

**FEDERAL ACQUISITION REGULATIONS  
QUICK REFERENCE \***

Item of Cost	Regulation	Explanation
Accounting	FAR 31.205-33	Allowable to the extent they are not associated with other unallowable costs such as bad debts.
Advance agreements	FAR 31.109	Advance agreements specifying allowability of special or unusual costs are allowable.
Advertising (see Selling and Marketing)		
Alcoholic beverages	FAR 31.205-51	Unallowable.
Allowability of costs	FAR 31.201-2	Costs are allowable only if reasonable, are allocable to intermediate or final cost objectives, are properly assigned/allocated to appropriate cost objectives, and are not prohibited by FAR Part 31 and/or Federal and State laws, regulations, and policies.
Audit services	FAR 31.205-33	Allowable to the extent they are not associated with other unallowable costs such as bad debts.
Bad debts	FAR 31.205-3	All expenses, including legal and collection costs, are unallowable.
Bid and Proposal Costs	FAR 31.205-18, CAS 420	B&P costs must be identified as a separate cost item and by individual project.. B&P costs must be accounted for in the same manner as contract (project) costs and are generally allowable.
Bonding	FAR 31.205-4	Allowable.
Bonus and incentive pay plans	FAR 31.205-6(f)(1), FAR 31.205-6(a)(6)(ii)(B)	Bonuses must be either by prior agreement or an established plan or policy followed so consistently as to imply an agreement to make such payment. Also, the basis for the bonus must be supported.
Business Combination Costs	FAR 31.205-49, FAR 31.205-52	Amortization, cost-of-money and depreciation are limited to the amounts allowable prior to the business combination.
CAS	FAR 9901.306	Any consultant with a contract of \$50,000,000 or more is subject to full CAS coverage. Otherwise, the consultant shall follow FAR 31.203(b)-(h).
Collection Costs	FAR 31.205-3	Unallowable.
Compensation limits	FAR 31.205-6(p)	Senior Executives' compensation are limited to the Benchmark Compensation Amount as determined by the Office of Federal Procurement Policy.
Compensation, Closely-Held firms	FAR 31.205-6(a)(6)(i)(A)	Compensation of certain individuals in closely-held firms requires special review and consideration.
Compensation, deferred	FAR 31.001, CAS 415	To be allowable, must be measured, allocated, and accounted for in compliance with CAS 415.
Compensation, Elements of	FAR 31.205-6	Compensation must be for work performed during the current year only, must be reasonable, and must be based upon an established compensation plan or practice followed so consistently as to imply an agreement to make the payment.
Contingency provisions/reserves	FAR 31.205-7	Generally unallowable.
Contract Termination - related costs	FAR 31.205-42	Certain costs are allowable.
Contributions or donations (to others)	FAR 31.205-8	Unallowable except for cost of participation in community service activities such as blood bank drives, charity drives, disaster assistance, etc.
Cost-of-Money	FAR 31.205-10, CAS 414, FAR 15.404-4	The average book value of the investment base is multiplied by the cost of money rate. The resultant value is divided by the allocation base units.
Costs are allowable	FAR 31.201-2	Costs are allowable if they are reasonable, allocable to Government contracts, compliant with GAAP and CAS, compliant with terms of the contract, and is not prohibited by any of the cost principles in FAR Part 31.
Costs must be allocable	FAR 31.201-4	Costs are allocable if they are incurred specifically for a contract, benefits both a contract and other work and can be distributed reasonably, and is necessary to the overall operation of the business.
Depreciation, use allowance	FAR 31.205-11	Depreciation may not exceed the book value of depreciation. Accelerated methods are not allowable.
Direct costs	FAR 31.202, FAR 31.203	Any cost that can be identified with a particular contract or project. Does not depend on whether the cost is reimbursable or not. Are unallowable as an overhead cost.

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Directly associated costs	FAR 31.201-6, 48 CFR 9904.405-40	Unallowable costs and directly associated costs are to be excluded from billings, claims, or proposals for government contracts.
Directly associated salary costs	FAR 31.201-6(e)(2)	Salary expenses directly associated with unallowable costs are unallowable.
Economic planning costs	FAR 31.205-12	Allowable except for organization or reorganization costs.
Employee morale, health, welfare	FAR 31.205-13	Net employee morale, health, and welfare costs are allowable. Examples are in-house publications, health clinics, wellness/fitness, employee counseling services, and food and dormitory services. Food and dormitory services net costs are only allowable if operated on a break even basis
Employee Stock Ownership Plans (ESOP)	FAR 31.205-6(q), CAS 412, CAS 415	Contributions may not exceed the deductible limits of the IRC and are limited to the fair market value of the contributed stocks at the date the stock is transferred to the ESOP or to the fair market value of the stocks purchased with a cash contribution. When stocks are not publicly traded, an independent appraisal must be performed for valuation purposes.
Entertainment	FAR 31.205-14	All entertainment costs, such as shows, sporting events, picnics, parties, etc. are unallowable. These costs are not allowable under any other FAR.
Field Office Rates	FAR 31.203(f)	Consultant is responsible for reporting rates for field offices (offices not part of their main offices).
Fines, penalties	FAR 31.205-15	Unallowable except when incurred as a result of compliance with a contract or written instructions from the contracting officer.
Fringe benefits	FAR 31.205-6(m)	Allowable only when reasonable and required by law, employer-employee agreement, or an established policy of the consultant.
Gains and losses on disposition of property	FAR 31.205-16	Gains on the sale of assets must be removed from the overhead costs, losses must be added to the overhead costs. The exception is sale leaseback situations where these are limited.
Gifts	FAR 31.205-13	All costs of gifts are unallowable. 2 types of awards are allowable: (1) awards covered by FAR 31.205-6 and (2) awards made pursuant to an established plan or policy for recognition of employee achievements.
Goodwill	FAR 31.205-49	Unallowable.
Idle facility, idle capacity	FAR 31.205-17	Are unallowable with 2 exceptions.
Independent research and development	FAR 31.205-18	Generally allowable.
Insurance - Key Man Insurance	FAR 31.205-19, DCAM 7-509.3	Key Man Insurance is insurance on the life of key personnel where the beneficiaries are the company or its owners. Key Man Insurance is unallowable.
Insurance - Professional Liability	FAR 31.205-19	Allowable if allocable and reasonable. Costs of the consultant to correct their own defects, settle claims in lieu of correcting their own defects, or similar acts are unallowable.
Insurance - Re-Work	FAR 31.205-19	Cost of protecting against the costs of correcting own defects in materials and workmanship is unallowable.
Insurance - Self	FAR 31.205-19	Allowable up to the cost of equivalent coverage from an insurance company.
Interest	FAR 31.205-20	Interest on borrowings, bond discounts, costs of financing and refinancing capital, legal and professional fees paid for preparing a prospectus, costs of preparing and issuing stock rights, and directly associated costs are unallowable.
Labor relations	FAR 31.205-21	Allowable except for entertainment costs.
Legal costs	FAR 31.205-47	Legal costs for proceedings brought by a Federal, State or local government for violation of a law or regulation, costs of a dispute between consultants that are partners, in a joint venture, or similar shared interest arrangement; organization or reorganization activities; and collections are unallowable.
Lobbying	FAR 31.205-22	Lobbying and political activity costs are generally unallowable. Ex. - attempting to influence the outcomes of elections, contributions to political parties or organizations, influencing legislation, influencing employees of the executive branch of government.
Losses on other awards (contracts)	FAR 31.205-23	Unallowable.

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Manufacturing & production engineering costs	FAR 31.205-25	Generally allowable.
Materials, supplies	FAR 31.205-26	Generally allowable.
Memberships, meetings and conferences, subscriptions, professional activity	FAR 31.205-1, FAR 31.205-14, FAR 31.205-43	Allowable when for trade, business, technical, or professional purposes.
Organization and reorganization costs	FAR 31.205-27	All costs including mergers, acquisitions, and raising capital are unallowable with the exception of activities intended to provided compensation.
Other business expenses	FAR 31.205-28	Such as registry and transfer charges from changes in ownership of securities, shareholders' meetings, normal proxy solicitations, shareholders' reports, regulatory required reports and forms, directors' and committee meetings, and other similar costs are allowable.
Overtime, shift premiums	FAR 31.205-6	Allowed as indirect cost if indirect in nature. To be indirect in nature, must be earned by an employee who is almost 100% indirect.
Patent costs	FAR 31.205-30	Unallowable unless required by government contract.
Pension plan changes	FAR 31.001, FAR 31.205-6(j), ERISA, IRC, CAS 412, CAS 413	Cost of changes are unallowable if discriminatory to the Government or not intended to be applied consistently to all employees under similar circumstances in the future. One time supplements not available to all employees are generally unallowable.
Pension plans	FAR 31.001, FAR 31.205-6(j), ERISA, IRC, CAS 412, CAS 413	Contributions are allowable if funded by the due date for filing the Federal income tax return and up to the net contribution required to be made pursuant to the requirements of the Plan. Discretionary contributions are unallowable.
Personal use of company vehicles	FAR 31.205-6(m)(2)	Unallowable regardless if reported as income or not.
Pre-award (pre-contract) costs	FAR 31.205-32	Unallowable as indirect costs as they are direct costs. May be included in the direct costs of the consultant.
Professional services	FAR 31.205-33	Allowable to the extent they are not associated with other unallowable costs such as bad debts.
Profits, losses on assets disposition	FAR 31.205-16	Gains on the sale of assets must be removed from the overhead costs, losses must be added to the overhead costs. The exception is sale leaseback situations where these are limited.
Promotional material/Brochures	FAR 31.205-1	Unallowable.
Public relations	FAR 31.205-1	Unallowable costs include (1) material, motion pictures, videotapes, brochures, handouts, and magazines designed to elicit favorable attention to the consultant; (2) membership in civic and community organizations; (3) souvenirs, models, imprinted clothing, buttons and other mementos given to customers or the public; and (4) sponsoring nontechnical meetings, symposia, seminars, and other special events.
Publication and printing costs	FAR 31.205-13, FAR 31.205-21	Generally allowable.
Reasonableness	FAR 31.201-2, FAR 31.201-3	A cost is reasonable if it is necessary and ordinary. See the regulations for further clarification
Reconversion costs	FAR 31.205-31	Generally allowable.
Recordkeeping, Burden of proof	FAR 31.201-2(d)	Consultants must maintain adequate records to demonstrate that costs have been incurred and are allocable to government contracts.
Recreation	FAR 31.205-13	Unallowable except for the costs of company sponsored sports teams or employee organizations designed to improve company loyalty, team work, or physical fitness.
Recruiting	FAR 31.205-34	Allowable with certain limitations.
Relocation	FAR 31.205-35	Certain costs of relocating permanent employees are allowable if meet certain criteria.

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Rent/Lease - Capital Lease	FAR 31.205-36	Capital leases are to be depreciated or amortized by a specific method. There are 4 criteria to be classified as a capital lease per FAS-13 (See UAAC, pg. 70).
Rent/Lease - Common Control	FAR 31.205-36	Rent for property between any divisions, subsidiaries, or organizations under common control are allowable to the extent they do not exceed the normal costs of ownership. Common control is defined by FASB Statement No. 57 (see UAAC pg. 70). Common control is present when 1 or more persons or family members such as a husband and wife, parent and child, siblings, etc. can influence decision making of all companies involved.
Rent/Lease - Sale and Leaseback	FAR 31.205-36	Sale and leaseback rental costs are allowable only up to the amount the consultant would be allowed if the consultant retained title. Allowable costs are computed based upon the net book value of the asset on the date the consultant became a lessee of the property adjusted for any gain or loss.
Retainer agreements	FAR 31.205-33	Allowable but must be supported by evidence that the services are necessary and customary, the fee is reasonable in comparison with maintaining an in-house capability, and the level of past services justifies the amount of the retainer fees.
Royalties, use of patents, copyrights	FAR 31.205-37	Allowable with certain limitations.
Selling and marketing (or advertising)	FAR 31.205-1, FAR 31.205-38	Generally direct selling (characterized by person-to-person contact) is allowable. Brokerage fees, commissions, and similar costs are allowable only when paid to bona fide employees or established commercial or selling agencies of the consultant. Generally, the only allowable advertising cost is help wanted ads (in accordance with FAR 31.205-34). Only certain image enhancement and public relations costs (see Public relations) are allowable. Long-range marketing costs are allowable when associated with long-range management planning.
Service and warranty costs	FAR 31.205-39	Allowable when not inconsistent with the terms of the contract.
Severance pay	FAR 31.205-6(g)	Is allowable if payment is required by law, an employer-employee agreement, an established policy that is an implied agreement on the consultant's part, or the circumstances of the particular employment. Abnormal severance pay, associated with mass termination of employees, is unallowable to the extent it exceeds normal severance pay.
Social activities	FAR 31.205-14	Unallowable.
Souvenirs/Imprinted clothing provided to public	FAR 31.205-1	Unallowable.
Special tooling and test equipment	FAR 31.205-40	Only allowable as a direct cost of the contract.
Supplemental Benefit: Executive Severance	FAR 31.205-6(g)	Must be reasonable regardless of if based on an executive employment contract.
Supplemental Benefit: Golden Handcuffs	FAR 31.205-6(l)(2)	Compensation contingent on an employee remaining with the organization after an actual or prospective change in management control is unallowable.
Supplemental Benefit: Golden Parachute	FAR 31.603(b)(11)	Payments made under a contract to key personnel in the event of a change in ownership or control of the consultant are unallowable.
Supplemental Benefit: Long-Term Incentive Plan (LTI)	FAR 31.205-6(i)	The most common LTIs are based on stock options, which are unallowable.
Supplemental Benefit: Supplemental Executive Retirement Plans (SERP) or ERISA Excess Plans	FAR 31.205-6, CAS 9904.412, ERISA	Unallowable unless represents a separate pension plan and benefits are payable for life at the option of the employee.
Taxes	FAR 31.205-41	Federal income and excise taxes are unallowable.
Total-Hour Accounting System	DCAAP 7641.90 Chapter 2 - 302.1(5)	All hours worked by all employees must be recorded. An adjustment may be made if it is questionable that all hours are not being recorded.
Trade show expenses and labor	FAR 31.205-1	Generally unallowable except as described in selling and marketing.
Training, education	FAR 31.205-44	Are allowable with limitations.
Travel	FAR 31.205-46	Travel costs are allowable either as indirect or direct if the following information is documented: Date and Place, Purpose of Trip, name of personnel or relationship to the consultant, and for transportation a log must be maintained. Transportation costs are reimbursable only up to FTR rates.

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\* See the specific guidance and/or the Uniform Audit and Accounting Guide for further clarification.

<b>Abbreviations and Links</b> <a href="#">CAS - Cost Accounting Standards (48 CFR 99)</a> <a href="#">CFR - Code of Federal Regulations</a> <a href="#">DCAA - Defense Contract Audit Agency</a> <a href="#">DCAAP - DCAA Pamphlet</a> <a href="#">DCAM - DCAA Contract Audit Manual</a> <a href="#">ERISA - Employee Retirement Income Security Act</a> <a href="#">FAR - Federal Acquisition Regulations (48 CFR)</a> <a href="#">FASB - Financial Accounting Standards Board</a> <a href="#">FTR - Federal Travel Regulations</a> GAAP - Generally Accepted Accounting Principles <a href="#">IRC - Internal Revenue Code</a> <a href="#">UAAC - Uniform Audit and Accounting Guide</a> <a href="#">USC - United States Code</a>
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