year of purchase, for its submission, it correctly capitalized the cost of the plastics and amortized them over a two-year period. Respondent maintains that its greenhouse plastic generally remains a productive asset for at least two years and, thus, to expense these assets in the year of acquisition would distort its current production costs. Respondent further argues that the Department has accepted a two-year amortization period in the *Flowers* proceedings.

The petitioner notes that respondent's amortization methodology for greenhouse plastic was created by the company solely for its submission. Petitioner contends that the submitted costs must be rejected because the amortization schedule is incomplete and since respondent has not demonstrated that its normal accounting practices distort costs.

DOC Position

As explained in the general issues section, Comment 19, we have allowed companies to capitalize and amortize greenhouse plastic costs even though respondents normally treat such costs as expenses in the year of purchase. Respondents must demonstrate, however, that they correctly capitalized and amortized similar costs from all previous years (*see*, Exhibit 5 of the cost verification report). Respondent failed to satisfy this requirement. We have therefore calculated respondent's greenhouse plastics cost using the actual costs incurred as reported in the company's 1993 accounting records.

Flores Mocari

Comment 39

The petitioner alleges that certain verification exhibits indicate that respondent did not report all indirect selling expenses, *e.g.*, advertising.

The respondent maintains that it reported all indirect selling expenses. The respondent points out that the expense amounts identified by the petitioner include amounts associated with months prior to the POI. Second, the respondent points out that it makes adjustments to its accounts each month and that the total amounts of the accounting adjustments will cancel each other out by the end of the fiscal year. Third, the respondent states that the verification team examined whether numerous selling expenses were incurred as reflected in the accounting books and found no unreported selling expenses. Fourth, the respondent maintains that, where the expense was associated with both G&A and sales, it appropriately allocated the expense between administration and sales departments. The respondent maintains that the Department should accept its indirect selling expense allocation methodology.

DOC Position

We agree with the respondent. In the course of verifying this expense we examined and found that amounts from eight randomly selected accounts in the libro auxiliar for July 1993 were correct as shown on the respondents's indirect selling expense worksheet. We found that the respondent reported all of its selling expenses from its financial records. However, the petitioner points out that amounts from two additional accounts in the auxiliar do not correspond with amounts on the worksheet. Respondent's explanation that it moved some indirect selling expenses among the POI months in order to match monthly sales expenses with the corresponding sales is reasonable and we examined evidence of this practice at verification.

We also determine that certain additional expenses should not be included in respondent's indirect selling expense calculation. We did not select for examination at verification respondent's method for allocating a certain expense to sales and a portion of that expense to G&A. Therefore, we have accepted respondent's methodology. Finally, we examined the five expenses noted in the petitioner's brief at verification and found that the respondent did not incur these expenses.

Comment 40

The petitioner argues that respondent's related U.S. subsidiary should have allocated its grower/marketing expenses on a value of sales or cost of sales basis rather than per grower because the U.S. subsidiary cannot isolate the associates with only sales of merchandise produced by the respondent. Rather, the petitioner maintains that the expense should cover sales of subject merchandise of the U.S. subsidiary made on behalf of all growers.

Respondent states that its U.S. subsidiary's grower/market expenses associated with making its sales and cultivating its relationship with respondent are minimal since this relationship is well-established. The respondent points out that its U.S. subsidiary should have probably excluded all expenses of the grower department but was instead conservative and allocated these expenses over the number of suppliers. Therefore, the Department should accept its U.S. indirect selling expense allocation methodology.

DOC Position

We agree in part with the petitioner. Because the U.S. subsidiary could not determine from its accounting records the amount of grower/marketing expenses associated with a specific grower, we cannot rely on the allocation method used by the U.S. subsidiary. Therefore, to account for the sales amount of merchandise produced by respondent that its U.S. subsidiary sold during the POI, we determined the grower/marketing expense associated with respondent by first deriving a factor (gross sales of merchandise produced by respondent divided by the total product value sold by its U.S. subsidiary). We then multiplied this factor by the amount of grower/marketing expenses noted in the U.S. subsidiary's financial statements to arrive at a grower's expense associated with respondent.

Comment 41

The petitioner alleges that the respondent arbitrarily derived an air freight expense allocation factor for three periods during the POI and that, instead, it should have derived freight allocation factors for each POI month. The petitioner argues that the respondent's methodology effectively smoothes out monthly fluctuations and produces higher freight rates during the period when U.S. sale prices are highest.

The respondent maintains that its methodology properly reduces inaccuracies caused by inventory carryover without masking differences in monthly air freight rates. Therefore, we should accept its freight expense allocation methodology as reasonable.

DOC Position

We agree with the respondent. At verification it was demonstrated that the respondent created three distinct time periods within the POI corresponding to substantial rate changes. Within each period, the air freight rates incurred were similar. Accordingly, the respondent's air freight methodology is not arbitrary. Moreover, using monthly freight rates would not account for significant amounts of merchandise entering the latter part of one month but sold in the early part of the following month. Finally, we find that, there were significant rate changes in specific months of the POI, the different rate changes are highlighted by the periods used by respondent. Using monthly rates would not account for the fact that one would be deriving a freight amount