

## Ch 3 - Identifying Considerations Affecting Cost Allowability

### 3.0 - [Introduction](#)

### 3.1 - [Cost Measurement, Assignment, and Allocability](#)

### 3.2 - [Cost Accounting Standards \(CAS\)](#)

### 3.3 - [Identifying Allowability Factors to Consider](#)

#### 3.3.1 - [Identifying Factors That Affect Cost Reasonableness](#)

#### 3.3.2 - [Identifying Contract Terms That Affect Cost Allowability](#)

### 3.4 - [Determining The Allowability Of Specific Costs](#)

---

## 3.0 - Introduction

*Cost Allowability* ([FAR 31.201-1\(b\)](#)). While the total costs of a contract includes all costs properly allocable to the contract, the costs which the Government will pay are limited to those costs which are allowable pursuant to FAR Part 31 and applicable agency supplements.

*Factors Affecting Cost Allowability* ([FAR 31.201-2](#)). Consider the following factors in determining cost allowability:

- Reasonableness;
- Allocability (requires a cost to be properly measured, assigned, and allocated);
- Applicable accounting practices and standards;
- Applicable cost principles; and
- Terms of the contract.

As you make your determination on cost allowability, remember that to be allowable, a cost must be properly measured, assigned, and allocated. A cost is first measured (how much is the cost), then assigned (to which cost accounting period should the cost be booked), and then allocated (how much of the cost should be assigned to each of the contracts being performed in the accounting period in which the cost is booked). Measurement, assignment, and allocation are determined using (1) the Cost Accounting Standards (CAS) (for contracts subject to the CAS), (2) FAR Part 31 (when the contract is not subject to CAS or where the FAR addresses an area of the cost where CAS is silent), and (3) Generally Accepted Accounting Principles (when the CAS and FAR are either silent and/or do not apply).

---

### 3.1 - Cost Measurement, Assignment, and Allocability

For contracts covered by the cost accounting standards, costs are subject to the measurement, assignment, and allocability provisions contained in the nineteen standards (for contractor business units that are subject to modified coverage, the costs are subject to the provisions of only four of those standards, CAS 401, 402, 405, and 406). For those contracts that are not subject to the CAS, and for those areas of cost that are not covered by the standards, the measurement, assignment, and allocability provisions of FAR Part 31 apply. When the CAS does not apply (or is silent regarding the measurement or assignment of a particular area of cost) and FAR Part 31 does not specifically address the measurement or assignment of a particular area of cost, the provisions of Generally Accepted Accounting Principles (GAAP) must be followed in determining the proper cost measurement and assignment (note that GAAP does not address cost allocability).

---

### 3.2 - CAS

*Cost Accounting Standards Board* ([FAR App B, 9900](#), [FAR 30.101](#), and [DCAM 8-100](#)). Cost Accounting Standards are issued by the [Cost Accounting Standards Board](#) (CASB). The Board was first established in 1970 when Congress passed Public Law 91-379. It operated as an independent arm of Congress from 1970 until September 30, 1980. On that date, the Board ceased to function, because Congress did not fund the Board for the new fiscal year. Although the Board ceased operations, the 19 Cost Accounting Standards promulgated by the Board remained in force. Board interpretations were also used in applying those Standards.

In 1990, the new 5-member CASB began operation under the [Office of Federal Procurement Policy](#) (OFPP). Membership includes:

- The OFPP Administrator, Chairperson;
- A Department of Defense representative;
- A General Services Administration representative;
- Two private sector representatives:
  - An industry representative; and
  - An individual with knowledge about cost accounting problems and systems.

The current CASB has assumed the responsibilities of the old board. Standards and Board rules and procedures were recodified under Public Law 100-679. All of the waivers, exemptions, modifications, rules, and regulations promulgated by the original Board remain in effect until amended, superseded, or rescinded by the new Board. Standards are reprinted in the Appendix of the FAR (available on the [Acquisition Deskbook](#)), along with procedures for applying CAS (e.g., exemptions to CAS and CAS-related requirements for any particular contract action).

CAS Coverage ([FAR App B, 9904](#)). When a contract is CAS-covered, the Standards take precedence over all other accounting rules or guidance. The table below lists the 19 standards:

<b>Cost Accounting Standards</b>	
<b>Concepts and Principles</b>	
<a href="#">CAS 401</a>	Consistency in Estimating, Accumulating, and Reporting Costs
<a href="#">CAS 402</a>	Consistency in Allocating Costs Incurred for the Same Purpose
<a href="#">CAS 403</a>	Allocation of Home Office Expenses
<a href="#">CAS 404</a>	Capitalization of Tangible Assets
<a href="#">CAS 405</a>	Accounting for Unallowables
<a href="#">CAS 406</a>	Cost Accounting Period
<a href="#">CAS 407</a>	Use of Standard Cost Systems
<a href="#">CAS 408</a>	Accounting for Paid Absence
<a href="#">CAS 409</a>	Depreciation of Tangible Assets
<a href="#">CAS 410</a>	Allocation of Business Unit G&A
<a href="#">CAS 411</a>	Accounting for Acquisition Costs of Materials
<a href="#">CAS 412</a>	Composition and Measurement of Pension Costs
<a href="#">CAS 413</a>	Adjustment and Allocation of Pension Costs
<a href="#">CAS 414</a>	Cost of Money as an Element of Facilities Capital
<a href="#">CAS 415</a>	Accounting for Deferred Compensation
<a href="#">CAS 416</a>	Accounting for Insurance Costs
<a href="#">CAS 417</a>	Cost of Money of Capital Assets under Construction
<a href="#">CAS 418</a>	Allocation of Direct and Indirect

	Costs
CAS 419	Reserved
<a href="#">CAS 420</a>	Accounting for IR&D/B&P

*CAS Exemptions* ([FAR App B, 9903.201-1](#)). All contracts awarded using sealed bidding are exempt from CAS coverage. When awarding a contract using negotiation procedures, CAS applies unless the contract or offeror is specifically exempt from CAS requirements.

A contract or subcontract that is not CAS-covered at the time of award cannot become CAS-covered as the result of a contract or subcontract modification.

<b>Criteria for Exempting Negotiated Contracts or Subcontracts From CAS Coverage</b>	
<b>Basis For Exemption</b>	<b>Exempt If Any of the Following Situations Exist</b>
Business Unit	The business unit receiving the award is not performing at least one CAS-covered contract or subcontract in excess of \$7,500,000 at the time of the award.
Dollar Amount of Contract Award	The contract or subcontract price is less than or equal to \$500,000 at the time of award. (When determining CAS exemptions, treat an order issued by one segment of a corporation to another as a subcontract.)
Small Business	The contract or subcontract is with a small business.
Commercial Item(s)	The firm fixed-price or fixed-price economic adjustment (provided that price adjustment is not based on actual costs incurred) contract or subcontract is for commercial item(s).
Method of Pricing	The contract or subcontract price is set by law or regulation. The contract or subcontract is

	<p>firm fixed-price, is awarded based on adequate price competition, and is awarded without submission of (certified) cost or pricing data.</p>
<p>Foreign Contractor/ Performance</p>	<ul style="list-style-type: none"> <li>• The contract or subcontract is with a United Kingdom contractor for performance substantially in the United Kingdom (provided that the contractor has filed with the United Kingdom Ministry of Defense, for retention by the ministry, a completed disclosure statement which adequately describes its cost accounting practices). Whenever the contractor or subcontractor is already required to follow U.K. Government Accounting Conventions, the disclosed practices must be in accord with those Conventions.</li> <li>• The contract or subcontract is with a foreign government, agent, or instrumentality, or for the requirements of CAS 401 and 402, any contract or subcontract awarded to a foreign concern.</li> <li>• The contract or subcontract will be executed and performed entirely outside the United States, its territories, and possessions.</li> </ul>

	<ul style="list-style-type: none"> <li>The subcontract under the NATO PHM Ship program will be performed outside the United States by a foreign concern.</li> </ul>
--	---

*Types of CAS Coverage* ([FAR App B, 9903.2](#)). You can find guidance on CAS contract and disclosure requirements in FAR App B, 9903.2. In general, you should know that there are two types of coverage for noncommercial contracts and subcontracts.

<b>CAS Coverage</b>		
<b>Coverage Type</b>	<b>Application</b>	<b>Coverage requires that the business unit:</b>
Full	Applies to contractor business units that -- . Receive a single CAS-covered contract award of \$50 million or more; or . Received \$50 million or more in net CAS-covered awards during its preceding cost accounting period.	Comply with all Standards that are in effect on the date of contract award and with any Standards that become applicable because of later award of a CAS-covered contract.
Modified	If the offeror certifies that it is eligible for and elects to use modified coverage, it may be applied to a CAS-covered contract of:  Less than \$50 million awarded to a business unit that received less than \$50 million in net CAS-covered awards in the immediately preceding cost accounting period.	Comply with CAS 401, 402, 405, and 406. Note: A contract awarded with modified CAS coverage shall remain subject to modified coverage throughout its life regardless of changes in the business unit's CAS status during subsequent cost

		accounting periods.
--	--	------------------------

*Disclosure Statement* ([FAR App B, 9903.202-1](#) and [9903.202-9](#)). A Disclosure Statement is a written description of a contractor's cost accounting practices and procedures. Disclosure is made using a Disclosure Statement Form ([CASB DS-1](#)) and requires the contractor to provide general information on its accounting system and specific information on how the firm accounts for specific types of costs.

A Disclosure Statement is required for:

- Any business unit that receives a contract in excess of \$50 million.
- Any company which, together with its segments, received net CAS-covered contract awards exceeding \$50 million in the contractor's previous accounting period.

When a Disclosure Statement is required, the firm must submit a separate Disclosure Statement for each segment with costs exceeding \$500,000 in the total price of any CAS-covered contract or subcontract, unless:

- The contract or subcontract is of the type or value exempted from CAS requirements; or
- CAS-covered awards in the most recently completed cost accounting period are less than 30 percent of total segment sales for the period and less than \$10 million.

Each corporate or other home office that allocates costs to one or more disclosing segments performing CAS-covered contracts must submit a completed Part VIII of the Disclosure Statement.

*Disclosure Statement for Foreign Firms* ([FAR App B, 9903.202-1\(e\)](#)). Foreign contractors and subcontractors who are required to submit a Disclosure Statement may, in lieu of filing a [CASB-DS-1](#), make disclosure by using a disclosure form prescribed by an agency of its Government, provided that the Cost Accounting Standards Board determines that the information disclosed by that means will satisfy the objectives of Public Law 100-679. Currently, the use of alternative forms has been approved for the contractors of Canada and the Federal Republic of Germany.

*Disclosure Statement Review* ([FAR 30.202-6](#)). The cognizant ACO and the cognizant auditor have primary responsibility for the Disclosure Statement review:

- **Adequacy Review.** The cognizant auditor reviews the Disclosure Statement to ascertain whether it is current, accurate, and complete and report the results of that review to the contracting officer. The ACO, in consultation with the auditor, determines if the Disclosure Statement adequately discloses the firm's accounting practices. If it is adequate, the ACO must notify the contractor in writing with copies to the cognizant auditor and affected contracting officers. If not, the ACO must request a revised disclosure statement.
- **Compliance Review.** After the notification of adequacy, the auditor conducts a compliance review to ascertain whether or not the disclosed practices comply with CAS. The ACO, in consultation with the auditor, determines if the Disclosure Statement complies with CAS.

*FAR Guidance* ([FAR Part 31](#)). FAR Part 31 provides guidance on cost accounting issues. For example, FAR defines direct and indirect costs and provides general guidelines for accounting treatment.

Some of the FAR cost principles (presented in the next section) provide detailed guidance for cost accounting, including measurement, assignment, and allocation of costs. In some cases, those cost principles apply CAS requirements to all contracts whether the offeror is CAS-covered or not. For example, [FAR 31.205-10](#), Cost of Money, extends the requirements of [CAS 414](#) to contracts that are not CAS-covered, when the contractor meets certain conditions.

*Generally Accepted Accounting Principles.* Generally Accepted Accounting Principles (GAAP) are a set of uniform accounting rules for assignment and measurement (but not allocation) of costs that are used for recording and reporting financial data to accurately represent an organization's financial condition. They represent a body of accounting research, precedents, and standards of financial reporting that have evolved over the years.

These standards are endorsed by the Financial Accounting Standards Board ([FASB](#)) and their use is required by the [Securities and Exchange Commission](#) (SEC) for corporations under its jurisdiction. They are also commonly used by business entities not under SEC jurisdiction. When the CAS and FAR are silent on how a cost should be measured and/or assigned, GAAP applies.



When CAS is silent regarding the allocability of a particular area of cost, the provisions at [FAR 31.201-4](#), Defining an Allocable Cost, apply. Under this provision, a cost is allocable to one or more cost objectives (e.g., contracts) if it is assigned or charged to those objectives based on the relative benefits received or using some other equitable relationship. In other words, the cost objective that benefits the most from the cost being incurred should be allocated the greatest share of the cost. A cost objective that does not benefit should not share any of the cost.

Typically, we think of cost objectives as individual contracts or jobs. However, cost objectives can also include special company projects, independent research, or items in a particular production lot.

For example: The following are examples of proper cost allocation:

- The cost of a component used to produce a particular product, should logically be charged to that product and only that product.
- The rent for a building used to produce several different products should be allocated to the various products produced in the building. Logically, the product that benefits the most from the building should bear the greatest share of the cost.

*Questions to Consider in Determining Cost Allocability* ([FAR 31.201-4](#)). There are three questions you should consider as you decide if a particular cost is properly allocated to a particular contract:

**1. Were the costs specifically incurred for a single cost objective?**

**Yes:** If the costs were incurred for one objective, then the costs should be assigned to that objective and NOT allocated to other non-benefiting objectives.

**For example:** A company proposes to allocate the cost of material used to complete a Government contract to that contract. That allocation appears acceptable because the cost objective that receives the benefit bears the cost.

**No:** If the costs were incurred for more than one objective, then they must be allocated to all benefiting objectives.

**For example:** A company proposes to allocate the cost of office supplies used throughout the company to a single Government contract. That allocation would shift a cost that should be borne by all contracts to a single contract.

---

**2. Are costs that benefit the contract and other work allocated in reasonable proportion to the benefit received?**

**Yes:** If the contract does benefit the contract and other work, the cost must be equitably allocated to all benefiting cost objectives.

**For example:** A company allocates the cost of a technical word processing department by dividing the department operation cost by the number of pages produced during the year and then charging each cost objective based on the number of pages produced to support that objective. That allocation appears reasonable because costs are allocated to cost objectives based on the benefit received.

**No:** If the allocation is disproportionate, then too much cost is being allocated to some cost objective(s) and too little to other cost objective(s).

**For example:** A company has production equipment used relatively equally on all Government and commercial contracts. The company proposes to charge the entire cost of maintaining that equipment to Government contracts. That would not be a proper allocation of the cost, because Government contracts would bear the entire cost even though commercial contracts benefit equally.

---

**3. Is the cost necessary to the overall operation of the business, although there is no direct relationship to any particular cost objective?**

**Yes:** Commonly known as general & administrative expenses, if the costs are necessary for overall business operation, then it is assumed that they are of general (overall) benefit to all cost objectives.

**For example:** A company proposes to charge the salary of the chief executive officer's secretary to all operations, because the secretary is necessary to the operation of the firm. That

appears to be a proper cost allocation because even though the secretary's activities may not benefit any particular product, they do support the overall operation of the firm.

**No:** If the cost does not benefit any specific cost objective and does not support the overall operation of the company, it should not be allocated to Government contracts.

**For example:** The company employs the president's son at a salary of \$100,000 per year, but there is no evidence that he has performed any work that is of benefit to the company. This salary should not be allocated to any Government contracts, because it is not necessary for the overall operation of the company.

---

### 3.3 - Identifying Allowability Factors to Consider

*Pricing Decision* ([FAR 15.404-1\(a\)](#) and [15.404-2\(a\)\(2\)](#)). The factors affecting allowability can be complex and applying them to a contract situation requires careful judgment. For complex questions, you may need assistance from other members of the Government Acquisition Team. Support from the cognizant Government auditor and technical experts can be particularly valuable.

**However, remember that the contracting officer is ultimately responsible for evaluating price reasonableness and determining the level of analysis required to complete that evaluation.**

---

#### 3.3.1 - Identifying Factors That Affect Cost Reasonableness

Once a cost has been properly measured, assigned, and allocated, the specific allowability factors in FAR Part 31 must be considered. One of the factors to consider is reasonableness. This section examines what you should consider in determining whether a proposed or incurred contract cost is reasonable.

*Defining a Reasonable Cost* ([FAR 31.201-3\(a\)](#)). A cost is reasonable if, in its nature and amount, it does not exceed what a prudent person would incur in the conduct of competitive business.

The underlying assumption in this definition is that a firm in a

competitive business will minimize unnecessary costs in order to remain competitive. If a firm does not minimize unnecessary costs, then competitors will underbid the firm and take away market share.

You normally perform cost analysis in an environment where competition is inadequate for determining price reasonableness or cost realism. Therefore, the objective of cost analysis is to determine what the reasonable cost would be if the offeror were operating in a competitive environment.

*Reasonableness of Incurred Costs* ([FAR 31.201-3\(a\)](#)). Both proposed costs and actual incurred costs are subject to the tests of reasonableness. The offeror must demonstrate the reasonableness of any incurred cost and cannot simply state that, because the expense has been incurred, it is automatically reasonable.

*Questions to Consider in Determining Cost Reasonableness* ([FAR 31.201-3\(b\)](#)). There are four questions you should consider as you decide if a particular cost is reasonable. In some situations, your answers to these questions may lead you to other questions that you must answer before you can make a final decision on cost reasonableness.

**1. Is the type of cost generally recognized as necessary in conducting business?**

**Yes:** Then it meets this test of reasonableness.

**For example:** Payment of state and local franchise taxes is a necessary cost of conducting business.

**No:** If this is not necessary, it may be inappropriate for the contract.

**For example:** The purchase and up-keep of an ocean-going yacht for exclusive use of the company president is NOT a necessary cost of doing business.

---

**2. Is the cost consistent with sound business practice, law, and regulation, and are purchases conducted on an "arm's-length" basis?**

**Yes:** Then it meets this test of reasonableness.

**For example:** Construction of a waste treatment plant to comply with environmental standards is consistent with sound practice and the law.

**No:** If it is inconsistent with sound practice or violates law or regulation, then all or part of the cost is unreasonable.

**For example:** Paying a premium price for materials on a Government contract while receiving a bargain price of the same materials for use on a commercial contract under a "basket" purchase deal is NOT consistent with sound business practice.

---

**3. Does the offeror's action reflect a responsible attitude toward the Government, other customers, the owners of the business, the employees, and the public-at-large?**

**Yes:** Then the cost meets this test of reasonableness.

**For example:** A good price analysis, and when necessary, cost analysis of supplier proposals prior to awarding purchase orders on Government cost-reimbursement contracts reflects a responsible attitude toward the use of taxpayer dollars.

**No:** If the offeror is acting irresponsibly, then some or all of the costs are probably unreasonable.

**For example:** Excessive salaries to executives and unconscionable retainers for retired executives as consultants is NOT acting responsibly toward the owners of the business or its employees.

---

**4. Are the offeror's actions consistent with established practices?**

**Yes:** Then the costs meet this test of reasonableness.

**For example:** The offeror proposed to contract out source inspection of subcontractor parts. Company policy has always required inspection by corporate or subcontract inspectors. Cost will be lower and quality standards will be maintained by the proposed subcontractor. It would be reasonable to accept the proposed change.

**No:** If the offeror is deviating from established practices, then there is a likelihood that the costs may be unreasonable.

**For example:** The contractor proposes to contract out redesign effort. Company policy and past practice has been to keep all design effort "in-house". Upon further review, you find that in-house resources are available and the cost would be substantially lower than contracting out. It would be unreasonable to accept the proposed redesign cost.

---

### **3.3.2 - Identifying Contract Terms That Affect Cost Allowability**

*Contract Terms and Cost Allowability.* Specific types of cost are often addressed in a contract or request for proposal (RFP). For example, while product transportation costs are generally allowable, the contract may restrict "allowed" transportation costs to a specific mode (e.g., 3rd class mail).

However, the contract terms can only be more restrictive than the other factors that must be considered in determining cost allowability, not less. In other words, the contract terms cannot allow a cost that is:

- Not reasonable;
  - Not properly measured, assigned and allocated to the contract;
  - Not allowable in accordance with specific cost principles.
- 

### **3.4 - Determining The Allowability Of Specific Costs**

*Introduction to Cost Principles* ([FAR 31.205](#)). Specific cost principles for contracts with commercial organizations are found in FAR Part 31.205. Currently, there are 48 cost principles. Over the years, the number and wording of these principles have been revised to reflect changes in:

- Business practices (e.g., the large number of business takeovers in the 1980s);
- Public law (e.g., specific legal prohibitions on lobbying costs); and
- Legal precedents established by the court system and the boards of contract appeals.

**For example:** The cost principle on goodwill was created to address an [Armed Services Board of Contract Appeals](#) opinion on a related issue. That opinion alluded to the possible recognition of goodwill as an allowable cost on Government contracts. Goodwill is the difference between the book value of an asset being purchased and a higher amount actually paid by the firm making the purchase. Because they felt that it is inappropriate for the Government to subsidize corporate takeovers, procurement authorities published a cost principle disallowing any costs related to goodwill.

*Cost Principles for Other Contracting Environments* ([FAR Part 31](#)). While cost principle consideration in this text will center on the cost principles for commercial organizations, FAR also identifies cost principles for contracts with:

- Educational institutions;
- State, local, and Federally recognized Indian tribal governments; and
- Nonprofit organizations.

*Categories of Cost Identified By the Cost Principles* ([FAR 31.205](#)). Each cost principle defines a particular type of cost and establishes whether it is allowable, unallowable, or allowable with some restrictions.

- **Allowable cost.** As you perform a cost analysis, a cost is allowable, if it is expressly identified as allowable in the cost principles, and it meets the relevant tests for reasonableness; allocability; and terms of the contract.
- **Unallowable cost.** Many cost principles identify specific types of cost as unallowable. When you perform a cost analysis, you must not allow any proposed or actual costs identified by the cost principles as unallowable.
- **Allowable cost with restrictions.** Many cost principles state that specific costs are allowable, but establish restrictions on the amount that can be considered reasonable. When you perform a cost analysis, you cannot allow proposed or actual costs that exceed the limit set forth in the cost principle.
- **Costs Not Specifically Addressed.** The fact that a cost is not specifically mentioned does not mean it is allowable or unallowable. If the cost is not specifically addressed in the cost principle, it must still meet the relevant tests

of reasonableness, allocability, and contract terms to be allowable. If the cost meets these tests, [FAR 31.204\(c\)](#) requires that the determination of allowability under the specific cost principles be based on the treatment of similar or related selected items in [FAR Part 31.205](#).

*Cost Principles Summary* ([FAR 31.205](#)). The table below summarizes the cost guidance provided by the current cost principles in [FAR 31.205](#). Note that a single cost principle may classify specific costs as allowable, other costs in the same general category as unallowable, and still others as allowable with restrictions.

<b>Allowability Of Selected Costs Under <a href="#">FAR 31.205</a> Selected Costs May Be Allowable (A), Unallowable (UA), or Allowable With Restrictions (AWR).</b>				
<b>Selected Costs</b>	<b>FAR Ref.</b>	<b>A</b>	<b>UA</b>	<b>AWR</b>
Alcoholic Beverages	<a href="#">31.205-51</a>		X	
Asset Valuations Resulting from Business Combinations	<a href="#">31.205-52</a>			X
Bad Debts	<a href="#">31.205-3</a>		X	
Bonding Costs	<a href="#">31.205-4</a>	X		
Compensation for Personal Services	<a href="#">31.205-6</a>	X	X	X
Contingencies	<a href="#">31.205-7</a>	X	X	
Contributions or Donations	<a href="#">31.205-8</a>		X	
Cost of Money	<a href="#">31.205-10</a>			X
Deferred Research & Development Costs	<a href="#">31.205-48</a>		X	X
Depreciation	<a href="#">31.205-11</a>			X
Economic Planning Costs	<a href="#">31.205-12</a>	X	X	
Employee Morale, Health, Welfare, Food Service, & Dormitory Costs & Credits	<a href="#">31.205-13</a>	X		X
Entertainment Costs	<a href="#">31.205-14</a>		X	
Fines, Penalties, & Mischarging Costs	<a href="#">31.205-15</a>		X	X
Gains & Losses on Disposition or Impairment of Depreciable Property or Other Capital Assets	<a href="#">31.205-16</a>			X
Goodwill	<a href="#">31.205-49</a>		X	
Idle Facilities & Idle	<a href="#">31.205-17</a>		X	X



Capacity Costs				
Independent Research & Development/ Bid & Proposal Costs	<a href="#">31.205-18</a>		X	X
Insurance & Indemnification	<a href="#">31.205-19</a>	X	X	X
Interest & Other Financial Costs	<a href="#">31.205-20</a>		X	X
Labor Relations Costs	<a href="#">31.205-21</a>	X		
Legal & Other Proceedings Costs	<a href="#">31.205-47</a>		X	X
Lobbying and Political Activity Costs	<a href="#">31.205-22</a>		X	
Losses on Other Contracts	<a href="#">31.205-23</a>		X	
Maintenance & Repair Costs	<a href="#">31.205-24</a>	X		
Manufacturing & Production Engineering Costs	<a href="#">31.205-25</a>	X		
Material Costs	<a href="#">31.205-26</a>	X		
Organization Costs	<a href="#">31.205-27</a>		X	
Other Business Expenses	<a href="#">31.205-28</a>	X		
Plant Protection Costs	<a href="#">31.205-29</a>	X		
Patent Costs	<a href="#">31.205-30</a>	X	X	X
Plant Reconversion Costs	<a href="#">31.205-31</a>		X	X
Precontract Costs	<a href="#">31.205-32</a>			X
Professional & Consultant Service Costs	<a href="#">31.205-33</a>	X	X	X
Public Relations & Advertising Costs	<a href="#">31.205-1</a>		X	X
Recruitment Costs	<a href="#">31.205-34</a>	X	X	X
Relocation Costs	<a href="#">31.205-35</a>	X	X	X
Rental Costs	<a href="#">31.205-36</a>	X		X
Royalties & Other Costs for Use of Patents	<a href="#">31.205-37</a>			X
Selling Costs	<a href="#">31.205-38</a>	X	X	
Service & Warranty Costs	<a href="#">31.205-39</a>	X		
Special Tooling & Special Test Equipment Costs	<a href="#">31.205-40</a>			X
Taxes	<a href="#">31.205-41</a>	X	X	
Termination Costs	<a href="#">31.205-42</a>	X		X
Trade, Business, Technical, and Professional Activity Costs	<a href="#">31.205-43</a>	X		X

Training & Education Costs	<a href="#">31.205-44</a>	X	X	X
Transportation Costs	<a href="#">31.205-45</a>	X		
Travel Costs	<a href="#">31.205-46</a>			X

Consider all Relevant Cost Principles ([FAR 31.205-8](#) and [31.205-1](#)). For some costs, more than one cost principle may apply to your decision on cost reasonableness. In such cases, you must consider all relevant cost principles.

**For example:** An offeror's overhead rate includes the cost of sponsoring a blood drive for the community hospital. Is this donation allowable?

Reviewing the list of cost principles, the one entitled Contributions or Donations appears most relevant in this situation. Reading that cost principle, you would find the following:

**FAR 31.205-8, Contributions or Donations.**

Contributions or donations, including cash, property and services, regardless of recipient, are unallowable, except as provided in FAR 31.205-1(e)(3).

Based on this cost principle, it appears that the cost of the donation supporting the blood drive is unallowable. However, the referenced cost principle, Public Relations and Advertising Costs, presents a different picture.

**FAR 31.205-1, Public Relations and Advertising Costs, para (e).**

(e) Allowable public relations costs include the following:

(1) Costs specifically required by contract.

(2) Costs of-

(i) Responding to inquiries on company policies and activities;

(ii) Communicating with the public, press, stockholders, creditors, and customers; and

(iii) Conducting general liaison with news media and Government public relations officers, to the extent that such activities are limited to communication and liaison necessary to keep the public informed on matters of public concern such as notice of

contract awards, plant closings or openings, employee layoffs or rehires, financial information, etc.

**(3) Costs of participation in community service activities (e.g., blood bank drives, charity drives, savings bond drives, disaster assistance, etc.).**

(4) Costs of plant tours and open houses (but see subparagraph (f)(5) of this subsection).

(5) Costs of keel laying, ship launching, commissioning, and roll-out ceremonies, to the extent specifically provided for by contract.

This second cost principle specifically states that the cost of participating in blood bank drives is allowable. Of course, the allowability of these costs is still subject to the tests of reasonableness, allocability, and compliance with applicable accounting principles and standards.

*Directly Associated Costs* ([FAR 31.201-6\(a\)](#)). Any costs that would not have been incurred if an unallowable cost had not been incurred are known as directly associated costs and are also unallowable. For example, if the cost of a yacht is unallowable, the crew's salaries and related benefits are also unallowable.

*Accounting for Unallowable Costs* ([FAR 31.201-6](#)).

Offeror/contractor accounting records must identify the following unallowable costs and exclude them from any billing, claim, or proposal applicable to a Government contract:

- Costs that are expressly unallowable or mutually agreed to be unallowable, and
- Directly associated costs that would not have been incurred if the above costs had not been incurred.

Offerors/contractors must also identify any costs (including directly associated costs) which a contracting officer has specifically disallowed in writing pursuant to contract disputes procedures if the costs have been included or used in the computation of any billing, claim, or proposal applicable to a Government contract. This identification requirement also applies to any costs incurred for the same purpose under like circumstances as the costs specifically identified as unallowable.

The practices used by the offeror/contractor in accounting for and presenting unallowable costs must comply with (1) the requirements of [CAS 405](#), Accounting for Unallowables for those contracts subject to CAS-coverage, or (2) the requirements of [FAR 31.201-6](#) for those contracts that are not subject to CAS-coverage.