

## 31.204 Application of principles and procedures.

(a) Costs are allowable to the extent they are reasonable, allocable, and determined to be allowable under [31.201](#), [31.202](#), [31.203](#), and [31.205](#). These criteria apply to all of the selected items that follow, even if particular guidance is provided for certain items for emphasis or clarity.

(b)

(1) For the following subcontract types, costs incurred as reimbursements or payments to a subcontractor are allowable to the extent the reimbursements or payments are for costs incurred by the subcontractor that are consistent with this part:

(i) Cost-reimbursement.

(ii) Fixed-price incentive.

(iii) Price redeterminable (*i.e.*, fixed-price contracts with prospective price redetermination and fixed-ceiling-price contracts with retroactive price redetermination).

(2) The requirements of paragraph (b)(1) of this section apply to any tier above the first firm-fixed-price subcontract or fixed-price subcontract with economic price adjustment provisions.

(c) Costs incurred as payments under firm-fixed-price subcontracts or fixed-price subcontracts with economic price adjustment provisions or modifications thereto, for which subcontract cost analysis was performed are allowable if the price was negotiated in accordance with [31.102](#).

(d) Section [31.205](#) does not cover every element of cost. Failure to include any item of cost does not imply that it is either allowable or unallowable. The determination of allowability *shall* be based on the principles and standards in this subpart and the treatment of similar or related selected items. When more than one subsection in [31.205](#) is relevant to a contractor cost, the cost *shall* be apportioned among the applicable subsections, and the determination of allowability of each portion *shall* be based on the guidance contained in the applicable subsection. When a cost, to which more than one subsection in [31.205](#) is relevant, cannot be apportioned, the determination of allowability *shall* be based on the guidance contained in the subsection that most specifically deals with, or best captures the essential nature of, the cost at issue.

**Parent topic:** [Subpart 31.2 - Contracts with Commercial Organizations](#)