Accounting guidance for pet care facilities

1. Introduction

The objective of this document is to help owners of pet care facilities to set up their accounting systems so that they can get data that are truly helpful to them in the running of their business. There are several aspects that should be considered when setting up or revising your accounting setup:

- Which revenue accounts should you have in your general ledger?
- How can you get more detailed analyses of your revenues?
- How can you ensure that the revenues captured by your operations management software are accurately and consistently input to your accounting software?

While this document is focussed on QuickBooks and KennelSoft's Atlantis, the same concepts apply regardless of which accounting and operations management software you are using.

2. Accounting for revenues

Generally, you should not have more than about six or eight revenue accounts. Too many accounts and it becomes more difficult to sort out into which account a particular income should go. You also increase the chances for errors. When setting up your chart of accounts (the listing of all of your general ledger accounts), you should consider the following:

2.1 Match management responsibility to revenue accounts

Most revenue accounts should correspond to a responsibility area or department in your business. If a revenue account incorporates income for which two or more department heads are responsible, how are you going to measure that department's performance? Of course, it's ok to have one department or responsibility area with multiple revenue accounts.

2.2 Budgets

If you plan on developing budgets (and you should), the breakdown of your revenues should take into account the ease with which you can forecast (guestimate) each type of revenue. Too many revenue accounts make the job of creating budgets much more difficult.

2.3 Some don'ts

Don't split revenues into different accounts based on how each customer came to your business. While it may be straightforward enough to allocate revenues when you first deal with a customer, how will you allocate revenues when that customer has become a regular patron of your business over several years?

Similarly, revenues should not be split based on the geographical location of the customer. What if they move? Which location do you use: home or work?

2.4 Suggested breakdown

The following list of revenue accounts should be suitable for most pet care facilities. Of course, not all of them may be suitable for your business.

- Boarding
- Grooming
- Day care
- Training
- Retail sales
- Packages. See below for additional detail.
- Gift card revenue. Since gift cards can usually be used to "pay for" any of your products or services, you will not be able to allocate this revenue to one of the income categories above.
- Unallocated discounts. Use for discounts that do not apply specifically to one of your business lines. See below for additional detail.
- Other revenue. Could include:
    - Errors that sometimes occur in Atlantis where the total revenues do not balance with the "Income totals" at the bottom of the Atlantis 'charges' report.
    - Forfeit of deposits
    - Pick-up and delivery revenue

2.5 Accounting for revenue from the sale of packages

One aspect that you should consider carefully is the sale of several different types of services as a "package" or bundle. The sale of packages may help you increase your revenues but the problem is that your packages will likely encompass multiple revenue types that you want to track separately. For example, a "bronze" package might involve three extra activities plus boarding. If you have one group of employees running boarding and another group handling extra services, you may have decided to have two revenue accounts – one for boarding and the other for extra services. Probably the best way to account for packages is to have one QuickBooks *item* for each package type that you sell. For example, you would have one QuickBooks item for "Bronze" packages, another item for "Silver" packages and so on.) All of the package *items* can be set up to put the revenue into a single general ledger account. Now, since you know the total revenue from each package type and you know which services are included in each package, it is a relatively easy process to divide the total revenue from each package (e.g. your Bronze, Silver, and Gold packages) into boarding revenue and extra activities. You may also wish to make a General Journal entry each month to take all the revenue out of the "package revenue" account and allocate it to the boarding and extra services accounts.

2.6 Discounts

It is important to track discounts so that you can determine to what extent your employees are "giving away the ship." It is also important to have the revenue in each general ledger account be a "pure" number to the extent that this is possible.

What is the best way to account for discounts? Should all discounts go into one account or should discounts be deducted from the type of revenue to which they apply?

One problem is that very often a discount applies to multiple revenue types. One example of this would be a "seniors" discount which was applied to an invoice with both dog and cat boarding.

Your operations management software probably cannot allocate this type of discount to each of your "dog revenue" and "cat revenue" general ledger accounts.

As a general rule, it is recommended that, where possible, discounts should be "mapped" to the revenue accounts to which each applies. All other discounts should be mapped to a general ledger *revenue* account set up for this purpose. (It must be a revenue account so that your accounting software will compute total revenue *net* of such discounts.)

The "unallocated discounts" general ledger account would also include Reward points used as payment credit.

3. Expenses

3.1   Cost of goods sold

QuickBooks allows you to set up expense accounts as either Cost of Goods Sold or ordinary Expenses. Cost of Goods Sold (sometimes referred to as "cost of sales" or COGS) is a figure which reflects the cost of raw materials used to produce a product or service to sell to customers. COGS is the direct costs of producing a product or service for sale. It could be:

- Cost of items purchased for resale
- 'Direct costs' such as labor, benefits, sales incentives, veterinary fees, credit card commissions, supplies, etc.

Costs that do not change with the seasonal increases and decreases in revenues (such as wages for office staff, marketing, legal and accounting fees, utilities, occupancy costs including maintenance and repairs, etc.) should not be part of cost of goods sold.

In the income statement presentation, the cost of goods sold is subtracted from revenues to arrive at the ***gross margin*** of a business. It is important to carefully monitor trends in the gross margin since the gross margin must exceed your fixed expenses if you are to realize a profit. If the margin is decreasing, you must take immediate action to either adjust your pricing or decrease your direct expenses.

3.2   Determining departmental profitability

Larger pet care facilities generally have a manager in charge of the various "departments" of the business. In order to measure the effectiveness of each manager, you should endeavour to relate your expenses to each revenue account. So if you have a revenue account called "boarding", you might have the following expense accounts in your general ledger as part of your cost of goods sold:

- Wages – boarding
- Supplies – boarding
- Veterinary fees

This way you can quickly derive a rough estimate of the relative profitability of each department.

4. Making changes to your chart of accounts

Changing your chart of accounts (the list of all of the general ledger accounts in your business) is always tricky. On the one hand you want to get more useful information from your accounting system. On the other hand, when you add, delete or modify a revenue account, you may lose the ability to compare your results with previous periods.

You should aim at implementing changes on the occasion of your fiscal year end.

5. Getting a more detailed breakdown of revenues

5.1   QuickBooks items

QuickBooks has a great feature called "items." In fact, when you enter revenues into QuickBooks using either Sales Receipts or Invoices, QuickBooks forces you to use items. Items are simply a way of posting transactions to the chart of accounts! Their function is simple: they take your transaction, and post it to the chart of accounts based on how you set them up initially.

In QuickBooks, an item is anything that your company buys, sells, or resells in the course of business, such as products, services, discounts, and sales tax (if applicable). QuickBooks allows you to set up items for both income and expenses but this document is only concerned with revenue items.

Since each revenue item is a line on a Sales Receipt or Invoice, items can help you fill out the line item area of these forms quickly. When you choose an item from your Item List, QuickBooks fills in a description of the line item and calculates its amount for you. Of course, pet care facilities that use operations management software such as Atlantis will not be entering a Sales Receipt for each customer transaction. Atlantis will aggregate all transactions and thereby allow you to enter all of the revenue for a day, week or month on one Sales Receipt.

QuickBooks desktop editions provide 11 different *types* of items. Some—such as the service item or the inventory part item—help you record the services and products your business sells. Others—such as the subtotal item or discount item—are used to perform calculations on the amounts in a sale. Most pet care facilities will use just 'service' items unless they also sell retail products.

Items handle the behind-the-scenes accounting. When you create an item for a service or product you sell, you "map" or associate it with an income account. When the item is used, it posts an entry to that revenue account and another entry to Accounts Receivable or another appropriate account.

While items are easy to set up, you should spend some time deciding how they can best work for you before you start setting them up and using them. Use your current or proposed list of services and products as a starting point.

5.2   Analyzing revenues using items

Items are the means by which you can get a more detailed breakdown of your revenues out of QuickBooks. Have a look at the QuickBooks "Sales by Item" report. This report will tell you (for each item or service): how many have been sold, what is the total dollar sales, and what is its percentage of your total sales? Which items and/or services bring in the most/least income?

For this report to be effective, it is important that you enter on each Sales Receipt or Invoice the numbers of each "unit" sold along with the dollar amounts. For example, when recording boarding revenues, you should also record the number of nights involved. That way you can track the average revenue per night. Is it going down? If so, why? Since you can export virtually any report to Excel, you can drill down to get even more detail.

QuickBooks can also produce nifty bar and pie charts showing the breakdown of sales by item.

5.3   How many items should you have?

So how many items should you set up? You can set up as many as you want but you must have at least one item per revenue account. If you have six or eight revenue accounts, you might have more than double that number of items. The Atlantis system can track hundreds of different revenue types and, in fact, the Atlantis demo system ships with over 120 different revenue (and discount) types. Clearly that's too many to track and analyze each week or each month.

You should have one item called something like "Miscellaneous Revenue." Some types of revenue defy easy categorization into one of your revenue accounts. Examples include the forfeit of a deposit and the collection of a fee for an NSF check.

6. Ensure accurate and consistent tracking of revenues

You can, of course, simply use the sub-totals on the Atlantis "charges" reports to map to your QuickBooks items. KennelSoft designed these reports so that you could do that. But what if you want to record discounts differently? What if you want to separate cat boarding from dog boarding? What if you need to allocate the sales of packages to a separate account in your general ledger? If your accounting setup requires that you extract and regroup the sub-totals on the Atlantis "charges" reports, then it is essential that you set up procedures or employ a system that ensures that each posting to QuickBooks is consistent with all previous postings. If this is not the case, the conclusions you draw from your analysis of your revenues may be incorrect and this could have a serious detrimental impact on your business.

One example would be where some revenues start to be allocated without your knowledge to "dog boarding" instead of to "extra services." Based on just your analysis of your monthly Profit and Loss statement, you conclude that the employees who are checking in dogs aren't selling the "extra services" that greatly enhance the profitability of your business and react by giving them a not so nice piece of your mind. Not good.

Errors can have a similar outcome. For example, "dog revenue" for a month is allocated to "miscellaneous income." You notice the aberration on your Profit and Loss statement and so you have to spend your valuable time looking for the reason that "miscellaneous revenue" is so high and then correcting the error.

Extender ensures the accurate and consistent allocation of the revenues captured by Atlantis to your QuickBooks items. Once you have decided on which revenue accounts you are going to set up in your general ledger and which QuickBooks items are going to "map" to which general ledger account, you will then "map" each revenue item that appears on one of the Atlantis "charges" reports to a QuickBooks item. This mapping is then stored in Extender so that each time you generate a new charges report, the revenues are quickly and accurately allocated to your QuickBooks items. Consider a setup where you have 60 or 120 Atlantis revenue types that need to be mapped to about 20 QuickBooks items. It will take you

some time to "map" each Atlantis item to each of your QuickBooks items but once it is done, it is done forever. (This is called up front pain for long term gain.)

7. Sample QuickBooks items listings

Below are some sample QuickBooks item listings from some successful pet care facility operators. Hopefully this document will help you ensure that you are accounting for *your* revenues in a way that will help you manage *your* business to higher and higher profit levels.

ATLANTIS EXTENDER SAMPLE ITEM LIST
Item Listing
April 18, 2013

Item	Description	Type	Account
ACTIVITIES		Service	GENERAL REWARDS DISCOUNTS
ACTIVITIES:ACT-DISCOUNTS	DISCOUNTS ON ACTIVITIES	Service	ACTIVITIES CHARGES
ACTIVITIES:FOODTREATS	FOOD RELATED ACTIVITIES	Service	ACTIVITIES CHARGES
ACTIVITIES:LABOR INTENSIVE	LABOR INTENSIVE ACTIVITIES PLAYTIME, POTTYWALKS	Service	ACTIVITIES CHARGES
ACTIVITIES:MEDICATIONS	MEDICATIONAL ACTIVITIES	Service	ACTIVITIES CHARGES
ACTIVITIES:PACKAGE	ACTIVITIES PACKAGES	Service	ACTIVITIES CHARGES
BOARDING		Service	BOARDING CHARGES
BOARDING:BD-DISCOUNTS	BASIC BOARDING CHARGE DISCOUNTS	Service	BOARDING CHARGES
BOARDING:EQUIPMENT RENTAL	BED AND OTHER EQUIPMENT RENTAL FEES	Service	BOARDING CHARGES
BOARDING:HOUSING	BASIC ROOM AND BOARD CHARGES	Service	BOARDING CHARGES
BOARDING:PEACE OF MIND	PEACE OF MIND PROGRAM	Service	BOARDING CHARGES
GROOMING		Service	GROOMING CHARGES
GROOMING:ADDITIONAL SERVICES	ADDITIONAL GROOMING SERVICES	Service	GROOMING CHARGES
GROOMING:BBN	BASIC BATH	Service	GROOMING CHARGES
GROOMING:CGR	COMPLETE DETAILED GROOM	Service	GROOMING CHARGES
GROOMING:GR-DISCOUNTS	GROOMING DISCOUNTS	Service	GROOMING CHARGES
GROOMING:SPECIALTY PRODUCTS	SPECIALTY PRODUCTS GROOMING SERVICES	Service	GROOMING CHARGES
PET TRANSPORTATION		Service	PET TRANSPORTATION CHARGES
PET TRANSPORTATION:FUEL	FUEL SURCHARGE	Service	PET TRANSPORTATION CHARGES
PET TRANSPORTATION:LIMO	NON-SHUTTLE TRANSPORTATION LIMO, VET TRIPS	Service	PET TRANSPORTATION CHARGES
PET TRANSPORTATION:SHUTLE	PET SHUTTLE	Service	PET TRANSPORTATION CHARGES
RETAIL		Service	RETAIL SALES
RETAIL:SALES	RETAIL PET SUPPLIES SALES	Service	RETAIL SALES
OTHER MISC		Other Charge	ATLANTIS ERRORS
OTHER MISC:ATL ERR	ATLANTIS ERRORS	Other Charge	ATLANTIS ERRORS
OTHER MISC:DEP FOR	FORFEIT OF REFUNDABLE DEPOSIT	Other Charge	OTHER FEES CHARGED
OTHER MISC:EXCHANGES	MISC. EXCHANGES	Other Charge	EXCHANGES
OTHER MISC:FOODREIMB	SPECIAL FOOD, MEDS OR SUPPLIES PICKED UP FOR CUSTOMER REIMBURSEMENT	Other Charge	BOARDING EXPENSES:PET FOOD, WATER AND LITTER
OTHER MISC:GIFT CARDS	GIFT CARDS PURCHASED	Other Charge	GIFT CARD DEPOSITS
OTHER MISC:REWCR	REWARD POINTS USED AS PAYMENT CREDIT	Other Charge	GENERAL REWARDS DISCOUNTS
OTHER MISC:VETFEES REIM	VETERINARY FEES REIMBURSEMENT	Other Charge	BOARDING EXPENSES:VETERINARY FEES
OTHER MISC:W/O N/G RECOVERED	RECOVERY OF WRITE OFF FOR BAD DEBT/ N/G CHECK	Other Charge	OTHER FEES CHARGED
EXEMPT - RESALE	Sales Tax	Sales Tax Item	SALES TAX COLLECTED
NJ SALES TAX	New Jersey Sales Tax	Sales Tax Item	SALES TAX COLLECTED

Item Listing
30 April 2013

Item	Description	Type	Account
10 - Extra Services - Cats		Service	4036 · Sales - Extra services - Cat
11 - Vet		Service	5140 · Veterinary Fees - Recoverable
12- Transportation		Service	4040 · Sales - Transportation
13 - Out Grooming		Service	4045 · Sales - OUT Grooming
14 - Day Care		Service	4050 · Sales - Day Care
15 - Pick Up & Drop Off		Service	4033 · Sales - Extra services - Dog
16 - Boarding Packages		Service	4034 · Sales - Boarding packages
17 - Discounts		Service	4060 · Discounts
18 - Punch card sales	Sale of Daycare Punchcards	Service	4050 · Sales - Day Care
20 - Forfeited deposit		Service	7200 · Miscellaneous Revenue
5 - Medications		Service	4033 · Sales - Extra services - Dog
6 - Dog Boarding		Service	4020 · Sales - Dog Boarding
7- Cat Boarding		Service	4025 · Sales - Cat Boarding
8 - In Grooming		Service	4030 · Sales - IN Grooming
9 - Extra Services Dogs		Service	4033 · Sales - Extra services - Dog
Misc. Revenue		Service	7200 · Miscellaneous Revenue