



Accounting For Flipping Houses: The Absurd Truth



Accounting for flipping houses matters a great deal to real estate investors. You have to think about the use of viable, configurable software to manage your business and grow if you are, or want to be, a flipper. Systematic procedures to optimize business flow were mostly created for a productive flipping business. In the background, accounting is an important platform in a flipping business, meaning expense accounts are crucial to the business ' success. Not only does definitive auditing decrease your total taxable income, but it will also demonstrate the competent [management of your business](#) to prospective future investors and lenders.



Accounting For Flipping Houses – The Shoebox Method



It is difficult to do expense tracking, particularly logging receipts from your different expenses, while on the other hand, you can employ an accountant approach. In creating a flip accounting method, the first question a real estate investor wants to ask is: how do we keep a record of income and expenses and book them properly? We need to establish a convenient and repeatable way of reporting receipts and invoices to keep track of [income](#) and expenditure. You can simply store receipts in a shoebox or file folder and forward them to your auditor at year-end. Accounting for flipping houses needs to be thought of with a much more valuable mindset than just simply keeping up with income and disbursement.

Irrespective of which system and software/app you use, for your operations you will be using specific categories. In general, these categories are:



- Cost of purchase
- Cost of rehab (enhancements)
- Cost of repair
- Holding cost
- Price for sale
- Selling cost

Playing it safe is important. We want an easy and repeatable system, one that we can hand out and execute without mistake to an employee with minimum instruction. Don't get too involved in the cost categories.

Accounting For Flipping Houses – The IRS



You would have to review the above categories for the [IRS](#) if you mean to be making or receiving payments in your company. The IRS would evaluate the



payments on the information reports to the records of the individual who earned the income and make sure that the income was properly recorded. If information returns are not filed, the result is that sanctions can not be filed; this can be also very expensive, so ensure you comprehend the following section. Accounting for flipping houses is taken very seriously by the IRS, it should be by real estate investors as well.

To confirm certain payments you are making to your business, you will need to file "Form 1099-MISC." Miscellaneous income. These fees include the following directly from publication 583:

- \$600 or more for services rendered by non-persons such as subcontractors, attorneys, accountants, or executives for your company
- Rental fees of up to \$600, except loans charged to immobilizers
- \$600 or more prizes and awards not for services, such as TV or radio broadcasts
- \$10 or more remittance fees
- Payments by fishing boat operators to other crew members
- When you run a company, you will determine which accounting system to use for your company: cash or accrual.

A Worked Example



Most taxpayers use their reports with the cash form of accounting. The cash protocol essentially states that profit is accepted when the check is paid. Thus on 31 December 2015, all of this income is recognized in 2015 based on an accounting income statement, if the tenant pays you a 12-month rental for 2016. Once they are charged or accrued, the accrual system of accounting considers revenue and expenditures only when the cheque is issued or the costs are covered. If the tenant pays you 12 months' rent on December 31st, you do not recognize the revenue for 2015 because everything applies to 2016.

Another great example is insurance: while you will pay the first lump sum fee, each month you consider the actual cost in your accounts. Prepaid premiums, which are reduced by 'insurance costs' per month, would explicitly be in an account called the 'prepaid insurance.'



The IRS probably would identify you as a dealer if you plan on, or already are, flipping several properties. This will mandate you to use the accrual accounting method for accounting purposes, meaning your apartment buildings are to be classified as current assets. I also advise you to stick with the accrual accounting system from day one; you won't need to pay an extravagant accountant fee to shift your records later to the accrual method.

Conclusion

I believe you can develop a good accounting method through this information. If you start, remember to keep it straightforward. When you grow, make your accounting and reporting roles with software programs that best fit your requirements. And besides, you don't want to spend more time doing backroom accounting functions in your market closing deals. Accounting for [flipping houses](#) is a must for real estate investors who aim to be a success.

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