

rec-on-cile: to make peace, adjust

Reconcile Trust Accounts Monthly

By Marcia M. Waldron, Auditor/Investigator

If you keep any funds related to a real estate transaction, an easy way to make some peace in your life is to reconcile your Trust Account records on a monthly basis.

While many see this as a daunting task, once the process is set up and completed properly, it does not need to be difficult or time consuming. However, reconciling does need to be a priority. There are so many seemingly mundane tasks in our life that, if ignored, lead to large and costly problems. If you don't brush your teeth, you have pain and costly dental bills (or worse); if you don't service your car, the repairs can be astronomical; if you don't balance (reconcile) your Trust Account on a regular basis, the result can be missing client/tenant funds, the loss of your real estate license, and even criminal charges.

So begin with the basics: Step 1 is to reconcile your bank statement to your Trust Account or your 'Books'; this might be your general ledger cash account, your trust account journal, a check register, or even your checkbook for your trust account. Stated simply, you are resolving differences between the bank and your Books: errors (yours or the bank's), bank charges or interest earned, and timing differences. To minimize timing differences, always use the bank statement ending date, which is hopefully the last day of the month, as your cut-off date for your Books. This is the same process used to balance a personal checkbook.

Always begin the process by check marking (or 'ticking') each cleared item either by hand or using software. You can't skip this first step of checking each matching item on your Books and each matching item on your bank statement. All unticked entries are your adjustments (i.e., your reconciling items). Post interest earned, bank charges, and other reconciling items to your Books, then adjust the bank statement balance for bank errors (if any). If all reconciling items have been addressed (and your beginning bank balance was reconciled to the Books), this formula will be correct:

Ending Bank Balance + Deposits in Transit – Outstanding Checks = Your Book Balance.

Once the bank statement has been reconciled to the Books, you are ready for step 2, which is balancing the reconciled figures from Step 1 to the Property Trial Balance (this is your client liability balance). The Property Trial Balance itemizes whose funds you are holding; that is, the monies being held in trust belonging to other people. It is an accounting of every dollar in the Trust Account by the tenant or client; this is a critical report since every dollar held in a Trust Account needs to be identifiable by owner. The Property Trial Balance is created by listing of each of your property (or owner) ledgers and their month end balance (assuming month end is the cut-off).

As long as reconciliations are being performed monthly, it will be only the current month's transactions (or prior period adjustments, if any) that need to be reviewed to locate discrepancies. If reconciliations

have not been performed in the past, the first reconciliation could be a long process, but it is essential to have this reconciliation on file (as required by Real Estate Commission Rule A.0117 (e)).

If you want an easier – or even seamless – reconciliation, improve the record keeping. Think of bank reconciliation as a monthly report card on the state of your accounting records. With the possible exception of credit card processing fee issues or large high volume firms, if your bank reconciliation process is difficult, chances are good that improvements are needed in your accounting.

Key points:

1. The only way to ensure that a sufficient balance of funds is on hand to cover your client liability is to perform this reconciliation on a monthly basis. Retain a worksheet for each monthly reconciliation showing the balancing of the Bank Statement, the Books (the cash account), and the Property Trial Balance.
2. While not a NCREC requirement, an important best practice is to perform this three way reconciliation within 48 hours of the receipt of your bank statement. There will be fewer reconciling items; errors and/or missing monies, if any, will be identified quickly.
3. For property management companies handling vacation rentals, there is a fourth step of reconciling the subsidiary ledgers to the property (or owner) ledgers.
4. If you aren't already performing this reconciliation, start today. If you need an extra incentive, just read 'the back of the Bulletin.'
5. The Broker in charge is responsible for the safeguarding of Trust Monies. While the reconciliation and bookkeeping can be delegated, the fiduciary responsibility remains with the BIC: remember, *'The Buck Stops with the BIC.'*
6. The NCREC offers a Basic Trust Account Procedures Course multiple times throughout the year; go to NCREC.gov to view the class schedule and register online.