

ALLOWABLE VS UNALLOWABLE COST EXAMPLES

Type of Expense	Description/Comments	FAR Clause*	Mostly Allowable	Mostly Unallowable	Either
Bad Debts	Bad Debts including collection and associated legal costs are unallowable.	31.205-3		X	
Contributions and Donations	Contributions or donations, including cash, property and services, regardless of recipient, are unallowable.	31.205-8		X	
Depreciation	Depreciation on a plant, equipment, and other capital facilities is an allowable contract cost.	31.205-11	X		
Entertainment costs	Costs of amusement, diversions, social activities, and any directly associated costs (except employee morale). Membership in social, dining, or country clubs or other organizations are unallowable.	31.205-14		X	
Fines and penalties	Costs of fines and penalties resulting from violations of, or failure of the contractor to comply with, Federal, State, local, or foreign laws and regulations, are unallowable.	31.205-15		X	
Interest and other financial costs	Includes financing and refinancing capital and associated legal or professional fees.	31.205-20		X	
Alcoholic beverages	Specifically Unallowable	31.205-51		X	

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Selling costs	<p>Direct Selling efforts are allowable and represent the following, direct contact which familiarizes a potential customer with product. Technical and consulting activities related to explaining product. Strategic plan development related to direct selling.</p> <p>Marketing costs associated with entertainment, logo items image enhancement, Branding and general advertising are unallowable.</p>	31.205-38			X
Recruiting costs	<p>Following are allowable recruiting cost:</p> <ul style="list-style-type: none"> • Costs of help-wanted advertising, subject to limitations below. • Cost of operating employment office needed to secure and maintain an adequate labor force (though costs of recruiting employees with skills needed only for commercial contracts are unallowable as are recruiting costs when there are no specific vacancies to be filled or if the advertising done is out of proportion to the number or importance of the positions to be filled) • Cost of operating an aptitude and educational testing program • Travel cost of employee engaged in recruiting • Travel costs of applicants for interviews • Cost of employment agencies, not in excess of standard commercial rates • Costs for employment agencies, not in excess of standard commercial rates <p>Help wanted advertising costs are unallowable if:</p>	31.205-34			X

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	<ul style="list-style-type: none"> It does not describe specific positions or classes of positions; or Includes material that is not relevant for recruitment purposes, such as extensive illustrations or descriptions of the company's products or capabilities. 				
Taxes	<p>Unallowable as follows: Federal Income and excess profit taxes, taxes in connection with financing, refinancing, refunding operations, or reorganizations.</p> <p>State and local taxes are allowable (e.g., property, franchise, income, and use taxes). However, if taxes are paid late or in error, any penalties or interest assessed by the government (federal, state, or local) are unallowable.</p>	31.205-41			X
Employee morale, health, welfare, food series and dormitory costs and credits	<p>(a) Aggregate costs incurred on activities designed to improve working conditions, employer-employee relations, employee morale, and employee performance (less income generated by these activities) are allowable, subject to the limitations contained in this subsection. Some examples of allowable activities are:</p> <ol style="list-style-type: none"> (1) In-house publications (2) Health clinics (3) Wellness/fitness centers (4) Employee counseling services; and (5) Food and dormitory services for the contractor's employees at or near the contractor's facilities. These services include— 	31.205-13	X		

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	<p>(i) Operating or furnishing facilities for cafeterias, dining rooms, canteens, lunch wagons, vending machines, living accommodations; and</p> <p>(ii) Similar types of services.</p> <p>(b) Costs of gifts are unallowable. (Gifts do not include awards for performance or awards made in recognition of employee achievements pursuant to an established contractor plan or policy.)</p> <p>(c) Costs of recreation are unallowable, except for the costs of employees' participation in company sponsored sports teams or employee organizations designed to improve company loyalty, team work, or physical fitness.</p> <p>(d)(1) The allowability of food and dormitory losses are determined by the following factors:</p> <p>(i) Losses from operating food and dormitory services are allowable only if the contractor's objective is to operate such services on a break-even basis.</p> <p>(ii) Losses sustained because food services or lodging accommodations are furnished without charge or at prices or rates which obviously would not be conducive to the accomplishment of the objective in paragraph (d)(1)(i) of this subsection are not allowable, except as described in paragraph (d)(1)(iii) of this subsection.</p> <p>(iii) A loss may be allowed to the extent that the contractor can demonstrate that unusual circumstances exist such that even with efficient management, operating the services on a break-even basis would require charging inordinately high prices, or prices or rates higher than those charged by</p>				

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	<p>commercial establishments offering the same services in the same geographical areas. The following are examples of unusual circumstances:</p> <p>(A) The contractor must provide food or dormitory services at remote locations where adequate commercial facilities are not reasonably available.</p> <p>(B) The contractor's charged (but unproductive) labor costs would be excessive if the services were not available.</p> <p>(C) If cessation or reduction of food or dormitory operations will not otherwise yield net cost savings.</p> <p>(2) Costs of food and dormitory services shall include an allocable share of indirect expenses pertaining to these activities.</p> <p>(e) When the contractor has an arrangement authorizing an employee association to provide or operate a service, such as vending machines in the contractor's plant, and retain the profits, such profits shall be treated in the same manner as if the contractor were providing the service (but see paragraph (f) of this subsection).</p> <p>(f) Contributions by the contractor to an employee organization, including funds from vending machine receipts or similar sources, are allowable only to the extent that the contractor demonstrates that an equivalent amount of the costs incurred by the employee organization would be allowable if directly incurred by the contractor.</p>				

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Travel costs	Must be reasonable. And in accordance with the travel regulations; FTR and JTR limits, etc. Note you must segregate travel as direct vs indirect costs, usually direct travel cost are classified as ODC. Travel related to overall administration of business would be classified as indirect and allowable (subject to limitations), and travel in connection with a specific contract/project would be classified as direct and allowable (subject to limitations).	31.205-46			X
Relocation costs in excess of limits specified in FAR and FTR	<p>Certain expenses are unallowable, and certain costs of relocating permanent employees are allowable if numerous requirements are met. Limitations for considering costs to be allowable:</p> <ul style="list-style-type: none"> • Move must be for the benefit of the employer • Reimbursement must be in accordance with an established/consistently followed policy or practice designed to motivate employees to relocate promptly and economically • Amounts to be reimbursed shall not exceed the employee's actual expenses (with exceptions) • For miscellaneous costs, a lump-sum of \$5,000 or less may be allowed in lieu of actual costs. <p>Certain relocation costs are unallowable, including: loss on the sale of a home, certain costs incident to acquiring a home in the new location, continuing mortgage principal payments on a residence being sold, and costs incident to furnishing equity or non-equity loans to employees or making arrangements with lenders for employees to obtain lower-than-market rate mortgage loans.</p> <p>The following conditions would cause the relocation costs to be unallowable:</p>	31.205-35			X

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	<ul style="list-style-type: none"> The claimed costs include mortgage-related costs, and the employees were not homeowners prior to the move. The move is for a period less than 12 months. The move does not benefit the employer. The employer does not have a consistent relocation policy for all employees. The claimed costs include a loss on the sale of the home. The claimed costs represent continuing mortgage principal payments on a sold residence. 				
IR&D and B&P	IR&D and B&P cost are allowable indirect expense on contracts to the extent that costs are allocable and reasonable. By definition IR&D cost are considered “independent” and cannot be effort required in the performance of contract or grant. A cost incurred to perform contract is a direct cost, and must be charged to the contract.	31.205-18	X		
Public relations and advertising costs	Unallowable public relations and advertising costs include the following: <ul style="list-style-type: none"> (1) All public relations and advertising costs, other than those specified in paragraphs (d) and (e) of this subsection (2) All costs of trade shows and other special events which do not contain a significant effort to promote the export sales of products normally sold to the U.S. Government. (3) Costs of sponsoring meetings, conventions, symposia, seminars, and other special events when the principal purpose 	31.205-1		X	

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	<p>of the event is other than dissemination of technical information or stimulation of production.</p> <p>(4) Costs of ceremonies such as—</p> <p>(i) Corporate celebrations and</p> <p>(ii) New product announcements.</p> <p>(5) Costs of promotional material, motion pictures, videotapes, brochures, handouts, magazines, and other media that are designed to call favorable attention to the contractor and its activities.</p> <p>(6) Costs of souvenirs, models, imprinted clothing, buttons, and other mementos provided to customers or the public.</p> <p>(7) Costs of memberships in civic and community organizations.</p> <p>(8) Costs associated with the donation of excess food to nonprofit organizations</p> <p>d) The only allowable advertising costs are those that are</p> <p>(1) Specifically required by contract, or that arise from requirements of Government contracts, and that are exclusively for—</p> <p>(i) Acquiring scarce items for contract performance; or</p> <p>(ii) Disposing of scrap or surplus materials acquired for contract performance;</p> <p>(2) Costs of activities to promote sales of products normally sold to the U.S. Government, including trade shows, which contain a significant effort to promote exports from the United States. Such costs are allowable. However, such costs do not include the costs of memorabilia (e.g., models, gifts, and souvenirs), alcoholic beverages, entertainment, and</p>				

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	<p>physical facilities that are used primarily for entertainment rather than product promotion; or</p> <p>(3) Allowable in accordance with 31.205-34 for recruitment cost.</p> <p>(e) Allowable public relations costs include the following:</p> <p>(1) Costs specifically required by contract.</p> <p>(2) Costs of—</p> <p>(i) Responding to inquiries on company policies and activities;</p> <p>(ii) Communicating with the public, press, stockholders, creditors, and customers; and</p> <p>(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.</p> <p>(3) Costs of participation in community service activities (e.g., blood bank drives, charity drives, savings bond drives, disaster assistance, etc.)</p> <p>(4) Costs of plant tours and open houses</p> <p>(5) Costs of keel laying, ship launching, commissioning, and roll-out ceremonies, to the extent specifically provided for by contract.</p>				
Bonding costs	<p>(a) Bonding costs arise when the Government requires assurance against financial loss to itself or others by reason of the act or default of the contractor. They arise also in instances where the contractor requires similar assurance.</p>	31.205-4	X		

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	<p>Included are such bonds as bid, performance, payment, advance payment, infringement, and fidelity bonds.</p> <p>(b) Costs of bonding required pursuant to the terms of the contract are allowable.</p> <p>(c) Costs of bonding required by the contractor in the general conduct of its business are allowable to the extent that such bonding is in accordance with sound business practice and the rates and premiums are reasonable under the circumstances.</p>				
Unreasonable compensation not in accordance with established plan or practice to include personal use of company furnished automobile	<p>No presumption of allowability or reasonableness exists if the ACO is not notified of major revisions or new plans which generally are associated with additional executive pay and incentive/bonus plans. Severance pay is only allowable in specific circumstances. Back pay resulting from violations of labor laws is generally unallowable.</p> <p>Personal use of automobile is unallowable, regardless if it is reported as compensation to employees.</p>	31.205-6		X	
Contingencies	<p>(a) "Contingency," as used in this subpart, means a possible future event or condition arising from presently known or unknown causes, the outcome of which is indeterminable at the present time.</p> <p>(b) Costs for contingencies are generally unallowable for historical costing purposes because such costing deals with costs incurred and recorded on the contractor's books. However, in some cases, as for example, terminations, a contingency factor may be recognized when it is applicable</p>	31.205-7		X	

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	<p>to a past period to give recognition to minor unsettled factors in the interest of expediting settlement.</p> <p>(c) In connection with estimates of future costs, contingencies fall into two categories:</p> <p>(1) Those that may arise from presently known and existing conditions, the effects of which are foreseeable within reasonable limits of accuracy; <i>e.g.</i>, anticipated costs of rejects and defective work. Contingencies of this category are to be included in the estimates of future costs so as to provide the best estimate of performance cost.</p> <p>(2) Those that may arise from presently known or unknown conditions, the effect of which cannot be measured so precisely as to provide equitable results to the contractor and to the Government; <i>e.g.</i>, results of pending litigation. Contingencies of this category are to be excluded from cost estimates under the several items of cost, but should be disclosed separately (including the basis upon which the contingency is computed) to facilitate the negotiation of appropriate contractual coverage.</p>				
Cost of money	<p>(a) General. Cost of money—</p> <p>(1) Is an imputed cost that is not a form of interest on borrowings;</p> <p>(2) Is an “incurred cost” for cost-reimbursement purposes under applicable cost-reimbursement contracts and for progress payment purposes under fixed-price contracts; and</p> <p>(3) Refers to—</p> <p>(i) Facilities capital cost of money (48 CFR 9904.414);</p>	31.205-10	X		

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	<p>(ii) Cost of money as an element of the cost of capital assets under construction (48 CFR 9904.417).</p> <p>(b) Cost of money is allowable, provided—</p> <p>(1) It is measured, assigned, and allocated to contracts in accordance with 48 CFR 9904.414 or measured and added to the cost of capital assets under construction in accordance with 48 CFR 9904.417, as applicable;</p> <p>(2) The requirements of 31.205-52, which limit the allowability of cost of money, are followed; and</p> <p>(3) The estimated facilities capital cost of money is specifically identified and proposed in cost proposals relating to the contract under which the cost is to be claimed.</p> <p>(c) Actual interest cost in lieu of the calculated imputed cost of money is unallowable.</p>				
Economic planning cost	Economic planning costs are the costs of general long-range management planning that is concerned with the future overall development of the contractor's business and that may take into account the eventual possibility of economic dislocations or fundamental alterations in those markets in which the contractor currently does business. Economic planning costs are allowable. Economic planning costs do not include organization or reorganization	31.205-12	X		
Gains & losses on disposition or impairment of depreciable property or other capital assets	Gains and losses from the sale, retirement, or other disposition of depreciable property shall be included 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. However, no gain or	31.205-16	X		

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	loss shall be recognized as a result of the transfer of assets in a business combination				
Idle facilities & idle capacity cost	The costs of idle facilities are unallowable unless the facilities— (1) Are necessary to meet fluctuations in workload; or (2) Were necessary when acquired and are now idle because of changes in requirements	31.205-17		X	
Insurance and indemnification costs	Special criteria for self-insurance programs. Insurance for Government property are allowable only to the extent that the contractor is liable for such loss or damage. Life insurance on officers only to the extent that it represents additional compensation.	31.205-19	X		
Lobbying costs	Includes attempts to influence legislation, contributions, attempts to influence elections, attempts to influence contract matters	31.205-22		X	
Losses on Other Contracts	An excess of costs over income under any other contract (including the contractor's contributed portion under cost-sharing contracts) is unallowable.	31.205-23		X	
Organization costs	Please see further guidance related to "Restructuring Costs	31.205-27		X	
Patent costs	Patent costs are allowable to the extent that they are incurred as requirement of a government contract. (Unallowable unless required by a Government contract).	31.205-30	X		
Plant reconversion costs	Unallowable, except for cost of removing Government property and any government contract required reconversion.	31.205-31		X	
Pre-contract costs	Allowable to the extent that they would have been allowable if incurred after the date of the contract.	31.205-32	X		
Professional & Consultant Service costs	Professional services, means those services rendered by persons who are members of a particular profession or	31.205-33	X		

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	possess a special skill and who are not officers or employees of the contractor. Examples include those services acquired by contractors or subcontractors in order to enhance their legal, economic, financial, or technical positions. Professional services are generally allowable.				
Rental costs	Allowable if acquired under “operating leases” as defined in Statement of Financial Accounting Standards, Accounting for Leases. Special rules apply for related party transactions. Assets acquired by means of “capital leases” as defined in FAS-13, shall be treated as purchased assets. Under capital lease assets should be capitalized and capitalized value of such assets be distributed over their useful lives as depreciation charges or over the term of the lease as amortization charges.	31.205-36	X		
Royalties	Unallowable if Government has license or right to free use, patent has been determined to be invalid, unenforceable, or the patent has expired. Special care if paid to related parties, etc. (see FAR 31.205-37)	31.205-37	X		
Termination costs	Special rules apply under contract termination procedures (FAR Part 49)	31.205-42	X		
Costs related to legal and other proceedings	Generally unallowable if contractor is convicted or determined to be at fault	31.205-47			X
Deferred IR&D	Unallowable	31.205-48			X
Goodwill	Amortizing, expensing, write-down, or write-off of goodwill is unallowable.	31.205-49		X	

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Asset valuations resulting from business combinations.	When the purchase method of accounting for a business combination is used, allowable amortization, cost of money, and depreciation shall be limited to the total of the amounts that would have been allowed had the combination not taken place.	31.205-52	X		