

KYLLAND SYSTEMS

You recently received the following firm fixed-price cost proposal from Kylland Systems for X-119 System replacement units. Kylland's cost proposal is summarized below.

Proposal Element	Proposed Cost
Purchased Parts	\$75,000
Commercial Items	\$125,000
Material Overhead @ 2.2%	\$4,400
Direct Engineering Labor	\$20,000
Engineering Overhead @ 84.0%	\$16,800
Direct Manufacturing Labor	\$75,000
Manufacturing Overhead @ 200.0%	<u>\$150,000</u>
Total Manufacturing Cost	\$466,200
G&A Expense @ 5.1%	<u>\$23,776</u>
Total Cost*	\$489,976

Actual Indirect Cost Rates				
Indirect Cost Rate	2004	2005	2006	2007
Material	2.1%	2.0%	2.1%	2.4%
Engineering	66.7%	70.3%	73.3%	75.4%
Manufacturing	155.0%	150.0%	159.1%	178.6%
G&A	5.7%	5.0%	5.2%	5.6%

Indirect Cost Rates (Audit Recommend)	2008
Material	2.2%
Engineering	73.5%
Manufacturing	169.8%
G&A	5.4%

What would the Government objective be using audit recommended indirect Rates instead of proposed rates?