Early Years – BUSINESS RESOURCE TOOLKIT

FOUR KEY FINANCIAL DOCUMENTS FOR CHILDCARE SETTINGS

1. BALANCE SHEET

A ‘snapshot’ of the business’s Assets & Liabilities ***as aCt a SPECIFIC GIVEN DATE*** *(e.g. as at 31st March where that is the end of their Financial Year)*

It shows:

- How much money is tied-up in the business or organisation
- Where it’s tied-up (i.e. what the ASSETS are)
- Where the money came from (e.g. Proprietor’s own stake, retained profits, bank loans etc.)
- What the LIABILITIES are (e.g. what is owed to whom)
- Mandatory, except for the very smallest businesses

2. PROFIT & LOSS ACCOUNT (also called INCOME & EXPENDITURE ACCOUNT)

Record of the Setting’s trading outcome ***over a PAST PERIOD OF TIME*** *(e.g. for the last Financial Year)*

It summarises:

- What Income has been earned, Grants received etc. (whether or not their Customer has actually *paid* yet)
- Costs & Expenses incurred
- Depreciation on the Assets of the business
- Income received, minus Expenditure and Depreciation, gives the PROFIT or SURPLUS for the period or of course - if there wasn’t enough Income – the LOSS!
- Mandatory for all businesses “Not for Profit” ones included, though they may prefer to use the terms “Surplus” and “Deficit”.

3. CASH-FLOW FORECAST (and Profits Forecast)

Projection of the movements the Setting expects to see in its ACTUAL CASH position, month by month, over a FUTURE period of time.

‘Closing balance’ one month becomes ‘opening balance’ of next month – therefore it shows ***cumulative effect***.

Cash-Flow Forecast summarises:

- INCOME: How much cash is expected to arrive, from what sources, and when

- EXPENDITURE: How much cash will have to be paid out, what for, and when

- Demonstrates whether the business/organisation will have enough money to meet its commitments and bills *as they fall due*.

- Leaves out NON-CASH items like ‘Depreciation’, (which is just a book-keeping adjustment to the value of an asset - no actual money is paid out)

'Cash' and 'Profit' are not the same thing. A business may think it has made a 'profit' or 'surplus' on paper once the childcare has been sold … but has the money come in yet? ***Only actual Cash in the Till or in the Bank will pay next week's wages!*** This is why non-payment and bad debts become so damaging to struggling Settings.

Most small businesses can work on a 'cash accounting' basis for simplicity, but some larger business follow Accountancy 'best practice' and book the profit when the Invoice is issued (called 'accrual' accounting) - therefore the timing difference between cash and profit becomes important to them, so they may also prepare a separate **'Profits Forecast'**.

4. BUSINESS PLAN

An overall document combining Financial Forecasts (as above) with other information about what a business expects and plans to be doing over a future period of time, e.g.:

- Background to the organisation/business
- Details of its Services, and how the trading operations will work
- The Market for what the business does, the Strategy for how it will get a share of it … and the fall-back scenario for what happens if things don't go according to plan
- SWOT Analysis (Strengths, Weaknesses, Opportunities & Threats)
- Location and Premises
- Key Personnel – 'owners', managers, key staff
- Funding Requirements – How much is needed; what for; where will it come from, and when?

Many Settings' first contact with the idea of a Business Plan comes when they need to prepare one as part of a Grant Funding Application for a project they are developing.

But it's also "best practice" to prepare at least a short Business Plan and Cash-flow Forecast before the start of every new Financial Year, as a way of checking the Setting should still be meeting its objectives and trading profitably.

The Business Plan is NOT just about PLANNING, or BIDDING FOR GRANTS – it's a vital tool for MONITORING too. Every month you should check what *actually* happened against what you said *would* happen – and ask yourselves "what has changed, and why?"