

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](#).