31.205-26 Material costs.

(a) Material *costs* include the *costs* of such items as raw materials, parts, subassemblies, *components*, and manufacturing *supplies*, whether purchased or manufactured by the contractor, and *may* include such collateral items as inbound transportation and in-transit *insurance*. In computing material *costs*, the contractor *shall* consider reasonable overruns, spoilage, or defective work (unless otherwise provided in any contract provision relating to inspecting and correcting defective work).

(b) The contractor *shall*-

(1) Adjust the *costs* of material for income and other credits, including available trade discounts, refunds, rebates, allowances, and cash discounts, and credits for *scrap*, salvage, and material returned to vendors; and

(2) Credit such income and other credits either directly to the cost of the material or *allocate* such income and other credits as a credit to *indirect costs*. When the contractor can demonstrate that failure to take cash discounts was reasonable, the contractor does not need to credit lost discounts.

(c) Reasonable adjustments arising from differences between periodic physical inventories and book inventories *may* be included in arriving at *costs*; provided such adjustments relate to the period of contract performance.

(d) When materials are purchased specifically for and are identifiable solely with performance under a contract, the actual purchase cost of those materials *should* be charged to the contract. If material is issued from stores, any generally recognized method of *pricing* such material is acceptable if that method is consistently applied and the results are equitable.

(e) Allowance for all materials, *supplies* and services that are sold or transferred between any divisions, subdivisions, subsidiaries, or *affiliates* of the contractor under a common control *shall* be on the basis of cost incurred in accordance with this subpart. However, allowance *may* be at price when-

(1) It is the established practice of the transferring organization to price interorganizational transfers at other than cost for commercial work of the contractor or any division, subsidiary or affiliate of the contractor under a common control; and

(2) The item being transferred qualifies for an exception under 15.403-1(b) and the *contracting officer* has not determined the price to be unreasonable.

(f) When a *commercial product* or *commercial service* under paragraph (e) of this section is sold or transferred at a price based on a catalog or market price, the contractor—

(1) *Should* adjust the price to reflect the quantities being acquired; and

(2) *May* adjust the price to reflect the actual cost of any modifications necessary because of contract requirements.

Parent topic: 31.205 Selected costs.