

Recording Loan Payments in QuickBooks

Aim

The aim of this paper is to give the reader an understanding of how to correctly record the loan payments in QuickBooks.

In my paper "Handling Purchases and Trade-ins of Motor Vehicles in QuickBooks", the transaction revolved around the purchase of a motor vehicle with an amount borrowed of \$37,845 (including borrowing costs). This paper picks up from there, and shows how the loan repayments are recorded to correctly account for the interest on the loan and the reduction of the loan value in the balance sheet.

Versions

This paper was written using QuickBooks 2012-13. The procedures can be used in all versions of QuickBooks.

Type of Loan

For the purposes of this exercise, there are two "categories" of loan applicable here:

- A loan where you get a statement showing interest paid. These are generally from Banks, but not always. The statements come anywhere from monthly to six monthly. The distinguishing feature is that you get a statement showing the interest component;
- A loan where there is no statement. You will need to ask your finance provider for an amortization or interest schedule. Not all finance companies will provide these, so you may need to ask your accountant to prepare one for you. To do this, your accountant will need to see the loan documentation.

Commencing Balances

From the "Handling Purchases and Trade-ins of Motor Vehicles in QuickBooks" paper, the Balance Sheet and the Chart of Accounts should look like this:

Long Term Liabilities	
Loan Honda Accord	
Unexpired Interest	-6,500.00
Loan Honda Accord - Other	<u>44,345.00</u>
Total Loan Honda Accord	<u>37,845.00</u>

◊ Loan Honda Accord	Long Term Liability	37,845.00
◊ Unexpired Interest	Long Term Liability	-6,500.00

Note that unexpired interest is a sub-account, so note how the balances show in a different way in the Balance Sheet and the Chart of Accounts.

You will also need to set up an expense account for the loan interest and the loan administration fees. I have added sub-accounts for each.

◊ Interest Expense	Expense	NCF
◊ Interest Credit Card	Expense	NCF
◊ Interest Honda Accord Loan	Expense	NCF
◊ Interest Overdraft	Expense	NCF

◊ Bank Fees	Expense	NCF
◊ Bank Charges	Expense	NCF
◊ Bank Merchant Fees	Expense	NCF
◊ Loan Admin Fees	Expense	NCF

LOANS WITH STATEMENTS

A loan statement will look something like this:

Date	Item	Debit	Credit	Balance
15/12/09	Loan Drawdown	37,495.00		37,495.00 Dr
15/12/09	Establishment Fee	350.00		37,845.00 Dr
31/12/09	Interest 8.5%	139.70		37,984.70 Dr
31/12/09	Loan Fee	30.00		38,014.70 Dr
15/01/10	Loan Payment		923.85	37,090.85 Dr
31/01/10	Interest 8.5%	265.24		37,356.09 Dr
31/01/10	Loan Fee	30.00		37,386.09 Dr

Unlike any other transaction in QuickBooks, these transactions are best handled by entering the transaction as a journal entry via *Company > Make General Journal Entry*. The Loan Drawdown and the Establishment Fee does not need to be recorded as it was recorded when the vehicle was initially purchased.

Entering Interest Expenses

Date	31/12/2009	Entry No.	6	<input type="checkbox"/> Adjusting Entry	
Account	Debit	Credit	Tax Item	Tax Amount	Memo
Loan Honda Accord:Unexpired Interest		139.70			Loan Interest Honda Accord
Interest Expense:Interest Honda Accord Loan	139.70		NCF	0.00	Loan Interest Honda Accord

Make sure the debits and credits are entered correctly and that the NCF tax code is only on the Interest Expense line of the journal.

Entering Loan Fees

Date: 31/12/2009 Entry No. 7 Adjusting Entry

Account	Debit	Credit	Tax Item	Tax Amount	Memo
Loan Honda Accord		30.00			Loan Admin Fee Honda Accord
Bank Fees:Loan Admin Fees	30.00		NCF	0.00	Loan Admin Fee Honda Accord

Again, make sure the debits and credits are entered correctly and that the NCF tax code is only on the Loan Admin Fee line of the journal.

Entering the Loan Payment

This will normally be automatically deducted from the business cheque account. It is best recorded via the "Write Cheques" screen. This transaction can be set up as a memorised transaction.

Bank Account: ABC Bank Ending Balance: \$71,244.23

No. dd
Date: 15/01/2010
\$ 923.85

Pay to the Order of: Loan Payment Honda Accord
 Nine hundred twenty-three dollars and 85 cents*****

Address: Loan Payment Honda Accord
Memo:

Expenses: \$923.85 Items: \$0.00

Account	Tax	Net Amt	Tax Amt	M..	Customer:...	Billa...	Class
Loan Honda Accord	X	923.85	0.00				

Note that the tax code is either blank or 'X' (see my paper "Understanding and Using QuickBooks Tax Codes"). NCF is wrong!

Viewing Transactions in the Register

Double-click the unexpired interest account (chart of accounts) to show the register.

Loan Honda Accord:Unexpired Interest

Go to... Print... Edit Transaction QuickReport

Date	Ref	Payee	Increase	Decrease	Balance
Type	Account	Memo			
15/12/2009	4			6,500.00	-6,500.00
	GENJRNL	Loan Honda Accord [split] Total Interest Payable			
31/12/2009	6		139.70		-6,360.30
	GENJRNL	-split- Loan Interest Honda Accord			

The main Loan Honda Accord Account looks like this. Note that this account also shows the transactions of the Unexpired Interest Sub-account.

Date	Ref	Payee	Increase	✓	Decrease	Balance
	Type	Account				
15/12/2009	4		44,345.00	*		44,345.00
	GENJRN	-split- Total Honda Accord Principal & Interest				
15/12/2009	4				6,500.00	37,845.00
	GENJRN	Loan Honda Accord [split] Total Interest Payable				
31/12/2009	7		30.00			37,875.00
	GENJRN	-split- Loan Admin Fee Honda Accord				
31/12/2009	6		139.70			38,014.70
	GENJRN	-split- Loan Interest Honda Accord				
15/01/2010	dd	Loan Payment Honda Accord			923.85	37,090.85
	CHQ	ABC Bank [split]				

The Balance Sheet should also match the balance shown on the statement. This Balance Sheet is dated 15/01/2010 and agrees with our statement.

LIABILITIES

Long Term Liabilities

Loan Honda Accord

Unexpired Interest	-6,360.30
Loan Honda Accord - Other	<u>43,451.15</u>
Total Loan Honda Accord	<u>37,090.85</u>

These statements can (and should!) be reconciled using the QuickBooks "Banking > Reconcile" feature.

LOANS WITHOUT STATEMENTS

Loan from Finance Companies and some bank loans often don't have statements; you will need to request an amortization or interest schedule from the lender or ask your accountant for one. This schedule doesn't include the Establishment Fee as with this type of loan it is usually paid up front. The schedule looks like this:

Month	Payment	Principal	Interest	Balance
				37,495.00
1	923.85	658.85	265.00	36,836.15
2	923.85	663.51	260.34	36,172.64
3	923.85	668.20	255.65	35,504.44
...
48	923.85	917.37	6.48	0.00

The first transaction is entered from the business cheque account as follows:

Bank Account	ABC Bank	Ending Balance	\$70,320.38	
Pay to the Order of <u>Loan Payment Honda Accord</u>		No. dd		
Date <u>15/01/2010</u>		\$	<u>923.85</u>	
Nine hundred twenty-three dollars and 85 cents*****				
Address	Loan Payment Honda Accord			
Memo				
Expenses	\$923.85	Items	\$0.00	
Account	Tax	Net Amt	Tax Amt	Memo
Loan Honda Accord	X	923.85	0.00	
Interest Expense:Interest Honda Accord Loan	NCF	265.00	0.00	
Loan Honda Accord:Unexpired Interest	X	-265.00	0.00	

With subsequent payments, the 2nd and 3rd lines of the allocation are changed according to the schedule: \$260.34 in the 2nd payment; \$255.65 in the 3rd payment and down to \$6.48 in the 48th payment.

After each payment, the balance on the Balance Sheet should be checked against the balance on the amortization schedule.

Balance Sheet at 15/01/2010

Loan Honda Accord	
Unexpired Interest	-6,235.00
Loan Honda Accord - Other	<u>43,071.15</u>
Total Loan Honda Accord	36,836.15

-- End --