

How to Use Classes in QuickBooks for Commercial Real Estate

What is the Purpose of Using Classes?

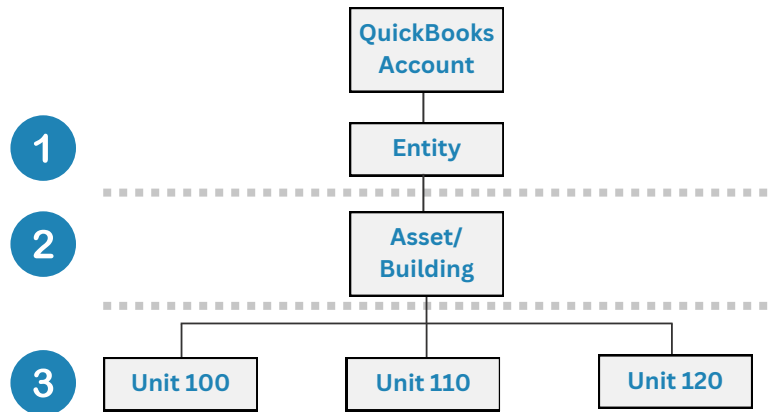
QuickBooks' class tracking feature lets businesses categorize financial data beyond the standard chart of accounts. By assigning classes to transaction lines, companies can monitor income, expenses, and profitability across properties without cluttering the P&L with subaccounts.

Class tracking is particularly helpful for commercial real estate for tracking common area maintenance expenses.

Scenario I:

There is one QuickBooks account for a single entity/single LLC. This entity has one asset and a building with multiple tenants. Most expenses will be distributed to all tenants, but certain expenses may be only appropriate for certain tenants.

Example:



1. All reimbursable expenses classed at this level will be shared by all tenants within the Entity at their pro-rata share of the Entity.

2. All reimbursable expenses using this class will be shared pro-rata among all tenants in the Asset/Building based on their rentable square footage of the Building.

3. All reimbursable expenses using the specific subclass for the Unit will be 100% allocated to only this Tenant/Unit.

***Note:** For STRATAFOLIO CAM Reconciliations, the reimbursable expense account(s) must be mapped to an Operating Expense subcategory for allocation to occur.

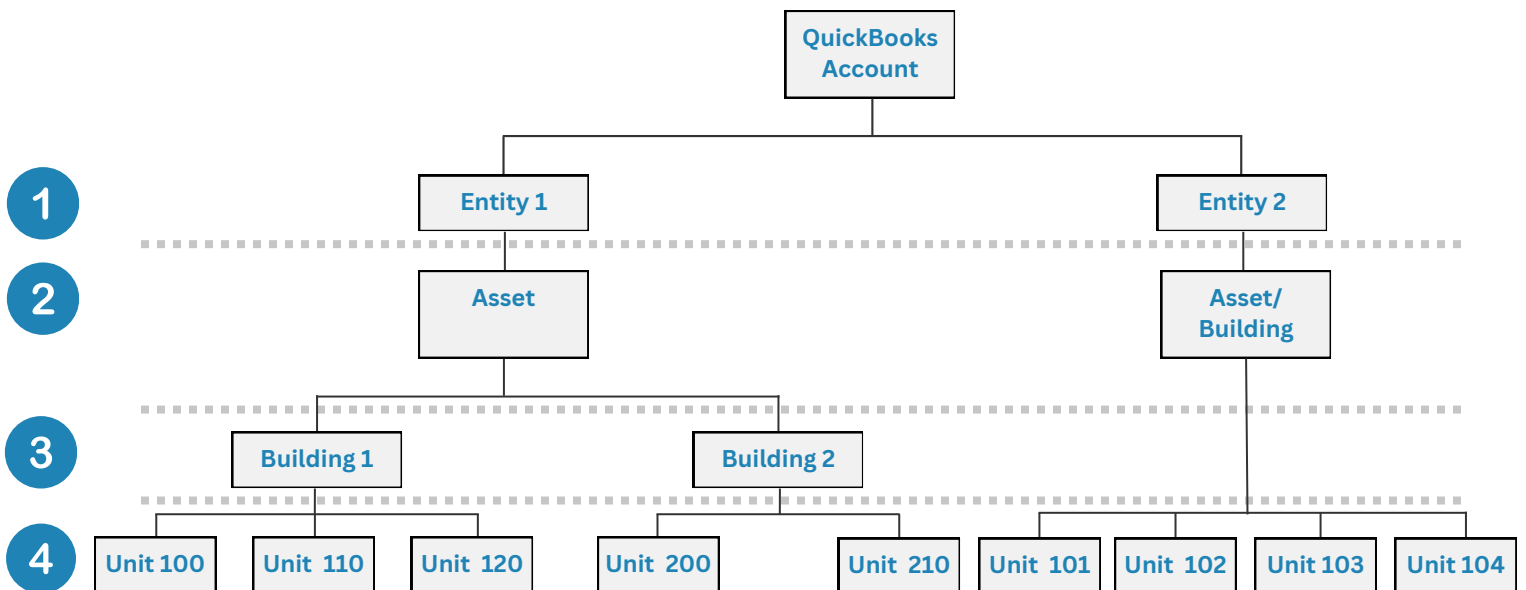
Scenario II:

There is one QuickBooks account for multiple entities/LLCs. Within the same QuickBooks account, there are multiple Entities, Assets, Buildings, and Tenants.

This is not a recommended setup with STRATAFOLIO because you will lose some classification details, and it should only be used with the approval of your accountant.

However, if you combine multiple entities in one QuickBooks account, a class would need to be made for each entity and then the subclasses for the Assets, Buildings, and Tenants.

Example:



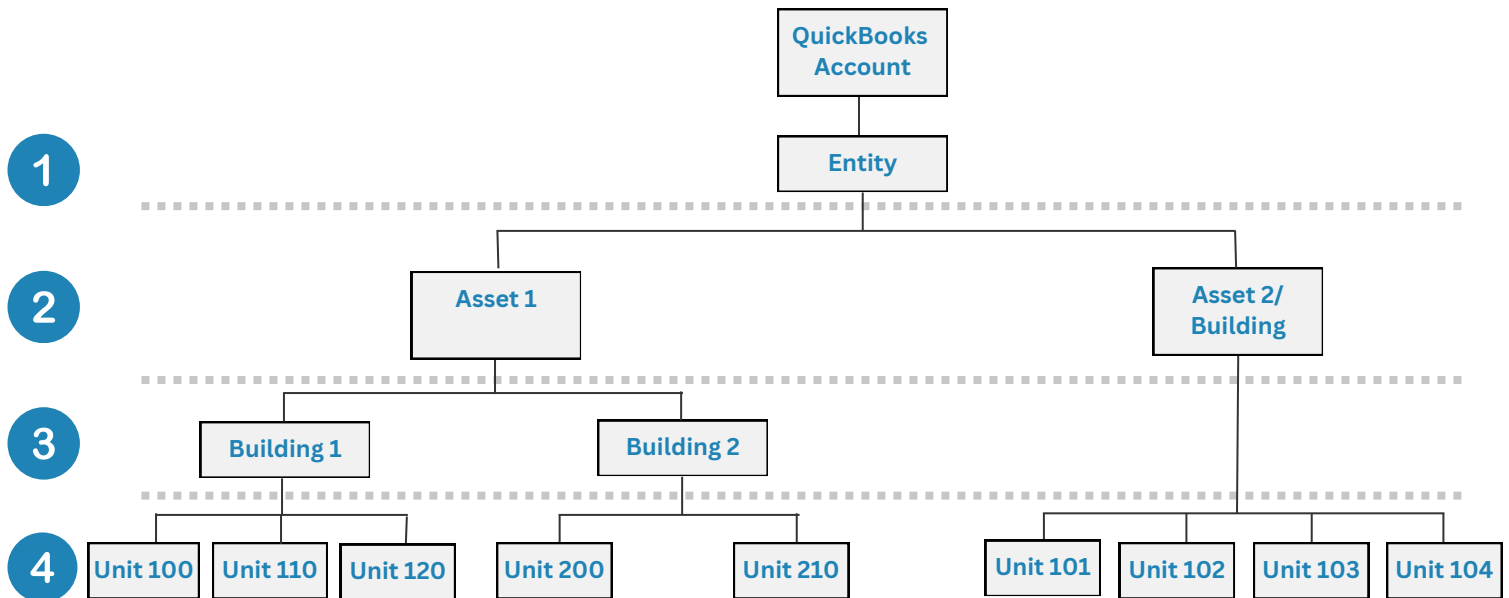
1. All reimbursable expenses classed at this level will be shared by all tenants in only this Entity at their pro-rata share of the Entity.
2. All reimbursable expenses using this class will be shared pro-rata among all tenants in only this Asset based on square footage of the Asset.
3. All reimbursable expenses using this class will be shared pro-rata among all tenants in only this Building based on square footage of the Building.
4. All reimbursable expenses using the specific subclass for the Unit will be 100% allocated to only this Tenant/Unit.

***Note:** For STRATAFOLIO CAM Reconciliations, the reimbursable expense account(s) must be mapped to an Operating Expense subcategory for allocation to occur.

Scenario III:

There is one QuickBooks account for a single entity/single LLC. This entity has multiple Assets, Buildings, and Tenants within the same entity.

Example:



1. All reimbursable expenses classed at this level will be shared by all tenants within the Entity at their pro-rata share of the Entity.

2. All reimbursable expenses using this class will be shared pro-rata among all tenants in only this Asset based on square footage of the Asset.

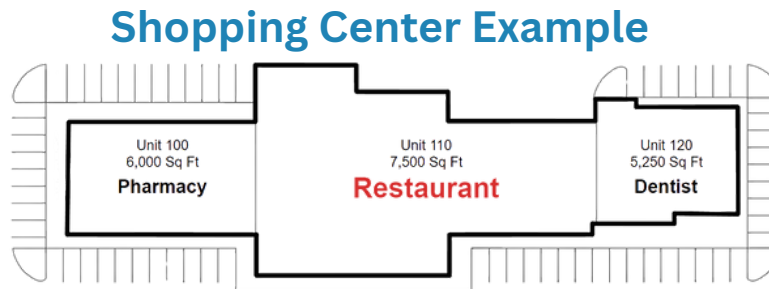
3. All reimbursable expenses using this class will be shared pro-rata among all tenants in only this Building based on square footage of the Building.

4. All reimbursable expenses using the specific subclass for the Unit will be 100% allocated to only this Tenant/Unit.

***Note:** For STRATAFOLIO CAM Reconciliations, the reimbursable expense account(s) must be mapped to an Operating Expense subcategory for allocation to occur.

Steps for Posting Expenses in QuickBooks with Classes

We will use the example of the Restaurant in the Shopping Center Example shown below. They are the tenant renting Unit 110 in Building 1 for all of the examples below.



$$\text{Pro-Rata Share} = \left(\frac{\text{Unit (Rentable Sq Ft)}}{\text{Building (Total Rentable Sq Ft)}} \right) \times 100$$

For the Restaurant, **take its 7,500** square feet and **divide by 18,750** (total rentable sq. ft. of the building). Next, **take that number and multiply by 100**. The Restaurant's pro-rata share of the Building is 40.00%

- Unit 110 Square Footage - 7,500 = 100%
 - Total Building Rentable Square Footage - 18,750 = 40%
 - Total Asset Rentable Square Footage (Scenario 2 and 3) - 35,714 = 21%
 - Total Entity Rentable Square Footage (Entity 1 in Scenario 2) - 35,714 = 21%
 - Total Entity Rentable Square Footage (Scenario 3) - 90,850 = 8.26%
- **Assuming Building 2 is 16,964 sq ft and Asset 2 is 55,676 sq ft**

Posting Entity Specific Expenses:

The Property Insurance expense is typically an Entity specific expense. This will be posted to the general ledger reimbursable account called Property Insurance set up in the Chart of Accounts (COA). Depending on your class setup, this will be allocated to the tenants by their pro-rata share of the Entity in STRATAFOLIO.

Scenario I:

Posting the expense using the class "Entity" or "Asset/Building" will calculate 40% of the expense to Unit 110 on the CAM Reconciliation in STRATAFOLIO.

Scenario II:

Posting the expense using the class "Entity 1" or "Asset 1" will calculate 21% of the expense to Unit 110 on the CAM Reconciliation in STRATAFOLIO.

Scenario III:

Posting the expense using the class “Entity 1” will calculate 8.26% of the expense to Unit 110 on the CAM Reconciliation in STRATAFOLIO.

Posting Asset Specific Expenses:

Real Estate Taxes expense are typically expenses that will be incurred for the building or parcel. These will be posted to the general ledger account called Reimbursable:Real Estate Taxes, which is set up in the Chart of Accounts (COA). Depending on your class setup, this will be allocated to the tenants by their pro-rata share in STRATAFOLIO.

Scenario I:

Posting the expense using the class “Asset/Building” will calculate 40% of the expense to Unit 110 on the CAM Reconciliation in STRATAFOLIO.

Scenario II:

Posting the expense using the class “Asset 1” will calculate 21% of the expense to Unit 110 on the CAM Reconciliation in STRATAFOLIO.

Scenario III:

If posting the expense using the class “Entity 1” will calculate 8.26% of the expense to Unit 110 on the CAM Reconciliation in STRATAFOLIO. This should be posted as it is in Scenario II.

Posting Building Specific Expenses:

Landscaping expense are typically expenses that will be incurred for the building. These will be posted to the general ledger account called Reimbursable:Landscaping, which is set up in the Chart of Accounts (COA). Depending on your class setup, this will be allocated to the tenants by their pro-rata share in STRATAFOLIO.

Scenario I:

Posting the expense using the class “Asset/Building” will calculate 40% of the expense to Unit 110 on the CAM Reconciliation in STRATAFOLIO.

Scenario II:

Posting the expense using the class “Building 1” will calculate 21% of the expense to Unit 110 on the CAM Reconciliation in STRATAFOLIO.

Scenario III:

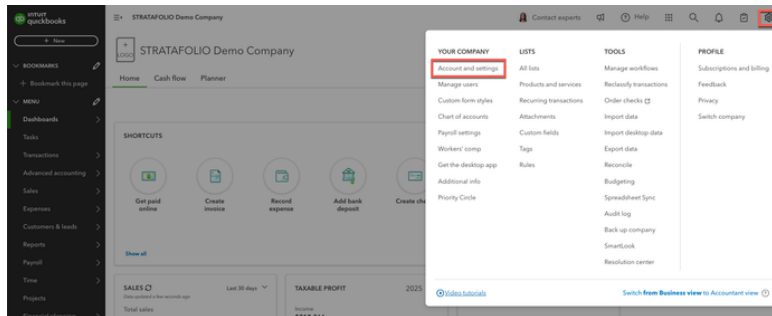
If posting the expense using the class “Entity 1” will calculate 8.26% of the expense to Unit 110 on the CAM Reconciliation in STRATAFOLIO. This should be posted as it is in Scenario II.

Posting Unit Specific Expenses:

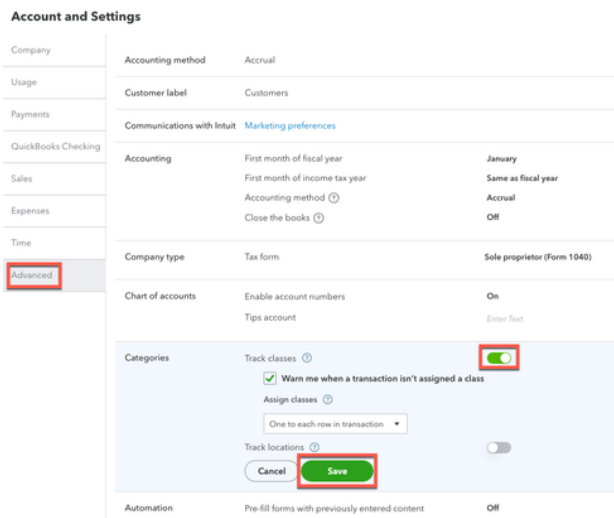
For the Restaurant, a grease trap expense is a tenant-specific expense that needs to be allocated 100% to the tenant. This will be posted to the general ledger account called Reimbursable: Grease Trap, which is set up in the Chart of Accounts (COA). All three scenarios are the same. Post the expense to the subclass created for Unit 110.

Steps for Adding Classes in QuickBooks

In QuickBooks Online, go to Settings using the gear icon. Select Account and Settings.

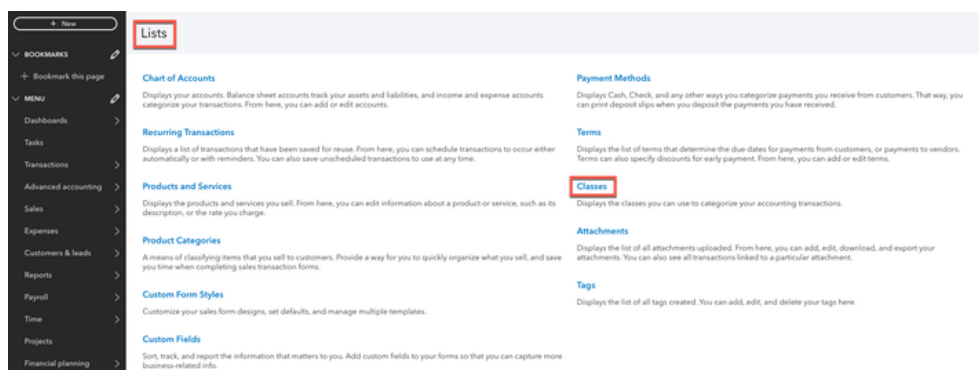


Select Advanced. Turn on Track Classes. Assign classes one to each row in transactions. Save your updates.

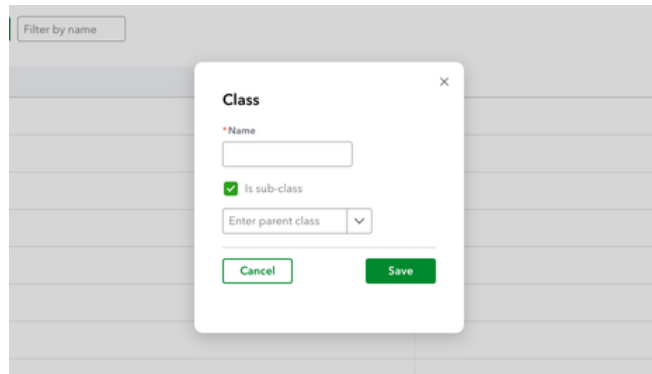


We recommend selecting the option to Warn when a transaction is not assigned a class. This way, you will have a reminder for every transaction to have a class assigned. This is also why we suggest using an Overhead class to ensure that all transactions have a class assigned to them.

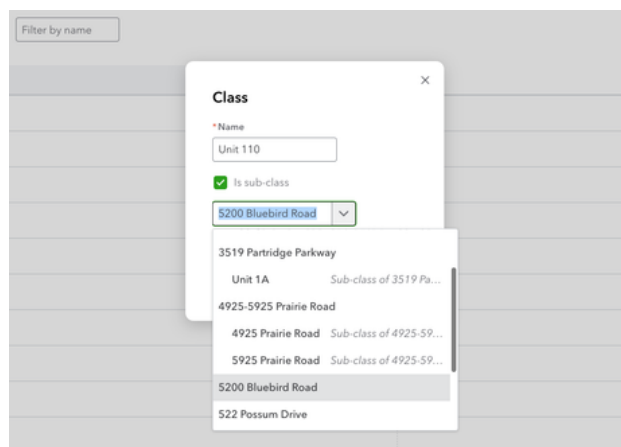
Next, you need to set up the actual classes. Go to the Settings in the gear icon again. Select All Lists. Click on Classes. This listing contains a complete list of the classes you are using.



To create a new class, select New and type the class name that you have decided to use. We suggest the name of the LLC, Asset, or Building.



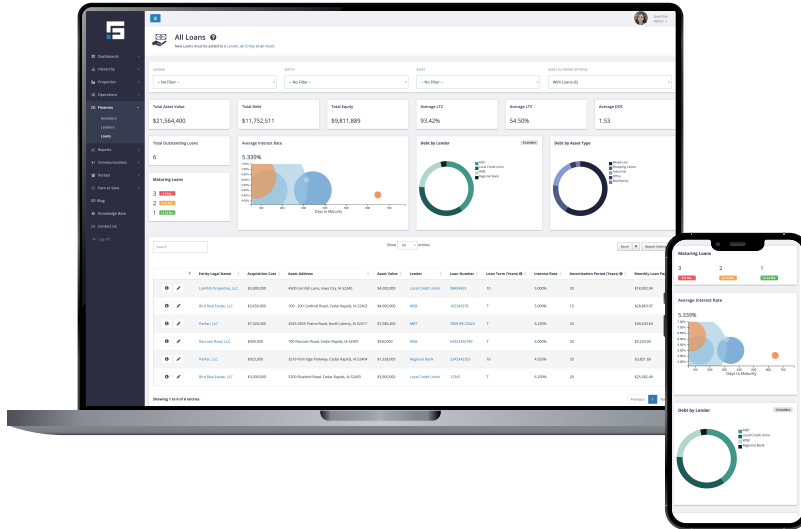
To enter another class or sub-class, repeat the steps above. When creating the sub-class, select the check mark and the correct class that needs to be the parent. In QuickBooks Online, you can make a parent and up to 4 children/sub-classes under each parent class.



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Frequently Asked Questions

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