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Loans Payable

If you already have business loans when you start your bookkeeping, you will need to find the correct opening balance on your loan accounts and enter that balance as the opening balance of your loan payables accounts. You should receive a loan statement monthly, or at least annually showing the total principle owed on the loan. Be sure to record the principle only as the amount of the loan payable. When you make a payment on the loan, part of the payment goes against principle. That amount will reduce the balance of the loan payable account and result in less total liabilities on your balance sheet. Part of your payment is for interest expense. Interest expense goes on your income statement and reduces your net income.

It is common to forget to post a loan payment as partially towards principal and partially towards interest, so it is important to check the loan balance shown on your balance sheet to the loan balance shown on your loan statement at least once a year. You want the balance in the loans payable account to equal the principal amount shown as outstanding on your loan statement, and you want the total interest expense for the year to equal the amount shown as interest expense paid for the year on your loan statement.

If you have corrected your payment entries to record the principal and interest amounts correctly but your balances do not agree to your loan statement, the error may be that one or more payments were recorded in a different year by you and the lender, or it may be that the lender made an error. If you think your lender has made a mistake do not hesitate to reach out to them. It is their responsibility to explain to you how they arrived at their number and to correct any errors they may have made.

In formal accounting loans are presented in order of when they come due. The California FarmLink Model Chart of Accounts has accounts for different types of loans such as operating loans, equipment loans, and longer term loans for developing buildings or permanent crops or purchasing land.