

PI ARTICLE: Cost Principles – Research Administration’s Big Four

The four primary cost principles applicable to sponsored awards are that costs must be: reasonable, allocable, allowable, and consistently treated. These cost principles apply to not only the sponsored funds but also any related cost share or in-kind cost associated with the award.

[Reasonable \(2CFR200.404\)](#)

A cost is considered reasonable if the nature and the price paid of the goods or services reflects the action that a prudent person would take given the prevailing circumstances at the time the decision to incur the cost was made.

To determine if a cost is reasonable, ask the following questions:

- Is the cost necessary for the performance of the sponsored award?
- What stated goal or objective in the award does this cost support?
- Have the individuals incurring this cost acted with due prudence in the circumstances?
- Is the price of the goods or services comparable to that charged by multiple vendors/sources that have no vested interest or relationship to the award or to the person involved in the purchase?
- Does incurring this cost violate the requirements or restraints imposed by federal and state laws and regulations, or sponsored award terms and conditions?
- Were the actions taken in respect to incurring the cost consistent with established institutional policies and practices applicable to sponsored awards?

[Allocable \(2CFR200.405\)](#)

A cost is allocable to a particular award if the goods or services involved can be directly charged to the award based on the benefit provided.

To determine if a cost is allocable, ask the following questions:

- Does it benefit the award and/or other funding sources?
- Can it be distributed to all benefited funding sources using reasonable methods?
- Does the basis for allocating the cost represent a reasonable estimation of the benefit provided to the award’s stated goals and objectives?

[Allowable \(2CFR200.406\)](#)

A cost is allowable if it is permitted as a cost within general federal and state regulations, the terms of a specific award, and/or the institution’s F&A rates. Costs expressly unallowable or mutually agreed to be unallowable should be identified and excluded from any billing, claim, application, or proposal related to the sponsored award.

Please note: Inclusion of an unallowable cost in a proposal does not make the cost allowable, nor does adding a justification to an unallowable cost in a proposal. For a listing of general provisions for selected items of cost please, see 2CFR200.420 - .476.

[Consistently Treated \(2CFR200.419\(a\) Cost Accounting Standards\)](#)

All costs incurred for the same purpose and in like circumstances must be treated uniformly either as direct costs or as indirect (facilities and administrative or F&A) costs. Since certain costs, such as office supplies and administrative salaries are normally treated as F&A costs, these costs cannot be charged directly to federal awards unless the circumstances of an award are clearly different from the normal operations of the unit. This principle exists to ensure that each educational institution’s practices used in estimating costs for a proposal are consistent with cost accounting practices used by the institution in accumulating and reporting costs.

If you have any questions, please contact Josh Rosenberg at josh.rosenberg@business.gatech.edu.