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How to Account For Freelancers in the Creative Industry

By Volker Bendel

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In many businesses in the creative industry, in particular in their early years, freelancers play a major role in delivering work for which no internal resource is available. Then again, for well-established companies where ideally their own permanent workforce should source all the fee income generated, there might come a point, where for one reason or another - be it for lack of internal special expertise in a particular area, be it for sheer workload of permanent staff or be it for that internal employees time is much better used for other tasks - external help is required to achieve the results promised to clients.

From a management point of view, there are different ways to handle freelancers:

- One may treat their invoices as an overhead cost, similar to the costs of staff and account for their work project by project based on their time value, again similar to staff time.

- Or you treat them as a third party cost to the project it is incurred to deliver, same as you would record courier or printing costs for the same project.

The first option is a straightforward way certainly in cases where just workload makes it necessary to call in additional help for whatever tasks need to be finished to meet the deadlines.

Using this method however makes it difficult to retrospectively analyse which projects exactly

triggered the need for temporary help or what the difference in costs of one project compared to another one is - depending on the involvement of one-off external personnel.

So, where this analysis is required, choice two seems to offer a better solution as it allocates those costs to a specific job.

Having got the costs onto a particular project then raises the next question: How do I analyze which costs on my projects are and will always be external costs (e.g. printing, couriers) and which costs could potentially be born by internal resources. This is, where many creative businesses have come up with the idea of a "cost of fee" (rather than external costs of sales) or "erosion" (as it erodes the profit created by the fee earned on the job). They mark freelancers as erosions and are thus able to analyze them separately from all the other third party costs.

If in addition to the pure costs on a job details of work need to be analyzed as well, freelancers can be asked to record their time in the same timesheet system used by permanent staff. To avoid double accounting for the time cost on a job a special rate card can be setup for freelancers so that the number of their hours is recorded without a value of time against it.

Where a computerized job costing system is used that is able to cater for cost of sales and cost of fees, at any point in time project managers are enabled to track which of their projects incur which external time costs and managers of the business get the information necessary to make the decision at the right point in time to create a position on their payroll for far less to avoid those extra costs.

Volker Bendel is manager of the training department of Agency Software Worldwide, the producers of the "Paprika/Rebus" job costing software (http://www.paprika-software.com) (http://www.rebus-software.com). Originally from a legal background, he has several years experience in planning and implementing Job Costing and Accounting Software Systems in the Creative Industry. He has also delivered training courses in the UK, Europe, Dubai, the US and Australia. Prior to that he worked as a senior business consultant in Hong Kong and as a department manager of a design department in Hong Kong.

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