

years. Taxes on your lease, while generally stable, can change depending on the economic climate of the city and state in which you practice.

- **Variable expenses** are short term and more controllable. They are generally the focus of most financial management approaches and tools, due to this element of control. Items such as advertising, reproduction, photography, and salaries are all items that can be manipulated on a short-term basis.

### Financial Management and Control

There are two basic ways of tracking income and expenses, accrual accounting and cash accounting.

1. **Accrual accounting—*net business value***. This process accounts for all assets and liabilities.

- **Assets**

- Fixed assets—furniture, computers, etc.
- Nonfixed assets—accounts receivable, value of uncompleted contracts

- **Liabilities**

- Fixed liabilities—long-term commitments, e.g., bank loans, leases, etc.
- Nonfixed liabilities—consultant/vendor cost, accounts payable

The accrual value is the net amount remaining after you have collected everything due you and paid everything you owe.

2. **Cash accounting—*operating worth***

- Business value excluding fixed assets and liabilities

The cash accounting process shows you the value of your company at any given snapshot in time. If you have done the work but not been paid, there is no value on the books. Therefore, your bank will look very closely at how you manage your billings.

It is possible to have a positive accrual value and a negative cash value. For example, the cost of office furniture is accrued by spreading its cost by depreciating its value over time, but you have to have all the cash up front to buy it.

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## FINANCIAL MANAGEMENT STRUCTURE

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# The financial management

The financial management structure of your company will depend on your business philosophy, type and size of practice, and legal description.

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### Residential

The residential interior design practice is generally composed of single practitioners or firms of 12 or fewer employees. If you are in a primarily residential practice, there are several ways you can receive compensation for your services. The traditional way has been through the sale of furniture and accessories. Usually these items are purchased from a wholesale source and marked up 40 to 50 percent for sale to clients. Depending on the items and their rarity, some items can even be doubled or tripled in price. However, in the past few years many manufacturers have opened their showrooms to the public or established retail outlets. This was a business decision necessary for them to survive. It has also led the residential design community to rethink their compensation structure. Today we find many firms charging an hourly fee and either arranging the acquisition of product through a third-party supplier (dealer) or selling the product to their clients at a reduced markup. In addition, the retail market has been greatly expanded by savvy marketing and excellent products from such companies as Crate & Barrel and IKEA stores. Although consumers can now buy well-designed products without a designer assisting them, they still need the designer's *talents* to coordinate their home environment into more than pieces of furniture from a sales floor.

The practice of selling furniture and accessories as the key compensation method is under attack by many sources. The design community continues to be featured in everything from *The New York Times* and *The Wall Street Journal* to local newspapers about the duping of the public. These articles almost always focus on the exorbitant prices charged to clients, without regard to budget or our clients' best interests. In addition, as legal recognition of the interior design profession continues to spread, government agencies are taking a strong stand against this method of compensation. The issues of protecting the health, safety, and welfare of the public are in conflict with the segment of the profession that is compensated primarily through the sale of products.

It appears that there is a trend toward an hourly or value-based compensation structure similar to the contract practice. This is an easier way of being