

SELECTED AREAS OF COST

Chapter 62 – Research and Development – Sponsored by Grant/Required by Contract

Authoritative Sources

[FAR 31.205-48](#) Research and Development Costs

The primary purpose of the Federal Government in the use of Research and Development (R&D) programs is to advance scientific and technical knowledge and apply that knowledge to the extent necessary to achieve the sponsoring/contracting Agency and national goals.

This chapter addresses the following topics:

16-1 General

16-2 Allowability under FAR 31.205-48

16-1 General

Research and Development means the technical effort sponsored by a grant or required in the performance of a contract which falls within the four areas:

1. [basic research](#),
2. [applied research](#),
3. [development](#), and
4. [systems and other concept formulation studies](#).

A grant is used when the principal purpose of the transaction is to stimulate or support research and development for another public purpose. Contracts are used when the principal purpose is the acquisition of supplies or services for the direct benefit or use of the Federal Government.

16-2 Allowability under FAR 31.205-48

Research and development costs that are contractually required or sponsored by a grant are charged direct to the contract or grant. Costs that are incurred in excess of either amount of a grant or the price of a contract are unallowable under any other Government contract.

Auditors must ensure that contractors do not include costs in the independent research and development (IR&D) cost pools for development effort that is specifically required in the performance of a contract or those efforts that are not explicitly stated in the contract, but are necessary to perform the contract.

Definition

Applied Research – The effort that:

1. normally follows basic research, but may not be severable from the related basic research;
2. attempts to determine and exploit the potential of scientific discoveries or improvements in technology, materials, processes, methods, devices, or techniques; and
3. attempts to advance the state of the art. When being used by contractors in cost principle applications, this term does not include efforts whose principal aim is the design, development, or test of specific items or services to be considered for sale; these efforts are within the definition of the term “development.” ([Return](#))

Basic Research – That research directed toward increasing knowledge in science. The primary aim of basic research is a fuller knowledge or understanding of the subject under study, rather than any practical application of that knowledge. ([Return](#))

Development – The systematic use of scientific and technical knowledge in the design, development, test, or evaluation of a potential new product or service (or of an improvement in an existing product or service) to meet specific performance requirements or objectives. It includes the functions of design engineering, prototyping, and engineering testing; it excludes subcontracted technical effort that is for the sole purpose of developing an additional source for an existing product. ([Return](#))

Systems and other concept formulation studies – Analyses and study efforts either related to specific R&D efforts or directed toward identifying desirable new systems, equipment or components, or modifications and improvements to existing systems, equipment, or components. ([Return](#))