

Tracking Loan Payments- Loan Transaction History

It is imperative that you learn to track your loans. In other words, all payments should be split out respective of interest and principal portions. The best way to track your loans is to request “**Loan Transaction Histories**” for each note from **ALL** creditors. You’ll need to call all banks with which you have loans, as well as private lenders (John Deere, Case, Ford, etc.)

It is easiest to set all notes up (by **number**) before you begin entering any transactions. There is a place at the bottom of the Account Set-up Screen to enter an opening balance **as of** a date you set. **The account type is Liability**, either Long Term (more than 1 year) or Current (less than one year.)

Again, it is important to track the note by the number assigned at the lending institution. Your beginning balance would be the (principal) balance shown just prior to your start year. Each payment thereafter should be shown on the loan transaction history, including the split of interest and principal. The interest portion is charged to either “Interest (current)” or “Interest (non-current), which are both expense accounts.” **All** interest is classified as **SC: Finance**. The principal portion is charged to the liability account you just set up, according to the number. Since the principal portion of the payment does not affect the Income Statement, it is not necessary to assign a class.

When all payments are accounted for, reconcile the balance the lender has provided with your balance in QuickBooks.

If your balances don’t match, consider the following:

1. Payment was made with “outside” money.
2. Unpaid interest was rolled into the principal balance of the note.
3. Bank recorded a payment incorrectly.
4. You recorded a payment incorrectly.
5. Proceeds advanced have not been recorded in QuickBooks.

Handling a Payment Made with “Outside” Money

Income taken directly to note

Many producers take income directly from the grain elevator or livestock auction and pay on a note without ever depositing it into the checking account. It is likely this income was never recorded in QuickBooks. To record the income, as well as the interest and principal portions of the note payment, you need to make a journal entry.

Date the entry according to the date of the note payment. Since most journal entries list the *Debit* first, account for the loan payment first by choosing the Liability (note number) for the first account. (Debits *decrease* liabilities.) **Record the principal portion of the note payment in the second column (debit).** Since liabilities are balance sheet accounts, it is not necessary to attach a class designation.

To *increase* the interest expense for that portion of the note payment, you should **debit** the Interest (Expense) account according to whether this is a current or non-current liability. **Record the interest expense in the second column.** Interest expense is an Income Statement account, so you should attach a class to it- **SC: Finance**.

To record the Income, which is a *Credit*, choose the Income account best suited to the type of income represented (Crop Revenue, Weaned Calf Income, Crop Insurance Revenue, etc.) **Record the income in the third column (credit.)** All income is presented on the Income Statement, so attach the class accordingly (usually a Profit Center.)

If the total amount of the note payment equals the income, you are finished. Simply click “Save and Close.” If the totals do not match, then you have to decide where the balance of the income went. If the remainder of the proceeds were deposited into your farm checking account, you will likely have a deposit already entered into QuickBooks.

If you deposited the remainder into your personal checking account, you must still show the entire amount as income, but the difference should be accounted for by choosing the **Labor (owner operator)** Expense account and entering the difference in the first (debit) column. Again, this is an Income Statement account so the **SC: Labor & Mgmt** class should be attached.

If an asset was purchased with the remainder, choose the asset account accordingly and enter the amount into the Debit column (no class is required because assets are Balance Sheet accounts.)

Capital contribution pays note

Maybe your farm checking account doesn't have the cash to make the note payment, so you make the payment with money made from an outside job or other outside investments. As above, record your payment first (both principal and interest as debits) in the **second** column. Remember to classify the interest portion of the payment to the **Finance** Support Center.

For the contributed amount, you would choose the **Equity** account (just below Liabilities on your Chart of Accounts) named **Capital Contributions**. Again, there is **no class** attached since equity is a balance sheet account.

Note paid by another note

If your note was paid by another note, you should **Debit** the old note as above (break out principal and interest) and **Credit** the new note for the entire amount paid by the new note.

Account Type	Debit	Credit
Assets	Increase	Decrease
Liabilities	Decrease	Increase
Equity	Decrease	Increase
Income	Decrease	Increase
Expense	Increase	Decrease

Review Exercise- Setting up a Loan

Tracking and managing loans is a vital part of managing any business. Although the process of setting up a loan is covered in the *Introduction to Management Accounting Using QuickBooks ProTM* manual, let's cover it again. Below is a loan for a new pickup. Set up the liability and fixed asset. Assume the bank paid the money directly to the dealership. Since you would have no record of the purchase, you will need to use a journal entry to reflect this transaction.

Borchardt National Bank

Purchase of 2004 Four-Door Chevy Pickup

Origination Date: 1/15/04
Loan Amount: \$42,353
Interest (APR): 6% Paid Quarterly
Payment: \$10,988.27

Payment Date	Principal Payment	Interest Payment	Ending Balance
3/15/04	10,352.97	635.30	32,000.03
6/15/04	10,508.27	480.00	21,491.77
9/15/04	10,665.89	322.38	10,825.88
12/15/04	10,825.88	162.39	0.00