



Cost Principles: General Principles

Allowable

A cost is allowable if it

- is reasonable for the performance of the award,
- is allocable to the award,
- conforms to applicable limitations or exclusions,
- is consistent with policies and procedures that apply to federally funded and other activities,
- is accorded consistent treatment,
- meets generally accepted accounting principles (GAAP),
- is not included as a cost or cost sharing for any other federally funded program, and
- is adequately documented.

Reasonable/Necessary

A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs.

For a cost to be reasonable, the following conditions must be met:

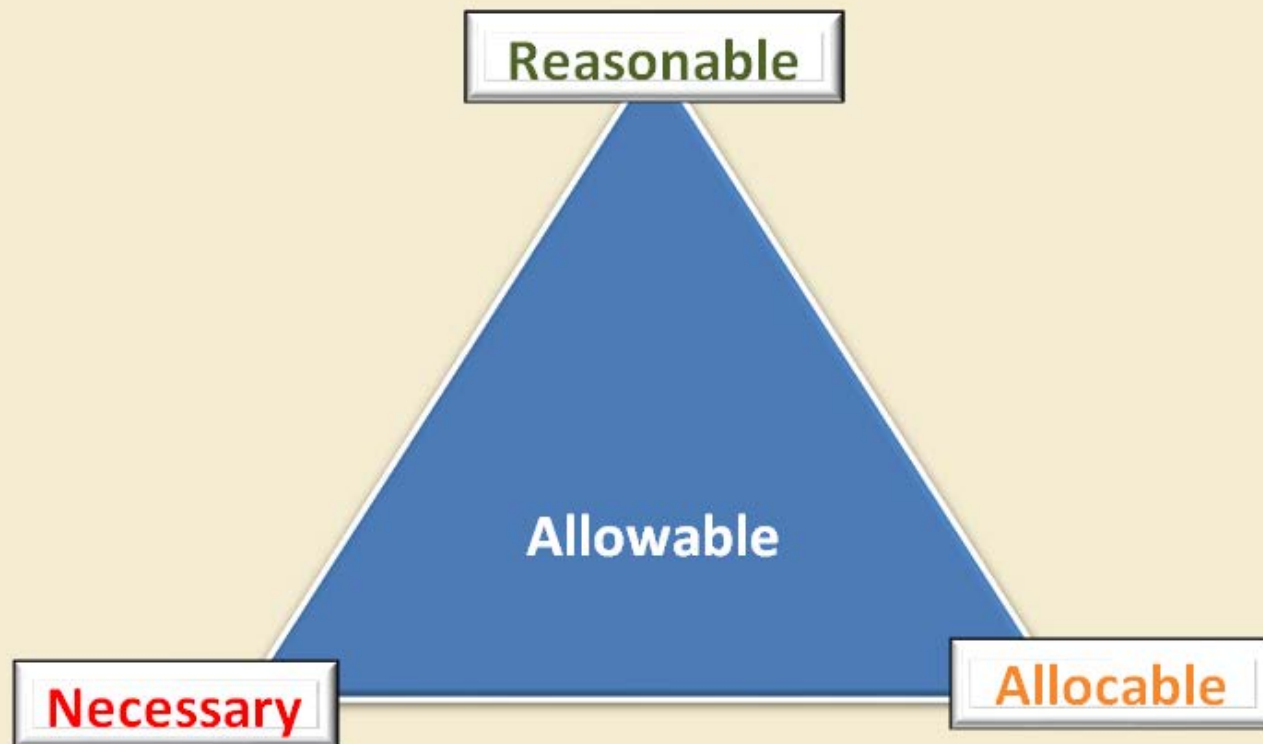
- The cost is generally recognized as ordinary and necessary.
- The cost meets sound business practices and arm's-length bargaining; it complies with laws, rules, regulations, and grant awards.
- The individuals concerned acted with prudence under the circumstances and given their responsibilities to the organization, its members, employees, and clients, the public at large, and the federal government.
- The cost does not significantly deviate from established practices of the organization.

Allocable/Necessary

A cost is allocable to a particular cost objective—such as a grant, contract, project, service, or other activity—in accordance with the relative benefits received. A cost is allocable to a federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it

- is incurred specifically for the award;
- benefits both the award and other work and can be distributed in reasonable proportion to the benefits received; or
- is necessary to the overall operation of the organization, even though a direct relationship to any particular cost objective cannot be shown.

Cost Principles



This product was prepared under Grant #90HC0006 for the U.S. Department of Health and Human Services, Administration for Children and Families, Office of Head Start, by the National Center on Program Management and Fiscal Operations.