Financial Framework for Practice Management and Comparative Data Compilation utilizing the VMG/AAHA Companion Animal Practice Chart of Accounts

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Veterinary Study Groups, Inc. is the leading provider of support to independent veterinary practices in their pursuit of extraordinary success through study group membership.

Sound business methods support the veterinary practice team's best care of patients and clients.

This Chart of Accounts for Companion Animal Veterinary Practices is the culmination of three decades of work by various veterinary practice management organizations and their members.

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The needs and circumstances of every veterinary hospital are unique. This desk reference provides information that complements but does not replace legal, financial, or other professional advice.

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This desk reference book would not have been possible without the collective wisdom, vision, encouragement, and support of many important and valued colleagues (both doctors of veterinary medicine and others committed to advancing the values and mission of the veterinary medical profession) and several important organizations.

In the early 1980's, members of the American Animal Hospital Association advanced the creation of the AAHA Chart of Accounts. These early visionaries embraced the conceptual idea for a universally-accepted framework of practice financial data collection. Veterinary practices throughout North America adopted the AAHA Chart of Accounts, as their administrators understood the critical importance of consistently-reported financial results that could be compared with other like practices.

AAHA leadership's commitment to the chart's development was farsighted. These bright veterinarians grasped the importance of developing a sound framework for financial management of practices and committed necessary resources to create a chart of accounts that recognized and supported the unique needs of the veterinary professional practice, which are unlike that of any other profession.

During the chart's development, AAHA leadership and Executive Director Dr. John Albers sought the help of a young, creative CPA whose professional expertise served a specialized niche: the veterinary profession. Owen E. McCafferty, CPA, CVPM generously assisted AAHA in developing the first chart of accounts specially designed for veterinary professional practice. AAHA published this first official veterinary chart of accounts in 1987.

In 1983, some of the same AAHA leader-visionaries coalesced to form the first veterinary management study group, still in healthy existence today. The first Veterinary Management Group (VMG I) membership included such well-known veterinarians as Dr. Robert Featherston, Dr. Gary W. Johnson (1934 - 2003), Dr. Richard Goebel, Dr. Paul Glouton, Dr. James Dee, Dr. Ron Komich, and others. The study group embraced the AAHA Chart of Accounts to collect meaningful and comparative financial information that would help each member better strategically plan and administer his practice's operations.

In 1996, the best minds became the elements of the perfect storm. VMG I engaged Owen McCafferty as its new learning-facilitator. The ensuing creative collaboration envisioned a much greater cause and calling: to provide other veterinary practice owners/CEOs a template for shared success and contentment as veterinary medical professionals. The model they designed

became the means for others to succeed much more rapidly, through a governing company known as Veterinary Study Groups, Inc. (VSG).

The first group to form through VSG was of equine veterinary practitioners (2001). Other equine groups also formed, creating a need for common accounting methods and resulting in the 2006 publication of the Equine Veterinary Practice Chart of Accounts book, written by Dr. Marsha L. Heinke.

During the last decade, the veterinary profession has continued to advance and specialize, with increasing complexity and size of veterinary practices. By necessity, practice owners seek understanding of major value drivers for profit that allow capital investment for top notch patient and client care. Reliable data benchmarking has become a key point of interest across all forms of business including veterinary practice.

These needs resulted in a concerted effort over the past several years to update the VSG chart of accounts, based on the AAHA chart as developed by Owen E. McCafferty, CPA, Inc. The goals included expanded account definitions as well as more narrowly defining the types of transactions recorded to major revenue centers and the correlating direct costs of providing services in small animal private practices.

This book is a result of intense collaboration and desire to advance veterinary practice management through sound systems of financial reporting and managerial accounting systems.

Special recognition extends to Veterinary Study Group's DATALINK Advisory Committee chaired by Dr. Jeff Godwin and the data compilation advisory team at Katz, Sapper & Miller, headed by Ms. Beth Scott, CPA.

Preface

Proficient financial management necessitates a sound system for methodic data collection, recording, sorting, and summarization. Such a system depends on accurate categorization of each practice financial transaction by knowledgeable and trained personnel. Veterinary practice bookkeeping systems also require a logical organization of data into reports that enhance management assessment of economic outcomes and enable projected financial targets.

Sensible use of technology further enhances financial data interpretation. The combination of off-the-shelf bookkeeping and spreadsheet software with powerful personal computer processors requires an even greater level of financial management sophistication in successful veterinary practices.

A defined listing for practice financial data organization is called a chart of accounts. This structured list of all the asset, liability, equity, income, and expense accounts provides a standardized method to categorize and record each financial transaction.

The chart of accounts provides a framework for a practice's consistent financial reporting, so each financial period can be compared to what went before or what follows. Importantly, different practices that use the same chart of accounts in comparable ways, can contribute to data sets that allow meaningful benchmarking analysis.

Expressly designed for veterinary practices whose principals are members of Veterinary Study Groups, Inc., this document presents basic guidelines for how accounts should be organized and used as a solid foundation for reliable management report generation. Resulting financial reports will be informative and helpful at three levels, at a minimum: internal practice management use, member's study group reporting and analytics trending, and for key performance indicator generation through VMG DATALINK.

Understanding accounting terminology helps communication about the financial health of your veterinary practice. To assist the user in maximizing the usefulness of this publication, it includes a glossary of selected accounting, management and financial terms. The first time a word or phrase appears in the text, it is **hyperlinked** to take the reader to its inclusion in the glossary with corresponding definition.

Chapter 1

A Quality Medical Record of Your Veterinary Practice's Financial Health

Veterinarians of every stripe enjoy case dialogue found in such forums as the Veterinary Information Network (VIN). One doctor posts a description of a difficult case and colleagues ask for clarification of timelines and observations of patient response to therapy. Challenging cases can lead to long electronic narratives and thoughtful advice, especially when disease process, treatment application, and patient healing follows a course of weeks or even months.

Patient healing often depends on accurate and contemporaneously-maintained medical records of physical and laboratory findings, surgical procedures, and treatment regimens. In modern veterinary medicine, procedures can be technically difficult and pharmacy use requires knowledge and finesse. Exacting communications between colleagues mitigates misunderstandings and mistakes, and enables successful outcomes.

In on-line forums as well as the private veterinary practice, professionally-defined language and descriptive medical terminology has specific meaning, universally accepted throughout the veterinary profession. This language continues to evolve and converge, enabled by global communication through the Internet. The formulaic structure of medical records allows their interpretation by any veterinarian involved in a particular patient's care. The recording and communication of accurate patient information is a crucial element in the medical profession.

Veterinary practice business records require the same careful organization through personnel training in their creation, maintenance, and communication. Everyone in the practice should use the same standards of detail and adherence to commonly held definitions.

If a vendor payment represents acquisition of professional equipment with useful life over many years, it should be recorded as a business asset, and not simply expensed as "professional supplies" in the year acquired. Such a bookkeeping error could be compared to recording the incorrect information about a patient. The result is information that has limited credibility for formulating a business treatment plan.

Like a detailed and accurate medical record, well-prepared **accounting** information tells a story. The record is perpetual: it spans the practice's full life, from the day its founders birthed it to the most current moment. Each transaction is akin to a recordable medical event: from the purchase of stethoscope to the invoiced patient exam; from the first deposit to the business checking account to the associate's purchase contract signing; from the first mortgage loan payment of principal and interest to the option-executed buy-out of leased equipment. Each heartbeat of the practice that can be measured in monetary terms becomes a recorded financial event in the practice's history.

The intravenous administration of sedation and a progress examination are example transactions that result in parallel records: a medical notation and an invoiced charge. The medical notations are incorporated in the patient record that follows it through its life. The invoiced charge is listed in the practice's financial records and follows it through its life.

A Measure of Success

If bookkeepers record similar transactions in many different ways, the record becomes unreliable and may be impossible to interpret. Everyone knows the modern acronym GIGO resulting from practice computerization: Garbage In, Garbage Out. Inconsistent and incorrect data input results in faulty, unreliable records.

On the other hand, the more exacting and detailed transaction recording, the better the overall understanding of the practice's progress. Good accounting records are like comprehensive patient records: both allow decisions based on fact.

In modern veterinary medicine, the process of making patient care decisions based on prior data collection and its statistical analysis is known as *outcomes-based medicine*. A methodic accounting system results in *outcomes-based management* of your veterinary practice.

By consistently measuring results, you are better able to judge the outcomes of your treatment regimens. Did your protocol work, based on analysis of later results?

How do you know a patient's long-term response to your comprehensive diabetes management protocols, unless you measure its progress with a uniform diagnostic yardstick? How do you know your implementation of fee increases resulted in the predicted outcomes?

In veterinary practice financial management, the usual yardstick is the practice itself: how do its results compare to how its health appeared last month or last year? Secondly, practice managers compare the practice to others of a similar "breed", such as to other general small animal practices or feline only practices.

In assessing your practice's health over time, do you know you have accurate records from current and past periods to make a reasonable opinion? Similarly, can you reliably compare your practice's health to another? What assurances do you have that such outside accumulations of industry data are comparable to that of your practice?

Unless all practices within a given group accumulate and report data in similar ways, comparisons can be at best suspect and at worst, dangerously misleading. To accumulate financial data in a scientifically reliable manner, the veterinary profession requires the following elements:

- ✓ A universally-accepted financial vocabulary
- ✓ A standard format for categorizing data
- ✓ Bookkeeping personnel educated in managerial accounting systems
- ✓ Bookkeeping personnel trained in use of managerial accounting tools
- ✓ Internal control systems for quality assurance, including appropriate supervision and training of all hospital personnel, not only bookkeeping personnel.

Data accumulated in a standardized, methodic and reliable manner increases management's capability of making reasoned administrative decisions based on reported financial results. Of course, in an ideal veterinary world, every practice would use a standardized way of reporting financial results, allowing compilation of reliable industry comparables.

Chapter 2

Basic Chart of Accounts Knowledge

Measure what is measurable, and make measurable what is not yet so.

- Galilei Galileo

What is a Chart of Accounts?

A chart of accounts organizes as a list all the possible kinds of transactions a bookkeeper will need to create an accurate history of business financial activity. Each title listed on the VMG/AAHA COA is called an "account". Examples of account titles would be "Office Supplies", "Computer Software", and "Accounts Payable - Trade".

The chart of accounts should be:

- ✓ Representative of the business's industry
- ✓ Flexible, to allow customization for managerial purposes
- ✓ Organized in accord with the accounting profession's standards
- ✓ Used in a consistent way by all personnel responsible for recording transactions
- ✓ Used in a consistent way by all businesses participating in data collection efforts for creating economic indicators and benchmarks.

How is a Chart of Accounts Organized?

A chart of accounts always lists the account titles in the following order of major transaction categories:

- ✓ *Assets*
- ✓ *Liabilities*
- ✓ *Equity*
- ✓ *Revenues*
- ✓ *Expenses*

In each of the assets and liabilities categories, accounts are organized from most liquid to least liquid. Liquidity describes how quickly an asset will be converted to cash or a liability will come due. Inventory assets are more liquid than medical equipment and vendor accounts payable more than a note payable over many years.

Chapter 3 further explains the VMG/AAHA Veterinary Practice Chart of Accounts organization and structure.

How Does Each Transaction Contribute to A Practice's Life Story?

Each exchange of goods, services or money results in a transaction. A transaction is measurable in monetary units. Even a promise to exchange can result in a transaction, such as when a signed contract establishes a monetary commitment.

Financial accounting requires methodic recording of each transaction, in accord with predefined rules. A well-trained, knowledgeable bookkeeper decides when to record and how to categorize a transaction, following these rules. These decisions are much like how a veterinary technician decides when and how to record a particular treatment.

Over time, every recorded transaction adds to the history of the practice. A transaction never goes away; its fingerprint can be found in the **permanent accounts** of the practice's ledgers. Each asset, liability and equity account maintains an ongoing diary of transactions back to the inception of the account, many of which are established on the first day the practice begins business.

How Does a Chart of Accounts Work?

Every time a bookkeeper records a transaction, s/he decides which account title best describes it, in a way that creates useful management reports in a cost-efficient manner. For an unusual or unfamiliar transaction, the bookkeeper refers to the chart of accounts and account definitions as necessary to decide which account title best fits the particular transaction.

Generally, the bookkeeper dates the transaction in the records on the day it occurred. Over a specific period, say a month, all of the transactions accumulate, resulting in monetary amounts in each account.

For example, during the month:

- ✓ All veterinary fees collected and deposited are added to the business checking account.
- ✓ All invoiced veterinary services are recorded as revenues.

- ✓ All employee payments made through paychecks are recorded as payroll expense, and accurately posted as gross wages to appropriate accounts reflective of job descriptions (receptionist wages, technician wages, employee veterinarian wages, etc.)

At the end of the month, the bookkeeper's computer tallies all transactions; there could be hundreds if not thousands of them over the course of 30 days. The bookkeeper produces a variety of financial reports. Computerized bookkeeping programs give the flexibility of quick turnaround of just about any information a manager would want to evaluate.

The most common financial report produced would be the month's profit and loss report (otherwise called a P & L, or a statement of revenues and expenses, or an income statement). All transactions the bookkeeper classed as a revenue item or as an expense are included in this report.

Another common financial report is the balance sheet, also called the statement of assets, liabilities and equity. This report shows the month end balances of all the practice's asset, liability and equity accounts.

Each transaction's correct coding builds a financial story, a history. The story can be fact or it can be fiction, depending on the care and importance given to consistent and accurate use of the practice's chart of accounts.

If the bookkeeper correctly codes transactions in accord with the practice's chart of accounts, management can rely on the reports to make sound financial decisions.

Why Should a Practice use a Standard Chart of Accounts?

Many practice managers cannot make an accurate analytic assessment of the sum total of all the activity in the course of the year. They don't know if the financial reports accurately represent practice activity results. They may not be able to make sound decisions. The practice might be on track of financial targets or perhaps the reports give false information.

Have you ever felt that cash flow was tight? Were you quickly able to pinpoint the reasons why? Were you able to decide if the practice was making good use of capital resources to generate more money, or if underutilized assets of talent, equipment, and supplies had overextended the practice, or whether the problem was simply out of control credit policies?

Do you wonder if the practice can afford to add additional employee benefits? Can you predict the overall cost of investing in a loyal labor force?

Many significant financial decisions become nothing more than "best guesses", unless accounting reports accurately measure the practice's progress. The best way of measuring the practice's progress is to compare its current period results against those of past periods, but only when they are reliable and replicable. The records should match the depletion of assets with income and profit generated over the same period.

Planned asset depletion should yield more than enough revenues and profits to replenish them, but do you know if this is really the case? Without accurate records created through a systematic process of coding transactions, a practice manager doesn't always know the answers to these questions.

Assure you have accurate information about your practice, to know if it is on track to accomplish goals, objectives, ideals, vision, and satisfy obligations. Accounting for practice transactions using uniform standards, gives assurance that decisions are based in fact and lead to profit over time.

What Else will a Chart of Accounts do for your Practice?

- ✓ Result in consistent, replicable reports that present trends.
- ✓ Provide information for accurate tax reporting and other governmental requirements.
- ✓ Satisfy lenders as to the practice's financial strength.

When practices properly implement accounting systems using an industry-defined chart of accounts, almost everything else falls into place. You gain both a consistent measurement of your practice's economic progress over time, and a meaningful comparison of its results with other practices that use the same systems and organization. The VMG/AAHA Chart of Accounts for Companion Animal Practices (VMG/AAHA COA) will result in reliable, relevant data for financial decision-making.

If your practice does not properly maintain a uniform chart of accounts, then you most likely are experiencing two or more of the following scenarios:

- ✓ Your functional managers depend on their own month end reports to explain operating results and make little use of the month-end financial reporting package available on most accounting software.

- ✓ Your financial analysts are handicapped by a lack of reliable, relevant detail when performing their studies.

- ✓ You are frustrated by inability to benchmark against similar practices or even against your practice's own history.

- ✓ The key-punch entry of ledger data into spreadsheets at month-end is a time-consuming and error prone activity.

- ✓ There is a two-to-twenty day delay between the final ledger closing and the issuance of your complete month-end reports.

We recommend using the VMG/AAHA Veterinary Practice Chart of Accounts for the following reasons:

- ✓ It promotes consistency and accuracy for your practice's financial comparison to itself as the years go by.

- ✓ It promotes consistency for comparative measurement purposes within the veterinary profession as a whole.

- ✓ It encourages practice administrators to become familiar with the underlying structure of practice financial statements based on correct bookkeeper coding and classification.

- ✓ It forms the framework for organizing practice financial data of all sources.

- ✓ Its use results in reports that give administrators a better grasp of the practice's current financial status and the ramification of business decisions made.

- ✓ It enhances practice internal control systems through support of double-entry accounting methods with affordable off-the-shelf software.

- ✓ It reflects the practice's economic health by organizing, measuring and quantifying information that can then be readily compared with other practices.

- ✓ It results in historically reliable reports that enhance quantification of practice value during appraisal for succession purposes, buy-in, practice sale and purchase.

- ✓ It is an essential practice system component that reassures outside third parties about management's attention to sound business methods, financial record reliability, and long-term economic stability.

- ✓ It helps managers make better use of practice budgets and forecasts, by building estimates of future activity based on reliable reports of past results.

- ✓ It supports data accumulation leading to efficient creation of a large number of essential reports, including summarization for tax reporting purposes.

- ✓ It provides for detailed analysis of financial activity or very broad assessments, depending on intended user need. For example, improved tax return disclosure through increased detail appears to decrease compliance audits by government agencies.

Chapter 3

How Practice Financial Information is organized through a Chart of Accounts

The system of bookkeeping by double entry is, perhaps, the most beautiful one in the wide domain of literature or science. Were it less common, it would be the admiration of the learned world.

- Edwin T. Freedley

Management Report Organization Parallels the VMG/AAHA COA

Every business uses a chart of accounts (in some form) that ultimately results in classic business financial reports, commonly known as financial statements. The two most common financial reports used by veterinary practice managers are:

- ✓ The Statement of Assets, Liabilities, and Owner's Equity (also commonly referred to as the Balance Sheet[1])
- ✓ The Statement of Revenues and Expenses (commonly called the Profit and Loss Report or, abbreviated, the P & L)

In parallel with these two reports, the chart of accounts always lists the account titles in the following order of major transaction categories:

- ✓ *Assets*
- ✓ *Liabilities*
- ✓ *Equity*

Balance Sheet Accounts

[1] In this publication, we chose to use financial report names as commonly used in small business, including veterinary practice. The accounting profession uses very explicit language to describe and title various financial reports. Rules and regulations dictate the exact report name and each name has a very specific meaning to financial report users. The explanation of naming conventions spans beyond the purpose of this publication. For additional explanation, refer to an intermediate accounting textbook.

- ✓ *Revenues*
- ✓ *Expenses*

Profit and Loss Report Accounts

The Balance Sheet

Every veterinary practice has assets, liabilities and equity (equity is sometimes called "net worth"). Various types of property the practice owns are known as assets. Liabilities describe practice obligations owed to outside parties.

The difference between assets and liabilities is the amount of owners' equity (or, owners' capital). Thus at any particular point in time, the balance sheet is always "in balance" with the sum of owners' equity plus liabilities equal to assets.

Practice Assets = Practice Liabilities + Owners' Equity

Or, rearranged algebraically,

Practice Assets - Practice Liabilities = Owners' Equity

The Profit and Loss Report

> A man with a surplus can control circumstances, but a man without a surplus is controlled by them, and often has no opportunity to exercise judgment.
> *- Harvey Samuel Firestone (December 20, 1868 - February 7, 1938)*

The profit and loss report presents total current period income (revenues) less the expenditures made to generate that income. In a pure economic accounting world, without consideration of tax issues, only the exact expenses required to produce the income on a particular day or during a particular calendar quarter would be recorded.

The total amount of revenues minus the total matching amount of expenses determines profit or loss. If revenues are more than the expenses, then profit results. If revenues are less than the expenses, then the practice shows a loss.

What if the practice invested a large sum of money or took a loan to purchase a digital x-ray system? How would you match the expense of the equipment to the revenue that will be produced by it over many financial periods?

An estimate of the useful life of the equipment is made, and a small portion of its value is expensed in each financial period. For example if the equipment is estimated to have an economic life of five years, then one-sixtieth of the purchase price would be expensed each month to record a portion of the equipment value as a reduction to revenue, and thus is included in the profit calculation.

The annual profit and loss report presents total revenues less total expenses for the practice's fiscal year, usually the same as the calendar year. As the practice enters a new fiscal year, say January 1st, the sum total of the prior year's revenues and expenses are recorded as an increase or decrease to the owners' equity in the practice.

If the practice has profit, owners' equity increases by the same amount. If the practice has a loss, owners' equity decreases.

Last Year Owners' Equity + Profit = This Year's Owner Equity

As this recorded increase or decrease to owners' equity occurs, all of the revenue and expense account balances from the prior fiscal year reduce to zero. With each passing day of the new fiscal year, revenues and expenses accumulate again in their various accounts, resulting in a new picture of profit or loss.

- ✓ Profit is crucial to practice longevity.
- ✓ Profit replenishes the supplies used.
- ✓ Profit lets you plan for contingencies.
- ✓ Profit leads to adequate reserves when equipment suddenly breaks and must be replaced.
- ✓ Profit allows more compensation for those deserving through effort.

Every practice should plan for profit, to have plenty of options. Management should think ahead and be proactive rather than reactive. How else can clients know the practice's veterinarians will be there when they need them, that their pets will have care?

Revenues – Expenses = Profit (or Loss)

The practice depletes its assets through daily use and coverts them to expenses to match the produced revenues. The practice incurs liabilities to acquire additional assets to replenish practice needs for fueling the economic cycle.

Here is how the **accounting equation** variations look together, over any particular accounting period:

Assets – Liabilities = Equity + Profit
Assets – Liabilities = Equity + (Revenues – Expenses)

The VMG/AAHA COA: A Foundation for Accurate Reports

The VMG/AAHA COA organizes each of the elements in the accounting equation that ultimately results in useful, meaningful financial management reports for easy data submission in group activities, such as the VMG online data collection and benchmarking tool, DATALINK.

Assets lead the chart, followed by liabilities, then equity accounts, and then revenue and expense accounts. In each of the asset and liabilities categories, accounts are organized from most liquid to least liquid.

Liquidity describes how quickly an asset converts to cash or a liability will come due. Inventory assets are more liquid than professional equipment. The liability vendor accounts payable will require cash more quickly than a promissory note paid in periodic payments over many years.

Each account listing on the chart of accounts is numbered. From a practical standpoint, numbered accounts are efficient. Bookkeepers quickly memorize the accounts they use most frequently, such as surgical supplies or laboratory referral expense, and use the number to code vendor invoices and other transactions before posting them to the electronic ledger.

Assets – VMG/AAHA COA Numbers 1000 through 2999

The **1000** and **2000** series present the asset classes, from most liquid to least. The 1000 series mostly includes cash accounts, cash equivalents, accounts receivable, inventory on hand, and prepaid expenses.

The **2000** series starts with the fixed asset accounts. Fixed assets include equipment and other durable property that will be used in the production of income over many fiscal periods. Shorter lived fixed assets are listed first. Longer lived assets, such as buildings, are listed later. Intangible property, such as computer software licenses and purchased goodwill, are included in the 2000 series.

Liabilities – VMG/AAHA COA Numbers 3000 through 3999

The **3000** series reflects all of the liabilities potentially incurred by the veterinary practice. The lower numbers in the **3000** sequence represent financial obligations quickly coming due. The later numbers in the sequence are assigned to long-term liabilities, debt that will be repaid over more than a single year's time. The current portions of long-term debt are listed in the midrange **3000** sequence.

Equity – VMG/AAHA COA Numbers4000 through 4999

The **4000** series of the VMG/AAHA COA reflects equity. Equity is measured in terms of common stock, paid in capital, cumulative undistributed earnings (retained earnings) or cumulative losses (accumulated losses or deficit), and stock re-acquired in treasury known as treasury shares. Equity reductions occur through draws**,** distributions, and dividends.

Equity accounts are named according to the practice's chosen type of legal organizational structure: Corporation, Partnership, Proprietorship, Limited Liability Company, etc. The VMG/AAHA COA allows bookkeeper modification of equity account names, to conform to practice needs.

Revenues – VMG/AAHA COA Numbers 5000 through 5999

The **5000** series of the VMG/AAHA COA organizes all accounts reflecting operating income streams: fee revenues from services and revenues from the sale of product. Miscellaneous sources of non-operating income, such as revenues from royalties, refunds, rebates, etc. are classed in later account numbers. The **5000** series captures revenues associated exclusively with the practice of veterinary medicine and ongoing related ancillary services and product sales.

Expenses – VMG/AAHA COA Numbers 6000 through 8999

The **6000** series of the VMG/AAHA COA reflects the direct costs: the truly consumed and expended portion of drug and professional supply inventory used up in patient care, laboratory costs, mortuary costs, and other costs directly related to the provision of patient care.

The **7000 through 8000** series encompass all costs of labor, general overhead, and facility costs known as General and Administrative Expenses.

A general and administrative expense is an asset outlay resulting in overall benefit for the entire practice, not for a specific production revenue stream such as surgery services or radiology services. For example, yellow page advertising and receptionist wages are administrative expenses. Facility maintenance and repair expenses are general in nature.

The first third of 7000 accounts list various employee wage and salary categories and related employment costs. All wages and salaries, regardless of job title, are included in general and administrative expenses.

In traditional cost accounting, the costs of employees involved in making an assembly-line product are assigned to each product to determine its profit contribution to the company. The costs related to employees who provide administrative and office skills to the company are pooled and divided among all the items made during a specific period, as overhead cost.

Veterinary practice is much different from manufacturing. Any single employee more often than not contributes to many practice activities. The associate doctor provides more than professional service in the form of patient treatment. The associate may supervise and coordinate the work of technicians, be involved in scheduling, marketing, teaching and training employees, assisting and learning from a senior doctor, and so forth. Similarly, receptionists, technicians, and other staff contribute efforts that span beyond the exclusive provision of animal care services.

The VMG/AAHA Companion Animal Practice Chart of Accounts organizes labor-related accounts, with emphasis on a general contribution basis, rather than assigning labor costs to a particular revenue stream or origin. Since most employees' time crosses between various patient services and to administrative tasks and back again, assigning all wages to the general and administrative cost pool is a workable solution for individual practice accounting and analysis, as well as between practices.

Larger practices will likely evaluate labor costs relative to revenue streams to better gauge efficiency and profitability of various departments, such as surgery, internal medicine, and other specialties or special-interests. Use of departmental accounting can provide necessary analytics in these more complex, larger practices with narrowed job functions by each employee.

Other general and administrative expenses that support the complete health of the practice include office supply costs, postage, repair and maintenance costs, telephone, utilities, rent, continuing education costs, bank charges, real estate rental, and accounting services.

The VMG/AAHA COA structure optimizes its usefulness to the entire profession, to create databases of multiple practice results that have the greatest value to the largest number of participants.

Other Revenues and Expenses – VMG/AAHA COA Numbers 9000 through 9999

The **9000** series has limited use for recording non-operating revenues and expenses, corporate income taxes and infrequent or extraordinary transactions. The **9000 series** includes accounts for interest revenues, interest expense, insurance proceeds from casualty losses, and infrequent extraordinary items such as a gain or loss on the sale of practice property, like used vehicles and professional equipment retirement.

In summary, the VMG/AAHA COA general category numbers are:

1000 Assets
3000 Liabilities
4000 Owners' or Stockholders' Equity
5000 Revenues from Operations
6000 Cost of Professional Services
7000 General and Administrative Expenses
9000 Other Revenues and Expenses

Chapter 4

The VMG/AAHA Chart of Accounts for Companion Animal Practice:

Account Definitions

BALANCE SHEET ACCOUNTS

ASSETS

Asset categories represent all practice resources, measurable in monetary terms. The practice owns these resources, and uses them to provide veterinary professional services and make ancillary sales, such as dispensed pharmacy product, for a profit. Profit then becomes new surplus earnings available for reinvestment in more practice assets to provide more services.

In the simplest of terms, assets are what the practice owns. In the simplest context, “it takes money to make money”.

Asset Account Series 1000 through 2999

These accounts fall into three series:

1000 – 1999 Current Assets
2000 – 2499 Fixed Assets
2500 – 2999 Other Assets

Current Assets Account Series 1000 - 1999

During a single operating cycle (one year), the practice reasonably expects to convert assets to cash, sell them, or use them up. These quickly depleted assets are called current assets**.**

Current assets generally include cash and cash equivalents, accounts receivable, pharmacy inventories and professional supplies, and prepaid items benefiting the immediate future economic period.

1010 Petty Cash

Petty cash is the amount of ready cash that the practice keeps available on premises for incidental needs. Examples of petty cash uses include reimbursement to employees for out-of-pocket purchases of office supplies and postage.

The correct way to handle petty cash is to establish a petty cash fund. A single employee takes responsibility for the fund, as its "Banker". When an emergency purchase is required, an employee asks the practice's Petty Cash Banker for money. After making the purchase, the employee promptly returns the purchase receipt and correct change to the banker.

The Banker's petty cash fund is always in balance: total cash plus total receipts at any given time equals the imprest amount, specifically, the original petty cash starting amount. Typical imprest petty cash fund amounts are $100, $200 or $300, depending on the veterinary practice's size and extent of company credit card use as a substitute for petty cash funds.

Example: The petty cash fund amount of $100 is approved by management.

1. *To establish the petty cash account, the practice's treasurer writes a $100 check to the designated Petty Cash Banker. The Banker cashes the check and puts the cash in a petty cash box. The Banker is responsible for the box's security.*

2. *A doctor needs duct tape and permanent markers. The Petty Cash Banker gives a technician $20 to purchase the items. The Banker prepares a voucher for $20, which the tech signs.*

3. *The tech makes the purchases for $7.98 and returns the receipt and change to the Banker. The Banker returns the receipt and change to the petty cash box.*

4. *The petty cash box now contains $92.02 in cash and $7.98 in receipts.*

5. *The petty cash box contains the equivalent of $100.00 at all times.*

6. *When cash runs low, the Petty Cash Banker submits an accounting of all the receipts in the box to the bookkeeper. The bookkeeper writes a check to the Banker for the total of the submitted receipts. The treasurer signs it.*

7. *After the Banker cashes the check, the petty cash box again contains exactly $100.00 in cash.*

8. *The bookkeeper codes the replenishment check according to the expenditures made. Say the Banker submitted receipts for $55.50 of postage and $26.20 for miscellaneous hospital supplies, including the duct tape and markers. The bookkeeper writes the Banker a check for $81.70, and of it, the bookkeeper codes $55.50 as postage expense and $26.20 of it as hospital supplies.*

9. *The bookkeeper only records the initial check of $100.00 to the petty cash account. The bookkeeper writes all subsequent checks in amounts that will replenish petty cash to a total of $100.00 exactly, with the amount coded to the expense accounts the petty cash supplied.*

10. *When the practice treasurer decides the Banker requires a greater amount of petty cash funds (replenishment needs to occur greater than once per month), the treasurer writes a check to the Banker to increase the amount, say by $100. The bookkeeper codes the check to petty cash. The Banker cashes the check and deposits the funds to her box. Now the total amount in the box and on the books in account #1010 equals $200.00.*

1020 Cash in Daily Drawer

The cash drawer represents the amount of cash on hand to provide change to clients, who are making cash purchases of services and retail items, or are settling the balances of their accounts. Like the petty cash account, this account should maintain a fixed balance. The practice cashier reconciles the account at each day's end. The bank deposit includes all cash in excess of the fixed drawer amount. This bank deposit amount should exactly equal the cash receipts the cashier collected through the day.

Tip: High traffic practices may have several cashiers on shift at the same time. If so, assign each cashier a separate cash drawer that becomes his sole responsibility to balance at his shift's end.

1030 Undeposited Funds

The Undeposited Funds account records client payments and other receipts on premises or otherwise under practice control, and not yet deposited to the bank. At the business day's close, the bookkeeper reduces the account by the payments included in the bank deposit.

Tip: Make bank deposits every day, without exception. The total daily bank deposits should equal the grand total collection amount as reported through the practice management software. Most practices will not show a balance in this account.

1050 Primary Checking Account

The chief operating bank account used for daily fee collection deposits and for paying bills.

Tip 1: This account should always be promptly reconciled as soon as the end-of-month bank statement is available. A proficient bookkeeper who has limited rights to download account activity from the bank's internet portal will be able to turn around a complete reconciliation on the first work day of the subsequent month.

Tip 2: The practice's treasurer (an officer who is usually an owner and who is not also functioning as the bookkeeper) should always receive the unopened bank statement and cancelled checks to review before giving the statement to the bookkeeper for account reconciliation. Otherwise, the treasurer can log into the bank's internet portal and retrieve these records and review them.

Tip 3: With digital technology, ALL records are easy to alter in undetectable ways. Practice officers should be diligent in maintaining protocols that assure they obtain and review original, vital practice documentation that has not passed through personnel who might disguise malfeasance through record tampering.

1060 Secondary Checking Account

Many practices maintain more than one checking account, such as an account for payroll or an account that reflects the activity of a second practice location.

Assign each checking account its own chronologic number in the VMG/AAHA COA.

Tip 1: Treasurers of larger practices may maintain accounts in several regulated institutions so as not to exceed FDIC insured limits per depositor (permanently set at $250,000, beginning in 2014).

Tip 2: Practices that use PayPal as a means for client remittance of outstanding balances owed to the practice and/or for internet pharmacy sales, should set up an account in the COA that is routinely reconciled like any bank account. PayPal accounts are comparable to a checking account, although not FDIC insured. Set up protocols to transfer PayPal funds to the practice's primary checking account on a regular basis.

1150 Savings Account

In general, a practice savings account serves as an interest-bearing repository of reserve funds for working-capital requirements or for planned investments or commitments such as employee retirement funding.

> *Tip: A good rule of thumb for average daily working capital requirements is 1.5% of annual gross revenues. For example, a practice grossing $1 million dollars would require an average daily bank balance of $15,000 to meet its obligations as they come due, such as biweekly payroll.*

1200 Certificates of Deposit

Record investments in certificate of deposits to this account. Interest earned on investments will be recorded in the 9020 account for interest revenues either at the time the interest is received (cash basis accounting) or when the right to it is earned (accrual basis accounting).

1250 Money Market Account

Either a commercial bank's account or a brokerage-held account, a practice money market account provides another interest-bearing option for reserving funds to meet working capital needs or for future practice commitments.

1300 Accounts Receivable

The account used for recording client-owed amounts for veterinary services and ancillary purchases. A "control account", Accounts Receivable summates individual client account balances maintained in a subsidiary ledger. Although all practices maintain the accounts receivable subsidiary ledger to monitor and collect outstanding amounts owed by clients, only accrual-based financial statements formally disclose the total accounts receivable balance in the balance sheet report.

> *Tip 1: The subsidiary accounts receivable ledger is automated through the practice production software (veterinary practice information management software, or VPIMS). Client payments in full are generally applied at time of service as client invoices are closed, with no receivable balance resulting. If the invoice is only paid in part or not at all, a client balance is maintained in the VPIMS until the time the client makes remittance and payment is applied to bring the balance to zero, including any finance or other charges that have accrued.*

> *Tip 2: If clients make deposits for future services, such as when hospitalizing a pet for extensive care or surgery, the accounts receivable balance for that client will carry a credit balance, until the point invoiced services occur. At least annually, the credit balances*

should be examined to determine if refund should be made of unused amounts. There is usually a legal requirement for practices to send "Unclaimed" client funds to the state government.

Tip 3: Practice wellness/pre-paid plans often provide a package of services that clients pay through a set monthly amount. Design a monthly process for how these services and payments are recognized and recorded in the VPIMS, and the general ledger entries required to reconcile the VPIMS subsidiary records to the general ledger. The timing of services contracted, services given, and payments received will all be different, so wellness/pre-paid plans do put an extra burden on the bookkeeper to record earned income, client-paid income, and client credit balances correctly, into the right financial periods.

Tip 4: At least once a month, the practice bookkeeper should reconcile the total client accounts receivable balance, fees charged and fees collected as reported in the VPIMS against fees as reported in the bookkeeping software.

1301 Accounts Receivable – Wellness/Pre-Paid Plans

This is an account used for recording billed client-owed amounts for wellness/pre-paid plans.

1305 Allowance for Uncollectable Accounts

This is a contra asset account associated with accounts receivable. This account will maintain a credit balance and should be used when anticipating a portion of the accounts receivable will be uncollectible in the future**.**

1350 Drugs and Medical Supply Inventory

For VMG DATALINK purposes, inventory value should be a reasonable approximation of drugs on hand (at acquisition cost) at quarterly reporting dates, including partial packages. Exact counts and value are not mandatory; however, from an internal control perspective, it is reasonable to expect that well-run veterinary practices will have a good approximation of high value pharmacy items, counts of what is on hand and correlating cost via a regularly maintained VPIMS system. Typically, practices do not include white goods in the inventory value.

You may need to adjust your inventory cost if you are entering the cost as list price rather than discounted price for markup purposes which is the optimum system for recording cost of products in your VPIMS.

VMG strongly recommends practices enter inventory received at list price rather than discounted price. This will enable the practice to utilize the markup module within the software to maintain a constant markup when list prices change.

However, when the practice's software determines inventory on hand it will calculate the inventory at the values entered (list price) which will inflate the value of the practice's actual inventory cost reported in the software report. Unless the practice is using the intelligent inventory module which allows the practice to track both actual discounted cost and list price there is no way to know true inventory cost from the software. The practice's actual cost of inventory will be inflated 5 to 10% more than actual acquisition cost. It is OK to report inventory for DATALINK at the list price cost as reported in the practices software.

The main need to have actual acquisition cost would be to report on the practice's annual property or income tax returns and the financial statements for the value of inventory and direct costs.

For larger complex practices, the Chief Financial Officer may direct advanced accounting of inventory into segregated subcategories, such as dispensing pharmacy inventory, surgery supply inventory, and so forth.

> *Tip 1: The practice production software (VPIMS) can and should function as an effective inventory subsidiary account for departmental inventories, without the bookkeeper having to resort to redundant and more detailed accounting through QuickBooks® or other general ledger software. Of course, reliance on the practice-management-software inventory module requires established practice systems for maintaining it, usually overseen by the employee designated and trained as purchasing agent.*

> *Tip 2: Some practice administrators may opt to account for inventories in addition to drugs and medical supplies in their general ledger. Additional inventory accounts, such as pet products held for retail and non-medical supplies like dietary product can be set up using consecutive account numbers (1351, 1352, etc.) if desired.*

> *Tip 3: Generally, supplies related to administrative and overhead needs, such as office supplies, printing supplies, and janitorial supplies are not included in inventory. Rather, the bookkeeper immediately writes off such items by classing their purchase to the related expense account.*

1400 Employee Advances

From time to time, the practice may make advances to employees, most often as very short-term loans against future wages. The employee generally repays the advances by authorizing the practice to deduct the owed amounts from the employee's future paycheck(s).

The bookkeeper codes the original check for the advance to this account. In the future, the amount is withheld from the employee's paycheck. The bookkeeper classes the withholding as an offsetting entry to this account, resulting in a zero account balance for the employee. If the practice policy allows employee advances, this account becomes the control account for a subsidiary ledger of all employee advances and re-payments.

> *Tip 1: Check the practice's employee handbook for employee-advance policy. Many practices will not provide employee advances in part because of the cost for tracking amounts owed and repaid.*
>
> *Tip 2: When employee advances will be repaid through withholding, obtain the employee's permission and agreement in writing.*
>
> *Tip 3: See account 1590 for information about amounts loaned that are larger than simple advances on pay, and that should be documented as a promissory note.*

1450 Advances – Related Party

This account is used to record episodic and quickly repaid personal expenditures made on behalf of officers or owners of the practice. Typical occurrences involve personal use of a company credit card. While personal expenditures should generally not occur through use of company accounts, the nature of small business is such that they will happen from time to time. Bookkeepers use this account to track such transactions. Repayment can be made through payroll withholding or principal reimbursement to the company.

1500 Note Receivable – Related Party

Notes receivable usually reflect an interest-bearing loan of a large money amount or sale of valuable company property to an individual, with the requirement for repayment of the amount or value. If the terms of the loan provide for repayment to the practice over a period of longer than one year, then the portion to be repaid in greater than twelve months' time is recorded in account 2600 Long Term Portion of Notes Receivable.

Account 1500 is explicitly reserved for amounts loaned to individuals who are related to the practice through ownership rights or through fiduciary responsibility, such as a director or officer.

> *Tip 1: If several individuals owe money to the practice, consider establishing consecutive account numbers, so that each loan has its own account, such as account 1501, 1502, etc.*

Tip 2: If the cumulative amount of loans between the practice and an individual equals or exceeds $10,000, a fair interest rate must be applied to compute and charge interest. The law prohibits interest-free loans whenever the total of all loans between the practice and an individual meet the $10,000 mark.

Tip 3: Carefully document and execute all transactions between related parties, where ownership rights and other relationship factors potentially cloud the nature of the transactions. Establish signed promissory notes, loan amortization schedules for loan repayment, and for large amounts, consider taking a security interest in personally-owned assets and filing the interest with the local governmental office, usually the County Recorder's Office.

1590 Note Receivable – Other

Like account 1500, this account carries amounts owed to the practice, usually by non-owner employees. Occasionally, it will also include client-signed promissory notes made to the practice when the client has renegotiated large, outstanding accounts-receivable amounts for documented re-payment over time.

Tip 1: Establish separate Note Receivable account numbers in the VMG/AAHA COA for each person who owes the practice money through a documented note.

Tip 2: Establish signed promissory notes, amortization schedules for loan repayment, and for large amounts, consider taking a security interest in personally-owned assets and filing the interest with the local governmental office, usually the county recorder's office. Work with the practice's accountant and attorney to assure all necessary steps are taken to protect the practice's rights to collection and to secure non-collectible debt write-off if non-collection occurs.

1600 Prepaid Expenses

The bookkeeper can code as prepaid expenses any payments that reflect the acquisition of services that the practice will use in a future financial period. In the financial period of their use, the bookkeeper adjusts prepaid amounts as expenses and reduces the asset value of the prepaid expense account. Some examples of prepaid expenses are airline tickets and convention registration purchased for a continuing education event scheduled some months in the future;
professional dues and membership payments for a future membership period; and service contracts that cover one or several years of future financial periods.

Tip 1: Tax rules generally allow cash-basis veterinary practices to expense such payments when they are made, even though they benefit the immediate-future financial period; however, these rules can be complex, requiring evaluation of the facts and length of time the future expense covers to determine whether capitalization is necessary.

Tip 2: Talk with the practice's CPA to determine best bookkeeping methodology for recording expenses that may be deemed prepaid. Some practices choose to record all potential prepaid expenses to expense accounts. The practice's accountant may then make periodic adjustments to properly record prepaid expenses.

Include in this account prepaid insurance premiums. Insurance contracts often cover a full twelve month period, or longer. The bookkeeper tracks the portion of the contract that provides risk coverage in a future financial period by classing the correlating premium cost to this account. The prepaid insurance account includes the allocated premium cost of all insurance policy types: vehicle, professional liability, group medical, business property and casualty, and any other insurance types purchased.

At the end of each financial period, the bookkeeper adjusts the expired portion of prepaid premium, by expensing it to the appropriate insurance expense accounts. After the adjustment, the remaining premium cost recorded in this account reflects the unexpired portion of all prepaid insurance contracts.

Tip 1: Non-payment of premiums puts the practice and employees at risk. For example, a lapse of health coverage would present significant employee liability problems. The practice's board of directors should regularly inspect documents and cancelled checks for proof of premium payment and in-force insurance contracts.

Tip 2: Talk with the practice's CPA to determine best bookkeeping methodology for recording insurance premiums that may be deemed prepaid. Some practices choose to record all potential prepaid insurance premiums to expense accounts. The practice's accountant may then make periodic adjustments to properly record the prepaid portions.

Include in this account prepaid rent. Rent is the fee paid for the practice's use of property owned by others. When the practice makes payment for use of property that will occur in a future financial period, the bookkeeper classes the payment as prepaid rent. At the end of each financial period, the bookkeeper adjusts the expired portion of prepaid rent as rent expense; thus, the financial period's revenues match with the rent expense reflecting use of property to facilitate those revenues' generation.

Include in this account prepaid federal income tax. Only veterinary practice entities that are subject to federal income tax will use this account. Generally, only practices operating as Subchapter C corporations (C-Corp) or Personal Service Corporations (PSC) will use the Prepaid Federal Income Tax account, and, occasionally, a C-Corp or PSC that the IRS has granted permission to use the Subchapter S entity designation. The account records the portion of federal income tax that will be assessed on a future financial period's taxable profit.

Tip 1: This account is not used for any payroll tax amounts.

Tip 2: Federal income tax payments such as scheduled quarterly payments related to practice owner taxes should be paid personally by the respective owner. Proprietorships or single member limited liability companies should record such payment as draws if made directly by the practice; however, it is strongly recommended that the owner take a draw and then pay the tax amount by personal check.

Include in this account prepaid state income and/or franchise tax. Only veterinary practices with business entity structures requiring payment of state income taxes use the Prepaid State Income Tax account. The account records the portion of state income tax that will be assessed on taxable profit produced in a future financial period.

Some states require a franchise tax payment of veterinary practices, which may or may not be linked to profit or income.

Tip 1: This account is not used for any payroll tax amounts.

Tip 2: State income tax payments such as scheduled quarterly payments related to practice owner taxes should be paid personally by the respective owner. Proprietorships or single member limited liability companies should record such payment as draws if made directly by the practice; however, it is strongly recommended that the owner take a draw and then pay the tax amount by personal check.

Include in this account Prepaid Local Income Tax

Like prepaid state income tax, the Prepaid Local Income Tax account will only be used by veterinary practices which are subject to city, local, or regional tax.

1800 Deposits for New Equipment

Record in this account any down payments made for equipment orders and similar assets that will be received and put in service at a future date.

Tip: Equipment and other capital assets cannot be depreciated until they are put into service (that is, are installed, operational and in practice use) for the production of revenues. Adequately plan the timing of orders placed for computer systems and other equipment that will require installation time or that might be backordered, so that expected deductions for depreciation are available in the targeted tax year.

1850 Construction in Progress

When the practice is renovating or expanding facility or constructing other capital assets that have not yet been put into service, payments made for the ongoing construction project are coded here. Once the project is complete, and all costs have been accumulated, the total is reclassed to the appropriate fixed asset accounts with adequately detailed descriptions. When the building or constructed asset is put in service, depreciation can begin.

Tip 1: The practice should only pay for projects for which it will eventually own. If the practice leases real estate, careful planning of loans and payment is crucial. The real estate owner should likely pay for major real estate renovation, not the practice. Discuss options with the practice's accountant before finalizing any loan documents or decisions about who will pay for significant projects so you can account for them correctly at the very inception and through the correct business entity, and obtain the appropriate ownership and tax outcomes desired.

Tip 2: Detailed records of construction projects help support detailed property schedules, including determination of the tax class lives of different project components. When planning a large project, talk with your accountant about the possible benefits of a cost segregation study based on detailed records.

Fixed Asset Account Series 2000 through 2499

Fixed Assets

Fixed assets represent the practice's tangible economic resources with a useful life expectancy greater than one year. Fixed assets include equipment, furniture, buildings, building improvements, land improvements, and land. The fixed asset accounts are sequentially organized starting with the most short-lived property to that property that has a long useful life. Land is the last such-listed account, in that it theoretically possesses perpetual life.

With guidance of the practice's engaged accountant and current tax regulations, the practice board of directors/owners should establish a written capitalization policy, which effectively guides the decision of whether to expense a small value capital asset immediately as a supply, or to capitalize it as a practice asset subject to depreciation. The capitalization policy should include all fixed asset categories.

Currently issued IRS regulations do require a written policy. A starting point for discussion and understanding the facts and circumstances of the specific practice might be five hundred dollars or so. Again, practice ownership should have the discussion with the tax accountant to determine the policy to put in writing.

In addition, the practice owners should consider how to keep appropriate records of fixed assets. Typically this is done through detailed schedules of fixed asset acquisition for depreciation and tax purposes, generally maintained by the tax accountant for the practice. When capital assets are expensed as acquired, little record of them remains other than physical presence in the practice.

The sum total fixed assets bought piece-meal (such as surgical instrumentation and small office equipment items) and expensed over many years can be significant and represent high value. This can be an important consideration when equity interests are transacted or the practice is marketed for sale. Detailed lists of ALL fixed assets can be important information.

2000 Professional Medical Equipment

The acquisition costs of all medical, surgical, and diagnostic equipment used for service provision and revenue generation are included in this account. Examples include autoclaves and sterilization equipment; surgery and anesthetic equipment; X-ray machines and other imaging equipment such as ultrasound machines; microscopes and bench laboratory machines; and any other type of medical, patient-support, or monitoring equipment. Any item of equipment to which the practice has title or realistically will have title through acquisition contract terms should be listed in this account.

Tip 1: Many practices acquire professional equipment through purchase-lease agreements, otherwise known as capital leases. *Accounting for equipment acquired for use through a purchase lease requires the value of the equipment be booked as a fixed asset (professional equipment would be coded to account 2000) and depreciated just as for equipment purchased outright with company funds or with a bank loan. To record the leased equipment, an equal and opposite credit entry must be made to the liability accounts for Capital Lease Obligations.*

Tip 2: Ask your accountant to provide a journal entry that you can enter every month to estimate the write off through depreciation each of the fixed asset accounts. At the last financial period, your accountant will adjust all depreciation- and amortization-related accounts to the correct year-end balances

2050 Computer Hardware

Record all purchased computer equipment in this account, including electronic office equipment such as electronic cash registers, computer peripheral equipment, modems, surge protectors, computer cabling, servers, video monitors, printers, fax machines and network copiers. As the practice takes computer equipment out of service (often due to obsolescence as much as to breakage), it should also dispose of and remove the equipment from the accounting records.

Tip: Until the practice physically disposes of equipment of any kind, it cannot remove the equipment from the accounting records. If the equipment has not yet been fully expensed, the practice normally will write off the equipment and realize a deductible loss on the undepreciated cost of the asset. In a few states, the practice is taxed on equipment that is still owned, even though it is out of service. Bottom line: get rid of equipment that will no longer be used: sell it on the Internet, donate it to a charity, or recycle it.

2100 Office Equipment, Furniture & Fixtures

This fixed asset account includes all non-computer office equipment acquisitions, such as phone systems, calculators, photocopiers (not computer-networked), typewriters, paper-shredders, and similar equipment. The account also includes office furnishings such as desks, filing cabinets, chairs, waiting room furniture, decor, lockers, bookcases, movable lighting fixtures, signs, and other appurtenances not permanently affixed and integral features of the building.

Tip: Increasingly, technologic upgrades are blurring the lines between computer and office equipment. When does a photocopier turn into computer equipment because it also serves as a network fax and printer? Telephony already integrates with computer equipment *through voice-over-internet technology, eliminating the need for long distance service and eventually, stand-alone telephone systems. The practice owners working with the accountant should create guidance about what equipment is classed in which account. To a great extent, regulations defining tax depreciation guide the decision. This VMG/AAHA COA has been written to group assets, reflecting current class life guidelines for tax depreciation purposes.*

2150 Practice Vehicles and Related Equipment

Vehicles owned by and titled to the practice are coded in this account, and in general are used in the production of veterinary revenue (patient transport, house calls, business errands and travel). Debatable issues affecting appropriate accounting for leased vehicles dictate you seek the practice accountant's input and advice so that regulatory compliance occurs.

Additionally, vehicles used in companion animal practice may have mixed use for personal use and commuting, as well as for the purposes of conducting veterinary business. Once business use (which does NOT include commuting) falls below 50%, special rules apply to depreciation.

The rules for vehicles, which are known for tax regulations as "Listed Assets", are very complex. Practice owners should discuss any new vehicle acquisition with the engaged tax accountant to determine, based on the unique facts and circumstances of the vehicle's portended use, the best way to purchase and title the vehicle. If it is determined personal ownership is best, then practice reimbursement of all documented *bona fide* business use is an excellent way to gain valid tax deductions, and reimburse the vehicle owner for gas, insurance and general wear and tear.

2200 Leasehold/Building Improvements

Code building construction projects that upgrade and/or extend the useful life of practice-occupied buildings in this account. Integral, stationary, and permanently affixed parts of the facility, building improvements increase its value and usefulness. Improvements include renovations, additions, permanent upgrades, new roofs, and new floors. Capitalize major repairs, which add significant facility value or life expectancy, for inclusion in this account.

Tip 1: Modify the account title to match real estate ownership rights. If the veterinary practice leases buildings and land, then this account is correctly titled "Leasehold Improvements". Less commonly, the veterinary practice owns the real estate; in this case, the correct account title is "Building Improvements".

Tip 2: All costs associated with readying an asset for its full-intended use as a means to producing veterinary revenues, should be included in the total recorded cost of the asset.

If practice employees build out a new treatment area, all of their wages and payroll taxes associated with construction duties are added to the costs of building materials and of any outside labor, to derive the correct total cost of building improvements, then listed in the records and subject to depreciation. This rule applies to all of the other fixed asset accounts previously listed; thus sales tax, shipping costs, labor for equipment installation, and any other costs of readying the purchased equipment for its full intended use in the practice are all added to the amount paid to the vendor for the equipment.

2300 Buildings

When the veterinary practice owns real property, it owns the buildings that are part of its rights in real property use. Record any costs of buildings to which the practice holds ownership title in this account.

Tip: Real estate holdings include both wasting and non-wasting assets. Wasting assets are used up over time. A building is a wasting asset; without regular maintenance and care, a building eventually becomes uninhabitable. Land is a non-wasting asset. In general, it requires nothing to maintain and may have increased value over time. When purchasing real estate, either by the practice or in a separate entity that will lease the real estate to the practice, it is very important to establish the value of wasting assets (different buildings and structures) separate and distinct from portion of purchase price attributable to non-wasting assets (land). Wasting assets can be depreciated (a small deduction allowed each year); non-wasting assets cannot be depreciated.

2350 Land Improvements

Improvements made to land owned or leased by the practice, which includes such enhancements as driveways, sidewalks, landscaping, storm drainage, utilities, and septic systems.

2400 Land

Record in this account the cost of any land purchased by the practice, to which it takes title (an estate in real property). As a non-wasting asset, land is not depreciated. As such, no accumulated depreciation account exists for this fixed asset.

2450 Accumulated Depreciation

Depreciation is an accounting technique that records the appropriate expense allocation in the period the fixed asset was used to generate practice revenues. Depreciation methods estimate and record the reduction in the useful value of fixed assets due to normal wear and tear, passage of time, and technologic obsolescence. At the end of the equipment's estimated economic life, the asset should theoretically be ready for retirement and replacement with new equipment of like use.

With the passage of each financial period, the bookkeeper adjusts the estimated portion of the equipment that has been used up. To make the adjustment, the bookkeeper credits the accumulated depreciation account and debits Depreciation Expense (account 8000). The Accumulated Depreciation account expresses the sum total amount of depreciation adjustments that have been booked to date.

> *Tip 1: From a pure accounting perspective, depreciation represents the practice's very best estimate of how quickly it will use up the equipment and replace it. In reality, most practice bookkeepers record tax depreciation, which is the depreciation allowance defined by current tax law. In order to stimulate economic re-investment, Congress has set depreciation rules that provide for very rapid write off of equipment. Since a veterinary practice can immediately deduct most, if not all, of an equipment purchase in one year, practice tax planning usually involves purchasing equipment earlier than it might otherwise be required.*

> *Tip 2: Because veterinary practice books usually reflect accumulated tax depreciation and not accumulated economic depreciation, the net book value of fixed assets is usually very understated as compared to the true value of fixed assets in their current used condition. At any given date, the balance sheet report will show original acquisition cost of equipment less accumulated depreciation as recorded for tax purposes, which could result in a book value of zero in the year of equipment purchase.*

This is a general "catch-all" account for use in recording accumulated depreciation for all depreciable assets, in the event the practice owners (or accountant) prefers not to group accumulated depreciation with its related asset classes (professional equipment, office equipment, etc.) This provides an expedited method for tracking accumulated depreciation in a single balance sheet account.

Asset Account Series 2500 through 2999

Other Assets

The following accounts represent the practice's intangible resources or non-physical property, including software licenses, acquired goodwill, contract rights, and more. While unusual in veterinary practice, acquired patents and copyrights would be included with Other Assets.

2500 Computer Software

Computer software purchases are capitalized and recorded in this account. Often, computer software is bundled as part of a computer system purchase. The portion of the purchase price attributable to software is identified and recorded in this account. Since tax rules change about the correct way to depreciate or amortize software, speak with the practice's accountant to decide the best way to record system purchases which include both hardware and software components.

> *Tip: Some software purchases and upgrades are relatively inconsequential monetary amounts. As previously stated, the practice board of directors should establish a capitalization policy, which effectively guides the decision of whether to expense a small value capital asset immediately as a supply, or to capitalize it as a practice asset subject to depreciation. The capitalization policy should include all fixed asset categories, not just software acquisitions.*

2520 Goodwill

Goodwill recorded in the practice books depends on the fact of a transaction involving goodwill acquisition at some time in the entity's history. Goodwill represents the amount paid for an existing practice entity (target) that is in excess of the target's other assets at the time of purchase. This account is only used for recording the purchase of preexisting goodwill from another entity.

> *Tip: When another practice's assets are purchased for an agreed upon price, the next step is to assign a portion of the price to each asset class. Asset classes are defined by tax law and include groups such as personal property, buildings, land, and intangibles. In this process of asset allocation, a value is stipulated and agreed upon for each asset type, until only one asset remains: goodwill. Whatever portion of the purchase price is left after allocation of purchase price to other assets, is assigned to goodwill. Once, this was a critical issue, as tax law prohibited goodwill write-off through amortization; therefore, no deduction could be taken for it. Current law allows goodwill amortization over fifteen years, equating to a tax deduction of 1/15 of goodwill value each year.*

2560 Covenant Not to Compete

When purchasing a practice from a prior owner, the new owner has a reasonable expectation that the prior owner will no longer offer services in the area in competition with the new owner. In most cases, the buyer and seller strike a legal agreement, commonly called a covenant not to compete. This document represents an intangible asset and has a definite useful life: the time span the prior owner promises not to compete. The negotiated price assigned to the covenant not to compete in the course of allocating the total practice purchase is recorded in this account.

> *Tip: Bookkeepers and accountants rely on the final, signed practice sale-purchase documents to record asset values subsequent to the practice purchase. Attorneys are crucial to assuring appropriate value is allocated to the covenant not to compete, which will be a component of the final practice purchase contract.*

2580 Organizational & Startup Costs

Costs related to veterinary practice start up and organization are capitalized and recorded to this account, including legal, accounting, site selection, appraisals, and any other fees incurred prior to the actual opening of the doors for business.

> *Tip 1: When you are in the process of searching for a practice to purchase or are starting up a practice from scratch, keep contemporaneous and detailed accounting records of all related expenses, including receipts supporting the costs. For example, mileage driving to other practices to research their set up, meal expenses, attorney fees, permit fees, and many other expenditures occur before the first day of business. All of these previously made practice-related costs must be captured from the records so they can be capitalized and deductions taken for them in accord with tax law.*

> *Tip 2: Tax law defines subtle but distinct differences between organizational costs and start-up costs. Your accountant will assist your accounting for and election of amortization of these two cost types associated with starting a practice, which we have included together in this one account.*

2585 Loan Costs

Loan cost should be amortized over the life of the loan. Fees such as legal, accounting, registration and bank fees incurred in conjunction with obtaining or refinancing a loan are considered loan fees. Record all such loan fees in this account and amortize them by debiting amortization expense account 8050 and crediting 2599 Accumulated Amortization monthly over the life of the loan.

2599 Accumulated Amortization

This is a general "catch-all" account for use in recording accumulated amortization for all intangible and amortizable assets. This provides an expedited method for tracking accumulated amortization in a single balance sheet account.

Your accountant can advise you in determining the correct procedures for intangible amortization. This account reflects the total amortization expensed to date.

2600 Note Receivable - Long Term Portion (*less Current Portion*)

This account reflects the principle portion of promissory notes and secured notes for which receipt occurs at greater than twelve months from the balance sheet date. Adjust the note's current portion, that is, the principal amount receivable in 12 months or less, in accounts 1450 or 1500.

2700 Refundable Deposits *(Rent, Utilities, Etc.)*

Use this account to record the amount of refundable deposits made at the initiation of a service, such as utilities. If the deposit is non-refundable, then it should be expensed when the expenditure occurred.

> *Tip: Use account 1800 for recording deposits made relative to an asset acquisition that will be physically received in a future financial period. Record fee revenue deposits in the appropriate 5000 account for revenue capture.*

2850 Other Assets

Include in this account the cash value of any practice-owned life insurance policy or other assets not specified in listed asset accounts.

> *Tip 1: Before executing life insurance policies, discuss their intended purposes with the practice accountant and attorney. Life insurance is purchased for different reasons, which will determine who should own the policy, whose life the insurance covers, and who are the beneficiaries of the policy, in addition to determining who should pay the policy premiums.*

> *Tip 2: Give copies of all active insurance policies related to the practice and its owners to the practice accountant to assure they are accounted for in the correct manner. Be careful to determine which premium payments the practice should make and which policies require payment by others as this can be crucial to the eventual tax treatment of policy proceeds.*

LIABILITIES

Liabilities are present obligations resulting from past transactions that require the practice to pay money, provide goods, or perform services in the future.

These accounts fall into two series:

3000 – 3599 Current Liabilities
3600 – 3999 Long Term Liabilities

Current Liabilities Account Series 3000 through 3599

Current liabilities refer to those obligations reasonably expected to be paid within one year. These debts generally include notes payable that are due in less than 12 months, trade accounts payable, income taxes payable, and accrued expenses, such as salaries and interest payable. The current portion of any long-term debt is presented as a current liability.

Current liabilities are further divided as into the following series:

3000 – 3099 Current Liabilities – General
3100 – 3399 Employee, Payroll & Benefit Liabilities
3400 – 3599 Other Tax Liabilities

3000 – 3099 Account Series Current Liabilities – General

3000 Accounts Payable

Code amounts owed to vendors for purchases made on credit. Such purchases are made to acquire the supplies, services, and materials needed for the practice of veterinary medicine. This account is a control account for a subsidiary ledger of each vendor, the amounts owed to that vendor, and aged amount of the payable (showing whether the payable amounts are current, or represent credit purchases that occurred 30, 60, 90, or more days in the past).

> *Tip: Although the accounts payable balance is not presented on cash-basis balance sheets, the liability for payment truly exists and is important financial information for any practice owner to have at his or her fingertips. We strongly recommend that bookkeepers maintain accurate accounts payable information in the bookkeeping program, regardless of the practice's basis of accounting for income tax purposes. The most useful managerial reports are maintained on the accrual basis of accounting.*

3010 Credit Cards Payable

This account represents all purchases made through the use of a credit card.

Tip 1: Establish a separate account for each credit card used for practice purchases. Reconcile each credit card account's activity to its monthly statement, just as the monthly bank statement is reconciled to the book activity. Additional accounts can be created with account numbers 3011 – 3019 for additional credit card payables.

Tip 2: Don't commingle personal and practice expenditures on the same card and account. Once a card is designated for business use, keep it that way. Owners should obtain separate credit card accounts for personal use.

Tip 3: When making both personal and business purchases at the same establishment at the same time, two transactions should be processed. Give the cashier the personal card to close out the tab for personal items and close a second receipt with the business card. Shopping trips to warehouse stores are a good example of when the cashier should run double or even triple tickets to create a clear audit trail of who bought what.

Tip 4: The board of directors should establish policy wherein each person with control of a company credit card is responsible for prompt submission of credit card receipts for purchases made using the card.

Tip 5: When employees (including doctors) use business credit cards for practice travel and meal expense, the employee should immediately record the particulars of the charge on the receipt, including details of the individuals in attendance, the business purpose of the meal or trip, and the business matters discussed.

Tip 6: In the ideal internal control environment, the bookkeeper should record each credit card use as a separate transaction using the date of the transaction, just as every written check is a single posted transaction.

3020 Line of Credit

A line of credit is a credit instrument issued by a bank or other lender for short-term capital needs of a year or less. A credit line is usually "revolving" for the contracted period: it can be drawn on, repaid, and drawn on again. The balance in this account represents total amount outstanding on the line of credit at any one time.

Tip: Plan ahead for the date the line of credit must be paid in full. The practice should have the financial means readily available to assure the credit line can be retired at its due date, and/or have negotiated for its renewal.

3030 Current Portion of Long Term Loans & Capital Leases Payable

Practice debt contracted for payment over a period greater than one year is posted to two accounts. Record the loan principal portion due in less than twelve months to this account. Account for the principal portions of loans due in greater than twelve months in the 3800 series. Adjustments to long- and short-term portions are typically made at the end of the accounting period.

Tip: Establish two accounts for each loan with a repayment term of greater than one year. Match the account numbers for ease of reference such as 3030 for the short-term part and 3800 for the long-term part for loan one, and 3031 for the short-term part and 3801 for the long-term part for loan two, and so on.

Record long-term capital leases like any long-term debt: into the current portion and the long-term portion. Use the current portion account to record the principal portion of lease payment due within one year. Long term portions are recorded to the 3800 Account Series.

Tip 1: Before signing a purchase lease contract, ask for all of the terms of the agreement, including the price of simply purchasing the equipment outright. Provide the terms to the practice's accountant to find out the true cost of leasing the equipment as compared to purchasing it.

Tip 2: As with notes payable, establish two accounts for each capital lease with a repayment term of greater than one year. Match the account numbers for ease of reference such as 3030 for the short-term part and 3800 for the long-term part for lease one and 3031 for the short-term part and 3801 for the long-term part for lease two.

3050 Loan Payable – Related Party

An officer or owner may loan money to the practice from time to time. This account represents the amount owed to the related party that will be repaid within one year. If the loan will extend beyond twelve months, then the loan should be accounted for as to the long-term and short-term portions.

Tip: See the tips listed for account 1500, Note Receivable – Officer, Shareholder, Member, or Other Related Party. Follow the same rules for careful documentation of the terms and nature of the loan, so as to protect the desired tax treatment of it. Revenue agents carefully scrutinize transactions between related parties.

3055 Unearned Revenue

This account represents a liability account to record payments received in advance of providing goods or services. A typical example of unearned revenue in a practice would be related to wellness/pre-paid plans where payments are received by a hospital before goods or services are provided.

As goods and services are provided, the bookkeeper should debit this account and credit the appropriate revenue category.

3060 Deferred Liability - Wellness/Pre-Paid Plans

This account is used to record wellness/pre-paid plan enrollments for the full contract amount and represents future obligation to the client. As services are consumed from the wellness/pre-paid plans, the amount is reclassed from this account to revenue. All unused services for wellness/pre-paid plans are recognized as revenue in account 5880 - Wellness/Pre-Paid Plans Revenue for the last month of the service period.

3100-3399 Account Series Employee, Payroll, & Benefit Liabilities

The 3100-3399 account series within current liabilities is designated for employee- and payroll-related liabilities.

Payroll liabilities are subdivided into the following account series:

3100 – 3199 Payroll Liabilities – Employer Obligation Funds
3200 – 3399 Payroll Liabilities – Employee Trust Funds

3110 Payroll Tax Payable

Include in this account employer FICA tax which consists of Medicare and OASDI (Old Age, Survivors, and Disability Insurance). The employer's FICA obligation is recorded here, as the amount that must be remitted to the IRS coincident with the remittance of FICA payroll tax withholding from employee wages for a recently paid payroll.

Include in this account federal unemployment tax payable which includes the balance of federal unemployment tax accrued on previously paid wages but not yet paid to the IRS.

Include in this account state unemployment tax payable which reflects state unemployment tax accrued on previously paid wages but not yet paid to the state agency.

3140 Workers Compensation Payable

This account reflects workers compensation premiums payable but not yet remitted to the insurer. Workers compensation premium cost is considered a tax (rather than insurance) by many accountants, as it is not a voluntary payment but a legally mandated one when an employer has employees.

3150 Accrued Payroll and Bonuses

The value of employee work time that has occurred but the practice will not pay until the next payroll date is said to be accrued. The practice incurs a liability to pay the employee for his or her time, but the pay period has not yet completely run, so is not due for payment. For accrual-based practices, this account generally carries a balance at the fiscal year end, when workers have wages due to them for hours worked, that the practice will not pay until the pay date falling in the first or second week of the following year. The value of any holiday, personal, or sick time earned by employees and not yet paid is also carried in this account. Cash basis practices will generally not use this account.

Include in this account accrued vacation and paid time off. The value of employee-earned paid time off in accord with company policies that has been earned but the practice will not pay until some future date. For practice policy that allows accrual of earned paid time off with no expiration date, such as not used by the end of the calendar year ("Use it or lose it"), the accrued liability owed to employees can become a significant liability. Employer payroll taxes associated with the accrued value of paid time off can also be significant in these situations, and should be computed and recorded to account 3160 – Accrued (Employer) Payroll Taxes.

3160 Accrued Payroll Taxes

This account carries the outstanding balance of employer payroll tax obligations associated with accrued wages and accrued paid time off (account 3150). It generally includes only the employer's portion of FICA tax, federal unemployment tax, and state unemployment tax associated with accrued wages and salary obligations. Like accrued payroll, generally only accrual based accounting method companies use this account.

3170 Employer Retirement Plan Contribution Payable

This account carries the balance of previously committed, but not yet paid, contributions to the employer-sponsored retirement plan in accord with the plan document's requirements. Many plans allow the employer to take a deduction for the committed amount in the year to which it pertains, whether paid or not, and regardless of whether the practice is cash or accrual based for tax purposes. The practice generally has until the extended due date of the federal tax return to pay the funding obligation.

3200–3299 Account Series Employee Payroll and Benefit Liabilities

Employee payroll tax liability accounts are used to record amounts withheld by law from the employees' wages. These amounts are often referred to as *trust funds,* funds that are held in trust by a trustee (various government agencies, for example), for the future benefit of the employee.

3200 Payroll Tax Withholding Payable

This account carries the balance of federal income tax withheld from employee wages that has not yet been paid to the IRS. The federal income taxes withheld and remitted by the employer on the employee's behalf do not belong to the employer. The employer functions as an agent of the government to assure the timely remittance of employee tax payments through forced withholding by the employer.

This account records the balance of Social Security tax withheld from employee wages and salary payments, which the practice has not yet remitted to the IRS. As of the practice's year-end date, any outstanding amounts withheld from wages and not yet paid are presented, both for accrual and cash based practices. Social Security is a trust fund tax.

This account records the balance of Medicare tax withheld from employee wages and salary payments, which the practice has not yet remitted to the IRS. As of the practice's year-end date, any outstanding amounts withheld from wages and not yet paid are presented, both for accrual and cash based practices. As with Social Security, Medicare is a trust fund tax.

Similar to federal income tax withholding regulations, each state which taxes its residents on income requires the employer to enforce employee tax payment by functioning as an agent to hold back the required portion of wages as tax and submit the amount to the state in accord with its filing requirements.

Like federal and state income tax withholding, some cities and/or regions also tax resident and/or worker income. City or regional income tax may be based on where the employee works and/or where the employee lives. The employer must withhold the prescribed amount from the employee's wages and submit the tax amounts in accord with mandated filing deadlines. The employer has no rights to the amounts withheld from employee wages, for payment as local taxes. The employer is an agent for the government, to assure timely worker tax payment on earned income.

3260 Employee Withholding Payable

From time to time, some employees will experience court-ordered wage withholdings that are designated for use by some agency. In accord with the court order, the practice withholds the required amount and forwards it to the requisite agency on the employee's behalf. The balance carried in this account represents all withholdings not yet remitted to the agencies.

Both accrual and cash based practice entities use this account to record the obligation for submission of employee withholdings for health insurance premiums. The balance of funds withheld from employee wages which the employer has not yet remitted for payment of the practice's group health insurance premiums is recorded in this account.

Both accrual and cash based practice entities use this account to record the obligation for submission of employee-designated retirement funding. The employee advises the employer at prescribed times about the wage amount (deferred taxable compensation) the employee wishes the employer to withhold and deposit to his or her designated retirement funds. The balance of funds withheld from employee wages which the employer has not yet deposited with the retirement fund trustee is recorded in this account. Amounts that the employer commits to retirement funding on behalf of employees are recorded to account 3170.

Code any other employer-withheld amounts from employee wages, not previously described, to this account. When the practice submits the withheld amounts to the designated payee, the account balance returns to zero.

<u>3400-3499 Account Series Other Tax Liabilities</u>

3400 Sales and Use Tax Payable

Many states require businesses to collect sales tax from consumers when they make purchases. When the practice collects sales tax from its clients at point of sale, the bookkeeper credits the tax amount to this account until the time the practice remits all collected tax amounts to the state. The requirements are comparable to payroll tax withholding rules: the state requires the practice to function as its agent, by collecting the appropriate amount of tax on subject sales and remitting it to the state revenue department.

> *Tip 1: Collected sales tax is neither a revenue nor expense item; the practice simply serves as a conduit for collection and remittance of state funds.*

> *Tip 2: Some states give a discount for timely sales tax remittance and/or for recognition of*

the collection time and responsibilities of the vendor. The amount of the discount should be recorded to Miscellaneous Revenue, account number 9000, when the collected sales tax amount is paid. This will result in account 3400 coming back to a zero balance with every sales tax remittance.

Tip 3: Bookkeepers should keep up to date on sales tax law, as the rules and tax rates can frequently change as to the kinds of sales (both of services and products) to which sales tax applies and must be collected from consumers.

Generally, all states that tax consumers for purchases they make (sales tax), also have rules about use tax, which will pertain to veterinary practices. The state requires "voluntary" submission of use tax on any purchases subject to sales taxation and for which the practice did not pay sales tax. Often, out-of-state purchases of equipment and supplies result in purchases on which the vendor did not collect sales tax. If the vendor had been located in the practice's state of residence, it would have collected sales tax on the sale. In the event the practice did not pay sales tax (and should have), the practice is responsible for computing the correct amount of use tax and submitting it to the state.

Tip 1: Discuss use tax rules with your CPA. Each state's rules are a bit different, but all can get an unwary practice into trouble. Use tax compliance is a common audit target in recent years, as states seek complete tax compliance and collection whenever laws already exist.

Tip 2: Purchases made over the internet can present another source of and reason for accounting for use tax.

3420 Accrued Property Tax Payable

If the practice owns real estate or is obligated through the lease agreement to pay taxes on the real estate, post the amount due and not yet paid to this account.

Some states tax the value of personal property, either tangible property or intangible property or both. Accrual-based practices use this account to record the amount due and not yet paid.

3500 Corporate Income Tax Payable

Both cash-basis and accrual-basis corporations use this account to record the amount of federal income tax owed for the most recently completed tax year. In general, the account only pertains to Subchapter C Corporations and Personal Service Corporations. All other legal entity types allow taxable practice income to pass through to individual owners for reporting on their personal tax returns.

Tip: Hide this account in the VMG/AAHA COA if your practice is not a C-Corporation or a Personal Service Corporation, as you will not need to use it. Don't mistake this account for employee payroll withholding of federal income tax.

Tip: Ask your CPA to help you customize this and other VMG/AAHA COA account names to reflect your practice's tax reporting and payment requirements. Hide accounts not applicable to the practice's area from the VMG/AAHA COA to streamline it for customized use.

This account records any practice-owed income tax at the state, city, local or regional level that has not yet been paid.

Tip: Don't err by recording employee state or local income tax withholding amounts to this account.

Long Term Liabilities Account Series 3800 through 3999

Long term liabilities are contractually set for repayment over a period extending beyond twelve months into the future.

3800 Long Term Portion of Loans and Capital Lease Payable

Record the principal portion of loans scheduled for repayment over a period greater than one year. Such loans will have terms that include a stated principal amount, monthly payment amount, and a stated interest rate. The current portion of the debt, the principal portion that will be repaid within a calendar or fiscal year, will be reported in account 3030. Most common long-term debt examples include mortgages and equipment loans with repayment schedules spanning multiple years.

Also known as a purchase lease, a capital lease provides for transferred title of ownership to the lessee at the end of the lease term, usually for some bargain price such as one dollar. This account maintains the principal balance that is due in greater than twelve months from the balance sheet report date. The current portion of a capital lease is reported in account 3030.

OWNER EQUITY OR CAPITAL ACCOUNTS

Equity Account Series 4000 through 4999

The equity accounts allow the recording of all ownership interests in the veterinary practice. Equity account balances change as profits and losses accumulate, and due to capital investments, leveraging via financing, debt repayment, and withdrawals or new commitments by owners.

Many of the equity account titles reflect the type of tax entity the practice has chosen to adopt. Your accountant should help you modify the standard VMG/AAHA COA so that the account names reflect the practice's tax-entity type. Modifying the equity account titles (see below for examples) is one of the first tasks when adopting a new chart of accounts to use in your practice.

OWNER EQUITY OR CAPITAL ACCOUNTS BY ENTITY TYPE:

S Corporation
4000 · Common Stock
4100 · Additional Paid-In Capital
4200 · Retained Earnings /(Deficit)
4300 · Distributions/Dividends/Draws
4400 · Treasury Stock

Proprietorship
4000 · Owner's Capital
4100 · Additional Paid-In Capital
4200 · Owner's Equity /(Deficit)
4300 · Distributions/Dividends/Draws

Partnership
4000 · Partner's Capital - Partner One
4010 · Partner's Capital - Partner Two
4200 · Partner's Equity /(Deficit)
4300 · Distributions/Dividends/Draws

Limited Liability Company
4000 · Member's Capital - Partner One
4200 · Member's Equity /(Deficit)
4300 · Distributions/Dividends/Draws

4000 Common Stock

This account title pertains to practices functioning in any of the corporate formats. The account balance reflects the value of issued and outstanding shares of corporate stock, usually at their original stated value. This is an account that infrequently changes, so it is likely any adjustments will come from the practice's accountant as a result of significant transaction events related to practice ownership. Often, the only transaction shown in the account occurs at the inception of the corporation when it issues shares to the first shareholders.

Other tax entity types, such as partnerships, sole proprietorships, and limited liability companies that have not elected treatment as corporations, will change the title of this account to reflect the entity type:

- ✓ Proprietorship:
  - **4000 Owner's Capital**
- ✓ Partnership:
  - **4000 Partner's Capital – Partner One**
  - **4010 Partner's Capital – Partner Two**
  - **4020 Partner's Capital – Partner Three, etc.**
- ✓ Limited Liability Company:
  - **4000 Member's Capital – Member One**
  - **4010 Member's Capital – Member Two**
  - **4020 Member's Capital – Member Three, etc.**

4100 Additional Paid-In Capital

Record any capital paid by shareholders to the corporation in excess of the stated share value. Generally, this account is used very infrequently, often only at the corporation's inception when it issues stock to the new shareholders in exchange for money and property. Any value in excess of the stated share value, which can be found in the original articles of incorporation, is recorded as additional paid in capital (commonly abbreviated APIC).

> *Tip: If multiple shareholders have contributed capital to the corporation in exchange for shares of stock, it is important that separate ledgers or records be maintained to show the original contributions, dates and parties. Later corporation results and shareholder transactions require this information, the detail of which is not necessarily shown by the practice's account listing.*

4200 Retained Earnings/(Retained Deficit)

This account reflects a practice's accumulated profits and losses over time, which have not been distributed to owners. The account is presented separately from the Common Stock and Additional Paid In Capital accounts because it derives its balances from operational results, not from financing.

4300 Distributions/Dividends/Draws

Any dividends (Subchapter C or a personal service corporation (PSC)) or distributions (Subchapter **S Corporation**) are recorded here during the fiscal year. At the beginning of the subsequent fiscal year, all dividends and distributions are closed by an account adjustment to Retained Earnings/(Deficit), account 4200.

> *Tip 1: Modify the account name to reflect the type of corporation. If a C-corporation or Personal Service Corporation, the appropriate account title is "Dividends". Change the account title to "Distributions" for a Subchapter S corporation.*
>
> *Tip 2: Corporation bookkeepers must be careful to assure that the grand total of dividends or distributions by year end are pro-ratably paid exactly in proportion to shareholder interests. For example, an 80% shareholder should receive exactly 80% of any dividends or distributions paid. If not proportionate, the practice's board of directors should be notified so that additional payments can be authorized to bring each shareholder to the correct amount by the fiscal close.*

Withdrawals by members of an unincorporated entity will be booked to this account, too. Modify the account title to reflect the entity type: Owner Draws, Partner Draws, or Member Draws.

> *Tip: For multi-owner practices, set up a separate draw account for each owner, such as: Partner One Draws, Partner Two Draws, etc.*

4400 Common Stock/Treasury

Treasury stock is the amount of previously issued stock subsequently redeemed and held by the corporation. This situation usually occurs when a shareholder retires from the practice and sells his shares back to the corporation rather than to another individual. When the corporation purchases its own shares from the departing shareholder, the shares are said to be in the treasury.

REVENUE AND EXPENSE STATEMENT ACCOUNTS

All of the remaining accounts in the VMG/AAHA COA represent current fiscal-year practice activity and transactions resulting in profit or loss. Each account with posted activity during the financial period will appear in the practice's report of revenues and expenses. In other words, these are the accounts that created the "profit and loss" report.

At the end of the tax year, all revenue and expense accounts (summating to the net profit or net loss) will close or roll into a balance sheet equity account. As all revenue and expense accounts are brought to zero balances, the equity account goes up or down by the corresponding net profit or net loss amount. The affected equity account is either retained earnings/(deficit) or owners' capital depending on the legal entity. At the beginning of a new fiscal year, all revenue and expense accounts start with a zero balance.

Current period veterinary practice operating revenues post to the first accounts in this section of the VMG/AAHA COA: the 5000 accounts. Miscellaneous revenue transactions from other sources, such as interest earned on investments, post to the last accounts, the 9000 accounts.

HOWEVER, NOTE WELL: For an easy one-step process to enter practice quarterly data from QuickBooks reports to DATALINK input fields, your bookkeeper should routinely redistribute defined VMG DATALINK revenue centers from the VPIMS to QuickBooks (or other bookkeeping software.) Otherwise, you must use VPIMS reports to enter revenue detail to DATALINK in accord with the VMG DATALINK definitions that follow.

In this latter event, practice owners/managers will also rely on two sets of reports to interpret practice results: one from the VPIMS (revenues) and one from the bookkeeping software (grand total revenues plus expenses and other uses and origins of cash). The bookkeeping software provides the detail of expenses (assets consumed) to generate the period's total revenue. The VPIMS production reports show detail of revenue production: what each department contributed to the whole.

When practice owners require that the bookkeeper transfer the detail of revenue centers from the practice production software to the bookkeeping software, the profit and loss statement then presents complete and pertinent financial information on a single report. Financial period results can be easily compared with one another to spot trends, while also enabling efficient input to DATALINK for benchmarking in your group and in VMG as a whole.

Practice directors must consider the cost to benefit relationship. Increasing the complexity of financial reports by assimilating more data from different sources takes time. On the other hand, if the reports will be read and consistently used to plan practice activities and strategy, the extra bookkeeping time will be worth the effort.

Additionally, practice directors may decide it is worthwhile to invest in integrating separate data bases with each other to export and import key performance data sets, if software has advanced to allow efficient and accurate workable linkage.

Another benefit comes from enhanced practice internal controls. Integrating VPIMS reports with the bookkeeping database forces monthly reconciliation of all fee related accounts, including deposits made to the bank. Discrepancies quickly become apparent, allowing investigation of reasons why.

From a management perspective, categorizing revenue by departmental sources can greatly enhance the administrator's ability to evaluate the effectiveness of veterinary service delivery, and to make sound decisions about service offerings, marketing, and pricing.

VMG members should execute bookkeeping techniques that result in VMG defined revenues being segregated into the appropriate accounts through month-end or quarterly adjusting journal entries.

This is a relatively manageable change for most practices that becomes a routine, streamlined process once established. Most VPIMS provide mechanisms to set up service items so that services can be aggregated into different categories for specific report needs.

VMG recommends spending a day to run through and edit the entire list of VPIMS service codes to ensure that the practice's services are properly categorized to the VMG/AAHA COA revenue centers. The practice has two options:

1. Re-categorize its existing VPIMS service listing to align with the VMG/AAHA COA primary revenue centers, or
2. Within the VPIMS, establish a secondary system of revenue categorization codes that uses the VMG/AAHA COA revenue account center definitions.

Use the latter option of secondary VPIMS service categorizations based on VMG/AAHA COA service definitions to allow monthly or quarterly reporting for DATALINK purposes, **while also preserving the practice's historical revenue totals by category.**

Both AVImark and Infinity provide customized VMG/AAHA COA report options which allow users to collect all the needed revenue data for DATALINK report input which matches the revenue center descriptions that follow. This report can then be used to establish the revenue-redistribution adjusting journal entry in QuickBooks or other general ledger program at month or quarter end.

For creating secondary categorization codes, AVImark uses report codes. Infinity uses product types as the method of choice for secondary services segregation. Cornerstone users can use revenue centers. Please reference the VMG Connect member website under DATALINK Reference Material section for detailed instructions for a Report Guide to assist in setting up your AVImark and Infinity VPIMS to capture revenue by VMG defined gl categories. For other systems, contact your VPIMS software support team to determine the secondary service classification available.

Patient Numbers/Counts & Patient Visit Invoice Revenue

A common practice challenge is obtaining accurate counts of **patient numbers, patient invoices and revenue associated with patient invoices**. Ideally, **patient numbers** (patient head counts) should only include the total number of animals treated during a date range, regardless of numbers of times seen or prescribed to.

A patient invoice should be counted only when a patient is physically present in the practice and seen by a veterinarian for a medical or surgical service or for a professional service ordered by a veterinarian. If a patient received a medication refill or other item ordered by the veterinarian but the patient was not physically present during the purchase, that purchase should not count as a patient invoice or revenue attributed to a patient visit for this calculation.

Please work with your VPIMS support team to ensure correct system set up and thorough staff training to accurately report **patient headcount**, **patient invoice** numbers, and thus revenue from those patient invoices. The Report Documentation Guides from each of Infinity and AVImark describe how this is done. Ensure staff training to obtain accurate data for contribution to DATALINK and for trending your practice over time.

Revenues from Operations Account Series 5000 through 5999

5000 Professional Services Revenue - OVERVIEW

This account represents the general fee revenue account in QuickBooks or other bookkeeping program. Since the VPIMS reports give extensive revenue stream detail, bookkeepers often only post total **daily deposit** amounts to QuickBooks or similar software that will be used to reconcile checking accounts at the end of the month.

Many bookkeepers have a protocol wherein they code deposits to QuickBooks or other bookkeeping software (for later monthly checking account reconciliation) into major daily deposit types: Cash, Checks, VISA/MasterCard, American Express, Discover, and/or Care Credit. The typical next step would be to create an end-of-month journal entry, wherein these accounts are brought to zero and the collected revenue reassigned to the VMG Revenue Accounts in the 5000 series.

The redistribution should reflect the VMG DATALINK revenue center allocation using the practice's VPIMS report detail that aggregates revenue totals by VMG general ledger account code definitions. If revenues are not redistributed with an end of month journal entry using the VMG general ledger definitions and categories, the DATALINK benchmarking reports will not be comparing the same revenue categories and may not be meaningful to your practice.

Such periodic adjustments also allow the books to reflect revenues *charged* and changes in accounts receivable balances in accord with full accrual accounting. Remember, the full accrual basis of accounting is strongly recommended for VMG practices, even when the cash basis is used for tax reporting purposes.

Remember: flexibility is a primary COA goal; numeric sequences are well spaced so that you can insert accounts to match with practice goals, doctor areas of special interest, and with the revenue center organization already present in the practice management database used for creating tickets and invoicing clients.

When your practice is represented in a Veterinary Management Group (VMG) by one of the practice owners, then it will contribute to group data collection on a quarterly basis. Major operating revenue center data to submit can be collected from the VPIMS reports (or from the general ledger reports, if it has been adjusted or exported there.)

By arranging your veterinary practice's COA as prescribed by this book, the VMG revenue centers can be summarized in QuickBooks by the "collapsed" reporting option, which summates detailed accounts and lists only account headings for DATALINK field input. This will ease your quarterly data submission for group reporting purposes.

The expanded version of QuickBooks reports will provide greater details that are useful for trending your own practice and drilling into the underlying data the collapsed report presents, especially when there are variances.

The more detailed revenue subaccounts can be organized and modified in accord with the practice's unique needs, as determined by practice owners. These needs can and will change over time, driving adaptation of accounting data collection and organization techniques through a flexible chart of accounts. Each additional account that a practice chooses to add or adapt should be set as an account under one of the general account headings.

Include in this account Large Animal Services Revenue (General Ledger account 5099). This account accumulates large animal service-related income in practices that have only a small segment of activity related to Large Animal species care (as a proposed guideline, less than 5% of revenue deriving from large animal services and product sales.)

Otherwise, please consider using an alternative chart of accounts that includes specific accounts for large animal revenues and expenses.

5000 Professional Services Revenue

The sum of the 5000 account series (accounts 5001 through 5099) is entered in DATALINK input field: Profession Services Revenue.

5001 Vaccine Revenue

This revenue center includes companion animal vaccine service income. Record in this account the fees charged from administration of vaccines to immunize patients against disease. Charges for new or reissued rabies tags are recorded here, as are rabies licensing fees (not to be confused with other county licenses which are tracked in 5802).

5010 Exam Revenue

This revenue center includes outpatient exams, consultations, and many professional services that are performed during the exam, such as nail, wing and teeth trims, anal gland expression, minor ear cleaning, soft paw application, diabetic glucose sensor application, outpatient medication administration fees, poison control consultation fees, telemedicine exam/consults, microchip implantation, health certificates, house call fees, euthanasia services and euthanasia solution. More extensive diagnostic procedures completed at time of examination are tracked elsewhere.

5020 Hospitalization & Treatment Revenue

This revenue center includes hospitalization (day or night), and inpatient services. Includes critical and nursing care, oxygen (even though the cost for oxygen is tracked under 6600 Anesthesia), in-patient medication administration, heat support, stomach tubing and lavage, enemas, continuous blood pressure monitoring (not to be confused with diagnostic blood pressure measurement), heartworm treatment support, tattoo services, bandages, casts, urinary catheterization, therapeutic abdominocentesis and thoracentesis, inpatient non-surgical wound care. Includes theriogenology services such as semen collection and preparation, insemination, obstetrical assistance, and neonatal care and stem cell therapy. Track medical boarding here and medication administration for boarding pets. If your practice offers minimal boarding services please track these boarding services under 5020 Prof. Services Hospitalization & Treatments (per KSM recommendation).

Inventory items sold to clients and/or used in-house/for treatments are also tracked here, i.e., syringes), needles, vet wrap and other bandage supplies, cotton balls, tongue depressors, etc. (note that no charge white good items can also be tracked under a generic “Supplies” category in your PIMS if you don’t want to blend them into the Hospitalization & Treatment category, however you will still account for the costs of these items as 6020 Hosp./Treatments).

5025 Fluid Therapy Revenue

This revenue center includes fees charged for all routes and types of fluid and electrolyte support administered for any type of service (for dentals, Sx, etc.). Routes include subcutaneous (SC) and intravenous (IV) administration, and CRIs (continuous rate infusion administration (even when giving anesthetics as part of the CRI)). Fluid types include crystalloid and colloid solutions (Hetastarch, HES) and blood/plasma products (including blood transfusion collection fees as well as those for administration). Revenues associated with set up and administration of all fluid types such as catheter placement are included here as well as supplies, i.e. fluid administration sets, fluid pump fees, monitoring, and all other income associated with SC and IV fluid therapy administration services and products.

5030 Diagnostic Services Revenue

This revenue center includes fees charged for blood pressure measurement, EKG/ECG tracing procedures performed in-house or by outside services (including Holter monitor), EKG/ECG consults, ophthalmology-related tests (tear/lacrimation tests, corneal staining procedures, intraocular pressure measurement), bone marrow aspiration procedures, water deprivation tests, tensilon tests, CSF tap, diagnostic abdominocentesis or thoracentesis procedures, intradermal allergy testing when performed in-house and necropsy procedure.

5040 Rehabilitation Revenue

This revenue center includes income from activities including treadmill, swimming, core muscle conditioning, massage, and similar physiotherapeutic applications to increase muscle strength, range of joint motion, flexibility, and mobility.

5045 Laser Therapy Revenue

This revenue center includes fees related to therapeutic laser therapy for accelerated wound healing, musculoskeletal disease, modulation, and pain management applications. Do not include laser surgery in this account.

5050 Mortuary Revenue

This revenue center includes fees related to cremation, burial income, and related body care services. Include income for sales of cemetery plots, caskets, urns, paw prints, and associated patient memorial services or products. (Euthanasia procedure fees and euthanasia solution are included in account 5010 Exam Revenue).

5060 Behavior Service Revenue

This revenue center includes fees related to behavior service income and includes both services related to the prevention of behavior issues that might lead to owner-pet bond breakage (behavior wellness), or consulting services addressing the modification of existing behavior issues (separation anxiety, excessive vocalization, aggression, and destructive behavior). Medications and OTC products to treat behavioral issues should be included under Pharmacy 5105 FDA Rx Meds or 5801 Ancillary OTC Products.

5070 Alternative and Complementary Medicine Revenue

This revenue center includes fees related to income from chiropractic, acupuncture, and homeopathy services. Alternative medical products sold should be captured in 5801 Ancillary OTC Products.

> *Tip: If the PIMS category description field doesn't support the character length of this description it can be shortened to 5070 Alternative Medicine.*

5080 Specialist Revenue

This revenue center includes only those specialty services provided by a board-certified veterinarian with specialty credentials from an ABVS-recognized veterinary specialty organization. Additional subaccounts for specific specialist revenue (i.e. ophthalmology, internal medicine, oncology, ultrasound, etc.) can be created using accounts 5081 to 5094.

5095 Medical Waste Revenue

This revenue center includes fees related to income from hazardous waste fees, i.e., hazardous waste from vaccines, injections, surgery, sharp container sales and disposal fees.

5099 Large Animal Services Revenue

This revenue center accumulates miscellaneous large animal service-related income in practices that have only a small segment of activity related to Large Animal species care (as a proposed guideline, less than 5% of revenue deriving from large animal services and product sales.). To see your practice's large animal revenue broken down in more detail, we recommend referring to the Large Animal COA for specific tracking of those items.

Note, if your practice is part of a Companion Animal VMG group you will not include this revenue in DATALINK unless the majority of your group are also entering/comparing this data.

5100 Pharmacy Revenue – OVERVIEW

The 5100 section organizes and summarizes revenues from veterinary drug use in patients and dispensing to clients for home use in treatment of their pets. **Only FDA medications are included in the 5100 series** of general ledger accounts. For non-FDA medications, see the 5800 account series.

> *Tip 1: Veterinary practice bookkeepers should annually discuss with practice management how the CFO wishes to track revenue, sales, and correlating expenses, which assists in treatment choice, inventory stocking decisions, and marketing and pricing strategies. Subaccounts to any of major VMG revenue accounts can be established to capture information that administrators wish to internally track to enable informed decisions.*

> *Tip 2: Both the VPIMS and bookkeeping software provide flexibility to choose revenue tracking, expense coding, and profit centered analysis. Revisit and adapt the COA in both software platforms as needed to provide management with meaningful data compilations for monitoring results and adjusting pharmacy stocking.*

5100 Pharmacy Revenue

The sum of the 5100 series accounts (5101 through 5199) is entered in DATALINK input field: Pharmacy Services Revenue.

5105 FDA Med, Pill, Cap, Liquid, etc. Revenue

This revenue center includes income from the sale of FDA prescription medications in the form of pills, capsules, liquids, topicals and some sprays, including oral and transdermal controlled substance medications, FDA hyposensitization (allergy) treatment sublingual drops, and other FDA approved products.

> *Tip: If the PIMS category description field doesn't support the character length of this description it can be shortened to 5105 FDA Rx Meds.*

5110 Injection Revenue

This revenue center includes income from FDA inpatient and outpatient injections and any injection fee and any associated packing/dispensing fees. Insulin, Immiticide®, Cytopoint®, Solensia®, and Librela® are included in this account as well as FDA hyposensitization treatment (allergy) injections. Does not include income from injectable anesthetics, analgesics, tranquilizers, anxiolytic agents, sedating agents, euthanasia solutions or injectable heartworm preventatives. See 5600 Anesthesia, Sedatives, and Tranquilizers for details on items included in the Anesthesia revenue center; injectable parasite preventatives should be coded as 5125 FDA RX Injectable Parasite Prevention.

5115 FDA Prescription Flea/Tick Non-injectable Prevention Revenue

This revenue center includes income from FDA prescription products that prevent fleas and/or ticks, but not heartworms, and excludes injectable forms (injectable parasite control products are coded to 5125). Example: Comfortis®, Simparica®, Credelio®, NexGard® & Bravecto® chews. Note that non-FDA Flea/Tick preventatives are tracked under 5803 Ancillary non-FDA Flea & Tick Products and includes items such as Frontline®, Seresto®, Capstar®, Vectra®, and others.

> *Tip: If the PIMS category description field doesn't support the character length of this description it can be shortened to 5115 FDA Rx Flea/Tick Prevention.*

5120 FDA Prescription HW Non-injectable Prevention Revenue

This revenue center includes income from any orally or topically administered (non-injectable) FDA Rx product that prevents heartworms or combination of heartworms, fleas, ticks, intestinal and external parasites. Example: Sentinel®, Trifexis®, Heartgard®, Advantage Multi®, Revolution®, Simparica Trio®, Bravecto Plus®, NexGard Combo®. (Injectable parasite control products are coded to 5125).

> *Tip: If the PIMS category description field doesn't support the character length of this description it can be shortened to 5120 FDA Rx Heartworm/Combo.*

5125 Injectable Parasite Prevention Revenue

This revenue center includes income from any injectable FDA product that prevents infestations associated with heartworms fleas, ticks, intestinal and external parasites. These injections can target individual parasite types or a combination of parasite types. Example: ProHeart® 6 & 12 month and Bravecto Quantum®.

> *Tip: If the PIMS category description field doesn't support the character length of this description it can be shortened to 5125 FDA Rx Inj. Parasite Prev.*

5130 Internet Pharmacy Revenue

This revenue center includes the gross revenues resulting from Pharmacy sales made through a practice via portal regardless of whether it is through a subcontracted vendor (VetSource, MyVetDirect, etc.). Also includes income from products billed by the practice but shipped directly to the client. Note: Internet sales are not generated through the practice's PIMs, therefore, this revenue center does not need to be set up in your practice's PIMs. Use the vendor reports to find the gross revenue to enter into DATALINK (in the Non-PIMs section on the revenue window). Several of the online store providers email a report to the practice owner each quarter. Check with your online store provider for details.

5200 Dietary Product Revenue

The sum of the 5200 account series (5201 through 5299) is entered in DATALINK input field: Dietary Product Revenue.

5201 Therapeutic Diet Revenue

This revenue center includes fees related to any food that is sold as a medical recommendation to support a patient suffering from a diagnosed specific medical health problem. While often called prescription diets, they do not by law require a veterinarian to prescribe them but manufacturers do frequently limit their sales through veterinarians and veterinary hospitals. Do not include therapeutic brand treats, they are tracked in 5802 Ancillary Pet Supplies/Retail.

> *Tip: While manufacturers often brand these pet foods as "prescription" diets due to formulation to manage specific disease conditions, it is not required by law that a veterinarian prescribes them; food manufacturers frequently limit their sales through veterinarians and veterinary hospitals. Check with your state to determine if your state mandates collection of sales tax for* ***non****-FDA products which, if so, would mandate the practice to charge and submit sales tax on therapeutic diet revenue.*

5202 Retail Diet Revenue

This revenue center includes fees related to any food that is sold as a wellness/maintenance diet, pediatric diet or traditional food WITHOUT a specific therapeutic dietary formulation for a diagnosed medical health problem. Do not include treats, they are tracked in 5802 Ancillary Pet Supplies/Retail.

5203 Internet Diet Revenue

This revenue center includes gross revenues resulting from dietary sales made through a practice via portal regardless of whether it is through a subcontracted vendor (Hills to Home, Purina, vRxPro, VetSource, etc.) Also include income from dietary products billed by the practice but shipped directly to the client. Note: Internet sales are not generated through the practice's PIMs, therefore, this revenue center does not need to be set up in your practice's PIMs. Use the vendor reports to find the gross revenue to enter into DATALINK (in the Non-PIMs section on the revenue window). Several of the online store providers email a report to the practice owner each quarter. Check with your online store provider for details.

5300 Laboratory Revenue

Totals for account 5301 and account 5302 should be entered separately in DATALINK in their respective input fields: In-House Lab Revenue and Outside (Reference) Lab Revenue

Segregating in-house and reference lab revenue and expense allows a practice to easily track expenses as a percentage of revenue for each. Having these metrics allows a practice to monitor lab service fee capture, reference lab price increases, use of in-house reagents, use of lab services, etc. in a timely and efficient manner.

Laboratory income derives from testing procedures conducted on bodily tissues and fluids, to detect, identify, or quantify one or more significant substances, evaluate organ functions, or establish the nature of a condition or disease.

5301 In-House Lab Revenue

This revenue center includes fees related to in-house laboratory including any pre-surgical operatory tests, CBCs (complete blood counts), serum/blood chemistries, urinalyses, fecal analyses, cytology analyses, and semen evaluations completed by practice employees using practice laboratory equipment and supplies. Skin scraping, phlebotomy, including blood glucose curve/testing, blind or ultrasound guided cystocentesis, or fine needle aspirate fees resulting from specimen collection (chemistry, cytology, and/or biopsy interpretation) should be included in this account.

5302 Outside (Reference) Lab Revenue

This revenue center includes fees related to income from outside lab tests such as state diagnostic labs, private reference labs such as Antech, IDEXX, etc. Includes phlebotomy and urine collection fees including cystocentesis for urine testing, histopathology and necropsy fees when performed by an outside lab.

5400 Imaging Revenue

The sum of the 5400 series accounts (5401 through 5499) is entered in DATALINK input field: Imaging Revenue

5403 X-Ray Revenue

This revenue center includes fees for radiographs and in-house interpretation of radiographic studies, including Penn Hip and OFA fees.

5404 Dental X-rays

This revenue center includes fees related to income from dental radiographs and in-house interpretation.

5405 CT Services Revenue

This revenue center includes income from fees derived from image studies via computerized tomography technology and in-house interpretation.

5410 Ultrasound Services Revenue

This revenue center includes income from fees derived from ultrasound imaging procedures and in-house interpretation. Include income for needle aspirate along with ultrasound guided fine needle and Trucut biopsies procedure fees. Ultrasound guided urine cystocentesis fees should be included in lab services account 5301 or 5302.

5415 MRI Services Revenue

This revenue center includes income from fees derived from MRI (Magnetic Resonance Imaging) scan procedures, and in-house study interpretation.

5420 · Specialist (Imaging) Consultation Revenue

This revenue center includes fees derived from imaging consultations by a radiology service or a board-certified veterinarian with specialty credentials. Do not include EKG consultations here, they are tracked in 5030.

> *Tip: If the PIMS category description field doesn't support the character length of this description it can be shortened to 5420 Imaging Specialist Consults.*

5500 Surgery Services Revenue

The sum of the 5500 series accounts (5501 through 5199) is entered in DATALINK input field: Surgery Services Revenue.

5510 Non-Specialist Surgery Revenue

This revenue center includes income from fees resulting from surgery room usage, surgical instrument or pack usage, surgical disposables and supplies (sutures, surgical drapes, gloves, etc.), non-specialist surgeon fees, surgical implants, and plates and screws. Include orthopedic surgery, soft tissue surgery, and cryotherapy fee income, as well as laparoscopy and endoscopy income. Do not include fluid therapy items or anesthesia items here. If any surgeries are set up as Groups or Bundles in the PIMS, ensure each item that makes up the group/bundle are coded to the correct VMG category/subcategory so that the revenue is recognized appropriately.

5520 Specialist Surgery Revenue

This revenue center includes only those surgery services provided by a board-certified veterinarian with specialty credentials from an ABVS/AVMA-recognized veterinary surgery specialty organization. Services could be provided either by a traveling contract surgeon or a boarded staff surgeon if an employee of the practice. It should also include income from fees resulting from surgery room usage, surgical instrument or pack usage, surgical disposables and supplies (sutures, surgical drapes, gloves, etc.), surgeon fees, surgical implants, and plates and screws. Include orthopedic surgery, soft tissue surgery, and cryotherapy fee income, as well as laparoscopy and endoscopy income. Do not include fluid therapy items or anesthesia items here. If any surgeries are set up as Groups or Bundles in the PIMS, ensure each item that makes up the group/bundle are coded to the correct VMG category/subcategory so that the revenue is recognized appropriately.

5600 Anesthesia, Sedatives, Tranquilizers Revenue

This revenue center includes income from fees from inhaled and/or injectable meds that alter the perception of consciousness, pain and/or the sensation of the animal. Includes all inhaled and injectable anesthetics, analgesics, anxiolytics, sedatives, tranquilizers and reversals such as midazolam, Marcaine®, bupivacaine, DexDomitor®, Dormosedan®, Telazol®, lidocaine, propofol, Alfaxan®, epidural nerve blocks, local and dental nerve blocks. Topical and patch items should be tracked under 5105 Pharmacy FDA Rx Meds (i.e., Zorbium, Fentanyl patch), as should NSAID/NSAID like drugs. Also, include income from anesthetic monitoring.

> *Tip: If the PIMS category description field doesn't support the character length of this description it can be shortened to 5600 Anesthesia, Sed., Tranq.*

5700 Dentistry Services Revenue

This revenue center includes income from fees from dental prophylaxis, extractions, orthodontics, endodontics, and products applied to teeth or defects in the dental operatory. Includes oral surgery related to dental procedures such as gingival flaps etc. Do not include dental treats, toothpaste/toothbrushes, they are tracked in 5801 Ancillary OTC Products. Do not include dental blocks, this is tracked in 5600 Anesthesia, Sedatives, Tranquilizers.

5800 Other Ancillary Products & Services Revenue

The sum of accounts 5801 through 5824 is entered in DATALINK input field: Ancillary Products/ Services Revenue.

5801 OTC Products, Shampoos, & Nutraceutical Revenue

This revenue center includes income from fees from over-the-counter nutraceuticals, and therapeutic products including shampoos, Chinese herbs and homeopathic products, dental hygiene products (including dental treats), blood glucose testing kits & strips sold/rented for at-home use, probiotics, vitamins (not injectable vitamins). Also includes Elizabethan anti-self-mutilation type collars, medical suits and sleeves/wraps, Thundershirts, behavior modifying non-FDA therapeutics and other products used in behavior therapy.

> *Tip: If the PIMS category description field doesn't support the character length of this description it can be shortened to 5801 OTC Products.*

5802 Pet Supplies Retail Revenue

This revenue center includes income from non-therapeutic, retail sales of leashes, harnesses, collars, toys, brushes, flea combs, grooming sprays, candles, milk replacers, pet treats, deodorants, nail trimmers, pet carriers, pet ID tags, pill cutters, cat litter and also city and county license tags/fees (not rabies tags which go under 5001 vaccinations).

5803 Non-FDA Flea & Tick Control Product Revenue

This revenue center includes income from non-FDA flea control products such as Frontline®, Seresto®, Capstar®, Vectra®, as well as flea sprays, powders, dips, and premise treatments.

> *Tip: If the PIMS category description field doesn't support the character length of this description it can be shortened to 5803 Non FDA Rx Flea/Tick.*

5804 Internet Ancillary Product Revenue

This revenue center includes income from fees related to internet ancillary product sales made through a practice via portal regardless of whether it is through a subcontracted vendor (VetSource, MyVetDirect, etc.). Also includes income from ancillary products billed by the practice but shipped directly to the client. Note: Internet sales are not generated through the practice's PIMs, therefore, this revenue center does not need to be set up in your practice's PIMs. Use the vendor reports to find the gross revenue to enter into DATALINK (in the Non-PIMs section on the revenue window).

5825 Boarding Services Revenue

This revenue center includes income from fees from boarding and daycare services. If revenues from daycare services are substantial, a separate subaccount can be used. If hospitalization is required due to medical condition treatment, doctor observation and nursing need, use account 5020 Prof. Services Hospitalization & Treatments. Medication administration for boarding pets should be tracked under 5020 Prof. Services Hospitalization & Treatments. If your practice offers minimal boarding services, please track these boarding services under 5020 Prof. Services Hospitalization & Treatments.

5850 Grooming Services Revenue

This revenue center includes income from bathing & grooming services and associated anal gland expression and nail trim procedures, <u>when provided by grooming personnel</u>. Do not include fees related to treatment of medical conditions discovered during grooming services, such as ear care. If anesthesia or sedation is required to perform grooming services, these procedures are coded to anesthesia account 5600. Bathing, shave downs, sanitary trims performed by Techs or Assistants are coded to 5020 Prof. Services Hospitalization & Treatments. Nail trims and anal gland expression performed by Techs or Assistants are coded to 5010 Prof. Services Exams.

<u>5875 Wellness/Pre-Paid Plans Revenue</u>

5880 Wellness/Pre-Paid Plans Payments

This revenue center includes payments for services consumed under wellness plans. Example: Enrollment fees, cancellation fees, monthly payments towards wellness plans.

At the time of payment for wellness/pre-paid plans, if you are using a third party to administer your plan, in most cases you will not record the payment received in the practice management system. Instead, you will only need to record a deposit in your accounting system to this account. If you are NOT using a third party to administer your wellness plans, then you will record the receipt of payment in your practice management system. You will generate an invoice with a line item and the exact amount paid to this account.

5885 Wellness/Pre-Paid Plans Adjustments

At the time that wellness plan services are provided, generate a normal invoice with all services performed and/or products sold during the visit. The amount that being applied to the invoice from the clients wellness plan or pre-payment plan should be reported as a negative line item on the invoice that is attributed to this account in the accounting software. If all services/products for the visit are covered under the client's plan the net amount due for the invoice should be ZERO.

5900 Fee Discounts & Client Returns

Fee discounts and client returns should be tracked separately for internal management purposes, as defined in the following two accounts. For DATALINK purposes, add accounts 5905, 5910 and 5915 together for input to the field: Fee Discounts & Client Returns.

5905 Fee Discounts

This revenue center includes client, employee, and product discounts, coupons, rebates. Examples: Senior Citizen, Military, Referral discounts and rebates and coupons for products such as Heartworm, Flea/Tick preventatives and other products. Service discounts are tracked under the category the discount applies to – i.e., 10% off Dentistry Services is tracked under 5700 Dentistry. **Note**: When the practice receives a rebate check from a vendor, distributor, or from VMG, the rebate check amount should be applied as a credit to the COGs category that the rebates apply to, in most cases this is Pharmacy. If you receive a rebate from a vendor where you purchase multiple types of products (i.e., vaccines, pharmacy items, exam/hospitalization/treatment items),you will split and apply the rebate amount across the categories it mostly applies to.

5910 Returns and Allowances

Returns and allowances are fee amounts the practice returns to clients for disputed work, such as when a client is billed twice for the same procedure or when a client returns a dispensed product they believe is not efficacious. The practice bookkeeper prepares a check or other payment to the client as settlement. This account carries a debit balance and as such, is an offsetting account to revenues (revenue accounts normally carry a credit balance). Transaction postings to this account decrease the practice gross revenue.

> *Tip: Do not include interest, dividend, or other non-operating revenues in the 5000 series of accounts or in DATALINK revenue fields. Non-operating revenues should be recorded in the 9000 account series.*

5915 Instant Rebates

Hospitals that discount invoices for instant rebates reimbursed by manufacturers should use this category to capture the discounts from the practice management reports. When deposits (rebate checks) are received from the vendor (i.e. Greenline) they should also be credited to this account in the accounting software (not PIMs). The expectation would be that when reviewing the detail of this account you will see discounts reflected but then also see an offsetting deposit to zero out the balance in this account. Note that these instant rebates are not to be confused with discounts that vendors may call “rebates.”

> *Tip: Vendor rebates that are applied as a discount to the client invoice should be categorized in bookkeeping software as a debit under 5915 Instant Rebates. When the rebate is deposited it will be entered as a credit to that account, cancelling out the debit.*

Direct Costs or COGS (Cost of Goods Sold) Account Series 6000 through 6999- OVERVIEW

The chart of accounts now transitions from operating income accounts (5000 series) to operating expenses. Operating expenses are organized into several large groups, starting with direct variable expenses called Direct Costs.

The purpose of the Direct Cost account series is to group the practice costs directly related to the revenue generated from veterinary services. More detail in the Direct Cost accounts allows a better analysis of the cost and profitability of each service offered.

Notice that the Direct Cost account list is numbered to match many of the Revenues from Operations account codes 5000-5999. For example, Direct Cost account 6500 Surgery Costs, correlates to revenue account 5500 Surgery Revenue.

The profit and loss report subtracts the grand total of the Direct Cost (comparable to Cost of Goods Sold (COGS) in manufacturing entities and as called in QuickBooks terminology) accounts from Revenues from Operations. This subtotal of operating revenue minus Direct Costs equals gross profit.

The gross profit subtotal expressed as a percentage of total operating revenues is known as the gross profit percentage. A higher percentage indicates several possible observations of practice performance, including higher fee structure and revenue realization supporting expenses, lean use of drugs and other supplies for providing veterinary care, and/or stronger internal controls for supply management and fee realization.

The gross profit subtotal also represents the amount of operating income remaining for payment of wages and other employee-related costs, administrative, equipment and facility expenses. Gross profit minus these expenses determines net profit.

The Direct Costs group on the VMG/AAHA COA does *not* include any wages or other payments made for labor, such as veterinarians, relief doctors, contracted specialists who work in the practice, or technicians. This is different from cost accounting for manufacturing where labor is sometimes computed and applied to cost of goods sold (Direct Costs).

In veterinary practice accounting, virtually all forms of labor are summarized in a group of accounts (early 7000 account series), which follows immediately after the COA's 6000 series.

This decision is founded in the unique costs of running veterinary practices. Labor and related human resource costs amount to about forty to fifty percent of revenues. The various direct costs of drugs, professional supplies, hospital supplies, laboratory costs, and so forth contribute another seventeen to twenty-five percent of revenue cost, depending on the unique nature of practice services and patient species.

For managerial purposes, interpretation of data and trends is simplified when these two major components are isolated from each other. By veterinary profession standardization of these two significant expense centers, practice managers and financial analysts will have much improved understanding of how one practice compares with benchmarked trends of comparable entities.

As a general rule, the following Direct Cost expense accounts should *not* be used to code equipment and other capital assets. Capital assets have a useful life of greater than one year. When an equipment purchase is bundled with other supplies ordered and delivered through a single vendor invoice, the correct bookkeeping procedure requires separation of invoiced components to the correct accounts. Please review the fixed asset account descriptions.

Even without equipment purchases, a good bookkeeper will segregate and account for many items purchased through a single invoice or order. For example, a veterinary supply distributor invoice might include vaccine, bandaging materials, injectable antibiotics, and suture material. The bookkeeper will class each invoice item to a different account in the 6000 series, with a brief description of the product. At a later date, the printed general ledger detail becomes a great advantage to the managing partner or chief financial officer analyzing and interpreting practice financial trends.

> *Tip 1: For VMG practices, Veterinary Study Groups and Henry Schein® Animal Health has pre-coded all products to match the VMG/AAHA COA accounts. VMG members should reference the DATALINK section of the VMG Connect member web page to access instructions of how to run a Henry Schein Animal Health report that summarizes practice purchases by month, quarter or year. The reports organize expenditures by VMG/AAHA COA account number, to assist bookkeepers in efficiency and accuracy when they key Henry Schein invoices to QuickBooks or other bookkeeping software, and subsequently Direct Cost account totals to DATALINK.*
>
> *Tip 2: No matter how you decide to organize your accounts and assign expenditures to them, always be consistent. Consistency of transactional coding within the practice is more important than trying to be overly detailed.*
>
> *Tip 3: Vendor invoices may include shipping and sales tax charged on supply purchases. These costs should not be separated from the supply cost when recording them to the practice's accounting software. For example, sales tax paid on vaccine purchases should be included with the cost of the vaccine in account 6001.*

Tip 4: Equipment repairs and maintenance costs (including service contracts) should be expensed separately in the Facility & Equipment subsection of the chart of accounts, not included in the 6000 Direct Costs series.

Tip 5: Vendor rebates and discounts made to the veterinary practice that are related to any purchased products, supplies, and pharmaceuticals should be recorded directly to the original expense account, as an offsetting reduction to the purchase price.

Tip 6: Bookkeepers should examine invoices to see if an early payment discount will apply, as these discounts can add up to significant practice cash savings. While timely payment discounts are not as frequent as they once were, they are important to utilize if available.

Tip 7: In a well-maintained accounting system, expenditures for "on-hand" drugs and medical supplies are recorded as Inventory (an asset on the balance sheet) until the point dispensed or consumed in the provision of patient care. Direct Cost expenditures represent inventory assets consumed to generate revenues and adjusted to the 6000 accounts as used, to present a fairly consistent picture of gross profit resulting from veterinary services and sales of products.

Tip 8: DO NOT create a catch-all category for small equipment (<$2500 in price) but expense small equipment in the category that it is used in. For example:

a. *6020 Examination, Hospitalization & Treatment Costs- Electronic thermometer*
b. *6025 Fluid Therapy Costs- Fluid pumps*
c. *6500 Surgery Costs- Surgery instruments*
d. *7745 Computer Supplies- Computers*
e. *7750 Office supplies- Office equipment <$2500*

6000 - 6999 Direct Costs - OVERVIEW

All VMG practice bookkeepers should submit data that segregates expenses to match revenues.

Most veterinary practices expend significant proportions of revenue on drugs and professional supplies. Since as much as twenty to twenty-five percent of gross revenues might be expended in practices with heavy dispensing activity, detailed management reports greatly benefit practice planning, budgeting, and profit evaluation. Useful reports only result when the bookkeeper makes the effort to segregate drug and consumable hospital supply expenditures into the accounts management requires.

Even with very detailed coding of various professional supply and drug costs, many bookkeepers will find this account useful from time to time to temporarily post a transaction until further assistance can be gained from the chief financial officer or other decision maker.

6000 Professional Services Costs

The sum of accounts 6001 through 6099 is entered in DATALINK input field: Professional Services Costs.

6001 Vaccine Costs

This expense center includes the costs of companion animal vaccine products, including the cost of Rabies Tags. In general, the vaccine-administration paraphernalia such as needles and syringes are coded to the next account, 6020.

6020 Examination, Hospitalization, & Treatment Costs

This account is used to record costs of consumable supplies used in treating patients: muzzles and patient & staff safety devices, external splints and splinting supplies, tourniquets, pet pillers, isopropyl alcohol, urinary catheters (rubber, polypropylene, Foley, etc.), cotton, hydrogen peroxide, syringes (including insulin syringes), needles, bandage supplies, tear test strips, tongue depressor blades, microchips, artificial insemination supplies, heating/warming sources, tattoo supplies and equipment, exam & treatment gloves, silver nitrate sticks, euthanasia solutions, enema solutions, etc. for hospital use, microchips, cold laser therapy supplies, VetStem service expenses, diagnostic service supplies, cost of diagnostic services, identification neckbands, hospital supply costs such as disinfectants, sanitizers, hand soap, cleaners, OSHA training aids and posters and minor non-depreciated patient care equipment costs that are used primarily in exam, hospital & treatment. Necropsy fees and euthanasia solutions should be included in this account as should fees charged to the practice by pet poison control for a one-time consultation on a specific patient. Includes Telemedicine cost (cost of 3rd party service).

> *Tip: The practice capitalization policy should provide guidance for immaterial or minor patient-care and medical equipment costs that are expensed in this account rather than capitalized and subsequently depreciated.*

6025 Fluid Therapy Costs

Record all fluid therapy costs in this account, including intravenous (IV) catheters, lines and extension sets, catheter caps, IV administration supplies and equipment usage such as IV pumpps, IV stands, IV fluid products, and Hetastarch-like products. Also include blood collection and administration sets and immaterial expenditures for equipment related to fluid therapy (see prior tip regarding capitalization policy.)

6030 Diagnostic Services Costs

This expense center includes costs associated with blood pressure measurement, EKG/ECG tracing procedures (including Holter monitor use), ophthalmology-related tests (tear/lacrimation testing, corneal staining procedures, intraocular pressure measurement), bone marrow aspiration procedures, water deprivation tests, Tensilon tests, CSF tap procedures, diagnostic abdominocentesis or thoracentesis procedures, intradermal allergy testing and necropsy procedure. Expenses associated with EKG/ECG consults are also included here.

6040 Rehabilitation Costs

This account is used to track minor expenditures for non-capitalized equipment and for supplies used for rehabilitation services, such as therapy pool supplies and minor maintenance parts, exercise balls, balance boards, slings, goniometers (measure range of motion) and similar articles.

This account does not include cost of significant equipment repairs, maintenance, and services agreements which are expensed separately to account 7520 Maintenance, 7530 Service Contracts, and 7570 Repairs (see prior tip regarding capitalization policy.)

6050 Animal Disposal/Mortuary Costs

This account is used to expense costs for burial and cremation services, caskets, urns, receptacles, headstones, paw-print kits and similar supplies related to post-mortem body care and patient memorials. This account does not include cost of euthanasia solution which should be coded to 6020.

6095 Medical Waste Disposal Costs

This account segregates expenses related to compliance with OSHA and EPA requirements for the disposal of medical waste, including costs of containers for hazardous waste disposal service. Some state EPAs include animal bodies in the definition of medical waste; regardless, costs for body disposal should be coded to 6050.

6099 Large Animal Costs

This account accumulates miscellaneous large animal service-related expenses in practices that only have a small segment of activity related to large animal species care (as a proposed guideline, less than 5% of expenses deriving from large animal services and product sales.)

6100 Pharmacy Costs of Services

The sum of accounts 6101 through 6199 is entered in DATALINK input field: Pharmacy Costs.

6105 FDA Med, Pill, Cap, Liquid, etc. Costs

Record FDA prescription medications such as pills, capsules, liquids, topicals and some sprays, including oral and transdermal controlled substance medications, FDA hyposensitization (allergy) treatment sublingual drops, and any other FDA approved product category not listed in the 6110 to 6199 accounts. Also include pharmacy dispensing supplies such as prescription containers and labels.

6110 Injection Costs

This account is used to track FDA inpatient and outpatient injectable medications invoiced as pharmacy injection income. It does include insulin and Immiticide injections. It **excludes** IV Fluids (code to account 6025), vaccines (code to account 6001), FDA parasiticides such as ProHeart® & Bravecto® Quantum (code to account 6125), euthanasia solutions (code to account 6020) and anesthetic/sedating agents (code to account 6600).

6115 FDA Prescription Flea/Tick Non-injectable Prevention Product Costs

Record costs here for non-injectable FDA prescription products that prevent fleas and/or ticks, but not heartworms. Examples of product purchases to record in this account include Comfortis, NexGard & Bravecto. Injectable products are coded to 6125.

6120 FDA Prescription HW Non-injectable Prevention Product Costs

This expense center includes purchases of any non-injectable FDA product that prevents heartworms or combination products that prevent heartworms and other internal or external parasites. Examples of costs to record in this account include Sentinel, Trifexis, Heartgard, Advantage Multi, and Revolution. Injectable products are coded to 6125.

6125 Injectable Parasite Prevention Product Costs

Includes cost of injectable products that prevent fleas, ticks or heartworms, such as ProHeart® or Bravecto® Quantum injectable.

6130 Internet Pharmacy Costs

Includes cost of products resulting in sales made through a web portal either belonging to the practice or a subcontracted vendor such as VetSource, Vet Centric, MyVetDirect, Henry Schein or other online portal vendors. Internet ancillary products are expensed separately under 6804 Ancillary Internet Costs. Subcontracted vendors usually pay the practice the net amount of sales made to clients, so a journal entry may be required to record sales at gross (in account 5130) and the related cost here.

6200 Dietary Product Costs

The sum of accounts 6201 and 6202 is entered in DATALINK input field: Dietary Product Costs.

6201 Therapeutic Diet Product Costs

Record to this account the cost of pet foods that are sold as a therapeutic medical recommendation to address a patient's diagnosed medical health.

6202 Retail Diet Product Cost

Record the cost of pet foods that are sold as wellness/maintenance diets, pediatric diets, or traditional foods WITHOUT specific therapeutic dietary formulations for diagnosed medical health problems.

6203 Internet Diet Costs

Includes the cost of diets resulting from sales made through a web portal either belonging to the practice or a subcontracted vendor such as Hills to Home, Purina, Vetsource, vRxPro etc. Subcontracted vendors usually pay the practice the net sales made to clients, so you want to capture to the gross sales in account 5203 Internet Diet Revenue and the related cost here to get the net amount recorded in your financials and bank account.

6300 Laboratory Costs

Totals for account 6301 and account 6302 should be entered separately in DATALINK in their respective fields: In-House Lab Costs and Outside (Reference) Lab Costs.

Segregating in-house and reference lab revenue and expense allows a practice to easily track expenses as a percentage of revenue for each. Having these metrics allows a practice to monitor lab service fee capture, reference lab price increases, use of in-house reagents, use of lab services, etc. in a timely and efficient manner.

6301 In-House Lab Costs

Record the cost of any lab supplies, reagents or expendables along with minor non-depreciable equipment used in performing in-house lab testing here. This account does not include the cost of significant equipment repairs, maintenance, and service agreements which should be expensed separately under 7520 Maintenance, 7530 Service Contracts or 7570 Repairs. New capital equipment over $500 should be entered as an asset & depreciated.

> *Tip 1: The practice capitalization policy should provide guidance for immaterial or minor patient-care and medical equipment costs that are expensed in this account rather than capitalized and subsequently depreciated.*
>
> *Tip 2: When comparing in-house lab costs between practices, keep in mind that costs can be greatly influenced by the proportion of lab tests done on machines with high reagent and overhead costs versus those that have very little costs such as skin and ear cytology.*

6302 Outside (Reference) Lab Costs

This account includes the cost of supplies or charges by reference lab for performing outside lab testing, histopathology and necropsy. Includes cost of mailing samples to lab and laboratory pathologist consulting fees.

6400 Imaging (X-Ray) Costs

The following accounts include purchases of radiographic film, processing chemicals and supplies, contrast materials, lead shields, radiation monitoring badge contracts, and labeling supplies. Also include OFA and PennHIP fees and outside radiologist/cardiologist imaging service consultant fees to this account. If radiology services are provided on-site by a boarded radiologist, their wages should be included in 7085.

The cost of radiological and imaging equipment is *not* included in this account code, unless immaterial and in accord with practice capitalization policy; the cost is recorded to the fixed asset section for professional equipment (account series 2000).

Do not record equipment repairs, maintenance, or service contracts in this account, which should be expensed separately under 7520 Maintenance, 7530 Service Contracts, or 7570 Repairs.

The sum of accounts 6403, 6404 and 6420 is entered in DATALINK input field: X-Ray. Accounts 6405, 6410, 6415 are entered into their own respective DATALINK input fields.

6403 X-Ray Costs

Storage for digital radiographs should be included in 6403.

6404 Dental X-Ray Costs

6405 CT Scan Costs

6410 Ultrasound Costs

6415 MRI Costs

6420 Imaging Consultation Costs

If radiology services are provided off-site by a boarded radiologist or artificial intelligence radiology service, those consultation costs should be recorded here. However, if the consultation is performed at your hospital by a boarded radiologist, their fees should be included in 7085.

6500 Surgery Costs

This account is used to record all the supply costs related to surgical procedures including bone plates, screws, implants, fixators, suture material and needles, penrose drains, nitrogen, ethylene oxide, sterilization supplies, instrument cleaning supplies, sterile-field drapes, gowns, surgical gloves, small instruments not capitalized, and similar disposables, consumables, and supplies.

Include non-capitalized equipment and parts for non-invasive endoscopic procedures, laser and cautery surgery, and sterilization needs.

Do not record equipment repairs, maintenance, or service contracts in this account, which should be expensed separately under 7520 Maintenance, 7530 Service Contracts, or 7570 Repairs.

If a surgery is performed in another hospital, but billed by your hospital, invoice the client in the normal way, splitting it into anesthesia, surgery and other appropriate fees. The fee paid to the other surgeon or hospital should also be split between 7085 Veterinary Specialist - Contractor Payments, 6500 Surgery Costs, and any other appropriate categories.

Mobile surgeons who perform surgeries in hospital are paid under 7085 Veterinary Specialist – Contractor Payments.

*Tip: From time to time, surgical packs require replenishment with instruments that have failed. The cost of replacement will depend on the quality of the instrument as well as its type. The cost of a single forceps replacement may be so minimal as to merit expensing, while replacement of a large number of instruments in a short period of time may be monetarily significant. Therefore, the veterinary practice should have a **capitalization policy** to guide decisions about immediate expensing versus capitalization and depreciation of equipment such as surgical instruments that are expected to be useful for multiple procedures over more than a single year.*

6600 Anesthesia, Sedatives, Tranquilizers Costs

This cost center includes expenses for inhaled and/or injectable meds that alter the perception of consciousness, pain and/or the sensation of the animal. Includes all inhaled and injectable anesthetics, analgesics, anxiolytics, sedatives, tranquilizers and reversals (such as Midazolam, Marcaine, Bupivacaine, DexDormitor, Dormisedan, Telazol, Lidocaine, Propofol, Alfaxan, etc.), epidural nerve blocks, local & dental nerve blocks and topical anesthetics. Oral and/or patch versions of these medicines should be coded as FDA RX 6105 as should NSAID/NSAID like drugs. Injectable NSAIDs should be coded to 6110. Oxygen, F-air filters, soda lime, endotracheal tubes. Includes parts, supplies for anesthesia, monitoring and waste gas scavenging equipment. Also includes non-capitalized monitoring, anesthesia and waste gas scavenging equipment. Does not include cost of equipment repairs, maintenance and service agreements which should be expensed under 7520 Maintenance Expense, 7530 Service Contract Expense or 7570 Repair Expense. New capital equipment over $500 should be entered as an asset and depreciated.

6700 Dentistry Costs

Use this account to record the costs of all non-capitalized dental instruments, equipments, and supplies (see prior tip regarding capitalization policy.) Include dental products used on the teeth in the operatory, such as Doxirobe® and OraVet®. Home-use dental hygiene products are expensed elsewhere, depending on whether it is an FDA (6100) or an OTC (6801) product.

Do not record equipment repairs, maintenance, or service contracts in this account, which should be expensed separately under 7520 Maintenance, 7530 Service Contracts, or 7570 Repairs.

6800 Other Ancillary Service & Product Costs

The sum of accounts 6801 through 6824 is entered into DATALINK input field: Ancillary Costs.

6801 OTC Products, Shampoos, & Nutraceuticals

Includes all therapeutic over-the-counter products, dental hygiene OTC products including Greenies, nutraceuticals, probiotics, alternative medicine and acupuncture products such as needles and Chinese herbs, Elizabethan anti-self-mutilation type collars, non-FDA shampoos, blood glucose testing kits & strips sold/rented for at-home use, behavior modifying products used in behavior therapy including Soft Paws and Thunder Shirts.

6802 Pet Supply Costs

Record all retail-sales costs of products sold in the veterinary hospital. Examples include non-medical products such as leashes, harnesses, collars, toys, point of purchase items, brushes, grooming sprays, candles, milk replacers, deodorants, nail trimmers, flea combs, pet treats, pet carriers, pet ID tags, pill cutters, pet booties, etc. Air fresheners purchased for resale would be expensed as 6802 Pet Supply Costs. If some are used in hospital, you may do a journal entry adjustment to shift the cost to 7870 Office Supply Expense. Include city/county license tags in this account.

6803 Non-FDA Flea/Tick Control Costs

Include all EPA, non-FDA flea control products such as topical spot-ons (Frontline, Activyl, Vectra, Certifect, and Cherisitin), Capstar, sprays, powders, dips, and premise treatments. Flea shampoos should be recorded in account number 6801.

6804 Internet Ancillary Retail Sales Costs

Record costs in this account resulting from ancillary product sales made through a practice web portal. If not separated from Internet pharmacy costs, include all in account number 6130.

6825 Boarding Costs

Costs to record in this account include supplies, food, bedding, and litter used exclusively for the maintenance of boarded and/or hospitalized animals. All boarding related supplies have been pre-coded to boarding with Henry Schein product codes so if your practice does not have boarding move all boarding expenses to 6020 Exam, Hospitalization and Treatment. Do not include medical and nursing supplies used for hospitalized animals. See income account 5825 for more information about the boarding profit center. Labor is recorded in the 7000 account services.

6850 Grooming Cost of Services

Costs to record in this account include grooming supplies, gallon sized shampoos, and other products used in providing bathing and grooming services. All clippers, grooming scissors and grooming supplies have been pre-coded to grooming with Schein product codes so if your practice does not provide grooming, move all grooming expenses to 6020 Exam, Hospitalization and Treatment. See income account 5850 for more information about the grooming profit center. Labor is recorded in the 7000 account services.

> *Tip: If you do not offer grooming, consider make 6850 Grooming Costs a subcategory of 6000 Professional Services Costs so that when distributors itemize items (like clipper blades) to Grooming Costs they will go to Professional Services in Datalink instead.*

General and Administrative Expenses Account Series 7000 through 8999

General and Administrative Costs include Human Resource Expenses (Compensation, Taxes, Benefits, and Other Employee Expenses), Facility and Equipment Expenses, Administrative Expenses, Fee Income Collection Expenses, and finally, Depreciation & Amortization Expenses.

Human Resource Expenses Account Series 7000 through 7499

These accounts are further defined as:

7000 - 7199	Labor Expense
7200 - 7299	Employer Payroll Tax
7300 - 7399	Employee Fringe Benefits
7400 - 7499	Other Employee Expenses

Labor Expense Account Series 7000 through 7199

> *Tip: Nearly all of the compensation accounts, except those labeled "Contract" represent the **gross wages** owed to employees and paid through payroll.*

7000 Owner Veterinarian Compensation

The gross amount (before tax withholdings) of salaries, wages, bonuses, commissions, and guaranteed payments paid to owner-employees post to this account. LLC member distributions, partner draws, and sole proprietor draws are recorded in account 4300. Each veterinarian employee-owner can be listed individually with a subaccount (7001, 7002, etc.) if desired for additional detail within financial reports.

This account should include the wages paid to owner veterinarians for clinical time (excludes compensation for management time which should be expensed in 7005 Owner Management Compensation.)

If rent is paid to an owner veterinarian who also owns the practice real estate, it will not be posted to this account. Post rent, regardless of payee, to 7500 Rent on Business Property (Real Estate.)

Many states now allow persons other than licensed veterinarians to own interests in veterinary practices domiciled in the related state. If you have this unique situation, please discuss with your accountant his or her preference, if any, for wage categorization in the general ledger, as might be needed for tax reporting purposes. Otherwise, gross wages, salaries, and bonuses paid to such individuals with ownership interests should be classed to the account representing the services the individual provides to the practice (e.g. management, bookkeeping, maintenance, teching, etc.) If gross payroll payments (before tax withholdings) are not "fair value" for the duties the person performs, you may have to adjust it so as to provide relevant benchmarking data to DATALINK.

7005 Owner Management Compensation

If owners (veterinarian or non-veterinarian) are paid an additional or separate amount of salary, bonuses, etc. as compensation for management duties, the gross amount (before tax withholdings) of payments should be coded to this account.

7080 Associate Veterinarian Compensation

Use this account to post the gross amount (before tax withholdings) of salaries, wages, bonuses, and commissions, paid to employed veterinarians, including credentialed specialists (with no ownership rights).

7083 Relief Veterinarian - Contractor Payments

Use this account to code payments made to veterinarians who perform services on an episodic and temporary spot-labor basis to relieve regular employee veterinarians from services. Contracted relief veterinarians ("independent contractors") usually have their own companies and offer their services to multiple practices within a practice area, rather than exclusively or predominantly to a single practice.

7085 Veterinary Specialist - Contractor Payments

Use this account to code payments made to veterinarians with specialty credentials who perform services on an episodic and temporary spot-labor basis to provide specialty patient care. Contracted specialist veterinarians ("independent contractors") usually have their own companies and offer their services to multiple practices within a practice area, rather than exclusively or predominantly to a single practice.
If radiology services are provided on-site by a boarded radiologist then their wages should be included in 7085. If radiology reading services are provided by an outside service at another location, the reading fees should be coded in 6420 Specialist (Radiologist) Consultation Costs. Mobile surgeons who perform surgeries in the hospital are expensed in this account.

If a surgery is performed in another hospital, but billed by your hospital, invoice the client in the normal way, splitting it into anesthesia, surgery and other appropriate fees. The fee paid to the other surgeon or hospital should also be split between 7085 Veterinary Specialist - Contractor Payments, 6500 Surgery Costs, and any other appropriate categories.

7090 Intern Veterinarians - Compensation

Use this account to post the gross amount (before tax withholdings) of salaries, wages, bonuses, and commissions, paid to newly graduated veterinarians filling work-study positions.

7100 Other Support Staff - Compensation

This is a general account, for coding the gross wages, bonuses and/or salaries of any employee other than doctors of veterinary medicine and/or persons with ownership interests. For managerial and financial analysis purposes, it is preferable to post gross wages to the appropriate account by employee job title and/or function, as follows.

The sum of account 7100 and subaccounts 7130, 7135, 7140, 7145 and 7150, (plus any other accounts your practice establishes that are unique in this subaccount series) is entered in the DATALINK input field: Other Support Staff Compensation.

7130 Registered Veterinary Technicians - Compensation

Recommended subaccount for registered technicians. This account will be reported to DATALINK as part of Other Support Staff Compensation.

7135 Veterinary/Technical Assistants - Compensation

Recommended subaccount for un-registered veterinary and technician assistants. May include patient medical transport drivers or may create another 7100 subaccount. This account will be reported to DATALINK as part of Other Support Staff Compensation.

7140 Client Service Reps/Receptionists - Compensation

Recommended subaccount for receptionists and client service representatives (CSRs). This account will be reported to DATALINK as part of Other Support Staff Compensation.

7145 Other (Non-DVM) Temporary Services – Contractor Payments

Recommended subaccount for spot labor engaged to provide support services such as clerical, janitorial, assistant, bookkeeping, outside medical transcription services or phone reception services. This account will be reported to DATALINK as part of Other Support Staff Compensation.

7150 Maintenance Personnel - Compensation

Recommended subaccount for maintenance and janitorial personnel who are employees, rather than subcontracted spot labor. This account will be reported to DATALINK as part of Other Support Staff Compensation.

7160 Administrative Personnel - Compensation

Gross wages, commissions, and/or bonuses for employees providing predominantly administrative, managerial, or back office services. The sum of this account and accounts 7162, 7164, 7166, and 7168 is reported as a separate input field in DATALINK: Administrative Personnel.

7162 Practice Manager/Administrator - Compensation

Recommended account for designated practice manager and/or administrator. This account will be reported to DATALINK as part of Administrative Personnel Compensation.

7164 Office Manager/Executive Assistant - Compensation

Recommended account for designated office manager and/or administrative assistant to practice owner(s). This account will be reported to DATALINK as part of Administrative Personnel Compensation.

7166 Bookkeeper - Compensation

Recommended account for designated practice bookkeeper who is paid as an employee of the practice (not an outside subcontractor). This account will be reported to DATALINK as part of Administrative Personnel Compensation.

7168 Clerical/Secretarial Personnel - Compensation

Recommended account for personnel functioning in clerical and transcriptionist positions, not described in other accounts. An example would be a medical record transcriptionist or secretary for a DVM specialist in the practice. This account will be reported to DATALINK as part of Administrative Personnel Compensation.

7170 Groomers - Compensation

Gross wages, commissions, and/or bonuses for pet groomers. The total amount in this account is reported as a separate input field to DATALINK: Grooming Compensation.

7175 Kennel Assistants - Compensation

Gross wages and bonuses for kennel and ward assistants, in practices with significant pet boarding activities. The total amount in this account is reported as a separate input field to DATALINK: Boarding/Kennel Compensation.

7200 Employer Payroll Taxes Account Series 7200 through 7299

Employer obligations for taxes from the employment of personnel are reported in lump sum to the related DATALINK input field: Payroll Taxes.

The following accounts are recommended to provide detail of those tax expenditures for budgeting and tax return purposes.

7210 FICA Tax Expense – Employer's Portion

This account expenses the employer's portion of social security (OASDI) and Medicare tax matching funds (to those withheld from employee wages). This account will be reported to DATALINK as part of Payroll Taxes.

7220 Federal Unemployment Tax Expense

Employers must pay federal taxes to fund unemployment claims. The unemployment tax amounts required by state law are coded to the next account. Federal unemployment tax integrates with state tax amounts, with credit given to the amount paid to the state. This account will be reported to DATALINK as part of Payroll Taxes.

7230 State Unemployment Tax Expense

Employers must pay state taxes to fund unemployment claims. The unemployment tax amounts required by federal law are coded to the prior account. State unemployment tax integrates with federally-mandated tax amounts, with credit given to the amount paid to the state. This account will be reported to DATALINK as part of Payroll Taxes.

7250 Other Employer Payroll Tax Expense

Some states require other tax payments by employers, and these more unique employment tax payments should be coded to this account.

This account will be reported to DATALINK as part of Payroll Taxes.

> *Tip 1: Only the employER portions of payroll taxes should be included in the 7200 account series. EmployEE portion of payroll taxes are appropriately included as compensation (i.e. employee wages should be reported at the "gross" amount).*

> *Tip 2: Account 7250 is reserved for other mandated employer payroll taxes. Certain states have additional payroll taxes that are levied on employers. If your state or locality requires additional payroll-type taxes, you can set-up a separate account within the Employer Payroll Tax series of accounts for each type of employer payroll tax.*

Employee Fringe Benefits Account Series 7300 through 7399

Employer commitments for benefit payments on behalf of employed personnel are reported in lump sum to the related DATALINK input field for Fringe Benefits. The following accounts are recommended to provide detail of those benefit expenditures for budgeting and tax return purposes.

Most employment fringe benefits in the following accounts are "qualified", that is, there is a regulatory carve-out to exclude them from taxation as compensation to the employee, while still providing a legal ordinary and necessary business expense deduction to the employer.

> *Tip: Many practices establish subaccounts as a method for tracking benefit expenditure totals by individual employee, including health insurance and continuing education expenses.*

7300 Employee Benefit Program

Code to this account practice payments to companies providing general qualified benefit programs to employees, such as for group health or dental insurance.

The following subaccounts to employee benefit programs are possible options. Modify as necessary to match the specific benefits offered by your practice. Accounts 7301 through 7309 are reserved for this purpose.

Tip: This account should include the employer contributed portion of benefits only. Amounts withheld from employee wages towards benefits should be held in account 3170 until properly remitted to the benefit company, such as a health insurance company.

Subaccounts may include:

7301 Group Health Insurance Premium

7302 S Corporation Shareholder Health Insurance Premium

7303 Group Dental, Vision and Other Insurance Premium
Includes insurance premiums to cover dental and vision care, Employee Assistance Plans, and any other types of insurance offered to employees that are not categorized elsewhere.

7304 Group Disability Insurance Premium

7305 Group Term Life Insurance Premium

7310 Employer Retirement Contribution

Tip: This account should include the employer contributed portion of retirement funding only. Amounts withheld from employee wages towards retirement contribution (qualified deferred compensation under ERISA) are coded in account 3260 until properly remitted to the employee's designated institutional fund, then bringing account 3260 to a zero balance.

7320 Professional Liability Insurance Premium

Premiums paid for practice and individual DVM coverage related to managing the risks of claims alleging professional negligence.

7340 Workers Compensation Premium/Tax

Tax or premiums paid for practice insurance that manages the risks of claims related to employee injury on the job, and provides wage replacement and medical benefits in exchange for mandatory relinquishment of the employee's right to sue the employer for negligence.

7360 Continuing Education Registration

Payments made to enroll employees in webinars, seminars, conferences and conventions for the purposes of expanding skills and knowledge, as well as complying with regulatory guidelines to maintain professional licensure in that particular state.

> *Tip: Only course registration/enrollment fees should be coded to this account. Travel and meals associated with continuing education should be coded to accounts 7365 and 7440, respectively.*

Optional subaccounts for continuing education may include:

> ***7361 Meeting/Course Registration Fees***
>
> ***7362 Business & Professional Book, Journals, VIN subscriptions, Pet Poison Control subscriptions (as an educational resource to the practice)***
>
> ***7363 Staff Training Fees and Costs (excludes wages, travel, lodging, meals)***

7365 Travel and Lodging

This account tracks practice expenditures for travel related to bona fide (ordinary and necessary business- related) education and training. Optional subaccounts for travel and lodging may include the following, but should exclude any meal and entertainment expenses which are limited as to deductibility:

> ***7366 Air Fare***
>
> ***7367 Lodging***
>
> ***7368 Transportation***
>
> ***7369 Mileage Reimbursement*** (CE travel) Mileage reimbursement for business errands is classed to account 7620.

<u>Other Employee Expenses Account Series 7400 through 7499</u>

Other employer payments for ordinary and necessary operating expenses on behalf of employed personnel are reported in lump sum to the related DATALINK input field: Other Employee Costs. These expenditures clearly benefit the individual employee but also the practice as a whole, as the investment should improve practice operations and service offerings. The following accounts are recommended to provide detail of those benefit expenditures for budgeting and tax return purposes.

7400 Study and Buying Group Fees

This account includes annual dues/expenses, quarterly fees, travel expenses, hotel/lodging expenses, materials & production expenses associated with study groups.

7440 Business Meals

Meals with a current or potential business customer, client, consultant, employee, or similar business contact for business purposes. Food and/or drink provided by a hospital which are directly related to business meetings of employees, stockholders, agents, or directors. Meals directly related, and necessary, to attendance at a business meeting or convention.

> *Tip: Expenditures made for business meals and entertainment expenses directly related to the conduct of the practice should always be segregated in the bookkeeping records, as these expenditures are only deductible to the extent of 50% of the total cost pursuant U.S. Tax Code.)*

7441 Entertainment

Expenses for client entertaining or employee entertainment not available/provided to all employees. Examples include sports tickets, concerts, country club dues, golf or other amusement expenses. All entertainment, including admission fees, tickets, and food and beverage unless the food and beverage is separately stated from the cost of the entertainment on one or more bills, invoices or receipts. Separately stated food and beverage items should be reflected in account 7440.

7442 Staff Meals/Snacks

Food and beverage for employees furnished on the business premises of the taxpayer facility. This includes but not limited to, coffee, water, and snacks provided for employee consumption only. Meals served to employees who are required to staff their positions during breakfast, lunch, and/or dinner times; meals served to employees at in-office cafeterias. Meals provided for staff during meetings should be included in account 7440.

7445 Staff Events & Recreation

Expenditures coded to this account typically include staff picnics and holiday parties but can include other practice financial support of events wherein 100% of all current employees are invited and included in the event.

> *Tip: Facts and circumstances of employer-sponsored recreation and celebratory events*

may be 100% deductible under U.S. Tax Code, and should be discussed with the practice accountant to assure will gain maximum deductibility.

7450 Employee Recruitment

Expenses coded to this account may include the cost of background checks, pre-employment drug screening, reimbursed airfare for purpose of interview visits, reimbursed moving expenses, etc.

Tip: Meals associated with employee recruitment should not be coded here. Code to account 7440 instead.

7460 Laundry & Uniform

7470 Employment Practices Liability Insurance

Code here the premium cost of insurance contracts for managing risk of employee ligation related to alleged unlawful employer policies and employment practices.

Facility and Equipment Expenses Account Series 7500 through 7799 - OVERVIEW

This account series includes a wide variety of facility and equipment support expenditures that typically total ten to twelve percent of operating gross revenue.

7500 Rent on Practice Real Estate

Facility rent expense is typically included in the profit and loss report as a subaccount of Facility and Equipment Expenses; however, for VMG DATALINK purposes, it is a standalone account in this COA rendition that will expedite input to a dedicated DATALINK input field: Rent (Actual).

Facility and Equipment Related Expenses

The following accounts should be tracked for practice management purposes and financial oversight. All of the following are entered as a lump-sum total to the related DATALINK input field: Facility and Equipment Costs.

7510 Rent on Equipment

This account includes one-time equipment rental fees, such as a pressure washer to clean the practice facility. *Operating lease* payments (non-purchase leases) should also be included here. Many leases are purchases in disguise and should be capitalized to the 2000 account series with an associated liability included in the 3030 account series. Talk with the practice's CPA to ensure proper accounting of the practice's leases.

7515 Outside Storage

Payments made to rent off-premises storage space are coded to this account.

7520 Maintenance

Expenditures made to maintain good working order and prevent failure of the practice's facility and equipment are classed to this account.

Subaccounts may include:

> ***7521 Medical Equipment Maintenance***
>
> ***7522 IT and Office Equipment Maintenance***
>
> ***7523 Facility Maintenance***

7530 Service Contracts

Service contracts associated with maintaining the practice's facility, grounds, and equipment should be included here, such as security/alarm contracts, landscaping and snow removal contracts, and heating, ventilation, and air conditioning (HVAC) maintenance contracts.

Also include service contract payments for equipment maintenance, such as digital x-ray, bench laboratory equipment, and computer equipment. Service contracts are comparable to acquiring insurance to mitigate unexpected cost of loss and downtime. To keep direct costs and other accounts comparable between practices, service contract expenditures are maintained in Facility and Equipment Expenditure accounts.

Use of subaccounts is a good option if the practice has a significant number of higher cost contracts. Examples: Service Contracts: IT, Service Contracts: Landscape Services and Snow Removal, Service Contracts: Medical Equipment. Otherwise, these subaccounts can be used:

Subaccounts may include:

7531 Medical Equipment Service Contracts

7532 IT and Office Equipment Service Contracts

7533 Facility Service Contract

7534 Cloud Storage

7540 Housekeeping & Janitorial

This account includes payments to a contracted cleaning, maid, or janitorial service as well as supplies associated with facility cleaning.

7570 Repairs

Expenditures related to facility and equipment repairs are included here. May include expenses for facility equipment repairs such as washing machine repair. Repairs are different from maintenance as they are used to restore broken property to its condition before the breakage occurred. Maintenance expenses are incurred to prevent breakage by keeping equipment and facility in good working condition.

Subaccounts may include:

7571 Medical Equipment Repairs

7572 IT and Office Equipment Repairs

7573 Facility Repairs

7580 Property, Casualty, & Liability Insurance Premium Expense

Code premium expenses for liability insurance on the facility, inventory, contents, and business overhead insurance (BOI; sometimes called disability overhead insurance).

- Umbrella liability and cyber liability premiums are also coded to this account.
- Professional liability insurance should be coded to account 7320, and employment practices liability insurance should be coded to account 7470.
- Vehicle insurance premiums are expensed in 7620 Practice Vehicle Expenses.
- Workers compensation insurance premiums (or tax) are coded to 7340.

7590 Real Estate Tax

The lease agreement and who owns practice real estate makes determination of whether the practice or the landlord pays real estate taxes.

If the lease agreement requires the practice to pay the real estate taxes, expense the tax payments to 7590. If the real estate taxes are paid by the landlord (and therefore included in rent), then the tax expense is included in 7500 Rent on Practice Real Estate, account.

7600 Personal Property Tax

Record tangible and intangible personal property tax payments in this account, when applicable in your practice's state. See account 3420 Accrued Property Tax for additional explanation.

7620 Practice Vehicle

Costs associated with running and maintaining a practice vehicle for business purposes should be coded here, including gasoline/diesel, vehicle repairs and maintenance, vehicle insurance, and vehicle license renewals.

If the vehicle is leased, lease payments are classed here.

Use this account for any reimbursed mileage for business use of employee-owned vehicles, other than for continuing education attendance (which is expensed to 7369).

7660 Utility Services

Subaccounts may include:

7661 Electricity

7662 Natural Gas/Fuel Oil/Propane Gas

7663 Sewer

7664 Water

7670 Telephone Services

This account includes expenditures for telephone and fax services via landline but does not include directory advertising.

Subaccounts may include:

7671 Cellular Phone Service

7672 Landline Phone Service

7675 Cable & Internet Services

Code payments for cable service, DSL, fiber-optic, T1 (exclusive of land line services for telephone - 7670) and internet service providers.

7680 Answering Service

7690 Rubbish Disposal

Use this account for expenses related to routine rubbish services. Medical waste disposal service payments are coded to account 6095.

Administrative Expenses Account Series 7700 through 7999 - OVERVIEW

This account series includes a wide variety of "back office" and general practice support expenditures that typically total four to six percent of operating gross revenue.

7700 Administrative Expense Account Series

The following accounts should be tracked for practice management purposes and financial oversight. They should be entered as a lump-sum total to the related DATALINK input field called Administrative Costs.

7705 Licenses & Permits

Include expenditures for professional and business licenses and permits, such as veterinary and technician license fees, DEA licenses, building occupancy permits, and kennel permits.

7710 Use Tax Paid

Use tax paid on applicable purchases can be allocated to the appropriate expense category rather than using this account, if you prefer. For example, use tax paid to the state and associated with the purchase of non-taxed office supplies could be classed to account 7750 Office Supplies.

In all cases, the allocated amount of use tax paid on the purchases of capital assets, such as equipment, should be included in the same fixed asset account as the original purchase. For example, $2,100 of use tax paid on the acquisition of a $35,000 ultrasound machine should be coded to account 2000 – Professional Equipment. The total effective capitalized price of $37,100 is then subject to depreciation.

Sales tax collected from clients goes into account 3400 Sales & Use Tax Payable. See account 3400 Sales & Use Tax Payable for additional explanation.

Do not segregate sales tax from the cost of supply acquisition. Sales tax assessed by vendors on goods, services, and equipment sold to the practice is part of the asset's cost and is never classed to a separate account.

7715 Franchise Tax

Record state franchise, commercial activity, or other similar state tax payments to this account. This does not include pass through entity tax or individual estimated tax.

7720 Other Tax

Use this account to record other taxes levied on the practice that do not appropriately fit elsewhere. Note well: This account does not include payroll taxes, workers compensation premiums/tax, corporate income taxes, real estate taxes, personal property taxes, pass through entity tax or individual estimated taxes, etc. These should be all coded elsewhere.

7725 Veterinary & Professional Dues

Expense to this account expenditures made for AVMA, AAHA, VHMA, state and local associations, and business associations such as chamber of commerce membership dues.

7730 Client Education Material

Use this account to expense newsletters, brochures, other client education materials, and postage related to newsletter mailings.

7735 Business Gifts and Flowers

Gifts, flowers, cards, food baskets, sympathy cards and expression of sympathy gifts.

7740 Charitable Contribution

Record payments made to qualified charitable organizations to this account only if no current or future practice promotional benefit is received. If such donations have promotional and marketing benefit that advances client acquisition and growth, then consider classing such payments as advertising and marketing expense, even if made to qualified charitable organizations.

If you received a direct benefit, such as a meal, then the fair market value of the direct benefit should be coded to the appropriate account (7440, in this example), with the difference coded to charitable contributions. For example, if the practice pays $100 to a qualified charitable organization and in return receives a meal with a value of $20, then of the $100 expense, $80 should be coded to account 7740 and $20 should be coded to account 7440, assuming there is a business purpose for attendance and business discussion relative to the practice.

7745 Computer Supplies

Post transactions for ribbons, toner, disks, and other peripheral supplies such as cables and small dollar-value software to this account.

Minor equipment and software acquisitions may be expensed to this account in accord with the practice capitalization policy.

Major acquisitions of computer systems, software, or environmental changes should be capitalized and posted to account 2050 Computer Hardware or 2500 Computer Software.

Labor costs associated with the installation of hardware or software should also be capitalized as part of the respective computer hardware or software account.

Do not record equipment repairs, maintenance, or service contracts in this account, which should be expensed separately under 7520 Maintenance, 7530 Service Contracts, or 7570 Repairs.

7747 Software as a Service Fees

Includes a wide variety of office and general practice support subscription fees such as Adobe, Calendly, Vetstoria, Office 365, Google Drive, Drop Box, Visvet, PIMS subscription fees, Zoom, Whentowork, WhenIwork, Scribblevet, CoVet, etc. These do not include remote employees such as live scribes, which should be allocated to contract labor.

7750 Office Supplies

Expenditures in this account include typical general office supplies such as pens, paper, paper and binder clips, binders, paper files, inexpensive calculators and small equipment. Also, reception area magazine subscriptions can be expensed to this account.

7755 Postage

Expense to this account stamps, FedEx and UPS, parcel post, courier service, and postal machine rental. Postage for newsletters and other promotional items should be recorded in the appropriate category.

Semen shipping freight costs should be included with artificial insemination (A.I.) costs in account 6020.

7760 Printing

Post costs for printing in-office documents and using outside printing services (e.g. Staples or FedEx Office.)

Print run costs such as for brochures and newsletters should be recorded in 7730 Client Education

Material.

Copier expense based on print runs and toner refills can be coded here, too. Otherwise, service contracts should be expensed to account 7530.

7765 Accounting Fees

Record fees paid to accounting firms for accounting and tax services. Payroll service and/or outside bookkeeping service payments are coded to the following two accounts.

7770 Bookkeeping Services

Payments for an independent bookkeeper who is not an employee of the practice are included here. If the bookkeeper is an employee of the practice, wages would be recorded in account 7166.

7775 Payroll Service Fees

Post payments to this account for an independent payroll company service involving preparation of employee paychecks, payroll-related tax returns and filings, and tax fund remittance handling, such as ADP, Paychex, Heartland, or Intuit, among many others.

7780 Employee Benefits Administration

This account includes fees paid to a third-party administrator for maintenance of retirement plans (e.g. 401k, SIMPLE IRA, etc.) or other employee benefit plan maintenance, such as Section 125 Cafeteria Plans. Surety bond premium expense is also coded to this account.

7785 Legal Services

This account is used for expenses related to ordinary and necessary business expenses related to attorney and legal assistance. Expenses related to business startup, business organization, and business acquisition generally are NOT coded to this account. Special attention must be given to the exact legal services incurred to determine how they should be handled for accounting and tax purposes. These issues are beyond the scope of this handbook, and the practice accountant should be assisting in determination of correct handling.

> *Tip: Legal invoices should provide detailed descriptions of the services provided, so that a correct determination can be made relative to tax return preparation.*

7790 Business Consultation

Code payments to third party companies and independent contractors for business management advice and consulting services.

7800 Advertising & Promotion Expense Account Series

Advertising, marketing and promotional expenditures are typically included in the profit and loss report as a subaccount of Administrative Expenses; however, for VMG DATALINK purposes, it is a standalone account in this COA rendition that will expedite input to the dedicated DATALINK input field: Advertising and Promotions.

This account includes the directory advertising portion of the telephone bill, community publications, web site expense, search engine advertising, other web advertising, billboards, direct mail, reminder cards, business cards, gear and trinkets printed with the name of the practice, community sponsorships, open houses, postage for client reminders, direct mail advertising and promotions. Includes VetStreet, AllyDVM, etc. subscription fees.

Optional subaccounts depending on the expenses you wish to monitor may include:

7801 Yellow Page Advertising

7802 Website Maintenance

7803 Internet Advertising

7804 Direct Mailing

7805 Client Reminders (include text messaging platforms in this account)

7806 Memorial Contributions

7808 Sponsored Events

7809 Marketing Consultant Fees

7810 Advertising & Promotion – Other

7900 Fee Income Collection Expense Account Series

The following accounts should be tracked for practice management purposes and financial oversight. The following are entered as a lump-sum total to the related DATALINK input field: Fee Income Collection Costs.

7905 Bank Charges and Service Fees

Code payments made for bank and financial management service fees for processing deposits and bounced checks, TeleCheck, maintaining an account or safe deposit box, and providing other services. Also include fees for late credit card payments.

7910 Credit Card Merchant Service Fees

Client credit card payment of veterinary invoices results in fees assessed to the practice. This account is used to code payments made to or withheld by MasterCard, VISA, American Express, Discover, Apple Pay and similar consumer credit cards. Also include any fees paid to PayPal or Venmo for processing client payments.

Includes credit card fees associated with Telemedicine.

> *Tip: Credit card merchant service fees, the cost of offering credit options to clients, should be recorded as an expense. It is easy to mistakenly net these costs with collected revenue in the 5000 account series. Compare the sum total of merchant fees recorded in the practice's bookkeeping software against the monthly statement(s) provided by the offering companies: the amounts should be equal.*

7911 Wellness/Pre-Paid Plans Service Fees

Fees associated with third party vendor management of wellness/pre-paid plans.

7915 Third Party Financing Service Fees

This account records the fees paid to CareCredit related to client use of the instant credit system to pay practice invoices. Other instant consumer credit vehicles the practice contracts would result in fees that can be expensed to this account, as well.

> *Tip: As with credit card merchant service fees, compare CareCredit discount fees recorded in the bookkeeping software with the monthly statement to ensure accurate reporting of CareCredit fees.*

7920 Collection Fees

This account includes fees paid to a collection agency for pursuit of client accounts receivable.

7930 Bad Debts

Bad debt expense is recorded at the time of direct write-off of specific client accounts receivable that have been pursued and collection efforts exhausted. This account will be used by accrual basis taxpayers.

7940 Returned Check Fees

Record check payments received from clients that did not clear the bank due to insufficient fund balances or were otherwise returned as uncollected by the practice's bank. If another means of payment is received from the client to settle the returned check, the payment should be offset here. If a re-deposited check successfully clears, then the second deposit is recorded against this account, effectively clearing it to zero. The balance of this account will only include returned checks for which no compensating payment has been received. This account will be used by cash basis taxpayers.

Depreciation and Amortization Account Series 8100 through 8199

These represent accounts for recording "non-cash" deductions for fixed and intangible asset depletion. The amounts are determined by the practice's property schedules and are entered by journal entry, since the practice makes no payment that would result in the recording of a transaction.

In general, the following accounts are maintained for tax purposes and adjustments guided by the engaged accountant based on tax planning and law. The following are entered as a lump-sum total in DATALINK.

8000 Depreciation Expense

If your practice does not have depreciation adjustments via its tax accountant, estimates for interim, non-tax reporting purposes can be made as follows, at ownership prerogative: Spread the cost of fixed asset costs (account 2000-2499) over a 10-year estimated useful life.

8050 Amortization Expense

The periodic expense attributed to the decline in usefulness of an intangible asset. Similar to depreciation, it is the process of gradually reducing the value of an asset over its useful life, to reflect an estimate of its use in producing revenues over many financial periods.

Other Revenue and Expense Account Series 9000 through 9599 - OVERVIEW

These non-operating accounts fall into three series:

9000-9030 Other Revenue

9040-9070 Other Expense

9080-9095 Interest Expense

By accounting convention, *other revenue* is a term identifying sources of revenue from investments and financing, as compared to operating revenue (5000 series) which presents revenues from the business's main purpose: veterinary practice.

Likewise, *other expense* is a term identifying expenditures related to investments and financing, and *not* from asset use in the production of veterinary practice revenue.

Other Miscellaneous Revenue Account Series 9000 through 9030

In this section, record revenue that is unrelated to daily veterinary practice operations. Post other revenue sources in this section so that owners and managers can assess practice operating profitability before taking other non-operating revenue into account.

The following accounts should be tracked for practice management purposes and financial oversight. The following are entered as a lump-sum total to DATALINK: Other Revenue.

9000 Miscellaneous Revenue

Use this account to report episodic revenue for which there is no other classification. For example, an insurance payment received for damaged property in excess of its repair costs would be recorded here.

Do not post vendor rebates or refunds to this account or elsewhere in the *Other Revenue* section, but credit them instead as an offset against the related expense account.

Realized billing and financing charges related to client account receivable balances should be recorded here.

Most often payments (honorariums) received for veterinarian presentations at meetings would be classed in *Miscellaneous Revenue,* since most veterinary practices are not in the business of educating colleagues.

Sometimes outside sponsor support of a practice event for clients will exceed expenditures. Excess funds would be reported here, as would any fees paid by clients for attendance.

9010 Rent Revenue

If the practice sublets real estate to other business or individual tenants, post the rent receipts to this account. For example, rental revenue associated with a practice-owned apartment would be coded here.

9020 Interest and Dividend Revenue

Post interest income from all sources, including notes receivable and interest-bearing investment accounts to this account. If a variety of interest-bearing investments exists, each interest source can be separately presented by establishing individual interest-revenue account codes to match with the Forms 1099 – INT the practice will receive in the first quarter of the subsequent calendar year.

Dividends represent a comparable although slightly different form of investment return. The year-end balance of this account should match the total amount reported on all Forms 1099-DIV the practice receives in the first quarter of the subsequent calendar year.

9030 Gain/(Loss) on Asset Disposition

When the practice sells a fixed asset otherwise used for the production of veterinary revenue at a gain, record the recognized gain to this account. Simultaneously, an adjustment to the fixed asset account and the related accumulated depreciation account will also be made to retire the sold asset from service.

When the practice sells or disposes of a fixed asset at a loss, post the loss amount to this count. The journal entry to record the loss will simultaneously adjust the asset account and related accumulated depreciation account to retire the asset removed from service.

Other Miscellaneous Expense Account Series 9040 through 9070

The following accounts should be tracked for practice management purposes and financial oversight. The following are entered as a lump-sum total to DATALINK.

9040 Miscellaneous Expense

In this section, record non-recurring expenses unrelated to daily veterinary practice operations.

Do *not* post **operating expenses** to this account. The VMG/AAHA COA provides plenty of detail in the 6000 through 8999 expense accounts, so that an experienced bookkeeper should be able to decide the best class for posting.

9050 Fines & Penalties

Fines and penalties such as related to late submission of tax filings or traffic tickets are coded to this category, and are non-tax-deductible by law. Late fees for bill and credit card payment are coded to bank fees, account 7905.

9060 Officer/Key Person Life Insurance

Premiums for practice-owned life insurance on the life of a key person(s) for which the practice is also the beneficiary are coded to this account.

> *Tip: Life insurance which is not owned by the practice and for which the practice is not the beneficiary should not be paid by the practice.*

9070 Officer Disability Insurance

Premiums for disability insurance on the owner

Interest Expense Account Series 9080 through 9095

The following accounts should be tracked for practice management purposes and financial oversight. The following are entered as a lump-sum total to DATALINK input field: Interest Expense.

9080 Interest Expense – Financed

This account records the interest expense portion of debt service payments to financial institutions. The portion of payment related to principal reduction is coded to the corresponding loan account in the practice liability 3000 series.

This account also records the interest expense portion of capital lease payments to lease-finance companies. The portion of payment related to principal reduction of the capitalized lease is coded to the corresponding lease account in the practice liability 3000 series.

9090 Interest Expense – Shareholder/Owner

This account is used to record interest paid on practice debt owed to shareholders or other related parties. See liability account 3050.

9095 Interest Expense – Other

This account records the interest expense payments related to vendor and other debt, interest assessed on outstanding credit card liability.

Income Tax Expense Account Series 9100 through 9300

The following accounts should be tracked for practice management purposes and tax and financial oversight. The following are entered as a lump-sum total to DATALINK input field: *Federal, State, & Local Income Taxes*.

These last accounts pertain mostly to C corporations, personal service corporations, and S corporations that converted from a C corporation or PSC within the previous ten years. In some states, a limited liability company may also incur entity level taxes assessed on income.

Please note these accounts are only used in recording tax on the corporation's **taxable income**, and *not* for payroll taxes, nor for an owner's individual income tax liabilities.

9100 Federal Income Tax Provision

Record here the federal income tax liability associated with the practice entity's taxable income, that must be paid by the entity. Taxes owed by practice owners are *not* recorded on the practice's books. This tax is *not* a payroll tax.

9200 State Income Tax / Pass Through Entity Tax (PTET)

Record here the state income tax liability associated with the practice entity's taxable income, that must be paid by the entity. This account will also include any state Pass-Through Entity Tax (PTET) payments made by the hospital on behalf of the owners. Taxes owed by practice owners are *not* recorded on the practice's books. This tax is *not* a payroll, sales, property or franchise tax. These taxes should be coded elsewhere.

9300 Local Income Tax Provision

Record here the city, regional, or other local income tax liability associated with the practice entity's taxable income, that must be paid by the entity. Taxes owed by practice owners are *not* recorded on the practice's books. This tax is *not* a payroll tax.

9900 Ask My Accountant

If you are unsure where to classify an expense or deposit use this account to call out items that need classification assistance from your bookkeeper/CPA. When your financial statements are closed at the end of a period, there should not be a balance in this account.

VMG/AAHA CHART OF ACCOUNTS

BALANCE SHEET ACCOUNTS

ASSETS

Current Assets

1010 · Petty Cash
1020 · Cash in Daily Drawer
1030 · Undeposited Funds
1050 · Primary Checking Account
1060 · Secondary Checking Account
1150 · Savings Account
1200 · Certificates of Deposit
1250 · Money Market Account
1300 · Accounts Receivable
1305 · Allowance for Uncollectable Accounts
1350 · Drugs and Medical Supply Inventory
1400 · Employee Advances
1450 · Advances – Related Party
1500 · Note Receivable – Related Party
1590 · Note Receivable – Other
1600 · Prepaid Expenses
1800 · Deposits for New Equipment
1850 · Construction In Progress

Fixed Asset Accounts

2000 · Professional Medical Equipment
2050 · Computer Hardware
2100 · Office Equipment, Furniture & Fixtures
2150 · Practice Vehicles
2200 · Leasehold/Building Improvements
2300 · Buildings
2350 · Land Improvements
2400 · Land
2450 · Accumulated Depreciation

Other Asset Accounts

2500 · Computer Software
2520 · Goodwill
2560 · Covenant Not to Compete
2580 · Organizational & Startup Costs
2585 · Loan Costs
2599 · Accumulated Amortization
2600 · Note Receivable Long Term Portion
2700 · Refundable Deposits
2850 · Other Assets

LIABILITIES
Current Liabilities
3000 · Accounts Payable
3010 · Credit Cards Payable
3020 · Line of Credit
3030 · Current Portion of Long Term Loans & Capital Leases Payable
3050 · Loan Payable – Related Party
3055 · Unearned Revenue
3060 · Deferred Liability – Wellness Plans
Employer Payroll & Benefit Liabilities
3110 · Payroll Tax Payable
3140 · Workers Compensation Payable
3150 · Accrued Payroll and Bonuses
3160 · Accrued Payroll Taxes
3170 · Employer Retirement Plan Contribution Payable
Employee Payroll and Benefit Liabilities
3200 · Employee Payroll Tax Withholding Payable
3260 · Employee Withholding Payable
Other Tax Liabilities
3400 · Sales & Use Tax Payable
3420 · Accrued Property Tax
3500 · Corporate Income Tax Payable

Long Term Liabilities
3800 · Long Term Portion of Loans & Capital Lease Payable

OWNER EQUITY OR CAPITAL ACCOUNTS *(see below for difference by entity type)
S Corporation*
4000 · Common Stock
4100 · Additional Paid In Capital
4200 · Retained Earnings /(Deficit)
4300 · Distributions/Dividends/Draws
4400 · Treasury Stock

Proprietorship*
4000 · Owner's Capital
4100 · Additional Paid In Capital
4200 · Owner's Equity /(Deficit)
4300 · Distributions/Dividends/Draws

Partnership*
4000 · Partner's Capital - Partner One
4010 · Partner's Capital - Partner Two
4200 · Partner's Equity /(Deficit)
4300 · Distributions/Dividends/Draws

Limited Liability Company*
4000 · Member's Capital - Partner One
4200 · Member's Equity /(Deficit)
4300 · Distributions/Dividends/Draws

REVENUE AND EXPENSE ACCOUNTS
Revenue Account Series
5000 · Professional Services Revenue
- 5001 · Vaccine Revenue
- 5010 · Exam Revenue
- 5020 · Hospitalization & Treatment Revenue
- 5025 · Fluid Therapy Revenue
- 5030 · Diagnostic Services Revenue
- 5040 · Rehabilitation Revenue
- 5045 · Laser Therapy Revenue
- 5050 · Mortuary Revenue
- 5060 · Behavior Service Revenue
- 5070 · Alternative and Complementary Medicine Revenue
- 5080 · Specialist Revenue
- 5095 · Medical Waste Revenue
- 5099 · Large Animal Services Revenue

5100 · Pharmacy Revenue
- 5105 · FDA Prescription Meds, Pill, Cap, Liquid, Etc. Revenue
- 5110 · Injection Revenue
- 5115 · FDA Prescription Flea/Tick Non-injectable Prevention Revenue
- 5120 · FDA Prescription HW Non-injectable Prevention Revenue
- 5125 · Injectable Parasite Prevention Revenue
- 5130 · Internet Pharmacy Revenue

5200 · Dietary Product Revenue
- 5201 · Therapeutic Diet Revenue
- 5202 · Retail Diet Revenue
- 5203 · Internet Diet Revenue

5300 · Laboratory Revenue
- 5301 · In-House Lab Revenue
- 5302 · Outside (Reference) Lab Revenue

5400 · Imaging Revenue
- 5403 · X-Ray Revenue
- 5404 · Dental X-Ray Revenue
- 5405 · CT Services Revenue
- 5410 · Ultrasound Services Revenue
- 5415 · MRI Services Revenue
- 5420 · Specialist (Imaging) Consultation Revenue

5500 · Surgery Revenue
- 5510 · Non-Specialist Surgery Revenue
- 5520 · Specialist Surgery Revenue

5600 · Anesthesia Revenue
5700 · Dentistry Revenue
5800 · Ancillary Products & Services Revenue
- 5801 · OTC Products, Shampoos, & Nutraceutical Revenue
- 5802 · Pet Supplies Retail Revenue
- 5803 · Non-FDA Flea & Tick Control Product Revenue
- 5804 · Internet Ancillary Product Revenue

5825 · Boarding Revenue
5850 · Grooming Revenue
5875 · Wellness/Pre-Paid Plans Revenue
- 5880 · Wellness/Pre-Paid Plans Revenue
- 5885 · Wellness/Pre-Paid Plans Adjustments

5900 · Fee Discounts & Client Returns
- 5905 · Fee Discounts
- 5910 · Returns and Allowances
- 5915 · Instant Rebates

Direct Costs or Cost of Goods and Services Account Series

6000 · Professional Services Costs
- 6001 · Vaccine Costs
- 6020 · Examination, Hospitalization, & Treatment Costs
- 6030 · Diagnostic Services Costs
- 6025 · Fluid Therapy Costs
- 6040 · Rehabilitation Costs
- 6050 · Animal Disposal/Mortuary Costs
- 6095 · Medical Waste Disposal Costs
- 6099 · Large Animal Costs

6100 · Pharmacy Costs
- 6105 · FDA Prescription Meds, Pill, Cap, Liquid, Etc. Costs
- 6110 · Injection Costs
- 6115 · FDA Prescription Flea/Tick Non-injectable Prevention Product Costs
- 6120 · FDA Prescription HW Non-injectable Prevention Product Costs
- 6125 · Injectable Parasite Prevention Product Costs
- 6130 · Internet Pharmacy Costs

6200 · Dietary Product Costs
- 6201 · Therapeutic Diet Product Costs
- 6202 · Retail Diet Product Costs
- 6203 · Internet Diet Costs

6300 · Laboratory Costs
- 6301 · In-House Lab Costs
- 6302 · Outside (Reference) Lab Costs

6400 · Imaging-Costs
- 6403 · X-Ray Costs
- 6404 · Dental X-Ray Costs
- 6405 · CT Costs
- 6410 · Ultrasound Costs

6415 · MRI Costs
6420 · Imaging Consultation Costs
6500 · Surgery Costs
6600 · Anesthesia Costs
6700 · Dentistry Costs
6800 · Ancillary Products & Services Costs
6801 · OTC Products, Shampoos, & Nutraceutical Costs
6802 · Pet Supply Costs
6803 · Non-FDA Flea/Tick Control Costs
6804 · Internet Ancillary Retail Sales Costs
6825 · Boarding Costs
6850 · Grooming Costs

General and Administrative Expenses Accounts

Labor Expense Account Series
7000 · Owner Veterinarian Compensation
7005 · Owner Management Compensation
7080 · Associate Veterinarian Compensation
7083 · Relief Veterinarian - Contractor Payments
7085 · Veterinary Specialist - Contractor Payments
7090 · Intern Veterinarians Compensation
7100 · Other Support Staff Compensation
7130 · Registered Veterinary Technicians Compensation
7135 · Veterinary/Technical Assistants Compensation
7140 · Client Service Reps/Receptionists Compensation
7145 · Other (Non-DVM) Temporary Services - Contractor Payments
7150 · Maintenance Personnel Compensation
7160 · Administrative Personnel Compensation
7162 · Practice Manager/Administrator Compensation
7164 · Office Manager/Executive Assistant Compensation
7166 · Bookkeeper Compensation
7168 · Clerical/Secretarial Personnel Compensation
7170 · Groomers Compensation
7175 · Kennel Assistants Compensation

7200 · Employer Payroll Taxes Account Series
7210 · FICA Tax Expense – Employer's Portion
7220 · Federal Unemployment Tax Expense
7230 · State Unemployment Tax Expense
7250 · Other Employer Payroll Tax Expense

Employee Fringe Benefits Account Series
7300 · Employee Benefit Program
7301 · Group Health Insurance Premium
7302 · S Corporation Shareholder Health Insurance Premium

- 7303 · Group Dental, Vision and Other Insurance Premium
- 7304 · Group Disability Insurance Premium
- 7305 · Group Term Life Insurance Premium

7310 · Employer Retirement Contribution
7320 · Professional Liability Insurance Premium
7340 · Workers Compensation Premium/Tax
7360 · Continuing Education Registration
- 7361 · Meeting/Course Registration Fees
- 7362 · Business & Professional Book, Journals, VIN subscriptions
- 7363 · Staff Training Fees and Costs

7365 · Travel and Lodging
- 7366 · Air Fare
- 7367 · Lodging
- 7368 · Transportation
- 7369 · Mileage Reimbursement (CE Travel)

Other Employee Expense Account Series
7400 · Study and Buying Group Fees
7440 · Business Meals
7441 · Entertainment
7442 · Staff Meals/Snacks
7445 · Staff Events & Recreation
7450 · Employee Recruitment
7460 · Laundry & Uniform
7470 · Employment Practices Liability Insurance

Facility and Equipment Related Expense Account Series
7500 · Rent on Practice Real Estate
7510 · Rent on Equipment
7515 · Outside Storage
7520 · Maintenance
- 7521 · Medical Equipment Maintenance
- 7522 · IT and Office Equipment Maintenance
- 7523 · Facility Maintenance

7530 · Service Contracts
- 7531 · Medical Equipment Service Contracts
- 7532 · IT and Office Equipment Service Contracts
- 7533 · Facility Service Contract

7540 · Housekeeping & Janitorial
7570 · Repairs
- 7571 · Medical Equipment Repairs
- 7572 · IT and Office Equipment Repairs
- 7573 · Facility Repairs

7580 · Property, Casualty, & Liability Insurance Premiums
7590 · Real Estate Tax
7600 · Personal Property Tax

7620 · Practice Vehicle
7660 · Utility Services
    7661 · Electricity
    7662 · Natural Gas/Fuel Oil/Propane Gas
    7663 · Sewer
    7664 · Water
7670 · Telephone Services
    7671 · Cellular Phone Service
    7672 · Landline Phone Service
7675 · Cable & Internet Services
7680 · Answering Service
7690 · Rubbish Disposal

7700 · Administrative Expense Account Series
7705 · Licenses & Permits
7710 · Use Tax Paid
7715 · Franchise Tax
7720 · Other Tax
7725 · Veterinary & Professional Dues
7730 · Client Education Material
7735 · Business Gifts and Flowers
7740 · Charitable Contributions
7745 · Computer Supplies
7747 · Software as a Service Fees
7750 · Office Supplies
7755 · Postage
7760 · Printing
7765 · Accounting Fees
7770 · Bookkeeping Services
7775 · Payroll Service Fees
7780 · Employee Benefits Administration
7785 · Legal Services
7790 · Business Consultation

7800 · Advertising & Promotion Expense Account Series
7801 · Yellow Page Advertising
7802 · Website Maintenance
7803 · Internet Advertising
7804 · Direct Mailing
7805 · Client Reminders
7806 · Memorial Contributions
7808 · Sponsored Events
7809 · Marketing Consultant Fees
7810 · Advertising & Promotion - Other

7900 · Fee Income Collection Expense Account Series

7905 · Bank Charges and Service Fees
7910 · Credit Card Merchant Service Fees
7915 · Third Party Financing Service Fees
7920 · Collection Fees
7930 · Bad Debts
7940 · Returned Check Fees

Depreciation and Amortization Account Series
8000 · Depreciation Expense
8050 · Amortization Expense

Other Miscellaneous Revenue Account Series
9000 · Miscellaneous Revenue
9010 · Rent Revenue
9020 · Interest & Dividend Revenue
9030 · Gain/(Loss) on Asset Disposition

Other Miscellaneous Expense Account Series
9040 · Miscellaneous Expense
9050 · Fines & Penalties
9060 · Officer/Key Person Life Insurance
9070 · Officer Disability Insurance

Interest Expense Account Series
9080 · Interest Expense – Financed
9090 · Interest Expense – Shareholder/Owner
9095 · Interest Expense – Other

Income Tax Expense Account Series
9100 · Federal Income Tax Provision
9200 · State Income Tax / Pass Through Entity Tax (PTET)
9300 · Local Income Tax Provision

9900 · Ask My Accountant

Glossary

A

Accounting

The activity of recording economic events in a uniform, methodic fashion. Accounting is often referred to as "the language of business". Accounting measures, records, reports, and interprets the financial aspects of a practice.

Accounting equation

The algebraic formula underlying the beautiful, mathematic symmetry of a business's financial status, charting the business's cumulative record from its inception. The formula proves that the sum total of a practice's assets equals the sum total of its liabilities at any given time. The formula can be expanded to show the various components contributing to the asset side or the liability side of equation. Probably the most familiar presentation of the accounting equation shows the sum total of a practice's assets equals the sum total of outside party liabilities plus owner-owed liabilities (otherwise called "equity" or "capital"): Assets = Liabilities + Equity.

Accounting method

A set of rules used to determine how and when to report revenues and expenses. Tax laws guide what choices a practice may make, dependent on a wide number of factors. A practice's choice of accounting method determines the accounting treatment for any material item, the financial reporting of that item, and the timing for recognition of that item from a tax perspective.

Accounts payable

Bills and vendor liabilities due for payment by the practice as part of the normal course of practice activity. Money the practice owes to regular business creditors/practice vendors, and generally accruing from the previous month of supply and service purchases.

Accounts receivable

Debts owed to the veterinary practice, usually from client sales on credit. Money owed to the practice from its clients in exchange for veterinary care, previously given. Client amounts owed are generally due within thirty days of the invoice date.

Accrual basis accounting

The accounting method which recognizes revenues as income in the period they are earned, regardless of when the client pays, and which recognizes expenses in the period the liability for paying them is incurred, regardless of when payment is made. Accrual basis accounting is the opposite of cash basis accounting. The exchange of cash is irrelevant to the financial reporting of revenues or expenses. Accrual based accounting matches expenses with the revenue produced in a given time period, and as such provides management a more accurate assessment of practice profit. **VMG strongly recommends accrual based accounting for DATALINK and group data reporting purposes, as well as for managerial accounting.** Also see *revenue recognition principle*.

Accumulated amortization

A permanent balance sheet account relating to intangible asset accounts, that reports the sum-total recorded amortization amounts for a specific asset or group of assets at a specific point in time; thus, amortization accumulates over time. Total accumulated amortization reduces the historical cost of capitalized intangible assets. With the passage of each month, the accumulated amortization balance increases by the most recent month's booked amortization expense. At the end of the estimated useful life of the intangible asset, its original recorded cost will exactly match its total accumulated amortization, resulting in a net value of zero. Also see *amortization* and *amortization schedule*.

Accumulated depreciation

A permanent balance sheet account relating to fixed asset accounts, that reports the sum-total recorded depreciation amounts for a specific asset or group of assets at a specific point in time; thus, depreciation accumulates over time. Total accumulated depreciation reduces the historical cost of capitalized assets. With the passage of each month, the accumulated depreciation balance increases by the most recent month's booked depreciation expense. At the end of the estimated useful life of the asset, its original recorded cost will exactly match its total accumulated depreciation, resulting in a net value of zero. Also see *depreciation* and *depreciation schedule*.

Acid test ratio

The ratio calculated by dividing the sum of cash, receivables and marketable securities by the total value of current liabilities. The acid test ratio is a rough test of a practice's ability to meet its immediate cash requirements.

$$\frac{\text{Cash} + \text{Net Accounts Receivable} + \text{Marketable Securities}}{\text{Current Liabilities}}$$

Adjusting journal entries

Bookkeeping entries made to bring the ledger accounts up to date for the preparation of financial statements, and which are not specific financial transactions (like the payment of a bill or the deposit of a client payment). Adjusting journal entry examples include booking depreciation expense and interest expense owed.

AICPA

American Institute of Certified Public Accountants, the chief organization overseeing the accounting profession and promulgating guidelines to provide assurance to third party users of financial reports.

AIPB

American Institute of Professional Bookkeepers, an organization that provides for the testing, certification, ethical guidelines, and continuing education of bookkeepers.

Amortization

The periodic expense attributed to the decline in usefulness of an intangible asset. Similar to depreciation, it is the process of gradually reducing the value of an asset over its useful life, to reflect an estimate of its use in producing revenues over many financial periods.

Amortization schedule

A timetable presenting a list of intangible assets, an estimate of useful life expectancies (or defined lives for tax purposes), the amount of each asset the bookkeeper should expense in each financial period, and the remaining asset-value balances to be expensed in future financial periods. Also see *loan amortization schedule*.

Assets

The property owned by the practice, the value of which can be measured in monetary terms. Assets can be tangible or intangible, and include cash, accounts receivable, and inventory. Assets represent future economic benefits owned or controlled by a veterinary practice resulting from past transactions.

Audit

An examination or verification of financial records or accounts by a qualified professional.

Audit report

A financial report prepared by a CPA which involves prescribed analysis of transactions, testing of account balances, and physical inspection and observation of business operations. CPA audited financial statements are uncommonly required of veterinary practice entities, with exceptions related to publicly traded or highly-leveraged corporate combinations. The highest level of CPA attestation. Also see *compilation letter* and *review report*.

B

Balance sheet

A financial statement listing the assets, liabilities, and owners' equity of the practice as of a specific date. Balance sheet accounts are permanent accounts. At any specific date the sum total of asset accounts equals the summation of all liability and equity accounts (Assets = Liabilities + Equity). The equation is always in equilibrium, hence the name "Balance Sheet". Also see *accounting equation*.

Board of Directors (BOD)

In parlance of business governance, this is the group of individuals who are elected or appointed to represent owner interests in overseeing the activities of the veterinary practice and function as the highest authority for management directives. The BOD often includes owners, but can include unrelated parties such as an attorney or other trusted advisor. The board's duties, responsibilities and powers are generally defined by the practice's bylaws.

Book value

1. Also known as net book value. With respect to assets, the capitalized cost of an asset less accumulated depreciation, depletion or amortization as it appears on the practice's accounting books. 2. With respect to the entire veterinary practice operating entity, the difference between total assets (net of depreciation, depletion, and amortization) and total liabilities of an enterprise as they appear on the balance sheet, using whatever method of accounting the practice has elected. Also see *accounting method*.

Break-even analysis

A financial schedule listing sales, fixed costs and variable costs from which contribution margins, break-even volumes and the amounts above or below break-even volume are calculated.

Break-even point

That level of practice volume at which total revenue equals costs. The production amount that a practice needs to equal its running expense rate and not lose or make money in a given month.

Budget statement

A financial statement detailing management's plan for revenue production and expenses for a specific accounting period. Budgeting is a process of formal financial planning for a veterinary practice.

C

Capital

The rights (equity) of the owners in a business enterprise. Total practice assets less total liabilities equals the amount of capital or equity at a given date.

Capital costs

One time expenditures for assets used over time for providing veterinary services, that include all costs to bring the asset to operable status such as construction and installation labor costs. Such expenditures are fixed and independent of practice activity levels. Also see *capital-related costs*.

Capital lease

Also called a purchase lease, a contractual agreement between the owner of the leased property (lessor) and the user of the leased property (lessee) in which the contract terms provide for eventual transfer of property ownership to the lessee. Most equipment leases are capital leases, wherein the veterinary practice will take title to the leased equipment at the end of the contract by paying a nominal fee, such as one dollar. Capital leases are a convenient, but often expensive, way of financing equipment acquisition. Also see *equipment lease*, *lease*, and *operating lease*.

Capital-related costs

Book adjustments and expenditures which relate to practice fixed assets used up over time, including:

1. Net depreciation expense, adjusted by gains and losses realized from the disposal of depreciable assets.
2. Leases and rentals, for the use of assets that would be depreciable if the practice owned them outright.
3. Betterments and improvements, which extend the estimated life of an asset at least two years beyond the original estimated useful life.
4. The cost of minor equipment, which is charged off to expense rather than capitalized.
5. Interest expense incurred when acquiring land or depreciable practice assets, or incurred when refinancing debt originally used to acquire land or depreciable assets used for patient care.
6. Insurance on depreciable assets, or insurance that provides for the payment of capital-related costs during business interruption.
7. Taxes on land or depreciable assets.

Also see *capital costs* and *fixed assets*.

Capital structure

The composition of the invested capital of a veterinary practice.

Capitalization

1. The conversion of income into value. 2. The capital structure of a business enterprise. 3. The recognition of an expenditure as a capital asset rather than a period expense.

Capitalization factor

Any multiple used to convert income into value.

Capitalization policy

Policy established by the practice's board of directors that provides guidelines to the bookkeeping department and chief financial officer about what purchases must be capitalized (booked as assets) and what asset purchases can be expensed. While many capital acquisitions, such as vehicle purchases, are clearly booked as assets, some are relatively inconsequential and as such, create a time and cost burden to account for them. The board of directors defines the parameters of asset purchases that have greater than one year of useful life in the practice. The guidelines tell the bookkeeper which inconsequential assets can simply be expensed in the period of purchase, rather than capitalizing them and writing them off over time through depreciation deductions.

Capitalization rate

Any divisor (usually expressed as a percentage) used to convert income into value.

Cash

The practice's bank balance, or checking account balance, or real cash in bills and coins.

Cash basis accounting

An accounting method, especially for income tax purposes, where revenues are recorded in the accounting books only when cash is received for services provided. Similarly, expenses are recorded only when cash is paid for the resources necessary to generate practice revenues, regardless of when the liability for payment of such liabilities is incurred. Cash-based accounting is the opposite of the accrual basis, where revenues are recognized when services are provided, and expenses are recognized when a liability for payment is incurred.

Cash equivalent

A highly liquid instrument that can be used like money, such as a personal check, a traveler's check or funds in a money market account.

Cash flow statement

A statement presenting a practice's sources and uses of cash, categorized as operating, investing, and financing activities.

Chart of accounts

An organized listing of titles of all of the asset, liability, equity, income and expense categories used in a business entity.

Client

The preferred term (rather than customer) for referring to the owners of animals who seek veterinary services.

Cocktail

In veterinary medicine, a combination of two or more injectable drugs mixed and used together to treat the patient.

Collateral

Borrower assets pledged to a lender as a condition of a money loan, to mitigate the lender's risk that the borrower will default.

Common size statements

Statements in which each line is expressed as a percentage of the total (e.g., percentage of total assets on a balance sheet, or percentage of sales on an income statement). This is usually the first step in ratio analysis of financial statements, so that multiple financial periods can be more easily compared.

Compilation letter

A standardized CPA-prepared financial report that represents transactional information provided by management. A compilation is the representation of management, not of the CPA, and is the most common type of financial statement presentation prepared by CPAs for veterinary purposes.

Contra account

An account which directly offsets another balance sheet account. For example, accumulated depreciation (a credit) is placed in the asset section of the balance sheet (normally reserved for debit accounts).

Corporation

From the Latin word for body, *corpus.* A corporation is a legal construct that provides for one or more individuals (the incorporators) to petition the state for recognition of an entity created for a specific purpose (in this case, the conduct of veterinary practice, for profit). When the secretary of state grants permission, the corporation becomes an entity having perpetual life, separate and apart from that of its incorporators or of its shareholders (owners). The corporation must abide by the legal requirements of the state to maintain active operations. A corporation provides limited liability for its shareholders; that is, they are not obligated for the debts of the corporation and creditors must look to the corporation's assets for payment of debt. Corporations also pay corporation taxes on its earnings, which includes any dividends paid to investors. Also see *S corporation*.

Cost accounting

A type of accounting common to manufacturing that traces each production cost to a single item that will be sold, such as a single vial of West Nile vaccine. Cost accounting is extremely difficult in a professional service company such as a veterinary practice; although procedures are repetitive, each application to a particular patient varies, from volumes of drugs to the time and effort of personnel treating the animal.

Cost of professional services (COPS)

The direct patient costs associated with producing veterinary service and related revenues. The VMG Chart of Accounts COPS series (6000's) does not include employee labor costs. It does include drugs, professional supplies, laboratory expenditures, hospital and barn supplies, mortuary costs, and similar expenses that can be traced to a specific patient.

Cost principle

The cost of assets should include the expenditures necessary to acquire the asset and the expenditures necessary to make the asset ready for use. The cost is measured by cash or cash equivalent price paid.

CPA

Abbreviation for Certified Public Accountant, a designation indicating five years of college education (usually with a degree in accounting), certification through rigorous testing and ongoing continuing education requirements, minimally 24 months of experience in public accounting, and state licensure.

Credit

In double-entry accounting, any change in an account balance must match with a change in one or more other accounts, so that the business ledger is always in perfect balance. Journal entries made to the right side of the ledger are called credits, while the left-hand entries that balance credits, are called debits. Also see *debit*.

Current assets

Cash and other assets that are expected to be turned into cash or consumed within one year.

Current liabilities

Money owed that will ordinarily be paid within one year (twelve months). The practice pays current liabilities by liquidating current assets.

Current portion of long-term debt

The principal portion of a loan or other debt contractually required to be repaid within the next 12 months. Of the remaining amount of the loan, the principal portions to be paid in greater than 12 months are called the long-term portion. See also *long-term liabilities*.

Current ratio

Measures liquidity and estimates the practice's ability to meet short-term obligations, by dividing the practice's total current assets by its total current liabilities.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

D

Debit

In double-entry accounting, the transactional entry made on the left hand of the ledger sheet, with an equal and opposite credit entry made in another account. At all times, the total debit amount equals the total credit amount. Also see *credit*.

Depreciation

A method to estimate and record the reduction in the useful value of fixed assets due to wear and tear, passage of time, and obsolescence. Also see *economic life*.

Depreciation schedule

Sometimes also called a property schedule, a timetable presenting a list of tangible property, an estimate of useful life expectancies (or defined lives for tax purposes), the amount of each asset the bookkeeper should expense in each financial period, and the remaining asset-value balances to be expensed in future financial periods. The depreciation schedule typically discloses the original acquisition cost, the original put-in-service date, a detailed description of each asset, and the total amount of depreciation recorded to date. Also see *accumulated depreciation* and *depreciation*.

Direct costs

Costs that can be readily identified with or traced to a particular department, product, or activity.

Disability Overhead Insurance

A type of insurance policy also known as Business Overhead Expense (BOE) insurance that provides payment of the insured's practice overhead expenses if he or she becomes disabled, such as rent, utilities, and payroll. It is not *personal disability insurance*, which would act to replace some portion of the salary or wages of the insured person.

Discount rate

A yield rate used to convert anticipated future payments or receipts into present value.

Distributions

See *Dividends*.

Dividends

Past and current profit distributed to the owners as money or some other asset with stated value. Dividend is a specific term for owner profit-payments made through a veterinary practice structured as a corporation. In a corporation that has elected to be an S corporation (Subchapter S of the Internal Revenue Code), or is a partnership, such profit payments are called distributions. If the practice is a sole-proprietorship, profit payments are called draws.

Double-entry accounting

The recommended method of recording a veterinary practice's transactional activity, wherein each transaction affects at least two accounts, where the total of debit values is equal to the total of all credit values. For example, inventory value increases (debit inventory) when drugs are purchased, and accounts payable increase by the same amount (credit accounts payable). When the vendor is paid (debit accounts payable), cash in checking decreases by the same amount (credit cash). Double-entry accounting provides additional assurance of bookkeeping accuracy, thus reducing mistakes, because journal entries must always balance.

Draw

See *Dividends*.

E

Earnings

Also called net profit, earnings equal revenues less costs of sales and general and administrative expenses.

Economic entity assumption

The assumption that an entity is entirely separate from its owners, and the transactions of the entity are entirely separate from those of its owners.

Economic life

The estimated useful time an asset can be used in a business entity to contribute to income production. If the asset has a useful life of greater than one year, then it is capitalized rather than expensed in the financial period of purchase. A portion of the asset is then expensed in each subsequent financial period to reflect its gradual using up over its estimated life expectancy. Also see *depreciation*.

Equipment lease

A contractual agreement in which the veterinary practice agrees to pay a monthly fee over a predetermined time in exchange for the use of equipment owned by an outside party. The veterinary practice does not have title to the equipment and is obligated to return it to the lessor (property owner) at the end of the contract time. The terms of the lease contract determine whether the lease is a capital lease (almost always) or an operating lease. Also see *lease*, *capital lease* and *operating lease*.

Equity

Money invested by owners in the veterinary practice plus profits and minus any losses and any profit distributions. Also defined as the value that remains after subtracting total liabilities from total assets.

Excess earnings

The level of economic income above and beyond the fair rate of return on the net asset base used to generate that economic income. Also called excess economic income.

Expenses

Costs of assets consumed or services used in the process of doing business. Expenses are a decrease to owner's equity.

F

Fair market value

The amount at which property would change hands between a willing seller and a willing buyer when neither is under compulsion and when both have reasonable knowledge of the relevant facts. This is an economic concept that refers to the compensation of the property-holder for the level of economic utility that the property possesses.

Fee for services

A method of charging clients for services or treatment in which a veterinarian bills for each patient encounter or treatment or service rendered.

Fee schedule

A list of established charges or allowances for specified medical procedures.

Financial accounting

A highly standardized method of recording, accumulating, sorting, and reporting an entity's business activity, so that outside third parties have assurance about its reliability to make financial decisions. Also see *Generally Accepted Accounting Principles*.

Financial statement

A type of business report that presents financial information about the economic impact on the entity of completed transactions and other events. General-purpose financial statements for external use present financial information relevant to investors, creditors, and public policy decision makers. The most commonly used financial statements include the statement of financial position (also known as the balance sheet or the statement of assets, liabilities, and equity), the statement of income (also known as the statement of revenues and expenses, or the profit and loss statement), and the statement of cash flows.

Fiscal year

Standard accounting practice allows the accounting year to begin in any month. Fiscal years are named according to the month in which they end, hence a fiscal year ending October 31 would be called an October fiscal year. For the veterinary profession, tax laws cause most practices to adopt fiscal accounting years that match the calendar year, thus beginning on January 1st and ending on December 31st.

Fixed assets

Tangible assets of a durable nature, which are expected to help generate revenue over a period of a year or longer. Property and equipment are examples of fixed assets that would not normally be intended for sale and which are used repetitively for the production of veterinary service revenues.

Fixed costs

Costs that do not significantly vary with the volume of practice activity. The total dollar cost remains constant, within a given range of practice activity. The opposite of *variable* *costs*.

G

General and administrative expenses

Operating expenditures that support all aspects of the practice's activities in conducting veterinary medicine, without specific attribution to its patients. Many general and administrative expenses tend to be relatively fixed as a dollar amount within a given range of practice activity.

General ledger

A book or record summarizing all transactional activity during a financial period, usually a year. The general ledger presents detail of each journal entry, by account title, in the order prescribed by the chart of accounts. Also see *journal entry*.

Generally Accepted Accounting Principles (GAAP)

Rules promulgated by the American Institute of Certified Public Accountants, that enhance comparability of financial information by defining exactly how it will be presented in reports that are accessible by unspecified third party users. With a primary purpose of public use, report presentation in accord with GAAP is usually limited to large publicly-traded entities, as it is not cost effective for small businesses which must first and foremost create reports that are accurate for compliance with tax reporting requirements. Reports prepared on an income tax basis of accounting are not the same as those created on a GAAP basis. Also see *OCBOA*.

Goodwill

An intangible asset which value arises as a result of name recognition, practice and doctor reputation, client loyalty and patronage, knowledgeable employee assemblage, location, products and similar factors that have not been separately identified and/or valued but which generate economic benefits above and beyond net tangible asset return on investment.

Gross income

See *gross revenue*.

Gross profit (Gross margin)

Total revenues/fee income less costs of professional services. Also see *cost of professional services*.

Gross profit percent (Gross margin percent)

Gross profit divided by total revenue, displayed as a percentage.

Gross revenue

The veterinary practice's total operating income, before any deductions for discounts, account write-offs, or operating expenses, and without adding other sources of cash, such as consumer sales tax collections and non-operating income. Also see *operating income*.

Gross wages

The total amount payable to an employee in exchange for work, before the employer withholds any amounts in accord with employment tax laws or through the employee's voluntary withholding for retirement funding and other reasons. An employee who works 40 hours for an agreed amount of $15.00 per hour, is owed gross wages of $600.00.

H

Historical cost principle

The U.S. accounting convention that states that the acquisition or exchange of an asset is recorded at its original cost and will not be updated to its fair market value at any time in the financial accounting records. Only a specific transaction that marks the monetary value of an asset can result in the recorded cost of that asset in an entity's accounting records.

Hybrid method of accounting

A tax reporting convention that uses any combination of cash, accrual, and special methods of accounting if the method clearly reflects revenues and is used consistently. Also see *accrual basis accounting* and *cash basis accounting*.

I

Income statement

A summary of practice revenues and expenses within a specific period of time or accounting period.

Income tax basis accounting

A method of accounting that results in financial reports that mirror the practice's tax return presentations. Applicable tax laws affect the timing of deductions and treatment of other transactions that can be significantly different from prescribed financial accounting methods. Many small businesses, including veterinary practices, use the income tax basis of accounting for financial statement presentation since only one set of books are required, thus saving accounting and bookkeeping expense. Also see *OCBOA* and *GAAP*.

Indirect costs

Costs (expenses) that are not readily identified with products or activities. In cost accounting, indirect costs are usually allocated by some arbitrary formula to various products and activities when determining profit.

Intangible property (intangible assets)

Non-physical assets, including but not limited to licenses (such as computer software licenses), franchises, trademarks, patents, copyrights, goodwill, equities, mineral rights, securities, and contracts, as distinguished from physical assets such as facilities and equipment.

Interest expense

Interest paid on the outstanding principal portion of existing practice debt, and deducted as an expense to determine net profit.

Internal controls

Practice systems that mitigate the risk of loss through segregation of responsibilities and duties for safeguarding assets and for maintaining books and records of those assets and corresponding liabilities.

Inventory

Items in stock, either for resale to clients, such as pharmaceuticals held for dispensing, or materials to be used to complete veterinary services, such as in surgical procedures.

Inventory turnover

Costs of professional services (COPS) divided by inventory. Usually calculated using the average inventory value over an accounting period, not just an ending inventory value.

J

Journal entries

Journal entries are records of practice transactions, which are posted to the accounting journals.

L

Lease

A contractual agreement wherein the lessor (titled owner of the property) provides the property to the lessee (the veterinary practice) to use in the conduct of veterinary activities. Any kind of property can be leased: real property, tangible property like professional equipment, intangible property like software, and employee time (employee leasing). Also see *equipment lease*.

Liabilities

Accounts or debts that the practice owes others, and which are categorized into current- and long-term debt portions.

Limited liability company

A relatively recent legal construct provided by each state's statutory code, providing a fourth option for veterinary practice operation as a legal business entity (besides sole-proprietorship, partnership, or corporation). In general, a limited liability company (LLC) provides protections for its members (owners), similar to those of a corporation: the members are not responsible for debts and amounts owed by the practice to creditors. Tax laws poorly define all aspects of an LLC, as exemplified by the fact the U.S. Treasury (IRS) terms LLCs as "disregarded entities" which must elect to be treated from a tax perspective as a sole-proprietorship (single member LLC), as a partnership (two or more member LLC), or as a Subchapter S corporation (any number of members, up to the limits provided by S-corporation rules).

Liquidity

Describes the ease with which assets can be converted into cash.

Loan amortization schedule

In reference to the repayment of borrowed money over time, a document that summarizes the loan terms (length of time, frequency of payments, and interest rate(s)), and lists each payment by due date including the portion attributable to interest, the portion attributable to principal payment, and the remaining principal balance.

Long-term liabilities

Amounts owed to outside parties that will not be repaid within one year or the operating cycle. The current portion (principal but not interest amounts) is that portion of a debt that is due within the next twelve months. The current portion and long- term portions of a long-term liability are often reported separately in the financial reports, thus:

Current Portion of Long-Term Loans
Long-Term Portion of Loans Payable

M

Managerial accounting

The method for recording, accumulating, sorting and reporting financial data which is of most interest to private veterinary practice administrators, who rely heavily on accurate and confidential information to make decisions about the use of the practice's valuable and finite resources, and to assure accountability for their use at all levels of practice activity.

Matching principle

The accounting theory that states expenses should correlate to the revenues they generate within a given financial period. To use the matching principle, expenses are recognized when incurred, regardless of when cash is paid, and revenues are recognized when services occur, regardless of when cash is received (accrual basis of accounting).

N

Net assets

Total assets less total liabilities.

Net book value

See *book value*.

Net income

Revenue less expenses, including taxes at entity level if applicable.

Non-wasting asset

Property without a determinant life expectancy, most often land. Also see *wasting asset*.

Normalized financial statements

Financial statements adjusted for items not representative of the present going concern status of the business. Normalizing adjustments could include: elimination of effects of discontinued operations; elimination of effects of non-recurring events; adjustment of abnormal depreciation or amortization charges.

O

OCBOA

Other Comprehensive Basis of Accounting; OCBOA describes a variety of financial reporting methods that are not in compliance with GAAP. In the veterinary profession, the most common OCBOA reports are created on the income tax basis of accounting and on the cash basis of accounting. Very few veterinary practices create financial reports prepared in accord with GAAP. Also see *Generally Accepted Accounting Principles*.

One-write system

Bookkeeping system using NCR (non-carbon recording) paper wherein the bookkeeper writes on a document, such as a check or an invoice, and the information records to a ledger sheet, underneath. At the end of the accounting period (a day or a month), all of the recorded transactions are coded using the VMG/AAHA COAand summarized on the ledger sheet. For each account, the bookkeeper enters the total amount in the general ledger as a journal entry. Today's bookkeeping software programs have nearly made one-write systems obsolete, although they do have their place.

Operating expense

Write off or expensing of various assets used up in the production of veterinary services and related revenues. Operating expense does not include interest expense, losses from retirement of practice equipment, etc.

Operating income

Revenues or income resulting from veterinary activities and veterinary-related sales such as pharmacy sales. Operating income does not include income from sources other than veterinary-related, such as interest income, income from selling used practice equipment, leasing pasture land, etc. Also see *gross revenues*.

Operating lease

A contractual agreement in which the veterinary practice pays a monthly fee for the right to use property owned by an outside party. Either the lease agreement terms do not include any provision for eventual transfer of ownership rights to the veterinary practice, or if it does include a provision, the purchase price is at fair market value, regardless of its prior use by the veterinary practice. A postage machine is a good example of equipment used through an operating lease; postage machines generally cannot be purchased outright, only leased from the vendor.

Other Expenses

By accounting convention, a term identifying expenditures related to investments and financing, and *not* from asset use in the production of veterinary practice revenues.

Other Revenues

By accounting convention, a term identifying sources of revenues from investments and financing, as compared to operating revenue (50000 series) which presents revenues from the business's main purpose: veterinary practice.

Owner's equity

The ownership claim on net assets; owner rights to assets remaining after all outside creditors have been satisfied.

Owner's equity = Assets - Liabilities

Owner's equity statement

Financial statement that summarizes the changes in owner's equity for a specific accounting period.

P

Partnership

A type of business entity no longer very popular for the conduct of veterinary practice. In a general partnership, each of the two or more partners will have unlimited liability for the debts of the practice, including debts of individual partners if creditors seek personal debt repayment by attaching partnership assets. The partnership's income and expenses are reported on a separate tax return for reporting purposes, but net profit or loss is "passed through" to the individual partners for reporting on his or her personal tax returns and taxation of the same.

Pass-through entities

Businesses that pass through taxable earnings (profits and losses) to their owners, so that such earnings are taxed at the owner's personal income tax rate.

Permanent account

An account that is never closed at the end of a financial period, specifically the balance sheet accounts for assets, liabilities, and equity. Permanent accounts carry current balances as long as the practice continues.

Perpetual inventory

An automated system that contemporaneously maintains accurate records of supply counts on hand, sales, and purchases. In theory, as the practice receives supplies, the inventory manager records each item in the practice management database as to quantity, size, strength, and unit acquisition price. The software updates each item to appropriate client sales price and automatically depletes the inventory quantity-on-hand (QOH) as each sale occurs or patient invoice is created. At any given time, a hand count of the item should match the quantity-on-hand as reported by the electronic database.

Posting

The bookkeeping process of transferring and summarizing all of the journal entries to the general ledger.

Prepaid expenses

Expenditures (usually for a service) that will benefit a subsequent financial period, and as such, are reported as a practice asset, rather than as an expense. When the service expires in the subsequent financial period, it is expensed and thus included in the profit computation for that period. Examples include prepaid insurance premiums, prepaid service contracts, prepaid rent, and prepaid taxes.

Proprietorship

A veterinary practice with a single equity owner, and not legally organized as a corporation or limited liability company.

Purchase order system

An inventory acquisition method in which each order is numbered, dated, initialed and recorded with the vendor-quoted prices of the ordered items. As the practice receives shipments, the receiving clerk matches each bill-of-lading with the pre-existing purchase order on file and the shipment contents. The receiving clerk compares both the original purchase order and packing documents before submission to the accounts-payable clerk for vendor payment after reconciliation with the invoice and end-of-month statement, if applicable.

R

Ratio analysis

Comparison of significant numbers and the relationship of numbers, derived from the practice’s financial statements.

Real property (estate in real property; real estate)

Land, buildings, and permanently affixed, highly durable structures. The value of real property includes land improvements such as sewer, gas, electric, and water lines, septic systems, storm sewers and basins, landscaping, trees, parking lots, drives and roads. The rights to underground mineral deposits may or may not be included in the real property.

Related party

Through practice ownership rights, family-relation, or fiduciary responsibility (such as an officer or director of the practice), a person who appears to have positional advantage for gaining preferential treatment, as compared to an individual who has an arm's-length relation with the practice and would not be expected to have a favorable position in transactions as compared to any other person.

Return on investment

Net profits divided by net worth or total equity. Another measure of profitability.

Revenue recognition principle

An accounting concept where a revenue transaction is marked at the moment the revenue is earned, regardless of when cash is ultimately received for services or products provided. Also see *accrual basis accounting*.

Revenues

Gross increases in owner's equity resulting from practice activities entered into for the purpose of earning income, specifically veterinary services and related activities and pharmacy or product sales.

Review report

A financial report prepared by a CPA which involves prescribed analysis of transactions and testing of account balances. CPA reviewed financial statements are commonly required by lending institutions as part of the terms for loaning money to a veterinary practice. The higher level of CPA attestation requires more in-depth transactional analysis and work by the CPA than does a compilation report.

S

S Corporation

A small-business corporation that is eligible for and has made election (under the Internal Revenue Code – Subchapter S) to "S" status, and is treated somewhat like a partnership for tax purposes; that is, practice profit and loss "pass through" to the individual shareholder tax returns, while the practice entity is treated as a corporation for other purposes. Also see *corporation*.

Shrinkage

Inventory loss, usually unexplained or difficult to isolate. Sales records and original purchased quantities are compared with the current physical inventory to determine the amount of shrinkage; when the physical counts are less than the documented amounts, inventory shrinkage has occurred.

Sole proprietorship

A sole proprietorship is a single owner business, where the proprietor (owner) has unlimited liability for all the debts of the veterinary practice, and the profit or loss from the practice will be reported on his personal income tax return.

Statement of Cash Flows

See *cash flow statement*.

T

Tangible property

An asset with a limited useful life, that has physically discernable attributes such as form, color, and size, that can be seen, touched, held, and felt. Also see *intangible property*.

Taxable income

A base on which the amount of income tax is determined.

Transaction

Any exchange of or binding promise to exchange goods, services or money at a sum certain (that can be measured in monetary units). In some VPIMS and in VMG reports, it is also called an invoice.

Trust funds

Payroll tax withholdings and required employer mandating matching tax amounts. The law requires employers to withhold federal income taxes, state income taxes, Social Security and Medicare taxes from employee wage payments, to enforce the timely submission of such tax amounts. Essentially, the law makes the employer a collections bureau and enforcement officer for the government. Trust funds do not belong to the employer; the employer must make timely remittance of the withheld amounts within legally prescribed time limits. Failure to submit trust funds as due will result in substantial penalties and interest. An employer must never be tardy in trust fund remittance.

V

Variable costs

Expense outlays that are directly proportionate with the volume of veterinary services and sales. An example would be an anesthetic agent; with each procedure an amount is used and expensed (and matched with the fee income resulting from billing the client for the service).

VPIMS (Veterinary Practice Information Management System)

The network of computer hardware, human interface devices, operating systems, and software written specifically for running the veterinary practice operations, including client invoicing, patient reminder notifications, and medical records functions. To centralize and organize data for optimal efficiency, veterinary management software increasingly integrates with other practice technology, such as digital imaging equipment of all sorts, laboratory equipment, bar code scanners, point-of-sales terminals, electronic signature capture, flat panel whiteboard displays, and time-keeping applications. VPIMS also include various programs that assist in education and communication with clients.

W

Wasting asset

Property with a limited useful life that can be depreciated over its life, by computing and recording the apportioned depreciation expense each financial period. As compared to a *non-wasting asset*, without a limited useful life.

Working capital

The amount of funds on hand to meet current obligations as they come due, such as vendor payments and monthly note payments.

Working capital ratio

A financial ratio that calculates current assets less current liabilities, and provides a measure of the practice's liquidity or ability to pay debt obligations as they come due.