31.203 Indirect costs.

(a) For contracts subject to full CAS coverage, allocation of *indirect costs shall* be based on the applicable provisions. For all other contracts, the applicable CAS provisions in paragraphs (b) through (h) of this section apply.

(b) After *direct costs* have been determined and charged directly to the contract or other work, *indirect costs* are those remaining to be allocated to intermediate or two or more *final cost objectives*. No *final cost objective shall* have allocated to it as an *indirect cost* any cost, if other costs incurred for the same purpose, in like circumstances, have been included as a *direct cost* of that or any other *final cost objective*.

(c) The contractor *shall* accumulate *indirect costs* by logical cost groupings with due consideration of the reasons for incurring such costs. The contractor *shall* determine each grouping so as to permit use of an allocation base that is common to all *cost objectives* to which the grouping is to be allocated. The base selected *shall allocate* the grouping on the basis of the benefits accruing to intermediate and *final cost objectives*. When substantially the same results can be achieved through less precise methods, the number and composition of cost groupings *should* be governed by practical considerations and *should* not unduly complicate the allocation.

(d) Once an appropriate base for allocating *indirect costs* has been accepted, the contractor *shall* not fragment the base by removing individual elements. All items properly includable in an *indirect cost* base *shall* bear a pro rata share of *indirect costs* irrespective of their acceptance as Government contract costs. For example, when a *cost input* base is used for the allocation of G&A costs, the contractor *shall* include in the base all items that would properly be part of the *cost input* base, whether allowable or unallowable, and these items *shall* bear their pro rata share of G&A costs.

(e) The method of allocating *indirect costs may* require revision when there is a significant change in the nature of the business, the extent of subcontracting, fixed-asset improvement programs, inventories, the volume of sales and production, manufacturing processes, the contractor's *products*, or other relevant circumstances.

(f) Separate cost groupings for costs allocable to offsite locations *may* be necessary to permit equitable distribution of costs on the basis of the benefits accruing to the several *cost objectives*.

(g) A base period for allocating *indirect costs* is the cost accounting period during which such costs are incurred and accumulated for allocation to work performed in that period.

(1) For contracts subject to full or modified CAS coverage, the contractor *shall* follow the criteria and guidance in 48 CFR9904.406 for selecting the cost accounting periods to be used in allocating *indirect costs*.

(2) For contracts other than those subject to paragraph (g)(1) of this section, the base period for allocating *indirect costs shall* be the contractor's *fiscal year* used for financial reporting purposes in accordance with generally accepted accounting principles. The *fiscal year* will normally be 12 months, but a different period *may* be appropriate (*e.g.,* when a change in *fiscal year* occurs due to a business combination or other circumstances).

(h) Special care *should* be exercised in applying the principles of paragraphs (c), (d), and (e) of this section when Government-owned contractor-operated (GOCO) plants are involved. The distribution

of corporate, division or branch office G&A expenses to such plants operating with little or no dependence on corporate administrative activities *may* require more precise cost groupings, detailed accounts screening, and carefully developed distribution bases.

(i) *Indirect costs* that meet the definition of "excessive pass-through charge" in 52.215-23, are unallowable.

Parent topic: Subpart 31.2 - Contracts with Commercial Organizations