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items inventory accounts, each representing a homogeneous grouping of material, and maintain a material-price variance account for each of these homogeneous groupings of material, Contractor D's practice would comply with 9904.407–50(b)(2) of this Cost Accounting Standard.

(e)(1) Contractor E recognizes material-price variances at the time purchases of material are entered into the books of account and allocates variances at the end of each month. During the month of May, a homogeneous grouping of material has accumulated the following data:

	Material cost at standard	Material price variance
Inventory, May 1	$150,000	$20,000
Additions in May	1,850,000	120,000
Total	2,000,000	140,000
Requisitions:		
Production Unit 1	900,000	
Production Unit 2	450,000	
Production Unit 3	300,000	
Production Unit 4	150,000	
Inventory, May 31	200,000	

(2) Contractor E establishes a material-price variance rate of 7% ($140,000 ÷ $2,000,000) and allocates as follows:

	Material cost at standard	Material price variance rate (%)	Material price variance allocation
Production Unit 1	$900,000	7	$63,000
Production Unit 2	450,000	7	31,500
Production Unit 3	300,000	7	21,000
Production Unit 4	150,000	7	10,500
Ending inventory of homogeneous grouping of material	200,000	7	14,000
Total	2,000,000		140,000

Contractor E's practice complies with provisions of 9904.407–50(b)(3)(ii) of this Cost Accounting Standard.

(f)(1) Contractor F makes year-end adjustments for variances attributable to covered contracts. During the year just ended, a covered contract was processed in four production units, each with homogeneous outputs. Data with respect to output and to labor of each of the four production units are as follows:

Production unit	Total units of output	Total units used by the covered contract	Total labor costs at standard	Total labor-cost variance
1	100,000	10,000	$400,000	$20,000
2	30,000	6,000	900,000	30,000
3	20,000	5,000	600,000	10,000
4	10,000	4,000	500,000	20,000

(2) Since the outputs of each production unit are homogeneous, Contractor F uses the units of output as the basis of making memorandum worksheet adjustments concerning applicable variances, and establishes the following figures:

	Labor-cost variance per unit of unit	Units used by the covered contract	Labor-cost variance attributable to the covered contract
Production Unit 1	$0.20	10,000	$2,000
Production Unit 2	1.00	6.000	6.000
Production Unit 3	.50	5,000	2,500
Production Unit 4	2.00	4,000	8,000
Total labor-cost variance attributable to the covered contract			18,500

(3) Contractor F makes a year-end adjustment of $18,500 as the labor-cost variances attributable to the covered contract. Contractor F's practice complies with provisions of 9904.407–50(e) of this Cost Accounting Standard.

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

9904.407–61 Interpretation. [Reserved]

9904.407–62 Exemption.

None for this Standard.

9904.407–63 Effective date.

This Standard is effective as of April 17, 1992. Contractors with prior CAS-covered contracts with full coverage shall continue this Standard's applicability upon receipt of a contract to which this Standard is applicable. For contractors with no previous contracts subject to this Standard, this Standard shall be applied beginning with the contractor's next full fiscal year beginning after the receipt of a contract to which this Standard is applicable.