

P&L Categories for Overhead & What Belongs in Each

The dental industry has specific categories for monitoring and controlling overhead (expenses). The explanation below gives vital information for control and growth of personal “net reserves” and reduction of business costs.

Categories

The following are the categories for Profit & Loss statements. The dental industry has 7 specific categories representing the overhead (expenses), month to month, quarter to quarter and year to year.

The categories are as follows:

Team Expenses: This category is the payroll expense for all employees, excepting the owner’s salary, associates and/or specialists that work in the practice. This includes the payroll tax, FICA, Social Security costs, etc. The owners and/or associate pay is entered in a separate category called, “Other Expenses.” (See sample P&L form attached)

Marketing/Advertising: This category has all marketing and advertising costs listed in the general ledger. Such items as website costs/hosting, google ad words, domain costs, direct mail, internal marketing costs (such as database mailers or letters/postage to patients), Radio/TV ads, newspaper ads, billboards, or the like; it includes Weave or any such software, Demand Force or similar.

Dental Supplies: This category includes all dental supplies, or cost of goods to deliver. These are strictly supplies, not equipment. Such things a sterilization materials, gloves, dental materials (composites, amalgam, sealant, teeth whitening materials, impression materials, alginate, stone, orthodontic brackets, implants, solutions for cleaning, autoclave, etc.; any and all dental materials to deliver services.

Lab Costs: This category includes all laboratory costs; i.e., crown and bridge, dentures, partials, mouth guards, retainers, milling blocks (for Cerec or E4D machines), wax ups...in short, any and all costs related to the lab used by the office and/or done within the office to perform fixed and/or removal prosthetics, orthodontics (Invisalign or Clear Correct aligners or the like), sleep apnea appliances and so on.

Building/Maintenance: Includes rent/lease and/or mortgage payments, HOA and/or triple net costs for lease, building cleaning & repairs, HVAC and building plumbing repairs (bathrooms, sinks, toilets, air conditioning filters, new paint, flooring, counters, etc. Any and all costs directly related to the building and its maintenance.

Equipment/Furniture: Includes all dental equipment and furniture in the office, i.e., dental chairs and stools, handpieces, ITERO scanners, CAD/Pano machines and their repair and

maintenance costs, CEREC type machines, all hand instruments and operative burs for handpieces, microscopes, magnifying loops, autoclave purchase or repair, x-ray equipment, cavitron...chairs for front desk, computers, printers, copiers, refrigerator, microwave, air fryers, coffee machines, reception furniture...any and all equipment and furniture to conduct business.

Administrative Costs: Includes any and all office supplies, paper, toner, stamps, meals for staff/parties, all costs for CE (continuing education), consulting/coaching, auto lease, repairs and gas, building insurance, Workers Comp, malpractice insurance, business related food and travel, staff benefits ... i.e., contribution to 401K, medical insurance, phone(s) and internet expenses, cloud based costs, Dentrrix/Eagle Soft/Open Dental...and/or any one-time or monthly cost for dental software, subscriptions for business operations, I/T costs...any and all administrative costs to conduct business.

When formatting the general ledger, it is important (for each category) to have “topics” with all related items under that specific topic. Example:

Consulting Topic: \$145,000

This topic has a listing that shows all expenses that make up the \$145,000

ABC consultant: \$30,000

MGE consultant: \$100,000

Viva consultant: \$15,000

Marketing Topic: (would show the total marketing costs, but the listing of items (alphabetical or similar) would show the cost of each item.

Payroll: This would show the TOTAL payroll sum (for Team Expenses/employees minus dentists/associates/specialists). This category, when “opened” would have a breakdown showing staff by staff the payroll amount of each and any bonus sums paid out for each.

The above are but three examples of setting up the general ledger.

The P&L is formatted and set up with the above 7 categories...each category with a “backend” hyperlink to the general ledger. This affords or allows complete control and transparency for both monitoring and reducing overhead expenses.

Each of the 7 category of overhead, on the P&L, have an industry percentage, as a benchmark, against net collections. The percentages are:

- Team Expenses: 20-27%
- Advertising & Marketing: 3-8%
- Dental Supplies: 4-5%

- Laboratory Expenses: 5-9%
- Rent & Facility : 5-9%
- Equipment & Furniture: 5%
- General & Administrative: 4-9%

Model and Ideal overhead Percent: The ideal or model overhead percent is excellent and extremely well controlled at 65% and 70% is the highest...leaving a minimum net profit of 30-35%.

The P&L with its attendant categories and topics linked to “backend” ledger figures is a fine skill and, in a short time interval, it puts the owner in control of his profit. Profit is the only index of competent management or ownership. One can “double production” and “collections,” and experience NO increase in personal finance...called Personal Reserves...

This system brings about the ability to conduct Costs Analysis on each category of overhead. This subject is called “Cost Accounting” and is completely overlooked in 90% of all small and medium size businesses.

Saving a simple 3 to 4% through cost accounting and continual monitoring of overhead results in, not 10s of thousands, or 100s of thousands, but millions of dollars over a short decade of time!

Example: Practice collects a net revenue of \$1.5 million. Overhead runs 74-76% overhead, because...that’s what it cost!

The skilled owners, using his CFO skills, brings the overhead down to 70%. A 5% savings per year. That small percent savings is \$75,000/year. Extrapolated to 10 years means \$750,000 “went out the backdoor.”

P&L Categories: FORMAT for QBs

Attached on the next page is a sample FORMAT for online QBs that shows the 7 categories of expenses. The below image is in the “Collapsed mode,” not “Expand mode” on the P&L option called, “Profit and Loss % of Total Income.” There are 3 major Sections on the P&L shown in the sample below have “red dots” by the categories. Each category is as follows:

- 1) Revenue: total income collected and recorded via connected banks The listed income is patient revenue, MINUS refunds and Merchant Fees and Bank Charges...this results in the ACTUAL spendable “Adjusted Total Revenue” as seen on the form below.

- 2) Expenses. This category has the 7 categories of expenses, each category in the dental industry has a % average, or benchmark, which is next to each category.
- 3) Other Expenses: This is where the owner and/or associate revenue is located.

SAMPLE FORMAT

Current Profit & Loss Statement (Summary)				
PROFIT & LOSS(\$)	Apr 2021	%of Income	YTD	%of Income (YTD)
Revenue				
Patient Related Income	205,159	102.7%	679,520	103.3%
Patient Refunds	1,955	-1.0%	(1,955)	-0.3%
Merchant Fees/Discounts	(3,398)	-1.7%	(19,484)	-3.0%
Total Revenue	199,806	100.0%	658,081	100.0%
Expenses				
Advertising & Marketing (3-8%)	9,423	4.7%	37,175	5.6%
Team Expenses (22-27%)	38,200	19.1%	143,359	21.8%
Dental Supplies (4-5%)	3,369	1.7%	29,518	4.5%
Laboratory Expenses (4-7%)	6,815	3.4%	35,477	5.4%
Rent & Facility (5-9%)	8,415	4.2%	27,759	4.2%
Equipment & Furniture (5%)	7,094	3.6%	16,014	2.4%
General & Admin (4-10%)	10,003	5.0%	63,240	9.6%
Total Expenses	83,317	41.7%	352,543	53.6%
Operating Profit	116,489	58.3%	305,538	46.4%
Other Income				
Interest Income	10	0.0%	36	0.0%
Credit Card Rewards	0	0.0%	40	0.0%
COVID Grants/Income	0	0.0%	79,235	12.0%
Other Expenses				
Owner Doctor Wages	13,564	6.8%	49,523	7.5%
Associates	7,886	3.9%	49,775	7.6%
Interest Expense	0	0.0%	5,476	0.8%
Depreciation Expense	3,432	1.7%	13,727	2.1%
Suspense	2,778	1.4%	2,778	0.4%
Earnings Before Interest & Tax	88,839	44.5%	263,570	40.1%
Net Income	88,839	44.5%	263,570	40.1%

The format above affords the practitioner (owner) complete control over each category by comparing their own % of expense category to the national average % benchmarks. When any category is above the benchmark %, the doctor can use “Expand Mode” and “Drill Down” by looking at the expenses that are driving that category too high...in other words, he/she can do “Cost Accounting” in each of the categories. This methodology and format prevent hundreds of thousands, even millions of dollars of lost revenue simply because the owner has never been educated on standard overhead benchmark percentages.