



Allocable Costs

GENERAL GUIDANCE

Allocable costs are expenses that can be reasonably and consistently assigned to a specific project or activity funded by federal awards. These costs must directly benefit the project and be incurred for its purposes. Costs must be necessary to the overall operation of the award. It is necessary for the treatment of costs to be consistent and appropriately documented.

What Costs Are Allocable?

2 CFR 200.405 A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received. This standard is met if the cost:

1. Is **incurred specifically for the Federal award**;
2. Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and
3. Is **necessary to the overall operation** of the non-Federal entity and is assignable in part to the Federal award in accordance with the principles in this subpart.

Indirect Costs

All activities which benefit from the non-Federal entity's indirect (F&A) cost, including unallowable activities and donated services by the non-Federal entity or third parties, will receive an appropriate allocation of indirect costs.

Prohibition for Allocating Funds

Any cost allocable to a particular Federal award under the principles provided for in 2 CFR 200.405 **may not be charged to other Federal awards to overcome fund deficiencies**, to avoid restrictions imposed by Federal statutes, regulations, or terms and conditions of the Federal awards, or for other reasons. However, this prohibition would not preclude the non-Federal entity from shifting costs that are allowable under two or more Federal awards in accordance with existing Federal statutes, regulations, or the terms and conditions of the Federal awards.

Allocability with Equipment & Cost Accounting Standards

Where the purchase of equipment or other capital asset is specifically authorized under a Federal award, **the costs are assignable to the Federal award** regardless of the use that may be made of the equipment or other capital asset involved when no longer needed for the purpose for which it was originally required. See also [§§ 200.310](#) through [200.316](#) and [200.439](#).

If the contract is subject to Cost Accounting Standards (CAS), costs must be allocated to the contract pursuant to the Cost Accounting Standards. To the extent that CAS is applicable, the allocation of costs in accordance with CAS takes precedence over the allocation provisions in this part.

What are Cost Accounting Standards

Cost Accounting Standards (CAS) are a set of standards that are designed “to achieve uniformity and consistency in cost accounting practices.”

Cost Accounting Standard (CAS) 9905.502 states “All costs incurred for the same purpose, in like circumstances, are either [direct costs](#) only (can be charged to a grant) or [indirect costs](#) only (must be paid with unrestricted funds) with respect to final cost objectives.”

What are Cost Accounting Standards

Direct cost allocation principles: If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit.

If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then, notwithstanding [paragraph \(c\)](#) of this section, the costs may be allocated or transferred to benefitted projects on any reasonable documented basis.

Do not confuse **unallowable proportional cost splitting** with **true direct costs**. Example: charging a proportional cost to a grant, based on student count, such as special education, when it is a cost to all students.