Bookkeeping

The most fun you will ever have

Why Do You Bookkeep?

- Because it's so much fun
- Because you need to keep records for the government
- Because you want to know where you have been and, how it relates to where you are going

Why Do You Bookkeep?

- ~~Because it's so much fun~~
  - Yeah, No, Not so much
- Because you need to keep records for the government
  - True, because you have to file taxes and good records make that so much easier
  - And, so much cheaper, because tax accountants charge by the hour
- Because you want to know where you have been and, how it relates to where you are going

Why Do You Bookkeep?

- Because you want to know where you have been and, how it relates to where you are going
  - Absolutely-this is really the most important reason
  - You want your records to tell you:
    - Did I make money on that last deal?
    - What am I spending money on? Does it make sense?
    - Am I spending money to make money?
    - How do my expenses compare to others with similar business plans?
    - Can I use this information to help me make better choices and decisions?
    - I should use this to keep track of how much I should be paying for roofs, or blacktop, or postcards or whatever

How your plan is supposed to work:

Step 1 Decide on System

Step 2 Get Organized

Step 3 Keep up on Data Entry

Goal: Make enough money to get someone else to do it

Mixing Personal and Business

- If you are small and just starting out, and you don't have an LLC or other entity, and, you can keep really good records, you can run your business and personal items through the same checking account. Since most people fail on the keep really good records front, I don't recommend it. Get a business account, and deposit your business income into it, and write your business expenses from it. If you want to have 1 credit card that you use for points, then, write a personal check to pay personal expenses and a business check to pay the business expenses. Done.

What if I own multiple companies

- Treat each company as it's own independent entity! Seriously!! Don't mix money, don't borrow and lend back and forth!! If you have to lend money back and forth (DON'T), make formal notes, charge interest, pay the companies back as soon as possible. I cannot stress hard enough that you need to keep things separate, especially if you own multiple companies with different partners!!!! Whatever bookkeeping method you choose, keep the companies sandboxed away from each other

Filing Systems

- No matter what accounting system you use, you need a system for filing and keeping track of all of the paper:
  - My preferred method, which is easiest, is to file everything by month-if you need to look back and find a receipt, you can use the software to search for the right month, then find the paper there. If you own more than 1 company, you should keep separate files, by company, by month
    - That can be paper files, or, it can be scanned receipts that are saved into your computer or a cloud service like OneDrive, DropBox, Box, Google Drive, Sharefile, etc. If you have offsite bookkeeping then a shared service is definitely the way to go. It also has the advantage that you can immediately take a picture of a receipt and upload, no chance of losing it. Then, you can also attach these receipts into the software program if that option is available

Filing Systems

- No matter what accounting system you use, you need a system for filing and keeping track of all of the paper:
  - The second most common method is to keep them by company
    - So, all Home Depot receipts are in 1 file, all Lowes in another, etc. It works, but it takes longer, and requires you to have a bunch more files (the monthly system is 12 per year, this system can grow to hundreds). If you decided on the shoebox system, then, at least, this is somewhat more organized.
    - If you own more than 1 company, this sometimes makes it easier to find a receipt, but requires a lot more upfront filing time.

Filing Systems

- No matter what accounting you use, you need a system for filing and keeping track of all of the paper:
  - If you are a landlord, you might want to keep them by property
    - A lot of that decision depends on how many properties you have and how complicated your business is, do you have properties in different entities, etc.
    - No matter which system you use, you should mark the property name on the receipt

Accounting Systems

- Shoebox/Envelope/File Folder
  - Throw everything in, worry about it at tax time
    - Not efficient
    - Gives you no information to make decisions
    - Expensive at tax time,
    - Leads to lots of lost deductions,
    - Creates a sense of dread, knowing that you have a big project hanging over you

Accounting Systems

- Spreadsheet
  - Keep track of all of your income and expenses in a Spreadsheet Template
    - Can be very simple or elaborate
    - Can work well if you have a small, uncomplicated business, like 1 or 2 rental properties, a part time wholesaling business, very passive investments
    - Easy to outgrow
    - Really inexpensive, nothing new to buy or learn
    - Your accountant can help you set it up so it makes it easy to do your tax returns
    - Can be good for analyzing and for projections, easy to plug in estimates, copy to a new sheet to make budgets, etc.

Accounting Systems

- Quicken (Checkbook program software)
  - Keep track of all of your income and expenses in simple checkbook-like software
    - Very easy to learn to use
    - Data entry is quick, if you use it to write and print checks there is no double entry
    - Possible to outgrow as your business gets more complicated
    - Relatively inexpensive, though you have to upgrade every few years to keep all features
    - Your accountant can help you set it up so it makes it easy to do your tax returns
    - Very easy to run and customize reports
    - Easy to export to excel for further analysis
    - Not the best for balance sheet heavy businesses like landlording; no or very basic invoicing functions if you will have accounts receivable, lots of manual computations for land contract or mortgage transactions

Accounting Systems

- Quickbooks or similar accounting software
  - Keep track of all of your income and expenses in full featured software
    - Easy to learn the basics, the more time you want to put into educating yourself, the more you can do
    - Allows for less double entry
    - Almost impossible to outgrow
    - Can get expensive depending on what features you need & forced upgrades
    - Online access with some versions, which ties you into forced upgrades to continue to work with your data
    - Your accountant can help you set it up so it makes it easy to do your tax returns
    - Easy run and customize reports and export to excel
    - Almost required if you are big enough to have payroll or need to give 1099's to contractors
    - Best for balance sheet heavy businesses like landlording; basically required if you need invoicing functions or if you want to have the ability to keep track of unpaid bills and accounts receivable
    - Doesn't do a good job of keeping track of land contracts, escrows, and other specialized industries

Systems

- Specialized Software-Buildium, Appfolio, etc. for landlords, Mortgage office for loan servicing, etc.
  - Specifically designed for your industry
    - Harder to learn
    - Harder to find an accountant who is familiar with it
    - If you have more than 1 type of business you can end up with different software to manage different parts of the business, this adds to complexity, training
    - Can get expensive depending on what features you need
    - Online access with some versions, which ties you into forced upgrades and monthly fees to continue to work with your data
    - Solves the problem of having to force a non specialized software like Quickbooks to manually account for the different needs of these more specialized businesses
    - May have front end/front facing aspects of the software that solve other business needs (Like buildium allows tenants to review their own accounts, pay online, communicate about work orders into the system which keeps things organized)

Recap-Mistakes to avoid

- Not setting up some type of system
- Not keeping track of receipts and deposits
- Not keeping businesses separate
- Not having separate bank accounts
- Mixing personal and business expenses without excellent record keeping skills
- Not using your records to help you make better decisions
- Overcomplicating things-no matter what, simpler is always better!
- Leaving everything to the end (Procrastinators Unite!!)

My Personal System has evolved

- While I worked full time and did side work
  - Kept everything in 1 bank account-business and personal
  - Used Quicken to keep track and divide personal/business
  - Used Excel Spreadsheets for keeping track of accounts receivable and year end tax computations
  - Kept a shoebox of receipts that I periodically scan into Dropbox in 1 big file
- Now that I have my own full time business
  - Separate business bank account at same bank as personal
  - Using Quickbooks keep track of business and accounts receivable and to send invoices/Quicken for personal checkbook, business reimburses me for business expenses I pay from personal accounts
  - Use Excel Spreadsheets for more in depth calculations and decision making
  - File paper receipts into 1 big yearly file-planning to move that into cloud and start attaching files into Quickbooks (Dropbox, which is my preferred service)

Questions-We have questions

- Asking for a friend-How do I simplify, automate & delegate bookkeeping-Still have questions?
- How do we find someone else to do it at a reasonable price
  - Get a few of you together, and share a bookkeeper
  - How to find one-same as any other contractor, ask friends and family, people at REIA, etc. I have the advantage of working with Vena's awesome awesome bookkeeper/assistant/Controller Christy, who Vena keeps too busy to take care of anyone except Vena

Questions Questions-We have Questions

Do you have any rentals personally?

Not currently, I mostly do private lending along with my own CPA business and working as Vena's integrator (Don't know what that is? You haven't read Traction yet??!!)

How do **you** calculate profit and loss on your properties?

Depends on what you are trying to figure out-Quickbooks and the like are very good at tax accounting, not as good at simple cash flow accounting. I'm currently using both spreadsheets and Quickbooks for various clients, though we are branching out to Buildium

How do you account for rental deposits?

Short Term Liability account on the balance sheet, money gets transferred to a non operating account like a savings or escrow account so it's available when you need to pay it back. Important-if someone moves out and you keep their security deposit, make sure to move the money back into operating funds and deduct it from the liability so it doesn't look like you still owe it to the tenant

Questions Questions-We have Questions

What is the difference between and category and a class?

Generally, categories are the type of income/expense, and classes are the ways to separate them. In general, most people use classes for each property so that you can get a profit and losses statement by the entire company and/or broken down by property. There is an alternate way in Quickbooks, to make each Property a customer and each tenant a job, but, you need to specifically plan for that in setup and it's not as widely used.

For Wholesalers, you can also use properties as classes to keep track of profit/loss on specific deals

For other businesses, it can be divisions, business units, locations etc

If you are small enough that you are keeping personal and business expenses in the same system, then you can use classes to mark personal expenses

Questions Questions-We have Questions

What are good record keeping practices with respect to receipts from Lowes, contractors, etc?

Keep the receipts, either in a paper file or scan into a cloud service –see earlier discussion

Should there be one credit card explicitly for real estate expenses? Verses one for personal and another for business?

See earlier answers

Should receipts for rent be created for tenants?

We use a receipt book for tenants who bring in their payments in person, especially if it is cash, and we will send receipts from Quickbooks if people ask, but we don't do it as a general practice and I don't think it's necessary

Should receipts have notes to track them back to the property and project?

This absolutely will make your life easier if you do it that way, though, if you have good records in Quickbooks it isn't strictly necessary. It makes it much easier to find the right receipt if you want to return or replace or repurchase though, or if you end up with IRS questions

For example "Great Rental Investment#1 – bath, new toilet"

Some software pricing

- Excel-everyone has it, but, if not, get office365, personal is $70/yr (1 computer), home is $100/yr (5 computers), $150 for perpetual license for 1 computer
- Quicken2018-Deluxe is $80/2 yr subscription, Business & Rental is $150/2 yr (works fine for smaller landlords)
- QuickbooksOnline-$5-$30/mo depending on features needed (per company you own, can get expensive quick if you own a bunch of companies)
- Quickbooks Desktop-$220/yr+ depending on features needed, can go up to $800/yr or more (can run multiple companies with same license)
- Buildium-for Property Management-Starts at $45/mo, based on number of properties, can be held by any number of entities
- Other specialized software-Free to $1000's/mo depending on features-may require integration with an accounting software like Quickbooks

More Questions

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