SPRING CLEANING FOR YOUR FINANCIAL STATEMENTS
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As hints of spring appear outside, many of us in colder climates are itching to get outdoors and spruce up the yard. For hospital owners and managers, this should be a time to encourage us to “spring clean” our financial statements. Here are some pointers to help get you started.

Break out income into major categories. You can look to the AAHA Chart of Accounts (COA) for ideas, but you don’t need to use all 48 of the categories listed! Ideally, the income categories in QuickBooks should align with the income categories in your practice management system. You may want to reorganize some of the items in the management software while you are at it. It’s easy for new items to be misclassified when you are in a rush to enter and use them.

Adopt the AAHA Chart of Accounts – within reason. In 2017, several leading veterinary associations came together to approve a single COA. Their goal was to provide the best management information to practice owners and managers and standardize the way hospitals reported income and expenses to improve benchmarking. The resulting COA is extensive because it is meant to apply to a wide range of business models. That said, your practice does not need to use every account. If your practice doesn’t offer behavior services or have an MRI, don’t add those accounts to your QBs file.

Veterinarians have asked us if hospitals that adopt the AAHA Chart of Accounts sell for more money than those that do not. The simple answer is “no.” While the AAHA COA is designed especially for companion animal hospitals, using it does not increase the sales price in and of itself. However, having a well-organized set of books with income and expenses recorded correctly makes it easier for an appraiser to understand, track, and evaluate the financial trends. The more digging the valuator or your buyer needs to do to understand your practice, the less confidence they will have in the numbers and the hospital itself. Don’t lose a buyer – or sales dollars – because the books don’t make sense.

Break out credit card purchases into the proper categories. Often, we see hospitals record the entire credit card bill to a single entry to “drugs and supplies” or “purchases.” It may save time when the bill is entered this way, but it is extremely important to break out these expenses. Yes, a large portion of the credit card bill may represent payments to distributors. This doesn’t mean everything you buy from MWI or Patterson belongs in a single expense account, like “purchases.” And, it is very likely that the hospital also has purchased office or computer supplies, meals, continuing education or travel during the month. If all credit card purchases are recorded under “purchases,” spending on COGS will appear to be much higher than it should be. Someone reviewing the financial statements, like a bank or your potential buyer, may believe that the hospital operates inefficiently.

Lumping expenses also makes it challenging to manage the cost of goods sold (COGS). COGS is the second largest spending category in a veterinary hospital, right behind doctor & staff compensation. Without some expense breakout, how will you know where to target your efforts if COGS is higher than you want it to be? Where is the problem? Is it Pharmacy? Preventives? Lab? Fluids? Those lumped expenses will take more time to break out when you have to go back through the credit card statements later, especially if you have to rely on your memory to identify what you bought from Amazon for $312 three months ago.

Separate personal expenses from the business. Your tax accountant may advise you to run a personal vehicle, your family’s insurance, cell phones, maybe even your vacations and college tuition through the practice in order to lower your income tax bill. A few years before you plan to sell, stop doing this, even if it means you need to pay a little more in income tax. Keep a record of insurance premiums paid for the owner’s family along with other incidental expenses like auto expenses. The more documentation you have for these expenses, the more easily a practice valuation can be performed.

Practice owners have asked, “if a corporate buyer is going to make a bunch of changes anyway, why does it matter that I don’t track expenses closely?” While it is true that consolidators will normalize the practice’s financials, meaning that they will “add back” some spending that won’t continue after a sale, the less spending you need to justify or explain, the better. You don’t want to be in the position of telling a potential buyer about the many ways you took money out of the business, especially if you can’t readily “prove” the numbers.

Request closing entries from your tax accountant. When your accountant prepares the tax return, she will finalize depreciation and amortization expenses and may move some costs into different categories. It’s important that these changes are incorporated into QuickBooks so the numbers are consistent. There is no extra work involved for the accountant to give you these numbers. Banks, other lenders, and certainly prospective buyers want to see financial statements that tie to the tax return.

We know that taking time to “spring clean” your financial statements won’t be as appealing as a fresh coat of paint or a newly planted flower bed. But the time you spend sprucing up the reports will result in better financial information for managing your business, and “cleaner” books to share with a potential buyer.