

# Budgeting 101

## Why Budget?

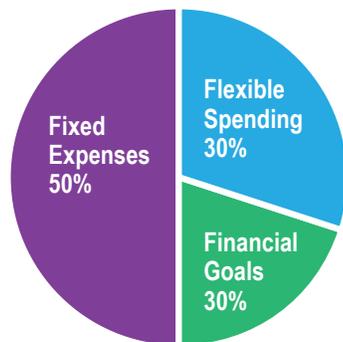
If you are simply keeping a budget because it's "a good idea", you're not likely to keep budgeting for long. Before you start budgeting, ask yourself "Why do I need a budget?" "What is my motivation?" Depending on your situation, the answer could be to pay off debt, save for an expansion, or get more control over your money.

A budget will help you plan the finances for your small business and it will show you exactly how you spend your money. You'll be surprised at how small costs can add up in the end. Without a budget, individuals tend to overspend and potentially take on unnecessary debt. With a well planned budget you will be able to see if the child care business will be financially viable, or if there are financial adjustments to make.

## What's in a Budget?

A budget is a financial plan that you create by calculating your income and expense. When planning a budget it is recommended that you plan your income a bit lower and your expenses a bit higher. You then subtract your income from your expenses to see if you have a balanced budget. If you have lost money, you are in the "red", if you have a balanced budget, you are in the "black".

You can create your budget from the top down, starting with estimated revenue and calculating how much in expenses you can afford, or from the bottom up, beginning with expenses and determining how much revenue you will need to meet them. In reality the process is circular and requires both a best guess at expenses and a "What If" approach to revenue.



- Fixed Expenses - 50%**  
 Rent/Occupancy, utilities, bills that tend not to vary, vehicle payments, insurance fund, and payments towards debt.
- Flexible Spending - 30%**  
 Day to Day expenses that vary such as food, purchases, and gas.
- Financial Goals - 20%**  
 Savings for short and long term goals, emergency fund, and payments towards debt.

### General Guidelines

Occupancy 8-15%  
 Equipment 2-5%  
 Insurance 2-3%  
 Personnel 75-80%  
 Meals/snacks 4-8%  
 Supplies 2-5%  
 Other services 2-4%  
 Profit/surplus 5-7%

## Annual, Quarterly or Monthly?

An annual budget is better than no budget, but a quarterly or monthly budget makes it easier to make changes as you go. The fact is that each month sees a different set of income and expenses. For example, there are some months that have more pay days than others, so for 4 months out of the year, your payroll will increase by 25%. This is something you need to budget for.

Something to also remember: a child care business is a unique small business since it is solely dependent on the tuition from parents and the allowable spaces for care are limited by state regulations and laws.

## Emergency Fund

An emergency fund should contain at least 3 months worth of expenses. It is always best for a business to plan ahead just in case of displacement due to a natural disaster, very low enrollment, illness, accidents, unexpected repairs and maintenance, etc. Remember, if you are a non-profit entity, you must meet the profit allowances by the state; however, you are still allowed to allocate money into a specific "fund" such as for an expansion, or equipment replacement.

## Learn More About Child Care Business Budgeting

View and download additional guides and resources at: <http://ndchildcare.org/providers/business/>

Sources:  
<https://www.thesmallsbusinessplatform.com/>

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