

Prorating Costs: What You Need to Know



DECAL
Thriving Child Care
Business Academy

Learn how to prorate your business costs when your child care business is a part of a larger enterprise

Introduction

Child care centers have a lot in common, no matter where they're located. Whether you're providing care from your home, a dedicated center, or a church basement, your goal is to offer a safe and nurturing environment, and you will incur business costs in doing so. While these costs may be similar from one organization to the next, there are some notable differences between these three location types, especially when it comes to determining what percentage of your expenses can be allocated to your child care business. In this guide, we will focus on calculating business costs when your child care business is part of a larger organization.

Calculating Expenses by Business Type

Whether you are calculating your cash flow forecast, tabulating purchases made with your Child Care Counts payments, or tax deductions, it is a good idea to understand the key differences in calculating expenses for different types of businesses:

Family Child Care Homes

If you operate your family child care program out of your home, it's likely that many of your expenses are shared between your business and your personal home life. Figuring out which expenses can be deducted from your taxes or are eligible expenses that can be paid for with Child Care Counts funding can seem complicated – but, luckily, it's much simpler than you might think.

Home-based family child care providers can use what's called the Time-Space Calculation to figure out what percentage of their expenses can be attributed to their child care business, and therefore are eligible for tax deductions or payments/monies received from Child Care Counts payment. The Time-Space Calculation considers the percentage of space in your home that is used for business, as well as the amount of time your home is used for business.

Dedicated Child Care Centers

If your organization is a child care center that is not housed within a larger business or organization, determining how much of your expenses are allocated to your child care business is likely a lot simpler. That's because the answer is generally: 100% of them. If your facility is a child care center and nothing but a child care center, and you are not operating as a part of a larger organization or location, then all of your expenses for that location should be related to the operation of your business.

Child Care Businesses within Larger Organizations

If your child care operation is a part of a larger enterprise, then only a portion of expenses may be allocated specifically to your child care business. This would be the case if, for example, your child care center is part of a YMCA or a local church. To figure out what percentage of expenses are specifically associated with your child care business operations, you will need to prorate your business costs.

Prorating Business Costs

Prorated costs are those that are divided proportionally, based on a unit of time, location, or another factor relevant to the business. For example, if your child care business is located in the basement of a local church, the utility costs would be shared between the child care business and the rest of the church. Because only a portion of the building is used for your child care business, only a portion of the utility bills would be considered child care business expenses. To determine how much would be allotted to your child care business, you will need to go through the following four steps.

Step 1: Document actual costs that impacted your child care business – and only your child care business.

Expenses that can be allocated specifically to your child care business include any supplies purchased only for the program, payroll and personnel costs for child care employees, personal protective equipment and cleaning supplies for the child care center, and any goods or services that are essential to running the child care program. Maintenance and repair expenses for areas of your facility that are used solely by your child care program would be included here, too.

We highly recommend that you maintain accurate business records to document all of these costs. See "[How can I set up a record-keeping system?](#)" to learn more about what documentation you should be saving and for how long.

Record your expenses. If it is not a shared expense, you would count 100% of the cost as a business expense.

Expense	Shared (Y/N)	Expense Amount	Percentage incurred by child care business	Total Prorated Business Cost
Children's Toys	N	\$100	100%	\$100
Total				\$100

Step 2: Document costs that are shared between your child care center and the rest of your facility.

Calculating shared expenses can get a bit trickier, but doing so is worthwhile to your bottom line. To be allocated to your child care business, the expense must have impacted your child care program in some way. The cost also must be considered reasonable and necessary to operate the child care business. Take, for example, electricity. It's obviously needed to run the business, and, as such, is considered an allocable expense, but because it's used by the entire facility, it's a shared expense.

Other shared expenses could include things like repairs to a shared church parking lot, as it's needed by both parents and church members for parking. But a renovation of the church's tabernacle would not be considered eligible for reimbursement as it's not necessary for the operation of the child care business.

Similarly, maintenance to areas of your facility that are shared between your child care program and other operations would be eligible, but maintenance made to an area that is not used at all by the program would not be an allocable expense. Say you are part of a YMCA that has three campuses, but only one of those campuses houses the child care facility. Only the costs incurred at the location with the child care center are eligible. If the costs apply to the entire facility, not just the child care location, the percentage of eligible costs must be calculated using one of the methods explained in the next section.

In the chart below, enter the total shared cost, leaving the percentage incurred by the child care business and total business cost empty for now:

Expense	Shared (Y/N)	Expense Amount	Percentage incurred by child care business	Total Prorated Business Cost
Children's Toys	N	\$100	100%	\$100
Electricity Bill	Y	\$2000		
Total				

Step 3: Next, choose a method of proration.

Figuring out exactly which expenses are eligible business expenses requires choosing a method of proration. And you should stick with whichever method you choose in order to keep things consistent.

Three methods of proration that you could use are:

- **Percent of the total square footage of facilities.**
- **Percentage of total revenue.**
- **Percentage of total costs.**

Percent of the total square footage of facilities

Take the number of square feet of the space used for your child care program and divide it by the total square footage of your entire facility.

To calculate square footage, you will need to measure the length and width of your space.

1. Using a tape measure, fix a tape measure to one end of the longest wall in your space and extend it to the other end
2. Record this measurement (in feet, not inches)
3. Next, fix a tape measure to one end of the shortest wall in your space and extend it to the other end
4. Record this measurement (in feet, not inches)

Next, multiply the length measurement by the width measurement to find your square footage:

$$\text{Length} \times \text{Width} = \text{Square Footage}$$

For example, if your space is 12 feet long and 10 feet wide, your square footage would be 120 square feet.

$$12 \text{ feet} \times 10 \text{ feet} = 120 \text{ square feet}$$

For oddly shaped spaces, such as rooms with an extra nook or filled with a closet, break your room into smaller rectangular blocks, use the square footage calculation for each block, and add the totals together.

Once you have your totals, you divide the square footage of your child care space by the square footage of your entire facility to find a percentage. For example, if you use 1,000 square feet of your facility for child care space, and the entire facility is 5,500 square feet, then you divide 1,000 by 5,500 to get 0.181. Multiply that number by 100 to get the percentage of 18.1%. This means that 18.1% of your overall expenses (such as utilities and maintenance, or the parking lot example from earlier) would be eligible.

Percentage of total revenue

When you prorate something, you are calculating – or assigning – an amount as a share of a whole. Another common method of proration is to calculate what percentage of your total revenue is made up by the revenue of your child care program. Yes, that means doing more math!

First, you need to calculate the total revenue for your entire facility. If, for example, you are a fitness center that includes a child care program, you need to calculate your total revenue from all of your programs, including your child care program.

Next, calculate the revenue from your child care program only. Make sure you are using the same time period (typically your fiscal year) for both of these calculations.

Then, divide the revenue from your child care program by the total revenue for your entire facility. Once you have that figure – it will be a decimal – multiply it by 100 to get a percentage.

For example, if your child care program revenue is \$25,000 and your total revenue is \$200,000, divide \$25,000 by \$200,000. The result is 0.125. Multiply that number by 100 to get the percentage: 12.5%. This means that 12.5% of your overall expenses would be eligible.

Percentage of total costs

You also can calculate your allocable expenses by figuring out what percentage of your total costs are spent on your child care program. This is similar to calculating the percentage of total revenue, except that instead of calculating money in, you are calculating the amount of money out.

The first step is to figure out the costs for your entire operation. Include the costs attributed to your child care program in this figure.

Next, figure out the total cost for your child care program. This should include the dedicated costs for the program (think supplies, salaries, etc.) but not costs that are shared between the child care program and the entire operation. Think back to that parking lot example: the money spent on that should be included in the costs for the entire operation only, as you can't double count costs. This can get confusing, so if you have a lot of shared costs, choosing another method of proration may be a better option.

Once you have both figures ready, you divide the total costs of your child care program by the total costs of your overall organization. Once you have that figure – it will be a decimal – multiply it by 100 to get a percentage.

Say you spend \$15,000 on your child care program and \$95,000 overall, you divide \$15,000 by \$95,000. Your result is 0.157. Multiple that number by 100 to get the percentage: 15.7%. That means that 15.7% of your overall expenses would be eligible.

Step 4: Apply your proration percentage to your expenses

Now that you've chosen a method of proration, let's apply your result to your costs to figure out your total allowable business expenses. For this example, we'll use the figure we calculated in the previous section: 15.7%.

Enter your shared expense into the worksheet. Once your expenses are entered in your worksheet, you'll need to enter the percentage incurred by your child care business (If it is NOT a shared expense, the percentage is 100%). If it is a shared expense, take the percentage that you calculated using your method of proration and enter it here. In this example, we are using 15.7%.

Next, divide the percentage by 100 to turn it into a decimal, and then multiply that decimal by the shared expense amount:

$$15.7 / 100 = 0.157$$

$$\$2,000 \times 0.157 = \$314$$

So in this case, the allowable business expense of the \$2,000 utility bill is \$314. You can continue to take the same approach to your business costs, whether they are shared or not, and add them together to get your total business expenses.

In this example we used the percent of total costs, however, it could be worth the time to try out the other methods, percent of the total square footage of facilities or percentage of total revenue to see which is better for your business.

Expense	Shared (Y/N)	Expense Amount	Percentage incurred by child care business	Total Prorated Business Cost
Children's Toys	N	\$100	100%	\$100
Electricity Bill	Y	\$2000	15.7%	\$314
Parking lot repair	Y	\$10000	15.7%	\$1570
Rent	Y	\$1500	15.7%	\$235.50
Cleaning supplies	N	\$150	100%	\$150
Total				\$2369.50

Additional Resources

If you have questions or need help, assistance is available.

[GaPDS Website](#)

[DECAL Thriving Child Care Business Academy Website](#)

[Georgia Licensing Rules and Regulations](#)

To Find Other Study Guides: Click on [Resources](#) on the Academy home page

To Find Training: Click on [Trainings](#) on the Academy home page

To Register for Training: Click on [Schedules & Registration](#) on the Academy home page

To Sign Up for Study Groups: Fill out the [Intake Assessment](#)

For questions about coaching or study groups: Email GAcoaching@civstrat.com

To Find Other ECE Resources: Visit the [DECAL Website](#)

For General Questions about the Academy: Email thriving@dec.al.ga.gov

For More Information:

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

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

Attachment A: Worksheet: Calculating Business Expenses Using Proration

Instructions

Enter all business expenses, including shared costs as well as dedicated costs for your child care business only. Include costs for personnel, rent/mortgage/utilities, maintenance and repairs, PPE and supplies, goods and services, and any other business costs. Make sure to mark shared costs.

Next, enter the total amount paid toward that expense. If it is NOT a shared expense, the percentage is 100. If it is a shared expense, take the percentage that you calculated using your method of proration.

Finally, multiply the amount you paid toward each expense by the percentage that you calculated for your business to get the total business cost.

You can also use our [downloadable worksheet](#) to help you with these calculations.

Expense	Shared (Y/N)	Expense Amount	Percentage incurred by child care business	Total Prorated Business Cost
				\$0.00
				\$0.00
				\$0.00
				\$0.00
				\$0.00
				\$0.00
				\$0.00
				\$0.00
				\$0.00
				\$0.00
				\$0.00
				\$0.00
				\$0.00
				\$0.00
				\$0.00
				\$0.00
				\$0.00
				\$0.00
	Total expenses:	\$0.00	Total prorated business costs:	\$0.00