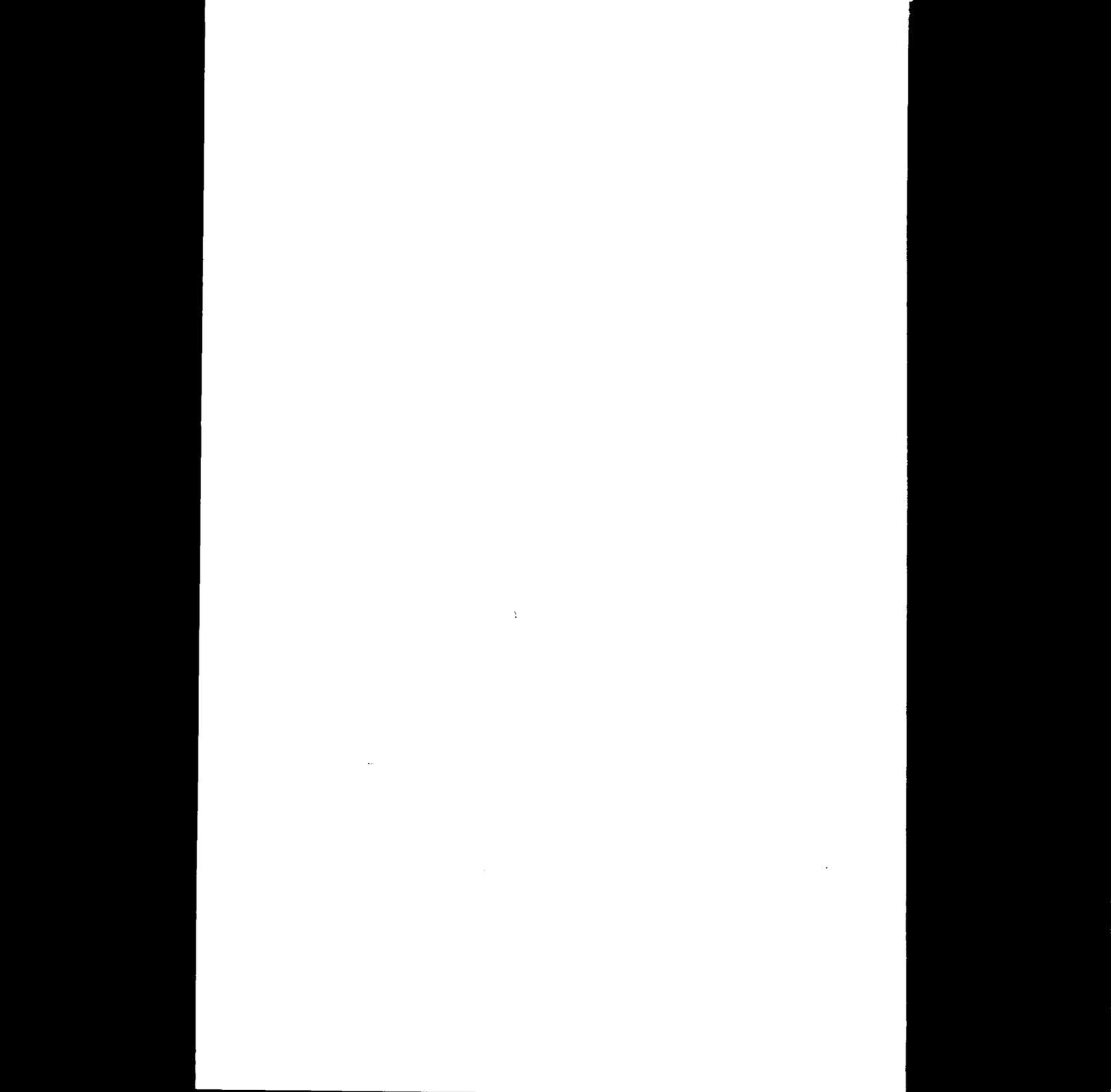


# Real Estate Trust Account Guidelines





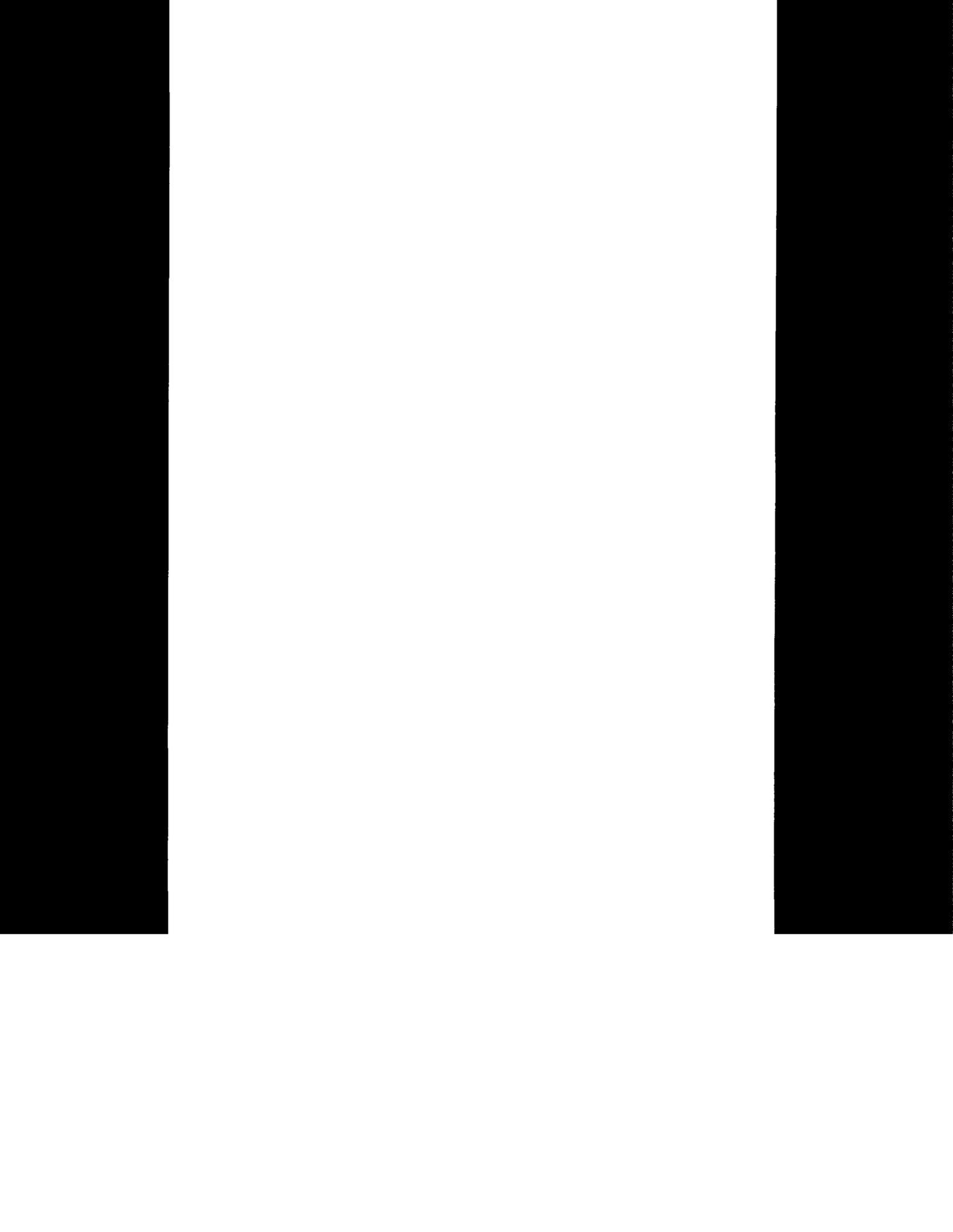
# **SOUTH CAROLINA REAL ESTATE TRUST ACCOUNT GUIDELINES**

SC DEPARTMENT OF LABOR, LICENSING AND REGULATION

REAL ESTATE COMMISSION

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# REAL ESTATE TRUST ACCOUNTS

## INTRODUCTION

The primary purpose of the South Carolina Real Estate License Law and Regulations is to protect the public. The purpose of the South Carolina Real Estate Commission is to administer and enforce those laws and regulations. It is the objective of the Commission to render the highest possible level of service to all licensees while protecting the rights of citizens of South Carolina.

The Commission has responsibility for periodically inspecting trust account records of real estate and property management offices in the state of South Carolina. During these inspections the Commission emphasizes the fiduciary duty of the real estate licensees when they enter into an agency relationship with a principal. One of the most important duties is accounting for funds entrusted to the licensee.

This booklet is intended to inform real estate licensees about the Commission's interpretation of the law concerning accounting requirements necessitated by each licensee's fiduciary duties. It also offers instruction on proper procedures. Lack of knowledge in proper escrow accounting procedures often results in complaints against licensees, financial loss to consumers, and disciplinary action by the Commission.

The Real Estate Commission has vested special authority in any individual licensed as a broker-in-charge or property manager-in-charge. These persons are empowered to act as trustees of funds belonging to others being held pending the consummation or other termination of a real estate transaction. Along with that authority goes the responsibility for proper accounting, which cannot be delegated. The employment of a professional service or a trained staff member to keep records will not relieve the licensee of legal responsibility, or properly supervising, training, and reviewing the work of employees performing this important function. As an example, a simple oversight could result in an NSF (non-sufficient funds) check being issued against the trust account. In addition to the embarrassment, bank charges and added accounting required to correct the problem, an NSF check written on a trust account is considered prima facie evidence of "untrustworthiness or incompetency in such a manner as to endanger the interest of the public," and may result in disciplinary action. (See §40-57-145.) Proper recordkeeping and accounting are imperative in the establishment and maintenance of the trust account.

Contained within this booklet are the sections of the Real Estate License Law which pertain to the management of a trust account, examples of transactions, definitions, and the view of the Commission regarding trust account management. While no single treatment of this subject can answer all questions or address all situations a licensee may encounter,

this booklet is intended to deal with the most frequently asked questions and those situations most often experienced during a “typical” real estate transaction.

The instructions are designed as a tool to assist the licensee. The methods and forms are provided as suggestions only and should not be viewed as the only way to manage a trust account. **There are many good computer software packages\* in the market that can make maintaining a trust account easy while providing fail-safe mechanisms to prevent errors. Remember, however, that adequate backup must also be maintained in a separate location.** These recommendations should be viewed as supplementary to the fundamentals of sound accounting procedures in the real estate industry.

Please read this booklet in its entirety and call the Commission with any questions.

\*The Commission does not recommend nor endorse a particular software package.

## GENERAL INFORMATION

The requirement to establish and maintain a real estate trust account pertains to each individual licensed as broker-in-charge (BIC) or property manager-in-charge (PMIC).

Trust funds are funds received by a licensee on behalf of another person in the course of performing any real estate activity. These funds do not belong to the licensee but are being held for the benefit of others. A “trust account” is simply a bank account into which trust funds (and only trust funds) are deposited. It must be separate from a business or personal account and must provide for withdrawal of funds.

By depositing trust funds in a trust account and keeping accurate records that identify each depositor, the funds are protected from being “frozen” (attached) should the licensee become involved in legal action, become incapacitated or die. Furthermore, by placing these funds in a separate account, licensees are less likely to confuse the trust funds with personal or business funds and inadvertently use monies belonging to others for personal or business purposes.

**1. Commingling Trust Funds** — This term is defined as mixing the licensee’s funds with those held in trust for another. Personal funds may not be placed in the trust account. The licensee may open the account and maintain a minimum of personal funds in order to keep the account active. Funds in a trust account later becoming funds of the licensee should be removed immediately. For example, when commissions are due from monies held in a trust account, they must be transferred to a corporation or company account before disbursement.

**2. Conversion of Trust Funds** — Conversion occurs when trust funds are used for any purpose other than that for which they are held. This might involve a licensee converting the funds for personal or business use, or it might involve using one client’s funds for the benefit of another client.

Failure to return earnest money deposits promptly when required by law could be considered prima facie evidence of conversion.

Some licensees feel they must have a release agreement before they can disburse earnest money. This procedure may provide the BIC/PMIC with additional protection against liability; however, **failure to obtain a written release should not prohibit proper and prompt disbursement of earnest monies under the terms of the contract. Consequently, holding the earnest money for an extended period of time when no valid dispute exists may result in disciplinary action.**

## **BASIC REQUIREMENTS THE TRUST ACCOUNT MUST MEET**

**As previously stated, the procedures outlined in this booklet are not the only method which can be used to maintain a trust account.** However, regardless of which method is used, the **account records must provide an adequate audit trail.** The basic requirements for South Carolina trust accounts are to:

1. Include all information required by the South Carolina Real Estate License Law.
2. Identify **exact** amount in the account at **all** times.
3. Identify ownership of funds in the account, by amount, at all times.
4. Provide a consistent and logical record of the account.

### **DEFINITIONS**

**COMMINGLING:** To mingle or mix; for example, to deposit in the licensee's personal or general business account funds held in trust.

**COMMISSION:** An agent's compensation for the performance of the duties of the agency.

**CONVERSION:** Something of value that is changed from one use, function or purpose to another.

**DEPOSITABLE TRUST ITEMS:** Funds (cash, checks, money orders, bank drafts) acceptable for deposit in a bank which are received by the licensee for the benefit of others.

**EARNEST MONEY:** Payment made by a prospective purchaser of real estate as evidence of good faith.

**FOLIO NUMBER:** An internal or sub-account number created by the individual maintaining the trust account records — used to numerically identify the separate accounting for individual transactions.

**GENERAL LEDGER (JOURNAL):** A chronological record of funds which are received and disbursed.

**NON-DEPOSITABLE TRUST ITEMS:** Any instrument or equity or thing of value not acceptable for deposit in a bank which is received in lieu of monies by the licensee for the benefit of others.

**OWNER'S LEDGER:** A sub-account record which identifies funds received from, or disbursed to, a particular owner of property being managed.

**RECONCILIATION OF TRUST ACCOUNT:** A periodic process (usually monthly) whereby the account balance shown on a bank statement is compared to and balanced with the general ledger, the sub-ledger, and the checkbook balances.

**SECURITY DEPOSIT:** Money deposited by or for a tenant with the licensee which is placed in trust. The landlord may claim, under certain circumstances, portions of a security deposit to offset damages caused by the tenant or nonpayment of rent as provided by law. (See S.C. Residential Landlord/Tenant Act of 1986 for more details.)

**SUBSIDIARY LEDGER:** An excerpt from the general ledger pertaining only to the funds belonging to one particular individual, property, or transaction.

**TENANT'S LEDGER:** A sub-account record which identifies funds received from, or disbursed to, a particular tenant.

**TRUST ACCOUNT:** An account separate and apart and physically segregated from licensee's own funds, in which the licensee is required, by law, to deposit all funds collected on behalf of clients or other parties.

**TRUST FUNDS:** Money or other items of value not belonging to, but received by, the licensee on behalf of others.

**TRUSTEE:** The person to whom funds are entrusted upon certain terms and conditions for the benefit of another.

**TRUSTOR:** The person from whom funds are received and to whom funds held in trust belong.

**NOTE:** Although "trust account" and "escrow account" are used interchangeably in practice, the term "trust account" will be used in this booklet.

## CHAPTER I

### THE SOUTH CAROLINA REAL ESTATE LICENSE LAW

The South Carolina Real Estate License Law and Regulations are located under Chapter 57, Title 40, *Code of Laws of South Carolina, 1976; as amended*. The following are excerpts from the License Law that pertain to the establishment and maintenance of real estate trust accounts:

**§40-57-135. DUTIES AND REQUIREMENTS OF IN-CHARGE BROKERS AND PROPERTY MANAGERS.** — (A) The duties of the broker-in-charge or property manager-in-charge are to:

(1) adequately supervise employees or associated licensees and maintain real estate trust accounts;

...

(3) maintain adequate, reasonable, and regular contact with associated licensees engaged in real estate transactions so as to prevent or curtail practices by a licensee which would violate any provision of this chapter, Title 40, Chapter 1, the Interstate Land Sales Practices Act, or the Vacation Time Sharing Plans Act;

(4) instruct employees and associated licensees on the proper handling of trust funds;

...

(6) ensure that accurate and complete records, as required by this chapter, are maintained for real estate trust accounts;

(7) ensure that backup copies are maintained for computerized real estate trust accounts. Backup copies must be maintained on a data storage medium which is separate from the medium which contains the source documents;

...

(8)(B)(1) A broker-in-charge or property manager-in-charge, when taking possession of funds belonging to another in connection with a real estate transaction, shall establish and maintain control of and responsibility for an active real estate trust account so designated in the company name for which the respective broker-in-charge's or property manager-in-charge's license is issued; however, the brokers-in-charge or property managers-in-charge of a real estate company with multiple offices may utilize one central trust account.

(2) All monies received by a property manager-in-charge\* as agent for his

principal in a real estate transaction must be deposited in a separate real estate trust account so designated within forty-eight hours of receipt, excluding Saturdays, Sundays, and bank holidays; except that rent monies received by a licensee who also is directly employed by the owner of rental property may be placed in an operating or other similar account, but otherwise must be properly accounted for as provided for in this section.

(3) All monies received by a property manager-in-charge\* in connection with a real estate rental including, but not limited to, security deposits, pet deposits, damage deposits, and advance rentals (except earned rental proceeds) shall remain in the trust account until the lease or rental transaction expires or is terminated, at which time the monies must be disbursed in accordance with the contract which directs the property manager-in-charge to hold the monies, and a full accounting must be made to the landlord or tenant as appropriate. Earned rental proceeds must be disbursed to the landlord within a reasonable time after clearance of the deposit by the bank.

(4) All monies received by a broker-in-charge as agent for a principal in a real estate sales or exchange transaction must be deposited as follows in a separate real estate trust account so designated:

(a) cash monies or certified funds must be deposited within forty-eight hours of receipt, excluding Saturday, Sunday, and bank holidays;

(b) checks must be deposited within forty-eight hours, excluding Saturday, Sunday and bank holidays, after acceptance of an offer by the parties to the transaction;

(c) all monies received by a broker-in-charge in connection with a real estate sales or exchange transaction and deposited in the real estate trust account shall remain in the trust account until consummation or termination of the transaction, at which time the monies must be disbursed in accordance with the contract which directs the broker-in-charge to hold the monies, and a full accounting must be made to the principal.

(5) If a dispute arises between buyer and seller concerning the entitlement to and disposition of an earnest money deposit, and the dispute is not resolved by reasonable interpretation of the contract by the parties to the contract, the deposit must be held in the trust account until the dispute is resolved by:

(a) a written agreement which directs the disposition of monies and is signed by all parties claiming an interest in the trust monies. The agreement must be separated from the contract which directs the broker-in-charge or property manager-in-charge to hold the monies;

(b) filing of an interpleader action in a court of competent jurisdiction;

\*Note: The intent of this law is to require the same of a BIC as a PMIC in a rental transaction.

- (c) order of a court of competent jurisdiction;
  - (d) voluntary mediation.
- (6) All trust accounts maintained by brokers-in-charge or property managers-in-charge must be located in an insured financial institution authorized to conduct business in South Carolina.
- (7) A broker-in-charge or property manager-in-charge also shall maintain, in his designated principal place of business, a recordkeeping system consisting of:
- (a) a journal or an accounting system which records the chronological sequence in which funds are received and disbursed for real estate sales. For funds received, the journal or accounting system must include the date of receipt, the name of the party from whom the money was received, the name of the principal, identification of the property, the date of deposit, the depository, the payee and the check numbers, dates, and amounts. A running balance must be maintained for each entry of a receipt or disbursement. The journal or accounting system must provide a means of reconciling the accounts;
  - (b) a journal or an accounting system containing, for property management, the same information as set in subitem (a) except that the required running balance may be determined at the time of reconciliation;
  - (c) a separate record for each tenant identifying the unit owner, amount of rent, due date, security deposit, and all receipts with dates when managing property. There also must be maintained an owner's ledger for all properties owned by each owner showing receipts and disbursements applicable to each property managed. All disbursements must be documented by bids, contracts, invoices, or other appropriate written memoranda;
  - (d) trust account deposit documents shall identify the broker-in-charge or property manager-in-charge and the buyer or tenant unless other appropriate written memoranda are maintained;
  - (e) a general ledger identifying security deposits;
  - (f) a monthly reconciliation of each separate account except where there has been no deposit or disbursement during that month. The reconciliation shall include a written worksheet comparing the reconciled bank balance with the journal balance and with the ledger total to ensure agreement.
- (8) All monies received by a licensee in connection with a real estate transaction in which the licensee is engaged for his broker-in-charge or property manager-in-charge immediately must be delivered to the broker-in-charge or property manager-in-charge.

(9) A broker-in-charge or property manager-in-charge may not commingle monies or other property of the principal with the broker-in-charge or property manager-in-charge's own money or property, except that a broker-in-charge or property manager-in-charge may maintain a clearly identified amount of his own funds in the trust account to cover bank service charges in order to avoid the closing of the account when no client's monies are on deposit.

(10) Monies received by a broker-in-charge or property manager-in-charge which must be deposited in a trust account may be deposited in an interest-bearing account. Interest earned on these monies may be retained by the broker-in-charge or property manager-in-charge only if:

(a) the depositor or owner of such monies has been informed of their right to ownership of the interest but relinquishes to the broker-in-charge or property-manager-in-charge by written agreement said right of ownership; and

(b) if such agreement is part of a preprinted form, the language must be conspicuous.

**§40-57-145 GROUNDS FOR DISCIPLINARY ACTION.** — (A) In addition to Section 40-1-110, the Commission may deny issuance of a license to an applicant or may take disciplinary action against a licensee who:

...

(10) fails, within a reasonable time, to account for or to remit any monies coming into his possession which belong to others;

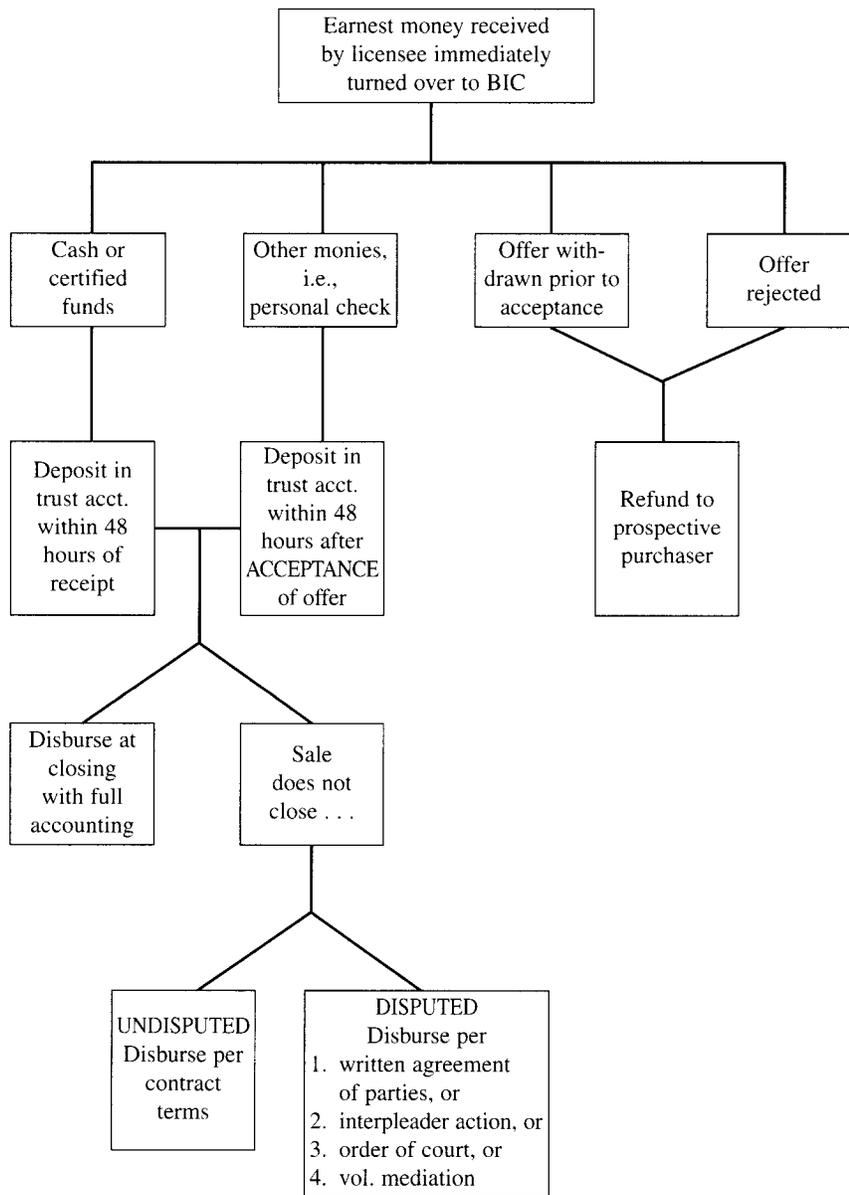
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(17) accepts deposit money which is to be delivered to the licensee's principal in a real estate transaction without informing the payor and having the payor acknowledge in writing who will hold the money received by the licensee;

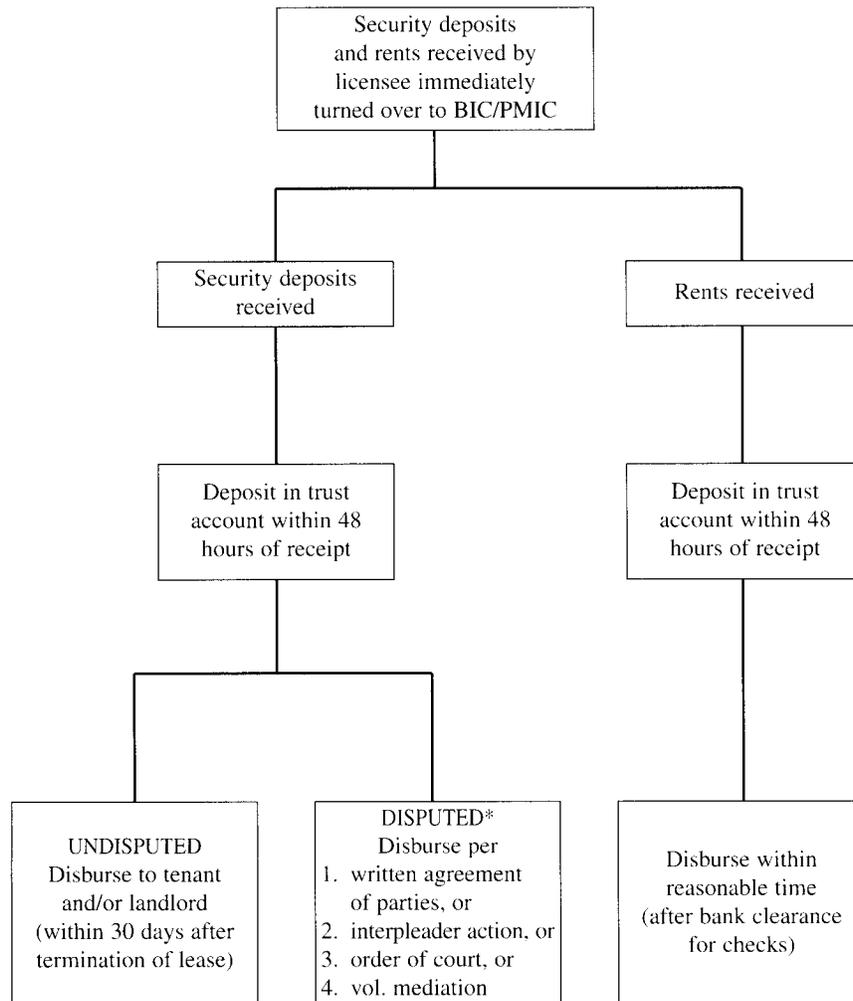
...

(18) issues a check in connection with his real estate business which is returned for insufficient funds or closed account;

## HANDLING OF TRUST FUNDS FOR REAL ESTATE SALES



## HANDLING OF TRUST FUNDS FOR PROPERTY MANAGEMENT



\*Although the law refers to earnest money disputes only, the Commission recommends the same course of action for disputed security deposits, also.

## CHAPTER II

### GENERAL COMMENTS ABOUT THE LAW

In the preceding chapter, excerpts from the South Carolina Real Estate License Law were included for your information. Since laws can sometimes be difficult to interpret, this chapter is dedicated to simplifying their intent into language which can be more easily understood.

1. Regardless of whether or not the BIC/PMIC ever engages in any real estate transactions, **every** broker-in-charge (BIC) or property manager-in-charge (PMIC) **must** establish and maintain a real estate trust account in an insured financial institution authorized to do business in this state. (Note: BICs/PMICs must identify such account when making application for licensure.)
2. Licensees receiving trust funds from buyers, sellers or tenants must immediately turn them over to their BIC or PMIC.
3. All monies received by the BIC/PMIC on behalf of a principal in a real estate transaction must be placed in a bank account specifically designated "escrow" or "trust" account. These funds will be properly accounted for until such time as all funds are disbursed at the consummation or other termination of the transaction.
4. BICs/PMICs should maintain a numbered duplicate receipt system, one for the payor and one for the file, accounting for all monies received and posted to a cash receipts journal. All monies received shall be identified by the date received and by the amount, source, and purpose. Receipt numbers should be recorded in the general ledger and kept on file for a period of five years. Checks issued from a trust account must be sequentially prenumbered, bear the name of the firm (as licensed), and be identified as a real estate trust account.
5. Trust account records must be maintained to allow an easy analysis of the sources and uses of funds. An investigator should be able to enter a BIC's/PMIC's office, examine the trust account records, and see where, when, to whom, and for what purpose funds have been received and disbursed, along with all necessary authorizations and source documents.
6. Paper trails are properly provided if the minimum trust account requirements mandated by the license law are followed. Remember to post all required information on checks, check stubs, deposit slips, receipts, and ledgers. They should be understandable to anyone, whether or not they are visiting your office for the first time.
7. When a BIC/PMIC receives funds that are immediately negotiable

(cash, certified funds), they should be deposited into the trust account within forty-eight hours (excluding Saturdays, Sundays, and bank holidays). If funds are in the form of personal checks which require several days before bank clearance, they should be deposited within forty-eight hours (excluding Saturdays, Sundays, and bank holidays) **after acceptance of an offer (a formal contract)**.

8. Once a BIC/PMIC deposits funds into the trust account, those funds may not be removed from the account for any reason until consummation or other termination of the real estate transaction. A full accounting is then to be provided by the BIC/PMIC to the trustor.

9. Rental payments are processed through the trust account just as any other escrow funds and then disbursed in accordance with the management agreement. The only exception to this is where the licensee is a direct employee of the owner. In these cases rent monies are not required by law to be placed into an escrow account. Disbursement of rental payments can be made immediately, as payment of rent constitutes consummation of that portion of the lease. However, security deposits must remain in the trust account until termination of the lease.

## **CHAPTER III**

### **REQUIRED RECORDS**

The BIC/PMIC is required to set up an accounting system that consists of the following records:

#### **FOR ALL TRANSACTIONS (SALES AND PROPERTY MANAGEMENT)**

**1. GENERAL LEDGER OR JOURNAL:** These two terms are interchangeable, but in this booklet, the term "general ledger" is used. The general ledger is a recording of all funds coming into and going out of the trust account in the chronological sequence in which the events occur. The general ledger shall contain the following headings:

1. Date of transaction (check written or deposit made)
2. Deposit or check number
3. Payor (buyer or seller for sales, landlord or tenant for property management)
4. Principal (client)
5. Property address
6. Payee
7. Folio number
8. Check amount
9. Deposit amount
10. Balance in account
11. Remarks

**2. SUBSIDIARY ACCOUNT LEDGERS:** In addition to the general ledger, the law requires a separate record be maintained for each individual's money being held in the trust account. This is accomplished by establishing separate "sub-account" ledgers, one for each transaction for which the BIC/PMIC is holding money. This "mini" version of the general ledger pertains only to the deposits and disbursements involved with a particular principal or trustor. Since the total of all the money within a trust account at any given time usually belongs to several individuals, a separate accounting for each individual is required. This enables one to determine the owner of all funds held in the trust account. The total of the sub-accounts should equal the running balance recorded in the general ledger and checkbook at all times. Any personal or company funds must also be reflected in a sub-account ledger. One of the most frequent mistakes made in trust account records is the failure to establish the sub-account for BIC/PMIC company/personal funds. Without that sub-account, the total of the sub-accounts can never equal the general ledger and checkbook balances.

**3. THE CHECKBOOK:** A record of all deposits and disbursements must be entered into the trust account checkbook and a new balance recorded after each deposit or check issued. The checkbook balance, therefore, must **always** equal the total of the sub-accounts as well as the balance on the general ledger.

**4. THE BANK STATEMENT:** Normally the bank will issue a monthly statement of the account that will show the balance the bank reflects on a given date. That balance may not agree with other records because some of the checks may remain outstanding (may not have cleared the bank), and some of the deposits may not have been credited to the account at the time the bank issued the statement.

Reconciling is accomplished by identifying which checks and/or deposits were "outstanding" at the time the bank issued its statement. These must be subtracted or added, respectively, from the balance shown on the bank statement. Usually the bank statement will list checks in numerical sequence and deposits by date, so that items which are absent from the bank statement may be easily identified when comparing to the checkbook. Once all "outstanding" checks have been subtracted from, and all "outstanding" deposits are added to, the bank statement balance, then the bank statement is reconciled and both balances should agree. If they do not, the arithmetic should be checked. The worksheet used in reconciling (usually found on the reverse side of the bank statement) must be retained with the records and is subject to inspection by the Commission. (A sample is on page 27.) This is the first step in reconciling a trust account.

**5. SALES CONTRACTS AND/OR LEASES:** Each deposit into the trust account must be supported by a contract which states the exact amount to be held by the BIC/PMIC. The trust account records should reflect the contract amount as being held in the bank for a particular transaction. Therefore, the totals stated on all open contracts, plus any company/personal funds in the account, must always equal the general ledger running balance, the total of all the sub-accounts, and the checkbook balance.

**6. RECEIPTS & DEPOSIT SLIPS:** All receipts and deposit slips verifying disbursements and deposits involving the trust account must be kept for a period of five years. The receipt and deposit system should be numbered, or organized in some other logical sequential format, to allow for complete accountability.

**7. PERSONAL FUNDS:** It is permissible for the BIC/PMIC to place personal or company funds into the trust account if they are **clearly identified**. The reason for allowing personal funds in the account is to defray bank service charges and to avoid account closure by the bank when no client monies are on hand. A sub-account for BIC/PMIC personal/company funds must, therefore, be established and maintained to keep those funds clearly identified. Any amount over the minimum requirement of

the bank could be considered excessive and could place the BIC/PMIC in a “commingling” situation. Bank service charges, check printing charges, and other related expenses should be deducted from the personal funds sub-account. Also, such charges should be deducted from the general ledger and checkbook balances when they occur.

**8. FOLIO NUMBERS:** A folio number is an account/sub-account number assigned by the individual maintaining the trust account records for internal purposes only. A separate folio number is assigned to each new sub-account that is established, and the same folio number is indicated in the general ledger for each entry. This creates a method of tracking individual transactions in the general ledger by number as well as by name. There is no specific system which must be used when assigning folio numbers, as long as it is logical and consistent. The Real Estate License Law does not require the use of folio numbers, but it is a highly recommended accounting principle.

**9. INTEREST:** Sec. 40-57-135 (B) (10) allows trust funds to be placed in an interest-bearing account. Any accrued interest belongs to the owners of the funds unless they agree otherwise in writing. If the owners of the funds do not relinquish their right to the interest, and interest is earned, it must be posted to each respective sub-account, the general ledger, and the checkbook balance. If the right to interest is relinquished, due care must be taken to withdraw that money from the trust account periodically to preclude BIC/PMIC personal/company funds escalating into a “commingling” situation.

## **FOR PROPERTY MANAGEMENT TRANSACTIONS**

**1. REQUIREMENTS:** BICs/PMICs engaged in property management are required to keep records as described for all transactions on the preceding pages with the following differences.

A. Sec. 40-57-135 (B) (7) (b) states for property management “. . . the required running balance may be determined at the time of reconciliation.” A new balance need not be shown after each entry in the general ledger but must be shown periodically when all the sub-accounts and the bank statement are reconciled with the general ledger and check balances (usually monthly).

B. Two sub-accounts must be maintained for each transaction — a tenant’s ledger and an owner’s ledger. The following information must be recorded as part of the heading for each ledger:

1. Identification of the unit or property (address);
2. The unit or property owner (tenant and owner);
3. The amount of rent (each payment);
4. The due date of the rent; and
5. The amount of security deposit held.

As part of the tenant’s ledger, there should also be entries of the date and amount of each receipt for or on behalf of the tenant.

As part of the owner’s ledger, there should also be:

1. Any and all receipts applicable to the property;
2. The disbursements for expenses on the property documented by bids, contracts, or invoices (Invoices furnished to owners should be numbered to avoid confusion);
3. The disbursement of rental proceeds to the owner and commission to the BIC/PMIC.

**2. DISCUSSION:** A periodic reconciliation of the tenant’s and owner’s ledgers (sub-accounts) is required and must balance with the bank statement, checkbook, and general ledger. The major difference between sales and property management accounting is that when the bank issues its monthly statement on the account, there may have been rental proceeds in the account not yet disbursed to the owner which must be taken into consideration when reconciling the bank statement. Any repairs or other expenses must be accurately annotated on the owner’s ledger (sub-account) in order to balance the account to the general ledgers.

**3. RECOMMENDATION:** The law does allow both property management and sales funds to be maintained in the same trust account, but if they are, the requirement of entering a running balance after each entry (required for sales accounting) would take precedence. This would be extremely cumbersome for property management, and for that reason, the Real Estate Commission recommends establishment and maintenance of separate trust accounts for sales and property management.

**NOTE:** 40-57-135 (B) (11) requires records to be held for a minimum of five years and every broker or property manager must voluntarily furnish a copy of said records to a representative of the South Carolina Real Estate Commission upon request.

## CHAPTER IV

### SAMPLE SALES TRUST ACCOUNT ENTRIES

1. Jan. 4      Broker Samuel B. Jones deposits \$100 cash of his own money in the Hometown Bank to open his trust account for sales transactions. The bank assigns account number 00-1234-56 to the XYZ Realty Trust Account. Since this was Broker Jones' first transaction, he assigns folio number 1-99 to his personal funds sub-account.
2. Jan. 5      Broker Jones receives \$500 earnest money from Wilson Tiller in the form of a check, along with an offer to purchase Tom Reid's property at 2201 First Street. Broker Jones assigns folio number 2-99 to the Tiller/Reid sub-account. Reid accepts Tiller's offer the same day.
3. Jan. 15     Broker Jones receives a bill (debit memo) from the bank against the balance in the trust account in the amount of \$15 for having checks printed for the account.
4. Jan. 28     The sale between Wilson Tiller and Tom Reid closes and the broker earns a commission of \$2,000. According to the closing statement, \$1,500 is paid to Broker Jones (this amount is not to be deposited into the trust account), and the earnest money of \$500 is to be applied toward the commission. In many cases, the closing attorney requires that certified funds representing earnest money deposited be brought to the closing for disbursement.
5. Feb. 12     Broker Jones receives \$1,000 earnest money from Peter Simons along with an offer to purchase a new home from A-1 Builders located at 1201 Main Street. A-1 Builders accepts the offer the same day and the broker assigns folio number 3-99 to the Peter Simons/A-1 Builders sub-account.
6. Feb. 12     Broker Jones receives his January bank statement which shows a service charge of \$5 deducted from his trust account. The statement also reflects a bank balance of \$590 as of January 31.
7. Feb. 25     Broker Jones receives additional earnest money in the amount of \$1,500 as down payment from Peter Simons after receiving loan approval to purchase home at 1201 Main Street from A-1 Builders.

# TRUST ACCOUNT (SALES) GENERAL LEDGER

Hometown Bank (00-1234-56)

| Date | Deposit/Check Number | Payor          | Principal  | Property          | Payee         | Folio # | Check Amt. (Debit -) | Deposit Amt (Credit +) | Balance in Account | Remarks        |
|------|----------------------|----------------|------------|-------------------|---------------|---------|----------------------|------------------------|--------------------|----------------|
| 1-4  | Cash                 | Personal Funds |            |                   |               |         |                      | 100.00                 | 100.00             | Open Acct.     |
| 1-5  | 001                  | Tiller         | Reid       | 2201 First Street | XYZ Realty    | 1-99    |                      | 500.00                 | 600.00             | Earnest Money  |
| 1-15 |                      |                |            |                   | Hometown Bank | 1-99    | 15.00                |                        | 585.00             | Ck. Print Chg. |
| 1-28 | 1001                 | Reid           | Reid       | 2201 First Street | XYZ Realty    | 2-99    | 500.00               |                        | 85.00              | Closing EM     |
| 2-12 | 002                  | Simons         | A-1 Bldrs. | 1201 Main Street  | XYZ Realty    | 3-99    |                      | 1,000.00               | 1,085.00           | Earnest Money  |
| 2-12 |                      |                |            |                   | Hometown Bank | 1-99    | 5.00                 |                        | 1,080.00           | Svc. Charge    |
| 2-25 | 003                  | Simons         | A-1 Bldrs. | 1201 Main Street  | XYZ Realty    | 3-99    |                      | 1,500.00               | 2,580.00           | Down Payment   |

## SAMPLE PROPERTY MANAGEMENT TRUST ACCOUNT ENTRIES

1. Jan. 4      Broker Samuel B. Jones deposits another \$100 cash of his own money in the Hometown Bank to open his trust account for property management transactions. The bank assigns account number 00-1234-57 to the XYZ Property Management Trust Account. Since this was Broker Jones' first transaction, he assigns folio number 1-99 to his personal funds sub-account.
2. Jan. 11     Broker Jones receives \$300 security deposit from Tenant Debra Norris, who signed a lease to rent Unit C of the Sunset Apartments which Broker Jones manages for Owner Charles Smith. Assigns folio number 2-99.
3. Jan. 15     Broker Jones receives a bill (debit memo) from the bank against the balance in the trust account in the amount of \$15 for having checks printed for the account.
4. Jan. 20     Debra Norris' security deposit check is returned from the bank marked "Non-Sufficient Funds." Broker Jones also receives a debit memo from the bank against the balance in the trust account for the amount of the check.
5. Jan. 21     After notifying Owner Charles Smith of Tenant Debra Norris' returned check, broker is authorized by both owner and tenant to redeposit the \$300 check.
6. Jan. 25     Broker Jones receives the February rent of \$350 from Tenant Debra Norris to rent Unit C, Sunset Apartments, owned by Charles Smith.
7. Feb. 1      Broker Jones pays the mortgage payment on the property managed for Charles Smith out of the rent proceeds from Debra Norris. The payment of \$225 is paid to Equity Mortgage Company. (Once Debra Norris paid her rent, that money then belonged to Charles Smith.)
8. Feb. 1      Broker Jones pays his commission of 10% of the rent proceeds on the property managed for Charles Smith. The commission is taken from the \$350 rent received from Debra Norris for the month of February.
9. Feb. 1      Broker Jones disburses remainder of rental proceeds in the amount of \$90 to Owner Smith from rent received from Debra Norris.
10. Feb. 12    Broker Jones receives his January bank statement which shows a service charge of \$5 deducted from his trust account. The statement also reflects a bank balance of \$90 as of January 31.

**TRUST ACCOUNT (PROPERTY MANAGEMENT) GENERAL LEDGER**

Hometown Bank (00-1234-57)

| Date | Deposit/Check Number | Payor          | Principal | Property             | Payee            | Folio # | Check Amt. (Debit -) | Deposit Amt. (Credit +) | Balance in Account | Remarks           |
|------|----------------------|----------------|-----------|----------------------|------------------|---------|----------------------|-------------------------|--------------------|-------------------|
| 1-4  | Cash                 | Personal Funds |           |                      | XYZ Realty       | 1-99    |                      | 100.00                  | 100.00             | Open Acct.        |
| 1-11 | 001                  | Norris         | Smith     | Unit C, Sunset Apts. | XYZ Realty       | 2-99    |                      | 300.00                  | 400.00             | Sec. Deposit      |
| 1-15 |                      |                |           |                      | Hometown Bank    | 1-99    | 15.00                |                         | 385.00             | Ck. Print Chg.    |
| 1-20 |                      | Norris         | Smith     | Unit C, Sunset Apts. | Norris (NSF Ck.) | 2-99    | 300.00               |                         | 85.00              | NSF Ck. Ret.      |
| 1-21 | 002                  | Norris         | Smith     | Unit C, Sunset Apts. | XYZ Realty       | 2-99    |                      | 300.00                  | 385.00             | Redeposit NSF Ck. |
| 1-25 | 003                  | Norris         | Smith     | Unit C, Sunset Apts. | XYZ Realty       | 2-99    |                      | 350.00                  | 735.00             | Feb. Rent         |
| 2-1  | 1001                 | XYZ Realty     | Smith     | Unit C, Sunset Apts. | Equity Mtg.      | 2-99    | 225.00               |                         | 510.00             | Mtg. Payment      |
| 2-1  | 1002                 | XYZ Realty     | Smith     | Unit C, Sunset Apts. | XYZ Realty       | 2-99    | 35.00                |                         | 475.00             | Commission        |
| 2-1  | 1003                 | XYZ Realty     | Smith     | Unit C, Sunset Apts. | Smith            | 2-99    | 90.00                |                         | 385.00             | Proceeds to Owner |
| 2-12 |                      |                |           |                      | Hometown Bank    | 1-99    | 5.00                 |                         | 380.00             | Svc. Charge       |

## TRUST ACCOUNT (SALES) CHECKBOOK

No. 1001

BALANCE BROUGHT FORWARD

|   |    |    |       |    |
|---|----|----|-------|----|
| January 28  | 19 | 99 |       |    |
| PAY TO XYZ Realty                                 |    |    |       |    |
| FOR Commission (2201 1 <sup>st</sup> St. Closing) |    |    |       |    |
| DEPOSIT 1/4 Open Acct.                            |    |    | 100   | 00 |
| 1/5 EM - Tiller (2201 1 <sup>st</sup> St.)        |    |    | 500   | 00 |
| 1/15 Ck. Print Chg.                               |    |    | (15)  | 00 |
| BALANCE   |    |    | 585   | 00 |
| AMOUNT THIS CHECK                                 |    |    | (500) | 00 |
| BALANCE   |    |    | 85    | 00 |

No. 1002

BALANCE BROUGHT FORWARD

|  |    |  |       |    |
|--|----|--|-------|----|
|  | 19 |  |       |    |
| PAY TO                                   |    |  |       |    |
| FOR                                      |    |  |       |    |
| DEPOSIT 2/12 EM - Simons (1201 Main St.) |    |  | 1,000 | 00 |
| 2/12 Service Chg                         |    |  | (5)   | 00 |
| 2/25 Down Pymt. Simons (1201 Main St.)   |    |  | 1,500 | 00 |
| BALANCE                                  |    |  | 2580  | 00 |
| AMOUNT THIS CHECK                        |    |  |       |    |
| BALANCE                                  |    |  |       |    |

DEPOSIT TICKET  
HOMETOWN BANK  
Anytown, South Carolina

DATE: January 4

DEPOSIT TO ACCOUNT OF  
XYZ Realty Company, Inc.  
Trust Account (Sales)

:053100000: 00-1234-56

ENDORSE ALL CHECKS DOLLARS CENTS

|          |     |    |
|----------|-----|----|
| CURRENCY | 100 | 00 |
|----------|-----|----|

|       |  |  |
|-------|--|--|
| COINS |  |  |
|-------|--|--|

|                        |  |  |
|------------------------|--|--|
| Personal/Company Funds |  |  |
|------------------------|--|--|

|               |     |    |
|---------------|-----|----|
| TOTAL DEPOSIT | 100 | 00 |
|---------------|-----|----|

DEPOSITS MAY NOT BE AVAILABLE FOR IMMEDIATE WITHDRAWAL

DEPOSIT TICKET  
HOMETOWN BANK  
Anytown, South Carolina

DATE: January 6

DEPOSIT TO ACCOUNT OF  
XYZ Realty Company, Inc.  
Trust Account (Sales)

:053100000: 00-1234-56

ENDORSE ALL CHECKS DOLLARS CENTS

|          |  |  |
|----------|--|--|
| CURRENCY |  |  |
|----------|--|--|

|       |  |  |
|-------|--|--|
| COINS |  |  |
|-------|--|--|

|              |     |    |
|--------------|-----|----|
| Receipt #001 |     |    |
| EM - Tiller  | 500 | 00 |

|               |     |    |
|---------------|-----|----|
| TOTAL DEPOSIT | 500 | 00 |
|---------------|-----|----|

DEPOSITS MAY NOT BE AVAILABLE FOR IMMEDIATE WITHDRAWAL

DEPOSIT TICKET  
HOMETOWN BANK  
Anytown, South Carolina

DATE: February 12

DEPOSIT TO ACCOUNT OF  
XYZ Realty Company, Inc.  
Trust Account (Sales)

:053100000: 00-1234-56

ENDORSE ALL CHECKS DOLLARS CENTS

|          |  |  |
|----------|--|--|
| CURRENCY |  |  |
|----------|--|--|

|       |  |  |
|-------|--|--|
| COINS |  |  |
|-------|--|--|

|              |       |    |
|--------------|-------|----|
| Receipt #002 |       |    |
| EM - Simons  | 1,000 | 00 |

|               |       |    |
|---------------|-------|----|
| TOTAL DEPOSIT | 1,000 | 00 |
|---------------|-------|----|

DEPOSITS MAY NOT BE AVAILABLE FOR IMMEDIATE WITHDRAWAL

DEPOSIT TICKET  
HOMETOWN BANK  
Anytown, South Carolina

DATE: February 26

DEPOSIT TO ACCOUNT OF  
XYZ Realty Company, Inc.  
Trust Account (Sales)

:053100000: 00-1234-56

ENDORSE ALL CHECKS DOLLARS CENTS

|          |  |  |
|----------|--|--|
| CURRENCY |  |  |
|----------|--|--|

|       |  |  |
|-------|--|--|
| COINS |  |  |
|-------|--|--|

|                      |       |    |
|----------------------|-------|----|
| Receipt #003         |       |    |
| Downpayment - Simons | 1,500 | 00 |

|               |       |    |
|---------------|-------|----|
| TOTAL DEPOSIT | 1,500 | 00 |
|---------------|-------|----|

DEPOSITS MAY NOT BE AVAILABLE FOR IMMEDIATE WITHDRAWAL

## TRUST ACCOUNT (PROP MGMT) CHECKBOOK

|  |       |                         |    |
|--|-------|-------------------------|----|
| No. 1001                                 |       | BALANCE BROUGHT FORWARD |    |
| February 1                               | 19 99 |                         |    |
| PAY TO Equity Mortgage                   |       |                         |    |
| FOR Mortgage Payment (Smith-Sunset Apt.) |       |                         |    |
| DEPOSIT 1/4 Open Account                 |       | 100                     | 00 |
| 1/11 Sec. Dep., Norris #C, Sunset Apts.  |       | 300                     | 00 |
| 1/15 Ck. Print Chg.                      |       | (15)                    | 00 |
| 1/20 NSF - Norris                        |       | (300)                   | 00 |
| 1/21 Redeposit NSF - Norris              |       | 300                     | 00 |
| 1/25 Rent Norris                         |       | 350                     | 00 |
| BALANCE                                  |       | 735                     | 00 |
| AMOUNT THIS CHECK                        |       | (225)                   | 00 |
| BALANCE                                  |       | 510                     | 00 |

|  |       |                         |    |
|--|-------|-------------------------|----|
| No. 1002                                     |       | BALANCE BROUGHT FORWARD |    |
| February 1                                   | 19 99 | 510                     | 00 |
| PAY TO XYZ Realty                            |       |                         |    |
| FOR Rental Commission (Unit C, Sunset Apts.) |       |                         |    |
| DEPOSIT                                      |       |                         |    |
| BALANCE                                      |       | 510                     | 00 |
| AMOUNT THIS CHECK                            |       | (35)                    | 00 |
| BALANCE                                      |       | 475                     | 00 |

|  |       |                         |    |
|--|-------|-------------------------|----|
| No. 1003                                   |       | BALANCE BROUGHT FORWARD |    |
| February 1                                 | 19 99 | 475                     | 00 |
| PAY TO C. Smith                            |       |                         |    |
| FOR Rental Proceeds (Unit C, Sunset Apts.) |       |                         |    |
| DEPOSIT                                    |       |                         |    |
| BALANCE                                    |       | 475                     | 00 |
| AMOUNT THIS CHECK                          |       | (90)                    | 00 |
| BALANCE                                    |       | 385                     | 00 |

# TRUST ACCOUNT (PROP MGMT) CHECKBOOK

No. 1004

BALANCE BROUGHT FORWARD

|              |                   |    |     |     |
|--------------|-------------------|----|-----|-----|
|              |                   | 19 | 385 | 00  |
| PAY TO       |                   |    |     |     |
| FOR          |                   |    |     |     |
| DEPOSIT      |                   |    |     |     |
| Service Chg. |                   |    | (5  | 00) |
| BALANCE      |                   |    | 380 | 00  |
|              | AMOUNT THIS CHECK |    |     |     |
| BALANCE      |                   |    |     |     |



DEPOSIT TICKET  
HOMETOWN BANK  
Anytown, South Carolina

DATE: January 21

DEPOSIT TO ACCOUNT OF  
XYZ Realty Company, Inc.  
Trust Account (Prop. Mgmt.)

:053100000: 00-1234-57

ENDORSE ALL CHECKS DOLLARS CENTS

CURRENCY

COINS

RECEIPT #002

Redeposit NSF

Check - Norris 300 00

TOTAL DEPOSIT 300 00

DEPOSITS MAY NOT BE AVAILABLE FOR IMMEDIATE WITHDRAWAL

DEPOSIT TICKET  
HOMETOWN BANK  
Anytown, South Carolina

DATE: January 25

DEPOSIT TO ACCOUNT OF  
XYZ Realty Company, Inc.  
Trust Account (Prop. Mgmt.)

:053100000: 00-1234-57

ENDORSE ALL CHECKS DOLLARS CENTS

CURRENCY

COINS

RECEIPT #003

Feb. Rent - Norris 350 00

TOTAL DEPOSIT 350 00

DEPOSITS MAY NOT BE AVAILABLE FOR IMMEDIATE WITHDRAWAL

**SAMPLE SALES  
SUB-ACCOUNT LEDGERS**

|   |                       |                 |           |              |         |
|---|-----------------------|-----------------|-----------|--------------|---------|
| SUBSIDIARY (SALES) TRUST ACCOUNT LEDGER FOR: XYZ Realty |                       |                 |           |              |         |
| FOLIO NUMBER: 1-99                                      |                       |                 |           |              |         |
| PROPERTY DESCRIPTION: Company Funds                     |                       |                 |           |              |         |
| DATE  | ITEM                  | CK/DEPOSIT #    | CK AMOUNT | DEPOSIT AMT. | BALANCE |
|   |                       |                 | DEBIT (-) | CREDIT (+)   |         |
| Jan 4   | Deposit to open acct. | Cash            |           | 100.00       | 100.00  |
| Jan 15  | Check Printing Charge | Debit Memo      | 15.00     |              | 85.00   |
| Feb 12  | Service Charge        | Jan. Bank Stmt. | 5.00      |              | 80.00   |

|  |                         |              |           |              |         |
|--|-------------------------|--------------|-----------|--------------|---------|
| SUBSIDIARY (SALES) TRUST ACCOUNT LEDGER FOR: Tiller/Reid |                         |              |           |              |         |
| FOLIO NUMBER: 2-99                                       |                         |              |           |              |         |
| PROPERTY DESCRIPTION: 2201 First Street                  |                         |              |           |              |         |
| DATE   | ITEM                    | CK/DEPOSIT # | CK AMOUNT | DEPOSIT AMT. | BALANCE |
|  |                         |              | DEBIT (-) | CREDIT (+)   |         |
| Jan 5  | Earnest Money Deposit   | 001          |           | 500.00       | 500.00  |
| Jan 28   | Disburse to XYZ-Closing | 1001         | 500.00    |              | 000.00  |

|   |                       |              |           |              |          |
|---|-----------------------|--------------|-----------|--------------|----------|
| SUBSIDIARY (SALES) TRUST ACCOUNT LEDGER FOR: P. Simons/A-1 Bldrs. |                       |              |           |              |          |
| FOLIO NUMBER: 3-99  |                       |              |           |              |          |
| PROPERTY DESCRIPTION: 1201 Main Street                            |                       |              |           |              |          |
| DATE  | ITEM                  | CK/DEPOSIT # | CK AMOUNT | DEPOSIT AMT. | BALANCE  |
|   |                       |              | DEBIT (-) | CREDIT (+)   |          |
| Feb 12  | Earnest Money Deposit | 002          |           | 1,000.00     | 1,000.00 |
| Feb 25  | Down Payment          | 003          |           | 1,500.00     | 2,500.00 |

**SAMPLE PROPERTY MANAGEMENT  
SUB-ACCOUNT LEDGERS**

| SUBSIDIARY (Property Mgmt.) TRUST ACCOUNT LEDGER FOR: XYZ Realty (Company) |                       |                 |           |              |         |
|--|-----------------------|-----------------|-----------|--------------|---------|
| FOLIO NUMBER: 1-99   |                       |                 |           |              |         |
| PROPERTY DECIPTION: Company Funds  |                       |                 |           |              |         |
|  |                       |                 |           |              |         |
| DATE   | ITEM                  | CK/DEPOSIT #    | CK AMOUNT | DEPOSIT AMT. | BALANCE |
|  |                       |                 | DEBIT (-) | CREDIT (+)   |         |
| Jan 4  | Deposit to open acct. | Cash            |           | 100 00       | 100 00  |
| Jan 15   | Check Printing Charge | Debit Memo      | 15 00     |              | 85 00   |
| Feb 12   | Service Charge        | Jan. Bank Stmt. | 5 00      |              | 80 00   |

| ADDRESS (Tenant)<br>Unit C, Sunset Apartments |                             |                   | NAME OF TENANT/NAME OF OWNER<br>D. Norris/C. Smith |                       |         |  |
|---|-----------------------------|-------------------|--|-----------------------|---------|--|
| RENTAL AMOUNT                                 | DUE DATE                    | SECURITY DEPOSIT  | COMMISSION FEE                                     | REMARKS Mtg. Pmt.     | FOLIO # |  |
| \$350.00                                      | 1st                         | \$300.00          |  |                       | 2-99    |  |
| Date  | Item                        | Ck/Deposit Number | (-) Amount of Check                                | (+) Amount of Deposit | BALANCE |  |
| Jan 11  | D. Norris-Security Dep.     | 001               |  | 300 00                | 300 00  |  |
| Jan 20  | Returned NFS Check          |                   | 300 00   |                       | 000 00  |  |
| Jan 21  | Redeposit NFS Check         | 002               |  | 300 00                | 300 00  |  |
| Jan 25  | D. Norris-Feb. Rent         | 003               |  | 350 00                | 650 00  |  |
| Jan 25  | Norris-Feb Rent to C. Smith |                   | 350 00   |                       | 300 00  |  |

| ADDRESS (Owner)<br>Unit C, Sunset Apartments |                         |                   | NAME OF TENANT/NAME OF OWNER<br>D. Norris/C. Smith |                         |         |  |
|--|-------------------------|-------------------|--|-------------------------|---------|--|
| RENTAL AMOUNT                                | DUE DATE                | SECURITY DEPOSIT  | COMMISSION FEE                                     | REMARKS Mtg. Pmt.       | FOLIO#  |  |
| \$350.00                                     | 1st                     | \$300.00          | 10%  | of \$225 to Equity Mtg. | 2-99    |  |
| Date   | Item                    | Ck/Deposit Number | (-) Amount of Check                                | (+) Amount of Deposit   | BALANCE |  |
| Jan 25                                       | Norris-Feb. Rent        |                   |  | 350 00                  | 350 00  |  |
| Feb 1  | Equity Mortgage Co. Pmt | 1001              | 225 00   |                         | 125 00  |  |
| Feb 1  | XYZ Commission Fee      | 1002              | 35 00  |                         | 90 00   |  |
| Feb 1  | Proceeds to Owner       | 1003              | 90 00  |                         | 000 00  |  |

## CHAPTER V

### RECONCILING BANK STATEMENT WITH TRUST ACCOUNT RECORDS

In these examples, the bank statements arrive during the middle of February and show an ending balance of \$590 for sales and \$90 for property management. Your checkbook and general ledger balance on that date show balances of \$85 for sales and \$735 for property management. You notice that the bank has not yet debited the sales account for the \$500 (1001 from the sales account) which had been written to XYZ Realty when the transaction closed. On the property management account, the bank has not yet credited the \$300 check from Debra Norris for her security deposit (which had been redeposited after being returned NSF) and her check for \$350 for the February rent.

| <b>Balance per Sales Bank Statement</b> |                  |
|---|------------------|
| as of <u>January 31</u>                 | \$ <u>590.00</u> |
| (Date)                                  |                  |
| ADD: Outstanding Deposits               |                  |
| _____                                   |                  |
| _____                                   |                  |
| _____                                   |                  |
| _____                                   |                  |
| \$ <u>00.00</u>                         |                  |
| Total \$ <u>590.00</u>                  |                  |
| SUBTRACT: Outstanding Checks            |                  |
| \$ <u>500.00</u>                        | _____            |
| _____                                   | _____            |
| _____                                   | _____            |
| _____                                   | _____            |
| \$ <u>500.00</u>                        |                  |
| Total \$ <u>90.00</u>                   |                  |
| Less Service Charge -\$ <u>5.00</u>     |                  |
| Checkbook Balance \$ <u>85.00</u>       |                  |

| <b>Balance per Property Management Bank Statement</b> |                 |
|---|-----------------|
| as of <u>January 31</u>                               | \$ <u>90.00</u> |
| (Date)  |                 |
| ADD: Outstanding Deposits                             |                 |
| \$ <u>300.00</u>                                      | _____           |
| \$ <u>350.00</u>                                      | _____           |
| _____   | _____           |
| _____   | _____           |
| \$ <u>650.00</u>                                      |                 |
| Total \$ <u>740.00</u>                                |                 |
| SUBTRACT: Outstanding Checks                          |                 |
| _____   | _____           |
| _____   | _____           |
| _____   | _____           |
| _____   | _____           |
| \$ <u>000.00</u>                                      |                 |
| Total \$ <u>740.00</u>                                |                 |
| Less Service Charge -\$ <u>5.00</u>                   |                 |
| Checkbook Balance \$ <u>735.00</u>                    |                 |

Reconciling the bank account is only the first step in reconciling the total trust account records. And remember, these worksheets are subject to inspection by the Real Estate Commission and must be kept for a period of five years.

# TRUST ACCOUNT (SALES) GENERAL LEDGER

Hometown Bank (00-1234-56)

| Date | Deposit/Check Number | Payor          | Principal  | Property          | Payee         | Folio # | Check Amt. (Debit -) | Deposit Amt. (Credit +) | Balance in Account | Remarks        |
|------|----------------------|----------------|------------|-------------------|---------------|---------|----------------------|-------------------------|--------------------|----------------|
| 1-4  | Cash                 | Personal Funds |            |                   | XYZ Realty    | 1-99    |                      | 100.00                  | 100.00             | Open Acct.     |
| 1-5  | 001                  | Tiller         | Reid       | 2201 First Street | XYZ Realty    | 2-99    |                      | 500.00                  | 600.00             | Earnest Money  |
| 1-15 |                      |                |            |                   | Hometown Bank | 1-99    | 15.00                |                         | 585.00             | Ck. Print Chg. |
| 1-28 | 1001                 | Reid           | Reid       | 2201 First Street | XYZ Realty    | 2-99    | 500.00               |                         | 85.00              | Closing EM     |
| 2-12 | 002                  | Simons         | A-1 Bidrs. | 1201 Main Street  | XYZ Realty    | 3-99    |                      | 1,000.00                | 1,085.00           | Earnest Money  |
| 2-12 |                      |                |            |                   | Hometown Bank | 1-99    | 5.00                 |                         | 1,080.00           | Svc. Charge    |
| 2-25 | 003                  | Simons         | A-1 Bidrs. | 1201 Main Street  | XYZ Realty    | 3-99    |                      | 1,500.00                | 2,580.00           | Down Payment   |

**BALANCE — \$2,580.00**

|  |                       |              |           |              |           |            |          |
|--|-----------------------|--------------|-----------|--------------|-----------|------------|----------|
| SUBSIDIARY (SALES) TRUST ACCOUNT LEDGER FOR: XYZ Realty  |                       |              |           |              |           |            |          |
| FOLIO NUMBER: 1-99                                       |                       |              |           |              |           |            |          |
| SUBSIDIARY (SALES) TRUST ACCOUNT LEDGER FOR: Tiller/Reid |                       |              |           |              |           |            |          |
| FOLIO NUMBER: 2-99                                       |                       |              |           |              |           |            |          |
| PROPERTY DESCRIPTION: 2201 First Street                  |                       |              |           |              |           |            |          |
| SUBSIDIARY (SALES) TRUST ACCOUNT LEDGER FOR: P. Simons   |                       |              |           |              |           |            |          |
| FOLIO NUMBER: 3-99                                       |                       |              |           |              |           |            |          |
| PROPERTY DESCRIPTION: 1201 Main Street                   |                       |              |           |              |           |            |          |
| DATE   | ITEM                  | CK/DEPOSIT # | CK AMOUNT | DEPOSIT AMT. | DEBIT (-) | CREDIT (+) | BALANCE  |
| Feb 12   | Earnest Money Deposit | 002          |           | 1,000.00     |           |            | 1,000.00 |
| Feb 25   | Down Payment          | 003          |           | 1,500.00     |           |            | 2,500.00 |
|  |                       |              |           |              |           |            | 500.00   |
|  |                       |              |           |              |           |            | 000.00   |
|  |                       |              |           |              |           |            | 80.00    |
|  |                       |              |           |              |           |            | 100.00   |
|  |                       |              |           |              |           |            | 85.00    |
|  |                       |              |           |              |           |            | BALANCE  |
|  |                       |              |           |              |           |            | 2,580.00 |

## SUB-ACCOUNT BALANCE

\$ 80.00  
000.00  
2,500.00  
\$ 2,580.00

**TRUST ACCOUNT (PROPERTY MANAGEMENT) GENERAL LEDGER**  
**Hometown Bank (00-1234-57)**

| Date | Deposit/Check Number | Payor          | Principal | Property             | Payee            | Folio # | Check Amt. (Debit -) | Deposit Amt. (Credit +) | Balance in Account | Remarks           |
|------|----------------------|----------------|-----------|----------------------|------------------|---------|----------------------|-------------------------|--------------------|-------------------|
| 1-4  | Cash                 | Personal Funds |           |                      | XYZ Realty       | 1-99    |                      | 100.00                  | 100.00             | Open Acct.        |
| 1-11 | 001                  | Norris         | Smith     | Unit C, Sunset Apts. | XYZ Realty       | 2-99    |                      | 300.00                  | 400.00             | Sec. Deposit      |
| 1-15 |                      |                |           |                      | Hometown Bank    | 1-99    | 15.00                |                         | 385.00             | Ch. Print Chg.    |
| 1-20 |                      | Norris         | Smith     | Unit C, Sunset Apts. | Norris (NSF Ch.) | 2-99    | 300.00               |                         | 85.00              | NSF Ch. Ret.      |
| 1-21 | 002                  | Norris         | Smith     | Unit C, Sunset Apts. | XYZ Realty       | 2-99    |                      | 300.00                  | 385.00             | Redeposit NSF Ch. |
| 1-25 | 003                  | Norris         | Smith     | Unit C, Sunset Apts. | XYZ Realty       | 2-99    |                      | 350.00                  | 735.00             | Feb. Rent         |
| 2-1  | 1001                 | XYZ Realty     | Smith     | Unit C, Sunset Apts. | Equity Mtg.      | 2-99    | 225.00               |                         | 510.00             | Mtg. Payment      |
| 2-1  | 1002                 | XYZ Realty     | Smith     | Unit C, Sunset Apts. | XYZ Realty       | 2-99    | 35.00                |                         | 475.00             | Commission        |
| 2-1  | 1003                 | XYZ Realty     | Smith     | Unit C, Sunset Apts. | Smith            | 2-99    | 90.00                |                         | 385.00             | Proceeds to Owner |
| 2-12 |                      |                |           |                      | Hometown Bank    | 1-99    | 5.00                 |                         | 380.00             | Svc. Charge       |

**BALANCE — \$380.00**

**SUB-ACCOUNT BALANCE**

\$ 80.00  
 000.00  
 300.00  
**\$ 380.00**

SUBSIDIARY (SALES) TRUST ACCOUNT LEDGER FOR: XYZ Realty

| ADDRESS       |                         | NAME OF TENANT/NAME OF OWNER |                | NAME OF TENANT/NAME OF OWNER |           | FOLIO # |        | BALANCE |        |
|---------------|-------------------------|------------------------------|----------------|------------------------------|-----------|---------|--------|---------|--------|
| RENTAL AMOUNT | DATE                    | SECURITY DEPOSIT             | COMMISSION FEE | REMARKS                      | Mtg. Pmt. | FOLIO#  |        |         |        |
| \$350.00      |                         |                              | 10%            | of \$225 to Equity Mtg.      |           | 2-99    |        |         |        |
|               |                         |                              | (-) Amount of  | Deposit                      |           |         | 300.00 |         | 100.00 |
|               |                         |                              | (+) Amount of  | Deposit                      |           |         | 000.00 |         | 85.00  |
|               |                         |                              |                |                              |           |         | 000.00 |         | 80.00  |
| Jan 25        | Norris-Feb. Rent        |                              |                | 350.00                       |           | 350.00  |        |         |        |
| Feb 1         | Equity Mortgage Co. Pmt | 1001                         | 225.00         |                              |           | 125.00  |        |         |        |
| Feb 1         | XYZ Commission Fee      | 1002                         | 35.00          |                              |           | 90.00   |        |         |        |
| Feb 1         | Proceeds to Owner       | 1003                         | 90.00          |                              |           | 000.00  |        |         |        |

**SALES**  
**(4-Way Check)**

**1 TRUST ACCOUNT (SALES) GENERAL LEDGER**  
Hometown Bank (00-1234-56)

| Date | Deposit/Check Number | Payee          | Principal        | Property          | Payee         | Folio # | Check Amt. (Debit -) | Deposit Amt. (Credit +) | Balance in Account | Remarks        |
|------|----------------------|----------------|------------------|-------------------|---------------|---------|----------------------|-------------------------|--------------------|----------------|
| 1-4  | Cash                 | Personal Funds |                  |                   | XYZ Realty    | 199     | 100.00               | 100.00                  | 100.00             | Open Acct.     |
| 1-5  | 001                  | Filer          | Rd               | 2201 First Street | XYZ Realty    | 199     | 500.00               | 500.00                  | 600.00             | Earned Money   |
| 1-5  | 100                  | Rd             |                  |                   | XYZ Realty    | 199     | 15.00                |                         | 585.00             | Ck. Print Chg. |
| 1-5  | 100                  | Rd             |                  |                   | XYZ Realty    | 199     | 260.00               |                         | 83.00              | Closing LM     |
| 2-12 | 002                  | Simons         | 1201 Main Street |                   | XYZ Realty    | 399     | 1,000.00             | 1,000.00                | 1,083.00           | Earned Money   |
| 2-12 | 003                  | Simons         | 1201 Main Street |                   | Hometown Bank | 399     | 3.00                 |                         | 1,080.00           | Sec. Charge    |
| 2-25 |                      |                |                  |                   | XYZ Realty    | 399     |                      | 1,300.00                | 2,380.00           | Down Payment   |

**3**

|                   |       |    |
|-------------------|-------|----|
| BALANCE           | 585   | 00 |
| AMOUNT THIS CHECK | (500) | 00 |
| BALANCE           | 85    | 00 |

No. 1002 BALANCE BROUGHT FORWARD

|        |  |       |    |
|--------|--|-------|----|
| PAY TO | February 1                             | 00    | 99 |
| FOR    | DEPOSIT 2/12 EM - ACCOUNT              | 1,000 | 00 |
|        | 2-12 2/25 Chg                          | (5)   | 00 |
|        | 2/25 Down Pymt. Simons (1201 Main St.) | 1,500 | 00 |

|                   |      |    |
|-------------------|------|----|
| BALANCE           | 2580 | 00 |
| AMOUNT THIS CHECK |      |    |
| BALANCE           |      |    |

|   |        |
|---|--------|
| PROPERTY DESCRIPTION: Company Funds     |        |
| FOLIO NUMBER: 199                       |        |
| PROPERTY DESCRIPTION: XYZ Realty        |        |
| FOLIO NUMBER: 199                       |        |
| PROPERTY DESCRIPTION: Company Funds     |        |
| FOLIO NUMBER: 399                       |        |
| PROPERTY DESCRIPTION: XYZ Realty        |        |
| FOLIO NUMBER: 399                       |        |
| PROPERTY DESCRIPTION: 2201 First Street |        |
| FOLIO NUMBER: 199                       |        |
| PROPERTY DESCRIPTION: 1201 Main Street  |        |
| FOLIO NUMBER: 399                       |        |
| BALANCE                                 | 100.00 |
| BALANCE                                 | 580.00 |
| BALANCE                                 | 900.00 |

**2**

|   |        |
|---|--------|
| PROPERTY DESCRIPTION: 2201 First Street |        |
| FOLIO NUMBER: 199                       |        |
| PROPERTY DESCRIPTION: 1201 Main Street  |        |
| FOLIO NUMBER: 399                       |        |
| PROPERTY DESCRIPTION: Company Funds     |        |
| FOLIO NUMBER: 199                       |        |
| PROPERTY DESCRIPTION: XYZ Realty        |        |
| FOLIO NUMBER: 399                       |        |
| PROPERTY DESCRIPTION: 2201 First Street |        |
| FOLIO NUMBER: 199                       |        |
| PROPERTY DESCRIPTION: 1201 Main Street  |        |
| FOLIO NUMBER: 399                       |        |
| BALANCE                                 | 100.00 |
| BALANCE                                 | 580.00 |
| BALANCE                                 | 900.00 |

**4**

|   |        |
|---|--------|
| PROPERTY DESCRIPTION: 2201 First Street |        |
| FOLIO NUMBER: 199                       |        |
| PROPERTY DESCRIPTION: 1201 Main Street  |        |
| FOLIO NUMBER: 399                       |        |
| PROPERTY DESCRIPTION: Company Funds     |        |
| FOLIO NUMBER: 199                       |        |
| PROPERTY DESCRIPTION: XYZ Realty        |        |
| FOLIO NUMBER: 399                       |        |
| PROPERTY DESCRIPTION: 2201 First Street |        |
| FOLIO NUMBER: 199                       |        |
| PROPERTY DESCRIPTION: 1201 Main Street  |        |
| FOLIO NUMBER: 399                       |        |
| BALANCE                                 | 100.00 |
| BALANCE                                 | 580.00 |
| BALANCE                                 | 900.00 |

**CONTRACT**

|        |                      |              |           |             |          |
|--------|----------------------|--------------|-----------|-------------|----------|
| DATE   | ITEM                 | CK/DEPOSIT * | CK AMOUNT | DEPOSIT AMT | BALANCE  |
| Feb 12 | Earned Money Deposit | 002          | 1,000.00  | 1,000.00    | 1,083.00 |
| Feb 25 | Down Payment         | 003          | 1,500.00  | 1,500.00    | 2,580.00 |

**CONTRACT**

\$1,000.00 E.M  
1,500.00 Dn Pmt  
80.00 BIC Funds  
**\$2,580.00 Total**

**CONTRACT**



From the preceding examples one can tell at all times:

1. When money came into the trust account;
2. In what amount;
3. To whom it belonged; and
4. When it was disbursed and to whom.

As you can see, the total of all the sub-accounts equals the general ledger balance. The same result is achieved at any time during the process. The total amount in the sales trust account (\$2,580) represents: \$80 belongs to the broker as personal funds and \$2,500 belongs to Peter Simons for his earnest money and down payment. The total amount in the property management account (\$380) can be indicated as follows: \$80 belongs to the BIC/PMIC as personal funds and \$300 is Debra Norris' security deposit. Everyone else's money has been disbursed and their balances are now zero. Once you "zero out" a sales sub-account, there is no longer any need to keep the page or ledger card with your active sub-accounts. That page should be removed and placed in the transaction folder so that you have a record of that particular transaction at any time.

If you have been recording the deposits and checks in the trust account checkbook as they occur, the current checkbook balance will agree with both the general ledger balance and the total of the sub-account balances.

During the time period covered by the example (January 4 – February 25), you would receive a bank statement from the bank. The next page shows how to reconcile your records with the bank statement.

The examples illustrate one method of applying the procedures required to properly maintain a recordkeeping system pertaining to each trust account. Money going into and out of the trust account on different dates was recorded in three different places (general ledger, respective sub-account ledger, and the checkbook) and was added and subtracted as appropriate.

If you are maintaining records accurately, you will have a constant four-way verification system which you can use as a "spot check" from time to time. The constant "four-way" check is to determine that the following amounts are always equal:

1. The general ledger balance
2. The total of all sub-account ledger balances
3. The checkbook balance
4. The total amounts reflected in pending contracts or current leases plus BIC/PMIC personal funds.

A periodic fifth verification is made when you reconcile with the bank statement.

## **CHAPTER VI**

### **ACTIONS TO BE AVOIDED**

1. Never pay your license renewal fee, agents' renewal fees, change of name or address fees, or any other fees charged by the Real Estate Commission, from a trust account.
2. Never disburse trust funds when there is a dispute about their disposition between buyer and seller or tenant and owner. Disputed trust funds must remain in your account until the dispute is settled by one of the four actions listed on pages 5 and 6.
3. Never leave a commission in the trust account after the transaction has closed.
4. Never close your business and trust account before you turn in your license to the Real Estate Commission, unless you are authorized in advance to do so by the Commission.
5. Never invest trust funds in any type of interest-bearing securities or certificate accounts. The trust account must be a demand account in an insured financial institution.

## **CHAPTER VII**

### **FREQUENTLY ASKED QUESTIONS ABOUT TRUST ACCOUNTS**

Q. Do rents collected go into the trust account?

A. Yes, all monies belonging to others collected in real estate transactions must be deposited into the trust account. Payments to the owner for rent and to the BIC/PMIC for the commission are disbursed from the trust account. A full accounting of the rental payment must be shown in records kept by the licensee. The only exception to this rule is where the BIC/PMIC is employed by the owner. In these situations the rents may be deposited into an operating account.

Q. I disburse rents to the owner immediately. Why should I deposit rent collected into the trust account?

A. There are several reasons. If the rent payment check is deposited into the business or operating account, it would amount to commingling funds which is prohibited by law. If the payment is made in cash, it must be deposited so that proper accounting can be shown in the BIC/PMIC trust account records. Although the money may be received and disbursed the same day, it is still money being held for another and must be handled through the trust account to provide full accountability. It is advisable to wait until a check clears before disbursing proceeds.

Q. Can I have more than one trust account?

A. Yes, many brokers maintain separate trust accounts for sales and rental transactions. This is not only acceptable but is recommended provided each account is designated as a "trust" or "escrow" account.

Q. Why is a trust account necessary?

A. The law requires it to protect the public. The audit of the account will help ensure that BICs/PMICs are not misusing money belonging to others in violation of the South Carolina Real Estate License Law.

Q. Can I leave my commission in the trust account for a period of time after I have closed out the transaction?

A. No. All funds must be expended at time of closing. You are allowed to keep only a small amount of personal funds in the trust account to avoid bank service charges and/or to keep the account from being closed by the bank when no trust funds are on deposit. Any additional amount, such as earned commissions, may be considered commingling.

Q. Our company deposits all earnest money in a trust account; however, at closing, the earnest money is withdrawn and placed into the office operating account along with the final settlement money. All disbursements are then made from the office operating account. Is our company in violation of the law?

A. Yes. All transactions involving trust funds must be processed through and accounted for in the trust account. Earnest money and settlement money may not be disbursed (totally or in part) until time of closing or termination of the contract. If an attorney is handling the closing, the earnest money may be disbursed to that attorney's trust account prior to closing to be included with the settlement money disbursed by that attorney. Another acceptable procedure is that the attorney may credit the earnest money on the closing statement and the BIC will then disburse to the operating account and apply that amount as part of the commission.

Q. I have an active BIC/PMIC license, but I'm not really active in the real estate business. Do I still have to maintain a trust account?

A. Yes. By virtue of your having an active BIC/PMIC license, you have been authorized by the state of South Carolina to act as a trustee of real estate trust funds. Therefore, an active trust account must always exist to accommodate that possibility. There are no exceptions.

Q. Can I, as the BIC/PMIC, draw the interest earned on the money I am holding in my trust account?

A. It is possible **provided** you meet all the conditions listed in SC Code 40-57-135 (B) (10). Once interest is earned, however, it becomes earned income of the BIC/PMIC and must be disbursed out of the trust account or you may be commingling funds.

Q. The deal fell through and the buyer and seller are in dispute over who should get the earnest money. What do I do?

A. In this situation, SC Code 40-57-135 (B) (5) directs a broker to hold the earnest money in his trust account until such time as its disposition is determined. The broker may attempt to bring the parties to agreement, and/or advise them of the four options including the court system. (Cases involving \$7,500 or less can be heard by the local magistrate; anything above that amount must be heard by the Master in Equity Court of Common Pleas or other designated court.)

Q. I have my account set up to read "Special Account." Is that all right?

A. No. The account title must read either "Escrow" or "Trust." No other terminology is acceptable.

Q. I am the selling broker and the contract calls for the listing broker to hold the earnest money, but the prospective purchaser wrote the check and gave it to me. What do I do?

A. There is a difference between "coming into receipt" of funds and "accepting" funds. If the check is made out to the selling broker in this case, and he takes possession of the check, he is said to be in "receipt" of the funds. In this particular situation, a new check should be issued by the prospective purchaser and made payable to the listing broker unless otherwise specified in the contract. However, if the check is already made out to the listing broker and given to the selling broker to deliver, then he is only "accepting" funds and must deliver them to the listing broker in a timely manner. The selling broker is not obligated in that instance to place the funds into his own trust account.

Q. A friend of mine sold someone his boat. The buyer of the boat gave him a deposit to hold until he had the boat checked out. My friend has asked me to hold the money in my trust account until the deal closes. Is that all right?

A. No. Only funds which a BIC/PMIC is holding as trustee in a real estate transaction should be reflected in a trust account.

Q. Is there anything improper about my "borrowing" a small sum from the trust account for my regular business expenses as long as it is paid back before it is due to my client?

A. Yes. This is the most serious violation a BIC/PMIC can commit. Not only would it be conversion or misappropriating trust funds for personal use, but it could also place the BIC/PMIC in a breach of trust situation where criminal charges could be brought against him as well as subjecting his license to discipline.

Q. What happens if a BIC/PMIC is unable to account for all funds belonging in the trust account?

A. The Real Estate Commission could direct the issuance of charges against the licensee and hold a hearing before the Commission to determine whether sufficient information exists to take disciplinary action. The Commission may revoke or suspend the individual's license and could place restrictions on the licensee, as well as a monetary fine.

Q. When the Real Estate Commission audits my real estate trust account, what records will I be asked to furnish?

A. The investigator could require all of the following:

- General Ledger
- All Sub-Ledgers
- All Agency Representation Agreements
- All Management Agreements
- All Deposit Slips and Receipts
- Checkbook and Bank Statements
- All Sales Contracts
- All Leases and Options
- All Closing Statements
- All Other Related Documents

The above records must be held for a minimum of five years.

## Notes