



# Loan Setup

Property Management Solutions for Over 30 Years

## Overview

What follows is one possible way to record a loan and payments of that loan. Whatever method you choose we recommend that you get the approval of your accountant.

## Scenario 1

### Set up the loan accounts

- Create a long term liabilities account for Loan Payable
- Create an Other Asset account for Building Asset or Collateral (or whatever you wish to call it). This is the value of the building.
- Create a Capital Reserve account for Building Equity. This is your equity in the building (value minus loan)
- If you wish to track the principal and interest amounts, create expense accounts for Principal Paid and Interest Paid. Then create a Bill Code for each one.

**Loan Payable [Account]**

ID: LOAN PAYABLE | Loan Payable | Ledger Code: 9999 |  Active

Account Type: Current Liabilities |  Bank Account |  Checking Account

Classification: |  Escrow Deposit Analysis |  Impound Account

Account Sections:

Balance Sheet: LIAB CUR: Current Liabilities

Other Financial Statements: LIAB CUR: Current Liabilities

**Building Asset [Account]**

ID: BUILDING ASSE | Building Asset | Ledger Code: 9999 |  Active

Account Type: Other Assets |  Bank Account |  Checking Account

Classification: |  Escrow Deposit Analysis |  Impound Account

Account Sections:

Balance Sheet: ASSET OTH: Other Assets

Other Financial Statements: ASSET OTH: Other Assets

**Building Equity [Account]**

ID: BUILDING EQUI | Building Equity | Ledger Code: 9999 |  Active

Account Type: Capital Reserve |  Bank Account |  Checking Account

Classification: |  Escrow Deposit Analysis |  Impound Account

Account Sections:

Balance Sheet: CAPITAL: Capital

Other Financial Statements: CAPITAL: Capital

**Establish loan balance**

- Do a Journal Voucher, credit Loan Payable for the amount of the loan, debit the Building Asset account for the full value of the asset, credit Building Equity for the difference.

**Journal Voucher**

Date: 10/2/2018  
 Reference: Journal Voucher  
 Ledger: CLAYTON: Frederick L. Clayton [Owner]  
 Memo:  
 Comment:

Cash  
 Accrual  
 Modified Cash

Credits: \$75,000.00  
 Debits: \$75,000.00  
 In Balance:

Account	Debit or Credit	Amount
LOAN PAYABLE: Loan Payable	Credit	\$50,475.00
BUILDING ASSET: Building Asset	Debit	\$75,000.00
BUILDING EQUITY: Building Equity	Credit	\$24,525.00

- If this is actual cash in the bank rather than a mortgage, do a ledger receipt for the amount of the loan using an account code of Cash In and deposit it to the bank account.

**Ledger Receipt**

Date: 10/2/2018  
 Receipt #: 281002RIEJ  
 Ledger: CLAYTON: Frederick L. Clayton [Owner]  
 Unit:  
 Bank: CHECKING: Bank Account Checking  
 Payment: \$50,475.00  Currency  
 Memo:  
 Comment:

Applied Payments:  
 Cash Contribution: \$50,475.00

Account	Amount
Unit	

## Balance Sheet after the Journal Voucher

<b>Balance Sheet</b>	
Frederick L. Clayton	
Cash Accounting	
October 2, 2018	Balance
<b>Assets</b>	
<b>Current Assets</b>	
Bank Account Checking	\$1,116.87
Bank Account Escrow	\$1,150.00
	Current Assets <u>\$2,266.87</u>
<b>Other Assets</b>	
Building Asset	\$75,000.00
	Other Assets <u>\$75,000.00</u>
	Total Assets <u>\$77,266.87</u>
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Loan Payable	\$50,475.00
Security Deposit	\$1,150.00
	Current Liabilities <u>\$51,625.00</u>
	Total Liabilities <u>\$51,625.00</u>
<b>Equity</b>	
<b>Capital Reserve</b>	
Building Equity	\$24,525.00
	Capital Reserve <u>\$24,525.00</u>
<b>Equity</b>	
Current Year Earnings	\$866.87
Retained Earnings	\$250.00
	Equity <u>\$1,116.87</u>
	Total Equity <u>\$25,641.87</u>
	Total Liabilities and Equity <u>\$77,266.87</u>

### Record scheduled payments for loan

There are two ways to record the loan payment.

1. You can set up the check as a Recurring Check for the full amount of the payment and use the journal voucher to record the principal and interest amounts and the changes to Loan Payable and Building Equity.
2. Or you can use the Single Check function to record the full amount of the check as well as the principal and interest amounts and then a journal voucher to record the changes to Loan Payable and Building Equity. In either case you need an amortization schedule from the lender showing the amount of each payment that applies to interest and principal.

**Write Check**

Posting Date: 10/2/2018  Hand Written

Invoice #: BUILDING LOAN

Payee: MMTRUST: Minuteman Trust [Vendor] Vendor

Bank: CHECKING: Bank Account Checking

One Time:  Check Number: 5432

Memo:  Discount (%):

Work Order:  Discount (\$):

1. Invoice 2. Payee Address & Comments

Bill To	CLAYTON: Frederick L. Clayton	PRINCIPAL: Principal Payment	\$127.00	<input type="checkbox"/> Split
Bill To	CLAYTON: Frederick L. Clayton	LOAN INT: Loan Interest Paid	\$687.00	<input type="checkbox"/> Split

Undiscounted Total: \$814.00 Total Discount:  Discounted Total: \$814.00

**Write Check Journal Voucher**

Date: 10/2/2018  Cash  Accrual  Modified Cash

Reference: Journal Voucher

Ledger: CLAYTON: Frederick L. Clayton [Owner]

Memo:

Comment:

Credits: \$127.00

Debits: \$127.00

In Balance:

Account	Debit or Credit	Amount
BUILDING EQUITY: Building Equity	Credit	\$127.00
LOAN PAYABLE: Loan Payable	Credit	(\$127.00)

Either way, the loan payable will decrease and Building Equity will increase by the amount of the principal, the bank account will decrease by the amount of the payment, the owner's balance will decrease by the amount of the principal and interest and you will have a record of the amount of principal and interest paid.

**General Ledger History**

Ledger: CLAYTON: Frederick L. Clayton [Owner]

Unit:   Show Only Transactions for This

Operating	\$302.87	Payables	\$37.80	Assets	\$75,000.00
Cash	\$302.87	Receivables	<input type="text"/>	Liabilities	\$50,348.00
Escrow	\$1,150.00	Deposits	\$1,150.00	Reserve	\$24,652.00

Post Date	Account	Debit	Credit	Cross Reference	Payer / P
10/2/2018	Rent		\$950.00	MAIN212: 212 Main Street	GURO: Ed
10/2/2018	Management Fee	\$83.13		MAIN212: 212 Main Street	GURO: Ed
10/2/2018	Principal Payment	\$127.00			CLAYTON
10/2/2018	Loan Interest Paid	\$687.00			CLAYTON

## Balance Sheet

Frederick L. Clayton

Cash Accounting

October 2, 2018	Balance
<b>Assets</b>	
<b>Current Assets</b>	
Bank Account Checking	\$1,116.87
Bank Account Escrow	\$1,150.00
Current Assets	\$2,266.87
<b>Other Assets</b>	
Building Asset	\$75,000.00
Other Assets	\$75,000.00
Total Assets	\$77,266.87
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Loan Payable	\$50,348.00
Security Deposit	\$1,150.00
Current Liabilities	\$51,498.00
Total Liabilities	\$51,498.00
<b>Equity</b>	
<b>Capital Reserve</b>	
Building Equity	\$24,652.00
Capital Reserve	\$24,652.00
<b>Equity</b>	
Current Year Earnings	\$866.87
Retained Earnings	\$250.00
Equity	\$1,116.87
Total Equity	\$25,768.87
Total Liabilities and Equity	\$77,266.87

Establish Loan Balance

**Journal Voucher:** Ledger: Owner

	<u>Account</u>	<u>Debit or Credit</u>	<u>Amount</u>
First Line Item	<i>Loan Payable</i>	Credit	\$ amount of loan
Second Line Item	<i>Building Asset</i>	Debit	\$ amount of building value
Third Line Item	<i>Building Equity</i>	Credit	\$ amount of difference

**Scenario 1 -- Record the Loan Payment**

Method 1 - Single Check and Journal Voucher

Each month post a single check using the expense accounts *Principal Paid* and *Interest Paid*. Then post a journal voucher for the principal amount, using the liability account *Loan Payable* and the equity account *Building Equity*.

Single Check: Payee: Loan Company

First Line Item

Bill To: Owner  
Bill Code: Principal Paid  
Amount \$ amount of principal

Second Line Item

Bill To: Owner  
Bill Code: Interest Paid  
Amount \$ amount of interest

Journal Voucher: Ledger: Owner

	<u>Account</u>	<u>Debit or Credit</u>	<u>Amount</u>
First Line Item	Loan Payable	Credit	-\$ amount of principal
Second Line Item	Building Equity	Credit	\$ amount of principal

## Scenario 1 -- Record the Loan Payment

### Method 2 - Recurring Check and Journal Voucher

Enter a Recurring Check entry in the appropriate owner or unit profile with the total amount of the monthly payment amount using an expense account type of Mortgage Payment.

After posting the check each time, go to GL, Journal Voucher. Post a Journal Voucher as shown below.. The journal voucher will credit the expense Mortgage Payment for the total amount of the recurring check and debit the expense Principal Paid and Interest Paid for the principal and interest amounts; and debit the liability Loan Payable and credit the equity Building Equity for the principal amount.

Journal Voucher:    Ledger: Owner

	<u>Account</u>	<u>Debit or Credit</u>	<u>Amount</u>
First Line Item	Mortgage Payment	Debit	-\$ amount of recurring check
Second Line Item	Principal Paid	Debit	\$ amount of principal
Third Line Item	Interest Paid	Debit	\$ amount of interest
Fourth Line Item	Loan Payable	Credit	-\$ amount of principal
Fifth Line Item	Building Equity	Credit	\$ amount of principal

## Scenario 2

### Set up the loan accounts

- Create a long term liabilities account for Loan Payable
- Create another asset account for Collateral (or whatever you wish to call it). This is not the same as the building that is secured by the loan.
- If you wish to track the principal and interest amounts, create expense accounts for Principal Paid and Interest Paid. Then create a Bill Code for each one.

### Establish loan balance

- Do a Journal Voucher, credit Loan Payable, debit the Collateral asset account for the loan amount
- If this is actual cash in the bank rather than a mortgage, do a ledger receipt using an account code of Cash In and deposit it to the bank account.

Record scheduled payments for loan

There are two ways to record the loan payment.

1. You can set up the check as a Recurring Check for the full amount of the payment and use the journal voucher to record the principal and interest amounts and the changes to Loan Payable and Collateral.

**OR**

2. You can use the Single Check function to record the full amount of the check as well as the principal and interest amounts and then a journal voucher to record the changes to Loan Payable and Collateral.

In either case you need an amortization schedule from the lender showing the amount of each payment that applies to interest and principal. Either way the loan payable and collateral will decrease by the amount of the principal, the bank account will decrease by the amount of the payment, the owner's balance will decrease by the amount of the principal and interest and you will have a record of the amount of principal and interest paid.

Establish Loan Balance

Journal Voucher:    Ledger: Owner

	<u>Account</u>	<u>Debit or Credit</u>	<u>Amount</u>
First Line Item	Loan Payable	Credit	\$ amount of loan
Second Line Item	Building Equity	Debit	\$ amount of loan

**Scenario 2 -- Record the Loan Payment**

Method 1 - Single Check and Journal Voucher

Each month post a single check using the expense accounts Principal Paid and Interest Paid. Then post a journal voucher for the principal amount, using the liability account Loan Payable and the asset account Collateral.

Single Check:    Payee:    Loan Company

First Line Item	Bill To:	Owner
	Bill Code:	Principal Paid
	Amount	\$ amount of principal
Second Line Item	Bill To:	Owner
	Bill Code:	Interest Paid
	Amount	\$ amount of interest

Journal Voucher:    Ledger: Owner

	<u>Account</u>	<u>Debit or Credit</u>	<u>Amount</u>
First Line Item	Loan Payable	Credit	-\$ amount of principal
Second Line Item	Collateral	Debit	-\$ amount of principal



## Scenario 2 -- Record the Loan Payment

### Method 2 - Recurring Check and Journal Voucher

Enter a Recurring Check entry in the appropriate owner or unit profile with the total amount of the monthly payment amount using an expense account type of Mortgage Payment.

After posting the check each time, go to GL, Journal Voucher. Post a Journal Voucher as shown below.. The journal voucher will credit the expense Mortgage Payment for the total amount of the recurring check and debit the expense Principal Paid and Interest Paid for the principal and interest amounts; and debit the liability Loan Payable and credit the asset Collateral for the principal amount.

Journal Voucher:    Ledger: Owner

	<u>Account</u>	<u>Debit or Credit</u>	<u>Amount</u>
First Line Item	Mortgage Payment	Debit	-\$ amount of recurring check
Second Line Item	Principal Paid	Debit	\$ amount of principal
Third Line Item	Interest Paid	Debit	\$ amount of interest
Fourth Line Item	Loan Payable	Credit	-\$ amount of principal
Fifth Line Item	Collateral	Debit	-\$ amount of principal