



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
8725 JOHN J. KINGMAN ROAD, SUITE 2135
FORT BELVOIR, VA 22060-6219

IN REPLY REFER TO

PAC 730.3.B.08/2003-09

July 23, 2004
04-PAC-040(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA

SUBJECT: DCMA/DCAA Joint Guidance Implementing the Teledyne Decision on
CAS 413.50(c)(12) Segment Closing Adjustments

DCMA/DCAA joint guidance implementing the decision in *Teledyne, Inc. v. United States*, 50 Fed. Cl. 155 (2001) (*Teledyne*) on the calculation of the Government's share of CAS 413.50(c)(12) segment closing adjustments is enclosed. This guidance, which was developed jointly by DCMA and DCAA in coordination with the Department of Justice, is being issued concurrently by DCMA.

If FAO personnel have any questions, they should contact regional personnel. If regional personnel have any questions, they should contact the Headquarters, Accounting and Cost Principles Division, at (703) 767-3250 or DCAA-PAC@dcaa.mil.

/Signed/
Robert DiMucci
Assistant Director
Policy and Plans

Enclosure:

DCMA/DCAA Joint Guidance Implementing the Teledyne Decision on CAS 413.50(c)(12)
Segment Closing Adjustments

DISTRIBUTION: C

DCMA/DCAA Joint Guidance Implementing the Teledyne Decision on CAS 413.50(c)(12) Segment Closing Adjustments

Summary

The U.S. Court of Federal Claims decision in *Teledyne, Inc. v. United States*, 50 Fed. Cl. 155 (2001) (*Teledyne*), which was affirmed by the U.S. Court of Appeals for the Federal Circuit, requires certain exclusions when calculating the Government's share of the CAS 413 segment closing adjustment. Specifically, the portion of a closed segment's pension surplus or deficit that is attributable to pension costs that were allocated to contracts that predate CAS 413, as well as the portion that is attributable to pension costs allocated to firm-fixed price (FFP) contracts entered into under the original CAS 413 must be excluded from the calculation of the Government's share of the CAS 413 segment closing adjustment. When there is a segment closing surplus, the portion of the surplus attributable to employee contributions made from the date of the inception of the pension plan until the date upon which the contractor first had to follow CAS 413, as amended March 30, 1995 (revised CAS 413), must also be excluded.

The required exclusions are made by adjusting the numerator and the denominator of the fraction that is applied to the segment closing surplus or deficit to determine the Government's share.

Background

In its August 9, 2001 decision in *Teledyne* (which addresses common issues raised in cases brought by three contractors, i.e., Teledyne, General Electric and General Motors), the U.S. Court of Federal Claims held that for segment closings subject to the original CAS 413, certain portions of the closed segment's pension surplus or deficit must be excluded from the determination of the Government's share of the segment closing adjustment. The court ruled that when the segment closing is subject to the original CAS 413 provisions, (1) the pension surplus or deficit that is attributable to pension costs that had been allocated to contracts that predated the original CAS 413 must be excluded from the portion of the closed segment's pension surplus or deficit that is subject to recovery; (2) the Government is not entitled to recover the portion of the closed segment's surplus that is attributable to pension contributions made by employees; and (3) the portion of the closed segment's surplus or deficit that is attributable to pension costs that were allocated to FFP contracts must be excluded from the calculation of the Government's share unless there is an express contract provision providing for recovery. The court also held (4) that applying the revised CAS 413 segment closing adjustment provisions to FFP contracts that were entered into under the original CAS 413 amounted to a Government-mandated accounting practice change that entitled the contractor to an equitable adjustment to the extent that the contractor would have been required to pay a greater amount under revised CAS 413 than under original CAS 413. The practical effect of this equitable adjustment is to exclude the portion of the closed segment's surplus or deficit that is attributable to FFP contracts entered into under original CAS 413 from the calculation of the Government's share of the segment closing adjustment.

The first three rulings, which were related to the original CAS 413, were affirmed by the United States Court of Appeals for the Federal Circuit in its January 23, 2003 decision (*Allegheny Teledyne, Inc. v. United States*, 316 F.3d 1366 (Fed. Cir. 2003)). Only the third

**DCMA/DCAA Joint Guidance Implementing the Teledyne Decision
on CAS 413.50(c)(12) Segment Closing Adjustments**

ruling was appealed to the U.S. Supreme Court and certiorari was denied on December 1, 2003. The fourth ruling, which was related to revised CAS 413, was not appealed.

CAS 413 became effective March 10, 1978. A contractor had to follow the standard on or after the start of its next cost accounting period beginning after the receipt of a contract to which the standard applied. CAS 413 was amended, effective March 30, 1995. A contractor had to follow the revised CAS 413 on or after the start of its next cost accounting period beginning after the receipt of a contract or subcontract to which the revised standard applied.

It should be noted that the portion of the Teledyne decision that concerns revised CAS 413 addresses a situation where a segment closed after the contractor had to follow revised CAS 413 but the contractor had made no pension contributions under revised CAS 413 (i.e., the pension plan had become overfunded prior to when the contractor had to follow revised CAS 413). This portion of the decision effectively entails a three step process; (1) determine the Government's share of the segment closing adjustment under revised CAS 413; (2) determine what the Government's share of the segment closing adjustment would have been under original CAS 413, considering the rulings in the *Teledyne* decision applicable to original CAS 413; and (3) determine the dollar amount of the difference; an amount for which the contractor is entitled to an equitable adjustment. In addition to the situation specifically addressed in this portion of the *Teledyne* decision, this audit guidance also addresses circumstances not specifically addressed in the decision and compresses the *Teledyne* decision's three steps into a mathematically equivalent one-step calculation.

It should also be noted that in order to determine the Government's share of a segment closing surplus or deficit in strict compliance with the *Teledyne* decision, the segment closing surplus or deficit would need to be traced back to the specific contributions made over the years that gave rise to it. Given the complexity of pension accounting and the significant time period that must be considered in the calculations, tracing a segment closing surplus or deficit back to specific contributions made over the years that gave rise to it would require incredibly complicated calculations and historical data that, in most, if not all cases is not available. Therefore, the methodology in this audit guidance, by necessity, includes estimates and assumptions and provides a reasonable approximation given the circumstances.

Guidance

Pre-CAS Contracts and Employee Contributions

Most of the trial court's decision, which was upheld by the U.S. Court of Appeals for the Federal Circuit, related to a segment closing that was subject to the requirements of the original CAS 413. In that context, the court held that the closed segment's pension surplus or deficit that was attributable to employee contributions and to pension costs that had been allocated to pre-CAS 413 contracts must be treated as follows:

**DCMA/DCAA Joint Guidance Implementing the Teledyne Decision
on CAS 413.50(c)(12) Segment Closing Adjustments**

The court agrees with Teledyne and GE that the pension surplus or deficit attributable to contracts that predate the original CAS 413 must be excluded from the portion of the CAS 413 segment closing adjustment that is subject to recovery.... Thus, neither the government nor the contractor can recover any surplus or deficit attributable to contracts that did not contain the original CAS 413....

The court also agrees with GE's assertion that under the Allowable Costs and Payment and Credits clauses, the government is only entitled to recover the amounts attributable to government contributions to the segment's pension plan.... Nothing in [original] CAS 413.50(c)(12) suggests that the government is entitled to recover the amounts attributable to pension contributions made by employees.

Teledyne, 50 Fed. Cl. at 183-184.

When a segment closing is subject to the original CAS 413 and the closed segment has a pension surplus, a plain reading of these two rulings requires removal of the portions of the closed segment's surplus that are attributable to pre-CAS 413 contracts and to employee contributions when calculating the Government's share of the segment closing adjustment. Because of the court's decision that required an equitable adjustment when a segment closing is subject to revised CAS 413, but the pension plan had become overfunded before the contractor had to follow revised CAS 413 (the fourth ruling referred to on page 1 of this guidance), the portions of the surplus that are attributable to pre-CAS 413 contracts and to employee contributions made under original CAS 413 are also excluded when calculating the Government's share of the segment closing adjustment for segment closings subject to revised CAS 413.

The court found nothing in the original CAS 413.50(c)(12) to suggest that the Government is entitled to recover amounts attributable to employee contributions. In contrast, revised CAS 413 provides a specific formula for calculating the Government's share of the segment closing adjustment: a formula that does not adjust for employee contributions. Therefore, no adjustment is required for employee contributions made after the contractor had to follow revised CAS 413. As a result, when a segment closing is subject to revised CAS 413 and there are employee contributions made after the contractor had to follow revised CAS 413, the total surplus of the closed segment must be allocated between the periods before and after the contractor had to follow revised CAS 413 based on the assigned pension costs and employee contributions in each period to the total assigned pension costs and employee contributions. Then original CAS 413 is applied to the portion of the surplus attributable to the period prior to when the contractor had to follow revised CAS 413. Likewise, revised CAS 413 is applied to the portion of the surplus attributable to the period in which the contractor was subject to revised CAS 413.

When the closed segment has a pension deficit, there is no adjustment for employee contributions. Since employee contributions are fixed, any variance between actual and assumed earnings on employee contributions becomes part of the contractor's future pension cost in

**DCMA/DCAA Joint Guidance Implementing the Teledyne Decision
on CAS 413.50(c)(12) Segment Closing Adjustments**

which the Government shares. When there is a segment closing surplus, the court ruled that the Government is not entitled to a share of the surplus attributable to employee contributions. This ruling is based on the court's reliance on the FAR Allowable Cost and Payment clause (FAR 52.216-7) and Credits provision (FAR 31.201-5), that restrict the Government's share of the surplus to credits or refunds attributable to costs that the Government had actually reimbursed. While there are contract clauses that may also restrict the contractor's recovery of a segment closing deficit, the application of those clauses is not limited to the employee contribution share of the deficit and is addressed later in this guidance. Therefore, when calculating the Government's share of a segment closing deficit, the portion of the deficit attributable to employee contributions is not removed.

It should also be noted that employee contributions generally will not continue if a pension plan remains fully funded for an extended period of time. Therefore, it should not be assumed that employee contributions continued for the entire period of full funding unless there is documentation to support such a conclusion.

Based on the foregoing, the appropriate adjustments for pre-CAS contracts and employee contributions are achieved by adjusting the denominator of the fraction used to calculate the government's share. (This fraction is specifically provided for in revised CAS 413 at CAS 413.50(c)(12)(vi).) When there is a segment closing surplus, the denominator is the sum of employee contributions from the date of the pension plan's inception until the contractor first had to follow revised CAS 413 and total assigned pension costs from the date of the pension plan's inception until the date of segment closing. However, as discussed previously, when a segment closing is subject to revised CAS 413 and employee contributions were made after the contractor had to follow revised CAS 413, the total surplus of the closed segment must be allocated between the periods before and after the contractor had to follow revised CAS 413. In such cases, a separate fraction is calculated for each period based on the requirements of the appropriate version of CAS 413 (i.e., original or revised) and the denominator of each period's fraction includes the assigned pension costs applicable to that period. For the period prior to when the contractor had to follow revised CAS 413, the denominator also includes employee contributions. This is demonstrated in Scenario 2 of the calculation examples in the attachment.

When there is a segment closing deficit, there is no adjustment for employee contributions; therefore, the denominator of the fraction equals the total assigned pension costs from the date of the pension plan's inception until the date of segment closing. Regardless of whether there is a surplus or a deficit, the numerator is the same: the sum of all pension costs allocated to contracts and subcontracts subject to the CAS 413 requirements during the same period of time covered by the denominator. (However, the amount included in the numerator for the years prior to CAS applicability would be zero since there would be no contracts or subcontracts subject to the requirements of CAS 413.)

Fixed Priced Contracts Entered into under Original CAS 413

The court ruled that when the segment closing is subject to the original CAS 413 provisions, the portion of the segment closing adjustment related to FFP contracts must be excluded from the calculation of the Government's share unless there is an express contract

**DCMA/DCAA Joint Guidance Implementing the Teledyne Decision
on CAS 413.50(c)(12) Segment Closing Adjustments**

provision providing for recovery. The court also ruled that revised CAS 413 could not be applied to permit Government recovery of a segment closing surplus on FFP contracts entered into under original CAS 413. The court likened such application to a Government-mandated accounting practice change entitling the contractor to an equitable adjustment.

These rulings require that the portion of the pension surplus or deficit that is attributable to pension costs allocated to FFP contracts entered into under the original CAS 413 be excluded from the calculation of the Government's share of the segment closing adjustment whether the segment closing is subject to original CAS 413 or revised CAS 413. Therefore, in both cases, the numerator of the fraction used to calculate the Government's share of the adjustment should exclude pension costs allocated to FFP contracts entered into under the original CAS 413.

Representative Period

Original CAS 413 does not expressly provide a method or formula for calculating the Government's share of the segment closing adjustment. However, the Government's share of the segment closing adjustment is expressly calculated in revised CAS 413, which provides for a fraction using data from "a period of years representative of the Government's participation in the pension plan." See CAS 413.50(c)(12)(vi). Revised CAS 413 does not explain how to determine the representative period and the Teledyne decision did not specifically address this issue. However, following the rationale of the court, when there is a segment closing deficit, the calculation would include data from all years in which pension costs were assigned. When there is a segment closing surplus, the calculation would include data from all years in which pension costs were assigned and/or employee contributions were made, except for those years in which the contractor was subject to revised CAS 413 and employee contributions were made but no pension costs were assigned. Those years are excluded because such years would not be representative of the Government's participation in the contractor's pension plan under revised CAS 413. Because of the significant period of time that must be considered in the calculation, the historical data needed may not be available for the entire period. Therefore, if a shorter period results in an equitable calculation and the parties agree, we see nothing to preclude the use of a shorter period.

Funding Requirement for Pension Deficits

When there is a segment closing deficit, the Government's share of the deficit is an allowable cost only if the contractor has funded it no later than the contractor's Federal income tax deadline for the year of the segment closing (including extensions) in accordance with FAR 31.205-6(j)(1)(i) and (j)(2)(i)(A). Therefore, any portion of a segment closing deficit not funded by such time should be disallowed. Even when the segment closing deficit is funded, in certain cases, the contracting officer may have other considerations in determining the amount of contractor recovery (e.g., the limitation of cost/funds clauses found at FAR 52.232-20 (Limitation of Cost) and FAR 52.232-22 (Limitation of Funds)).

**DCMA/DCAA Joint Guidance Implementing the Teledyne Decision
on CAS 413.50(c)(12) Segment Closing Adjustments**

Other Comments

In the event that the specific data needed to perform the calculations discussed in this guidance are not available, reasonable surrogates may be used. In such cases, the DCAA auditor and DCMA pension specialist should work together with the contractor to develop the most reasonable representation considering the data available.

Calculation steps and examples for typical scenarios are included in the Attachment.

Attachment:

Calculation Steps and Examples

**DCMA/DCAA Joint Guidance Implementing the Teledyne Decision
on CAS 413.50(c)(12) Segment Closing Adjustments**

Calculation Steps and Examples

1. If there is a segment closing surplus and there are no employee contributions; or if there are employee contributions, but none were made after the contractor had to follow revised CAS 413:
 - a. Determine the total pension costs allocated to all contracts and subcontracts subject to the requirements of CAS 413 (including non-CAS covered contracts subject to FAR 31.205-(6)(j)(1)) from the date the contractor first had to follow original CAS 413 until the date of segment closing.
 - b. Determine the pension costs allocated to FFP contracts entered into under original CAS 413.
 - c. The numerator of the fraction for determining the Government's share of the segment closing adjustment equals 1a minus 1b.
 - d. Determine total employee contributions from the date of the pension plan's inception until the contractor first had to follow revised CAS 413.
 - e. Determine total assigned pension costs for the segment (for both Government and commercial contracts) from the date of the pension plan's inception until the date of segment closing.
 - f. The denominator of the fraction for determining the Government's share of the segment closing adjustment equals 1d plus 1e.
 - g. The Government's share of the segment closing adjustment equals the total segment closing surplus times 1c divided by 1f.

[See Scenario 1, on page 4 for an example demonstrating calculation #1.]

2. If there is a segment closing surplus and employee contributions were made after the contractor had to follow revised CAS 413:
 - a. To allocate the segment closing surplus between the periods before (pre-revised CAS 413 period) and after (revised CAS 413 period) the contractor had to follow revised CAS 413:
 - i. For the pre-revised CAS 413 period, i.e., from the date of the pension plan's inception until the contractor first had to follow revised CAS 413, determine total assigned pension costs for the segment (for both Government and commercial contracts) plus total employee contributions.
 - ii. For the revised CAS 413 period, i.e., from the date the contractor first had to follow revised CAS 413 until the date of segment closing, determine total assigned pension costs for the segment (for both Government and commercial contracts) plus total employee contributions.
 - iii. The portion of the surplus attributable to the pre-revised CAS 413 period equals the total segment closing surplus times 2.a.i divided by the total of 2.a.i and 2.a.ii.
 - iv. The portion of the surplus attributable to the revised CAS 413 period equals the total segment closing surplus times 2.a.ii divided by the total of 2.a.i and 2.a.ii.
 - b. Apply original CAS 413 to the pre-revised CAS 413 period portion of the surplus:
 - i. The numerator of the fraction for determining the Government's share of the segment closing surplus for the pre-revised CAS 413 period equals the total pension costs allocated to cost-type contracts and subcontracts subject to the requirements of

**DCMA/DCAA Joint Guidance Implementing the Teledyne Decision
on CAS 413.50(c)(12) Segment Closing Adjustments**

Calculation Steps and Examples

- CAS 413 (including non-CAS covered contracts subject to FAR 31.205-(6)(j)(1)) from the date the contractor first had to follow original CAS 413 until the date the contractor first had to follow revised CAS 413.
- ii. The denominator of the fraction for determining the Government's share of the segment closing surplus for the pre-revised CAS 413 period equals the total assigned pension costs for the segment (for both Government and commercial contracts) plus total employee contributions each from the date of the pension plan's inception until the contractor first had to follow revised CAS 413.
 - iii. The Government's share of the segment closing surplus for the pre-revised CAS 413 period equals the 2.a.iii times 2.b.i divided by 2.b.ii.
- c. Apply revised CAS 413 to the revised CAS 413 period portion of the surplus:
- i. Determine the total pension costs allocated to all contracts and subcontracts subject to the requirements of CAS 413 (including non-CAS covered contracts subject to FAR 31.205-(6)(j)(1)) from the date the contractor first had to follow revised CAS 413 until the date of segment closing.
 - ii. Determine the pension costs allocated to FFP contracts entered into under original CAS 413 from the date the contractor first had to follow revised CAS 413 until the date of segment closing.
 - iii. The numerator of the fraction for determining the Government's share of the segment closing surplus for the revised CAS 413 period equals 2.c.i minus 2.c.ii.
 - iv. The denominator of the fraction for determining the Government's share of the segment closing adjustment for the revised CAS 413 period equals total assigned pension costs for the segment (for both Government and commercial contracts) from the date the contractor first had to follow revised CAS 413 until the date of segment closing.
 - v. The Government's share of the segment closing surplus for the revised CAS 413 period equals 2.a.iv times 2.c.iii divided by 2.c.iv.
- d. The Government's total share of the segment closing surplus equals 2.b.iii plus 2.c.v.

[See Scenario 2, on page 5 and 6 for an example demonstrating calculation #2.]

3. If there is a segment closing deficit:
- a. Determine the total pension costs allocated to all contracts and subcontracts subject to the requirements of CAS 413 (including non-CAS covered contracts subject to FAR 31.205-(6)(j)(1)) from the date the contractor first had to follow CAS 413 until the date of segment closing.
 - b. Determine the pension costs allocated to FFP contracts entered into under original CAS 413.
 - c. The numerator of the fraction for determining the Government's share of the segment closing adjustment equals 3a minus 3b.
 - d. The denominator of the fraction for determining the Government's share of the segment closing adjustment equals total assigned pension costs for the segment (for both

**DCMA/DCAA Joint Guidance Implementing the Teledyne Decision
on CAS 413.50(c)(12) Segment Closing Adjustments**

Calculation Steps and Examples

Government and commercial contracts) from the date of the pension plan's inception until the date of segment closing.

- e. The Government's share of the segment closing adjustment equals the total segment closing deficit times 3c divided by 3d.

[See Scenario 3, on page 7 for an example demonstrating calculation #3.]

Calculation Examples

Calculation examples for three different scenarios are below. In all examples assume the following:

Date of Plan Inception	1/1/1954
Date contractor first had to follow CAS 413	1/1/1979
Date contractor first had to follow revised CAS 413	1/1/1996
Date of Segment Closing	12/31/2001
Employee Contributions per Year	\$10

**DCMA/DCAA Joint Guidance Implementing the Teledyne Decision
on CAS 413.50(c)(12) Segment Closing Adjustments**

Calculation Steps and Examples

Scenario 1 – Surplus; Plan Overfunded Prior to Revised CAS 413, No Employee Contributions Made Under Revised CAS 413

Year		Employee Contributions	Total Assigned Pension Cost	Total Assigned Cost & Employee Contributions	Costs Allocated to CAS 413 * Cost-type Contracts	Costs Allocated to CAS 413 * FFP Contracts	Costs Allocated to All CAS 413 * Contracts	Costs Allocated to Non-CAS 413 Contracts
		1	2	3=1+2	4	5	6=4+5	7=2-6
1954 - 1978	a	240	2,400	2,640	0	0	0	2,400
1979 – 1995 ***	b	160	900	1,060	500	320	820	80
1996 - 2001	c	0	0	0	0	0	0	0
Total 1954 - 1995	d=a+b	400	3,300	3,700	500	320	820	2,480
Total 1979 - 2001	e=b+c	160	900	1,060	500	320	820	80
Total 1954 - 2001	f=a+b+c	400	3,300	3,700	500	320	820	2,480

Segment Closing Surplus/(Deficit)	g	2,000	(given) **
Costs Allocated to All Contracts Subject to CAS 413 Requirements (1979 - 2001)	h	820	(6e)
Less Costs Allocated to FFP Contracts with Original CAS 413 (1979 – 1995 ***)	i	320	(5b)
Numerator	j	500	(h-i)
Total Employee Contributions from Plan Inception to Applicability of Revised CAS 413 (1954 – 1995)	k	400	(1d)
Plus Total Assigned Pension Cost from Plan Inception to Segment Closing (1954 – 2001)	l	3,300	(2f)
Denominator	m	3,700	(k+l)
Government Participation Percent	n	13.5%	(j/m)
Government Share of Segment Closing Surplus/(Deficit)	o	270	(g*n)

* “CAS 413 contracts” include CAS covered contracts and subcontracts as well as non-CAS covered contracts and subcontracts subject to FAR 31.205-6(j)(1).

** Per CAS 413.50(c)(12) this amount represents the difference between the market value of assets and the actuarial accrued liability for the segment as of the date of the segment closing.

*** This example assumes that all contracts entered into under original CAS 413 ended on or before 12/31/1995.

**DCMA/DCAA Joint Guidance Implementing the Teledyne Decision
on CAS 413.50(c)(12) Segment Closing Adjustments**

Calculation Steps and Examples

Scenario 2 – Surplus; Plan Overfunded After Revised CAS 413, Employee Contributions Made Under Revised CAS 413

Year		Employee Contributions	Total Assigned Pension Cost	Total Assigned Cost & Employee Contributions	Costs Allocated to CAS 413 * Cost-type Contracts	Costs Allocated to CAS 413 * FFP Contracts	Costs Allocated to All CAS 413 * Contracts	Costs Allocated to Non-CAS 413 Contracts
		1	2	3=1+2	4	5	6=4+5	7=2-6
1954 - 1978	a	240	2,400	2,640	0	0	0	2,400
1979 – 1995 ***	b	160	1,600	1,760	800	640	1,440	160
1996 - 2001	c	30	300	330	130	150	280	20
Total 1954 - 1995	d=a+b	400	4,000	4,400	800	640	1,440	2,560
Total 1979 - 2001	e=b+c	190	1,900	2,090	930	790	1,720	180
Total 1954 - 2001	f=a+b+c	430	4,300	4,730	930	790	1,720	2,580

Allocate Segment Closing Surplus Between Pre-Revised CAS 413 Period and Revised CAS 413 Period

Segment Closing Surplus	g	2,000	(given) **
Total Assigned Cost & Employee Contribution during Pre-revised CAS 413 Period (1954 - 1995)	h	4,400	(3d)
Total Assigned Cost & Employee Contributions under Revised CAS 413 (1996 - 2001)	i	330	(3c)
Total Assigned Costs & Employee Contributions (1954 - 2001)	j	4,730	(h+i)
Surplus Attributable to Pre-revised CAS 413 Period	k	1,860	(g*h/j)
Surplus Attributable to Revised CAS 413 Period	l	140	(g*i/j)

Apply Original CAS 413 to Determine Government's Share for Pre-revised CAS 413 Period

Surplus Attributable to Pre-revised CAS 413 Period	m	1,860	k
<u>Numerator</u> - Costs Allocated to Cost- Type Contracts Subject to Original CAS 413 Requirements (1979 - 1995)	n	800	(4b)
<u>Denominator</u> - Total Assigned Pension Cost & Employee Contributions from Plan Inception to Applicability of Revised CAS 413 (1954 - 1995)	o	4,400	(3d)
Government Participation Percent for Pre-revised CAS 413 Period	p	18.2%	(n/o)
Government Share of Surplus Attributable to Pre-revised CAS 413 Period	q	338	(m*p)

**DCMA/DCAA Joint Guidance Implementing the Teledyne Decision
on CAS 413.50(c)(12) Segment Closing Adjustments**

Calculation Steps and Examples

Apply Revised CAS 413 to Determine Government's Share for Revised CAS 413 Period

Surplus Attributable to Revised CAS 413 Period	r	140	l
Costs Allocated to All Contracts Subject to CAS 413 Requirements during Revised CAS 413 Period (1996 - 2001)	s	280	(6c)
Less Costs Allocated to FFP Contracts with Original CAS 413 during Revised CAS 413 Period ****	t	0	****
<u>Numerator</u>	u	280	(s-t)
<u>Denominator</u> - Total Assigned Pension Cost from Applicability of Revised CAS 413 to Segment Closing (1996 - 2001)	v	300	(2c)
Government Participation Percent for Revised CAS 413 Period	w	93.3%	(u/v)
Government Share of Surplus Attributable to Revised CAS 413 Period	x	130	(r*w)

Total Government Share of Segment Closing Surplus	y	468	(q+x)
---	---	-----	-------

* "CAS 413 contracts" include CAS covered contracts and subcontracts as well as non-CAS covered contracts and subcontracts subject to FAR 31.205-6(j)(1).

** Per CAS 413.50(c)(12) this amount represents the difference between the market value of assets and the actuarial accrued liability for the segment as of the date of the segment closing.

*** This example assumes that all contracts entered into under original CAS 413 ended on or before 12/31/1995.

**** Since this example assumes all contracts entered into under original CAS 413 ended on or before 12/31/1995; there were no costs allocated to FFP contracts entered into under original CAS 413 during the revised CAS 413 period to deduct. However, in actual situations, pension costs incurred after 12/31/1995 may be allocated to FFP contracts entered into under original CAS 413. In that case those pension costs would be deducted here.

**DCMA/DCAA Joint Guidance Implementing the Teledyne Decision
on CAS 413.50(c)(12) Segment Closing Adjustments**

Calculation Steps and Examples

Scenario 3 – Deficit

Year		Employee Contributions	Total Assigned Pension Cost	Total Assigned Cost & Employee Contributions	Costs Allocated to CAS 413 * Cost-type Contracts	Costs Allocated to CAS 413 * FFP Contracts	Costs Allocated to All CAS 413 * Contracts	Costs Allocated to Non-CAS 413 Contracts
		1	2	3=1+2	4	5	6=4+5	7=2-6
1954 - 1978	a	240	2,400	2,640	0	0	0	2,400
1979 – 1995 ***	b	160	1,600	1,760	800	640	1,440	160
1996 - 2001	c	50	500	550	210	250	460	40
Total 1954 - 1995	d=a+b	400	4,000	4,400	800	640	1,440	2,560
Total 1979 - 2001	e=b+c	210	2,100	2,310	1,010	890	1,900	200
Total 1954 - 2001	f=a+b+c	450	4,500	4,950	1,010	890	1,900	2,600

Segment Closing Surplus/(Deficit)	g	(3,000)	(given) **
Costs Allocated to All Contracts Subject to CAS 413 Requirements (1979 - 2001)	h	1,900	(6e)
Less Costs Allocated to FFP Contracts with Original CAS 413 (1979 – 1995 ***)	i	640	(5b)
Numerator	j	1,260	(h-i)
<u>Denominator</u> - Total Assigned Pension Cost from Plan Inception to Segment Closing (1954 - 2001)	k	4,500	(2f)
Government Participation Percent	l	28%	(j/k)
Government Share of Segment Closing Surplus/(Deficit)	m	(840)	(g*1)

* “CAS 413 contracts” include CAS covered contracts and subcontracts as well as non-CAS covered contracts and subcontracts subject to FAR 31.205-6(j)(1).

** Per CAS 413.50(c)(12) this amount represents the difference between the market value of assets and the actuarial accrued liability for the segment as of the date of the segment closing.

*** This example assumes that all contracts entered into under original CAS 413 ended on or before 12/31/1995.