

Selling Your Practice: Are You Making Every Dollar Count?



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Failing to properly track all equipment purchases will cost you when you sell your practice.

When preparing a valuation for a client, one of the first items requested by DoctorsManagement is a detailed listing of equipment/hard assets. Most clients do not have that readily available and default to their accountants to provide the list. Sometimes this is acceptable; many times, however, the list is not specific enough and results in the practice losing money.

PRACTICE VALUATION

Often accountants are unfamiliar with medical practices and, as a result, provide little detail on their equipment listings. I have stopped being surprised when I see an MRI described as simply “Medical Equipment, \$1,000,000,” making it indistinguishable from other items such as an exam table, which is also listed as “medical equipment.” The reason this happens is twofold: First, some accountants are unfamiliar with the particulars of medical equipment and assume it is all relatively the same. Second, many items are considered “immaterial” and are simply written off as an expense. That is an accepted practice for small equipment on a tax return but for a physician selling a practice, all of those little items over the years add up. Consider a small two-physician practice that spends a few thousand dollars a year on these assets; after 20-30 years in practice that can become a good deal of money, even after considering depreciation on the items. Now extend that to a 20-physician group or even 50; a few thousand here and there and eventually you are talking about a lot of money. This is becoming more important as more acquirers are only willing to pay for hard assets.

The most controversial item during an acquisition remains the value of goodwill. Goodwill and other intangibles are the items that cannot be seen or easily counted. Calculating a value for goodwill is beyond the scope of this article but let’s agree to say that it is controversial – so controversial, in fact, that many acquirers choose not to even pay for goodwill or other intangibles. That leaves the selling physician with only a few items of value: accounts receivable, inventory, and equipment. If the practice has been writing off all purchases under a certain amount (usually \$500-\$1,000), there will be no way to track those items. Of course, when it comes time to sell, most practices just send an employee around to write down all the equipment items but how does the employee know when they were purchased or the price? The five-year-old exam table may look similar to the 10-year-old exam table. Another option would be to hire a professional equipment appraiser – this, of course, comes at an added expense and the appraiser is most likely going to want to know the age and purchase price of the items. If an equipment appraisal is required, a detailed list will help insure the appraiser does not miss anything and could help lower the cost.

TRACKING ASSETS

So, what should a practice do? If a physician ever wants to consider selling his or her practice, then he or she should devise a way of tracking hard asset purchases.

Even if you think you will never sell your practice, a tracking system should be put in place; it requires little effort and provides valuable information. It would not be prudent to track small supplies such as pens or paper, only hard assets, which are

items in use for more than one year. This can be a very simple system using an Excel or handwritten spreadsheet or more complex software. I say the cheaper the better; therefore, any system should work as long as it contains a description (preferably a picture) of the item, a copy of the invoice showing date of purchase and cost, and some type of tracking mechanism. The easiest way to track is to label and number every piece of equipment. That number should then be put on the invoice and picture. Store these items in an easy to find place; digital storage is fine. That way when you go to sell your practice, it is a simple exercise to provide a listing of all assets and, in turn, you are able to demand more from an acquirer. While this may seem like an exercise in futility right now, it can pay heavy dividends when your practice is up for sale. +

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