

NEW YORK STATE  
RESIDENTIAL HEALTH CARE FACILITY  
ACCOUNTING AND REPORTING MANUAL

B. BASIC CONCEPTS

PURPOSE

The purpose of this Manual is to establish a foundation for uniform reporting by residential health care facilities. In making their reports, such facilities will be bound by the basic principles and concepts set forth in this Manual. Any reporting principles not specifically discussed herein should be reported according to generally accepted accounting principles as interpreted in the opinions of the American Institute of Certified Public Accountants (AICPA) and in the statements by the Financial Accounting Standards Board (FASB).

ACCOUNTING ENTITY

A fundamental accounting concept is that of the accounting entity or unit. For the purposes of this Manual a nursing home is presumed to be an accounting entity, the boundaries of which may not be the same as those of the legal entity. The nursing home is the primary unit for which the accounting records are maintained.

GOING CONCERN

An accounting entity is viewed as continuing in operation in the absence of evidence to the contrary. The results of operation of an accounting entity are recognized and measured based on this concept.

ACCOUNTING PERIOD

The economic activities of an accounting entity are measured and accounted for in incremental time periods that are shorter than the life of the entity. The basic accounting period for this Manual is one year commencing on January 1 and ending on December 31 of each year.

NEW YORK STATE  
RESIDENTIAL HEALTH CARE FACILITY  
ACCOUNTING AND REPORTING MANUAL

BASIC CONCEPTS (cont'd)

SUBSTANCE OVER FORM

Financial accounting is concerned with the economic substance of transactions rather than the legal form of such transactions. Generally, economic substance agrees with legal form. However, in those instances where substance and form differ, the financial treatment for such transactions should be accounted for based on their economic substance to provide more meaningful information on the economic activities of the accounting entity.

CONSISTENCY

Consistency refers to continued uniformity, during a period and from one period to another, in methods of accounting, mainly in valuation bases and methods of accrual, as reflected in the financial statements of an accounting entity. However, consistency does not require continued adherence to a method or procedure that is incorrect or no longer useful, nor does it preclude a justifiable and desirable change in accounting and reporting methods or procedures.

MATERIALITY

Materiality is an elusive concept with the dividing line between material and immaterial amounts subject to various interpretations. It is clear, however, that an amount is material if its exclusion from the financial statements would cause misleading or incorrect conclusions to be drawn by users of the statements.

FUNCTIONAL VS. RESPONSIBILITY ACCOUNTING

Normally financial data is accumulated for operating departments that are identified with specific managerial responsibility. This information provides management with the tools necessary to evaluate the performance of

NEW YORK STATE  
RESIDENTIAL HEALTH CARE FACILITY  
ACCOUNTING AND REPORTING MANUAL

BASIC CONCEPTS (cont'd)

various departments. Recording and reporting financial data in this manner is known as Responsibility Accounting.

Functional Accounting is the process of recording and reporting revenues and expenses on the basis of activities performed without regard to organizational framework. Thus, costs related to a specific activity, normally charged to the organizational unit (department) responsible for that

NEW YORK STATE  
RESIDENTIAL HEALTH CARE FACILITY  
ACCOUNTING AND REPORTING MANUAL

BASIC CONCEPTS (Cont'd)

activity, would instead be charged to the cost center whose function is to perform the activity.

Since homes vary in basic organizational structure and the way responsibilities are organized within departments, the manual mandates reporting on a functional basis in accordance with defined activities of each department to achieve a level of compatability.

OBJECTIVE EVIDENCE

Information produced by the accounting process should be based, to the extent possible, on objectively determined facts. A record of an addition to inventory, for example, should be supported by properly executed business documents such as the purchase order, the receiving report, the supplier's invoice, and the check issued in payment of the invoice. Such documents serve as objective evidence of the transaction and permit reliable determination of the cost of the asset, the amount of the liability, and the appropriateness of the resulting cash disbursement. Retention of these documents for a suitable period makes it possible to verify data in the accounting records.

The requirement of objective evidence, however, cannot always be met by financial data in accounting reports. Although various computations and analyses can provide some evidence, it is often necessary to make estimates.

NEW YORK STATE  
RESIDENTIAL HEALTH CARE FACILITY  
ACCOUNTING AND REPORTING MANUAL

BASIC CONCEPTS (Cont'd)

Determination of depreciation and anticipated bad debts, for example, are based to a large extent on past experience and expected future conditions. In those instances requiring estimates, the judgment of the accountant and of management must be exercised.