

# SELECTED AREA OF COST

## Chapter 12 - Contingencies

### **Authoritative Sources**

[FAR 31.205-7](#) Contingencies

[FAR 31.201-5](#) Credits

This chapter provides supplemental guidance on auditing costs for contingencies.

This chapter addresses the following topics:

12-1 General Information

12-2 General Audit Guidelines

### **12-1 General Information**

A contingency is a possible future event or condition arising from presently known or unknown causes that cannot be determined at the present time.

In estimating future costs, contingencies can be categorized in the following ways:

- a. Contingencies that may arise from presently known and existing conditions with reasonable estimated cost impact.
- b. Contingencies that may arise from presently known or unknown conditions in which its effect cannot be measured.

### **12-2 General Audit Guidelines**

Contingencies are possible future events that may or may not happen and any costs related to them are estimates.

#### **Contingencies Costs**

- If the costs for contingencies can be reasonably calculated based on presently known and existing conditions such as actual costs, then the costs can be included in the cost estimates.
- If the contingencies may occur from unforeseen events or unknown conditions but the costs cannot be reasonably calculated, then they should be excluded from the cost estimates. However, these costs can be negotiated separately and determined to be allowable. Contact the appropriate contracting officer to coordinate.
- Contingencies are generally unallowable in audits of historical or actual costs.