

## SELECTED AREAS OF COST

### Chapter 3 – Bad Debts

#### **Authoritative Sources**

[FAR 31.205-3](#) Bad Debts

[FAR 31.201-2](#) Determining Allowability

[FAR 31.201-6](#) Accounting for unallowable costs

A bad debt is an amount due that cannot be recovered and arises when accounts receivable from customers or other claims become uncollectible.

3-1 General Information

3-2 General Audit Guidelines

#### **3-1 General Information**

Bad debts, whether actual or estimated, and any directly associated costs (e.g. collection, legal costs) are expressly unallowable (FAR 31.205-3) and should be excluded from any billing, claim or proposal applicable to a Government contract (FAR 31.201–6(a)). See [DCAA CAM Appendix A-100](#) for more information on expressly unallowable costs.

#### **3-2 General Audit Guidelines**

The most common method to account for bad debt are either through an allowance account or by directly writing-off the amount.