

# EOY - Reconcile Loans and Inter-Company Loans

## Types of Loans

- Bank Loans
- Finance Loans
- Directors Loans
- Personal Loans
- Inter-company Loans

### Bank Loans

Bank/Mortgage Loans should be reconciled via the loan Statement to bring in interest and fees.

### Finance Loans

Finance Loans are often reconciled by the Accountant to bring in expired interest and principle but it's important to check that all payments have been posted to the finance loan account. See below—check that a payment has been made for each month within the ledger.

Date	Account No	Description	Amount
03/07/2016	2-2910	Macquarie Lease	\$4,606.50
03/08/2016	2-2910	Macquarie Lease	\$4,606.50
03/09/2016	2-2910	Macquarie Lease	\$4,606.50
03/10/2016	2-2910	Macquarie Lease	\$4,606.50
03/11/2016	2-2910	Macquarie Lease	\$4,606.50
03/12/2016	2-2910	Macquarie Lease	\$4,606.50
03/01/2017	2-2910	Macquarie Lease	\$4,606.50
03/02/2017	2-2910	Macquarie Lease	\$4,606.50
03/03/2017	2-2910	Macquarie Lease	\$4,606.50
03/04/2017	2-2910	Macquarie Lease	\$4,606.50
03/05/2017	2-2910	Macquarie Lease	\$4,606.50
03/06/2017	2-2910	Macquarie Lease	\$4,606.50

Alternatively, a monthly payment may be posted which includes the interest & principle dissection as shown below. It is important to check that all monthly payments have been posted.

Date	Account No	Description	Amount
03/07/2016	2-2910	Macquarie Lease	\$4,606.50
03/07/2016	6-1050	Interest Charged	\$1,110.90
03/07/2016	1-1810	Prepaid Interest Macquarie Lease	-\$1,110.90

### Directors Loans

Directors or shareholders borrowing money from their company for private expenses can have UGLY tax consequences. Under the tax law of Division 7A any loans to shareholders may be automatically treated as an unfranked dividend payment (i.e., no deduction to the company and assessable income to the shareholder with no tax credit).

Therefore, we recommend that you review the transactions posted to the Directors Loan to ensure they have been posted correctly and highlight any issues to the accountant, especially if the Directors Loan is in debit.

The treatment of private expenses through a company should be allocated to a Liability Loan Account for Directors. These expenses should not claim any GST and the tax code N-T or PRI (private) should be used. Depending on the structure and advice from Accountant, the "Loan-Director" can accumulate over the year and be dealt with by the Accountant at end of year. One of the common mechanisms is that the director can book a wage and credit the loan rather than paying more cash to reduce the loan account to zero)

### Private Expenses

Alternative: It is allowable for all expenses that may have a private portion to be fully claimed including claiming back the GST and then a once per year adjustment to be provided by the accountant to remove the personal expenses and make a GST alteration. This should be done in conjunction with agreement of the accountant and owner as it may have significant cashflow implications.

### Personal Loans

Personal Loans from family or friends should be highlighted to both the Accountant and the Client. The full details and conditions of the loan should be noted for the Accountant and advice obtained as to whether interest is to be charged or not and the terms of payment.

### Inter-Company Loans

When working with customers that have inter-entity loans check that the loans balance to each other in each set of books.

The best way to manage these inter-entity transactions is to set up the loan accounts so they can be accessed through banking

## Reconciliation Procedure

### Example

Two companies. Company ABC and Company XYZ.

Company ABC pays \$200 for an invoice to Aardvark Advertising that relates to Company XYZ  
To ensure that the expense is booked in the correct place you should post the transaction as follows:

#### Company ABC

Payee	Account Type	Account Details	Debit	Credit	Tax Code
Aardvark Advertising	Asset	Cheque Account		\$200.00	No Tax
	Liability	Loan – XYZ Company	\$200.00		No Tax

#### Company XYZ

The corresponding transaction in Company XYZ does not affect the bank so the Loan account is used for the Bank Account. Also note: that the XYZ will incur the GST input tax credit.

Payee	Account Type	Account Details	Debit	Credit	Tax Code
Aardvark Advertising	Liability	Loan – ABC Company		\$200.00	No Tax
	Expense	Advertising	\$200.00		GST

Note the same principles apply where two data files are used for the one company. For example a business may have two shops, one in Sydney, one in Melbourne and the owner has set up two data files.

Review both Loan accounts by printing a General Ledger report to show each company's data file has the same balance in the inter-entity loan accounts.

### Company ABC review of Loan account for XYZ

Details	Account Details	Debit	Credit	Balance
Opening Balance	Loan – XYZ Company			\$0.00
02/05/2015	Payee: Aardvark Advertising	\$200.00		\$200.00

### Company XYZ review of Loan account for ABC

Details	Account Details	Debit	Credit	Balance
Opening Balance	Loan – ABC Company			\$0.00
02/05/2015	Payee: Aardvark Advertising		\$200.00	\$200.00