

**AAHA/VMG
Companion Animal
Chart of Accounts
Field Definitions**

After 17 years of development, AAHA makes this document available free of charge to the profession for purposes of managing finances within veterinary practices. AAHA holds copyright and reserves all other uses.

Reproduction, modification or distribution of this document is not allowed without the prior written permission of AAHA (aaha.org).

American Animal Hospital Association Press
12575 West Bayaud Avenue
Lakewood, Colorado 80228
800-252-2242 or 303-986-2800
aaha.org

© 2017 by American Animal Hospital Association

Disclaimer: The AAHA/VMG Chart of Accounts is not intended to provide a substitute for adequate legal, accounting, or other appropriate professional advice. None of the organizations involved in providing this Chart of Accounts -- that is, Veterinary Management Groups (VMG), American Animal Hospital Association (AAHA), American Veterinary Medical Association (AVMA), Veterinary Hospital Managers Association (VHMA), and VetPartners -- nor the authors assume responsibility for and make no representation about the suitability or accuracy of the information contained in this work for any purpose, and make no warranties, either expressed or implied, including the warranties of merchantability and fitness for a particular purpose. None of the organizations involved in providing this Chart of Accounts nor the authors shall be held liable for adverse reactions to or damage resulting from the application of this information or any misstatement or error contained in this work. The organizations involved in providing this Chart of Accounts and the authors shall be held harmless from any and all claims that may arise as a result of any reliance on the information provided.

FOREWORD

In an effort to improve benchmarking throughout the veterinary profession, AAHA has collaborated with Veterinary Management Groups (VMG) to provide this free online version of its popular financial management resource, *Chart of Accounts*.

Standardized veterinary accounting codes enable the profession to develop better measures of veterinary practice financials and allow practitioners to organize their practice finances in line with generally accepted accounting principles.

Endorsed by several key veterinary organizations and industry partners, including the American Veterinary Medical Association (AVMA), Veterinary Hospital Managers Association (VHMA), and VetPartners, the *AAHA/VMG Chart of Accounts* is the standard for classifying and aggregating revenue, expense, and balance sheet accounts in small animal veterinary practice. This effort was initiated and coordinated by the AVMA Economics Advisory Research Council using previously created materials from AAHA and VMG.

This document combines the AAHA Chart of Accounts, published for 17 years by AAHA (most recently in its third edition, 2016), and the VMG Field Definitions, used by VMG groups.

INTRODUCTION

What Is a Chart of Accounts?

A chart of accounts allows a practice to identify how their financial statements are set up. It details the activity within each of a designated set of accounts over a period of time. The chart of accounts will organize financial transactions of a practice into easily identifiable categories of information.

The AAHA Chart of Accounts is set up to assist companion-animal veterinary practices, regardless of the size of the practice. During your review of the AAHA Chart of Accounts you will be able to select the accounts and the level of detail within each account that best meet the needs of your practice.

The chart of accounts should be created to support your practice now and in the future. It can be adapted to fit the needs of your practice as it grows, or as the financial knowledge and evaluation needs of the owners and/or practice manager change. However, the use of the chart of accounts needs to be consistent. The classification of revenue or expenses should not change between months. This consistency in classification allows the financial statements to provide meaningful comparisons and aid in sound business decisions.

The Relation of the Chart of Accounts to Financial Statements

Financial statements are the tool for understanding a practice's current financial condition, concerns, and potential for improvements. The chart of accounts categorizes each of the accounts and creates the primary financial statements, which are the balance sheet, the income statement, and the statement of cash flows.

The balance sheet is separated into three major categories: assets, liabilities, and equity accounts. The accounts are then separated into current and long-term assets and liabilities. The balance sheet is a representation of a practice's financial health. It represents, at a moment in time, the financial position of a practice.

The income statement (or profit and loss statement) summarizes the operating activities over a period of time. It includes revenues and expense accounts, and nets the two together to present the net income or net loss for the period.

The statement of cash flows reports the amount of cash coming into a practice and the amount of cash going out of a practice during a period of time. These cash inflows and outflows are separated into three different categories: operations, financing, and investing. The end of the statement of cash flows provides the net increase or decrease in cash during the period and the cash balance for the practice at the end of the period.

Cash-Basis Accounting Versus Accrual-Basis Accounting

There are two methods commonly used for reporting revenues and expenses within a practice. These are cash-basis and accrual-basis accounting (also referred to as cash method and accrual method, respectively).

With cash-basis accounting, a practice records revenues when cash is received, regardless of when the service was rendered or the product was sold. Similarly, expenses are recorded when cash is paid, regardless of when the product or service was received or used.

With accrual-basis accounting, revenues are recorded when services are rendered or products are sold. Likewise, expenses are recorded when the product or service is received or used by the practice. Under this method, when the cash is received or paid is irrelevant to when it is recorded.

Under the Generally Accepted Accounting Principles (US GAAP), the matching principle states that revenues and related expenses should be recorded in the same period. Practices sometimes recognize revenues on an accrual basis and expenses on a cash basis. This inconsistency between the treatment of revenue and the treatment of expenses does not allow a practice to see its true gross profit and net income for each month.

For a full understanding of cash-basis accounting versus accrual-basis accounting and their legal and tax implications, as well as the matching principle, consult with your accountant or financial adviser.

Setting Up a Chart of Accounts

Some accounting programs include a preloaded generic chart of accounts or allow the creation of one when the software is installed. The chart of accounts included with the software can be modified at any time, but it is often more beneficial to create a new chart of accounts from scratch. For any major revisions to the chart of accounts, it is best to wait until the beginning of a new tax year so the comparability from month to month within the same year is not lost. Any minor changes to your chart of accounts can be made at any time.

If you have any concerns with setting up the chart of accounts within the software, consult with your accountant, management consultant, or other qualified professional who has experience working with veterinary practices.

Index of Accounts

The AAHA Chart of Accounts is set up with the following categories:

Balance Sheet

Assets	100 series, pages 6–13
Liabilities	200 series, pages 13–17
Equity	300 series, pages 18–20

Income Statement

Revenue	400 series, pages 21–25
Cost of Goods and Services	500 series, pages 25–28
Labor Expenses	600 series, pages 28–32
Occupancy, Equipment, and Administration Expenses	700 series, pages 33–39
Other Income and Expenses	800 series, pages 39–40
Income Taxes	900 series, page 40
Ratios	pages 41–42
Sample Balance Sheet	page 45
Sample Income Statement	pages 46–47

These accounts will often include subaccounts, which are designated by a —XX. These subaccounts allow the practice to review greater detail within each account while allowing the financial statements to report only the total for each account.