

# Practical and legal considerations regarding the accounting of a child daycare service provider

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## Abstract

The paper analyzes the accounting particularities applied within a company providing educational and daily supervision services. The case study illustrates how general accounting principles are applied in a sensitive sector situated at the intersection of education, social services, and entrepreneurship. The paper emphasizes the practical aspects of accounting treatments, highlighting the importance of complying with the legal framework, ensuring financial transparency, and efficiently managing resources to guarantee the continuity of operations. Additionally, the analysis presents internal and external factors that influence the company's financial performance, and a SWOT analysis highlights the strengths, weaknesses, opportunities, and threats of the enterprise. The conclusions underline that rigorous accounting, adapted to the current economic context, directly contributes to the stability and sustainable development of educational service providers.

**Keywords:** accounting, educational services, microenterprise, financial analysis.

## 1. Introduction

In a constantly changing world, educational and childcare services have become essential for supporting child development, as well as for assisting professionally active parents (European Commission, 2022). High-quality, stable, and accessible childcare is crucial, for example, to support low-income parents and to promote the healthy development of their children [10]. After-school activities, which provide children with daily care and additional educational opportunities, have gained considerable importance in recent years. Although these services are fundamental for the healthy development of children, their financial and accounting management poses numerous challenges. Service providers are encouraged to focus on the needs of children and families in order to provide tailored information in case of particular situations [1]. Some studies have shown that certain algorithmic decision-making systems are increasingly adopted by public service agencies and aim to facilitate constructive communication and relationships between child protection employees and family members [2]. According to [4], entity accounting plays a role in ensuring the proper management of financial resources and in providing relevant information for managerial decisions.

This paper aims to explore the accounting aspects specific to a childcare service provider, analyzing the accounting structure and financial processes required for such a business. The case study will examine how the provider manages daily childcare activities, emphasizing the importance of accurate and transparent accounting, given the critical role of parental trust in their operations. Thus, in the chapter dedicated to research results, the main categories of accounting treatments carried out by the entity, as well as an analysis of key indicators from the annual financial statements, are presented.

## **2. Research methodology**

This paper addresses the accounting and legal aspects related to the activity of a daily childcare service provider, within the context of an after-school type commercial company. According to [4], the accounting method involves the identification, recording, and systematic processing of economic transactions, with the aim of obtaining accurate information regarding the entity's financial position. The selected activity is a current and relevant one, and proper accounting management represents a fundamental pillar in supporting and developing it. The case study focuses on the company S.C. I&G SMART VISION S.R.L., which provides educational and childcare services.

The study analyzes the specific accounting treatments, the management of financial resources, as well as the financial performance of the respective entity. For this purpose, the following summary documents were used: (i) annual balance sheets and (ii) profit and loss accounts. Additionally, the organization of accounting at the company level was examined, including the flow of primary documents (invoices, account statements, payrolls) and their recording in specific accounting accounts.

The company is not subject to VAT and operates under the microenterprise regime (income tax). Gherghina and Duca (2012), [8] state that the tax regime applicable to microenterprises has a direct impact on the cost structure and financial flows, influencing short-term profitability. Economic and financial indicators were calculated based on data extracted from the balance sheet and the income statement and were graphically represented to highlight the company's financial evolution.

## **3. Results**

The company's accounting is outsourced to a specialized firm, and the supporting documents are submitted on a quarterly basis.

### 3.1 Main Accounting Treatments Addressed

- **Financing:** In August N, the company contracted a loan for the purchase of a second-hand 9-seater vehicle to facilitate the transfer of children from school to the after-school program. The loan amount was 45,000 lei, of which 20,000 lei was used for the vehicle purchase and the remainder for administrative expenses and early repayment. After consulting with the bank representative, we received the list of required documents for the loan file analysis, namely: (i) the trial balance for the last three completed years, (ii) the annual financial statements for the last three years, and (iii) the fiscal record certificate. On September 15, 2023, all documents related to the loan approval were signed: the loan agreement, the surety agreement, and the mortgage contract.

According to [5] , accounting treatments for financing aim to ensure the proper recognition of obligations and associated costs, in accordance with the prudence principle.

*The loan is collected according to the loan agreement no. 11430/9023/15.09.N:*

<b>5121</b>	=	<b>5191</b>	
Cash at bank in lei		Short-term bank loan	45.000 lei

*Recording the interest due monthly according to the repayment schedule:*

<b>666</b>	=	<b>5198</b>	
Interest expenses		Accrued interest on short term loans	1.000 lei

Administration fee:

<b>627</b>	=	<b>5121</b>	
Bank commissions and similar charges		Cash at bank in lei	31,50 lei

Repayment of the loan installment:

<b>5191</b>	=	<b>5121</b>	
Short-term bank loan		Cash at bank in lei	1.640 lei

Interest payment:

<b>5198</b>	=	<b>5121</b>	
Accrued interest on short term loans		Cash at bank in lei	1.000 lei

**Investments:** include acquisitions of vehicles, IT equipment, furniture, and other educational equipment with a value exceeding the minimum threshold set by law. The car is recorded as a fixed asset and depreciated monthly. Gherghina and Duca (2021) show that

investments in fixed assets enhance operational capacity and contribute to the efficiency of economic activity, being reflected in accounting through systematic depreciation.

*Acquisition of a car according to the sales-purchase agreement:*

<b>2131</b>	=	<b>404</b>	
Plant and machinery		Suppliers of non-current assets	20.000 lei

*Payment to supplier:*

<b>404</b>	=	<b>5121</b>	
Suppliers of non-current assets		Cash at bank in lei	20.000 lei

*Monthly depreciation of the Mercedes Vito vehicle:*

<b>6811</b>	=	<b>2813</b>	
Depreciation of non current assets		Depreciation of plant and machinery, motor vehicles, animals and plantations	416,67 lei

**Salary liabilities:** The company has three employees, and salary withholdings and contributions are recorded in accordance with legislation. Net salaries are paid via bank transfer, and contributions are declared and paid monthly. Thus, according to employment contracts and current regulations, for the work performed, the company owes its employees: salaries, bonuses, or allowances. The total of these constitutes gross income before taxation. From this income, the law requires certain mandatory withholdings, which include income tax (10% of taxable income), employee contributions to social security (25% of gross income), and employee contributions to health insurance (10% of gross income). The only contribution borne as a company expense is the work insurance contribution at a rate of 2.25%. According to Calotă and Tănase (2013) [6], the accounting of employee remuneration must comply with the **accrual principle**, ensuring a true and fair view of the obligations toward personnel.

*Salaries payable according to the payroll:*

<b>641</b>	=	<b>421</b>	
Personnel salary expenses		Employees - salaries payable	6.670 lei

*Withholding of tax liabilities from salaries payable:*

<b>421</b>	=	<b>%</b>	2.706 lei
Employees - salaries payable		<b>444</b>	
		Tax on salaries	370 lei
		<b>4315</b>	
		Social security contribution (SSC)	1.669 lei

	<b>4316</b>		
	Health insurance contribution (HIC)	=	667 lei

*Recording employer-borne contribution:*

<b>6461</b>	=	<b>436</b>	
Expenses related to the Work Insurance Contribution (CAM)		Work insurance contribution (CAM)	150 Lei

**Operational activity:** This includes revenues derived exclusively from fees paid by parents. Collections are made via bank transfer, and invoicing is done monthly. Expenses include rent, utilities, services, and materials necessary for carrying out the activities.

According to Law no. 82/1991, revenue is recognized on the date the services are provided, based on supporting documents, in compliance with the accrual accounting principle. The only trade receivable within this company is the one due from the parent or legal guardian. Service fees are collected exclusively via bank transfer (no cash register is used).

The fee for the activities carried out in the after-school program is calculated by the company administrator based on the schedule chosen by the parents, plus the cost of meals for that month.

At the beginning of each month, the fee is handed to the legal guardians, and according to the contract, they must pay the amount via bank transfer by the 20th of the current month. If a child does not attend the program on one or more days, according to the attendance schedule, only the amounts collected for meals will be deducted from the total in the following month.

*Invoice no. ING0722 issued for client COSTACHE VASILE:*

<b>4111</b>	=	<b>704</b>	
Customers		Services rendered	1.507 lei

*Invoice payment received:*

<b>5121</b>	=	<b>4111</b>	
Cash at bank in lei		Customers	1.507 lei

The main trade payables arise from the purchase of goods or services from various suppliers, such as the owner of the apartment where the business location is registered, the catering company, and the energy and telecommunications providers.

Regarding the catering company, according to the contract, the proposed weekly menu, approved by a nutritionist, is provided to us, and we are required to communicate any modifications as well as the estimated number of daily meals.

Invoice no. FCS240297 received from the supplier FOOD CONSULTING SISTEM S.R.L.:

<b>628</b>	=	<b>401</b>	
Other third party services		Suppliers	1.320 lei

The expense related to the current month's rent is recorded according to the addendum to the lease agreement:

<b>6123</b>	=	<b>401</b>	
Royalties and rental expenses		Suppliers	2.125 lei

Withholding of income tax on rent owed to the individual owner (10% \* 2,125 RON \* 80%, as a 20% flat-rate allowance is applied):

<b>401</b>	=	<b>446</b>	
Suppliers		Other taxes and similar liabilities	170 lei

Net rent payment made to the owner:

<b>401</b>	=	<b>5121</b>	
Suppliers		Cash at bank in lei	1.955 lei

The income tax from rental income is paid by the 25th of the month following the month in which the rent payment was made:

<b>446</b>	=	<b>5121</b>	
Other taxes and similar liabilities		Cash at bank in lei	170 lei

Invoice no. 7700-202400227 is received for a printer cartridge:

<b>6028</b>	=	<b>401</b>	
Other consumables		Suppliers	136 lei

The invoice from the supplier Vodafone is received:

<b>626</b>	=	<b>401</b>	
Postage and telecommunications		Suppliers	88 lei

### 3.2 Analysis of the main indicators

From the analysis of the evolution of the assets, it results that the total assets have increased significantly, mainly due to the growth of the amounts in cash accounts in lei and bank accounts, as shown in the table below.

**Table no. 1 Evolution of the total assets**

No.	Asset name	N	N+1	Indice
1	Fixed assets	43.424	18.750	43,17%

2.	Receivables	26.092	26.191	100.37%
3.	Cash and bank accounts	43.495	108.845	250.24%
3.	Total assets	113.011	153.786	136,08%

Source: Own contributions

The main financing sources of the company are equity and liabilities, and from the table below we can see a 36% increase, mainly as a result of the doubling of total liabilities.

**Table no. 2 Evolution of debts and equities**

No.	Liability name	N	N+1	Indice
1.	Debts	16.838	36.797	218.53%
2.	Equity	96.173	116.989	121.64%
3.	Total	113.011	153.786	136,08%

Source: Own contributions

From the analysis of the income statement, a decrease in profit before tax is observed, as the growth rate of expenses outpaced that of revenue from services rendered.

**Table no. 3 Evolution of the incomes and profit**

No.	Indicator	N	N+1	Inx
1.	Total incomes	171.720	183.783	107%
2.	Total expenses excluding micro tax	138.731	161.129	116.14%
3.	Profit	32.989	22.654	68,67%

Source: Own contribution

The debt ratio and solvency are two essential financial indicators that provide insight into a company's financial health. According to Gherghina and Duca (2012), the debt ratio reflects the proportion of liabilities in total resources, while the solvency ratio measures the company's ability to meet its financial obligations.

**Table no. 4 Evolution of the debt ratio and solvency ratio**

No.	Indicator	N	N+1
1.	Total assets	113.011	153.786
2.	Total liabilities	16.838	36.797

3.	Debt ratio (3=2/1)	0,15	0,23
4.	SOLVENCY RATIO (3=1/2)	6,71	4,17

Source: Own contribution

The debt ratio is not greater than 1, which indicates that the company's total liabilities do not exceed its assets. A solvency ratio higher than 1 suggests a stronger financial position.

Examining the profit margins, there is a decrease in the net profit margin from 18.21% in year N to 11.32% in year N+1, indicating a decline in net profit despite an increase in turnover.

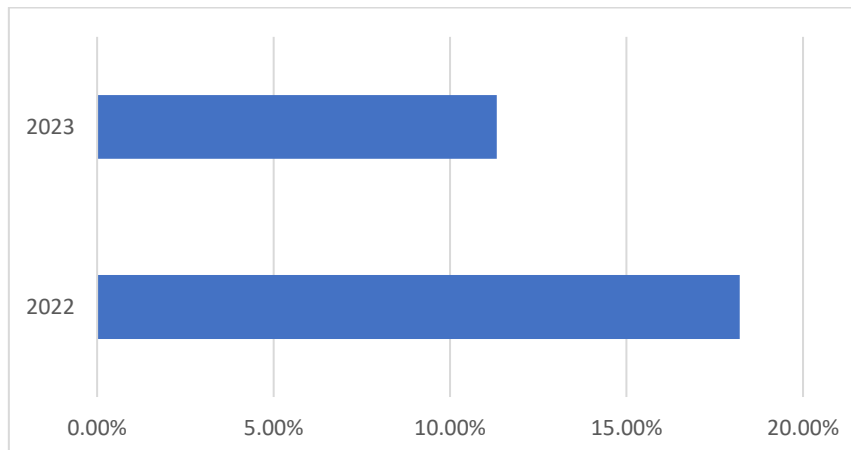
**Table no. Net profit margin**

No.	Indicator	N	N+1
1.	Net profit	31.273	20.816
2.	Revenue	171.720	183.751
3.	<b>NET PROFIT MARGIN (3 = 1/2)</b>	<b>18.21%</b>	<b>11.32%</b>

Source: Own contribution

This trend indicates that the company incurred higher expenses in year N+1, which led to a decrease in net profit.

**Figure no. 1 Net profit margin**



Source: Own contributions

The situation is not entirely favorable, as the values of this indicator show the company's inefficiency in converting operating revenues into net profit. According to Ionescu (2018) [9], economic profitability reflects the efficiency of asset utilization, and its decline signals a decrease in the productivity of invested capital.

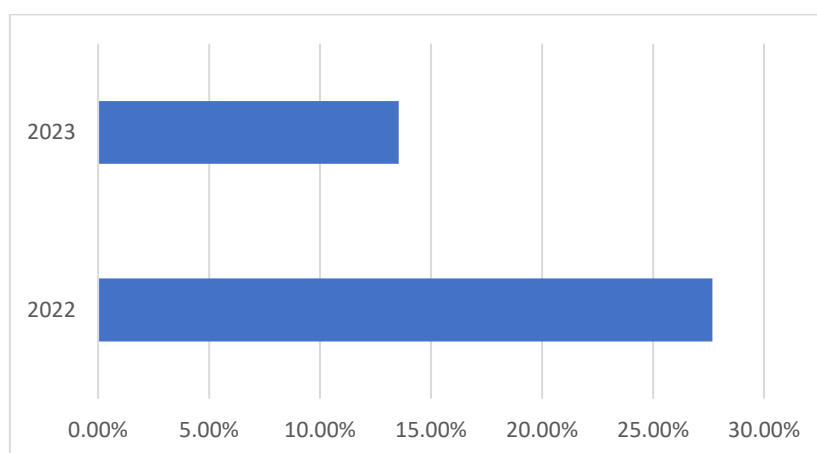
**Table no. 6 Evolution of economic profitability**

No.	Indicator	N	N+1
1.	Net Profit	31.273	20.816
2.	Total assets	113.011	153.786
3.	<b>ECONOMIC PROFITABILITY (3 = 1/2)</b>	<b>27,67%</b>	<b>13,54%</b>

Source: Own contribution

ROA decreased from 27.67% in year N to 13.54% in year N+1, despite the increase in total assets. This indicator shows that the net profit generated by the existing assets is low and highlights the company's inability to effectively use its assets to generate profit.

**Figure no.2 Evolution of ROA**



Source: Own contribution

Financial profitability decreased significantly, from 32.51% in year N to 17.79% in year N+1, primarily as a result of the decline in the profitability of the analyzed company.

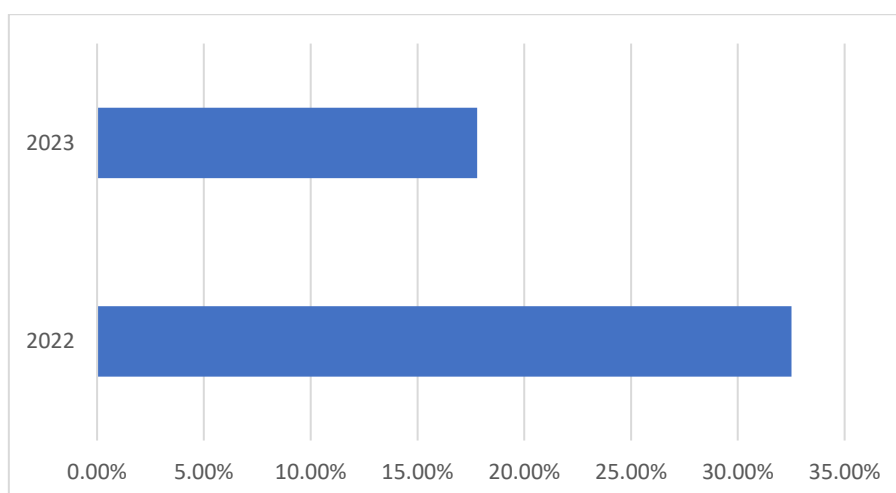
**Table no. 7 Evolution of financial profitability**

No.	Indicator	N	N+1
1.	Net Profit	31.273	20.816
2.	Equity	96.173	116.989
3.	<b>FINANCIAL PROFITABILITY (3 = 1/2)</b>	<b>32,51%</b>	<b>17,79%</b>

Source: Own contribution

This decline has two main causes: the reduction of net profit in year N+1 and the increase in equity, which dilutes the relative efficiency of the profit generated.

**Figure no. 3 Financial profitability**



Source: Own contribution

**SWOT analysis** is a strategic evaluation tool used to identify internal and external factors that influence organizational performance.

**Table no. 8 Swot analysis**

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Geographical location of the center, close to many primary education institutions;</li> <li>• Small number of enrolled children, allowing for more in-depth work on difficult or misunderstood lessons;</li> <li>• Various extracurricular activities offered outside of homework hours (dance, chess, robotics);</li> <li>• Young team.</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Limited operational capacity;</li> <li>• Inability to expand activities due to lack of space;</li> <li>• Few classrooms;</li> <li>• Limited financial resources;</li> <li>• Lack of reputation.</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• Increasing demand;</li> <li>• Collaborations with institutions that lack resources (e.g., assistance with transportation to other after-school centers).</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>• Intense competition in the area of activity (many other after-school centers in the neighborhood);</li> <li>• Bureaucracy.</li> </ul>

	<ul style="list-style-type: none"> <li>• Low birth rate, which will lead in the future to a smaller number of children enrolled in primary education.</li> <li>• Implementation of the SDS program (School After School), organized by local authorities in schools.</li> </ul>
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Source: Own contribution

#### 4. Conclusions and recommendations

The study demonstrates the importance of well-organized accounting tailored to the needs of an after-school program. Efficient management of financial resources, clear communication with parents, compliance with legislation, and the ability to respond to changes are essential for success. The following recommendations are made:

- Increase capacity by renting a larger space.
- Continue investing in educational equipment.
- Closely monitor operational expenses.
- Promote services more actively through local campaigns.

The activity carried out serves as a model of best practice for entrepreneurial initiatives in the educational sector, where the accounting component is a strategic support pillar.

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- \*\*\*\* Legea nr. 82/1991 privind contabilitatea, cu completările și republicările ulterioare;
- \*\*\*\* OMFP nr. 1802/2014 pentru aprobarea reglementărilor contabile privind situațiile financiare anuale individuale și situațiile financiare anuale consolidate;
- \*\*\*\* Legea nr. 227/2015 privind Codul fiscal, cu modificările și completările ulterioare;
- \*\*\*\* Hotărârea Guvernului nr. 1 din 06 ianuarie 2016 pentru aprobarea Normelor metodologice de aplicare a Legii nr. 227/2015 privind Codul fiscal, cu modificările și completările ulterioare;