

How to Divide Your P&L into Practice Segments

Profit Allocation by Practice Segment

- Critical for practices that offer several fundamentally different services.
 - General practice with emergency and rehabilitation departments
 - Mixed animal practice with equine, dairy cow and companion animal components
 - Specialty practice with internal medicine and surgery services
- Different segments have different cost structures and profit margins

Profit Allocation by Practice Segment

- Generally easy to allocate revenue; expenses harder
- A balance between the time it takes to do the allocation and the improved quality of information you get from the process
- Any reasonably based allocation system is better than none

Allocating Revenue

- Use PIMS reports
- Set up separate service codes per segment
 - For example:
 - Physical exam-equine
 - Physical exam-companion animal
 - CBC-dairy
 - Urinalysis-companion animal

Allocating Cost of Sales

- Drugs & medical supplies
 - Set up inventory system to track by segment
- Laboratory
 - Code outside lab tests from invoice to account set up for that practice segment
 - Track usage of inside laboratory equipment and allocate by business unit based on average costs
- Other—by individual usage or allocate shared costs

Allocating Compensation

- Compensation (doctors & staff)
 - Assign employees to particular practice segment and specifically allocate their payroll and payroll taxes to that service
 - Floaters may need to be allocated based on time estimates
 - Receptionists and other general staff can be allocated by segment revenue or transactions
- Benefits
 - May assign to practice segment individually for doctors
 - Otherwise, allocate based on % of compensation

Allocating Expenses

- Facility & related
 - Assign rent to practice segment based on square feet
 - Shared areas can be allocated based on # of transactions per practice segment
 - Equipment needs to be allocated based on usage
 - Some pieces of equipment may only be used by one practice segment
 - Shared equipment costs should be allocated based on % of usage
 - Related costs—janitorial, utilities, property taxes, etc.
 - Allocate based on rent %

Allocating Expenses

- Administrative
 - Review each expense
 - Some can be reasonably allocated individually
 - Marketing
 - Others need to be allocated based on # of transactions per practice segment
- Collection costs
 - Credit card fees should be allocated based on % of total or credit card revenue per practice segment
 - Other charges—individually or allocated based on revenue

Allocating Expenses

- Other income/expense
 - Depends on the item
 - Assign individually to practice segment (gain/loss on sale of equipment, interest related to purchase of specific pieces of equipment)
 - Allocate based on revenue or transactions (interest related to general borrowing, interest income)