

Wisconsin Department of Safety and Professional Services

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DIVISION OF PROFESSIONAL CREDENTIALING PROCESSING

REQUIREMENTS FOR REAL ESTATE TRUST ACCOUNT BOOKKEEPING SYSTEM

The answers to the following questions paraphrase the Wisconsin Administrative Code. See Wis. Admin. Code § REEB 18 for the exact language.

Is a firm required to maintain and be responsible for a bookkeeping system in the firm's office?

Yes, even if a bookkeeper is employed.

What are the 5 steps of maintaining a trust account bookkeeping system?

- Record trust account receipts and disbursements in a journal.
- Post to a ledger.
- Prepare monthly bank reconciliation.
- Prepare a monthly trial balance.
- Compare the trial balance against the reconciliation and the journal balance for accuracy.

Journal

What is a cash journal?

A daily record, which shows a chronological sequence of all real estate trust funds that are deposited and disbursed. A running balance must be shown for each day trust funds are received or disbursed. The cash journal is simply referred to as a journal.

What must a journal include?

- For **funds received**: date, name of the party who is giving the money, amount, and identification of the transaction.
- For **disbursements**: date, payee, check number, amount, and identification of the transaction.
- Identify each transaction by the name of the principal, an identification number, or other means of identification. This identifying information must be a direct link between the journal and ledger.

Ledger

What is a ledger?

A record of all receipts and disbursements as they affect each individual transaction; such as, between buyer and seller, landlord and tenant.

Postings to the ledger are made from the journal. What should they include?

- For **funds received**: date, amount received, and name of the party giving the money if different from the buyer.
- For **disbursements**: date, payee, check number, and amount.
- Names of both parties to the transaction.
- Running balance.
- Identification of the transaction as used in the journal.

Reconciliations

How often must a firm reconcile the real estate trust account in writing?

Each month, except where there has been no activity during the month.

What must the written reconciliation include?

- Ending bank statement balance.
- Dates and amounts of the deposits in transit which are deposits made but not yet received by the depository institution.
- Check numbers and amounts of outstanding checks, which are checks written but not yet paid by the depository institution.
- Reconciled account statement ending balance.

What steps should a firm follow in preparing an account reconciliation?

- Enter the ending bank statement balance and list out the deposits in transit.
- Add the deposits in transit to the ending bank statement balance to obtain a subtotal.
- List out the outstanding checks.
- Subtract the outstanding checks from the subtotal to obtain the adjusted bank balance as of the ending date shown on the account statement to be reconciled.
- Compare the adjusted bank balance to the journal balance. They should be equal, and if not, an error has occurred and the account should be further reviewed to locate the error and correct it.

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Trial Balance

What is a trial balance?

A written listing of all open ledgers in the real estate trust account as of the bank statement ending date. This list includes the ledger identifier and amount of money the firm is holding in the account for that ledger.

What is an open ledger?

An individual ledger in which there are funds, which have not been disbursed to one of the parties to the transaction.

Validation

How would the broker compare the trial balance against the reconciliation?

The trial balance may be prepared at any time during the month and compared with the running balance of the cash receipts and disbursement journal. The trial balance, however, must be prepared, in writing, as of the bank statement ending date. At this time the broker should compare:

- The journal balance
- The trial balance total
- The reconciled bank statement balance (the adjusted bank balance)

All three totals should show the same number. If they do not, the broker needs to continue to search for errors in either the journal, the ledger, or the bank reconciliation.

Computerizing

What must the firm do to maintain a computerized bookkeeping system?

All bookkeeping entries must be made in the computerized system, even if other records are simultaneously maintained.

What are the firm's obligations to maintain a backup copy of the bookkeeping records?

A backup copy of all journal and ledger records must be made on each day on which entries are made in the computerized bookkeeping system. The backup copy must be made on a disk or other medium, which is separate, and distinct from that on which the source documents reside. Monthly bank reconciliations and trial balances must be copied to a separate medium or printed immediately upon completion.

What if the Department requests a copy of computerized trust account records?

The firm must be able to immediately convert the computer records to written paper records and make them available, without charge, to the department for audit or investigation purposes.

General

Can a firm maintain separate trust accounts for various types of real estate transactions; such as, sales, property management, and land contract collections?

Yes, a firm can maintain as many trust accounts as needed to operate a business. Each trust account must be registered with the department and be in compliance with all statutes and administrative codes.

Can spoiled or voided checks, share drafts and other drafts be thrown away?

No, they must be filed with the cancelled checks, cancelled share drafts and other cancelled drafts.

If earnest money is to be disbursed to a buyer but the buyer cannot be located, what should the firm do?

The firm must make reasonable attempts to locate the buyer and document these attempts. After 5 years, the funds are deemed abandoned, and the firm must provide the moneys to the Department of Revenue, Unclaimed Property Division.

How long must a firm retain trust account records and all supporting documents?

Three years from the closing of the transaction, or, if the transaction does not close, from the date of the listing. (**NOTE:** the IRS requires records to be maintained for a longer time period.)

See Page 3 and 4 for samples of Journal, Ledger, Bank Statement, Account Reconciliation, and Trial Balance.

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SAMPLES OF JOURNAL, LEDGER, BANK STATEMENT, ACCOUNT RECONCILIATION, AND TRIAL BALANCE:

JOURNAL

Name of Firm: **ZZZ Realty**

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Ledger #	Date	Received From/Paid To	Buyer/Seller	Check #	Receipts	Disbursements	Balance
00	6/1/99	ZZZ Realty	Broker's Funds	200.00		200.00	
1	6/5/99	Coldwell Banker	Weber/Nelson	1000.00		1200.00	
00	6/5/99	Check Charges	Broker's Funds	83.25	1116.75		
2	7/10/99	Jay Tyler	Tyler/Hall	1000.00		2116.75	
3	7/20/99	George Braun	Braun/Leon	500.00		2616.75	
3	8/10/99	Kevin Braun	Braun/Leon	500.00		3116.75	
1	8/25/99	Dan and Lisa Weber	Weber/Nelson	500		1000.00	2116.75
2	8/30/99	Tyler/CUNA Mortgage	Tyler/Hall		45712.00		47828.75
2	"	Dane Co. Title	" "	501		260.00	47568.75
2	"	Dane Co. Reg. of Deeds	" "	502		12.00	47556.75
2	"	Dane Co. Reg. of Deeds	" "	503		141.00	47415.75
2	"	Firststar Mortgage	" "	504		31794.59	15621.16
2	"	ZZZ Realty	" "	505		4700.00	10921.16
2	"	Michelle and Don Hall	" "	506		9804.41	1116.75
00	8/29/99	Deposit Tickets	Broker's Funds			14.00	1102.75

LEDGER

Broker's Funds		Location of Property _____				Page 00
Date	Name or Payee	Type of Transaction _____	Check No.	Deposits	Disbursed	Balance
1999						
6/1	ZZZ Realty Deposit			200.00	200.00	
6/5	Check Charges				83.25	116.75
8/29	Deposit Tickets				14.00	102.75

LEDGER

Seller: Leon, Kelly		Location of Property <u>1516 Sampson St.</u>				Page 3
Buyer: Braun, Kevin		Type of Transaction _____				Price _____
Date	Name or Payee	Check No.	Deposits	Disbursed	Balance	
1999						
7/20	Earnest Money-George Braun (father)			500.00	500.00	500.00
8/10	Additional EM - Buyer			500.00		1000.00

LEDGER

Seller: Nelson, Curty		Location of Property <u>201Main St.</u>				Page 1
Buyer: Weber, Dan and Lisa		Type of Transaction _____				Price _____
Date	Name or Payee	Check No.	Deposits	Disbursed	Balance	
1999						
6/5	Coldwell Banker			1000.00		1000.00
8/25	Dan and Lisa Weber (Deal Fell Thru Returning Earnest \$)	500		1000.00		0.00

LEDGER

Seller: Hall, Michelle and Don		Location of Property <u>N1061 Cty J</u>				Page 2
Buyer: Tyler, Jay		Type of Transaction _____				Price _____
Date	Name or Payee	Check No.	Deposits	Disbursed	Balance	
1999						
7/10	Earnest Money			1000.00		1000.00
8/30	Tyler/CUNA-Closing Proceeds			45712.00		46712.00
8/30	Dane Co. Title	501		260.00		46452.00
8/30	Dane Co. Reg. of Deeds-Recording	502		12.00		46440.00
8/30	Dane Co. Reg. of Deeds-TRF	503		141.00		46299.00
8/30	Firststar - Mortgage Payoff	504		31794.59		14504.41
8/30	ZZZ Realty - Commission	505		4700.00		9804.41
8/30	Michelle and Don Hall - Proceeds	506		9804.41		0.00

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BANK STATEMENT

XYZ BANK
 111 Main Street
 Madison WI 53555

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ZZZ Realty **Statement Closing Date**
IBRETA Trust Account 30-Aug-99
 22 Lake Street
 Madison WI 53555 **ACCT # 5555-5**

Activity on your account:

<u>Date</u>	<u>Deposits</u>	<u>Cks/Chrgs</u>	<u>Descr.</u>	<u>Balance</u>
01-Aug				2616.75
12-Aug	500.00		DEPOSIT	3116.75
27-Aug		1000.00	CK 500	2116.75
29-Aug		14.00	DEP TCKT	2102.75
30-Aug	45712.00		DEPOSIT	47814.75
		31794.59	CK 504	16020.16
		260.00	CK 501	15760.16
		4700.00	CK 505	11060.16
		9804.41	CK 506	1255.75
	46212.00	47573.00	TOTALS	
Beg Balance	2616.75		End Balance	1255.75

ACCOUNT RECONCILIATION

Account Reconciliation for **ZZZ Real Estate, Inc.**
 as of August 31, 1999

Account #5555-5 **Bank: XYZ Bank**

- 1) **Enter Ending Checking Acct Balance**
 Per Bank Statement 1255.75
- 2) **Add Deposits "in transit" not reflected on bank statement**
- | <u>Date</u> | <u>Amount</u> |
|-------------|----------------|
| 1. _____ | _____ |
| 2. _____ | _____ |
| 3. _____ | _____ |
| Total | <u>0</u> |
| Balance | <u>1255.75</u> |
- 3) **Subtract Checks Outstanding - written but not yet paid by the bank**
- | <u>Check No.</u> | <u>Amount</u> |
|------------------|---------------|
| 1. <u>502</u> | <u>12</u> |
| 2. <u>503</u> | <u>141</u> |
| Total | <u>153.00</u> |
- 4) **Ending Balance** 1102.75

5) TRIAL BALANCE

- a) Funds deposited to keep account open 102.75
- b) Party or Ledger Page Amount
- | | |
|-------------------|----------------|
| 1. <u>#3-Leon</u> | <u>1000</u> |
| 2. _____ | _____ |
| Total | <u>1000.00</u> |
- 6) Ending Balance 1102.75
 (should equal Line 4)

Account Reviewed: 9/7 , 1999

By: _____