## 31.205-7 Contingencies.

- (a) "Contingency," as used in this subpart, means a possible future event or condition arising from presently known or unknown causes, the outcome of which is indeterminable at the present time.
- (b) *Costs* for contingencies are generally unallowable for historical costing purposes because such costing deals with *costs* incurred and recorded on the contractor's books. However, in some cases, as for example, terminations, a contingency factor *may* be recognized when it is applicable to a past period to give recognition to minor unsettled factors in the interest of expediting settlement.
- (c) In connection with estimates of future *costs*, contingencies fall into two categories:
- (1) Those that *may* arise from presently known and existing conditions, the effects of which are foreseeable within reasonable limits of accuracy; *e.g.*, anticipated *costs* of rejects and defective work. Contingencies of this category are to be included in the estimates of future *costs* so as to provide the best estimate of performance cost.
- (2) Those that may arise from presently known or unknown conditions, the effect of which cannot be measured so precisely as to provide equitable results to the contractor and to the Government; e.g., results of pending litigation. Contingencies of this category are to be excluded from cost estimates under the several items of cost, but should be disclosed separately (including the basis upon which the contingency is computed) to facilitate the negotiation of appropriate contractual coverage. (See, for example, 31.205-6(g) and 31.205-19.)

**Parent topic:** 31.205 Selected costs.