Explore the essentials of escrow accounting for anyone managing investment properties. It is good practice for navigating escrow numbers and continuous compliance. Simplify the process to improve fund management and grow your real estate portfolio.

Overview

To account for cash held in escrow properly, let's first trace the path the cash takes through your business. A third party holds money in an account on behalf of two other parties while they complete a transaction. The neutral party may hold assets, such as cash, securities, or funds, until both the buyers and sellers have fulfilled their responsibilities.

The escrow account manager may be a lender, escrow company, escrow agent, or mortgage agency. In real estate transactions, the escrow agent or company may be the same as the title company.

Now that we have the path, let us map your Chart of Accounts using QuickBooks Online (QBO).

Contents
- Setup the Escrow Account in QBO
- Add the Purchased Asset to your Books
- Add Escrow Payments and Track your Asset
- Business Activity while Managing Escrow

Setup the Escrow Account in QBO

Is the escrow account an Asset? Or is it a Liability?

You close on a single family with $3,500 of escrow. This covers $291.66 per month of property taxes and insurance. Escrow Accounts may either be cash that the business expects to receive or cash the business must pay out. In this case, the escrow is a prepayment for expenses and is an asset. The escrow is for the next 12 months and is a current asset.

To set up an escrow account in QBO, you can create a Bank or Other Current Assets. They have the same effect on your Income Statement and Balance Sheet. It comes down to personal preference. Let us use the current asset account.

I opened a session using QBO's Sample Company. Use it to evaluate new bookkeeping techniques. Head over to the left side menu and select Chart of Accounts from the Transaction center.