



Property management accounting:

The essential
beginner's guide

Introduction

Property management accounting can be a tricky balancing act.

Whether you're managing properties on behalf of a residential landlord or for commercial purposes, it's a business model that comes with various inflows and outflows of cash, which can often be complex to account for.

And all of this needs to be done on top of the day job, looking after the maintenance of multiple properties, and managing the needs of tenants and property owners.

We've put this guide together to give you a general idea of what's involved in accounting for a property management business – but for your more in-depth questions, we're on hand to offer specialist advice.

Getting started with property management accounting

Property management accounting is the practice of tracking, recording and analysing financial transactions relating to property.

Generally speaking, it involves the same tasks and requirements as accounting for any other type of business – but there are also some distinctive aspects that need a specialist approach.

Here's what you need to know when you're just starting out.

Know the regulation

Like other businesses in the UK, property managers that operate under a limited company structure must meet the requirements set out by the Companies Act 2006 when compiling their annual accounts.

Under this legislation, accounts must be prepared in line with either:

- generally accepted accounting practice (GAAP) standards published by the Financial Reporting Council, or
- international financial reporting standards (IFRS)

Most companies can decide which of these standards to use, although [some are required to use IFRS](#).

You should also be aware of requirements set out by industry organisations such as the Royal Institute of Chartered Surveyors (RICS), as well as relevant legislation such as the Housing and Planning Act.

Separate your funds

It's best practice for any business owner to keep their personal and business finances separate by setting up a dedicated business bank account.

This isn't a legal requirement, but it's by far the best way to ensure total clarity on the transactions going through your business.

For property managers, it's also a good idea to maintain separate business accounts for different properties, to avoid any mixing of funds.

Choose an accounting method

There are two main accounting methods:

- The **cash basis** recognises revenue and expenses when they are received or paid.
- The **accruals basis** recognises revenue and expenses when they are incurred.

Many small businesses use the cash basis because it's relatively simple to manage, and gives a picture of their overall cash balance.

On the other hand, the accruals basis is often a more accurate and powerful tool to inform business decisions. For property management businesses with complex finances, this is likely to be the better option.

Keep records

Accurate, reliable data is the foundation of any good bookkeeping and accounting system.

You'll need to keep detailed records of all the purchases you make and all the payments you receive. Keeping business records is a legal obligation, but it also has its advantages:

- **Clarity on cashflow and business performance:** by monitoring the cash coming in and out of your business, you can gain an understanding of how it's performing and avoid running into cashflow problems.
- **Understand your profitability:** keeping these records gives you better visibility on how much money your business is making.
- **Claiming tax relief:** recording all of your expenses allows you to claim qualifying costs as a deduction from your business profits, potentially reducing your tax bill.

As well as tracking different transactions for the business as a whole, property managers should maintain clear records for individual properties.

You can keep these records manually, using spreadsheets, but this can be an arduous and error-prone process. Accounting software is a more efficient and accurate solution, with many platforms offering specialist tools to manage different properties.

Reconcile transactions

Once you've recorded your transactions, the next step is to reconcile them: this is the process of checking your records against your bank statements. This step allows you to identify any errors, to make sure your records are accurate.

Again, you could do this manually, but accounting software is a quicker option, with automated reconciliation tools helping you to check everything over.

Prepare financial statements

You've recorded your transactions and processed them to make sure they're accurate, but what does that data actually tell you?

There's only so much you can understand from a straightforward list of transactions – to get a fuller picture of your financial position and inform your business decisions, you need to organise that information into financial statements.

The three most important financial statements to be aware of are:

- **Balance sheet:** This summarises your business's assets and liabilities at a specific point in time, to give a picture of its overall net worth.
- **Profit and loss statement:** Also known as the income statement, this focuses on your revenue and expenses over a particular period of time.
- **Cashflow statement.** This summarises your business's cashflow, showing where your money is coming from and where it's going.

Budget and forecast

Once you have a clear picture of the money coming in and going out of your property management business, you can start using that information to draw up planning tools like budgets and forecasts.

Again, this should be done both at a business level and a property-specific level. Your property budgets should encompass all possible revenue streams, such as rent and other fees, and a detailed list of the expenses you expect to pay, including maintenance, utilities, insurance, taxes, and more.

Property-specific budgets are crucial as they allow managers to track the performance of each property individually and make informed decisions based on each property's financial health.

By understanding your past performance and expenditure, you can also draw up forecasts that predict future cashflow. You can then review and adjust these based on property performance and market conditions.

Accounting challenges for property management businesses

There are a few aspects of running a property management business that can make accounting more complicated.

Here are just a few areas to consider.

Managing multiple tenants and leases

Tracking multiple lease agreements with different terms, rent amounts, and expiration dates requires meticulous attention to detail.

You'll need to keep up-to-date details of all of this information, and make sure it matches the financial records you keep.

Handling client money

When handling landlords' and tenants' money, you need to follow strict regulations and have a [client money protection scheme](#) in place. For deposits from tenants, you'll also need a [deposit protection scheme](#).

The accounting rules around this are complex, and you'll need to make sure you keep detailed records of how client money is handled. Be sure to seek specialist advice.

Service charge accounts

If you manage a property that's divided into individually owned units, you'll likely need to issue a service charge to cover the costs of maintaining common areas.

You'll need to provide tenants with a statement that summarises the costs and produce separate accounts for these charges.

Again, this is an area of accounting that needs specific expertise. The Institute of Chartered Accountants in England and Wales has published [technical guidance on service charge accounting for residential and commercial properties](#), but it's always best to seek professional advice.

Accounting software for property management

We've talked about how useful accounting software is a few times throughout this guide.

It's an efficient way to track and record your financial information, especially when you're managing multiple income sources and expenses for different properties.

But with so much choice, how do you go about finding the best software for your property management business?

Generalist or specialist?

Many popular accounting tools provide features for landlords and property managers, but you'll also find specialist platforms that are dedicated to this sector.

Which features do you need?

When seeking property management accounting tools, it is crucial to prioritise features that align with the unique demands of the real estate market.

Look for platforms that offer comprehensive functionality, including robust rent and expense tracking capabilities. Key features to look for in property management accounting tools include:

- **Comprehensive financial tracking:** Robust tools for monitoring rental income, property expenses, and maintenance costs.
- **Customised reporting:** The ability to generate detailed financial reports aligned with UK accounting standards.
- **Integration capabilities:** Seamless integration with banking systems and support for multiple currencies for enhanced efficiency.
- **Compliance support:** Features to assist with adherence to UK tax regulations and property laws.

- **User-friendly interface:** Intuitive design for ease of use, ensuring efficient navigation through the software.
- **Automated reminders:** Timely notifications for critical deadlines, facilitating proactive management.
- **Scalability:** Ability to scale with the growth of property portfolios, accommodating diverse and expanding needs.

Conclusion

As you'll have picked up by now, proper property management accounting is paramount for several reasons, playing a pivotal role in the success and sustainability of real estate ventures.

As you'll have picked up by now, proper property management accounting is paramount for several reasons, playing a pivotal role in the success and sustainability of real estate ventures.

Firstly, accurate financial tracking ensures transparency in the management of rental income, expenses, and related transactions. This not only facilitates compliance with tax regulations and property laws but also provides property

owners with a clear overview of their financial health.

Efficient accounting practices contribute to strategic decision-making, enabling property managers to identify cost-saving opportunities, maximise profits, and plan for long-term growth.

Moreover, the real estate landscape is dynamic, marked by evolving regulations and market trends. Embracing continuous learning and adaptation in property management accounting is crucial to staying ahead. Property managers should remain updated on changes in tax laws, accounting standards, and industry best practices.

This ongoing commitment to learning ensures that accounting practices align with the latest requirements, reducing the risk of financial discrepancies and potential legal issues.

By embracing a mindset of continuous improvement, property managers can not only navigate challenges effectively but also seize opportunities for innovation and efficiency, ultimately fostering the success and resilience of their property portfolios.

We are here to help

The realms of property, real estate, and construction stand as some of the most significant sectors within the UK economy, encompassing a diverse array of professions. Whether dealing with single-property landlords, property managers, estate agents, or construction firms, our **expertise** at Cottons extends to businesses across this expansive spectrum.

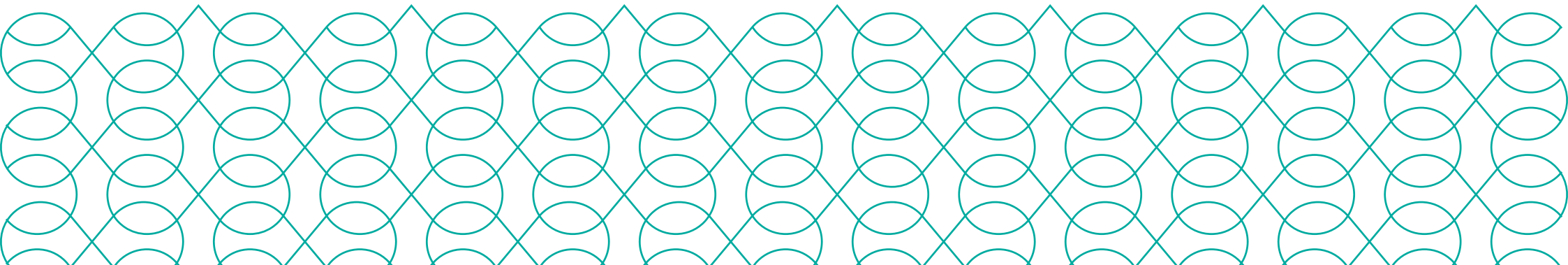
Given the intense scrutiny from HMRC on the entire property sector, precision is paramount.

In our capacity as specialist construction and real estate accountants, we offer adept guidance to help you manoeuvre through these intricate rules and achieve your business objectives. Our team of industry experts assumes responsibility for your accounts and compliance needs, ensuring transparency and providing comprehensive explanations throughout the process.

Our tailored services encompass:

- adhering to CIS requirements
- complying with off-payroll working rules (IR35)
- accounting for the VAT domestic reverse charge
- handling stamp duty, VAT, and capital gains tax
- tax planning and property portfolio management
- exploring tax reliefs and allowances for property
- business structuring and restructuring.

With our specialised support, you can confidently address the complexities of your industry, secure in the knowledge that your financial matters are in capable hands.





Ready to find
out more?

Cottons Group
0160 497 3983
enquiries@cottonsgroup.com