

concerning the affected FAR Parts 15 and 31 in accordance with 5 U.S.C. 610. Interested parties must submit such comments separately and should cite 5 U.S.C. 601, *et seq.* (FAR case 2002-008), in correspondence.

C. Paperwork Reduction Act

The Paperwork Reduction Act does not apply because the proposed changes to the FAR do not impose information collection requirements that require the approval of the Office of Management and Budget under 44 U.S.C. 3501, *et seq.*

List of Subjects in 48 CFR Parts 15 and 31

Government procurement.

Dated: June 26, 2003.

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Director, Acquisition Policy Division.

Therefore, DoD, GSA, and NASA propose amending 48 CFR parts 15 and 32 as set forth below:

1. The authority citation for 48 CFR parts 15 and 31 is revised to read as follows:

Authority: 40 U.S.C. 121(c); 10 U.S.C. chapter 137; and 42 U.S.C. 2473(c).

PART 15—CONTRACTING BY NEGOTIATION

15.208 [Amended]

2. In section 15.408, amend Table 15-2, which follows paragraph (m)(4), by removing from paragraph A.(1) of Item II, Cost Elements, “31.205-26(e)” and adding “31.205-26(c)” in its place.

PART 31—CONTRACT COST PRINCIPLES AND PROCEDURES

3. In section 31.205-7, revise the last sentence in paragraph (c)(2) to read as follows:

31.205-7 Contingencies.

* * * * *

(c) * * *

(2) * * * (See, for example, 31.205-6(g) and 31.205-19).

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31.205-11 [Amended]

4. Amend section 31.205-11 in paragraph (k) by removing “31.205-26(e)” and adding “31.205-26(c)” in its place.

5. Amend section 31.205-16 as follows:

- a. Revise paragraph (a);
- b. Redesignate paragraphs (b) through (g) as (c) through (h), respectively;
- c. Add a new paragraph (b);
- d. Revise the newly designated paragraphs (c), (d)(1), (e), and (f);
- e. Amend the newly designated paragraph (d)(2)(ii) by removing

“subparagraph (c)(1)” and adding “paragraph (d)(1)” in its place;

f. Amend the newly designated paragraph (g) by removing “shall be” and adding “is” in its place; and

g. Amend the first sentence of the newly designated paragraph (h) by removing “shall be” and adding “is” in its place. The added and revised text reads as follows:

31.205-16 Gains and losses on disposition or impairment of depreciable property or other capital assets.

(a) The Government and the contractor shall include gains and losses from the sale, retirement, or other disposition (but see 31-205.19) of depreciable property in the year in which they occur as credits or charges to the cost grouping(s) in which the depreciation or amortization applicable to those assets was included (but see paragraph (e) of this subsection). However, no gain or loss is recognized as a result of the transfer of assets in a business combination (*see* 31.205-52).

(b) Notwithstanding the provisions in paragraph (c) of this subsection, when costs of depreciable property are subject to the sale and leaseback limitations in 31.205-11(m)(1) or 31.205-36(b)(2)—

(1) The gain or loss is the difference between the fair market value on the disposition date and the adjusted asset value at the time of disposition (as defined in paragraph (b)(3) of this subsection);

(2) The disposition date is the later of—

(i) The latest ending date of the lease term, including any extensions and renewals; or

(ii) The date the contractor vacates the property; and

(3) The adjusted asset value at the time of disposition is the contractor's original asset cost less the sum of—

(i) The allowable depreciation costs for the period prior to the date of the sale and leaseback; and

(ii) The depreciation costs that would have been allowed had the contractor retained title to the property from the date of the sale and leaseback until the disposition date.

(c) The Government and the contractor consider gains and losses on disposition of tangible capital assets including those acquired under capital leases (*see* 31.205-11(m)) as adjustments of depreciation costs previously recognized. The gain or loss for each asset disposed of is the difference between the net amount realized, including insurance proceeds from involuntary conversions, and its undepreciated balance. The Government and the contractor shall limit the gain

recognized for contract costing purposes to the difference between the acquisition cost (or for assets acquired under a capital lease, the value at which the leased asset is capitalized) of the asset and its undepreciated balance (except *see* paragraph (d)(2)(i) or (ii) of this subsection).

(d) * * *

(1) When there is a cash award and the converted asset is not replaced, the Government and the contractor shall recognize the gain or loss in the period of disposition. The gain recognized for contract costing purposes is limited to the difference between the acquisition cost of the asset and its undepreciated balance.

* * * * *

(e) The Government and the contractor shall not recognize gains or losses on the disposition of depreciable property as a separate charge or credit when the contractor—

(1) Processes the gains and losses through the depreciation reserve account and reflects them in the depreciation allowable under 31.205-11; or

(2) Exchanges the property as part of the purchase price of a similar item, and takes into consideration the gain or loss in the depreciation cost basis of the new item.

(f) The Government and the contractor shall consider gains and losses arising from mass or extraordinary sales, retirements, or other disposition other than through business combinations on a case-by-case basis.

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31.205-24 [Removed & Reserved]

6. Remove and reserve section 31.205-24.

7. Revise section 31.205-26 to read as follows:

31.205-26 Material costs.

(a) Material costs include the costs of such items as raw materials, parts, subassemblies, components, and manufacturing supplies, whether purchased or manufactured by the contractor, and may include such collateral items as inbound transportation and intransit insurance. In computing material costs, the contractor shall consider reasonable overruns, spoilage, or defective work (unless otherwise provided in any contract provision relating to inspecting and correcting defective work).

(b) The contractor shall—

(1) Adjust the costs of material for income and other credits, including available trade discounts, refunds, rebates, allowances, and cash discounts,