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UNDERSTANDING AND INTERPRETING FINANCIAL STATEMENTS

Marsha L. Heinke, DVM, EA, CPA, CVPM

Why Formalized Financial Information is Important

Accounting is "the art of measuring, communicating, and interpreting financial activity." In a veterinary practice, the purpose of accounting is to provide sound and reliable financial information to the owners who plan and control the activities of the business. Practice owners and managers rely on essential financial data to make *informed* judgments and decisions.

Outsiders such as creditors, potential investors or purchasers, banks, and state and federal governments also need financial information. Bankers and suppliers are concerned about the stability of the practice. They want to assess the risks involved and financial soundness before making loans or extending credit.

Investors, such as new veterinarians buying into the practice, are interested in current financial health and future prospects. Government agencies demand information for taxation and regulation purposes.

As veterinary practices are consolidated into larger corporate entities, they may become publicly owned. The Security Exchange Commission (SEC) demands stringent reporting for a corporation's stock to be publicly traded on a stock exchange. Shareholders require and the law enforces financial reporting.

Larger corporate entities may also offer employee stock option plans (ESOPs). These plans encourage employee ownership in the veterinary practice. Employees become vitally interested in the stability and profitability of the corporation.

In the end, the individuals who depend most heavily on accounting are those charged with the responsibility for daily direction of veterinary hospital operations. Consider the wide variety of data required. Here is a partial list of what information manager's want and the practice's accounting system provides:

- How much is owed to each vendor and creditor of the hospital.
- When do these amounts come due.
- How much is owed to the hospital by its clients.
- How much cash is available for investment and payment of bills.
- How many clients have attended and pets have received treatment.
- How many active patients and clients the hospital has.
- How many future reminders for vaccines and other services exist and how many are delinquent.
- How many employees are on staff and how many hours have they worked.

- How many vacation hours, sick days, and continuing education days are owed to these employees because they have satisfied work hour requirements and are entitled to them.
- What taxes have been withheld from employee wages and what amounts are owed to the various taxing agencies.
- What equipment the hospital owns, when was it acquired, and for how much money.
- What has been expended on electricity, maintenance, and telephone services.
- What sales taxes have been collected and are due to the state.
- What inventory is on hand.
- What inventory is on back order, but not yet received.
- What inventory has been sold.

The veterinary practice **accounting system** is the sum total of methods used to keep records of practice financial activities and to summarize these activities in periodic reports. Accounting information is primarily, but not exclusively, composed of financial data about business transactions, expressed in terms of money. Mere transaction records are of little use in making informed judgments and decisions. Recorded data must be sorted and summarized, then presented in significant reports. A good accounting system results in timely production of reports management deems necessary.

Financial Statement Basics

As veterinary professionals, it is always easier to communicate with colleagues or employees who have knowledge of medical terminology. The same holds true when discussing financial matters. Understanding accounting terminology helps communication. With the advent of massive technological change through the use of personal computers, check-writing software, and accounting and spreadsheet software, a greater level of comprehension and interpretation of financial terminology is needed in a successful veterinary practice.

The records of properties and services purchased by a business are maintained on the **cost principle**. The principle assumes that the monetary records for properties and services purchased by a veterinary practice should be maintained in terms of cost.

For example, if an ultrasound machine is purchased at a cost of \$40,000, that is the amount recorded in the practice's general ledger and accounting records. The vendor might have been asking \$55,000. The practice owner might have offered \$30,000. The machine might be worth only \$20,000 if it were immediately resold by the practice to another practice. Another hospital might have bought the exact same machine for \$45,000 a month earlier. The machine might only be worth \$10,000 a year later because of obsolescence and wear and tear.

But regardless of these additional facts, they have no bearing on the accounting records because they do not originate from an exchange. The cost, or exchange price, of \$40,000 determines the monetary amount used in the practice's accounting records, until the time the equipment is exchanged again. This usually occurs when it is resold to another, outside party, or is disposed of. Then the historical cost is removed from the practice books and records.

The determination of costs incurred and revenues earned is fundamental to accounting. Only the exchange price is concrete and objective enough for accounting purposes. If accounting records were constantly revised upward and downward on the basis of mere offers, appraisals, and opinions, accounting reports would soon become unstable and unreliable.

A **business transaction** is the occurrence of an event or condition that must be recorded. A loan obtained to purchase the ultrasound machine, check payment of a laboratory invoice, or purchase of heartworm preventative on credit are all examples of business transactions that must be recorded.

When the ultrasound machine is purchased for cash, this transaction represents the exchange of one **asset** for another. Properties owned by a business enterprise are referred to as assets. Cash (an asset of the veterinary business) was used to purchase the ultrasound machine (a new asset of the veterinary business).

Rights or claims to the veterinary practice's properties or assets are referred to as **equities**. If the total practice assets amount to \$500,000, then the equities in these assets must also amount to \$500,000. Properties equal the rights in those properties, or:

$$\text{Assets} = \text{Equities}$$

Equities are of two principal types: rights of creditors to the business and rights of owners of the veterinary practice.

Thus, the primary elements of accounting for any business are:

- **Assets** - Assets represent all of the economic resources of the practice that can be expressed in monetary terms, meaning anything the practice owns. Examples of assets are: cash, checking, savings, accounts receivable, inventory, land, building and leasehold improvements, personal property (office equipment and furniture, medical equipment, computers and software, vehicles), and intangible assets or non-physical assets (franchises, copyrights, patents, goodwill, covenants not to compete).
- **Liabilities** - Liabilities are obligations resulting from past transactions that require the practice to pay money, provide goods, or perform services in the future. Liabilities can include: accounts payable for drugs and professional supplies, maintenance service, and equipment; notes payable (written promises to pay a defined amount at a future date, such as a bank loan); and accrued liabilities (payroll taxes and wages due on hours worked but not yet paid).
- **Owners' equity** - Equity represents the interest or claim of the practice owners in the practice assets. Equity is what the practice owes its owners: the amounts the owners have invested in the business plus the amount of profits that have been retained in the business that are owed to the owners.

The basic **accounting equation** shows that assets equal liabilities plus owners' equity. (Assets = Liabilities + Owners' Equity). Liabilities are customarily presented before owners' equity because creditors have preferential rights to the assets over owners.

Emphasis on the residual claim of owners in the veterinary practice can be shown by rearranging the accounting equation:

$$\text{Assets} - \text{Liabilities} = \text{Owners' Equity}$$

Balance Sheet

The Balance Sheet is so named because it reflects the above accounting equation.

Equity increases or decreases primarily as a result of income or loss from operations of the practice. It also increases when the owners contribute capital to the business, and decreases when capital is withdrawn or dividends are paid.

Assets are divided into four main subsections: Current Assets, Investments, Property, Plant and Equipment, and Other Assets.

Current Assets are those assets of the practice which are reasonably expected to be realized in cash, sold, or consumed during the normal operating cycle of the practice or one year, if less. These assets generally include cash and cash equivalents, such as money market accounts, accounts receivable, inventories, and certain pre-paid expenses, such as insurance premiums, service contract payments, or rent. Such prepaid items benefit a future period of business operation.

Investments can include common stocks or bonds, as well as property held for future development or other assets not presently used in the practice's operations. An example of a veterinary practice investment would be ownership rights in an emergency clinic operation.

Property, Plant & Equipment are assets of a durable nature used in the regular operation of the business. The AAHA Chart of Accounts delineates several classifications appropriate for use in veterinary hospitals. These are: medical and professional equipment; patient records; computer hardware; office equipment, furniture and fixtures; practice vehicle; building or leasehold improvements; buildings; and land. Property, Plant and Equipment are reported on the Balance Sheet net of accumulated depreciation.

In accounting theory, accumulated depreciation is an aggregate of charges against earnings to write off the cost of an asset over its estimated useful life. "Net of accumulated depreciation" means that the equipment reported at historical cost on the balance sheet is reduced periodically by the estimated depreciation amount for that period of time. Accounting depreciation estimates the reduction in useful life because of wear, tear, and obsolescence of the equipment.

The cash outlay for equipment occurs in the year of acquisition. The purchase price is generally capitalized (i.e., recorded on the Balance Sheet rather than expensed in the current period) and depreciated or deducted over a number of years. Because depreciation deductions can occur years after the actual cash outlay for acquisition of the asset, depreciation is often referred to a “non-cash” expense.

Other Assets often includes *intangible* property. Intangible property cannot be detected by the senses, but has value. Patents and copyrights are an example of intangible assets. Computer software cost is due to intangible value. The disks you buy are nominal in cost. Purchase price primarily has to do with the licensing rights you purchase to use the software.

The name of the practice, its location, and its reputation, among other factors, has intangible value. These factors are usually considered together as a term called “Goodwill.” Goodwill may appear on the balance sheet if goodwill was purchased at some point in the past from another practice that existed at that time. If the veterinary practice started up as a new hospital, it’s own goodwill has value but will not be presented on the balance sheet. See the prior discussion of the **cost principle**.

Other assets reported on the balance sheet in the section, “Other Assets,” include pre-paid expenses. Examples are unexpired insurance premiums and pre-paid rent. Workers’ compensation premium deposits and start-up or organizational costs may also be shown under Other Assets.

Liabilities

The Liabilities portion of the Balance Sheet includes two main categories. These are Current Liabilities and Long-term Debt.

Current Liabilities refer to those obligations that are reasonably expected to be paid during the next 12-month operating cycle through the use of current assets. These debts generally include notes payable that are due in less than 12 months, accounts payable, income taxes payable, and accrued expenses, such as salary payable and interest payable. The current part of any long-term debt is presented as a current liability. For example, the part of a 10-year loan that is due within the next 12 months would be presented as part of current liabilities.

Long-term Debt refers to long-term obligations, such as mortgage loans, that will be due for repayment over a period of time greater than one year. The current portion of the long-term debt, or that portion of principal, which will be paid within the next 12-month period, is recorded as a current liability. The portion due in greater than 12 months is included in this section.

When you read the Balance Sheet and examine long-term debt, the description typically refers to long-term debt less current maturities or less current portion. Long-term debt reports all portions of principal that are due beyond the 12-month period of the Balance Sheet date. Long-term Debt can also include obligations not expected to be paid within one year. For example, a loan, which is subject to interest-only payments during the first few years, would be totally recorded in Long-

term Debt. When principal payments are due to begin within the next 12 months, the principal amounts owing will be recorded in Current Liabilities.

Owners' Equity

The equity portion of the Balance Sheet presents ownership interests in the practice. For veterinary practices operating as sole proprietorships or partnerships, the initial capital invested in the practice is recorded in an account called Owner's Capital or Partner's Capital.

For veterinary corporations, owners (shareholders) make an investment in shares of common stock sold to each shareholder. The initial capital investment is reported in accord with the legal documents establishing the incorporation. The initiating legal documents are called the Articles of Incorporation.

The investment in corporation stock is usually reported as Common Stock on the balance sheet. Preferred Stock is another class of corporation stock that might exist and be shown on the balance sheet. Additional-Paid-In Capital refers to monetary amounts invested in the corporation by its shareholders in excess of common and preferred stock value.

The Statement of Owners' Capital (sole proprietorship) or Partners' Capital (Partnership) or Members' Capital (Limited Liability Company or Limited Liability Partnership) or Retained Earnings (Corporation), is a schedule showing changes in the owner equity accounts between two balance sheet dates. Capital account balances change because of profits and losses and because of capital withdrawals or investments by owners during a period of time.

Account balance changes from capital withdrawals during the period in question are called different names, depending on the type of business entity. In a sole proprietorship, withdrawals are called draws. In a partnership, withdrawals are called partner draws. For corporations, capital withdrawals are called distributions or dividends.

Profits or losses experienced during the period of time in question are also recorded on the Statement of Retained Earnings or Owners' Capital. Profits cause an increase to owners' capital. Losses cause a decrease to owners' capital. In a corporation, an account called "retained earnings" reports the accumulated undistributed losses and profits over a series of years.

Financial Statement Presentation - Accounting Basis

When evaluating your own veterinary practice's balance sheet, you must determine the accounting methodology. Financial data can be presented in accord with different standards and systems. Financial statements can be prepared to mirror how accounts are reported when preparing tax returns. Or, they might be prepared to reflect some other standard of presentation.

The easiest way to discern how the financial statements are prepared is to examine the first page of accountant prepared financial reports. The first page takes the form of a letter to the owners

of the veterinary business or the shareholders. Depending of the level of accounting engagement, this letter will be an Accountant's Compilation Letter, Accountant's Review Report, or Accountant's Audit Report. Most financial statements prepared for veterinary small businesses are a *compilation* prepared on the *income tax basis* of accounting.

On the income tax basis, the financial information is compiled in a way that closely mirrors the practice's tax returns. The reason is accounting fee conservation. If financial data of the practice can be adjusted to be used for both tax return preparation and financial statement issuance concurrently, practice management obtains useful reports, but at less cost overall.

Once you have examined the compilation letter and determined whether the financial statements are presented on the income tax basis of accounting or in accord with some other method, you must determine whether that represents cash basis or accrual basis.

Let's define these terms.

IF:
income is measured when cash is received
AND
expenses are measured when cash is spent,
THEN
the practice is said to be operating on a
CASH basis.

IF:
income and expenses are measured when the transactions occur
(regardless of physical or constructive flow of cash),
THEN
the practice is said to be operating on an
ACCRUAL basis.

If your hospital is on the *accrual* basis of accounting, income is recognized as fees are earned. That is, your Balance Sheet will show the level of accounts receivable at the Balance Sheet date and fees will include all fee charges made by clients, regardless of whether they have paid yet.

On the *cash* basis of accounting, only those fees that have been paid by clients are recognized in revenues for the period in question. When your hospital is on the cash basis of accounting, the balance sheet will not show the level of accounts receivable because they have not yet been paid and, therefore, not recognized in fee income.

The cash basis of accounting has been more common in small business overall (veterinary or otherwise) than the accrual basis. It is somewhat less expensive to maintain the books, but in these days of sophisticated bookkeeper software, not materially so. Using the cash basis, revenue is recorded in the accounting records only when cash is received and expenses are only recorded when cash is paid.

Practices that prepare financial statements according to Generally Accepted Accounting Principles (GAAP) always use the accrual methodology. GAAP requires that income be reported whether or not yet collected and expenses be reported when a liability to pay the expense is established.

GAAP recognizes that the cash basis of accounting distorts the portrayal of financial position and operational results. Cash basis accounting poorly matches expenses with the revenues produced in incurring those same expenses. The comparability of financial statements from one period to the next (e.g. one month to the next month) will not be as reliable. Trends will be more difficult to spot and the use of financial statements as a managerial tool can be hampered using the cash method.

The absence of a balance sheet line item for accounts receivable on a cash-basis as compared to an the accrual-based balance sheet is just one example of the differences that may occur between the two methods. Another reason why a balance sheet may not give a true picture of business health results from the *cost principle*. Property, Plant, and Equipment costs are stated at their historical values (the cost when they were purchased).

For older practices this can be significant. Stainless steel cages purchased in the 1970s are probably in as good shape as they were at the point of purchase. The replacement of such cages with other similar used equipment at today's prices would be much greater than what is reported on the balance sheet. Additionally, small pieces of equipment purchased piece-meal may have been expensed through drugs and professional supplies or through office supplies. In that situation, not all of the assets owned by the practice may be reported on the balance sheet.

A comparative balance sheet is most helpful for managerial analysis in evaluating changes in cash accounts and the level of remaining principal liability on outstanding debt. Because Property, Plant and Equipment are recorded at historical cost, other assessments of personality and realty value held through the practice are of more benefit than the balance sheet.

The Income Statement

While the Balance Sheet shows the specific financial position of your practice at a moment in time, the Income Statement depicts the cumulative effects of income and expense transactions over a period of time. The Income Statement can cover a day, a month, a quarter, six months, or the entire fiscal year. At the end of the fiscal period, the cumulative amounts in each account are closed to the retained earnings of the practice, reflecting the net profit or net loss for the period in question.

At the beginning of a fiscal period, all of the revenue and expense accounts presented on the income statement will be at -\$0-. With each succeeding day in the fiscal period, the balance in

each account will increase or decrease according to the transactional activity that occurred. Thus, the income statement begins afresh each new year, while the balance sheet reflects cumulative financial data from the beginning of the practice's existence.

Like the balance sheet, it is important to understand the method of accounting when examining an Income Statement. Since the cash basis method of accounting records expenses as they are paid, the expense accounts in any one period will reflect the amounts paid in that period, not necessarily the liabilities incurred. Likewise, when using the cash method, revenues are reported, as they are collected, not as they are earned.

For example, a large order of heartworm preventative may be ordered and received in a hospital in April. Medication is dispensed intermittently throughout the next three months. Due to a favorable contract with the drug manufacturer, payment is made on a 6-month delayed billing.

Under the cash basis of accounting, the expense will not be recognized on the Income Statement until three months after the last of the product has been sold, at the point the bill is actually paid. Revenues from the sales of the product were recognized in April, May, and June, but there was no offsetting expense. The offsetting expense was not recorded until months later. With cash basis accounting, the profit will appear high during the months of sales because no offsetting expense for the cost of the product sold was recorded concomitantly.

The preceding example demonstrates why the "matching principle" is important. The matching principle states that revenues and expenses should be matched in the period in which they occur. The accrual base method of accounting uses the matching principle. Accrual accounting gives a more accurate appraisal of the results of operations. Using the accrual method, the expense for the heartworm preventative would be recorded in the period when sales were made, regardless of when the bill was paid.

The income statement emphasizes two major accounting elements: "Revenues" and "Expenses." What do these terms mean?

Revenues are the gross increases in owner's equity or capital as a result of business activities entered into for the purpose of earning income.

Expenses represent the amount of assets consumed or services used in the process of earning revenue. Those assets include drug and professional supply inventory, labor, office supplies, janitorial supplies, maintenance contracts, etc.

The income statement likely comprises several pages, because of the volume of transactional detail presented. The first page generally summarizes revenue and expenses for the period. Ultimately, net profit or loss for the period is computed.

Net income or net profit is the "bottom line" measure of the earnings performance of the practice for the period represented, after considering all elements of income and expense. Revenues

minus expenses are net profit, if revenues exceed expenses. If expenses exceed revenues, the result is a net loss.

The income statements start with revenues from operations. The top portion of the first page of the income statement presents either **Total Gross Fees From Professional Services** or a detailed breakdown of the separate income centers represented before arriving at **Total Fee Revenue**. The AAHA Chart of Accounts provides coding and multiple accounts for detailing the various income centers of a veterinary practice. Accounts include revenues from pharmacy, in-patient services, outpatient services, laboratory (inside and outside), radiology, mortuary, and ancillary companion animal services.

Expenses from ongoing operations follow revenues. The first major area of expenses represents assets or services used directly in administering to hospital patients. These expenses are grouped together and are called **Costs Of Professional Services Sold**. Examples of cost of professional service expenses include drugs and professional supplies, hospital, surgical and dental supplies, radiographic supplies, laboratory supplies, laboratory payments to outside services, contracted relief veterinarians, consultations with specialists, animal disposal fees, medical waste disposal fees, boarding and grooming expenses, dietary product expense, etc. The level of detail provided by the Income Statement is a direct reflection of management's decision as to the level of detail desired.

Gross Profit measures the profit contribution from the sales of products and professional services before administrative overhead. Gross profit is the difference of sales (total revenues from operations) less the costs of professional services.

Next, **General and Administrative Expenses** are deducted. General and administrative expenses (G & A) are costs associated with the sale and delivery of products in rendering veterinary services, and the general costs associated with the management of the practice, other than those charged to the cost of goods sold. The detail of all these expenses is usually provided as supplemental pages to the income statement.

G & A expenses include veterinary and support staff wages, salaries and associated payroll taxes, all other taxes (except state and federal income taxes on net profits), employee benefit programs, laundry and uniform expense, continuing education, veterinary professional and business dues, rent on business property, maintenance and service contract expense, advertising and promotion, office supplies, postage, accounting and legal services, collection and return checks expense, depreciation and amortization expense, etc.

After total G & A expenses are subtracted from gross profit, net income or loss from veterinary operations results. After computing this number, additional revenues and expenses that are unrelated to veterinary operations must be reported.

The next section of the income statement – **Other Revenues and Expenses** -- includes miscellaneous revenues from such areas as cash overages, finance charges, and other interest revenues, such as those earned on money market and savings accounts held by the practice. This

section includes gains or losses from sale of investments or other assets, such as equipment. Interest expense paid as on outstanding loans and other debt is detailed here.

Beyond this point, the practice's income statement may look different depending upon the business format in which your practice operates. If the business entity is a Subchapter C corporation, a **Provision for Income Taxes** will appear on the Income Statement before arriving at net profits after taxes. For Subchapter S corporations, proprietorships and partnerships, net profits flow through the owners, partners, or shareholders of the practice so that income taxes occur at the personal level. Therefore, no provision for income taxes will be shown in any of these three formats.

Income Statements can provide a means for profit center analysis. If a level of detail for both the income and expense centers has been defined, the relationship of specific direct costs to profit generated can be determined. For example, consistent segregation of dietary product costs (the cost of pet food resold to clients) can be compared to the revenues generated from the sale of this item.

A *comparative* income statement presents revenues and expenses from the current period compared with a prior period. For example, the month of January 200y might be compared with the month of January 200x. Or, the year 200z could be compared with the year 200y.

When using comparative income statements to assess changes in practice profitability, the various line items are only as good as the underlying data. Categorizing specific expenses consistently is critical to obtain meaningful comparison from one period to another. For example, if computer supplies for patient reminders are classed to office supplies in the next period and non-medical supplies in a third period, a valid comparison is difficult to make in those categories. The input of data was not consistent.

It is important to realize that the "bottom line" of profit as shown on the Income Statement does not equal cash available. A few examples may clarify this concept. Depreciation expense is a so-called "non-cash" expense. Since it theoretically represents an allowance or expensing of a portion of assets purchased in an earlier period, no cash was expended during the period in question. The depreciation expense is still offset against revenues of the current period and reduces profits. In actuality, no cash was paid out for that particular expense.

Examination of balance sheet accounts during the same period highlights where differences have occurred between cash outlays and profit as shown on the income statement. Profits may be high, but a significant amount of cash may have gone for the purchase of new equipment or the pay down of existing liabilities. Although profits may appear high in one particular period, the total cash outflow may have drained the bank account. For these reasons, the statement of cash flows takes up where the statement of income leaves off.

The Statement of Cash Flows

The Statement of Cash Flows depicts a practice's cash inflow and cash outflow for a specific period of time. It provides information through three major classifications:

CASH PROVIDED BY OR APPLIED TO OPERATIONS

+/- **CASH PROVIDED BY OR APPLIED TO INVESTING ACTIVITIES**

+/- **CASH PROVIDED BY OR APPLIED TO FINANCING ACTIVITIES**

= **NET INCREASE OR DECREASE IN CASH**

Operations include the cash affects of essentially all items identified on the Income Statement, such as professional fee income, cost of professional sales, and general and administrative expenses. Operating activities include all transactions and other events that are the result of delivering or providing professional veterinary services, including rendering of boarding and grooming services and sale of pharmaceuticals and over-the-counter products associated with veterinary hospitals. Cash flows from operating activities are the cash effects of transactions that enter into the determination of income.

Cash inflows from operating activities include cash receipts from the sale of veterinary services and from interest and dividend income. Cash outflows from operating activities include cash payments for acquisition of inventory, wages and benefits to employees, taxes, interest on loans, and various suppliers.

Investing activities include the purchase of professional equipment, furniture and fixtures, leasehold improvements, and similar assets. This section of the Statement of Cash Flows also includes proceeds from the disposition of those same assets and certain investments, securities, and other non-operating assets.

Investing activities include lending money and collection of loans (such as officer advances). In small veterinary practices, investing activities reflect the acquisition and selling of productive assets, such as professional equipment.

Cash inflows from investing activities include principal repayments from borrowers, proceeds from sale of loans, and receipts from sales of assets, such as securities or equipment. Cash outflows from investing activities include loans made, loans purchased, and payments to acquire assets such as securities or plant, property and equipment.

Financing Activities is the third classification on the Statement of Cash Flows. Financing activities include the borrowing and repayment of debt, as well as the contribution and redemption of equity capital and payment of dividends.

Financing activities include obtaining capital resources from owners, providing owners with a return on investment, obtaining resources from creditors, and repaying amounts borrowed. However, interest on the borrowings is considered an operating activity.

Cash inflows from financing activities include the proceeds from issuance of equity securities and from long- and short-term borrowings. Cash outflows from financing activities include payment of dividends, cash paid to reacquire the practice's stock, and repayment of amounts borrowed.

The Statement of Cash Flows typically shows the cash or cash equivalents at the beginning of the year, plus or minus cash or cash equivalents inflow or outflow during the period represented and the ending cash or cash equivalent balances.

The fundamental purpose of the Statement of Cash Flows is to help management in two important ways. First, to assess the past performance of the veterinary practice in generating, planning and controlling actual cash inflows and outflows. Secondly, to assess the practice's probable future cash inflows, outflows, and net cash flows, including the ability to meet future obligations and pay dividends. This assessment should help management project a return on resources committed to the entity.