

CASH BASIS OF ACCOUNTING

SmartStart funds are accounted for on the cash basis of accounting.

The CASH basis of accounting requires recognition of income when it is actually received and the recognition of expenses when they are actually paid.

Example: **EXPENSES ARE RECORDED WHEN PAID**

Rent is due September 1, 2009

Check is written to pay rent – check dated August 31, 2009

Expense is recorded on August 31, 2009 (**AUGUST** FSR)

OR

Check is written to pay rent – check dated September 1, 2009

Expense is recorded on September 1, 2009 (**SEPTEMBER** FSR)

If the procedure of writing the rent check in the month before it is due is always followed, there will be rent expense recorded monthly even though it is for the following month. Expenses should be dated and recorded in the month in which they are written and actually paid. It is not acceptable accounting practice to back date checks so that they can be recorded in the previous month.

Therefore, if the only checks written from your checking account are for SmartStart related expenses then your expenses should total the checks that were written for that month.

Allocating monthly expenses based on Budget is **NOT** allowed. Actual expenses paid during the month must be reported on the FSR.

CREDIT CARD CHARGES: Expenses charged to business credit cards are recorded in the month **PAID** rather than in the month that the charge occurred. Therefore, any charges made in one month and paid in the following month, are included in the month that the credit card is paid.

A word of caution: Any expenses charged in the month of June and not paid until July will not be allowable on the June FSR. To avoid this problem, it is suggested that the credit card be paid in the month of June.