E-Book

Trust Accounting for Vacation Rental Managers

A guide to achieving and maintaining financial success written by experts in vacation rental accounting.

Ximplifi
Accounting simplified.

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Overview

Vacation rental managers are really in the business of trust accounting. No matter what range of services you provide or how many properties you oversee, your fundamental role is to make sure funds flow from renters to property owners (and to the property management company) correctly.

If managers need to get one thing consistently right, it's trust accounting.

That's good news and bad news.

It's good news because with a great system of trust accounting in place, a vacation rental business is on firm footing to succeed.

But the bad news is that trust accounting can be tricky to set up correctly and draining to keep up with regularly. For managers that underestimate this obligation, accounting issues can cause frequent headaches for an otherwise prosperous business.

Let's take a look at some common questions and answers to guide you on a path to sustainable financial growth.

One Bank Account or Two?

There really is not much of an option here. Two bank accounts (at least) are needed to appropriately administer trust accounting. One of the most basic requirements of trust accounting as required by law, is that there be no commingling of company funds and property owner funds.

While trust accounting is not required in every state for short-term rental property managers, trust accounting and separate bank accounts is the best way to track owners' and PM's funds.

The first account is typically an operating account, which holds funds that belong to the management company. The second account is an escrow account that holds rental & security deposits and rental revenues owed to owners and other outside vendors (cleaners, sales taxes, etc.).

Key consideration - Should you use the operating account or escrow account to pay for property and rental related expenses?

Under no circumstances should expenses that are the responsibility of the management company be paid out of the escrow account. Paying rental and property related expenses that are the responsibility of the property owners could be paid out of the escrow account, but this can create issues if the property owner does not have enough funds in the escrow account to cover the expense.

If most or all rental related and property expenses are the responsibility of owners, using the escrow account can be considered.

Should I Use a Vacation Property Management Software?

Vacation property management software ("PMS") offers many advantages, and some even offer some level of trust accounting functionality.

HOWEVER, many of the property management systems that offer trust accounting have several shortcomings (and we've used almost all of them!).

First, they often don't have bank/credit card account feeds for easy reconciliations and transaction coding.

Second, they don't play well with others. For example few have any integration with QuickBooks or any of the great time saving apps such as Bill.com, Expensify, or payroll tools to make paying bills and contractors easy, paperless & painless.

They typically only track trust accounting transactions, meaning there's still a need for an accounting software resulting in onerous duplicate recording of transactions and data transfer between the PMS and the accounting software. For example, often the expenses that are billable to owners are recorded in QuickBooks, then "billed" to the owner by manually entering these transactions in the PMS.

Key consideration - Can I just use a PMS or should I also use an accounting software?

We highly recommend combining a PMS *with* accounting software. If you want to follow trust accounting best practices, we highly recommend using two QuickBooks companies or using a more robust multi-entity accounting system such as Sage Intacct.

In either instance, integrating your PMS to your accounting software is key.

Which Accounting Software Works Best for Vacation Rental Managers?

There are many types of accounting software to choose from, but we've narrowed down the list to the three that most property managers trust: QuickBooks Online, Sage Intacct, and Xero.

intuit QuickBooks Online

Pros:

- Well known software with easy access to advisors familiar with the software, including CPAs and tax professionals.
- Ease of use of software: With general working knowledge of accounting, use of QBO is fairly straightforward.
- Many time saving apps that easily integrate, such as Bill.com, Gusto (payroll), or Expensify (expense tracking) including VRPlatform that integrates your PMS.
- Automatic bank/credit card feeds helps with easy recording of transactions and reconciliation of bank & credit card accounts

Cons:

- Reporting in QBO is not very customizable, which can be challenging when wanting to use your accounting software for owner statements.
- While generally the system is easy to use, there are quirks. It is easy to delete information with no audit trail and knowing how to work the software does take some training.
- If looking to use for trust accounting, i.e. your PMS does not offer trust accounting functionality, we HIGHLY recommend two QBO instances.
- Two QBO instances leads to some duplication of transactions and transferring data between your PMS and QBO is manual if not integrated.
- Getting setup right from the start does take a certain level of expertise and working knowledge of accounting systems AND the vacation rental industry.

Sage Intacct

Pros:

- Only recommended accounting software by the American Institute of Certified Public Accountants.
- Robust multi-entity & multi-ledger cloud-based accounting software that makes accounting for your management company and trust accounting much easier.
- Multiple dimensions to tag and track transactions allows for customized financial reporting and owner statements.
- User-based dashboards allow for greater visibility into your financial performance.
- Easy integration with many time saving apps, including our VRPlatform plug-in that syncs data directly from your PMS.
- Statistical accounts (i.e. headcount, guest stays, nights stayed, etc.) allowing for robust data and KPI tracking.
- Mass-create and send owner statements and supporting documents directly from the accounting software.

Cons:

- More complex setup requires expertise from a Sage Intacct Partner to ensure the system is setup correctly
- More robust system will likely require more training and general understanding of accounting concepts and software.
- While offering incredible value when compared to QBO & Xero, Sage Intacct will require more upfront and ongoing investment, but most midsize to enterprise property managers (50+ to 100+ or more) should realize significant returns on that investment in saved time and better reporting to drive their business.

Pros:

- Xero is a newer software that is generally easier to use with better customer service compared to QuickBooks Online
- Robust and easily customizable financial reporting
- Easy upload of transactions, which is not a function of QBO except with the use of third-party apps. This becomes handy when transferring data from VRM booking apps if not integrated.
- Also offers easy integration with many time saving apps similar to QuickBooks Online.

Cons:

- While generally the system is easy to use, there are quirks similar to QuickBooks Online. It is easy to delete information with no audit trail and knowing how to work the software does take some training.
- If looking to use for trust accounting, i.e. your PMS does not offer trust accounting functionality, we recommend two instances of Xero.
- Two Xero instances leads to some duplication of transactions and transferring data between your PMS and Xero is manual if not integrated.
- Getting setup right from the start does take a certain level of expertise and working knowledge of accounting systems AND the vacation rental industry.

Summary

Accounting for vacation rental management companies is complex and is always slightly different from one company to the next.

We've spent years developing best practices, both in setup and transaction flow, and recently developed VRPlatform, a virtual accounting assistant that connects property management software to QuickBooks or Sage Intacct, to automate much of the trust accounting process.

VRPlatform allows vacation rental managers to continue using the PMS they currently know and love, but choose the accounting software that best meets their needs and easily adhere to trust accounting concepts and reporting.

Use VRPlatform accounting automation with any of these solutions:

Guesty

Hostaway

TRACK
A TravelNet Solution

Hostfully

BA BOOKING AUTOMATION

hospitable

breezeway

Contact our team today to request a demo and receive a custom quote.

Get advice from the experts in vacation rental accounting.

Established in 2018, Ximplifi brings accounting expertise to the vacation rental management industry with leading-edge technology and services. Automate the manual accounting workload with VRPlatform, Ximplifi's award-winning accounting automation plugin, or let Ximplifi's dedicated team handle the books with a VRAccounting membership for ongoing support and advisory.

Visit ximplifi.com to learn more.

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