## Current process

| Real world activity | Balance sheet (accrual) |  | Rental owner ending balance |  | Management income detailed (accrual) |  | Available cash |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Set up a property: <br> Property reserve: $\$ 500$ <br> Management fees: $10 \%$ of income | 0 |  | Ending cash balance: Reserve: Deposits held: | $\begin{aligned} & 0 \\ & \$ 500 \\ & 0 \end{aligned}$ | 0 |  | (\$500) |
| Owner contribution of $\$ 500$ to cover property reserve (deposited immediately) | Assets <br> Operating account <br> Equity <br> Owner contribution | \$500 <br> \$500 | Ending cash balance: Reserve: Deposits held: | $\begin{aligned} & \$ 500 \\ & \$ 500 \\ & 0 \end{aligned}$ | 0 |  | 0 |
| Lease setup: <br> Charge security deposit of $\$ 1,000$ <br> Charge rent of $\$ 1,000$ <br> Charge late fee of $\$ 50$ | Assets <br> Accounts receivable <br> Operating account <br> Liabilities <br> Security deposit liability <br> Equity <br> Owner contribution Retained earnings | $\begin{aligned} & \$ 2,050 \\ & \$ 500 \\ & \$ 1,000 \\ & \$ 500 \\ & \$ 1,050 \end{aligned}$ | Ending cash balance: <br> Reserve: <br> Deposits held: | $\begin{aligned} & \$ 500 \\ & \$ 500 \\ & 0 \end{aligned}$ | Income <br> Late fee income: <br> This report is from the view of the property are using it to see h they should collect management incom accounts. Essential looking at it from the view of the PM com to consider the aud "PM company" | \$50 <br> int of PMs much <br> y are nt of . Need of | 0 |
| Tenant payment (and deposit): <br> Security deposit: \$1,000 <br> Rent: \$1,000 <br> Late fee: \$50 | Assets <br> Operating account <br> Liabilities <br> Security deposit liability <br> Equity <br> Owner contribution <br> Retained earnings | $\begin{aligned} & \$ 2,550 \\ & \$ 1,000 \\ & \$ 500 \\ & \$ 1,050 \end{aligned}$ | Ending cash balance: Reserve: Deposits held: | $\begin{aligned} & \$ 1,500 \\ & \$ 500 \\ & \$ 1,000 \end{aligned}$ | Income <br> Late fee income: <br> There will also be \$ management fees, not reflected anywh | \$50 <br> due as is is <br> Q. Why is av $\$ 1,000$ when $\qquad$ is $\$ 1,050$ ? <br> A. The extra as late fee in | $\$ 1,000$ <br> Management fees are known but not yet reflected. Paying the owner $\$ 1,000$ would result in an overpayment. |


| Pay vendors: <br> Landscaping: \$25 | Assets |  | Ending cash balance: | $\$ 1,475$ | Income | \$50 | \$975 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Liabilities |  |  |  |  |  |  |
|  | Equity |  |  |  |  |  |  |
|  | Owner contribution | \$500 |  |  |  |  |  |
|  | Retained earnings | \$1,025 |  |  |  |  |  |
| Record management fee expense: $10 \%$ of rent =\$100 |  |  | Ending cash balance: Reserve: | $\begin{aligned} & \$ 1,375 \\ & \$ 500 \\ & \$ 1,000 \end{aligned}$ | Income <br> Late fee income: | \$50 | \$875 |
| "Record management fees" does not collect money from the "management income accounts" (late fees in this case). Collecting money from management income accounts is a separate process | Liabilities <br> Security deposit liability | \$1,000 | Deposits held: |  | Expenses Management fees: | \$100 |  |
|  | Equity <br> Owner contribution <br> Retained earnings | $\begin{aligned} & \$ 500 \\ & \$ 925 \end{aligned}$ |  |  | The "net income = income expenses" equation applied here would result in a net income of -\$50, but actually the PM company had net income of $\$ 100$ at this point. |  |  |
| Record management income: <br> \$50 late fee income <br> (as described in help article 111172) | Assets <br> Operating account | \$2,375 | Ending cash balance: <br> Reserve: <br> Deposits held: | $\begin{aligned} & \$ 1,375 \\ & \$ 500 \\ & \$ 1,000 \end{aligned}$ | Income <br> Late fee income: | The check to pay the "PM <br> 0 company" vendor cancels out the income | \$875 |
|  | Security deposit liability | \$1,000 |  |  | Expenses |  |  |
|  | Equity <br> Owner contribution <br> Retained earnings | $\begin{aligned} & \$ 500 \\ & \$ 875 \end{aligned}$ |  |  | The "net income = income expenses" equation applied here would result in a net income of -\$100, but actually the PM company had net income of $\$ 150$ at this point. |  |  |
| Pay rental owner: owner draw of $\$ 875$ from available cash | Assets <br> Operating account | \$1,500 | Ending cash balance: <br> Reserve: <br> Deposits held: | $\begin{aligned} & \$ 500 \\ & \$ 500 \\ & \$ 1,000 \end{aligned}$ | Income <br> Late fee income: | 0 | 0 |
|  | Liabilities <br> Security deposit liability | \$1,000 |  |  | Expenses |  |  |
|  | Equity <br> Owner contribution <br> Owner draw Retained earnings | $\begin{aligned} & \$ 500 \\ & (\$ 875) \\ & \$ 875 \end{aligned}$ |  |  |  |  |  |

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After FTAC 1

| Real world activity | Balance sheet (accrual) |  | Rental owner ending | balance | Management income detailed (accrual) | Available cash | Balance of "Incidental management fees" (new entity) |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Set up a property: <br> Property reserve: $\$ 500$ <br> Management fees: $10 \%$ of income | 0 |  | Ending cash balance: <br> Reserve: <br> Deposits held: | $\begin{aligned} & 0 \\ & \$ 500 \\ & 0 \end{aligned}$ | 0 | (\$500) | 0 |
| Owner contribution of $\$ 500$ to cover property reserve (deposited immediately) | Assets <br> Operating account <br> Equity <br> Owner contribution | $\begin{aligned} & \$ 500 \\ & \$ 500 \end{aligned}$ | Ending cash balance: Reserve: Deposits held: | $\begin{aligned} & \$ 500 \\ & \$ 500 \\ & 0 \end{aligned}$ | 0 | 0 | 0 |
| Lease setup: <br> Charge security deposit of $\$ 1,000$ Charge rent of $\$ 1,000$ Charge late fee of $\$ 50$ | Assets <br> Accounts receivable <br> Operating account <br> Liabilities <br> Security deposit liability <br> Equity <br> Owner contribution Retained earnings | $\$ 2,000$ $\$ 500$ <br> \$1,000 <br> $\$ 500$ $\$ 1,000$ | Ending cash balance: <br> Reserve: <br> Deposits held: <br> $\$ 50$ of late fee income has been shifted to the new "Incidental management fees" entity | $\begin{aligned} & \$ 500 \\ & \$ 500 \\ & 0 \end{aligned}$ | Funds due to PM company <br> Late fee income: $\$ 50$ <br> on "Incidental management fees" entity's books (on accrual <br> Funds paid to PM company basis) <br> 0 | 0 | 0 |
| Tenant payment (and deposit) <br> Security deposit: \$1,000 <br> Rent: \$1,000 <br> Late fee: \$50 | Assets <br> Operating account <br> Liabilities <br> Security deposit liability <br> Equity <br> Owner contribution Retained earnings | $\begin{aligned} & \$ 2,500 \\ & \$ 1,000 \\ & \$ 500 \\ & \$ 1,000 \end{aligned}$ | Ending cash balance: Reserve: Deposits held: | $\begin{aligned} & \$ 1,500 \\ & \$ 500 \\ & \$ 1,000 \end{aligned}$ | Funds due to PM company <br> Late fee income: $\$ 50$ <br> FTAC 4: maybe also list $\$ 100$ management fee here <br> Funds paid to PM company <br> 0 | $\$ 1,000$ <br> FTAC 4: maybe also reflect \$100 management fee here to reduce available cash by $\$ 100$ | \$50 |


| Pay vendors: Landscaping: \$25 | Assets |  | Ending cash balance: Reserve: Deposits held: | $\begin{aligned} & \$ 1,475 \\ & \$ 500 \\ & \$ 1,000 \end{aligned}$ | Funds due to PM company <br> Late fee income: $\$ 50$ <br> FTAC 4: maybe also list $\$ 100$ management fee here <br> Funds paid to PM company <br> 0 | $\$ 975$ <br> FTAC 4: maybe also reflect $\$ 100$ management fee here to reduce available cash by $\$ 100$ |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Operating account | \$2,475 |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  | Liabilities <br> Security deposit liability $\$ 1,000$ |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  | Equity |  |  |  |  |  |  |
|  | Owner contribution | \$500 |  |  |  |  |  |
|  | Retained earnings | \$975 |  |  |  |  |  |
| Record management fee expense: $10 \%$ of rent $=\$ 100$ | Assets <br> Operating account |  | Ending cash balance: | \$1,375 | Funds due to PM company | \$875 | \$50 |
|  |  | \$2,375 | Reserve: | \$500 | Late fee income: $\quad \$ 50$ |  |  |
|  |  |  | Deposits held: | \$1,000 |  |  |  |
|  | Liabilities |  |  |  | Funds paid to PM company |  |  |
|  | Security deposit liability | \$1,000 |  |  | Management fees: \$100 |  |  |
|  | Equity |  |  |  |  |  |  |
|  | Owner contribution | \$500 |  |  |  |  |  |
|  | Retained earnings | \$875 |  |  |  |  |  |
| Consider combining these two steps |  |  |  |  |  |  |  |
| Record management income: <br> \$50 late fee income <br> (as described in help article 111172) | Assets <br> Operating account |  | Ending cash balance: | \$1,375 | Funds due to PM company | \$875 | 0 |
|  |  | \$2,375 | Reserve: | \$500 | 0 |  |  |
|  |  |  | Deposits held: | \$1,000 |  |  |  |
|  | Liabilities |  |  |  | Funds paid to PM company |  |  |
|  | Security deposit liability | \$1,000 |  |  | Management fees: \$150 |  |  |
|  | Equity |  |  |  |  |  |  |
|  | Owner contribution | \$500 |  |  |  |  |  |
|  | Retained earnings | \$875 |  |  |  |  |  |
| Pay rental owner: owner draw of $\$ 875$ from available cash | Assets <br> Operating account |  | Ending cash balance: |  | Funds due to PM company | 0 | 0 |
|  |  | \$1,500 | Reserve: | \$500 | $0$ |  |  |
|  |  |  | Deposits held: | \$1,000 |  |  |  |
|  | Liabilities |  |  |  | Funds paid to PM company |  |  |
|  | Security deposit liability | \$1,000 |  |  | Management fees: \$150 |  |  |
|  | Equity |  |  |  |  |  |  |
|  | Owner contribution Owner draw | $\begin{aligned} & \$ 500 \\ & (\$ 875) \end{aligned}$ |  |  |  |  |  |
|  | Retained earnings | \$875 |  |  |  |  |  |

## After FTAC 2 (without doing FTAC 1)

| Real world activity | Balance sheet (accrual) |  | Rental owner ending | balance | Management income | tailed (accrual) | Available cash |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Set up a property: <br> Property reserve: $\$ 500$ <br> Management fees: $10 \%$ of income | 0 |  | Ending cash balance: Reserve: Deposits held: | $\begin{aligned} & 0 \\ & \$ 500 \\ & 0 \end{aligned}$ | 0 |  | (\$500) |
| Owner contribution of $\$ 500$ to cover property reserve (deposited immediately) | Assets <br> Operating account <br> Equity <br> Owner contribution | $\$ 500$ <br> \$500 | Ending cash balance: Reserve: Deposits held: | $\begin{aligned} & \$ 500 \\ & \$ 500 \\ & 0 \end{aligned}$ | 0 |  | 0 |
| Lease setup: <br> Charge security deposit of \$1,000 <br> Charge rent of $\$ 1,000$ <br> Charge late fee of $\$ 50$ | Assets <br> Accounts receivable <br> Operating account <br> Liabilities <br> Security deposit liability <br> Equity <br> Owner contribution <br> Retained earnings | $\begin{aligned} & \$ 2,050 \\ & \$ 500 \\ & \$ 1,000 \\ & \$ 500 \\ & \$ 1,050 \end{aligned}$ | Ending cash balance: <br> Reserve: <br> Deposits held: | $\begin{aligned} & \$ 500 \\ & \$ 500 \\ & 0 \end{aligned}$ | Income <br> Late fee income: | \$50 | 0 |
| Tenant payment (and deposit): <br> Security deposit: \$1,000 <br> Rent: \$1,000 <br> Late fee: \$50 | Assets <br> Operating account <br> Liabilities <br> Security deposit liability <br> Equity <br> Owner contribution <br> Retained earnings |  | Ending cash balance: <br> Reserve: <br> Deposits held: <br> On property breakdown, Assets to (A Reserve + D is a discrepa designated | \$1,500 <br> \$500 <br> \$1,000 <br> balance when comparing vailable cash + eposits held) there ncy from the $\$ 50$ as late fee income. | Income <br> Late fee income: | \$50 | $\$ 1,000$ |
| Pay vendors: <br> Landscaping: \$25 | Assets <br> Operating account <br> Liabilities <br> Security deposit liability <br> Equity <br> Owner contribution Retained earnings | $\begin{aligned} & \$ 2,525 \\ & \$ 1,000 \\ & \$ 500 \\ & \$ 1,025 \end{aligned}$ | Ending cash balance Reserve: <br> Deposits held: | $\begin{aligned} & \$ 1,475 \\ & \$ 500 \\ & \$ 1,000 \end{aligned}$ | Income Late fee income | \$50 | \$975 |
| Record management fee expense: $10 \% \text { of rent = \$100 }$ <br> "Record management fees" does not collect money from the "management income accounts" (late fees in this case). Collecting money from management income accounts is a separate process | Assets <br> Operating account <br> Liabilities <br> Security deposit liability <br> Equity <br> Owner contribution <br> Retained earnings | $\begin{aligned} & \$ 2,425 \\ & \$ 1,000 \\ & \$ 500 \\ & \$ 925 \end{aligned}$ | Ending cash balance Reserve: <br> Deposits held: | $\begin{aligned} & \$ 1,375 \\ & \$ 500 \\ & \$ 1,000 \end{aligned}$ | Income <br> Late fee income: <br> Expenses Management fees: | $\$ 50$ $\$ 100$ | \$875 |


| Record management income: <br> \$50 late fee income <br> (as described in help article 111172) | Assets |  | Ending cash balance: | \$1,375 | Income |  | \$875 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Operating account | \$2,375 | Reserve: | \$500 | Late fee income: | 0 |  |
|  |  |  | Deposits held: | \$1,000 |  |  |  |
|  | Liabilities |  |  |  | Expenses |  |  |
|  | Security deposit liability | \$1,000 |  |  | Management fees: | \$100 |  |
|  | Equity |  |  |  |  |  |  |
|  | Owner contribution | \$500 |  |  |  |  |  |
|  | Retained earnings | \$875 |  |  |  |  |  |
| Pay rental owner: owner draw of $\$ 875$ from available cash | Assets |  | Ending cash balance: | \$500 | Income |  | 0 |
|  | Operating account | \$1,500 | Reserve: | \$500 | Late fee income: | 0 |  |
|  |  |  | Deposits held: | \$1,000 |  |  |  |
|  | Liabilities |  |  |  | Expenses |  |  |
|  |  | \$1,000 |  |  | Management fees: | \$100 |  |
|  | Equity |  |  |  |  |  |  |
|  | Owner contribution | $\$ 500$ |  |  |  |  |  |
|  | Retained earnings | $\$ 875$ |  |  |  |  |  |

