

NEW YORK STATE  
RESIDENTIAL HEALTH CARE FACILITY  
ACCOUNTING AND REPORTING MANUAL

CHAPTER 6

GLOSSARY

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Accelerated depreciation: Method of depreciation which generates a greater amount of expense in the earlier life of an asset and less expense in the later years than the straight-line method. The purposes for adopting such a method would be: (a) operation of plant or equipment at more than normal speed, use, or capacity; (b) a useful or economic life materially less than physical life; (c) an excessive cost being written-off during what is estimated to be the high-price period; (d) tax advantages arising from the use of declining-balance and sum-of-the-years methods.

Accommodation fee: An advance payment or transfer of a specified amount of funds or property by, or on behalf of, an aged person to a facility as full or partial payment for the promise to provide accommodations for the remainder of the person's life.

Accounting: The art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the results thereof.

Accounting control: The administrative procedures employed in maintaining the accuracy and propriety of transactions and the bookkeeping record thereof.

Accounting manual: A handbook of accounting policies, standards, and practices governing the accounts of a business enterprise or other entity; it includes the classification of accounts.

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Accounting period: The period of time for which an operating statement is customarily prepared (normally twelve months).

Accounting policy: The general principles and procedures under which the accounts of an organization are maintained and reported; any one such principle or procedure.

Accumulated income (or earnings or profit): Net income retained and not paid out in dividends or dissipated by subsequent losses; earned surplus or retained earnings.

Activity: 1. The work, or one of several lines of work, carried on within any organization or organizational subdivision. 2. The whole of the work carried on by any organization or individual.

Actual cost: Acquisition costs net of discounts and allowances but including transportation and storage (often averaged for internal transfer or inventory purposes). Payroll Costs or other Production Costs.

Actual time method: Depreciation expense based on the number of months the asset is owned in both the year of acquisition and the last year of an asset's life as opposed to using a half year's depreciation in the year of acquisition and zero in the last year.

Actuarial basis: A basis compatible with principles followed by actuaries: said of computations involving compound interest, retirement and mortality estimates, and the like.

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Additional (paid-in) capital: Contributions of corporate stockholders credited to accounts other than capital stock; sources: an excess over par or stated value received from the sale or exchange of capital stock, an excess of par or stated value of capital stock reacquired over the amount paid therefore, or an excess from recapitalization, often displayed on the balance sheet as a separate item or in combination with par or stated value and designated paid-in capital; known also as paid-in surplus.

Adjusting (journal) entry: 1. The record made of an accounting transaction giving effect to the correction of an error, an accrual, a write-off, a provision for bad debts or depreciation, or the like. 2. (Auditing) Any change in the accounts required by an auditor, expressed in the form of a simple or compound journal entry.

Administrative accounting: That portion of the accounting process generally associated with management: for example, the functions of the controller, internal auditing, and decisions as to prorations, valuations, reserves, charge-offs, and reporting.

Administrative expense: A classification of expense incurred in the general directing of an enterprise as a whole, as contrasted with expense of a more specific function, such as nursing services or dietary, but not including income deductions. Items included under this heading vary with the nature of the business, but usually include salaries of top officers and other general-office expense.

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Advance: 1. Payment of cash or the transfer of goods for which an accounting must be rendered by the recipient at some later date. 2. A payment of a contract before its completion. 3. The payment of wages, salaries, or commissions before they have been earned.

Age: The number of years or other time periods an asset or asset group has remained in service at a given date.

AICPA: American Institute of Certified Public Accountants.

Allocate: 1. To charge an item or group of items of revenue or cost to one or more objects, activities, processes, operations, or products, in accordance with cost responsibilities, benefits received, or other readily identifiable measure of application or consumption. 2. To distribute the total cost of a lump-sum purchase over the items purchased or departments affected. 3. To spread a cost systematically over two or more time periods.

Allowance: The difference between gross revenue from services rendered and amounts received (or to be received) from patients or third-party payors... Allowances are to be distinguished from uncollectible accounts resulting from credit losses.

Allowable costs: Documented costs which are necessary for the day-to-day operation of a provider, are directly or indirectly related to patient care, and are not expressly declared non-allowable by federal or state regulations.

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Amortization: The systematic distribution of the cost or other basis of a tangible or intangible asset over the estimated useful life of the asset.

Apportionment: The distribution of a cost over several periods of time in proportion to anticipated benefits.

Appreciation: Increase in value of property; the excess of the present value of property over book value.

Arms-length transaction: A transaction resulting from good faith bargaining between a knowledgeable and sophisticated buyer and seller having adverse bargaining positions in the market place.

Assets: Economic resources of an enterprise which are recognized and measured in conformity with generally accepted accounting principles.

Audit: 1. The examination of contracts, orders, and other original documents for the purpose of substantiating individual transactions before their settlement. 2. Any systematic investigation or appraisal of procedures or operations for the purpose of determining conformity with prescribed criteria; the work performed by an internal auditor. 3. (Auditing) An exploratory, critical review by a public accountant of the underlying internal controls and accounting records of a business enterprise or other economic unit, precedent to the expression by him of an opinion of the propriety ("fairness") of its financial statements.

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Available beds: Health facility beds which are maintained and staffed for the provision of patient care.

Average daily inpatient census: Average number of inpatients (based on the daily inpatient census) present each day for a given period of time.

Average length of stay: The average number of days of service rendered to each inpatient discharged during a given period.

Average life: The estimated useful-life expectancy of a group of assets subject to depreciation.

Bad debts: Amounts considered to be uncollectible from accounts and notes receivable which were created or acquired in providing services to patients.

Balance: 1. The difference between the total debits and the total credits of an account or the total of an account containing only debts or credits.  
2. The equality of the total debit balances and the total credit balances of the accounts in a ledger. 3. Agreement of the total of the account balances in a subsidiary ledger with its general-ledger control.

Balance sheet: A statement of financial position of any economic unit, or component thereof, reporting as at a given moment of time its assets (at cost, depreciated cost, or other indicated value), its liabilities, and its ownership equities recorded under an accounting system.

Bed turnover rate: The number of times a health facility bed, on the average, changes occupants during a given period of time.

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Benefit: The service or satisfaction yielded by an expenditure.

Betterment: An expenditure having the effect of extending the useful life of an existing fixed asset, increasing its normal rate of output, lowering its operating cost, increasing rather than merely maintaining efficiency or otherwise adding to the worth of benefits it can yield.

Board-designated funds: Unrestricted funds set aside by the governing board for specific purposes or projects.

Bonds: 1. A certificate of indebtedness, in writing and often under seal.  
2. An obligation in writing, binding one or more parties as surety for another.

Book inventory: 1. An inventory which is not the result of actual stock-taking but of adding the units and the cost of incoming goods to previous inventory figures and deducting the units and cost of outgoing goods. 2. The balances of materials or products on hand in quantities, dollars, or both, appearing in perpetual-inventory accounts.

Book of original entry: A record book, recognized by law or custom, in which transactions are successively recorded, and which is the source of posting to ledgers; a journal. Books of original entry include general and special journals, such as cashbooks and registers of sales and purchases.



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Book value (or cost): 1. The net amount at which an asset or asset group appears on the books of account, as distinguished from its market value or some intrinsic value. 2. The face amount of a liability less any unamortized discount and expense. 3. As applied to capital stock: (a) the book value of the net assets; (b) in a corporation, the book value of net assets, divided by the number of outstanding shares of capital stock.

Calendar year: A twelve-month period beginning January 1 and ending December 31 of the same year.

Capital expenditures: An expenditure intended to benefit future periods, in contrast to a revenue expenditure, which benefits a current period; an addition to a capital asset. The term is generally restricted to expenditures that add fixed-asset units or that have the effect of increasing the capacity, efficiency, life span, or economy of operation of an existing fixed asset.

Capitalization: The process of setting up expenditures as assets and amortizing or depreciating these assets over time.

Cash basis: Recording cash as received, regardless of when it is earned, and recording expenses when they are paid, regardless of when they are incurred.

Certificate of deposit: 1. A formal instrument, frequently negotiable or transferable, issued by a bank as evidence of indebtedness and arising

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from a deposit of cash subject to withdrawal under the specific terms of the instrument: (a) demand certificates, payable upon presentation, seldom bearing interest; (b) time certificates, payable at a fixed or determinable future date, usually bearing interest at a specified rate. 2. A formal certificate, usually printed or engraved, ordinarily negotiable or transferable, and issued by a depository or agent against the deposit of bonds or stock of a corporation under the terms of a reorganization plan or other agreement.

Chain organization: A health care, or other organization consisting of group of two or more facilities which are owned, leased or, through any other device, controlled by one business entity.

Change of ownership: A change in the entity which has ultimate legal responsibility for the operation of a provider and thus for decisions and for liabilities arising in the course of its operation.

Charity allowances: Reductions in charges made by the provider of services because of the indigence or medical indigence of the patient.

Chart of accounts: A systematically arranged list of accounts applicable to a specific concern, giving account names and numbers. A chart of accounts, accompanied by descriptions of their use and of the general operation of the books of account, becomes a classification or manual of accounts.

Classification of accounts: A list of accounts, systematically grouped (chart of accounts), suitable for a particular organization, with descrip-

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tions setting forth the meaning, function, and content of each account and the relation of one to another.

Clearing account: A primary account containing costs that are to be transferred or allocated to other accounts; an intermediate account to which is transferred a group of costs or revenues or a group of accounts containing costs or revenues and from which a distribution of the total is made to other accounts.

Common ownership: An individual or individuals with a controlling interest in both the Long Term Care Facility and an organization that does business with the facility.

Consistency: Continued uniformity, during a period or from one period to another, in methods of accounting and use of generally accepted accounting principles (mainly in valuation bases and methods of accrual, as reflected in the financial statements of a business enterprise or other accounting or economic unit).

Consultant: A firm or person (normally not an employee) with demonstrated expertise in a given field who provides technical advice in that field in order to improve the necessary day-to-day operation of a facility.

Contractor: An entity which contracts with the Department to deliver care to medical recipient patients.

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Contractual adjustment: The difference between billings at established charges and amounts received or due from third-party payors under contract agreements - similar to a trade discount.

Contributed capital: The payments in cash or property made to a corporation by its stockholders (a) in exchange for capital stock (b) in response to an assessment on the capital stock, or (c) as a gift; paid-in capital.

Contributed services: See donated services.

Control: The process by which the activities of an organization are conformed to a desired plan of action and the plan is conformed to the organization's activities.

Control (or controlling) account: An account containing primarily totals of one or more types of transactions the detail of which appears in a subsidiary ledger or its equivalent. Its balance equals the sum of the balances of the detail accounts.

Cost: an expenditure or outlay of cash, other property, capital stock, or services, or the incurring of a liability therefore, identified with goods or services acquired or with any loss incurred, and measured by the amount of cash paid or payable or the market value of other property, capital stock, or services given in exchange or, in other situations, any commonly accepted basis of valuation. Implicit in the concept of cost is the accrual basis of accounting.

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Cost allocation: The apportionment or allocation of the costs of non-revenue producing cost centers to each other, and to revenue producing centers on the basis of the statistical data that measure the amount of service rendered by each center to other centers. The purpose of cost allocation is to determine the total of full costs of operating each revenue producing center of a health facility.

Cost centers: Categories into which related costs are grouped for purposes of cost reimbursement reporting and rate determination.

Cost-finding: The process of recasting the data derived from the accounts kept by a provider to ascertain the cost of the various types of services rendered.

Courtesy allowances: A reduction in charges in the form of all allowance to physicians, clergy, and others for services received from the provider.

Current assets: Unrestricted cash, or other assets held for conversion within a relatively short period into cash or other readily convertible asset, or currently useful goods or services. Usually the period is one year or less, however, in some enterprises the period may be extended to the length of the operating cycle, which may be more than a year. The five customary subdivisions of current assets are cash, temporary investments, receivables, inventory, and prepaid expenses.

Current liability: A short-term debt, regardless of its source, including any liability accrued and deferred and unearned revenue that is to be paid

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out of current assets or is to be transferred to income within a relatively short period, usually one year or less, or a period greater than a year but within the business cycle of an enterprise. The currently maturing portion of long-term debt is thus classified.

Daily inpatient census: The number of inpatients present at the census-taking time each day, plus any inpatients who were both admitted and discharged after the census-taking time the previous day. Generally the inpatient census is taken each midnigt. However a facility may designate and consistently use any other specified hour for census taking.

Date of acquisition: The effective purchase date of an asset. Usually, this is the date title is acquired or the burdens of ownership are assumed and the asset is in possession.

Deductible: Under the Medicare program that portion of covered hospital and medical charges which an insured person must pay before his policy benefits begin. Proposed as a mechanism to discourage over-utilization or to avoid processing small claims.

Deferral (or deferment): The accounting treatment accorded the receipt or accrual of revenue before it is earned, or the incurrence of an expenditure before the benefits therefrom are received.

Deferred charges: The portion of an expenditure which has been made which will not be charged against revenue within twelve months following the date of the Statement of Operations.

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Definition: A statement that sets forth and delimits the meaning of a word, phrase, or other symbolic expression, as used in a given discourse or context.

Department: A division within an organizational structure.

Depreciation: The systematic distribution of the cost or other basis of depreciable asset over its estimated useful life.

Development Period: The period from the inception of an Article 28-A nursing home to the day preceding the Permanent Financial Occupancy date.

Direct cost: The cost of any good or service that contributes to and is readily ascribable to product or service output.

Direct expense: See direct cost.

Discount earned: A reduction in the purchase price of a good or service because of early payment.

Distribution: 1. Any payment to stockholders or owners of cash, property, or shares, including any of the various forms of dividend; in noncorporate enterprise, a withdrawal. 2. A spread of revenue or expenditure or of capital additions to various accounts; an allocation. 3. Disposal of a product by sale.

Donated services: The estimated fair monetary value, based on a facility's compensation policies, of services related to patient care or in administrative positions essential to provision of patient care performed by

individuals who receive no monetary compensation or partial compensation for their services but in which there is an employer-employee relationship between the individual and the facility. The term is usually applied to services rendered by members of religious orders, societies, or similar groups to institutions operated by or affiliated with such institutions.

Donated supplies: The estimated fair monetary value of contributed supplies.

Earned: Realized or accrued as revenue through sales of goods, services performed, or the lapse of time.

Employee benefit: A pension provision, retirement allowance, insurance coverage, paid vacation, sick leave, and holiday time off or other cost representing a present or future return to an employee, which is neither deducted on a payroll nor paid for by the employee.

Encumbrance (Governmental accounting): 1. An anticipated expenditure, evidenced by a contract or purchase order, or determined by administrative action. 2. Commitment. 3. Any lien or other liability attaching to real property.

Endowment fund: Funds, usually of a non-profit institution, in which a donor has stipulated as a condition of gift, that the principal of the fund is to be maintained inviolate and in perpetuity and that only income from investments of the fund may be expended.



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Enterprise: Any business undertaking; a business enterprise, without qualification the term refers to an entire organization rather than a subdivision thereof.

Entity: 1. Any right or claim to assets. 2. An interest in property or in a business, subject to claims of creditors.

Equity ownership: 1. The interest of an owner in property or in a business or other organization, subject, in case of liquidation, to prior claim of creditors. 2. The interest (paid-in capital and retained earnings) of a stockholder or of stockholders collectively in a corporation; proprietorship.

Examination: Audit.

Exception: A qualification by an auditor in his report, indicating a limitation as to the scope of his audit or disagreement with or doubt concerning an item of a financial statement on which he is reporting.

Exhibit: A financial or other statement of a formal character prepared for the information of others, as in auditor's report.

Expected life: Length of life or years of service of an asset or asset group at a particular moment of time.

Expenditure: 1. The incurring of a liability, the payment of cash, or the transfer of property for the purpose of acquiring an asset or service or

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settling a loss. 2. The amount of cash or property paid or to be paid for a service rendered, or an asset purchased. 3. Any cost, the benefits of which may extend beyond the current accounting period.

Expense: Expired cost; any item or class of cost of (or loss from) carrying on an activity; a present or past experience defraying a present operating cost or representing an irrecoverable cost or loss.

Expense center: Any location within an organization at which the coincidence of organization and function has been recognized; an activity.

Expired cost: An expenditure from which no further benefit is anticipated; an expense; a cost absorbed over the period during which benefits were enjoyed or a loss incurred.

External audit: An audit by a person not an employee; an independent audit.

Extraordinary depreciation: Depreciation caused by unusual wear and tear, unexpected disintegration, obsolescence, or inadequacy beyond that attributable to ordinary loss of physical or service life.

Facility: A skilled nursing or intermediate/minimum care facility. May be a distinct part of a hospital.

Fair market value: The price for which an asset would be purchased in an arms-length transaction as a result of good-faith bargaining between a sophisticated buyer and seller, neither being under any compulsion to buy or sell.

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Fidelity bond: Insurance against losses arising from dishonest acts of employees involving money, merchandise, or other property.

Fiduciary: Any person responsible for the custody or administration, or both, of property belonging to another; as, a trustee.

Financial accounting: The accounting for revenues, expenses, assets, and liabilities that is commonly carried on in the general offices of a business.

Financial Accounting Standards Board (FASB): A quasi-independent organization established in 1973 by the AICPA-Sponsored Financial Accounting Foundation for the purpose of developing principles for financial reporting by business enterprises.

Financial statement: A balance sheet, income statement, funds statement, or any supporting statement or other presentation of financial data derived from accounting records.

Fiscal year: The facility's uniform period between one annual reporting of financial accounts and the next reporting.

Fixed asset: 1. A tangible asset held for the services it yields in the production of goods and services; any item of plant. 2. A balance sheet classification denoting capital assets other than intangibles and investments in affiliated companies or other long-term investments. Included in the usual fixed-asset categories are land (from which the flow of services is seemingly permanent), buildings, building equipment, fixtures, machinery,

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tools (large and small), furniture, office devices, patterns, drawings, dies, and often containers; generally excluded are goodwill, patents, and other intangibles. The characteristic fixed asset has a limited life (land is the one important exception), and, in organizations where expenses are accounted for, its cost, less estimated salvage at the end of its useful life, is distributed over the periods it benefits by means of provisions of depreciation.

Fixed capital: The investment in capital assets.

Fixed cost (or expense): An operating expense, or operating expense as a class, that does not vary with business volume. Examples: interest on bonds; rent; property tax; depreciation (sometimes in part); minimal amounts of general overhead. Fixed costs are not fixed in the sense that they do not fluctuate or vary; they vary, but from causes independent of volume.

Fringe benefit: See employee benefit.

Function: 1. The general end or purpose sought to be accomplished by an organizational unit. Examples: administrative services; skilled nursing; physical therapy; research; plant operation and maintenance; dietary. 2. A group of related activities serving a common end.

Functional: Adapted to and capable of performance; a function or service performed by one organizational unit for another.

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Functional accounting: Accounting by functions and activities; activity accounting.

Fund: A self-contained accounting entity set up to account for specific activity or project.

Fund account: Any account reflecting transactions of a fund.

Fund accounting: Maintenance of separate and/or group accounts for health facility resources according to spending objectives set by donors, other outside sources, or the governing body.

Fund asset: An asset belonging to a particular fund or a group of funds.

Fund balance: The excess of assets over liabilities (net equity). An excess of liabilities over assets is known as a deficit in fund balance.

Fund balance sheet: A balance sheet divided into self-balancing sections, each of which shows the assets and liabilities of a single fund or group of related funds.

Funded debt: Debt evidenced by outstanding bonds or long-term notes.

Funded reserve: A pension reserve, a reserve for bonuses or for the retirement of preferred stock, or other prospective future liability against which certain assets have been accumulated and set aside or earmarked.

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Fund group: A group of funds of similar character which are brought together for administrative and reporting purposes. Examples: current funds; loan funds; endowment funds; plant funds; agency funds.

Fund liability: A liability of a fund which is to be met out of its existing resources.

Funds held in trust by others: Funds held and administered, at the direction of the donor, by an outside trustee for the benefit of an institution or institutions.

Generally accepted accounting principles: Accounting principles currently approved by the American Institute of Certified Public Accountants.

Generally accepted auditing standards: Auditing standards currently approved by the American Institute of Certified Public Accountants.

General journal: The journal in which are recorded transactions not provided for in specialized journals.

General ledger: A ledger containing accounts in which all the transactions of a business enterprise or other accounting unit are classified either in detail or in summary form.

Generally accepted: Given authoritative recognition; said of accounting principles or audit standards, and the pronouncements concerning them,

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particularly, in recent years, those of the American Institute of Certified Public Accountants and the Financial Accounting Standards Board.

Gross: Undiminished by related deductions, except corrections; applied to sales, revenues, income, expense, and the like.

Group I Equipment: Equipment permanently attached to the structure (Fixed Equipment).

Group II Equipment: Equipment and furnishings not permanently attached to the structure (Moveable Equipment).

Group III Equipment: Equipment and supplies with a relatively short useful life (Minor Equipment).

HFMA: Hospital Financial Management Association.

Historical cost: The total actual cost incurred in acquiring and preparing a fixed asset for use. This cost includes items, if any, which would be capitalized under generally accepted accounting principles in addition to purchase price, e.g., installation costs.

Home Office: The office of the controlling organization. This office generally incurs costs and provides services to or on behalf of the individual health facility.

Hospital: An establishment with an organized medical staff; with permanent facilities that include inpatient beds; and with medical services, includ-

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ing continuous nursing services, that provide diagnosis and treatment for patients.

Imprest cash: Imprest fund.

Imprest fund: 1. A fixed cash fund or petty cash fund in the form of currency, a bank checking account, or both, maintained for expenditures that must be made in cash, and from time to time restored to its original amount by a transfer from general cash of a sum equal to the aggregate of disbursements; a form of working fund.

Imprest system: The system under which imprest cash is disbursed and from time to time restored to its original amount through reimbursements equal to sums expended. Implicit in the concept is the review by a higher authority of the propriety of the expended amounts before reimbursement is approved.

Improvement: 1. Betterment. 2. The clearing, draining, grading, or other addition to the worth of a tract of land; any cost of developing real estate, whether paid for directly or through special assessment taxes.

Imputed value of services rendered: The dollar value of specified services, computed according to formulas established by the Department.

Income realization: The recognition of income, the usual test being the passage of title to or delivery of goods, or the performance of services.

Income statement: A summary of the revenues and expenses of an accounting unit, or group of such units, for a specified period.



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Increment: An increase in value from one point of time to another, without reference to cost or book value. Unearned increment has reference to an increase in the value of land from causes to which the owner has made no contribution, as from growth of population.

Indirect cost: A functional cost not attributed to the production of a specified good or service but to an activity associated with production generally.

Indirect liability: 1. An obligation not yet incurred but for which responsibility may have to be assumed in the future; as, the possible liability from the premature settlement of a long-term contract. 2. A debt of another, as the result of which an obligation to pay may develop; a contingent liability.

Initial Occupancy Period: The period commencing with the first month prior to the admittance of the first patient and ending with the day preceding the Permanent Financial Occupancy date. The initial occupancy period is part of the development period.

Initial Occupancy Expense: All expenses incurred and all income earned related to patient care accounted for on the accrual basis during the Initial Occupancy Period except for:

- a) Interest expense and interest income
- b) Any additional New York State Housing Finance Agency Financing Expense

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c) Accounting fees of outside independent accountants

d) Legal Fees

Inpatient: A person who is provided with room, board, and continuous nursing service in a health facility.

Inpatient admission: The formal acceptance by a health facility of a patient who is to be provided with room, board, and continuous nursing service in an area of the health facility where patients generally stay at least overnight.

Inpatient bed count: The number of available health facility inpatient beds, both occupied and vacant, on any given day.

Inpatient bed count day: A unit of measure denoting the presence of one inpatient bed (either occupied or vacant) set up and staffed for use in one 24-hour period.

Inpatient bed count days (total): The sum of inpatient bed count days for each of the days in the period under consideration.

Inpatient bed occupancy ratio: The proportion of inpatient beds occupied, defined as the ratio of inpatient service days to inpatient bed count days in the period under consideration.

Inpatient census: See daily inpatient census.

Inpatient discharge: The termination of period of inpatient care through the formal release of an inpatient by a health care facility.

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Intangible assets: Non-physical assets (e.g., goodwill, an agreement not to compete), almost always non-current.

Interfund transfer: The transfer of money or other asset or of a liability from one fund to another.

Interest: The cost incurred for the use of borrowed funds.

Interest on capital indebtedness: The cost incurred for funds borrowed for capital purposes. Examples: acquisition of facilities, equipment and capital improvements. Generally, loans for capital purposes are long-term loans.

Internal control: The general methodology by which management is carried on within an organization; also, any of the numerous devices for supervising and directing an operation or operations generally.

Internal control, a management function, is a basic factor operating in one form or another in the administration of every organization, business or otherwise. Although sometimes identified with the administrative organism itself, it is often characterized as the nervous system that activates overall operating policies and keeps them within practicable performance ranges.

The principal elements contributing to internal control are usually these:

1. Recognition that within every organizational unit there are one or more functional or action components known as activities, cost or responsi-

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bility centers, or management units with appropriate segregation of functional responsibilities;

2. Delegated operating authority in each organizational unit permitting freedom of action within defined limits;
3. The linking of expenditures--their incurrence and disposition--with specified individual authority;
4. End-product planning (a) by means of a budget fitted to the organizational structure and to its functional components, thus maintaining dual forward operating disciplines; and (b) the adoption of standards of comparison and other performance measurements such as standard costs, quality controls and timing goals;
5. An accounting process and system of record procedures adequate to provide organizational and functional administrators with reasonable accounting control over assets, liabilities, revenues and expenses and also provide administrators with prompt, complete, and accurate information on operating performance, and comparisons with predetermined performance standards;
6. Periodic reports, consonant with accounting and related records, by activity heads to supervisory management; reports serving as feedbacks of informative pictures of operations, and as displays of favorable and unfavorable factors that have influenced performance;

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7. Internal check, built into operating procedures, and providing maximum protection against fraud and error;
8. Frequent professional appraisals, through internal audit, of management and its policies and operations generally, as a protective and constructive management service, its emphasis varying with the quality of operating policies and their administration; and
9. The construction of the above controls in such a manner as to stimulate and take full advantage of those natural attributes of individual employees i.e., personnel of a quality commensurate with responsibilities.

Inventory: The dollar value (computed in accordance with generally accepted accounting principles) of merchandise, materials and supplies on hand at the close of a facility's accounting period.

Inventory control: The control of merchandise, materials, goods in process, finished goods, and supplies on hand by accounting and physical methods. An accounting control is effected by means of a stock or stores ledger, mechanical storage records, or a ledger account in which the quantities or amounts (or both) of goods received during an accounting period are added to corresponding balances at the beginning of the period and amounts of goods sold or otherwise disposed of are deducted at a calculated cost based on individual identification or any of various methods of averaging. Physical controls consist of various plans of buying, storing, handling, issuing, supervising,

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and stocktaking. Stockledger control is made more effective by physical control in the nature of a continuous check of the goods on hand.

Inventory valuation: The determination of the costs or the portion of cost assignable to on-hand raw materials, merchandise held for resale, and supplies based on any generally accepted method consistently applied.

Invested capital: 1. The amount of capital contributed to a business by its owners; capital. 2. The amount so contributed, plus retained earnings (or less accumulated losses) and appropriated surplus.

Ledger control: The control of a subsidiary record or ledger by the use of a control account. Ledger control is limited to a proof that all items were recorded in the subsidiary record or that they were accurately made, as required, to the debit and credit sides of that record. It does not furnish proof that every item was recorded in its proper account in the subsidiary record.

Length of stay (for one patient): The number of calendar days from admission to discharge, counting the day of admission but not the day of discharge.

Levels of care: The classification of types of services provided to medical recipient patients and/or to other state-funded clients, e.g., skilled nursing care, intermediate care (I-IV).

Leasehold improvements: Those improvements made by the owners of a facility to leased land, buildings or equipment.

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Liability: 1. An amount owing by one period (a debtor) to another (a creditor) payable in money, or in goods or services: the consequence of an asset or service received or a loss incurred or accrued; particularly, any debt (a) due or past due (current liability), (b) due at a specified time in the future (e.g., funded debt, accrued liability), or (c) due only to failure to perform a future act (deferred income, contingent liability). 2. The title of the credit half of a balance sheet, often including net worth as well as obligations to outsiders; when thus used, the inference is that the organization reflected in the balance sheet has a status independent of both its creditors and its owners--to whom it must account in the amounts shown.

Licensed bed capacity: The maximum number of beds which a provided may keep occupied under the terms of its license.

Limited-life asset: Any capital asset, as a building, machine, or patient, the usefulness of which to its owner is restricted by its physical life or by the period during which it contributes to operations.

Liquid asset: Cash in banks and on hand, and other cash assets not set aside for specific purposes other than the payment of a current liability, or a readily marketable investment. The term is somewhat less restrictive than cash asset and much more restrictive than quick asset.

Living trust funds: Funds acquired by an institution subject to agreement whereby resources are made available to the institution on condition that the institution pay periodically to a designated person, or persons, the

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income earned on the resources acquired for the lifetime of the designated person, or persons, or for a specified period.

Long-term health care facility: Any facility which is separately licensed as an intermediate care or skilled nursing facility.

Maintenance: The keeping of property at a standard of operating condition; also, the expense involved. Example: recurring operations of cleaning, oiling, repairing, and adjusting. Maintenance cost includes outlays for (a) labor and supplies; (b) the replacement of any parts that constitute less than a retirement unit; and (c) major overhauls, the item of which may involve elements of the first two classes.

Management: 1. Executive authority; the combined fields of policy and administration. 2. As applied to individuals: (a) the head of an organization; or (b) collectively, the head and his immediate staff and any or all persons possessing supervisory persons' delegated authority; (c) broadly, the persons within an organization who originate transactions.

Materiality: 1. The relative importance, when measured against a standard of comparison, of any item included in or omitted from books of account or financial statements, or of any procedure or change in procedure that conceivably might affect such statements. 2. The characteristic attaching to a statement, fact, or item whereby its disclosure or the method of giving it expression would be likely to influence the judgment of a reasonable person.

Matrix Inversion: A process of allocating a department's costs to all other departments by solving simultaneous equations.



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Medical recipient: A recipient of medical assistance under Title XIX of the Social Security Act or of state funded medical care services.

Medical services: The services pertaining to medical care that are performed at the direction of a physician on behalf of patients by physicians, dentists, nurses, and other professional and technical personnel.

Medicare: A third-party reimbursement program administered by the Social Security Administration that underwrites the medical costs of persons 65 and over and some qualified persons under 65. "Part A" covers hospital services and "Part B" covers physicians' services.

Multi-facility provider: A provider delivering two or more types of health care, e.g., a hospital and SNF and/or ICF, or a retirement home and SNF and/or ICF. A combined SNR/ICF provider is not considered a multi-facility provider.

Net worth: The aggregate appearing on the accounting records of the equities representing proprietary interests; the excess of the going-concern's value of assets over liabilities to outsiders; of a corporation, the total of paid-in capital, retained earnings, and appropriated surplus; of a sole proprietorship, the proprietor's account; of a partnership, the sum of the partner's accounts.

Nominal account: Any of the accounts the balances of which are transferred to retained earnings at the close of each fiscal year: so called because such accounts reflect completed transactions or expired costs.

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Non-allowable cost: A cost which does not meet every test of an "allowable cost" as defined in this glossary.

Nonoperating revenue: The revenues of an enterprise derived from sources other than its regular activities; other revenue.

Nonprofit corporation: An incorporate charity, or any corporation operated under a policy by which no stockholder or trustee shares in the profits or losses, if any, of the enterprise.

Nonrestricted funds: Unrestricted funds. Funds which are not restricted to a specific use by the donor. Examples of unrestricted funds include operating and board designated funds.

Non-revenue-producing cost centers: These are overhead units, such as dietary and plant operations and maintenance, that provide necessary support services to revenue-producing centers.

Object classification: A method of classifying expenditures according to their natural classification such as salaries and wages, employee benefits, supplies, purchased services, etc.

Obsolescence: The loss in usefulness of an asset, occasioned by the approach to the state of economic uselessness through progress of the arts; economic inutility arising from external causes; disappearing usefulness resulting from invention, change of style, legislation, or other causes having no physical relation to the object affected. It is distinguished from exhaustion,

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wear and tear, and deterioration in that these terms refer to a functional loss arising out of a change in physical condition.

Occasion of service: A specific identifiable instance of an act of service involved in the medical care of health facility patients.

Occupancy expense: Expense relating to the use of property. Examples: rent, heat, light, depreciation, upkeep, and general care of premises occupied.

Operating budget: A budget covering recurrent revenue and expense.

Operating cost (or expense): An expense incurred in conducting the ordinary major activities of an enterprise, usually excluding "nonoperating" expense or income deductions.

Operating income (or profit): The excess of revenues of a business enterprise over the expenses pertaining thereto, excluding income and expense derived from sources other than its regular activities.

Operational period: The period commencing with the Permanent Financial Occupancy Date.

Organizational unit: Any administrative subdivision of an enterprise, especially one charged with carrying one or more functions or activities.

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Original cost: Outlay for an asset by its owner, not including any adjustments of cost arising from post-acquisition alterations, improvement, or depreciation.

Outpatient: A person who receives health care services in a health facility without being admitted as a bed patient. (See Ambulatory care.)

Outstanding: 1. Uncollected or unpaid: said of an account or note receivable or payable, or of a check sent to the payee but not yet cleared against the drawee bank. 2. In the hands of others: said of the units of funded debt of a corporation or of the certificates representing issued shares of capital stock in the hands of the public; treasury stock is defined in terms of shares issued but not outstanding.

Overhead: 1. Any cost of doing business other than a direct cost of an output of product or service. 2. A general name for costs of materials and services not directly adding to or readily identifiable with the product or services constituting the main object of an operation.

Owner: The entity which is legally responsible for the operation of a provider, and thus for decisions and for liabilities arising in the course of its operation.

Paid-in capital: The total amount of cash, property, and services contributed to a corporation by its stockholders and constituting a major balance

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sheet item. It may be reflected in a single account or divided between Capital Stock and additional Paid-in Capital accounts.

Part A and Part B Services: Medicare benefits are payable from two funds.

Part A services, which, in general, are those rendered by institutions, are reimbursed from funds derived from payroll tax. Part B services, generally medical and surgical physicians' services, and outpatient treatment and diagnosis are reimbursed from the fund created by voluntary premium payments and general federal revenues.

Patient day: A calendar day of patient care. In computing calendar days of care, the day of admission is always counted. The day of discharge is counted only when the patient was admitted on the same day. A patient is admitted for purposes of this definition when he or she is physically present, is assigned a bed, and a patient medical record is opened.

Payroll distribution: 1. An analysis of the total amount of salaries and wages paid or accrued for a period, showing the component amounts to be charged to the various departments, operations, activities, or products affected. 2. The entry by which the amount of salaries and wages paid or accrued for a period is charged in the required detail to the accounts or records.

Permanent Financial Occupancy Date: The date declared by the Commissioner of Health or his designee after a facility has been occupied for a period

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of time. This date is a financial concept date; it is not the date a facility admits its first patient.

Per patient day costs (PPD): Total allowable costs divided by total patient days for the period covered.

Petty cash fund: See Imprest fund.

Plant: Physical properties used for institutional purposes; i.e., land, building, improvements, equipment, and so forth. The term does not include real estate or properties of restricted or unrestricted funds not used for health facility operations.

Plant replacement and expansion funds: Funds restricted by donor or granted for renewal, expansion, or replacement of plant.

Pooled investments: Assets of two or more funds consolidated for investment purposes.

Pre-opening expenses: The one-time expenses of a new provider incurred prior to the admission of any patients.

Prepaid expense: The portion of an expenditure which has been made which will be charged against revenue within twelve months following the date of the Statement of Operations.

Principal: A sum on which interest accrues; capital, as distinguished from income.

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Proprietary accounts: 1. The accounts, including nominal accounts, containing the equities of owners. 2. (governmental accounting) The accounts reflecting the assets and liabilities, and displaying the results of operations in terms of revenue, expense, surplus or deficit.

Prorate: To assign or redistribute a portion of a cost, such as a joint cost, to a department, operation, activity, or product according to some formula or other agreed-to, often arbitrary, procedure.

Prudent buyer concept: The price paid for items by a prudent buyer in the open market under competitive conditions.

Purchased services: Services directly or indirectly related to patient care which a provider contracts for with an outside individual or firm.

Quick asset: A current asset normally convertible into cash within a relatively short period, such as a month. Examples: cash, call loan, marketable security, customer's account, a commodity immediately salable at quoted prices on the open market.

Reasonable cost: Those costs which are determined by the Division as reasonable in comparison to like expenses incurred by other similar facilities.

Related organization: An entity which, to a significant extent, is under common ownership and/or control with, or has control of or is controlled by, the provider. An entity is deemed to "control" another entity if it has a

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significant ownership interest in the other, or if it has the power, whether or not exercised, to influence directly or indirectly the activities or policies of the other.

Repair: 1. The restoration of a capital asset to its full productive capacity, or a contribution thereto, after damage, accident, or prolonged use, without increase in its previously estimated service life or productive capacity. 2. The charge to operations representing the cost of such restoration.

Replacement: The substitution of one fixed asset for another, particularly of a new asset for an old, or of a new part for an old part. On the books of account, the recognition of the cost of the new asset requires the elimination of the cost of the asset it replaces.

Replacement cost: 1. The cost of an acquired asset or asset part, capitalizable if the cost of its retired counterpart is removed from the asset account. 2. The cost at current prices, in a particular locality or market area, of replacing an item of property or a group of assets.

Responsibility accounting: The classification, management, maintenance, review, appraisal of accounts serving the purpose of providing information on the quality, quantity, and standards of performance attained by persons to whom authority has been assigned.



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Restricted funds: Funds designated by the donors, governmental units, and endowments for special non-operating purposes.

Retained earnings (or income): Accumulated net income, less distributions to stockholders and transfers to paid-in capital accounts.

Retirement of indebtedness funds: Funds required by external sources to be used to meet debt service charges and the retirement of indebtedness on plant assets. The term "sinking funds" is sometimes used to describe these funds.

Return on capital investment: A rate of return on owner's net equity.

Revenue: 1. Sales of products, merchandise, and services, and earnings from interest, dividends, rent, and wages; transactions resulting in increases in assets. 2. (governmental accounting) The gross receipts and receivables of a governmental unit derived from taxes, customs, and other sources, but excluding appropriations and allotments.

Revenue producing cost centers: Health facility departments providing direct services to patients (such as nursing, physical therapy, and laboratory) and thereby generating revenue.

Revolving fund: A fund from which moneys are continuously expended, replenished, and again expended. Examples: imprest cash; working funds; assets available for loans the repayments of which are available for other loans.

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Round off: To simplify the presentation of a quantity by omitting its terminal digits, with the express purpose of displaying only significant figures.

Schedule: A supporting, explanatory, or supplementary analysis accompanying a balance sheet, income statement, or other statement prepared from the books of account.

Service cost: 1. The cost of any service. 2. The amortizable cost of a limited-life asset; i.e., the asset cost, less estimated recovery, if any, from resale or scrap. Service cost is the amount to be depreciated over the useful life of a fixed asset.

Share of pooled investments: The proportion of pooled investments, including accumulated gains or losses, owned by a particular fund, usually expressed by a number (units) indicating the fractional ownership of total shares in the pool or by a percentage expressing the portion of the total pool owned by the particular fund.

Sinking fund: Retirement of indebtedness funds.

Special purpose fund: Specific purpose funds.

Specific purpose funds: Funds restricted for a specific purpose or project. Board-designated funds do not constitute specific purpose funds.

Stepdown method: The allocation of the accumulated costs of the nonrevenue producing centers to those other nonrevenue producing centers which utilize

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their services, as well as to the revenue producing centers to which they render service. Once the costs of a nonrevenue producing center have been allocated that center is considered closed.

Straight-line method: The assignment of equal segments of the service cost of any item to the benefits to be yielded by the item; a procedure followed in depreciation computations and in the spread of prepaid expenses and bond discount. In practice, a period charge for depreciation is usually substituted for a more exact measurement of benefits yielded because of (a) its relative simplicity, (b) the presence of only minor differences between the two methods, (c) the impossibility of estimating with any degree of realism the total prospective output of services, as in the case of many types of machinery, or (d) the absence of any readily determinable unit of service, as in the case of buildings. See amortization; apportionment; deferred charge.

Tangible assets: Physical assets (e.g., building, equipment inventory).

Temporary funds: See specific purpose funds.

Term endowment funds: Donated funds which by the terms of the agreement become available either for any legitimate purpose designated by the board or for a specific purpose designated by the donor upon the happening of an event or upon the passage of a stated period of time.

Trial balance: A list or abstract of the balances or of total debits and total credits of the accounts in a ledger, the purpose being to determine

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the quality of posted debits and credits and to establish a basic summary for financial statements. The term is also applied to a list of account balances (and their total) abstracted from a customer's ledger or other subsidiary ledger for the purpose of testing their totals with the related control account.

Trade discount: The discount allowed to a class of customers on a list price before consideration of credit terms; as a rule, invoice prices are recorded in the books of account net after deduction of trade and quantity discounts.

Total inpatient service days: The sum of all inpatient service days for each of the days in the period under consideration.

Total length of stay (for all inpatients): The sum of the days stay of any group of inpatients discharged during a specified period of time.

Unit of service: A unit of measure, often commonly accepted, for determining average cost, time, or efficiency, thus making possible (a) comparisons of one operation with another or with the same operation in a preceding period, and (b) estimates of future operations.

Unrestricted funds: Funds which bear no external restrictions as to use or purpose, i.e., funds which can be used for any legitimate purpose designated by the governing board as distinguished from funds restricted externally for specific operating purposes, for plant replacement and expansion, and for endowment.

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Useful life: Normal operating life in terms of utility to the owner: said of a fixed asset or a fixed-asset group; the period may be more or less than physical life or any commonly recognized economic life; service life.

Valuation account (or reserve): An account which relates to and partly or wholly offsets one or more other accounts; as, accumulated depreciation or allowance for bad debts; unamortized debt discount.

Weighted average: A simple average of items reduced to a common basis. For example, purchases of certain raw material are made during a given month as follows:

<u>Units</u>	<u>Price each</u>	<u>Total cost</u>
150	\$1.50	\$225.00
175	1.40	245.00
50	1.32	66.00
<u>65</u>	<u>1.30</u>	<u>84.50</u>
<u>440</u>	<u>\$5.52</u>	<u>\$620.50</u>

The simple average of prices paid is  $\$5.52 \div 4$ , or \$1.38, but the weighted average would be the total cost divided by the number of units purchased:  $\$620.50 \div 440$ , or \$1.41.