

NEW YORK STATE
RESIDENTIAL HEALTH CARE FACILITY
ACCOUNTING AND REPORTING MANUAL

ACCOUNTING PRINCIPLES (Cont'd)

DR. Contractual Adjustment	<u>Account</u> 5520.00	S 30
CR. Allowance for Contractual Adjustments-Medicare	1063.00	\$25
CR. Deferred Revenue - Medicare	2131.00	S 5

ACCOUNTING FOR PLEDGES

All pledges, less a provision for amounts estimated to be uncollectible, should be included in the nursing home's accounting records. If unrestricted, they should be recorded as non-operating revenue. If restricted, they should be recorded as an addition to the appropriate restricted fund balance.

SELF-INSURANCE

Self-insurance by a nursing home for potential losses due to malpractice claims, asserted or otherwise, places all or part of the risk of such losses on the nursing home rather than insuring against all or part of such losses with an independent insurer. Accruing for self-insured losses is governed by the Financial Accounting Standards Board's Statement No. 5 on Accounting for Contingencies. Paragraph 8 of that statement indicates that "an estimated loss from a loss contingency can only be accrued as a charge to income if both of the following conditions are met:

- a. Information available prior to issuance of the financial statements

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indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements.

It is implicit in this condition that it must be probable that one or more future events will occur confirming the fact of the loss.

b. The amount of loss can be reasonably estimated."

Paragraphs 29 and 30 of that statement state:

"An enterprise may choose not to purchase insurance against risk of loss that may result from injury to others, damage to the property of others, or interruption of its business operations. Exposure to risks of those types constitutes an existing condition involving uncertainty about the amount and timing of any losses that may occur, in which case a contingency exists.

"Mere exposure to risks of those types, however, does not mean that an asset has been impaired or a liability has been incurred. The condition for accrual in paragraph 8(a) is not met with respect to loss that may result from injury to others, damage to the property of others, or business interruption that may occur after the date of an enterprise's financial statements. Losses of those types do not relate to the current or a prior period but rather to the future period in which they occur. Thus, for