From Confused to Confident: Making Sense of Your Practice Financials

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INTRODUCTION

Running a veterinary practice is a challenging business that requires more than just a passion for animal care. It is essential to have a solid understanding of the financial aspects of the practice to succeed. This includes understanding financial statements, metrics, and benchmarks. This presentation will discuss veterinary practice financial statements, including the AAHA/VMG Chart of Accounts, balance sheet, profit and loss statement, and cash flow statement. It will also cover break-even point, and EBITDA.

CHART OF ACCOUNTS

The AAHA/VMG Chart of Accounts is a standardized system of accounting used in veterinary practices. It is a detailed list of accounts used to classify and record financial transactions. This chart of accounts is designed to provide consistent, accurate, and useful financial information to practice owners and managers. It includes accounts for revenue, expenses, assets, liabilities, and equity. The AAHA/VMG Chart of Accounts is designed to be flexible and can be customized to fit the needs of a particular practice. It was endorsed by major veterinary organizations in June, 2017 including AVMA, VHMA, AAHA and VetPartners to promote the ability to create and track veterinary practice benchmarks and metrics.

FINANCIAL STATEMENTS

Balance Sheet

A balance sheet is a financial statement that provides a snapshot of a veterinary practice's financial position at a specific point in time. It includes information about the practice's assets, liabilities, and equity. The balance sheet equation is assets = liabilities + equity. This means that the total value of a practice's assets must equal the sum of its liabilities and equity.

Assets are resources owned by a veterinary practice that have value and can be used to generate revenue. These can include tangible assets like equipment, inventory, and property, as well as intangible assets like intellectual property and goodwill.

Liabilities are obligations owed by a veterinary practice to others. These can include accounts payable, loans, and taxes owed.

Equity is the portion of a veterinary practice's assets that is owned by its owners or shareholders. This includes retained earnings and contributions made by the owners.

Income Statement

A profit and loss statement, also known as an income statement, is a financial statement that shows a veterinary practice's revenues and expenses over a specific period. It provides information about the practice's profitability and performance. The profit and loss statement equation is revenues - expenses = net income.

Revenues are the income generated by a veterinary practice from the sale of its products and services. These can include fees for medical services, boarding, grooming, and retail sales.

Expenses are the costs incurred by a veterinary practice in running its business. These can include rent, salaries, utilities, and supplies.

Net income is the amount of profit or loss a veterinary practice has made over a specific period.

Cash Flow Statement

A cash flow statement is a financial report that shows how cash moves in and out of your business for a period of time. It is divided into three sections:

1. Operating activities – show cash generated or used in core business operations
2. Investing activities – show cash related to purchase or sale of long-term assets
3. Financing activities – show cash from or used in borrowing, including owner distributions

BREAK EVEN POINT

The break-even point is a financial metric that indicates the level of revenue a business needs to generate in order to cover its expenses and to operate at a zero-profit, zero-loss level. In veterinary practices, calculating the break-even point is crucial for understanding the minimum amount of revenue that must be generated to cover the costs of running the practice.

Following are just some of the reasons why calculating break-even point is important in a veterinary practice:

1. Helps with financial planning: Knowing the break-even point helps the practice owner in planning and budgeting, setting fees for services, and making informed decisions about resource allocation.

2. Evaluates profitability: Comparing the break-even point with the actual revenue generated provides an indication of the practice's profitability. If the actual revenue is less than the break-even point, then the practice is operating at a loss, which requires corrective actions to be taken.

3. Enables cost control: By analyzing the fixed and variable costs, the practice owner can identify areas where costs can be reduced or eliminated, which can help lower the break-even point and increase profitability.

4. Identifies revenue targets: The break-even point helps in setting revenue targets for the practice. Setting realistic revenue goals helps the practice stay on track and remain profitable.

5. Facilitates growth planning: Calculating the break-even point helps in determining the viability of expanding the practice or investing in new services. It provides a basis for assessing the return on investment (ROI) for any new projects or initiatives.

Calculating the break-even point is an essential tool for managing the financial health of a veterinary practice. It helps in making informed decisions about pricing, cost control, revenue targets, and growth planning. By understanding the break-even point, practice owners can take actions that improve profitability and ensure the long-term sustainability of their practice.

EBITDA

EBITDA stands for Earnings Before Interest, Taxes, Depreciation, and Amortization. It is a financial metric used to evaluate the profitability of a business by measuring its operating income before accounting for certain non-cash expenses and financing costs.

The calculation of EBITDA involves adding back the interest, taxes, depreciation, and amortization expenses to a practice's net income. These expenses are considered non-operating and non-recurring, meaning they are not directly related to the practice’s core business activities and may vary from period to period.

EBITDA is important to track for a veterinary practice because it provides a clear picture of the practice's financial health and operational efficiency. It allows practice owners and managers to focus on the profitability of the practice's core business activities, excluding the impact of financing and accounting decisions.

By tracking EBITDA, veterinary practice owners and managers can make informed decisions about investments, budgeting, and strategic planning. For example, if the practice's EBITDA is consistently increasing, it may indicate that the practice is growing and becoming more efficient. Conversely, a decline in EBITDA may indicate that the practice is facing financial challenges and needs to re-evaluate its operations.

EBITDA is also a financial metric used to value practices, so tracking your EBITDA allows you to track the value of your practice as well. Overall, EBITDA is a useful metric for evaluating the profitability and financial performance of a veterinary practice, providing insights that can help drive strategic decision-making and long-term success.

CONCLUSION

It is essential for practice owners and managers to understand their financial statements. With proper analysis, these statements provide valuable insights that support informed decision-making, driving growth, improving efficiency, and enhancing profitability.