

## Analyzing Facilities Capital Cost of Money

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### Module Introduction

Welcome to Analyzing Facilities Capital Cost of Money!

You might be wondering, "How will the information in this module help me in my job as a contract specialist?"

As a contract specialist, you will have to evaluate the cost element Facilities Capital Cost of Money (FCCOM) in the contractor's proposal.

This module provides content on what to consider when developing a prenegotiation position for FCCOM. You will learn what the cost of money (COM) is, the purpose and allowability of such costs, and how a COM rate is calculated.



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### Module Objectives


At the end of this module, you will be able to:

- Recognize elements affecting Facilities Capital Cost of Money (FCCOM).

Sound good? All right, let's get started!

Select Next for a high-level overview of the content that will be presented in this module.

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## Analyzing Facilities Capital Cost of Money

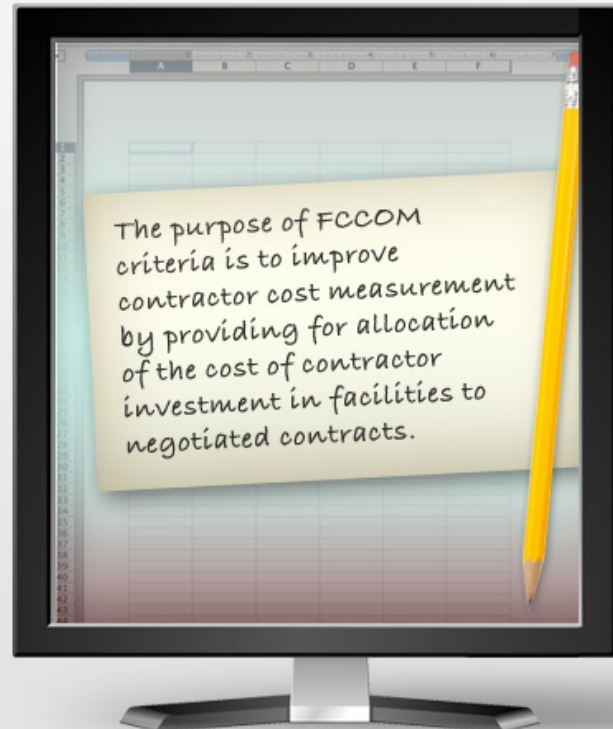
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### Overview - FCCOM

As contractors consider investment opportunities, they consider the capital required to make each investment and the potential return on that investment.

In general, the prospective return on an investment must be higher than the cost of capital required to make the investment. The challenge is, the cost of capital is not the same for all sources. For instance, it may cost more to get a long-term loan than it does to get owner's equity.

The cost of capital is a real cost that affects investment decisions. That is why it is important to improve contractor cost measurement by providing for allocation of the cost of contractor investment in facilities to negotiated contracts.



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### Overview - FCCOM Allowability

Do not confuse FCCOM with accrued interest; **it is an imputed cost of facilities capital**. The Federal Acquisition Regulation (FAR) requires that you exclude any facilities cost of capital included in cost objectives **before** applying profit or fee factors.

To apply FCCOM, the contractor's capital investment must be measured, allocated to contracts, and costed in accordance with Cost Accounting Standard (CAS) 414. This applies whether the contract is covered by CAS or not. If a contract is not covered by CAS, but the contractor proposes COM, follow the procedures in FAR 31.205-10, Cost of Money.

If the contractor fails to identify or propose FCCOM in a proposal for a contract that will be subject to the FAR cost principles for contracts with commercial organizations, FCCOM will **not** be an allowable cost.

*When is facilities capital cost of money considered an allowable cost?*



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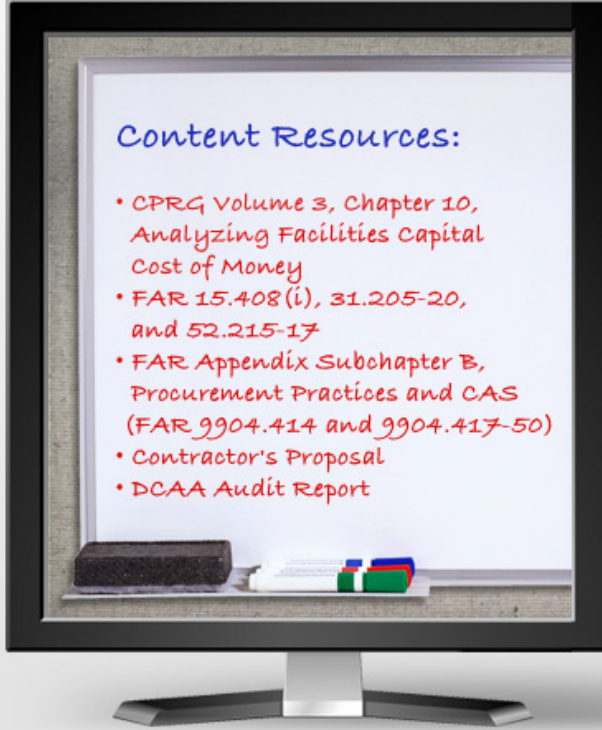
### Module Resources

Review the graphic to the right to see what specific resources are used as references for the content in this module.

It is strongly recommended that you review these resources before proceeding with the module. Doing so will put you "ahead of the game" and will help you to answer the challenge questions to come!

Select the Resources tab for links to these and other references.

**User Instructions:** Select Next to continue.



**Content Resources:**

- CPRG Volume 3, Chapter 10, Analyzing Facilities Capital Cost of Money
- FAR 15.408(i), 31.205-20, and 52.215-17
- FAR Appendix Subchapter B, Procurement Practices and CAS (FAR 9904.414 and 9904.417-50)
- Contractor's Proposal
- DCAA Audit Report

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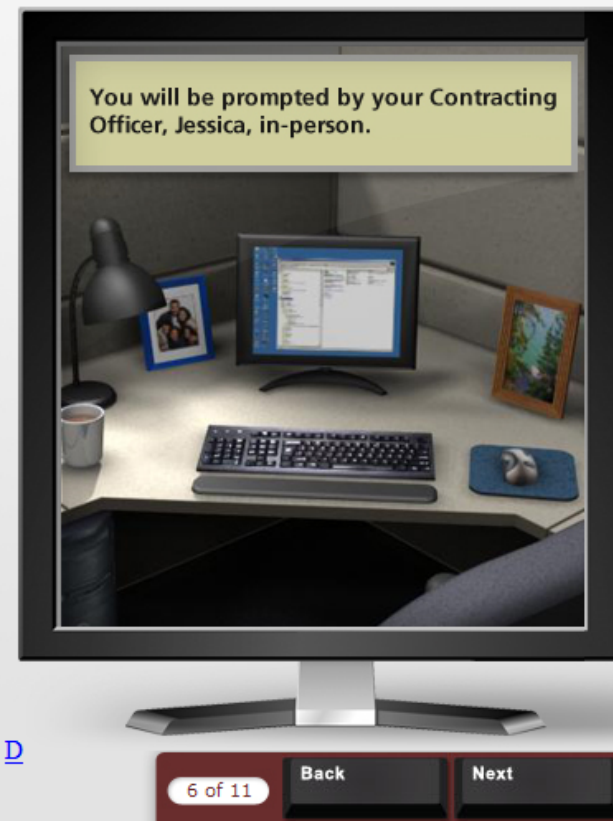
### Simulation Overview

In this module, you are going to answer a series of Challenge Questions about facilities capital cost of money. Do not worry if you miss a question - you will be directed to pertinent content and then given a chance to answer the question again.

Even if you get a question right the first time, it is strongly recommended that you elect to review the pertinent content by selecting the Review button. This review will help you answer the practice test questions at the end of the module.

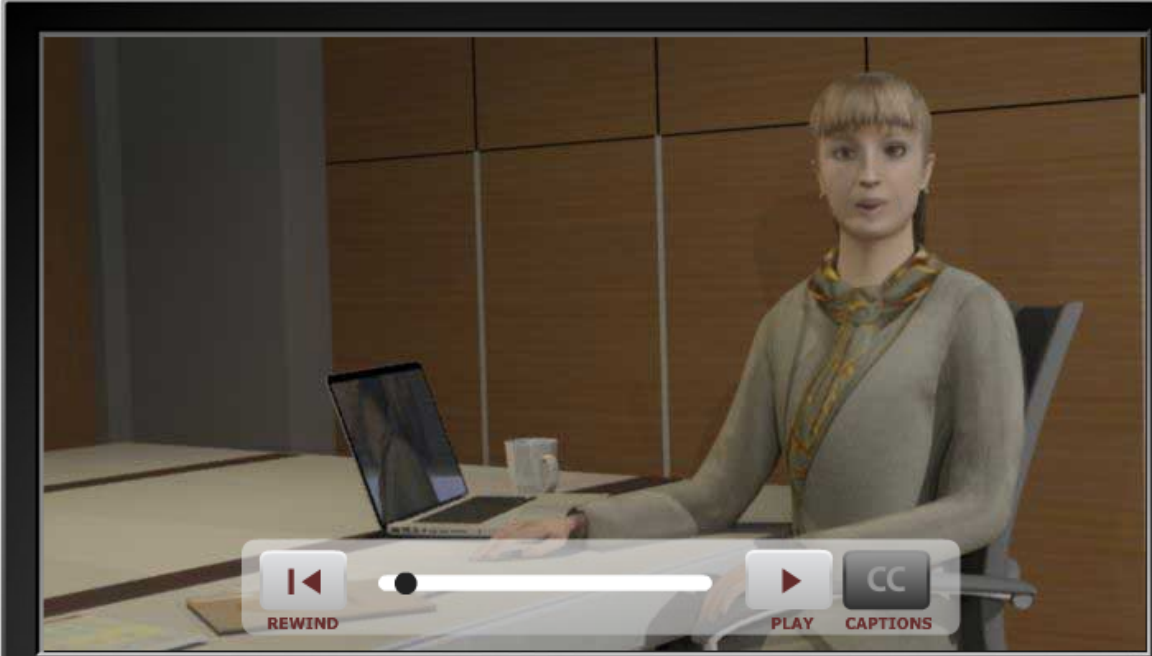
Remember to use the Resources and Glossary tabs at any time during the simulation to access helpful information.

**User Instructions:** Select Next to continue.



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REWIND      PLAY      CAPTIONS

Good morning! You are looking confident today.


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REWIND      PLAY      CAPTIONS

It sounds like you are ready to complete your analysis of the contractor's proposal, and that you only have one cost element left to evaluate: Facilities Capital Cost of Money. Great!


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1.) Review the FAR, DFARS, and CPRG.

2.) Review the DCAA Audit Report.

REWIND

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CAPTIONS

Use the Resources tab to review the FAR, DFARS, and CPRG and brush up on your knowledge. Then take a look at the DCAA Audit Report.

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1.) Review the FAR, DFARS, and CPRG.

2.) Review the DCAA Audit Report.

REWIND PLAY CAPTIONS

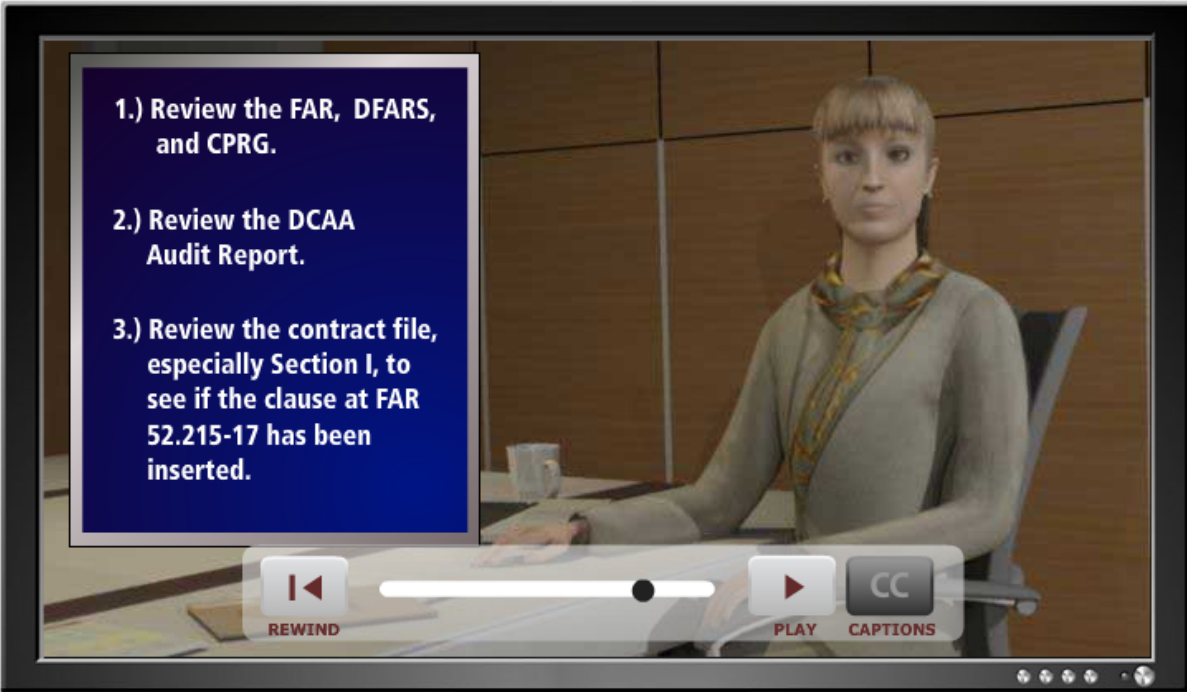
Does it mention a Facilities Capital Cost of Money forward pricing rate agreement under the indirect cost factors?

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1.) Review the FAR, DFARS, and CPRG.

2.) Review the DCAA Audit Report.

3.) Review the contract file, especially Section I, to see if the clause at FAR 52.215-17 has been inserted.

REWIND

PLAY

CAPTIONS

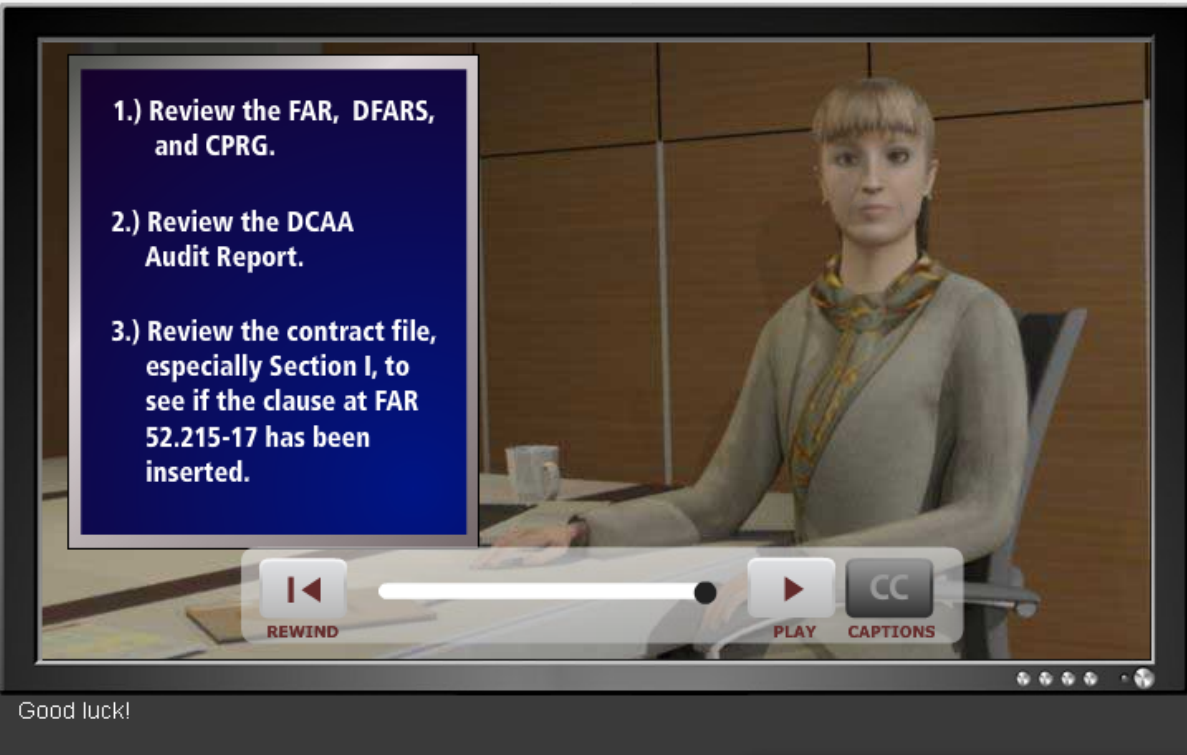
Lastly, I would suggest that you review the contract file, especially Section I, to see if the clause at FAR 52.215-17 has been inserted and any Facilities Capital Cost of Money is considered an unallowable cost.

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1.) Review the FAR, DFARS, and CPRG.

2.) Review the DCAA Audit Report.

3.) Review the contract file, especially Section I, to see if the clause at FAR 52.215-17 has been inserted.

REWIND PLAY CAPTIONS

Good luck!

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### Challenge Question #1

The original contract was acquired under a competitive source selection. Upon review of Section I, you find that the clause at FAR 52.215-17 Waiver of Facilities Capital Cost of Money was included in the contract. What should you do?

- ☐ A. Remove the \$3598.97 from the prenegotiation objective, which is an unallowable cost IAW FAR 15.408(i).
- ☐ B. Review the contractor's CASB CMF Form and calculate the cost of money using the DD Form 1861.
- ☐ C. Agree with the cost of money amount, but remove that amount when calculating profit.
- ☐ D. Remove the \$3598.97 from the prenegotiation objective. Cost of Money is a form of interest, which is an unallowable cost under FAR 31.205-20.

[Check Answer](#)

**User Instructions:** Select the correct answer.

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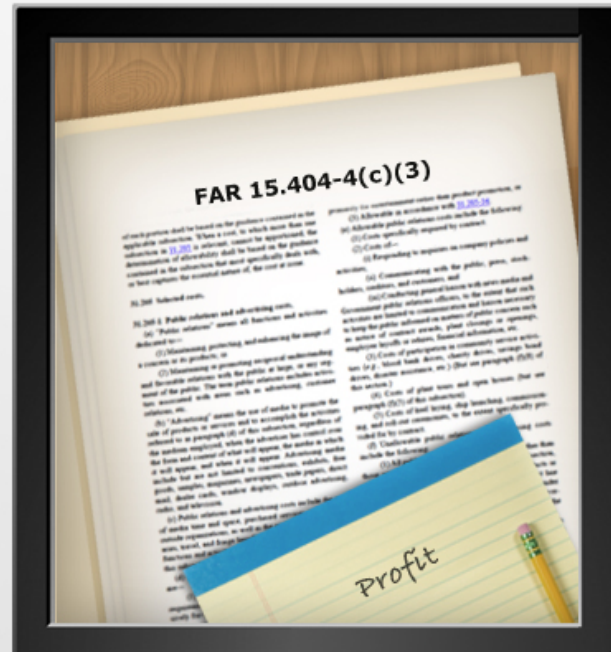
### FAR Requirements and FCCOM

The FAR requires that you use your prenegotiation cost objective as the basis for calculating the prenegotiation objective for profit or fee.

However, the FAR also requires that you exclude any facilities cost of capital included in cost objectives before applying profit or fee factors.

Even though FAR excludes facilities capital cost of money from the basis for calculating profit or fee objectives, your agency may provide for using the facilities capital cost of money to estimate the contractor facilities capital employed on the contract.

The profit or fee objective may then consider the estimated facilities capital employed.



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## Who is Responsible for Proposing FCCOM Factors?

The contractor is responsible for proposing facilities capital cost of money factors using the Cost Accounting Standards Board's Cost of Money Factors (CASB-CMF) form.

Accordingly, any review or analysis of cost of money factor development should examine the procedures used by the contractor in each step involved in completing the CASB-CMF.

If FCCOM is already considered an unallowable cost, as in the previous challenge question, there is no need to review the CMF form.

FACILITIES CAPITAL COST OF MONEY FACTORS COMPUTATION				
		ADDRESS:		
ALLOCATION & SUBSTANTIATION N.V.	3. ALLOCATION OF UNDISTRIBUTED	4. TOTAL NET BOOK VALUE	5. COST OF MONEY FOR THE COST ACCOUNTING PERIOD	6. ALLO- CATION BASED ON THE
\$52,500	BASIS OF ALLOCATION	COLUMNS 2+3	COLUMNS 1x4	IN % OF
\$90,000				
\$62,000				
\$204,500				
\$52,000				
\$152,500				
\$20,000	\$40,000	\$60,000	\$4,800	\$
\$20,000	\$100,000	\$120,000	\$9,600	\$

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### How is FCCOM Calculated?

Under CAS 414, a business unit's facilities capital cost of money is calculated by multiplying the net book value of the business-unit's facilities investment by a cost of money rate based on the interest rates specified semi-annually by the Secretary of the Treasury under Public Law 92-41.

DD Form 1861, Contract Facilities Capital Cost of Money, provides a uniform format for calculating and documenting the contract facilities capital cost of money and the contractor facilities capital employed on a contract.

[Select here to view a sample DD Form 1861.](#)

DD Form 1861 helps you calculate your cost of money objective by determining the total facilities capital cost of money applicable to that accounting period.

CONTRACT FACILITIES CAPITAL COST OF MONEY

Public reporting burden for this collection of information is estimated to average 10 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send this burden estimate or any other aspect of this collection of information, including suggestions for reducing the burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Arlington, VA 22202-4302, and to the Office of Management and Budget, Paperwork Reduction Project (0704-0267), Washington, DC 20503.

PLEASE DO NOT RETURN YOUR COMPLETED FORM TO THE ADDRESS ABOVE.

RETURN COMPLETED FORM TO YOUR CONTRACTOR

1. CONTRACTOR NAME	2. CONTRACTOR ADDRESS
3. BUSINESS UNIT	4. RFP/CONTRACT PIIN NUMBER
5. PERFORMANCE EVALUATION	6. DISTRIBUTION OF FACILITIES CAPITAL COST OF MONEY

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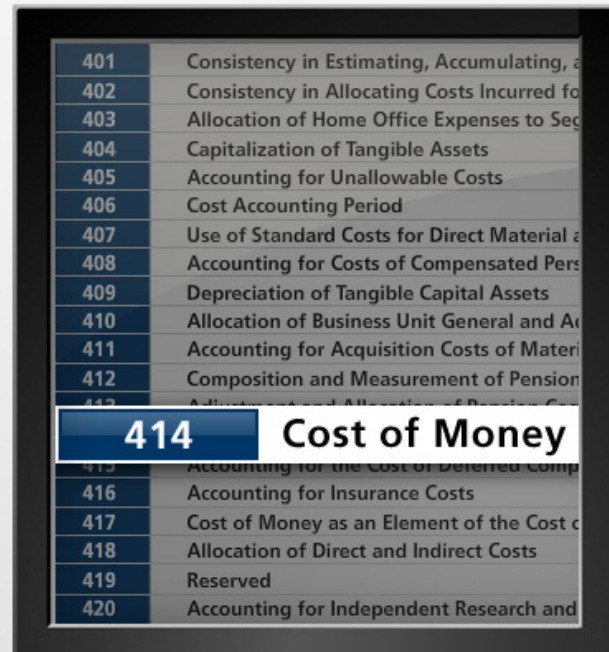
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### FCCOM Allowability and CAS

Whether or not the contract is otherwise subject to CAS, facilities capital cost of money is allowable when **all** of the following requirements are met:

- The contractor's capital investment is measured, allocated to contracts, and costed in accordance with CAS 414.
- The contractor maintains adequate records to demonstrate compliance with the requirements of CAS 414.
- The estimated facilities capital cost of money is specifically identified or proposed in cost proposals relating to the contract under which the cost is to be claimed.
- The requirements in FAR 31.205-52, Asset Valuations Resulting from Business Combinations, are not exceeded.



401	Consistency in Estimating, Accumulating, and Allocating Costs
402	Consistency in Allocating Costs Incurred for Joint Projects
403	Allocation of Home Office Expenses to Specific Contracts
404	Capitalization of Tangible Assets
405	Accounting for Unallowable Costs
406	Cost Accounting Period
407	Use of Standard Costs for Direct Material and Labor
408	Accounting for Costs of Compensated Personnel
409	Depreciation of Tangible Capital Assets
410	Allocation of Business Unit General and Administrative Expenses
411	Accounting for Acquisition Costs of Materials
412	Composition and Measurement of Pension Costs
413	Adjustment and Allocation of Pension Costs
414	<b>Cost of Money</b>
415	Accounting for the Cost of Deferred Compensation
416	Accounting for Insurance Costs
417	Cost of Money as an Element of the Cost of Money
418	Allocation of Direct and Indirect Costs
419	Reserved
420	Accounting for Independent Research and Development

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### Waiver of FCCOM

If the prospective contractor fails to identify or propose facilities capital cost of money in a proposal for a contract that will be subject to the FAR cost principles for contracts with commercial organizations, facilities capital cost of money will **not** be an allowable cost in any resulting contract.

Under those circumstances, the contract must include the FAR clause 52.215-17, Waiver of Facilities Capital Cost of Money, as prescribed by FAR 15.408(i).

In other words, if you review the contract and it contains FAR clause 52.215-17, the FCCOM is not considered an allowable cost and you should remove that amount from the prenegotiation objective.

**52.215-17 Waiver of Facilities Capital Cost of Money**

The Contractor did not include facilities capital cost of money as a proposed cost of this contract. Therefore, it is an unallowable cost under this contract.

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### Prenegotiation Amount

The contractor did not propose FCCOM in the original contract. When that happens, a clause is inserted in the resultant contract.

It should be noted that any FCCOM in proposals or incurred cost submissions, thereafter, becomes an unallowable cost.

	A	B	C	D	E	F	G
1		<b>Contractor's Proposal</b>			<b>Government Objective</b>		
2		<b>Cost Elements</b>	<b>Proposed Amount</b>		<b>Pre-negotiation Amount</b>	<b>Cost Data Analysis</b>	<b>Rates</b>
3		Material and Subcontracts					
4		Purchased Parts & Raw Material	\$ 412,805.99		\$ 382,655.89		
6		Scrap @ 5% of PP/RM	\$ 20,640.30		\$ 17,219.52	Scrap Rate	4.50%
8		Subcontracts	\$ 643,834.38		\$ 643,834.38		
10		<b>Total Material Costs</b>	\$ 1,077,280.67		\$ 1,043,709.78		
12		Direct Labor	\$ 144,000.00		\$ 143,000.00		
14		Labor Overhead @ 135%	\$ 194,400.00		\$ 193,050.00	Direct Labor Overhead Rate	135%
16		Other Direct Costs	\$ 77,665.97		\$ 86,932.36		
18		Subtotal	\$ 1,493,346.64		\$ 1,466,692.14		
21		General & Administrative Expense @ 15% of TCI	\$ 224,002.00		\$ 163,827.53	G&A Expense Rate	11.17%
23		Facilities Capital Cost of Money @ .00241 of TCI	\$ 3,598.97		\$ 0.00		

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### Prenegotiation Amount

It should be noted that any FCCOM in proposals or incurred cost submissions, thereafter, becomes an unallowable cost.

The value you would enter in the Government Objective spreadsheet (E23) for FCCOM is \$0.

	A	B	C	D	E	F	G
1		<b>Contractor's Proposal</b>			<b>Government Objective</b>		
2		<b>Cost Elements</b>	<b>Proposed Amount</b>		<b>Pre-negotiation Amount</b>	<b>Cost Data Analysis</b>	<b>Rates</b>
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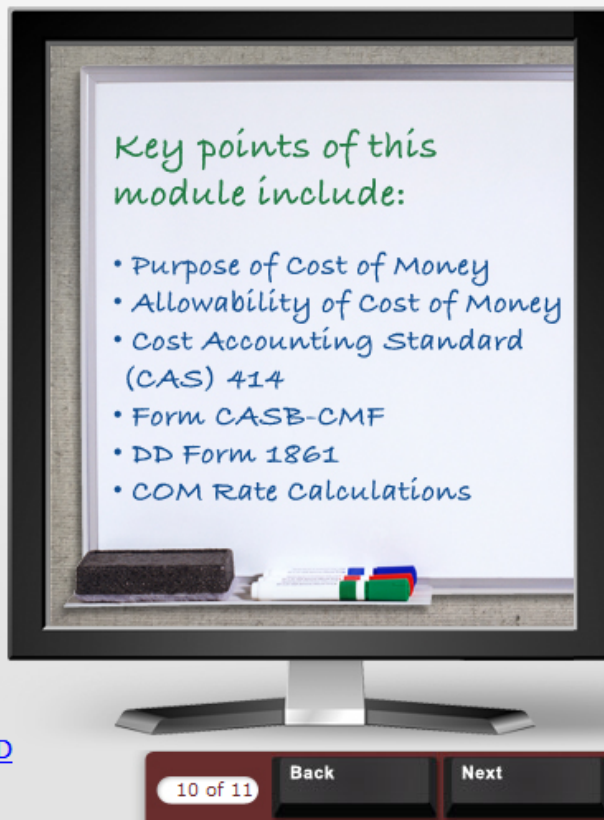
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### Summary

Congratulations! You have completed this module that discussed the cost element, Facilities Capital Cost of Money.

Review the graphic on the right to see the key points for this module.

For more detailed information on Facilities Capital Cost of Money, please refer to CLC 103, Facilities Capital Cost of Money.



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### Summary (cont.)

Now that you have completed this module, you should be able to:

- Recognize elements affecting Facilities Capital Cost of Money (FCCOM).



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