website. Then she asked a question he wasn't fully prepared to answer—"How much is this going to cost me?"

That night, Steve jumped on his computer and began searching for what other freelance web designers charged. The results weren't very helpful. Some designers charged $10/hr, some over $200/hr, and the rest charged anything in between. He wasn't sure where to peg himself. Then he remembered that his old college buddy John had gone out on his own as a designer.

Over the phone, John suggested that Steve figure out his rates using a tried-and-true pricing formula—an approach that is known in the accounting world as "cost-plus." With the help of an online rate calculator, Steve plugged in his costs—the various business expenses he expected to have as well as his personal life expenses. After he put in how many hours he would be able to work over the year, the calculator spat out a breakeven rate of $50/hr. To generate a 20% profit—the "plus" element in "cost-plus"—he would have to charge $60/hr. If he worked steadily, his annual income—after business expenses, taxes and government plans—would be around $50,000.