

Basic Bookkeeping



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Business Academy

This bookkeeping guide can help create a simple financial system for your child care business.

At the heart of any successful business, from a one-person operation to a Fortune 500 company, is a functional 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 seem daunting for many child care businesses. This guide will walk you through the basics of developing a user-friendly system, which really consists of just two important 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 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 \$200. Under the accrual method, that \$200 is considered income at that time. Under the cash method, the \$200 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 a spreadsheet, such as Microsoft Excel or Google Sheets. Remember, if you are using QuickBooks and ELV, those two programs can share information to make your process easier.

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 the Food Program (CACFP). 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 (CACFP)
Grants
Other

You can use this example list to categorize your expenses:

Expenses Categories
Personnel
Taxes
Mortgage/Rent
Utilities
Phone
Food/Snacks
Learning Materials/Books/Toys
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.

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

For More Information:

[Family Child Care Learning Home Rules and Regulations](#)

[Child Care Learning Center Rules and Regulations](#)