



**POLICY**

**ALLOWANCE FOR CONTRACTUAL ADJUSTMENT**

**4001**

Allowance for Contractual Adjustments/Deductions from Revenue. Deductions from revenue represent differences between charges billed to patients, which are computed using BCHC’s established rates, and amounts to be reimbursed from third party payor agencies which the facility has billed for contractual agreements.

The most common revenue deductions are:

1. Third party cost payor contractual adjustments which are the differences between full charges for services provided and the allowable and reimbursable cost of the services provided. Medicare, Medicaid and insurance companies are the most common of all payor programs.
2. Denial of charges by agencies such as Medicare, Medicaid and other third party payors: Terms of the contractual agreement with these agencies specify that payment can be denied for services rendered to patients whom the contracting agency deem were unnecessary or not beneficial. In these cases, the patient cannot be held responsible for these denied services.

Receivables should always be stated at net realizable value, therefore, a contra-asset (allowance retention) and offsetting contractual allowance (contra-revenue) account need to be recorded monthly.

The Practice Management System contractual adjustments will be balanced monthly with Financial Software.

  
CHIEF EXECUTIVE OFFICER

DATE 12/14/2020

  
CHAIR, BOARD OF DIRECTORS

DATE 12/14/2020

Date first adopted	12/19/2012
Date Revised/Finance Board approval	12/05/2012, 01/25/2017, 12/08/2020
New date adopted/Board of Directors approval	12/19/2012, 02/13/2017, 12/14/2020