How to Purchase Equipment

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1. Introduction

Many equine veterinarians purchase a piece of equipment because it is something they “want.” It is a new “toy” for them. What is often overlooked is if the purchase is going to improve the profits of the practice. This session will teach the attendees how to properly purchase a piece of equipment.

Step 1: Is the equipment going to generate a profit? (Fig. 1)
Step 2: Is it better to buy or lease the equipment? (see purchase option versus lease option)

- If you are buying, are you able to pay cash or will you need to borrow?
- Do you have the ability to borrow?
- Purchasing usually requires a down payment, whereas leasing often does not. Can you afford the down payment?
- Can your practice cash flow the monthly payment in either scenario? Lease payment terms are generally more flexible.
- What is the difference in costs of borrowing versus leasing? Leasing usually has higher “financing” costs.
- If you lease, will you essentially own the piece of equipment at the end of the lease term?
- Will the equipment quickly become obsolete?

Step 3: Which is the best manufacturer to purchase from?

- Ask friends/colleagues for recommendations
- Visit booths at trade shows
- Select two or three manufacturers and arrange demonstrations
- What kind of warranty comes with the equipment?
- Is there a service department and/or support team to assist with the equipment should something go wrong?

By using these three steps, you will make better informed equipment purchases. Let’s eliminate impulse buying and be certain the purchase is a profitable one for your practice.

2. Purchase Option Versus Lease Option

Consider this scenario for a portable digital radiograph machine. The equipment cost is $70,000 and the sales taxes are $3500. Shipping/Freight is free because of free shipping promotion. Training is available for a 1-day on site fee of $2500. Repairs and maintenance (annual costs) cost $500 (beginning in year 4). The cost of the supplies per procedure is $0.50. Also needed are the technical support package (annual) that costs $1000 and an online storage system ($180/mo) that costs $2160.
The number of usable years for this product is 5 yr. Therefore, the total needed to be financed is $79,160.

Purchase Option

A 20% down payment is needed, which is $15,832, leaving the remaining 80% to be financed ($63,328). With an interest rate of 7% for 5 yr (60 mo), the total interest is $11,910.22. Therefore, the total amount owed is $75,238.22, with a total cash out of pocket expense of $91,070.22 and a monthly payment of $1253.97.

Lease Option

No down payment is needed for the lease option, but a $2000 security deposit is necessary. Lease fees are $250, and the amount to be financed is $79,160. The lease payments are as follows: months 1–12, $975; months 13–60, $1850. There is a buy-out option for $1. Total payments are $102,751 minus the security deposit refund of $2000, leaving a total cash out of pocket expense of $100,751. The effective interest rate for this is ~9%.