

*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
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		
Employee Morale, Health, Welfare, Food Service, & Dormitory Costs & Credits	<a href="#">31.205-13</a>			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 Capacity Costs	<a href="#">31.205-17</a>		X	X
Independent Research & Development/ Bid & Proposal Costs	<a href="#">31.205-18</a>	X	X	X
Insurance & Indemnification	<a href="#">31.205-19</a>		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	X
Lobbying and Political Activity Costs	<a href="#">31.205-22</a>		X	

Losses on Other Contracts	<a href="#">31.205-23</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	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	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
Travel Costs	<a href="#">31.205-46</a>			X

Consider all Relevant Cost Principles ( [FAR 31.204\(d\)](#) , [FAR 31.205-8](#) and [FAR 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, paragraph (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, compliance with applicable accounting principles and standards and the terms and conditions of the contract.

*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 Unallowable Costs 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.

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.

Exercise: As a team, consider the following costs and determine whether they are allowable or not – cite specific FAR references:

For each of the following items, would the costs be allowable, unallowable or allowable subject to some limitations? If there is a limitation, explain. For each item, identify the appropriate FAR reference to support your answer.

- 1) The salary and bonus of a CEO of \$400,000. What if the individual was claims clerk? What if the individual was a sole-proprietor? What if the salary and bonus were \$700,000
- 2) A \$50 contribution to a political action committee.
- 3) A \$500 contribution to the Boy Scouts of America.
- 4) Hotel, meals and incidental expenses of \$145 per night where the maximum daily per diem for the location is \$125 per day.
- 5) Kennel fees of \$56 in association with the relocation of an executive vice-president.
- 6) Annual fees of \$10,000 for membership in the Trump National Country Club.
- 7) Corporate box seats at the Kentucky Derby.

- 8) \$500 for T-Shirts for staff members.
- 9) A \$500 hammer and a \$5,200 coffee pot.
- 10) \$50 for a textbook on the Truth in Negotiations Act and other procurement regulations.
- 11) \$40,000 for legal and accounting fees in support of a bid protest.
- 12) Legal fees of \$35,000 for preparing a Termination for Convenience settlement proposal.
- 13) \$16 worth of Black and Tan's for the instructor at a quaint little pub.
- 14) \$25,000 to construct a booth at a wellness fair as required by the contract.
- 15) What if \$2,000 worth of food and alcohol was served at the booth?