

OFFICE OF MANAGEMENT AND BUDGET**Office of Federal Procurement Policy****48 CFR Part 9904****Cost Accounting Standards Board; Allocation of Contractor Restructuring Costs**

AGENCY: Cost Accounting Standards Board, Office of Federal Procurement Policy, OMB.

ACTION: Final rule; interpretation.

SUMMARY: The Cost Accounting Standards (CAS) Board is issuing an interpretation designed to address period cost assignment and allocability criteria for restructuring costs incurred under certain national defense contracts.

DATES: *Effective Date:* August 15, 1994.

FOR FURTHER INFORMATION CONTACT: Richard C. Loeb, Executive Secretary, Cost Accounting Standards Board (telephone: 202-395-3254).

SUPPLEMENTARY INFORMATION:**A. Background**

Section 818 of the National Defense Authorization Act for Fiscal Year 1995, Pub. L. 103-337, restricts the Department of Defense from reimbursing a contractor or subcontractor that decides to avail itself of incurring restructuring costs associated with a business combination unless certain "net savings" provisions are met. Questions have arisen as to the methods to be used in measuring, assigning and allocating such restructuring costs. This interpretation is designed to address these questions, as well as the cost of restructuring activities, in general.

This interpretation is based upon the interim interpretation (with request for comment) issued by the CAS Board on March 8, 1995, 60 FR 12711. Ten sets of public comments were received in response to the interim interpretation. None of the commenters identified any substantive issues, although several requested more specificity with respect to the relationship of the interim interpretation to the provisions of CAS 9904.406—Cost Accounting Period. Accordingly, the interim interpretation is being revised to clarify that it serves principally as an interpretation of the provisions of CAS 9904.406 as related to restructuring costs.

B. Authority To Issue an Interpretation

Authority for issuance of this interpretation is provided by 41 U.S.C. 422(f)(1) and 48 CFR 9901.302(b).

Richard C. Loeb,

Executive Secretary, Cost Accounting Standards Board.

List of Subjects in 48 CFR part 9904

Accounting, Government procurement.

Accordingly, 48 CFR part 9904 is amended as follows:

Part 9904—COST ACCOUNTING STANDARDS**Subpart 9904.406—Cost Accounting Standard—Cost Accounting Period**

1. The authority citation for part 9904 of chapter 99 of title 48 continues to read as follows:

Authority: Pub. L. 100-679, 102 Stat. 4056, 41 U.S.C. 422.

2. Section 9904.406-61 is amended by adding text to read as follows:

§ 9904.406-61 Interpretation.

(a) Questions have arisen as to the allocation and period cost assignment of certain contract costs (primarily under defense contracts and subcontracts). This section deals primarily with the assignment of restructuring costs to cost accounting periods. In essence, it clarifies whether restructuring costs are to be treated as an expense of the current period or as a deferred charge that is subsequently amortized over future periods.

(b) "Restructuring costs" as used in this Interpretation means costs that are incurred after an entity decides to make a significant nonrecurring change in its business operations or structure in order to reduce overall cost levels in future periods through work force reductions, the elimination of selected operations, functions or activities, and/or the combination of ongoing operations, including plant relocations. Restructuring activities do not include ongoing routine changes an entity makes in its business operations or organizational structure. Restructuring costs are comprised both of direct and indirect costs associated with contractor restructuring activities taken after a business combination is effected or after a decision is made to execute a significant restructuring event not related to a business combination. Typical categories of costs that have been included in the past and may be considered in the future as restructuring charges include severance pay, early retirement incentives, retraining,

employee relocation, lease cancellation, asset disposition and write-offs, and relocation and rearrangement of plant and equipment. Restructuring costs do not include the cost of such activities when they do not relate either to business combinations or to other significant nonrecurring restructuring decisions.

(c) The costs of betterments or improvements of capital assets that result from restructuring activities shall be capitalized and depreciated in accordance with the provisions of 9904.404 and 9904.409.

(d) When a procuring agency imposes a net savings requirement for the payment of restructuring costs, the contractor shall submit data specifying

(1) the estimated restructuring costs by period,

(2) the estimated restructuring savings by period (if applicable), and

(3) the cost accounting practices by which such costs shall be allocated to cost objectives.

(e) Contractor restructuring costs defined pursuant to this section may be accumulated as deferred cost, and subsequently amortized, over a period during which the benefits of restructuring are expected to accrue. However, a contractor proposal to expense restructuring costs for a specific event in a current period is also acceptable when the Contracting Officer agrees that such treatment will result in a more equitable assignment of costs in the circumstances.

(f) If a contractor incurs restructuring costs but does not have an established or disclosed cost accounting practice covering such costs, the deferral of such restructuring costs may be treated as the initial adoption of a cost accounting practice (see 9903.302-2(a)). If a contractor incurs restructuring costs but does have an existing established or disclosed cost accounting practice that does not provide for deferring such costs, any resulting change in cost accounting practice to defer such costs may be presumed to be desirable and not detrimental to the interests of the Government (see 9903.201-6). Changes in cost accounting practices for restructuring costs shall be subject to disclosure statement revision requirements (see 9903.202-3), if applicable.

(g) Business changes giving rise to restructuring costs may result in changes in cost accounting practice (see 9903.302). If a contract price or cost allowance is affected by such changes in cost accounting practice, adjustments shall be made in accordance with subparagraph (a)(4) of the CAS clause

(see 9903.201-4(a)(2), 9903.201-4(c)(2) and 9903.201-4(e)(2)).

(h) The amortization period for deferred restructuring costs shall not exceed five years. The straight-line method of amortization should normally be used, unless another method results in a more appropriate matching of cost to expected benefits.

(i) Restructuring costs that are deferred shall not be included in the computation to determine facilities capital cost of money (see 9904.414). Specifically, deferred charges are not tangible or intangible capital assets and

therefore are excluded from the facilities capital values for the computation of facilities capital cost of money.

(j) Restructuring costs incurred at a home office level shall be treated in accordance with the provisions of 9904.403. Restructuring costs incurred at the segment level that benefit more than one segment should be allocated to the home office and treated as home office expense pursuant to 9904.403. Restructuring costs incurred at the segment level that benefit only that segment shall be treated in accordance

with the provisions of 9904.418. If one or more indirect cost pools do not comply with the homogeneity requirements of 9904.418 due to the inclusion of the costs of restructuring activities, then the restructuring costs shall be accumulated in indirect cost pools that are distinct from the contractor's ongoing indirect cost pools.

(k) This section is applicable to contractor "restructuring costs" paid or approved on or after August 15, 1994.

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