

There are several ways to set up a loan or mortgage. The selection should be dependent upon what you want to see on reports. **Four Methods** with **Pros** and **Cons** are shown below.

Method #1 – Enter Bills and Pay Bills for the total amount of the payment. **Pro:** This is an easy way to handle the loan. **Con:** Will not show a remaining loan principal balance and does not split principal and interest expense accounts for budgeting purposes.

Method #2 - Enter Bills and Pay Bills for the full payment amount, separating the amounts for principal and interest each month. **Pro:** Principal and interest show separately for budgeting. **Con:** Loan balance is not shown.

Methods 1 & 2 - Uses the initial entry of the Loan as a Debit to the (1) Asset account and a Credit to the (4) Income which is linked to the General Fund.

Method #3 - Enter Bills and Pay Bills choosing the liability as the Vendor to show a reduction of the loan principal balance. **Pro:** Current balance of the Loan is shown in the liability. **Con:** Principal expense is not shown in the budget, more cash outflow than the budget shows.

Method #4 - Enter Bills and Pay Bills choosing the liability as the Vendor, showing the loan balance while still expensing the principal and interest each month. **Pro:** Shows the loan balance. Tracks the interest and principal each month. **Con:** The loan balance reduction is only adjusted once a year.

Methods 3 & 4 - Uses the initial entry of the Loan as a Debit to the (1) Asset account and a Credit to the (2) Liability.

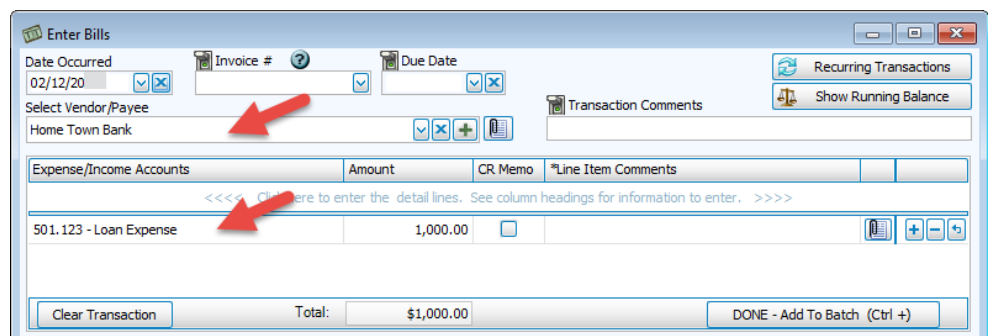
Our Scenario: The church has gotten a Construction Loan for \$10,000 from HomeTown Bank and is making its February payment. The Methods below correspond to the Methods above, showing how Loan payments are handled.

Method #1 - Create a Vendor for the Loan Payee and create a Loan (5) Expense account linked to the General (3) Fund.

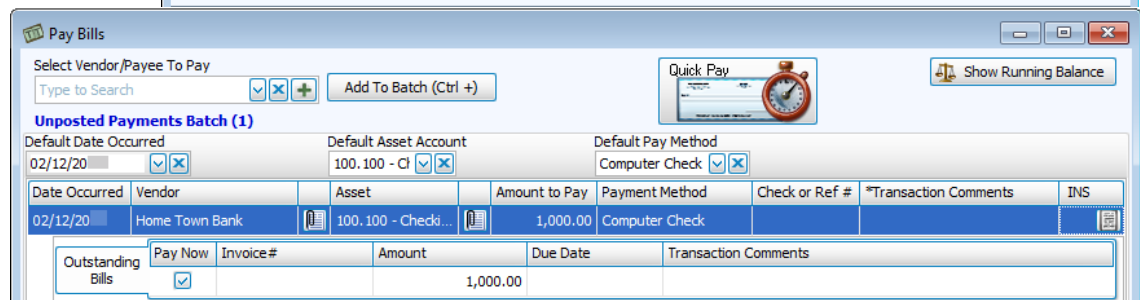
Example: HomeTown Bank Vendor
501.123 – Loan Expense

Input the monthly transaction for the loan payment of \$1,000,

- Click on *Transactions*>*Enter Bills*.
- Select the HomeTown Bank account, as the Vendor and Loan Expense 501.123 for \$1,000.
- *Pay Bills* for \$1,000.



| Expense/Income Accounts | Amount | CR Memo | *Line Item Comments |
|-------------------------|----------|------------|---------------------|
| 501.123 - Loan Expense | 1,000.00 | | |
| Total: | | \$1,000.00 | |



| Date Occurred | Vendor | Asset | Amount to Pay | Payment Method | Check or Ref # | *Transaction Comments | INS |
|---------------|----------------|---------------------|---------------|----------------|----------------|-----------------------|-----|
| 02/12/20 | Home Town Bank | 100.100 - Checki... | 1,000.00 | Computer Check | | | |

| Outstanding Bills | Pay Now | Invoice # | Amount | Due Date | Transaction Comments |
|-------------------------------------|---------|-----------|----------|----------|----------------------|
| <input checked="" type="checkbox"/> | | | 1,000.00 | | |

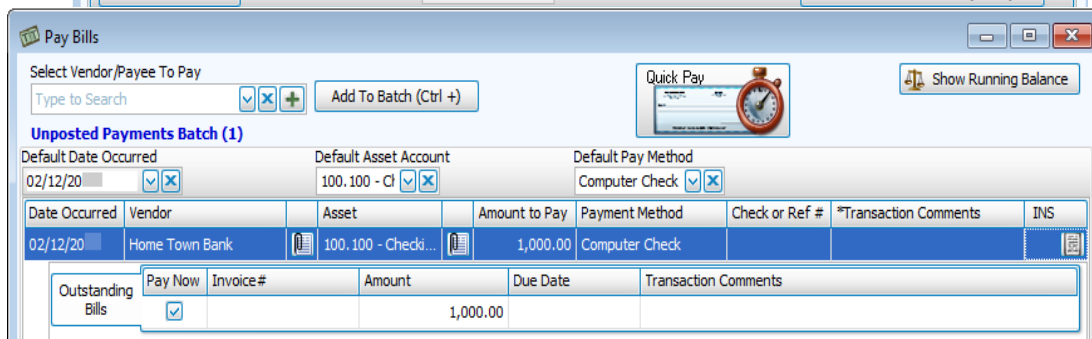
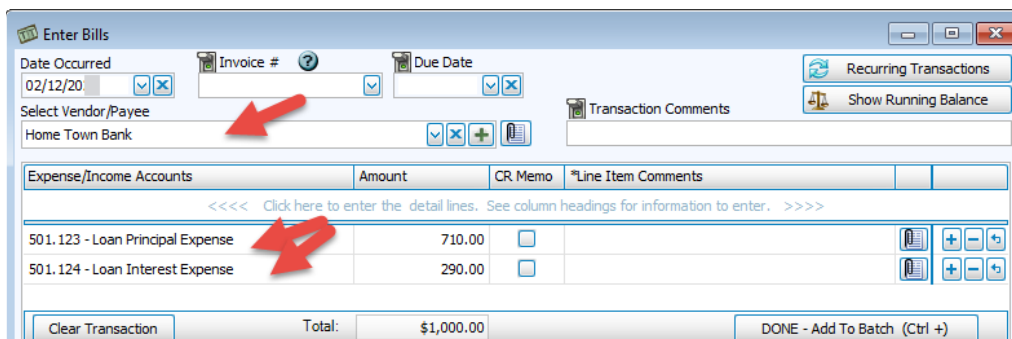
Enter Bills and Pay Bills for the full amount of the payment, just as you would pay any other bill. This method will NOT show a loan balance.

Method #2 - Set up (5) Expense accounts linked to the General (3) Fund – one Expense account for the Loan Principal and one Expense account for the Loan Interest. Each month, *Enter Bills* for the entire amount, divided between the Principal and the Interest Expense accounts. *Pay Bills* for the total amount.

Example: HomeTown Bank Vendor
 501.123 – Loan Principal Expense
 501.124 – Loan Interest Expense

Input the monthly transaction for the loan payment of \$1,000:

- Click on *Transactions*>*Enter Bills*.
- Select the Vendor HomeTown Bank
- Expense - select account Loan Principal 501.123 and enter the amount of \$710, select Loan Interest 501.124 and enter the amount of \$290.
- *Pay Bills* for \$1,000.



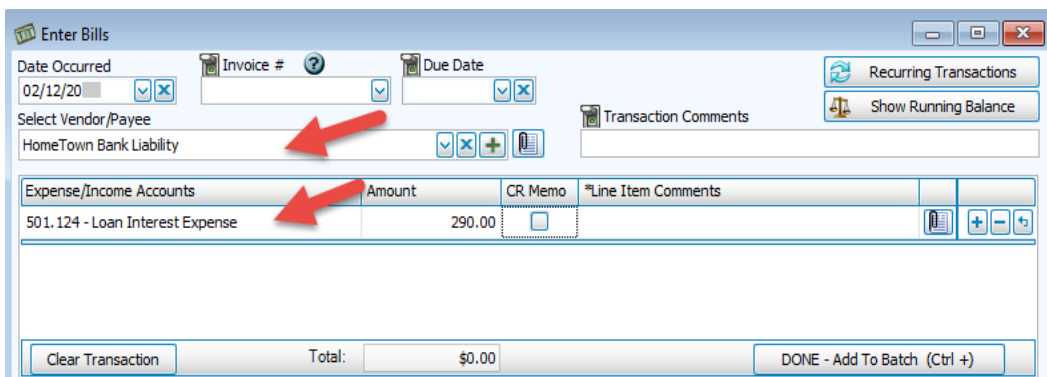
The expense line items for the principal and interest will show how much you have paid that year toward the loan.

Method #3 - Set up a (2) HomeTown Bank Liability account and (5) Expense account linked to the General (3) Fund for Loan Interest. *Enter Bills* for the amount of the Interest, and *Pay Bills* for the entire amount.

Example:
 201.134 - HomeTown Bank Liability
 501.124 – Loan Interest Expense

Input the monthly transaction for the loan payment of \$1,000,

- Click on *Transactions*>*Enter Bills*.
- Select the HomeTown Bank account, 201.134 as the Vendor and Loan Interest Expense 501.124 and enter the amount of the interest \$290.



- Pay Bills edit the payment to \$1,000.

Method # 4 - Showing the amount of the loan as a balance in the liability account while still expensing both the principal and interest each month.

Example:

- 201.134 - HomeTown Bank Liability
- 501.123 – Loan Principal Expense
- 501.124 – Loan Interest Expense

Input the February monthly transaction for the loan payment of \$1,000,

- Click on *Transactions*> *Enter Bills*.
- Select the Loan liability account, 201.134.
- Expense - select account Loan Principal 501.123 and enter the amount of \$710, select Loan Interest 501.124 and enter the amount of \$290.
- *Pay Bills* for \$1,000.

During the year, anyone who wanted to know the true balance of the Loan Liability account could calculate that amount by subtracting the loan principal payments (from the Treasurer's Report) from the amount shown on the Balance Sheet. However, throughout the year, the entire loan payment is reflected in the Treasurer's Report, so the cash budgeting matches the actual payments.

At the end of the year, we post a *Journal Entry* to reduce the loan Liability by the amount of the Principal payments.

Journal Entry

- Credit Loan Principal Expense - total for the year
- Debit Loan Liability for the same amount