

## **DOCUMENTING INCOME AND EXPENSES**

Good financial records indicate if a child care program is financially successful. In addition, they signify how the program is performing in terms of income and expenses. Operating decisions can then be based on solid financial facts; lacking facts, expenses may exceed income and place the future of the program in jeopardy.

Complete financial records help the program provide better service to parents and children. They provide data to parents of payments made to the program for income tax purposes. They also enable the preparation of accurate tax return filings on the state and federal levels.

Records must be complete, accurate and up-to-date. Failure to keep them current is almost a guarantee of future financial difficulties. Establish a systematic method to collect and record financial information consistently. Waiting until the last minute makes accurate recordkeeping almost impossible....

### **How should income be tracked?**

Income to the program may come from a variety of sources. Keep track of each source separately. For example, record fees from parents separately from subsidies or grants.

The cash method of accounting is an easy way to record income and expenses. Income is recorded when it is received; expenses when the bills are paid. For example, if a parent pays a monthly fee in July, the income is recorded in July even if the payment is for services provided in June. If a bill is paid in October, the bill is posted in October, even if the supplies were received in August.

Cash flow may be improved by requiring parents to pay fees in advance on a monthly basis, or on a semi-annual basis with some small corresponding reduction in the total fee. These advance payments help cover expenses which occur on an ongoing basis.

Issuing receipts for all income is a good control and recordkeeping device. This helps to resolve any differences and provides a record of all fees or cash received.

Use receipt slips, designed especially for the program, with the program's name, address and logo, or purchase a receipt book at an office supply store. Be sure all receipts are numbered sequentially to facilitate auditing of financial records. Each slip contains the following information: amount received, description of time period covered and date of receipt. The use of a carbon copy system provides a record of all receipts written.

### **How should expenses be tracked?**

Perhaps one of the least-understood invisible drains on a program is undocumented cash transactions. The optimum way to track and maintain control over cash is to establish a separate checking account for the program. If the program is part of a larger organization, establish separate budget line items for program income and expenses.

All transactions should flow through the checking account and be posted as separate accounts. Deposit all cash within 24 hours. Pay for everything by check. Timely deposits are essential to good accounting control and cash flow management. Maintain a small, well-managed petty cash account for transactions too small to warrant the expense of writing a check.

Remember, for tax purposes, all payments must be properly supported by a receipt or a canceled check. If a petty cash fund is used, record the date, amount and purpose of each payment in a bound journal. The journal may be a simple ringed notebook, but must show all transactions from start to finish for the time period.

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