

NEW YORK STATE  
RESIDENTIAL HEALTH CARE FACILITY  
ACCOUNTING AND REPORTING MANUAL

CHAPTER 5

COST FINDING PRACTICES AND PROCEDURES

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A. INTRODUCTION

Cost finding is the apportionment or allocation of the costs of the nonrevenue producing centers to each other and to the revenue producing centers and final program centers on the basis of statistical data reflective of the amount of service rendered by each center to the other centers.

In general, each nonrevenue, ancillary revenue or program revenue center has a total expense of operation which can be described in an algebraic equation comprised of its own direct expense plus some fraction of the total expense of the operation of each of the other centers.

Also, each center has a relationship to each of the other centers that can be described by a statistical allocation basis which is reflective of the relative amount of service rendered.

Cost finding is a mathematical process used to solve the problem of allocating expenses to each center and subtotal expense in each ancillary or program center after the allocation of nonrevenue centers has been accomplished.

While there are a number of processes that can be and have been used (direct allocation, single-stepdown, multiple-stepdown, matrix inversion, etc.), the matrix inversion process solves these equations simultaneously and is the most accurate process. This process recognizes all the services provided by one cost center to all other centers. The complete recognition of service is not possible in the same degree in the other cost finding processes. Although it is anticipated that the matrix inversion process

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will be used in this Manual, the uniform system of statistical allocation  
is applicable to any process.

The following sections of this chapter discuss the segregation of  
costs, the source for the compilation of data and other information pertinent  
to the cost allocation process.