Pickett, Ohio Aerospace Institute, Cleveland, OH.

Constance K. Robinson,

Director of Operations, Antitrust Division.

[FR Doc. 96–24030 Filed 9–18–96; 8:45 am]

BILLING CODE 4410–01–M

Drug Enforcement Administration

Manufacturer of Controlled Substances; Notice of Application

Pursuant to Section 1301.43(a) of Title 21 of the Code of Federal Regulations (CFR), this is notice that on July 24, 1996, Eli Lilly Industries, Inc., Chemical Plant, Kilometer 146.7, State Road 2, Mayaguez, Puerto Rico 00680, made application to the Drug Enforcement Administration (DEA) for registration as a bulk manufacturer of dextropropoxyphene, bulk (non-dosage forms) (9273) a basic class of controlled substance listed in Schedule II.

The firm plans to manufacture bulk product for distribution to its customers.

Any other such applicant and any person who is presently registered with DEA to manufacture such substances may file comments or objections to the issuance of the above application.

Any such comments or objections may be addressed, in quintuplicate, to the Deputy Assistant Administrator, Office of Diversion Control, Drug Enforcement Administration, United States Department of Justice, Washington, D.C. 20537, Attention: DEA Federal Register Representative (CCR), and must be filed no later than November 18, 1996.

Dated: September 4, 1996.

Gene R. Haislip,

Deputy Assistant Administrator, Office of Diversion Control, Drug Enforcement Administration.

[FR Doc. 96–23949 Filed 9–18–96; 8:45 am]

BILLING CODE 4410–09–M

Immigration and Naturalization Service

Agency Information Collection Activities: Extension of Existing Collection; Comment Request

ACTION: Notice of information collection under review; petition by entrepreneur to remove conditions.

The proposed information collection is published to obtain comments from the public and affected agencies. Comments are encouraged and will be accepted for 60 days until November 18, 1996.

Request written comments and suggestions from the public and affected agencies concerning the proposed collection of information. Your comments should address one or more of the following four points:

(1) Evaluate whether the proposed collection of information is necessary for the proper performance of the functions of the agency, including whether the information will have practical utility;

(2) Evaluate the accuracy of the agencies estimate of the burden of the proposed collection of information, including the validity of the methodology and assumptions used;

(3) Enhance the quality, utility, and clarity of the information to be collected; and

(4) Minimize the burden of the collection of information on those who are to respond, including through the use of appropriate automated, electronic, mechanical, or other technological collection techniques or other forms of information technology, e.g., permitting electronic submission of responses.

If you have additional comments, suggestions, or need a copy of the proposed information collection instrument with instructions, or additional information, please contact Richard A. Sloan 202–616–7600, Director, Policy Directives and Instructions Branch, Immigration and Naturalization Service, U.S. Department of Justice, Room 5307, 425 I Street, NW., Washington, DC 20536. Additionally, comments and/or suggestions regarding the item(s) contained in this notice, especially regarding the estimated public burden and associated response time may also be directed to Mr. Richard A. Sloan.

Overview of this information collection:

(1) Type of Information Collection: *Extension of a currently approved collection.*

(2) Title of the Form/Collection: Petition by Entrepreneur to Remove Conditions.

(3) Agency form number, if any, and the applicable component of the Department of Justice sponsoring the collection: Form I–829, Adjudications Division, Immigration and Naturalization Service.

(4) Affected public who will be asked or required to respond, as well as a brief abstract: Primary: Individuals or Households. This form is used by a conditional resident alien entrepreneur who obtained such status through a qualifying investment, to apply to remove the conditions on his or her conditional resident status.

(5) An estimate of the total number of respondents and the amount of time estimated for an average respondent to respond: 200 respondents at 65 minutes (1.08) per response.

(6) An estimate of the total public burden (in hours) associated with the collection: 216 annual burden hours.

If additional information is required contact: Mr. Robert B. Briggs, Clearance Officer, United States Department of Justice, Information Management and Security Staff, Justice Management Division, Suite 850, Washington Center, 1001 G Street, NW., Washington, DC 20530.

Dated: September 13, 1996.

Robert B. Briggs,

Department Clearance Officer, United States Department of Justice.

[FR Doc. 96–23984 Filed 9–18–96; 8:45 am]

BILLING CODE 4410–18–M

OFFICE OF MANAGEMENT AND BUDGET

Office of Federal Procurement Policy

Cost Accounting Standards Board; Allocation of Selling and Marketing Costs

ACTION: Notice.

SUMMARY: The Office of Federal Procurement Policy, Cost Accounting Standards Board (CASB), invites public comments concerning a Staff Discussion Paper on the allocation of selling and marketing costs to government contracts.

DATES: Comments must be in writing and must be received by November 18, 1996.

ADDRESSES: All comments should be addressed to Dr. Rein Abel, Director of Research, Cost Accounting Standards Board, Office of Federal Procurement Policy, 725 17th Street, NW., Room 9001, Washington, DC 20503. Attn: CASB Docket No. 96–03.

FOR FURTHER INFORMATION CONTACT: Rein Abel, Director of Research or Richard C. Loeb, Executive Secretary, Cost Accounting Standards Board (telephone: 202–395–3254).

SUPPLEMENTARY INFORMATION:

A. Regulatory Process

The Cost Accounting Standards Board's rules, regulations and Standards are codified at 48 CFR Chapter 99. Section 26(g)(1) of the Office of Federal Procurement Policy Act, 41 U.S.C. 422(g), requires that the Board, prior to the establishment of any new or revised Cost Accounting Standard, complete a prescribed rulemaking process. The process generally consists of the following four steps:

1. Consult with interested persons concerning the advantages, disadvantages and improvements anticipated in the pricing and administration of Government contracts as a result of the adoption of a proposed Standard.

2. Promulgate an Advance Notice of Proposed Rulemaking.

3. Promulgate a Notice of Proposed Rulemaking.

4. Promulgate a Final Rule.

This proposal is step one of the four-step process.

B. Background and Summary

In response to the Cost Accounting Standards Board's (CASB's) continuing research, a number of commenters have identified selling and marketing costs as an issue requiring consideration. The primary concern raised is the causal/beneficial relationship of selling costs to final cost objectives and their subsequent cost allocations. More specifically, issues have arisen in which the allocation of selling and marketing costs as a direct or as an indirect cost, and/or the appropriate pooled cost composition or allocation base selection, have caused substantial controversies.

This Staff Discussion Paper represents the results of research performed by the staff of the Cost Accounting Standards Board, and is issued by the Board in accordance with the requirements of 41 U.S.C. 422(g)(1)(A). The statements contained herein do not necessarily represent the position of the Cost Accounting Standards Board.

C. Public Comments

Interested persons are invited to participate by submitting data, views or arguments with respect to this Staff Discussion Paper. All comments must be in writing and submitted to the address indicated in the **ADDRESSES** section.

Richard C. Loeb,

Executive Secretary, Cost Accounting Standards Board.

Allocation of Selling and Marketing Costs

Outline

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Preliminary Research

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Allocation of Selling and Marketing Costs

Introduction

In response to the Cost Accounting Standards Board's (CASB's) research, a number of commenters have identified selling and marketing costs as an issue requiring consideration. The primary concern raised is the causal/beneficial relationship of selling costs to final cost objectives and their subsequent cost allocations. The prior CASB also identified selling and marketing costs as an area requiring research. When the prior CASB promulgated Cost Accounting Standard (CAS) 9904.410 ''Allocation of Business Unit General and Administrative Expenses to Final Cost Objectives'', a separate research project dealing with selling and marketing costs was established. In its prefatory comments on CAS 9904.410, the CASB stated: ''* * * the Board is currently working on projects involving IR&D, B&P and selling costs. The Board at this time does not require changing the accounting for these costs.''

CAS 9904.420, ''Accounting for Independent Research and Development and Bid and Proposal Costs'' was promulgated in September 1979. However, no Standard was ever promulgated to deal with the unique issues relating to selling and marketing costs. The CAS Board has asked the staff to begin the necessary research to resolve these matters.

Scope of Project

In its *Statement of Objectives, Policies and Concepts,* July 1992, the CASB states: ''* * * the Board believes in the desirability of direct identification of costs with final cost objectives where the following allocation characteristics exist:

1. The beneficial or causal relationship between the incurrence of cost and cost objectives is clear and exclusive.

2. The amount of resource used is readily and economically measurable.''

The aforementioned document further states:

''Where units of resources used are not directly identified with final cost objectives, the cost of such resources should be grouped into logical and homogeneous pools for allocation to cost objectives in accordance with a hierarchy of preferable techniques.''

Under certain circumstances in government contracting, selling and marketing costs may be properly susceptible to direct identification with final cost objectives. In most cases, however, selling and marketing costs are indirectly allocated.

Several Armed Services Board of Contract Appeals (ASBCA) cases have concluded that selling costs identified with a final cost objective (e.g., sales commissions) could be treated as an indirect cost, *Daedalus Enterprises, Inc.,* 93–1 BCA 25499 and *Aydin Corp. (West),* 94–2 BCA 26899, *aff'd in part, rev'd in part, Aydin Corp. (West)* v. *Widnall,* 61 F.3d 1571 (Fed. Cir. 1995). Accordingly, the scope of this project includes selling and marketing costs identified with final cost objectives and those not identified with final cost objectives.

Preliminary Research

The staff's preliminary research to date includes:

a. Review of literature;

b. Analysis of ASBCA decisions; and

c. Review of the prior CASB's research relating to selling and marketing costs.

This research disclosed a number of cost accounting issues which we believe must be considered by the Board in developing a potential CAS. These issues, presented in more detail in the ensuing parts of this SDP, deal with the following matters:

a. Terminology and Definition
b. Homogeneity of Pools
c. Selection of Allocation Bases
d. Composition of Allocation Bases
e. Current Expensing vs. Deferral

Part I

Terminology and Definition

A. Discussion

The problem of terminology and definition is closely related to—in fact, it is sometimes difficult to separate it from—the question concerning the number of cost pools, or the degree of homogeneity of such pools (see Part II). It seems that any CAS evolving from this project must use terms that are adequately defined so as to ensure understanding by all parties concerned of the types of costs, functions and activities being covered.

Kohler, defines ''selling expense (cost)'' and ''marketing cost'' as follows:

''Selling Expense (Cost)—Any expense or class of expense incurred in selling or marketing. Examples: salesmen's salaries, commissions, and traveling; selling department salaries and expenses; samples; credit and collection costs. Shipping costs are often so classified.''

''Marketing Costs—The cost of locating customers, persuading them to buy, delivering goods, and collecting sales proceeds; selling cost.''

The Institute of Management Accountants (IMA) classifies ''marketing costs'' into two general categories: ''1. Costs of getting orders—i.e. advertising, sales promotion, direct selling, sales administration and sales research. 2. Costs of filling orders—warehousing, shipping, clerical operations connected with filling orders and collecting the money.'' Most authors of accounting literature (for example, Anthony and Shillinglaw) define the term ''marketing costs'' (or ''distribution costs'') generally in the same fashion as the IMA; that is, the term is broken down into two major categories of costs: ''order-getting costs'' and ''order-filling costs.''

In government contracting, however, the terms are often defined in a narrower sense; that is, most government contractors limit the terms to include only ''order-getting'' costs. ''Order-filling costs'' are often classified as general and administrative expenses, e.g., collection, and as manufacturing overhead costs or as other indirect costs, e.g., warehousing. For example, the Federal Acquisition Regulation (FAR) 31.205–38 states: ''Selling is a generic term encompassing all efforts to market the contractor's products or services, some of which are covered specifically in other subsections of 31.205. Selling activity includes the following broad categories:

(1) Advertising
(2) Corporate image enhancement including broadly-targeted sales efforts, other than advertising
(3) Bid and proposal costs
(4) Market planning
(5) Direct selling''

Some contractors, however, make a distinction between selling and marketing activities. Marketing is defined as being long-range in its objectives and includes market research and development and advertising. Selling is short-range in its objectives and includes direct selling efforts, sales promotion and demonstration, and customer liaison.

Discussions with contractor and government representatives indicate that terminology and definition in this area are not without problems. There is a considerable amount of diversity in the specific meaning being attached to the term ''selling and marketing costs.'' Furthermore, problems are being encountered in distinguishing between selling and marketing costs and certain other costs, such as IR&D and B&P costs.

In addition to the costs of such activities as market research and development, direct selling effort, selling administration and sales promotion and demonstration, many government contractors consider the costs of some or all of the following activities as part of selling and marketing costs:

a. Business planning
b. Bid and proposal
c. Contract administration including negotiation and pricing
d. Technical marketing (or work performed by ''marketing representatives'')
e. Program management
f. Subcontract administration
g. Spares administration or logistical support

Other contractors, however, treat the costs of these activities differently; some contractors treat the costs of some of the activities as part of general and administrative expenses (''G&A''); others treat them either as part of manufacturing, engineering or comparable overhead pools; and still others treat them as direct costs. Likewise, some contractors treat the costs of selling efforts performed by salaried employees differently than the costs of similar selling efforts performed by outside sales agents.

Of the cost of those activities listed above, preliminary research has indicated that costs of contract administration are often as significant as selling and marketing costs and that opinions appear to be divided as to whether or not such costs should be part of selling and marketing costs. In this regard, one recognized expert has stated: ''Selling costs normally include bidding and proposal costs not directly assignable to contracts obtained from such effort * * * as well as costs of contract administration and sales and service.'' A number of companies, however, treat contract administration costs as part of G&A.

Those companies which treat the costs of contract administration as part of selling and marketing costs cite several reasons in support of such treatment. Among the reasons cited are: (i) The same people perform both contract administration and selling and marketing activities, (ii) the two activities are often difficult to distinguish or they overlap; and (iii) people who are assigned contract administration responsibility perform selling or negotiation work on potential follow-on contracts. An additional reason cited by those contractors with a mix of government and commercial business—although this is more closely related to the question of allocation—is that because selling and marketing costs tend to be higher on commercial than on government business, whereas contract administration costs tend to be higher on Government than on commercial business, combining the two types of costs produces results similar to those of separate cost allocations.

B. Issues

1. What activities should be encompassed by the term ''selling and marketing''? In responding to this issue, please address your comments to whether each of the activities listed above should be part of selling and marketing. Please state your reasons for including, or excluding, the activities and provide a brief description of the activities.

2. Should ''selling'' and ''marketing'' be separately defined and how should they be defined?

3. What are the distinctive characteristics of selling and marketing activities that can be used to assure that such activities are properly segregated from other activities?

Part II

Homogeneity of Pools

A. Discussion

As mentioned previously, the CASB has emphasized the need for and the importance of grouping indirect costs into logical and homogeneous pools. The literature also indicates the general weight of opinion that homogeneity of indirect cost pools should be achieved by establishing separate pools, rather than a single pool for a ''blanket'' allocation.

CAS 9904.410 defines G&A as ''Any management, financial and other expense which is incurred for the general management and administration of the business unit as a whole. G&A expense does not include those management expenses whose beneficial or causal relationship to cost objectives can be more directly measured by a base other than a cost input base representing the total activity of a business unit during a cost accounting period.''

In a recent decision, the ASBCA concluded that selling costs are different from G&A expenses. The ASBCA stated: CAS 410.30(6) defines ''General and Administrative (G&A) expense'' as an expense incurred for the general management and administration of the business as a whole. Aydin acknowledges that its sales commission costs were essentially selling costs. In this case, the Solar II commission incurred was not incurred for the management and administration of

Aydin as a whole * * * We conclude, therefore, that Aydin's sales commission costs in general, and the Solar II sales commission in particular, were not G&A expenses for purposes of CAS 410. See *Aydin Corp. (West),* 94–2 BCA 26899.

The idea that selling and marketing costs are different from G&A can be found in accounting literature. Kholer, for example, expresses this idea by defining ''administrative expense'' as ''A classification of expense incurred in the general direction of an enterprise as a whole, as *contrasted with expense of a more specific function,* such as manufacturing or *selling* * * *'' (underscoring added). In a similar vein, the IMA distinguishes selling and marketing costs from G&A by defining G&A as costs of ''* * * president's office, treasurer's office [and] controller's office.''

The idea of establishing homogeneous indirect cost pools is expressed in CAS 9904.418–40(b) and 50(b)(1). CAS 9904.418–40(b) states:

Indirect costs shall be accumulated in indirect pools which are homogenous.

CAS 9904.418–50(b)(1) states:

An indirect cost pool is homogenous if each significant activity whose costs are included therein has the same or a similar beneficial or causal relationship to cost objectives as the other activities whose costs are included in the cost pool. It is also homogenous if the allocation of the costs of the activities included in the cost pool result in an allocation to cost objectives which is not materially different from the allocation that would result if the costs of the activities were allocated separately.

The concept of homogenous indirect cost pools is also discussed in FAR 31.203(b) as ''Indirect costs shall be accumulated by logical cost groupings with due consideration of the reasons for incurring such costs * * * Commonly, manufacturing overhead, selling expenses and general and administrative expenses are separately grouped.'' In practice, however, only some contractors have established a separate pool of selling and marketing costs. Discussions with some contractors disclosed that selling and marketing costs are significant, particularly when they are compared with G&A.

As discussed above, accounting opinion generally supports the need for increased homogeneity. However, there is no agreement as to how to achieve a degree of homogeneity of indirect costs that assures their accurate allocation. Although the literature deals with the subject of selling and marketing costs, most of the discussion is presented from the perspectives of internal cost controls and managerial decisions. Such accounting literature suggests a number of different ways to accumulate selling and marketing costs which could be adopted for purposes of allocation to contracts. Among the various methods cited are: (i) By activities (direct selling efforts, sales administration, market research, etc.), (ii) by product lines, (iii) by customers, and (iv) by geographical locations.

The concept of segregating selling costs on a beneficial or causal relationship was addressed in CAS Working Group Item 78–21, Implementation of CAS 410, Allocation of Business Unit General and Administrative Expenses to Final Cost Objectives. The Working Group responded to a question raised concerning whether selling costs could be included in the G&A pool if an inequitable distribution resulted. The Working Group concluded that selling costs could not remain in the G&A pool when an inequitable distribution resulted. Working Group Item 78–21 states in part:

Although the prefatory remarks are permissive in this regard, the standard's fundamental requirement paragraph 410.40(d)(1) requires a separate allocation of costs which can be allocated to business unit cost objectives on a beneficial or causal relationship which is best measured by a base other than a cost input base * * * Therefore, if a significant disparity exists in marketing activity for elements of the business, selling expenses should be the subject of a separate distribution in reasonable proportion to the benefits received. For example, it may be appropriate to separately allocate selling costs of foreign and domestic markets.

In light of Working Group Item 78–21, questions have arisen as to the allocability of foreign selling costs on domestic government contracts. The government regulations addressing foreign selling costs have changed over the past decade. DAR 15.205–37 stipulated that the allocability of selling costs were to be determined in light of reasonable benefit to the U.S. government. However, the current FAR 31.205–38 states:

The costs * * * to promote export sales of products normally sold to the U.S. Government, including the costs of exhibiting and demonstrating such products, are allowable on contracts with the U.S. Government provided—

(i) The costs are allocable, reasonable, and otherwise allowable under this Subpart 31.2;

(ii) That, with respect to a business segment which allocates to U.S. Government contracts, $2,500,000 or more of such costs in a given year of such business segment, a ceiling on the allowable costs shall apply.

At corporate and group home offices, accumulating selling and marketing costs in separate pools is not an uncommon practice. A number of such offices accumulate the costs in terms of commercial versus government business—some group home offices perform only selling and marketing functions and some have separate group home offices for commercial marketing and for government marketing.

A number of corporate and group home offices also accumulate selling and marketing costs in terms of foreign versus domestic, and some have separate marketing organizations for foreign marketing and for domestic marketing. This kind of accumulation of selling and marketing costs presumably reflects the need occasioned by significant amounts of exports of U.S. products. In this regard, it is probably important to note the various recurring changes in policy regarding the allowability of marketing costs associated with Foreign Military Sales (FMS) contracts.

A government representative suggests that selling costs be segregated from marketing costs. According to this logic, marketing costs which are long-range in objective should be segregated from selling costs which are short-range in objective. The former should be allocated on a broad base to all business of a contractor, whereas the latter should be allocated only to those products or product lines benefiting from the incurrence of selling costs.

Based on the foregoing discussion, the argument can be made that, at one extreme, the accuracy of most contractors' allocations of selling and marketing costs could be improved by creating several pools. This would mean establishing pools by class of customers (such as commercial versus government), by various activities (such as field selling costs, sales demonstration, sales administration and marketing research), by geographical locations (such as foreign versus domestic) and by product lines.

At the other extreme, selling and marketing costs could be combined with G&A, or a single pool of selling and marketing costs could be used, on the theory that little additional accuracy will be provided by increased homogeneity, and that any additional accuracy achieved would be too costly or would not make much difference in the ultimate amounts of selling and marketing costs to be allocated.

The central question, then, seems to be: How can the homogeneity of selling and marketing costs be further improved in a way which will have both theoretical validity and practical applicability? A related question is: To what extent can greater comparability among contractors be achieved in this area?

B. Issues

1. Under what circumstances should selling and marketing costs be accumulated in a pool separate and apart from G&A? Under what circumstances should they be accumulated by: a. class of customers (e.g., commercial versus government), b. geographical location (e.g., foreign versus domestic), c. type of activity (e.g., marketing versus selling), d. product line, or e. some other methods?

2. Please describe the guidelines and criteria governing the accumulation of selling and marketing costs which you believe should be included in a potential standard. Is a new standard required or can this issue be addressed within existing standard(s)?

3. Should a potential standard establish criteria and guidance on when it would be inappropriate to establish a pool, i.e., when selling or marketing expenses should be allocated directly to particular final cost objectives?

Part III

Selection of Allocation Bases

A. Discussion

Theoretically, there are two ways to go about selecting an allocation base; one way is to use judgmental criteria and the other is to use a statistical analysis approach. Practical experience suggests that the statistical analysis approach is seldom, if ever, used by government contractors.

Government contractors use a variety of allocation bases for selling and marketing costs. Among the bases being used are: sales, three-factor formula, direct labor costs or hours and level of effort.

For the purpose of this Discussion Paper, the term ‘‘level of effort’’ is used to refer to the time and effort incurred or to be incurred by those personnel engaged in selling and marketing functions. In practice, a variety of methods are used to express the ‘‘level of effort’’. Some companies use ‘‘projected time to be spent’’ on selling of certain products or product lines or selling to certain customers during certain time intervals, such as every six months; others use the actual time spent and recorded.

Output Bases

The Armed Services Pricing Manual (ASPM No. 1) states that ‘‘Common bases for distribution or estimation of selling expenses are total cost of sales and total selling price.’’ However, the document does not describe the reasons or the circumstances for the use of such allocation bases. On the other hand, the Defense Contract Audit Agency’s Contract Audit Manual states: ‘‘Manufacturing expenses are usually apportioned without regard to the specific end item being manufactured or the customer to whom the item may ultimately be sold. These latter factors, however, are important considerations in apportioning selling expenses which may indicate that an overall allocation of selling expenses on the basis of cost of sales or costs of goods manufactured may not be equitable.’’

Usry and Hammer advocate the use of ‘‘gross sales value of products sold’’ for allocating what they term as ‘‘functional costs of selling.’’ Horngren, on the other hand, criticizes the sales allocation base: ‘‘A commonly, but wrongly, used basis for allocation is dollar sales. The costs of effort are independent of the results actually obtained, in the sense that the costs are programmed by management, not determined by sales.’’

Level of Effort

Usry and Hammer advocate (in addition to sales) the use of ‘‘number of salespersons’ calls on customers (based on salespersons’ time reports).’’ The Defense Contract Audit Agency’s Contract Audit Manual appears to be advocating the same theory. As mentioned previously, after cautioning auditors that the costs of sales or costs of goods manufactured base may not be equitable for selling and marketing costs, it goes on to state: ‘‘The auditor should perform a careful analysis of the time, effort and expense incurred for selling activities in relation to the company’s products, product lines, or other objectives to determine the most suitable base * * *’’

B. Issues

1. Under what circumstances should the output base(s) (sales, cost of sales), the input base(s) (total cost input, direct labor cost, value added, etc.) and other methods such as level of effort be used in allocating selling and marketing costs at the business unit level?

2. Under what circumstances should these bases and methods be used at the corporate home office level and/or the group home office level?

3. What criteria should be provided for selection among alternative bases?

Part IV

Composition of Allocation Bases

A. Discussion

The problem of allocating selling and marketing costs is complicated by the question concerning the composition of allocation bases. Research of the available literature failed to disclose any discussions of this question. Discussions with selected contractor and government representatives revealed, however, that practices and opinions vary as to whether certain kinds of sales or costs ought to be reflected in an allocation base for selling and marketing costs. These sales or costs pertain to:

1. Intracompany transfers.
2. Subcontract costs and purchased materials including accommodation purchases and drop shipments.
3. Capitalized projects.
4. Certain kinds of contacts such as those for field services.

Those contractors which exclude some or all of these sales or costs from an allocation base, or those which believe such sales or costs should be excluded, advance various arguments. For example, they contend that selling and marketing costs are incurred to sell products and services to outside customers; accordingly, such costs should not be allocated to intracompany transfers. Others exclude subcontract costs and purchased materials from an allocation base on the theory that the subcontractors’ and vendors’ selling and marketing costs are already included in the prices of subcontracts and purchase orders. Those contractors which exclude certain contracts, such as field service contracts, express the view that selling and marketing costs had been incurred on the ‘‘parent contract’’ under which the products being serviced had been produced and sold and that few such costs are incurred on the field service contracts. Capitalized projects are also excluded from the allocation base on the theory that selling and marketing costs are incurred to sell to outside customers. Conversely, there are a number of contractors that include all or some of these sales or costs or those which believe that such sales or costs should be included.

Practices and opinions also vary as to whether the selling and marketing costs incurred at corporate and group home offices should be allocated to all segments under such offices or to just some segments. Those contractors which exclude certain segments contend that the excluded segments have their own selling and marketing organizations or that the product lines of such segments are significantly different from those of the rest of the segments.

The question of whether or not all of the above-mentioned sales or costs, or all segments under a corporate or group home office, should be included in an allocation base is presumably influenced by the following factors among others:

1. How a contractor views the beneficial or causal relationship between the selling and marketing costs and the sales, costs or segments; that is, whether a contractor considers the relationship to be close or remote (benefit to overall business).

2. How a contractor interprets the longstanding FAR 31.203(c) policy regarding ''non-fragmentation of allocation bases''.

3. Whether a contractor considers the added refinement of its allocation practices to be worthy of the efforts involved or to be conductive to producing different allocation results.

A related question on the output bases concerns the use of different methods of recognition of sales; that is, the completed-contract method and the unit-of-delivery method as contrasted with the percentage-of-completion method (or the ''cost-incurred'' method for cost-type contracts). A number of contracts use different methods of recognizing the sales of the same cost accounting period for the different types of contracts performed. Obviously this practice creates additional allocation problems.

B. Issues

1. Should an allocation base for selling and marketing costs include the following?

a. Intracompany transfers.

b. Subcontract costs and purchased materials.

c. Capitalized projects.

d. Contracts such as for field services.

Please state the reasons for your answer.

2. Do you perceive any other output or input similar to the above which may be included in an allocation base? Conversely, do you perceive other similar output or input which may be excluded from an allocation base? Please describe them.

3. Under what circumstances should a segment be excluded from the allocation base of corporate home office or group home office selling and marketing costs, and what criteria should be established regarding allocation to segments?

4. Under what circumstances would it be appropriate to use different methods of sales recognition to determine an output allocation base for selling and marketing costs? If you believe that the use of different methods is inappropriate, which method should be used to determine the base?

Part V

Current Expensing vs. Deferral

A. Discussion

Previous parts of this Discussion paper discussed the problems associated with terminology and definition and with allocation bases for selling and marketing costs. Allocation of selling and marketing costs is further complicated by the fact that such costs usually include significant amounts of costs that are incurred in a current cost accounting period but are for the benefit of future periods.

Accounting Principles Board Statement (APBS) No. 4 addresses expense recognition and specifies three primary principles for recognizing expenses. They are associating cause and effect, systematic and rational allocation, and immediate recognition.

Under associating cause and effect, costs are recognized as expenses on the basis of a presumed direct association with specific revenue. APBS No. 4 states:

> Some costs are recognized as expenses on the basis of a presumed direct association with specific revenue. Although direct cause and effect relationships can seldom be conclusively demonstrated, many costs appear to be related to particular revenue and recognizing them as expenses accompanies recognition of the revenue. Examples of expenses that are recognized by associating cause and effect are sales commissions and costs of products sold or services provided. The term matching is often applied to this process.

Using the above language, sales commissions earned on a multi-year contract would be recognized over the life of the contract rather than expenses in the year of contract award.

Under immediate recognition, APBS No. 4 states:

> Some costs are associated with the current accounting period as expenses because (1) Cost incurred during the period provide no discernible future benefits, (2) costs recorded as assets in prior periods no longer provide discernible benefits or (3) allocating costs either on the basis of association with revenue or among several accounting periods is considered to serve no useful purpose.

APBS No. 4 states that examples of costs recognized in the current period include such costs as most selling costs and general and administrative type expenses.

Making the determination of whether selling and marketing costs can be associated with revenue on the basis of cause and effect may be difficult. Accounting literature has recognized these difficulties. Usry and Hammer state: ''Cause and effect, generally obvious in the factory, are not so readily discernible in the marketing processes. For example, many promotional costs are incurred for future results, creating a time lag between cause and effect. Conversely, the effects of manufacturing changes are usually felt quickly; and matching between effort and result usually can be determined. Furthermore, manufacturing results are more readily quantified than are marketing costs. For marketing costs, it is often not so easy to identify quantities or units of activity with the cost incurred and results achieved.''

Lawrence (Cost Accounting, revised by Ruswinckel) states: ''A very large number of manufacturing companies make their products to order, and a great amount of expense is undertaken in order to sell products that are not in existence at the time of sale. It is not considered improper to defer an expense that will result in future benefit.''

In government contacting, the time lag between cause and effect, referred to by Usry and Hammer, could be as much as 3 to 5 years. However, government contractors rarely defer selling and marketing costs. Presumably, this is because of the difficulties involved in distinguishing between those costs that should be currently expensed and those that should be deferred, and because of the high degree of uncertainty as to future benefits. In a few instances, however, contractors are known to have deferred those selling and marketing costs incurred to secure substantial new programs.

B. Issues

1. Should selling and marketing costs incurred for the benefit of future periods be deferred? If they should: a. under what circumstances should selling and marketing costs be deferred; b. what criteria should be established to distinguish between those costs that should be currently expensed and those that should be deferred, and c. how should the deferred costs be amortized?

2. If you do not believe that selling and marketing cost should be deferred, which allocation base(s) should be used in order to minimize the possible distorted allocations of costs incurred for future periods?

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