



# DCAA Unallowable Costs Guidelines

The following costs must be identified and excluded (with a materiality consideration) from billings, claims and proposals by reducing the related indirect cost pools:

- Expressly unallowable costs
- Costs named or stated to be unallowable by law, regulation or contract
- Mutually agreed unallowable costs
- Directly associated costs
  - i.e. time spent pursuing unallowable activities (bad debt collection)

To manage unallowable costs, separate accounts must be established for these type of expenses and they must not be priced directly into federal government contracts during the proposal process.

## Unallowable Costs Categories:

**Advertising** – Allowable only if they are necessary to meet the requirements of the contract performance. FAR 31.205-1

**Public Relations** – Unallowable except for

1. costs specifically required by government contracts
2. cost of communicating with the public and press pertaining to specific accomplishments which result from government contracts, or
3. costs of conducting communication and liaison necessary to keep the public informed on matters of public concern such as notices of awards, financial matters, etc. FAR 31.205-1

**Alcoholic Beverages** – Unallowable. Be sure to have these clearly segregated! FAR 31.205-51

**Bad Debt** – Unallowable; Actual or Estimated, Including Directly Associated Costs (i.e. legal, collection). FAR 31.205-3

**Legal** – Defense and Prosecution of Criminal and Civil Proceedings, Claims Appeals and Patent Infringement are generally unallowable. FAR 31.205-47

**Donations and contributions** – Unallowable (Cash, Property, or Services). FAR 31.205-8

**Entertainment Costs** – Unallowable (Amusement, Social Activities) FAR 31.205-14

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**Executive Lobbying** – Unallowable (Costs Incurred, including salaries and fees, in attempting to improperly influence either directly or indirectly an employee or officer of the Federal Government regarding a contract). FAR 31.205-22

**Fines and penalties** – Unallowable (Violation of laws or mischarging costs resulting from failure of the company to comply with federal, state, local or foreign laws and regulations). FAR 31.205-15

**Goods and Services Cost for Personal Use** – Unallowable (Including personal use of company automobile) .FAR 31.205-6

**Personal Housing and Living Expenses** – Certain relocation costs are unallowable. (Not to be confused with *direct* travel costs which are allowable.) FAR 31.205-35

**Insurance** to protect against defects in materials or workmanship are unallowable. FAR 31.205-19

**Interest and Investment Management Costs** – Unallowable (Including Line of Credit and credit card interest and fees). FAR 31.205-20

Losses on Government or Other Contracts – Unallowable. (Excess of Cost > Billings). FAR 31.205-23

**Contingencies** – Unallowable. (Costs based on potential future events or immeasurable costs.) FAR 31.205-7

**Membership Costs** in Civic, Community Organizations, Country Clubs or Social or Dining Clubs are unallowable. FAR 31.205-1

**Pre-Contract Costs** – Unallowable (unless approved by the Contracting Agency). FAR 31.205-32

**Airfare Travel Costs in excess** of the lowest available commercial discount or standard coach airfare are unallowable. FAR 31.205-46

**Goodwill** – Unallowable (Acquisition Price > FMV). FAR 31.205-49

**Idle Facilities and Idle Capacity Costs** — Typically unallowable. FAR 31.205-17

**Patent Costs** – Unallowable unless incurred as a requirement of a Government contract. FAR 31.205-30

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## Best practices for unallowable costs:

- Set up the chart of accounts to collect unallowable costs by category (name);
- Brief the contract to determine if a special provision makes a particular cost unallowable;
- Institute Policies and Procedures that identify unallowable costs and the specific procedure to remove the cost from billings;
- Train staff so they understand what constitutes an unallowable cost.

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