

Manage your company's loans — stress-free!



When you borrow money, the amount of the loan becomes a liability for your company and you need to track loan payments accurately. Fortunately, you can use the Loan Manager in QuickBooks to view payment schedules, make payments against the loan and analyze different loan scenarios.

To handle the company loans through the Loan Manager, we'll:

- Set up current loans so they're ready to use with the Loan Manager.
- Add a loan to the Loan Manager so it's easy to track.
- Schedule and edit a loan payment through the Loan Manager.

Part of being a great business is being a great customer. You should keep an eye on the money you owe, such as loans, to ensure that you're making timely payments. It's also important that you know the exact status of your loans, including the payment schedules. The Loan Manager can help with both of these tasks and more. Here's how to take advantage of this terrific feature.

Prepare to use the Loan Manager

You don't use the Loan Manager to establish a loan in QuickBooks. Instead, you use it to manage the loan. So, before you use the Loan Manager, you need to set up the loan properly in QuickBooks. This involves making sure that you already have three accounts on your Chart of Accounts and that you've created a vendor for each lender. Finally, you need to record the loan amount in QuickBooks.

Get your accounts together

First, you need to set up a liability account to track a loan; most loans are long-term liabilities.

To set up a liability account for your loan:

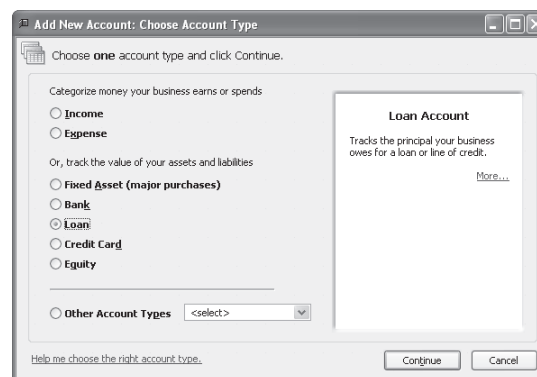
1. Launch QuickBooks and open your company file, or open a sample company file to follow along with our example.
2. Press [Ctrl]A to open the Chart of Accounts window.

3. Press [Ctrl]N to launch the Add New Account wizard.

4. Choose the Loan option button, as shown in **Figure 1**, and press Continue.

5. Choose Long Term Liability from the Account Type dropdown list, or you can use the default account type of Other Current Liability.

6. Type a name for the account in the Account Name text box. We'll use *Company Car Loan*. You can also



1: If you know the account type you want to use, you can choose it from the Other Account Types dropdown list.

add a description and/or an account number.

7. Click Save & Close to save the new account.

Each loan payment is comprised of both interest and principal. Because the interest you pay is deductible on your taxes, track it separately from your loan payment using an interest expense account.

Repeat the steps in the “To set up a liability account for your loan” section, except create either an Expense or Other Expense account type and name it *Company Car Interest*.

Escrow is a portion of the loan held in an account by a third party until the conditions of the loan are met. Home loans often require escrow payments for property taxes and homeowner’s insurance. If your loan requires that you make escrow payments, you also need to

set up an Other Current Asset account for Loan Escrow. Repeat the steps in the “To set up a liability account for your loan” section, except this time create an Other Current Asset account type and name it appropriately. We’ll call ours *Company Car Escrow*.

Create a vendor

You should also include each loan lender as a vendor in your QuickBooks company file.

To set up a new vendor:

1. Click the Vendors button on your Home page to open the Vendor Center.
2. Click the New Vendor button and add all necessary information in the New Vendor window.
3. Click OK to save the vendor.

Record the loan’s balance

Finally, you should record the loan’s balance in QuickBooks. The way you record the loan depends on whether the lender gave the money directly to you or to a third party on your behalf. If the lender gives the money directly to you, record a deposit to your checking account and assign the deposit to the loan’s liability account.

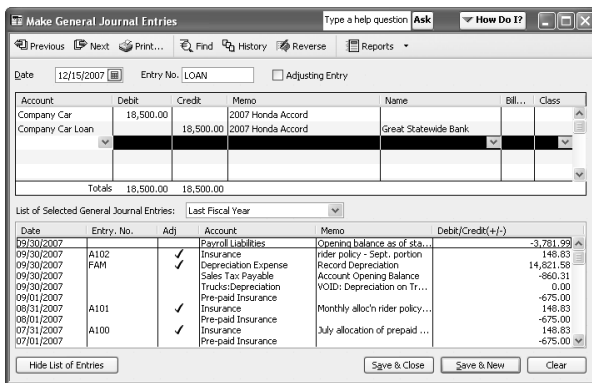
If the lender gives the money to a third party on your behalf — let’s say, for a company car — set up an asset account for the car along with the liability account for the loan. Then record a journal entry like the one shown in **Figure 2**. This entry debits the asset account and credits the liability account. Assign the lender to the credit line of the journal entry.

Add a loan to the Loan Manager

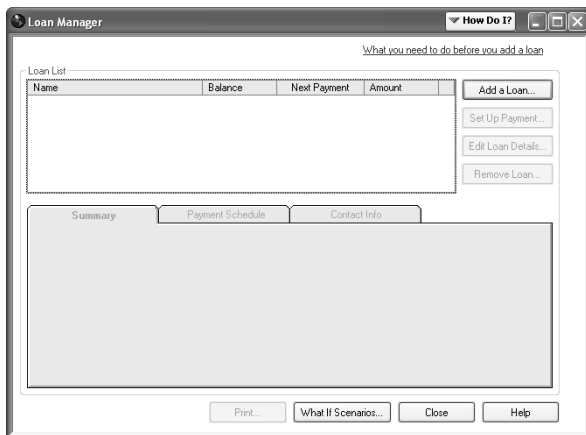
Now you’re ready to set up the Loan Manager so you can rest easy. When you add the loan to the Loan Manager, have your loan papers available so that you can supply the necessary information. The documents that lenders give you include the loan origination date and amount, the term, the payment amount and period, the interest rate and the compounding period.

To track a loan with the Loan Manager:

1. Choose Banking | Loan Manager from the menu bar to launch the Loan Manager window. As shown in **Figure 3**, the window is blank if this is the first loan you’re adding.
2. Click the Add A Loan button to begin the Add Loan wizard.



2: Enter a journal entry like this one if the lender gives the money to a third party on your behalf.



3: The Loan Manager allows you to handle several loan-related tasks all from one window.

Consider the compounding period of a loan

The compounding period, which is the frequency used to compound interest on the loan, affects the amount of interest you owe. The more frequently interest is calculated, the more interest you pay over the life of the loan. For the compounding period, the Loan Manager can use either exact days or the same time-frame as your payment period. If your lender uses exact days to compound interest, daily interest charges are calculated on either a 360- or 365-day year. Check your loan documents for the value.

3. Select your loan's liability account from the Account Name dropdown list and then select your lender from the Lender dropdown list.
4. Enter the original loan date, amount and the term of the loan in weeks, months or years, as shown in **Figure 4**, and then click Next.
5. Type the due date of the next payment and supply the payment amount, including principal and interest in the next screen of the wizard.
6. Select the frequency of your payments from the Payment Period dropdown list.
7. Choose the Yes option button if your loan includes an escrow payment, and then fill in the escrow payment amount and account, as shown in **Figure 5**.
8. Select the Alert Me 10 Days Before A Payment Is Due check box so QuickBooks reminds you of upcoming payments. Click Next.

4: Make sure you enter the term in the correct increments: weeks, months or years.

5: Your payment amount should include both principal and interest.

9. Enter the loan's interest rate in the Interest Rate text box and select a compounding period from the Compounding Period dropdown list. Select the appropriate accounts to post interest and bank charges and write loan checks, as shown in **Figure 6**. Click Finish.

QuickBooks redisplay the Loan Manager window, where your loan appears. To view an amortization schedule showing each payment's principal and interest amounts and the loan balance after each payment, click on the Payment Schedule tab, as shown in **Figure 7**.

Important: The Loan Manager uses the origination date to calculate the loan maturity date and the number of remaining payments you see in the amortization schedule.

Test several loan scenarios

The Loan Manager can also help you evaluate the effects of making changes to your loan. For example, if you increase your loan repayment amount, you pay

off the loan sooner and pay less interest, dropping the total cost of borrowing. You can calculate the effects of various loan payment amounts on the total you pay and the loan's maturity date. You can also test the effects of different interest rates, a new loan, refinancing an existing loan or comparing two possible loans. Click the What If Scenarios button to display the What If Scenarios window shown in **Figure 8** and use the Choose A Scenario dropdown list to get started.

Make a loan payment

The Loan Manager calculates the principal and interest portions of the loan payment as well as any escrow or other fees and splits the loan payment for you into the correct accounts, based on the way you set up the loan.

When you make a loan payment from the Loan Manager window, you can either:

- Enter a bill that you subsequently pay using the Pay Bills window

6: We created a specific account for posting interest on this loan.

Payment #	Date	Principal (P)	Interest (I)	Payment (P+I)	Balance
1	01/01/2008	236.86	131.04	367.90	18,283.14
2	02/01/2008	238.54	123.36	367.90	18,024.60
3	03/01/2008	240.23	127.67	367.90	17,784.37
4	04/01/2008	241.93	125.97	367.90	17,542.44
5	05/01/2008	243.64	124.26	367.90	17,298.80
6	06/01/2008	245.37	122.53	367.90	17,053.43
7	07/01/2008	247.10	120.80	367.90	16,806.33

7: You can see a loan's amortization schedule through the Loan Manager.

- Write a check that you can print immediately or later; or,
- Write a check from the Loan Manager window and assign a number without printing the check

To schedule a payment:

1. Select the loan you want to pay in the Loan Manager window and click the Set Up Payment button to display the Set Up Payment window, as shown in **Figure 9**.
2. Double-check the payment information amounts. In the Payment Method panel, choose an option from the dropdown list: Enter A Bill or Write A Check.
3. Click OK. If you chose Enter A Bill, the Enter A Bill window displays; if you chose Write A Check, the Write Checks window displays.

4. Fill in the information for the check or bill and click Save & Close. The Loan Manager window displays again and you can click Close to dismiss it.

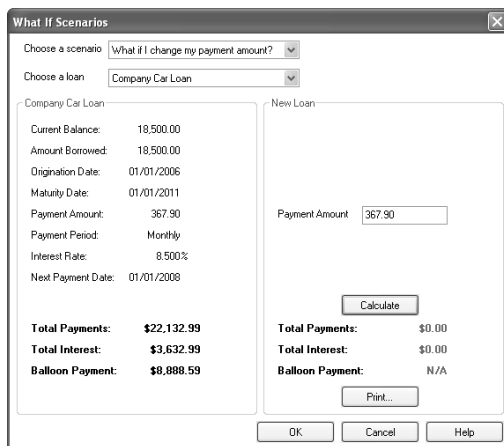
Make an extra payment

You can make an extra payment on your loan from the Loan Manager window. Why? Your loan has terms that involve you paying interest. Each regular loan payment pays back some of the actual loan and some of the interest due. When you make an extra loan payment, you can specify how you want the lender to account for that money. If you apply the extra loan payment to the principal of the loan, you pay back the loan faster and therefore pay less interest. Making extra loan payments can reduce the premium you pay for borrowing the money.

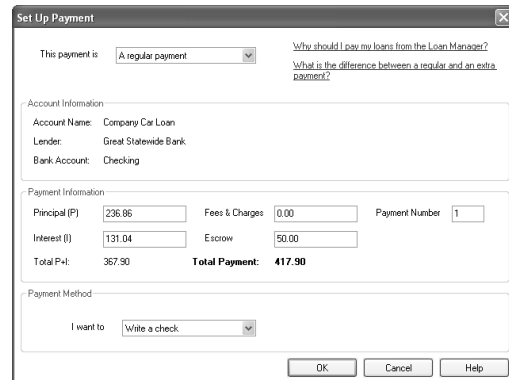
Change your payment amount

You can also change the amount you pay on a regular loan payment. You can change any portion of your loan payment — the principal, interest, escrow or fees and charges amount. You can, for example, pay additional principal to pay off the loan faster and reduce the amount of interest you pay on the loan. Any changes you make to any facet of the payment apply only to the particular payment you're setting up. The next time you set up a payment for the loan, all the information you see will be the original information for that payment.

Also keep in mind that future payments on the amortization schedule will change if you change the current payment. For example, if you pay an extra \$100 on the principal of this payment, the principal portion of all future payments will also increase.



8: You can test the effect of possible changes to your loan through the What If Scenario window.



9: Use the Set Up Payment window to either write a check or enter a bill.

**From
The
Offices
Of:**

DDF Consulting, Inc.

PO Box 97
Starke, FL 32091-0097