



How can I create a simple financial system for my child care business?

Virginia's ARPA Child Care Stabilization Grant Program

Basic Bookkeeping

APRIL 2022

Contents

Developing a bookkeeping system	1
Assistance is available	4



At the heart of any successful business, from a one-person operation to a Fortune 500 company, is a financial accounting system.

These systems are critical because first and foremost, they let you know where your money is, where it is going, and how much you're making. Having this information readily available will allow you to start doing things like paying yourself without putting your company at risk, **managing cash flow**, so that you always have enough money to pay your bills, and knowing when it's time to grow and how to do so.

Understandably, even these first steps of getting on the path to creating a financial system seems daunting for many child care businesses. This guide will walk you through the basics of developing a system, which really consists of just two big steps — **getting a business bank account** and adopting a bookkeeping system.

Developing a bookkeeping system

Once you have your business bank account in hand, you can start to think about a basic system for bookkeeping. Bookkeeping is very important because it will help you understand where your money is coming from as it flows into your business (tracking revenues), where it is going to (monitoring expenses), and how much profit you're making (managing cash flow). Profit is just a fancy way of saying how much money is left after you pay all your bills.

Step 1: Determine how you will account for funds coming in and going out

There are two basic methods in accounting — one is an **accrual method**, which is more complex and is based on when an expense or a revenue

is taken on, or accrued. For example, if using the accrual method, the moment you receive your credit card bill, the amount owed would be taken from your assets (versus when you actually pay the bill). If using the **cash method**, this amount would be taken from your assets when the bill is paid. The cash method is more common for child care businesses and is less challenging, as it is based on when things are paid or received.

Let's look at revenues. When a child is in your care for a week, let's say a parent owes you \$300. Under the accrual method, that \$300 is considered income at that time. Under the cash method, the \$300 wouldn't be considered income until the parent gave you the check and you deposited it. For most small child care businesses, the cash method is both simpler and more helpful because it's going to let you know exactly *when* money is coming in and out of your account. This method is more comfortable because it will in many ways match the act of balancing your checkbook — just in a bigger sense, and in a bigger way.

Step 2: Determine how you will record your transactions:

Now that you've determined how you will account for funds, you need to determine how you're going to record your transactions. For many small child care businesses, it will be easy to record transactions on a sheet of paper or on a spreadsheet, such as Microsoft Excel or Google Sheets. You want to set up some simple categories to start.

Begin with your income. Determine what the key revenue streams are for your business — that is, the sources from which you primarily receive your money. Parent fees will likely be one source; another might be a child care subsidy or payments from a food service program. Perhaps there are additional funds that you receive for

after-school students, or grant funds. Each one of these will be a separate revenue stream to account for.

Next, list your expenses. This may include items like payroll, cleaning, rent, repairs, supplies, and other categories that match your business. Try to limit the number of categories – you don’t need to detail every category that might occur. Focus on the categories you have right now; you can always add more later. With too many categories, the list could become overwhelming, making it difficult to account for spending or revenue.

You can use this example list to categorize your income sources:

Revenue Categories
Tuition
Subsidy
Fees
Food Program
Grants
Other

You can use this example list to categorize your expenses:

Expenses Categories
Personnel
Taxes
Mortgage/Rent
Utilities
Phone
Food/Snacks
PPE
Cleaning
Insurance
Loan Payments
Bank Fees
Other

Step 3: Set a schedule to record and review your transactions

You should set a time to update your books, at least every month. Start by looking at all your revenue sources: cash, credit cards, app payment systems like Venmo or Zelle, and checks written to you. Enter each one into your income on your spreadsheet. Next, record your expenses. Look through your receipts, bank and credit card statements, and invoices from people you have paid. Any of these proofs of payment can help you to not only record these costs, but more importantly, ensure that you’re recording the correct amount for each one.

Though it may seem tedious to record each transaction, it is important in terms of understanding your profitability by tracking exactly where your money is coming and going. Once you have recorded your revenue and expenses for the month, you will then total each category. Subtracting your revenue from your expenses will give you an idea of how much profit you made that month. You may want to consider holding onto some of that profit, leaving it in the business for a rainy day or to help pay your bills.

Did you know...

Family child care homes and small centers serving fewer than 50 children can access free resources by sending a quick text. Text “Wonder” to 33777 to learn about a free subscription to Wonderschool, an online software that assists with your payables, enrollment, and marketing, and includes an app for communication with families. Through Wonderschool, VA providers can also document their grant expenses. For more information or to join the 100+ Virginia providers already participating, text “Wonder” to 33777.

You can use this helpful template to record and track your monthly revenue:

What revenue did I receive?			
Date	Description of what I was paid	Amount Received	Category
Total			

You can use this helpful template to record and track your monthly expenses:

What did I pay for?			
Date	Description of what I paid for	Amount Paid	Category
Total			

BOOKKEEPING PRO-TIP Label your receipts so that you remember which category they belong in.

ACCOUNTING PRO-TIPS Stick to a regular schedule! Make sure you regularly update your records, whether monthly, every other week, or every week. This will save time and headaches in the future. Leaving your expenses and revenue to pile up will not help you. You can't understand how your business is doing on a moment's notice, nor will you be able to keep up with your accounting system if it involves an intimidating pile of receipts and statements.

Consider an electronic system over time.

It can be tedious to do accounting by hand. So, you may want to create a simple spreadsheet or even get an online system. When looking for online systems like QuickBooks, FreshBooks, or Xero, consider their ease of use, cost, and complexity. Many of you with a small child care business may not need QuickBooks or other more complicated systems. You may want to choose a simpler, less expensive system that is easier to use. Make sure you keep all your records, whether you take photos or scan each receipt and statement and save them electronically, or just store everything in a box. It is important to save these documents in case you are audited by the IRS. It also allows you to go back and check your information, if needed.

Disclaimer: The information contained here has been prepared by Civitas Strategies Early Start and is not intended to constitute legal, tax, or financial advice. The Civitas Strategies Early Start team has used reasonable efforts in collecting, preparing, and providing this information, but does not guarantee its accuracy, completeness, adequacy, or currency. The publication and distribution of this information is not intended to create, and receipt does not constitute, an attorney-client or any other advisory relationship. Reproduction of this information is expressly prohibited.