

[2 CFR 200.404](#)

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§ 200.404 Reasonable costs.

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the non-Federal entity is predominantly federally-funded. In determining reasonableness of a given cost, consideration must be given to:

- (a) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-Federal entity or the proper and efficient performance of the Federal award.
- (b) The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; Federal, state, local, tribal, and other laws and regulations; and terms and conditions of the Federal award.
- (c) Market prices for comparable goods or services for the geographic area.
- (d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal government.
- (e) Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost.

Statutory Authority

AUTHORITY NOTE APPLICABLE TO ENTIRE PART:

[31 U.S.C. 503](#)

History

[[78 FR 78590, 78608](#), Dec. 26, 2013; [79 FR 75871](#), Dec. 19, 2014]

Annotations

Notes

[EFFECTIVE DATE NOTE:

[78 FR 78590, 78608](#), Dec. 26, 2013, added Part 200, effective Dec. 26, 2013; [79 FR 75871](#), Dec. 19, 2014, amended paragraph (b), effective Dec. 26, 2014.]

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