Chapter 18 – Cost of Money

Authoritative Sources

FAR 31.205-10 Cost of Money

FAR 31.205.52 Asset valuations resulting from business combinations.

FAR 52.215-17 Waiver of Facilities Capital Cost of Money

48 CFR 9904.414 (CAS 414) Cost of Money as an Element of the Cost of Facilities Capital

48 CFR 9904.417 (CAS 417) Cost of Money as an Element of the Cost of Capital Assets Under Construction

This chapter provides supplemental guidance for auditing cost of money costs. For additional information also see CAM 8-414. This chapter addresses the following topics:

18-1 General Information

Cost of money includes facilities capital cost of money (FCCM) and cost of money as an element of the cost of capital assets under construction. Cost of Money is an imputed cost related to the cost of contractor capital committed to facilities and it is not a form of interest. Contractors often use their own money (capital) to invest in facilities and equipment that benefit the Government. The contractor could have instead used that money for other investments, for example, to purchase bonds that would receive interest. FCCM is the method used to determine the amount reimbursable to the contractor for using its own money to invest in facilities and equipment that benefit the Government instead of using it for other investments for which it could receive a return on the investment.

Cost of money is based on the net book value of tangible capital assets and intangible capital assets that are subject to amortization. Regardless of whether the contract is otherwise subject to Cost Accounting Standards (CAS), to be allowable, the contractor's capital investment must

- be measured, assigned, and allocated to contracts in accordance with CAS 414 Cost of Money as an Element of the Cost of Facilities Capital (see 414-30 for definitions) or

- be measured and added to the cost of capital assets under construction in accordance with CAS 417 Cost of Money as an Element of the Cost of Capital Assets Under Construction (see 417-30 for definitions),

and

- meet the requirements of FAR 31.205-52 Asset valuations resulting from business combinations,

and

- be specifically proposed in the contract cost proposal.

There is no requirement for a contractor to propose facilities capital cost of money in pricing and performing a contract. However, if cost of money is not proposed during contract pricing, the contractor surrenders any right to claim it during contract performance. Therefore, the contractor must include the cost in its proposal to the Government for cost of money to be allowable. If the contractor did not propose FCCM, then the costs are unallowable per FAR 52.215-17. If the contract does not contain the clause FAR 52.215-17 waiver, the auditor should still question the costs per this FAR, as the clause is still applicable under the Christian Doctrine.

Additional information on facilities capital cost of money (FCCM) can be found in Chapter 10 of DoD Contract Pricing Reference Guides, Volume 3.

18-2 General Audit Guidelines

18-2.1 Billing Cost of Money

For interim billing, the contractor can include contract FCCM in cost reimbursement and progress payment invoices. The contractor can determine its incurred FCCM by multiplying the incurred portions of the overhead bases by the latest available cost of money rate. For final settlement, the contractor should prepared the Form CASB-CMF and bill the settled cost of money factors.

For additional information on examining the contractor's billing process, see CAM Chapter 6-1000, Processing Interim/Completed Vouchers and/or Chapter 14-200, Audit of Progress Payments.

18-2.2 Computation of Cost of Money

The contractor’s computation of cost of money can be found in its prospective costs including in forward pricing proposals and forward pricing rate proposals, and in incurred costs included in incurred cost proposals

Under CAS 414, cost of money is calculated by multiplying the net book value of the business unit's facilities investment by a cost of money rate based on the interest rates specified semi-annually by the Secretary of the Treasury under Public Law 92-41. The business unit's facilities capital cost of money should be broken down by indirect pool and allocated to specific contracts using the same allocation base used to allocate the indirect costs in the indirect pool. Accordingly, the cost of money factor for an indirect pool is computed by using the cost of money allocated to the indirect pool divided by the allocation base.

Under CAS 417, cost of money applicable to the investment in tangible and intangible capital assets being constructed, fabricated, or developed for a contractor's own use shall be included in the capitalized acquisition cost of such assets (see CAS 417-30 for definitions). The cost of money rate used shall be based on interest rates determined by the Secretary of the Treasury pursuant to Public Law 92-41. For each capital asset being constructed, fabricated, or developed, the investment amount shall be determined for each cost accounting period.

The following is an example of a contractor computation of a cost of money:

FACIITIES CAPITAL COST OF MONEY FACTORS COMPUTATION								
		(a)	(b)	(c)	(d)	(e)	(f)	(g)
					(b+c)	(a*d)		(e/f)
		Applicable Cost of Money Rate:	Accumulation & Direct Distribution of N.B.V. (Basis of Allocations)	Allocation of Undistributed	Total Net Book Value	Cost of Money for the Cost Accounting Period	Allocation Base for the Periods	Facilities Capital Cost of Money Factors
		8.00%						
Business Unit Facilities Capital	Recorded		$ 1,052,500					
	Leased Property		$ 90,000					
	Corporate or Group		$ 62,000					
	Total		$ 1,204,500					
	Undistributed		$ 1,052,000					
	Distributed		$ 152,500					
Overhead Pools	Material		$ 20,000	$ 40,000	$ 60,000	$ 4,800	$ 960,000	0.00500
	Engineering		$ 20,000	$ 100,000	$ 120,000	$ 9,600	$ 640,000	0.01500
	Manufacturing		$ 112,500	$ 850,000	$ 962,500	$ 77,000	$ 700,000	0.11000
G&A Pools	G&A			$ 62,000	$ 62,000	$ 4,960	$ 4,000,000	0.00124
TOTAL			$ 152,500	$ 1,052,000	$ 1,204,500	$ 96,360		

For each accounting period, the FCCM factor-development process follows a 7-step procedure (DoD Contract Pricing Reference Guides Volume 3 Cost Analysis, Chapter 10 Analyzing Facilities Cost of Money).

1. **Determine the appropriate cost of money rate**. The contractor must use the current cost of money rate as determined by the Secretary of the Treasury, under P.L. 92-40. The rate is published twice a year in the Federal Register. The calculated cost of money rate represents the arithmetic mean (or average) of the interest rates in the given year. If cost of money is being determined on a prospective basis, then the cost of money rate represents the most recent available interest rate (Column a)
2. **Accumulate net book value of business unit facilities capital.** For each accounting period, this accumulation must include the net book value of facilities owned by the business unit, the capitalized value of facilities capital-lease items or finance lease items as it is known under ASC 842 for most public companies effective January 1, 2019 and most non-public companies in fiscal years starting after December 31, 2021, and the business-unit's allocated share of corporate or group facilities. This figure will normally change from period to period. (Column b)
3. **Allocate facilities capital net book value to indirect cost pools**. Business-unit facilities capital is assigned to accounts for allocation to contracts. These accounts will be related to the contractor's overhead pools. If depreciation for a building is part of the engineering overhead pool, the facilities capital would be assigned to a facilities capital pool identified as engineering overhead. (Column b and Column c)

4. **Sum facilities capital net book value for each pool**. The facilities capital net book values assigned to each pool must be summed to determine the total pool value. (Column b + Column c = Column d)
5. **Calculate the facilities capital cost of money for each pool.** To calculate the facilities capital cost of money for each pool, multiply each facilities capital pool by the current cost of money rate. (Column d x Column a= Column e).
6. **Identify the appropriate allocation base for each facilities capital cost of money pool**. The allocation base used to allocate a facilities capital cost of money pool will be the same as the base used to allocate the related indirect cost pool. Depending on the method used to estimate costs, the base estimate will normally change from period to period. (Column f)
7. **Calculate facility cost of money factors.** Divide each facilities capital cost of money pool by the appropriate allocation base. CAS 414 requires that the calculation be taken to five decimal places. (Column e/Column f = Column g)