

## 31.205-11 Depreciation.

(a) *Depreciation* on a contractor's plant, equipment, and other capital *facilities* is an allowable contract cost, subject to the limitations contained in this cost principle. For tangible *personal property*, only estimated *residual values* that exceed 10 percent of the capitalized cost of the asset need be used in establishing depreciable *costs*. Where either the declining balance method of *depreciation* or the class life asset *depreciation* range system is used, the *residual value* need not be deducted from capitalized cost to determine depreciable *costs*. *Depreciation* cost that would significantly reduce the book value of a *tangible capital asset* below its *residual value* is unallowable.

(b) Contractors having contracts subject to 48 CFR9904.409, *Depreciation of Tangible Capital Assets*, shall adhere to the requirement of that standard for all fully CAS-covered contracts and may elect to adopt the standard for all other contracts. All requirements of 48 CFR9904.409 are applicable if the election is made, and contractors *must* continue to follow it until notification of final acceptance of all deliverable items on all open negotiated Government contracts.

(c) For contracts to which 48 CFR9904.409 is not applied, except as indicated in paragraphs (g) and (h) of this subsection, allowable *depreciation* shall not exceed the amount used for financial accounting purposes, and shall be determined in a manner consistent with the *depreciation* policies and procedures followed in the same *segment* on non-Government business.

(d) *Depreciation*, rental, or use charges are unallowable on property acquired from the Government at no cost by the contractor or by any division, subsidiary, or affiliate of the contractor under common control.

(e) The *depreciation* on any item which meets the criteria for allowance at price under [31.205-26\(e\)](#) may be based on that price, provided the same policies and procedures are used for costing all business of the using division, subsidiary, or organization under common control.

(f) No *depreciation* or rental is allowed on property fully depreciated by the contractor or by any division, subsidiary, or affiliate of the contractor under common control. However, a reasonable charge for using fully depreciated property may be agreed upon and allowed (but, see [31.109\(h\)\(2\)](#)). In determining the charge, consideration shall be given to cost, total estimated useful life at the time of negotiations, effect of any increased maintenance charges or decreased efficiency due to age, and the amount of *depreciation* previously charged to Government contracts or subcontracts.

(g) Whether or not the contract is otherwise subject to CAS the following apply:

(1) The requirements of [31.205-52](#) shall be observed.

(2) In the event of a write-down from carrying value to fair value as a result of impairments caused by events or changes in circumstances, allowable *depreciation* of the impaired assets is limited to the amounts that would have been allowed had the assets not been written down (see [31.205-16\(g\)](#)). However, this does not preclude a change in *depreciation* resulting from other causes such as permissible changes in estimates of *service life*, consumption of services, or *residual value*.

(3)

(i) In the event the contractor reacquires property involved in a sale and leaseback arrangement, allowable *depreciation* of reacquired property shall be based on the net book value of the asset as of

the date the contractor originally became a lessee of the property in the sale and leaseback arrangement-

(A) Adjusted for any allowable gain or loss determined in accordance with [31.205-16\(b\)](#); and

(B) Less any amount of *depreciation* expense included in the calculation of the amount that would have been allowed had the contractor retained title under [31.205-11\(h\)\(1\)](#) and [31.205-36\(b\)\(2\)](#).

(ii) As used in this paragraph (g)(3), "reacquired property" is property that generated either any *depreciation* expense or any cost of money considered in the calculation of the limitations under [31.205-11\(h\)\(1\)](#) and [31.205-36\(b\)\(2\)](#) during the most recent accounting period prior to the date of reacquisition.

(h) A "capital lease," as defined in Financial Accounting Standards Board's Accounting Standards Codification (FASB ASC) 840, Leases, is subject to the requirements of this cost principle. (See [31.205-36](#) for Operating Leases.) FASB ASC 840 requires that capital leases be treated as purchased assets, *i.e.*, be capitalized, and the capitalized value of such assets be distributed over their useful lives as *depreciation* charges or over the leased life as amortization charges, as appropriate, except that-

(1) Lease *costs* under a sale and leaseback arrangement are allowable only up to the amount that would be allowed if the contractor retained title, computed based on the net book value of the asset on the date the contractor becomes a lessee of the property adjusted for any gain or loss recognized in accordance with [31.205-16\(b\)](#); and

(2) If it is determined that the terms of the capital lease have been significantly affected by the fact that the lessee and lessor are related, *depreciation* charges are not allowable in excess of those that would have occurred if the lease contained terms consistent with those found in a lease between unrelated parties.

**Parent topic:** [31.205 Selected costs.](#)