Units – Total	<u>739</u>	<u>934</u>	<u>974</u>	<u>1,068</u>
Contractor-owned-and-operated	686	868	903	991
Intra-company service support	14	19	20	24
Government-owned-contractor-operated	39	47	51	53
Home Office Units – Total	<u>259</u>	<u>337</u>	<u>364</u>	<u>420</u>
Parent company headquarters ^a	82	128	142	166
Subsidiary, group or division	177	209	222	254
C. Active Units of Profit-Oriented Companies – Total				
Operating Units – Total	<u>724</u>	<u>910</u>	<u>946</u>	<u>1,036</u>
Contractor-owned-and-operated	677	851	883	967
Intra-company service support	14	19	20	24
Government-owned-contractor-operated	33	40	43	45
Home Office Units – Total	<u>254</u>	<u>328</u>	<u>355</u>	<u>410</u>
Parent company headquarters ^a	78	120	134	157
Subsidiary, group or division	176	208	221	253
D. Active Units of Educational and Non-Profit Institutions – Total				
Operating Units – Total	<u>15</u>	<u>24</u>	<u>28</u>	<u>32</u>
Contractor-owned-and-operated	9	17	20	24
Government-owned-contractor-operated	6	7	8	8
Home Office Units – Total	<u>5</u>	<u>9</u>	<u>9</u>	<u>10</u>
Parent company headquarters ^a	4	8	8	9
Subsidiary, group or division	1	1	1	1

^aThe number of parent companies that did not submit a home office report, but did submit one or more Disclosure Statements for operating units was as follows:

All companies – Total	<u>12</u>	<u>32</u>	<u>35</u>	<u>53</u>
Profit oriented companies	6	23	23	39
Educational and non-profit institutions	6	9	12	14

2. PROFIT ORIENTED PARENT COMPANIES BY PERCENTAGE OF
GOVERNMENT SALES AND ANNUAL TOTAL SALES
AS OF SEPTEMBER 30, 1977

Percentage of Government Sales	Total	Annual Total Sales			
		\$100 Million or Less	\$101- \$500 Million	\$501 Million- \$1 Billion	Over \$1 Billion
<u>Number of Companies</u>					
All Companies – Total ^a	157	38	45	14	60
Less than 5%	34	1	4	3	26
5% – 10%	20	–	6	3	11
11% – 25%	36	5	16	2	13
26% – 50%	30	10	10	2	8
51% – 80%	21	11	6	2	2
Over 80%	16	11	3	2	–
<u>Percentage Distribution (Cumulative)</u>					
More than 80%	10.2%	29.0%	6.7%	14.3%	0.0%
51% or more	23.6	57.9	20.0	28.6	3.3
26% or more	42.7	84.2	42.2	42.9	16.7
11% or more	65.6	84.2	77.8	57.1	38.3
5% or more	78.3	97.4	91.1	78.6	56.7
All companies	100.0	100.0	100.0	100.0	100.0

^aIncludes only companies that submitted a home office report. The number of profit oriented companies represented in the CASB data bank was as follows on the dates specified:

<u>As of</u>	<u>Total</u>	<u>With Home Office D/S</u>	<u>Without Home Office D/S</u>
March 31, 1974	84	78	6
March 31, 1975	143	120	23
March 31, 1976	157	134	23
September 30, 1977	196	157	39

**3. OPERATING UNITS BY MAJOR CLASS OF PRODUCT OR SERVICE SOLD TO
GOVERNMENT, PERCENTAGE OF GOVERNMENT SALES AND ANNUAL TOTAL SALES^a
AS OF SEPTEMBER 30, 1977**

Major Product or Service Class and Percentage of Government Sales	Total	Annual Total Sales			
		\$10 Million or Less	\$11-\$25 Million	\$26-\$100 Million	Over \$100 Million
		<u>Number of Units</u>			
All Units – Total	967	367	200	246	154
Over 50% Government sales	588	250	126	138	74
50% or less Government sales	379	117	74	108	80
Aircraft and Parts – Total	151	41	24	47	39
Over 50% Government sales	101	33	20	26	22
50% or less Government sales	50	8	4	21	17
Missiles and Space Vehicles – Total	25	2	3	7	13
Over 50% Government sales	25	2	3	7	13
50% or less Government sales	–	–	–	–	–
Electronics – Total	232	79	49	68	36
Over 50% Government sales	161	60	29	48	24
50% or less Government sales	71	19	20	20	12
Ordnance – Total	69	22	22	19	6
Over 50% Government sales	44	15	14	13	2
50% or less Government sales	25	7	8	6	4
Instruments and Related Products – Total	51	22	12	16	1
Over 50% Government sales	28	12	9	7	–
50% or less Government sales	23	10	3	9	1
Machinery, Except Electrical – Total	57	14	18	18	7
Over 50% Government sales	16	9	4	3	–
50% or less Government sales	41	5	14	15	7
Other Transportation Equipment – Total	27	5	6	8	8
Over 50% Government sales	16	4	2	3	7
50% or less Government sales	11	1	4	5	1
Other Manufactures – Total	87	29	18	15	25
Over 50% Government sales	31	17	7	6	1
50% or less Government sales	56	12	11	9	24
Commercial R&D Laboratories – Total	77	51	11	12	3
Over 50% Government sales	53	37	11	5	–
50% or less Government sales	24	14	–	7	3
Other Services and Construction – Total	191	102	37	36	16
Over 50% Government sales	113	61	27	20	5
50% or less Government sales	78	41	10	16	11

^aContractor-owned-and-operated units of profit oriented companies.

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GENERAL
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1.4.0 and 1.6.0

Major Product or Service Class and Percentage of Government Sales	Total	Annual Total Sales			
		\$10 Million or Less	\$11-\$25 Million	\$26-\$100 Million	Over \$100 Million
		Percentage Distribution			
All Units – Total	100.0%	100.0%	100.0%	100.0%	100.0%
Over 50% Government sales	60.8	68.1	63.0	56.1	48.0
50% or less Government sales	39.2	31.9	37.0	43.9	52.0
Aircraft and Parts – Total	100.0%	100.0%	100.0%	100.0%	100.0%
Over 50% Government sales	66.9	80.5	83.3	55.3	56.4
50% or less Government sales	33.1	19.5	16.7	44.7	43.6
Missiles and Space Vehicles – Total	100.0%	100.0%	100.0%	100.0%	100.0%
Over 50% Government sales	100.0	100.0	100.0	100.0	100.0
50% or less Government sales	–	–	–	–	–
Electronics – Total	100.0%	100.0%	100.0%	100.0%	100.0%
Over 50% Government sales	69.4	76.0	59.2	70.6	66.7
50% or less Government sales	30.6	24.0	40.8	29.4	33.3
Ordnance – Total	100.0%	100.0%	100.0%	100.0%	100.0%
Over 50% Government sales	63.8	68.2	63.6	68.4	33.3
50% or less Government sales	36.2	31.8	36.4	31.6	66.7
Instruments and Related Products – Total	100.0%	100.0%	100.0%	100.0%	100.0%
Over 50% Government sales	54.9	54.5	75.0	43.8	–
50% or less Government sales	45.1	45.5	25.0	56.2	100.0
Machinery, Except Electrical – Total	100.0%	100.0%	100.0%	100.0%	100.0%
Over 50% Government sales	28.1	64.3	22.2	16.7	–
50% or less Government sales	71.9	35.7	77.8	83.3	100.0
Other Transportation Equipment – Total	100.0%	100.0%	100.0%	100.0%	100.0%
Over 50% Government sales	59.3	80.0	33.3	37.5	87.5
50% or less Government sales	40.7	20.0	66.7	62.5	12.5
Other Manufactures – Total	100.0%	100.0%	100.0%	100.0%	100.0%
Over 50% Government sales	35.6	58.6	38.9	40.0	4.0
50% or less Government sales	64.4	41.4	61.1	60.0	96.0
Commercial R&D Laboratories – Total	100.0%	100.0%	100.0%	100.0%	100.0%
Over 50% Government sales	68.8	72.6	100.0	41.7	–
50% or less Government sales	31.2	27.4	–	58.3	100.0
Other Services and Construction – Total	100.0%	100.0%	100.0%	100.0%	100.0%
Over 50% Government sales	59.2	59.8	73.0	55.6	31.2
50% or less Government sales	40.8	40.2	27.0	44.4	68.8

4. OPERATING UNITS BY CLASS OF PRODUCT OR
SERVICE SOLD TO GOVERNMENT
AS OF MARCH 31, 1974, 1975, AND 1976, AND SEPTEMBER 30, 1977

Class of Product or Service	March 31, 1974		March 31, 1975	
	Number of Units	Percent of Total	Number of Units	Percent of Total
All Units – Total	<u>677</u>	<u>100.0%</u>	<u>851</u>	<u>100.0%</u>
Aircraft and Parts – Total	<u>120</u>	<u>17.7</u>	<u>138</u>	<u>16.2</u>
Air frames	40	5.9	44	5.2
Aircraft engines and parts	41	6.1	45	5.3
Other aircraft parts	39	5.7	49	5.7
Missiles and Space Vehicles	<u>26</u>	<u>3.9</u>	<u>27</u>	<u>3.2</u>
Electronics – Total	<u>183</u>	<u>27.0</u>	<u>221</u>	<u>26.0</u>
Electronic computing equipment	22	3.2	26	3.1
Radio, TV, and detection equipment	111	16.4	134	15.7
Electron tubes	15	2.2	18	2.1
Semiconductors and related devices	14	2.1	15	1.8
Other	21	3.1	28	3.3
Ordnance – Total	<u>45</u>	<u>6.7</u>	<u>60</u>	<u>7.1</u>
Ammunition	22	3.3	34	4.0
Explosives	6	0.9	7	0.8
Guns and other	17	2.5	19	2.3
Instruments and Related Products – Total	<u>36</u>	<u>5.3</u>	<u>47</u>	<u>5.5</u>
Engineering, laboratory and research	17	2.5	17	2.0
Optical and ophthalmic	3	0.5	11	1.3
Photographic	5	0.7	6	0.7
Electric measuring and test	6	0.9	6	0.7
Other	5	0.7	7	0.8
Machinery and Equipment – Total	<u>41</u>	<u>6.0</u>	<u>54</u>	<u>6.4</u>
Engines and turbines	7	1.0	8	0.9
Motors and generators	12	1.8	11	1.3
Other	22	3.2	35	4.2
Other Transportation Equipment – Total	<u>18</u>	<u>2.7</u>	<u>20</u>	<u>2.3</u>
Shipbuilding and repair	8	1.2	10	1.2
Combat and other vehicles	8	1.2	8	0.9
Railroad and other	2	0.3	2	0.2
Other Manufactures – Total	<u>59</u>	<u>8.7</u>	<u>71</u>	<u>8.3</u>
Rubber and plastic products	11	1.6	15	1.7
Primary metal products	8	1.2	9	1.1
Fabricated metal products	18	2.7	20	2.3
Chemicals except explosives	13	1.9	14	1.7
Other	9	1.3	13	1.5
Services and Construction – Total	<u>149</u>	<u>22.0</u>	<u>213</u>	<u>25.0</u>
Commercial R&D laboratories	44	6.5	64	7.5
Business management and consulting services	17	2.5	35	4.1
Architect and engineering services	22	3.3	29	3.4
Construction	3	0.4	7	0.8
Other	63	9.3	78	9.2

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GENERAL
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Class of Product or Service	March 31, 1976		September 30, 1977	
	Number of Units	Percent of Total	Number of Units	Percent of Total
All Units – Total	<u>883</u>	<u>100.0%</u>	<u>967</u>	<u>100.0%</u>
Aircraft and Parts – Total	<u>137</u>	<u>15.5</u>	<u>151</u>	<u>15.6</u>
Air frames	43	4.9	44	4.5
Aircraft engines and parts	46	5.2	51	5.3
Other aircraft parts	48	5.4	56	5.8
Missiles and Space Vehicles	<u>25</u>	<u>2.8</u>	<u>25</u>	<u>2.6</u>
Electronics – Total	<u>224</u>	<u>25.4</u>	<u>232</u>	<u>24.0</u>
Electronic computing equipment	27	3.1	29	3.0
Radio, TV, and detection equipment	136	15.4	140	14.5
Electron tubes	18	2.0	18	1.9
Semiconductors and related devices	16	1.8	16	1.6
Other	27	3.1	29	3.0
Ordnance – Total	<u>67</u>	<u>7.6</u>	<u>69</u>	<u>7.1</u>
Ammunition	37	4.2	40	4.1
Explosives	7	0.8	7	0.7
Guns and other	23	2.6	22	2.3
Instruments and Related Products – Total	<u>48</u>	<u>5.4</u>	<u>51</u>	<u>5.3</u>
Engineering, laboratory and research	18	2.0	19	2.0
Optical and ophthalmic	11	1.2	11	1.2
Photographic	6	0.7	6	0.6
Electric measuring and test	6	0.7	5	0.5
Other	7	0.8	10	1.0
Machinery and Equipment – Total	<u>54</u>	<u>6.1</u>	<u>57</u>	<u>5.9</u>
Engines and turbines	7	0.8	8	0.8
Motors and generators	11	1.2	12	1.3
Other	36	4.1	37	3.8
Other Transportation Equipment – Total	<u>23</u>	<u>2.6</u>	<u>27</u>	<u>2.8</u>
Shipbuilding and repair	11	1.2	13	1.3
Combat and other vehicles	10	1.2	12	1.3
Railroad and other	2	0.2	2	0.2
Other Manufactures – Total	<u>75</u>	<u>8.5</u>	<u>87</u>	<u>9.0</u>
Rubber and plastic products	15	1.7	13	1.3
Primary metal products	10	1.2	15	1.5
Fabricated metal products	21	2.4	21	2.2
Chemicals except explosives	13	1.4	17	1.8
Other	16	1.8	21	2.2
Services and Construction – Total	<u>230</u>	<u>26.1</u>	<u>268</u>	<u>27.7</u>
Commercial R&D laboratories	68	7.7	77	7.9
Business management and consulting services	41	4.6	46	4.7
Architect and engineering services	32	3.6	48	5.0
Construction	9	1.0	11	1.2
Other	80	9.2	86	8.9

5. OPERATING UNITS BY PREDOMINANT TYPE OF SALES TO GOVERNMENT

Classification	Total	Predominant Type of Sales		
		Manufacturing	Research and Development	Services and Construction
A. By Annual Total Sales		<u>Number of Units</u>		
All Units - Total	967	561	189	217
\$10 million or less	367	154	95	118
\$11-\$25 million	200	123	34	43
\$26-\$50 million	141	103	22	16
\$51-\$100 million	105	67	15	23
\$101-\$200 million	60	42	8	10
\$201-\$500 million	60	46	10	4
Over \$500 million	34	26	5	3
		<u>Percentage Distribution</u>		
All Units - Total	100.0%	100.0%	100.0%	100.0%
\$10 million or less	38.0	27.5	50.3	54.4
\$11-\$25 million	20.7	21.9	18.0	19.8
\$26-\$50 million	14.6	18.4	11.6	7.4
\$51-\$100 million	10.8	11.9	7.9	10.6
\$101-\$200 million	6.2	7.5	4.2	4.6
\$201-\$500 million	6.2	8.2	5.3	1.8
Over \$500 million	3.5	4.6	2.7	1.4
B. By Percentage of Government Sales		<u>Number of Units</u>		
All Units - Total	967	561	189	217
Under 10%	167	109	23	35
10% - 50%	212	143	24	45
51% - 80%	150	109	27	14
81% - 95%	166	96	42	28
Over 95%	272	104	73	95
		<u>Percentage Distribution</u>		
All Units - Total	100.0%	100.0%	100.0%	100.0%
Under 10%	17.3	19.4	12.2	16.1
10% - 50%	21.9	25.5	12.7	20.7
51% - 80%	15.5	19.4	14.3	6.5
81% - 95%	17.2	17.1	22.2	12.9
Over 95%	28.1	18.6	38.6	43.8
C. Comparative Summary as of:		<u>Number of Units</u>		
March 31, 1974	677	409	134	134
March 31, 1975	851	507	164	180
March 31, 1976	883	524	170	189
September 30, 1977	967	561	189	217
		<u>Percentage Distribution</u>		
March 31, 1974	100.0%	60.4	19.8	19.8
March 31, 1975	100.0%	59.6	19.3	21.1
March 31, 1976	100.0%	59.3	19.3	21.4
September 30, 1977	100.0%	58.0	19.5	22.5

DIRECT COSTS
D/S Items 2.2.1,
2.2.2 and 2.3.0

6. CHARGING OF DIRECT MATERIALS TO GOVERNMENT CONTRACTS
BY PREDOMINANT TYPE OF SALES TO GOVERNMENT

Method	Total	Predominant Type of Sales		
		Manufac- turing	Research and Development	Services and Construction
A. Charged Direct to Contract				
		<u>Number of Units</u>		
All Units – Total	<u>967</u>	<u>561</u>	<u>189</u>	<u>217</u>
No direct charge to contract	124	88	4	32
Direct charge to contract by:				
One costing method	781	428	174	179
More than one costing method	62	45	11	6
		<u>Number of Responses</u>		
Costing Method Responses – Total	<u>908</u>	<u>521</u>	<u>196</u>	<u>191</u>
Actual costs	801	438	184	179
Standard costs	48	42	3	3
Other	59	41	9	9
		<u>Percentage Distribution</u>		
All Units – Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
No direct charge to contract	12.8	15.7	2.1	14.7
Direct charge to contract by:				
One costing method	80.8	76.3	92.1	82.5
More than one costing method	6.4	8.0	5.8	2.8
Costing Method Responses – Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Actual costs	88.2	84.1	93.9	93.7
Standard costs	5.3	8.0	1.5	1.6
Other	6.5	7.9	4.6	4.7
B. Charged through Company-Owned Inventory				
		<u>Number of Units</u>		
All Units – Total	<u>967</u>	<u>561</u>	<u>189</u>	<u>217</u>
No charge through inventory	281	59	61	161
Charge through inventory by:				
One costing method	558	400	107	51
More than one costing method	128	102	21	5
		<u>Number of Responses</u>		
Costing Method Responses – Total	<u>822</u>	<u>610</u>	<u>151</u>	<u>61</u>
Average costs	307	207	71	29
Standard costs	242	222	13	7
First-in-first-out (FIFO)	126	76	36	14
Last-in-first-out (LIFO)	16	9	4	3
Other	131	96	27	8

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DIRECT COSTS
D/S Items 2.2.1,
2.2.2 and 2.3.0

Method	Total	Predominant Type of Sales		
		Manufac- turing	Research and Development	Services and Construction
B. Charged through Company-Owned Inventory (Continued)				
		<u>Percentage Distribution</u>		
All Units – Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
No charge through inventory	29.1	10.5	32.3	74.2
Charge through inventory by:				
One costing method	57.7	71.3	56.6	23.5
More than one costing method	13.2	18.2	11.1	2.3
Costing Method Responses – Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Average costs	37.4	33.9	47.0	47.5
Standard costs	29.4	36.4	8.6	11.5
First-in-first-out (FIFO)	15.3	12.5	23.8	23.0
Last-in-first-out (LIFO)	2.0	1.5	2.7	4.9
Other	15.9	15.7	17.9	13.1
C. Timing of Charge to Contract				
		<u>Number of Units</u>		
All Units – Total	<u>967</u>	<u>561</u>	<u>189</u>	<u>217</u>
No direct materials charged	47	3	5	39
Direct materials charged at:				
One time only	416	212	76	128
More than one time	504	346	108	50
		<u>Number of Responses</u>		
Time-of-Charging Responses – Total	<u>1593</u>	<u>1032</u>	<u>322</u>	<u>239</u>
Invoice paid or vouchered	687	385	158	148
Material issued	500	352	104	44
Material received	141	92	28	21
Material consumed	95	80	4	7
Other	170	123	28	19
		<u>Percentage Distribution</u>		
All Units – Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
No direct materials charged	4.9	0.5	2.7	18.0
Direct materials charged at:				
One time only	43.0	37.8	40.2	59.0
More than one time	52.1	61.7	57.1	23.0
Time-of-Charging Responses – Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Invoice paid or vouchered	43.1	37.3	49.1	61.9
Material issued	31.4	34.1	32.3	18.4
Material received	8.8	8.9	8.7	8.8
Material consumed	6.0	7.8	1.2	2.9
Other	10.7	11.9	8.7	8.0

7. CHARGING OF DIRECT LABOR TO GOVERNMENT CONTRACTS
BY PREDOMINANT TYPE OF SALES TO GOVERNMENT

Method	Total	Predominant Type of Sales		
		Manufacturing	Research and Development	Services and Construction
A. Direct Manufacturing Labor		<u>Number of Units</u>		
All Units – Total	<u>967</u>	<u>561</u>	<u>189</u>	<u>217</u>
No manufacturing labor charge	284	22	92	170
Manufacturing labor charge by:				
One costing method	520	388	88	44
More than one costing method	163	151	9	3
		<u>Number of Responses</u>		
Costing Method Responses – Total	<u>859</u>	<u>703</u>	<u>106</u>	<u>50</u>
Actual (individual) rates	465	353	78	34
Average rates	129	108	14	7
Standard rates	213	199	7	7
Other	52	43	7	2
		<u>Percentage Distribution</u>		
All Units – Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
No manufacturing labor charge	29.4	3.9	48.7	78.3
Manufacturing labor charge by:				
One costing method	53.8	69.2	46.6	20.3
More than one costing method	16.8	26.9	4.7	1.4
Costing Method Responses – Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Actual (individual) rates	54.1	50.2	73.6	68.0
Average rates	15.0	15.4	13.2	14.0
Standard rates	24.8	28.3	6.6	14.0
Other	6.1	6.1	6.6	4.0
B. Direct Engineering Labor		<u>Number of Units</u>		
All Units – Total	<u>967</u>	<u>561</u>	<u>189</u>	<u>217</u>
No engineering labor charge	246	127	22	97
Engineering labor charge by:				
One costing method	647	378	154	115
More than one costing method	74	56	13	5
		<u>Number of Responses</u>		
Costing Method Responses – Total	<u>796</u>	<u>491</u>	<u>180</u>	<u>125</u>
Actual (individual) rates	558	317	135	106
Average rates	136	97	32	7
Standard rates	46	32	7	7
Other	56	45	6	5

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DIRECT COSTS
D/S Item 2.5.0

Method	Total	Predominant Type of Sales		
		Manufacturing	Research and Development	Service and Construction
B. Direct Engineering Labor (Continued)		<u>Percentage Distribution</u>		
All Units – Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
No engineering labor charge	25.4	22.6	11.6	44.7
Engineering labor charge by:				
One costing method	66.9	67.4	81.5	53.0
More than one costing method	7.7	10.0	6.9	2.3
Costing Method Responses – Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Actual (individual) rates	70.1	64.6	75.0	84.8
Average rates	17.1	19.8	17.8	5.6
Standard rates	5.8	6.5	3.9	5.6
Other	7.0	9.1	3.3	4.0
C. Other Direct Labor		<u>Number of Units</u>		
All Units – Total	<u>967</u>	<u>561</u>	<u>189</u>	<u>217</u>
No other direct labor charge	350	243	66	41
Other direct labor charge by:				
One costing method	549	272	111	166
More than one costing method	68	46	12	10
		<u>Number of Responses</u>		
Costing Method Responses – Total	<u>690</u>	<u>368</u>	<u>136</u>	<u>186</u>
Actual (individual) rates	503	249	99	155
Average rates	102	60	25	17
Standard rates	29	22	4	3
Other	56	37	8	11
		<u>Percentage Distribution</u>		
All Units – Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
No other direct labor charge	36.2	43.3	34.9	18.9
Other direct labor charge by:				
One costing method	56.8	48.5	58.7	76.5
More than one costing method	7.0	8.2	6.4	4.6
Costing Method Responses – Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Actual (individual) rates	72.9	67.7	72.8	83.3
Average rates	14.8	16.3	18.4	9.2
Standard rates	4.2	6.0	2.9	1.6
Other	8.1	10.0	5.9	5.9

DIRECT COSTS
D/S Items 2.4.1-
2.4.4 and 2.6.1-
2.6.4

8. USE OF STANDARD COSTS FOR DIRECT MATERIALS AND
DIRECT MANUFACTURING LABOR

Standard Cost Characteristic	Direct Materials		Direct Manufacturing Labor	
	Number of Units or Responses	Percentage Distribution	Number of Units or Responses	Percentage Distribution
A. All Units – Total	<u>967</u>	<u>100.0%</u>	<u>967</u>	<u>100.0%</u>
Not using standard costs	709	73.3	752	77.8
Using standard costs	258	26.7	215	22.2
B. Type of Variance for Direct Materials – Total	<u>258</u>	<u>100.0%</u>	–	–
Price only	103	39.9	–	–
Price and usage	155	60.1	–	–
C. Type of Variance for Direct Manufacturing Labor – Total	–	–	<u>215</u>	<u>100.0%</u>
Both rate and efficiency	–	–	179	83.3
Rate or efficiency	–	–	27	12.5
Other	–	–	9	4.2
D. Method of Accumulating Variance – Total	<u>295</u>	<u>100.0%</u>	<u>257</u>	<u>100.0%</u>
Plantwide	94	31.9	43	16.7
Department	30	10.2	81	31.5
Product	116	39.3	85	33.1
Contract	20	6.7	19	7.4
Other	35	11.9	29	11.3
E. Method of Disposing of Variance – Total	<u>266</u>	<u>100.0%</u>	<u>227</u>	<u>100.0%</u>
Prorated between inventory and cost of goods sold	38	14.3	36	15.9
Charged or credited to cost of goods sold	153	57.5	129	56.8
Charged or credited to overhead	24	9.0	19	8.4
Other	51	19.2	43	18.9
F. Frequency of Revising Standards – Total	<u>258</u>	<u>100.0%</u>	<u>225^a</u>	<u>100.0%</u>
Semiannually	5	1.9	1	0.4
Annually	72	27.9	67	29.8
As needed, but at least annually	142	55.1	130	57.8
Other	39	15.1	27	12.0

^aIncludes responses of units using standard costs for engineering and other direct labor.

9. TRANSFER PRICING OF MATERIALS AND SERVICES
CHARGED TO GOVERNMENT CONTRACTS

Basis for Pricing	Materials		Services	
	Number of Units or Responses	Percentage Distribution	Number of Units or Responses	Percentage Distribution
A. All Units – Total	<u>967</u>	<u>100.0%</u>	<u>967</u>	<u>100.0%</u>
Transfer pricing not applicable	149	15.4	147	15.2
Transfer pricing applicable:				
One pricing basis used	367	38.0	418	43.2
More than one pricing basis used	451	46.6	402	41.6
Pricing Basis Responses – Total	<u>1551</u>	<u>100.0%</u>	<u>1475</u>	<u>100.0%</u>
At full cost:				
Excluding transferor's G&A	262	16.9	289	19.6
Including transferor's G&A	396	25.5	420	28.5
Plus a mark up percentage	163	10.5	147	9.9
At established catalog or market price	482	31.1	342	23.2
Other bases	248	16.0	277	18.8
B. Predominantly Manufacturing Units – Total	<u>561</u>	<u>100.0%</u>	<u>561</u>	<u>100.0%</u>
Transfer pricing not applicable	65	11.6	97	17.3
Transfer pricing applicable:				
One pricing basis used	211	37.6	224	39.9
More than one pricing basis used	285	50.8	240	42.8
Pricing Basis Responses – Total	<u>947</u>	<u>100.0%</u>	<u>844</u>	<u>100.0%</u>
At full cost:				
Excluding transferor's G&A	145	15.3	157	18.6
Including transferor's G&A	238	25.1	239	28.3
Plus a markup percentage	104	11.0	86	10.2
At established catalog or market price	311	32.9	218	25.8
Other bases	149	15.7	144	17.1
C. Predominantly Research & Development Units–Total	<u>189</u>	<u>100.0%</u>	<u>189</u>	<u>100.0%</u>
Transfer pricing not applicable	16	8.5	17	9.0
Transfer pricing applicable:				
One pricing basis used	69	36.5	84	44.4
More than one pricing basis used	104	55.0	88	46.6
Pricing Basis Responses – Total	<u>353</u>	<u>100.0%</u>	<u>323</u>	<u>100.0%</u>
At full cost:				
Excluding transferor's G&A	63	17.8	69	21.4
Including transferor's G&A	99	28.1	95	29.4
Plus a markup percentage	25	7.1	23	7.1
At established catalog or market price	108	30.6	69	21.4
Other bases	58	16.4	67	20.7

DIRECT vs INDIRECT COSTS
D/S Items 3.2.1–3.2.3

10. METHODS OF TREATING SPECIFIED FUNCTIONS, ELEMENTS OF COST
AND TRANSACTIONS

Function, Element of Cost, or Transaction	Method of Treatment for Applicable Units					Not Applicable ^a
	Total	Always Direct	Always Indirect	Sometimes Direct Sometimes Indirect	Other	
A. Function Applicable to Direct Materials:						
Cash Discounts						
– Number	910	394	430	33	53	57
– Percent	100.0%	43.3	47.3	3.6	5.8	5.9
Freight In						
– Number	926	478	278	154	16	41
– Percent	100.0%	51.7	30.0	16.6	1.7	4.2
Sale of Scrap						
– Number	773	142	431	128	72	194
– Percent	100.0%	18.4	55.8	16.5	9.3	20.1
Sale of Salvage						
– Number	701	144	346	139	72	266
– Percent	100.0%	20.5	49.4	19.8	10.3	27.5
Incoming Material Inspection						
– Number	843	305	391	133	14	124
– Percent	100.0%	36.2	46.4	15.8	1.6	12.8
Inventory Adjustments						
– Number	663	214	263	58	128	304
– Percent	100.0%	32.3	39.7	8.7	19.3	31.4
Purchasing						
– Number	906	79	749	60	18	61
– Percent	100.0%	8.7	82.7	6.6	2.0	6.3
Trade Discounts, Refunds & Allowances on Purchases						
– Number	866	659	72	105	30	101
– Percent	100.0%	76.1	8.3	12.1	3.5	10.4
B. Function Applicable to Direct Labor:						
Health Insurance						
– Number	957	110	802	21	24	10
– Percent	100.0%	11.5	83.8	2.2	2.5	1.0
Holiday Differential						
– Number	913	352	487	44	30	54
– Percent	100.0%	38.6	53.3	4.8	3.3	5.6
Overtime Premium Pay						
– Number	956	420	403	105	28	11
– Percent	100.0%	43.9	42.2	11.0	2.9	1.1
Pension Costs						
– Number	887	100	741	23	23	80
– Percent	100.0%	11.3	83.5	2.6	2.6	8.3
Shift Premium Pay						
– Number	877	483	329	48	17	90
– Percent	100.0%	55.1	37.5	5.5	1.9	9.4
Training						
– Number	894	170	511	196	17	73
– Percent	100.0%	19.0	57.2	21.9	1.9	7.5
Travel						
– Number	939	395	192	331	21	28
– Percent	100.0%	42.1	20.4	35.3	2.2	2.9
Vacation Pay						
– Number	959	134	755	38	32	8
– Percent	100.0%	14.0	78.7	4.0	3.3	0.8

^aEach percentage in this column is based on the total of 967 units in the universe.

(Continued on next page)

DIRECT vs INDIRECT COSTS
D/S Items 3.2.1–3.2.3

Function, Element of Cost, or Transaction	Method of Treatment for Applicable Units					Not Applicable ^a	
	Total	Always Direct	Always Indirect	Sometimes Direct Sometimes Indirect	Other		
C. Miscellaneous:							
Design Engineering	– Number	845	508	114	208	15	122
	– Percent	100.0%	60.1	13.5	24.6	1.8	12.6
Drafting	– Number	849	486	118	231	14	118
	– Percent	100.0%	57.2	13.9	27.2	1.7	12.2
Computer Operations	– Number	725	71	294	328	32	242
	– Percent	100.0%	9.8	40.6	45.2	4.4	25.0
Contract Administration	– Number	869	65	697	95	12	98
	– Percent	100.0%	7.5	80.2	10.9	1.4	10.1
Freight Out	– Number	763	405	189	97	72	204
	– Percent	100.0%	53.1	24.8	12.7	9.4	21.1
Line Inspection	– Number	766	575	106	75	10	201
	– Percent	100.0%	75.1	13.8	9.8	1.3	20.8
Packaging & Preservation	– Number	804	372	148	256	28	163
	– Percent	100.0%	46.3	18.4	31.9	3.4	16.9
Preproduction & Start Up Costs	– Number	723	479	105	97	42	244
	– Percent	100.0%	66.3	14.5	13.4	5.8	25.2
Production Shop Supervision	– Number	742	143	481	110	8	225
	– Percent	100.0%	19.3	64.8	14.8	1.1	23.3
Consultant Services	– Number	923	122	193	594	14	44
	– Percent	100.0%	13.2	20.9	64.4	1.5	4.6
Purchased Direct Labor (On Site)	– Number	821	715	11	60	35	146
	– Percent	100.0%	87.1	1.3	7.3	4.3	15.1
Purchased Direct Labor (Off Site)	– Number	814	745	6	41	22	153
	– Percent	100.0%	91.6	0.7	5.0	2.7	15.8
Rearrangement Costs	– Number	864	57	581	212	14	103
	– Percent	100.0%	6.6	67.3	24.5	1.6	10.7
Rework Costs	– Number	788	600	97	59	32	179
	– Percent	100.0%	76.1	12.3	7.5	4.1	18.5
Royalties	– Number	563	258	160	95	50	404
	– Percent	100.0%	45.8	28.4	16.9	8.9	41.8
Scrap Work	– Number	675	458	155	44	18	292
	– Percent	100.0%	67.9	23.0	6.5	2.6	30.2
Special Test Equipment	– Number	781	624	23	70	64	186
	– Percent	100.0%	80.0	2.9	8.9	8.2	19.2
Special Tooling	– Number	770	618	17	72	63	197
	– Percent	100.0%	80.3	2.2	9.3	8.2	20.4
Subcontract Costs	– Number	892	734	7	125	26	75
	– Percent	100.0%	82.3	0.8	14.0	2.9	7.8
Warranty Costs	– Number	613	351	150	33	79	354
	– Percent	100.0%	57.3	24.5	5.3	12.9	36.6

^aEach percentage in this column is based on the total of 967 units in the universe.

INDIRECT COSTS
D/S Item 4.1.0

11. ALLOCATION BASES FOR OVERHEAD POOLS

Type of Overhead Pool	Total	Allocation Base		
		Direct Labor Dollars	Direct Labor Hours	Other
		<u>Number of Units</u>		
Single Plant-wide Pool Only	222	161	23	38
Manufacturing	359	263	53	43
Engineering	416	302	59	55
Manufacturing and Engineering	80	69	5	6
Tooling	42	19	3	20
Off-Site	117	88	8	21
Field Service	148	118	8	22
Material Handling	198	7	3	188 ^a
Departmental/Shop	77	39	17	21 ^b
Subcontract Administration	21	—	—	21 ^b
Use and Occupancy	76	8	—	68 ^c
Quality Control	77	43	10	24
Fringe Benefits	160	44	10	106 ^d
Other	386	—	—	—
		<u>Percentage Distribution</u>		
Single Plant-wide Pool Only	100.0%	72.5	10.4	17.1
Manufacturing	100.0%	73.3	14.8	11.9
Engineering	100.0%	72.6	14.2	13.2
Manufacturing and Engineering	100.0%	86.3	6.2	7.5
Tooling	100.0%	45.3	7.1	47.6
Off-Site	100.0%	75.2	6.8	18.0
Field Service	100.0%	79.7	5.4	14.9
Material Handling	100.0%	3.5	1.5	95.0 ^a
Departmental/Shop	100.0%	50.6	22.1	27.3 ^b
Subcontract Administration	100.0%	—	—	100.0 ^b
Use and Occupancy	100.0%	10.5	—	89.5 ^c
Quality Control	100.0%	55.8	13.0	31.2
Fringe Benefits	100.0%	27.5	6.2	66.3 ^d

^aIncludes 146 units (73.7%) with direct material cost as the allocation base.

^bIncludes 8 units (38.1%) with direct material cost as the allocation base.

^cIncludes 57 units (75.0%) with square feet as the allocation base.

^dIncludes 79 units (49.4%) with payroll dollars as the allocation base.

12. ALLOCATION BASES FOR G & A POOLS

Type of G & A Pool	Total	Allocation Base				
		Cost Input	Cost of Sales	Sales	Direct Labor	Other
		<u>Number of Units</u>				
Single G & A Pool Only	481	266	113	17	25	60
G & A Pool (plus one or more other pools)	256	72	70	3	8	103 ^a
Commercial G & A Pool	30	7	6	1	—	16
Government G & A Pool	34	11	7	1	—	15
Selling and Marketing Expense	93	19	27	6	4	37
Spares Administration	8	1	4	—	—	3
Corporate Home Office Expense	173	28	41	14	5	85 ^b
Other G & A Pools	162	—	—	—	—	—
		<u>Percentage Distribution</u>				
Single G & A Pool Only	100.0%	55.3	23.5	3.5	5.2	12.5
G & A Pool (plus one or more other pools)	100.0%	28.1	27.3	1.2	3.1	40.3 ^a
Commercial G & A Pool	100.0%	23.3	20.0	3.3	—	53.4
Government G & A Pool	100.0%	32.4	20.6	2.9	—	44.1
Selling and Marketing Expense	100.0%	20.4	29.0	6.5	4.3	39.8
Spares Administration	100.0%	12.5	50.0	—	—	37.5
Corporate Home Office Expense	100.0%	16.2	23.7	8.1	2.9	49.1 ^b

^aIncludes 13 units (5.1%) with processing cost as the allocation base.

^bIncludes 16 units (9.2%) with total cost incurred as the allocation base.

Note: 58 units reported that there was no separate G & A pool, but that it was combined with an overhead pool.

INDIRECT COSTS
D/S Items 4.2.0, 4.8.1
and 4.8.2

**13. ALLOCATION BASES FOR INDEPENDENT RESEARCH AND DEVELOPMENT COSTS
AND FOR BID AND PROPOSAL COSTS**

Allocation Base	IR & D Costs			B & P Costs		
	Total	Allocated as Separate Rate	Allocated as Part of G & A or Other Rate	Total	Allocated as Separate Rate	Allocated as Part of G & A or Other Rate
	<u>Number of Units</u>					
Type of Cost Applicable – Total ^a	<u>662</u>	<u>133</u>	<u>529</u>	<u>851</u>	<u>112</u>	<u>739</u>
Sales	21	9	12	23	6	17
Cost of Sales	183	44	139	226	21	205
Cost Input	296	59	237	382	64	318
Direct Labor Dollars	63	11	52	123	12	111
Direct Labor Hours	11	–	11	32	–	32
Other Bases	88	10	78	65	9	56
	<u>Percentage Distribution</u>					
Type of Cost Applicable – Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Sales	3.2	6.7	2.3	2.7	5.4	2.3
Cost of Sales	27.6	33.1	26.3	26.6	18.8	27.8
Cost Input	44.7	44.4	44.8	44.9	57.1	43.0
Direct Labor Dollars	9.5	8.3	9.8	14.5	10.7	15.0
Direct Labor Hours	1.7	–	2.1	3.7	–	4.3
Other Bases	13.3	7.5	14.7	7.6	8.0	7.6

^aThere were 305 units with no IR & D costs charged to government contracts, and 116 units with no B & P costs so charged.

INDIRECT COSTS
D/S Item 4.3.0

14. ALLOCATION BASES FOR SERVICE CENTERS

Type of Service Center	Total	Allocation Base					
		Usage	Direct Labor	Cost Type	Head-Count	Square Feet	Other
		<u>Number of Units</u>					
Scientific Computer Operations	263	196	20	10	3	—	34
Business Data Processing	354	217	24	46	8	—	59
Photographic Services	177	90	39	15	1	—	32
Reproduction Services	309	161	46	32	11	4	55
Art Services	162	65	42	16	2	—	37
Technical Typing Services	140	49	46	13	3	—	29
Communications Services	258	115	23	28	13	10	69
Facility Services	383	70	47	15	6	161	84
Auto Pool Services	119	46	17	16	4	9	27
Company Aircraft Services	55	32	2	11	—	2	8
Wind Tunnels	12	5	2	—	—	—	5
Personnel and/or Industrial Relations	126	4	9	2	85	—	26
Material Handling and/or Procurement	95	21	17	—	8	1	48 ^a
Accounting and/or Payroll Services	81	13	11	5	27	—	25
Security Services	63	2	2	—	23	14	22
Fringe Benefits	29	—	1	—	6	1	21 ^b
Quality Control	39	9	14	1	1	—	14
Other Service Centers	341	—	—	—	—	—	—
		<u>Percentage Distribution</u>					
Scientific Computer Operations	100.0%	74.5	7.6	3.8	1.2	—	12.9
Business Data Processing	100.0%	61.3	6.8	13.0	2.2	—	16.7
Photographic Services	100.0%	50.9	22.0	8.5	0.5	—	18.1
Reproduction Services	100.0%	52.1	14.9	10.4	3.5	1.3	17.8
Art Services	100.0%	40.2	25.9	9.9	1.2	—	22.8
Technical Typing Services	100.0%	35.0	32.9	9.3	2.1	—	20.7
Communications Services	100.0%	44.6	8.9	10.9	5.0	3.9	26.7
Facility Services	100.0%	18.3	12.3	3.9	1.6	42.0	21.9
Auto Pool Services	100.0%	38.7	14.3	13.4	3.3	7.6	22.7
Company Aircraft Services	100.0%	58.2	3.6	20.0	—	3.6	14.6
Wind Tunnels	100.0%	41.7	16.6	—	—	—	41.7
Personnel and/or Industrial Relations	100.0%	3.2	7.1	1.6	67.5	—	20.6
Material Handling and/or Procurement	100.0%	22.1	17.9	—	8.4	1.1	50.5 ^a
Accounting and/or Payroll Services	100.0%	16.0	13.6	6.2	33.3	—	30.9
Security Services	100.0%	3.2	3.2	—	36.5	22.2	34.9
Fringe Benefits	100.0%	—	3.4	—	20.7	3.4	72.5 ^b
Quality Control	100.0%	23.0	35.9	2.6	2.6	—	35.9

^aIncludes 9 units (9.5%) with direct material cost as the allocation base.

^bIncludes 14 units (48.3%) with total payroll dollars as the allocation base.

INDIRECT COSTS
D/S Items 4.3.0
and 4.4.0

15. METHODS OF CHARGING SERVICE CENTER COSTS TO GOVERNMENT
CONTRACTS AND USE OF PREDETERMINED BILLING RATES

Type of Service Center	All Units Reporting	Government Contracts Charged			Predetermined Billing Rates Used ^a	
		Direct or Through Other Indirect Pool		Through Indirect Pool Only	Number of Units	Percent of All Units
		Number of Units	Percent of All Units			
Scientific Computer Operations	263	229	87.1	34	163	62.0
Business Data Processing	354	186	52.5	168	157	44.4
Photographic Services	177	140	79.1	37	72	40.7
Reproduction Services	309	194	62.8	115	131	42.4
Art Services	162	125	77.2	37	47	29.0
Technical Typing Services	140	115	82.1	25	28	20.0
Communication Services	258	66	25.6	192	54	20.9
Facility Services	383	128	33.4	255	97	25.3
Auto Pool Services	119	38	31.9	81	41	34.5
Company Aircraft Services	55	27	49.1	28	27	49.1
Wind Tunnels	12	8	66.7	4	2	16.7
Personnel and/or Industrial Relations	126	17	13.5	109	24	19.1
Material Handling and/or Procurement	95	9	9.5	86	19	20.0
Accounting and/or Payroll Services	81	13	16.1	68	16	19.8
Security Services	63	13	20.6	50	13	20.6
Fringe Benefits	29	7	24.1	22	7	24.1
Quality Control	39	12	30.8	27	8	20.5

^aThere were 383 units that reported the use of predetermined billing rates. Variances from actual costs were disposed of as follows: 91 prorated costs to users; 200 units charged or credited variances to an indirect cost pool; 20 units used both of these methods; and 72 units used "other" methods.

16. APPLICATION OF OVERHEAD OR G&A RATES TO
SPECIFIED TRANSACTIONS OR COSTS

Transaction or Cost	Total	Overhead or G&A Applied at			Overhead or G&A Not Applied
		Full Rate	Less than Full Rate	Combina- tion of Both	
Subcontract Costs					
Number of Units	839	597	24	82	136
Percent	100.0%	71.2	2.8	9.8	16.2
Purchased Labor					
Number of Units	811	628	27	60	96
Percent	100.0%	77.5	3.3	7.4	11.8
Government Furnished Materials					
Number of Units	700	23	14	8	655
Percent	100.0%	3.3	2.0	1.1	93.6
Interorganizational Transfers In					
Number of Units	821	462	24	143	192
Percent	100.0%	56.3	2.9	17.4	23.4
Interorganizational Transfers Out					
Number of Units	801	528	48	183	42
Percent	100.0%	65.9	6.0	22.9	5.2
Self-Constructed Depreciable Assets					
Number of Units	714	267	196	131	120
Percent	100.0%	37.4	27.5	18.3	16.8
Labor to Install Assets					
Number of Units	730	282	176	89	183
Percent	100.0%	38.6	24.1	12.2	25.1
Off-Site Work					
Number of Units	613	455	54	71	33
Percent	100.0%	74.2	8.8	11.6	5.4
Other Transactions or Costs with Less than Full Rate					
Number of Units	196	—	196	—	—
Percent	100.0%	—	100.0%	—	—

CAPITALIZATION AND
DEPRECIATION
D/S Item 5.1.0

17. DEPRECIATION METHODS AND PROPERTY UNIT ACCOUNTING
BY SPECIFIED ASSET GROUPS

Method	Buildings	Leasehold Improve- ments	Machinery and Equipment	Furniture and Fixtures	Autos and Trucks
A. Depreciation Method					
	<u>Number of Units</u>				
Asset Group Applicable – Total	<u>719</u>	<u>808</u>	<u>897</u>	<u>914</u>	<u>829</u>
Straight-line	284	619	324	358	397
Declining balance	72	20	107	117	103
Sum-of-the-years digits	73	13	106	100	57
Straight-line and declining balance	89	57	94	88	80
Straight-line and sum-of-the-years digits	66	26	109	87	56
Declining balance and sum-of-the-years digits	10	6	29	27	37
Straight-line, declining balance, and sum-of-the-years digits	86	34	74	79	64
Other	39	33	54	58	35
	<u>Percentage Distribution</u>				
Asset Group Applicable – Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Straight-line	39.5	76.6	36.1	39.2	47.9
Declining balance	10.0	2.5	11.9	12.8	12.4
Sum-of-the-years digits	10.1	1.6	11.8	10.9	6.9
Straight-line and declining balance	12.4	7.1	10.5	9.6	9.6
Straight-line and sum-of-the-years digits	9.2	3.2	12.2	9.5	6.8
Declining balance and sum-of-the-years digits	1.4	0.7	3.2	3.0	4.5
Straight-line, declining balance, and sum-of-the-years digits	12.0	4.2	8.3	8.6	7.7
Other	5.4	4.1	6.0	6.4	4.2
B. Depreciation Methods Applied to Property Units					
	<u>Number of Units</u>				
Asset Group Applicable – Total	<u>719</u>	<u>808</u>	<u>897</u>	<u>914</u>	<u>829</u>
Individual units separately	549	547	517	472	578
Groups with similar lives	118	209	215	265	197
Groups with varying lives	26	21	51	51	28
Other or more than one method	26	31	114	126	26
	<u>Percentage Distribution</u>				
Asset Group Applicable – Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Individual units separately	76.4	67.7	57.6	51.6	69.7
Groups with similar lives	16.4	25.9	30.0	29.0	23.8
Groups with varying lives	3.6	2.6	5.7	5.6	3.4
Other or more than one method	3.6	3.8	12.7	13.8	3.1

CAPITALIZATION AND
DEPRECIATION
D/S Item 5.1.0

18. USEFUL LIFE BASES AND RESIDUAL VALUE TREATMENT
BY SPECIFIED ASSET GROUPS

Basis or Method	Buildings	Leasehold Improve- ments	Machinery and Equipment	Furniture and Fixtures	Autos and Trucks
A. Basis for Determining Useful Life					
	<u>Number of Units</u>				
Asset Group Applicable – Total	<u>719</u>	<u>808</u>	<u>897</u>	<u>914</u>	<u>829</u>
U.S. Treasury guideline lives	233	71	363	377	309
Replacement experience	215	39	257	268	267
Engineering estimate	122	17	99	80	79
Term of lease	–	543	–	–	–
U.S. Treasury guideline lives and replacement experience	20	12	26	26	21
Other	129	126	152	163	153
	<u>Percentage Distribution</u>				
Asset Group Applicable – Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
U.S. Treasury guideline lives	32.4	8.8	40.5	41.3	37.3
Replacement experience	29.9	4.8	28.7	29.3	32.2
Engineering estimate	17.0	2.1	11.0	8.8	9.5
Term of lease	–	67.2	–	–	–
U.S. Treasury guideline lives and replacement experience	2.8	1.5	2.9	2.8	2.5
Other	17.9	15.6	16.9	17.8	18.5
B. Deduction of Residual Value from Total Cost					
	<u>Number of Units</u>				
Asset Group Applicable – Total	<u>719</u>	<u>808</u>	<u>897</u>	<u>914</u>	<u>829</u>
Deducted	81	77	134	116	149
Deduction covered by depreciation method	48	15	88	95	71
Not deducted	508	653	560	612	503
Other or more than one	82	63	115	91	106
	<u>Percentage Distribution</u>				
Asset Group Applicable – Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Deducted	11.3	9.5	14.9	12.7	18.0
Deduction covered by depreciation method	6.7	1.9	9.8	10.4	8.5
Not deducted	70.6	80.8	62.5	67.0	60.7
Other or more than one	11.4	7.8	12.8	9.9	12.8

CAPITALIZATION AND
DEPRECIATION
D/S Items 5.2.0, 5.4.0
and 5.5.0

19. COST ACCOUNTING DEPRECIATION PRACTICES COMPARED WITH
FINANCIAL ACCOUNTING AND INCOME TAX PRACTICES

Practice	Number of Units Reporting	Same Practice		Not the Same Practice	
		Number of Units	Percent of Total	Number of Units	Percent of Total
A. Financial Accounting					
Depreciation Methods	940	897	95.4	43	4.6
Useful Lives	940	906	96.4	34	3.6
Property Units	940	932	99.2	8	0.8
Residual Values	940	919	97.8	21	2.2
B. Income Tax					
Depreciation Methods	940	421	44.8	519	55.2
Useful Lives	940	531	56.5	409	43.5
Property Units	940	747	79.5	193	20.5
Residual Values	940	761	81.0	179	19.0

20. TREATMENT OF GAINS AND LOSSES ON DISPOSITION
OF DEPRECIABLE PROPERTY

Method	Unit Responses	
	Number ^a	Percentage Distribution
Total Responses	1,643	100.0%
Recorded in same overhead and G & A pools as depreciation charges	413	25.1
Credited or charged to other income or expense accounts	539	32.8
Taken into consideration in the depreciation cost basis of new item where trade-in is involved	424	25.8
Not accounted for separately, but reflected in depreciation reserve account	159	9.7
Other methods	108	6.6

^aRepresents responses by 940 units, of which 429 provided a single response and 511 units two or more responses.

21. TREATMENT OF SPECIFIED COSTS INCURRED IN THE
ACQUISITION OF CAPITAL ASSETS

Item of Cost	Number of Units Reporting	Cost Capitalized		Item Expensed (Number)	May be Capitalized or Expensed (Number)
		Number of Units	Percent of Total		
Freight in	940	777	82.7%	76	87
Installation Costs	940	803	85.4	30	107
Sales Taxes	939	518	55.2	314	107
Excise Taxes	937	817	87.2	103	17
Architect-Engineer Fees	933	753	80.7	35	145
Overhauls (Extraordinary Repairs)	938	519	55.3	207	212
Major Modifications or Betterments	938	838	89.3	10	90

DEFERRED COMPENSATION
D/S Items 7.1.1 – 7.1.9

22. PENSION PLANS WHOSE COSTS ARE CHARGED TO GOVERNMENT CONTRACTS

Type of Company and Characteristic of Plan	Total	Annual Total Sales of Company			
		\$100 Million or Less	\$101-\$500 Million	\$501 Million-\$1 Billion	Over \$1 Billion
Number of Companies					
Companies and Institutions – Total	219	69	62	17	71
No charge to Government for pension plans	29	20	8	–	1
Multi-employer pension plans only	15	10	4	1	–
Defined contribution plans only	12	8	1	1	2
Companies controlling one or more pension plans	163	31	49	15	68
Company Controlled Pension Plans^a					
A. Actuarial Cost Method^b					
Number of Plans					
All Plans – Total	407	51	103	35	218
Accrued benefit cost	99	19	22	9	49
Aggregate	64	4	17	3	40
Attained age	18	1	6	3	8
Entry age – initial liability frozen	110	17	29	10	54
Entry age – initial liability not frozen	89	8	25	6	50
Other or more than one method	27	2	4	4	17
Percentage Distribution					
All Plans – Total	100.0%	100.0%	100.0%	100.0%	100.0%
Accrued benefit cost	24.3	37.3	21.4	25.7	22.5
Aggregate	15.7	7.8	16.5	8.6	18.3
Attained age	4.4	2.0	5.8	8.6	3.7
Entry age – initial liability frozen	27.1	33.3	28.2	28.6	24.8
Entry age – initial liability not frozen	21.9	15.7	24.3	17.1	22.9
Other or more than one method	6.6	3.9	3.8	11.4	7.8
B. Extent of Funding					
Number of Plans					
All Plans – Total	407	51	103	35	218
Normal costs only	62	9	20	3	30
Normal costs plus interest on past service costs ^c	18	6	2	1	9
Normal costs plus an amortized portion of past service costs ^c	288	32	78	28	150
Other or more than one	39	4	3	3	29
Percentage Distribution					
All Plans – Total	100.0%	100.0%	100.0%	100.0%	100.0%
Normal costs only	15.2	17.6	19.4	8.6	13.8
Normal costs plus interest on past service costs ^c	4.4	11.8	1.9	2.8	4.1
Normal costs plus an amortized portion of past service costs ^c	70.8	62.8	75.8	80.0	68.8
Other or more than one	9.6	7.8	2.9	8.6	13.3

DEFERRED COMPENSATION
D/S Items 7.1.1 – 7.1.9

Characteristic of Plan	Total	Annual Total Sales of Company			
		\$100 Million or Less	\$101-\$500 Million	\$501 Million-\$1 Billion	Over \$1 Billion
Company Controlled Pension Plans (Continued)					
C. Adjustments for Actuarial Gains and Losses ^d					
		Number of Plans			
All Plans – Total	407	51	103	35	218
Adjustment of past service costs	63	4	16	1	42
Adjustment of current year's costs	57	8	12	6	31
Adjustment of future year's costs	228	34	65	19	110
Other or more than one	45	3	7	6	29
No adjustments	14	2	3	3	6
		Percentage Distribution			
All Plans – Total	100.0%	100.0%	100.0%	100.0%	100.0%
Adjustment of past service costs	15.5	7.8	15.5	2.9	19.3
Adjustment of current year's costs	14.0	15.7	11.7	17.1	14.2
Adjustment of future year's costs	56.0	66.7	63.1	54.3	50.5
Other or more than one	11.1	5.9	6.8	17.1	13.3
No adjustments	3.4	3.9	2.9	8.6	2.7
D. Amortization of Actuarial Gains and Losses					
		Number of Plans			
All Plans – Total	407	51	103	35	218
10 years or less	66	11	16	3	36
11–20 years	109	19	25	4	61
More than 20 years	77	7	22	9	39
Other or more than one period ^e	103	6	29	9	59
Not amortized	52	8	11	10	23
		Percentage Distribution			
All Plans – Total	100.0%	100.0%	100.0%	100.0%	100.0%
10 years or less	16.2	21.6	15.5	8.6	16.5
11–20 years	26.8	37.3	24.3	11.4	28.0
More than 20 years	18.9	13.7	21.3	25.7	17.9
Other or more than one period ^e	25.3	11.7	28.2	25.7	27.1
Not amortized	12.8	15.7	10.7	28.6	10.5

^a Does not include multi-employer plans or the Teachers Insurance Annuity Association – College Retirement Equity Fund. Also excludes defined contribution plans and plans treated as defined contribution plans pursuant to 4 CFR 412.

^b Actuarial valuations were made annually for 384 plans (94.4%) and less frequently for 23 plans (5.6%).

^c Of those plans for which past service costs were amortized, 73.4% reported amortization in 21–40 years and 26.6% in less than 21 years.

^d Adjustment of actuarial gains and losses included unrealized gains and losses in 187 plans (47.6%) and excluded them in 206 plans (52.4%).

^e Principally periods reflecting the expected working lives of participating employees.

DEFERRED COMPENSATION
D/S Items 7.2.1 – 7.2.3

**23. DEFERRED INCENTIVE COMPENSATION PLANS WHOSE COSTS ARE
CHARGED TO GOVERNMENT CONTRACTS**

Method of Charging Costs	Total	Annual Total Sales of Company			
		\$100 Million or Less	\$101- \$500 Million	\$501 Million- \$1 Billion	Over \$1 Billion
<u>Number of Companies</u>					
A. Companies and Institutions – Total	<u>219</u>	<u>69</u>	<u>62</u>	<u>17</u>	<u>71</u>
No charge to Government for deferred incentive compensation plans	116	47	33	6	30
Charge for one plan	66	19	17	9	21
Charge for more than one plan	37	3	12	2	20
<u>Percentage Distribution</u>					
Companies and Institutions – Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
No charge to Government for deferred incentive compensation plans	53.0	68.1	53.2	35.3	42.2
Charge for one plan	30.1	27.5	27.4	52.9	29.6
Charge for more than one plan	16.9	4.4	19.4	11.8	28.2
<u>Number of Plans</u>					
B. All Plans – Total	<u>153</u>	<u>25</u>	<u>47</u>	<u>16</u>	<u>65</u>
Charged when costs are accrued	109	21	36	11	41
Charged when contributions are made to a trust fund	14	1	7	2	4
Charged when paid to employees	21	2	2	1	16
Other or more than one method	9	1	2	2	4
<u>Percentage Distribution</u>					
All Plans – Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Charged when costs are accrued	71.3	84.0	76.6	68.8	63.2
Charged when contributions are made to a trust fund	9.1	4.0	14.8	12.5	6.1
Charged when paid to employees	13.7	8.0	4.3	6.2	24.6
Other or more than one method	5.9	4.0	4.3	12.5	6.1