

Record Keeping and Trust Accounts

8.0 Classroom Hours

Approved by the Colorado Real Estate Commission June 6, 1996 (updated 8/99).

COURSE OBJECTIVE: To protect the public by instructing students in the proper recordkeeping procedures required by the Real Estate Commission to maintain and account for funds belonging to others.

<u>MAJOR TOPICS TO BE COVERED:</u>	<u>HOURS</u>
I. Legal Requirements	0.5
II. Recordkeeping	6.0
III. Special Areas of Concern	1.0
IV. Termination of Brokerage Relationship	<u>0.5</u>
Total	<u>8.0</u>

All students must successfully complete a written examination covering all major topic areas of this outline

I. Legal Requirements (0.5 Hours)

A. Definition and Identification of Accounts

1. Type of Account
2. Trust Account Designation
3. Relevance to FDIC insurance coverage

B. Acting Broker's Responsibilities

1. Opening and maintaining a trust account
2. Timely deposit of monies belonging to others

C. Acknowledgment of Trust Account Status by Bank or other Depository

D. Colorado Real Estate Commission Rules and Regulations

1. Record retention period
2. Position Statements
3. Audit(s)-repeated audit findings are subject to disciplinary action (Rules 5.21., 6.25.A.)
4. Overview of key rules (5.2., 5.8.A. and 6.3.B.)

II. Record Keeping (6 Hours)

A. Transaction File Documents

B. Accounting Records

1. Journal
2. Ledgers
3. Bank Reconciliation: $\text{Journal Balance} + \text{Sum of Ledger Balances} = \text{Bank Balance} = \text{Transaction File Liabilities}$
4. Preparation of Minimum of 2 Practical Exercises
 - a. Working from a sample contract and 6-column settlement worksheet, student shall create journal and ledger entries leading to the closing of a real estate sale by a broker. Reconcile the ledger totals to the journal balance and a sample bank statement.

- b. Working from sample files, journals and ledgers, student shall reconcile the bank accounts for a property manager managing and holding security deposits for a minimum of 8 properties. (Lease information may be provided as necessary to show amount of security deposits and other needed lease data.)
- c. Repeat exercise (a) above where the broker holds an earnest money deposit but the closing is performed by a title company.
- d. Proper backup and printouts for software accounting systems, CD-ROM imaging of records.

III. Special Areas of Concern (1 Hour)

A. Separation of Duties

- 1. Employee Theft and internal controls.
- 2. Broker's need to personally perform bank reconciliations or periodically compare reconciliations against source documents (transaction files).
- 3. Use of practitioner aids at auditing Website.

B. Sales

- 1. Promissory Notes (Safekeeping and Collection)
 - 2. Void and/or NSF Checks
 - 3. Earnest Money Disputes and Interpleaders
 - 4. Good Funds-Proper trust account record entries
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- a. Cashiers or tellers check
 - b. Broker check in advance of closing
 - c. Wire transfer
 - d. Tri-party agreements (broker-title company-broker's bank)
 - e. Netting earned commission against earnest money deposit (security deposits also)
 - f. Requirements of Great Colorado Payback Program for unclaimed funds

C. Property Management

- 1. Separate trust account
- 2. Commingling/Negative Ledgers
- 3. Security and Advance Deposits- Separate Accounts
- 4. Owner Reserves
- 5. Account for broker commissions earned vs. taken

D. Broker Ledger

E. Broker Acting as Principal and Licensee (Partnerships; Joint Ventures, etc.)

F. Duplicate Signatures

IV. Termination of Brokerage Relationship (0.5 Hours)

A. Forwarding Trust Funds and Documents

B. Closing Accounting Records and paperwork reduction

Total 8.0 Hours