

Firm Expenses

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SUMMARY

Tracking and understanding a firm's expenses is an important part of good financial management. Examples of direct expenses and general and administrative expenses are defined and delineated.

DIRECT EXPENSES

In addition to the expenses of salaries and outside services, architecture firms incur a variety of other expenses that can be charged directly to a specific project. These expenses, reimbursable or nonreimbursable, often include costs for

- Printing, duplication, and plotting, including reproduction of drawings and specifications
- Photography
- Diskettes, tapes, and other electronic media requested by the client
- Items purchased on the client's behalf, e.g., fees, permits, bid advertising, models, renderings
- Project meeting expenses
- Transportation, including expenses to and from the job site
- Lodging and meals
- Long-distance telephone, fax, telex, etc.
- Postage, courier, and overnight delivery
- Project professional liability insurance premiums
- Additional premiums for project professional liability insurance in excess of basic firm coverage
- Other project-related insurance premiums
- Legal and accounting services related to the project
- Financing and carrying costs of professional services at the client's request

GENERAL AND ADMINISTRATIVE EXPENSES

Indirect or overhead expenses—expenses that cannot easily be attributed to a specific project in the office—include salaries not charged to project, payroll burden (fringe benefits), and a wide variety of general and administrative expenses. These G&A expenses may include costs for the following items:

Current Operating Expenses

- Rent (or equivalent); utilities; operation and maintenance; and repair of buildings, equipment, and automobiles
- Printing, duplication, photographs, and similar items for marketing and other nonproject uses
- Printing of in-house check sets and consultant base sheets
- Computer hardware, software, and operating expenses
- Postage and messenger services
- Travel and entertainment for marketing and firm or staff development
- Office supplies
- Library materials, books, periodicals
- Telephone, facsimile, electronic mail, information services
- Taxes (e.g., real estate, personal property)
- Professional dues and licensing fees
- Seminars, conventions, in-house training, and professional development
- Marketing and proposal preparation
- Public relations
- Charitable and civic contributions
- Insurance (e.g., automobile, contents, building, principals' life, valuable papers, comprehensive general liability, equipment, professional liability)

- Interest on loans and credit lines
- Bond premiums

Capital Expenditures

- Depreciation (e.g., furniture, equipment, automobiles, buildings)
- Amortization on leasehold improvements

Losses

- Theft or casualty loss not covered by insurance
- Expenses to correct design errors and omissions, including deductibles on insurance payouts
- Uncollectable compensation and bad debts

Prepaid Expenses

- Expenses that affect operations beyond the current fiscal year and that the Internal Revenue Service requires to be spread over more than one year (e.g., long-term insurance premiums, certain taxes, equipment leases, licenses or fees, organization expenses)

RESOURCES

More Best Practices

The following AIA Best Practices provide additional information related to this topic

- 08.03.01 Financial Management: 10 Key Performance Indicators
- 08.04.01 Starting a Firm: Basic Financial Principles

For More Information on This Topic

See also “Financial Systems,” by Lowell Getz, CPA, *The Architect’s Handbook of Professional Practice*, 13th edition, Chapter 8, page 183.



See also the 14th edition of the *Handbook*, which can be ordered from the AIA Bookstore by calling 800-242-3837 (option 4) or by email at bookstore@aia.org.



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Keywords

- Practice
- Financial management