Strata Loans Processing

The instructions in this article relate to the processing of *Strata Loans*, which is completed in ***Process Bank Statements***. The icon may be located on your *StrataMax Desktop* or found using the *StrataMax Search*.

Overview

When a Building / Plan considers getting approval to borrow funds from a financial institution in the form of a loan, consideration of how this should be represented in the Financial Statements needs to be determined so the loan is setup correctly from the beginning.

- **What are the funds for?**
  - Usually for large expenses when there is insufficient cash in the operating or investment account.
- **Are the amounts just related to one fund?**
  - Normally when large expenses are required to be paid it will be related to the Sinking / Capital Works / Maintenance/ Reserve Fund.
- **How will the repayments of the loan be funded?**
  - Income for a building is generated with the approval of levies (normal or special) for payment by Owners. Consideration of what period and frequency as well as which fund (as above) these will be applied to will need to be determined.
- **Should the income / expenses be shown in the already setup fund or would it be better presented to Owners on the Financial Statements with a separate Income and Expenditure Statement?**
  - This can be achieved by setting up a new Trading Fund which can be named as required or relevant to the reason for the loan. Levies can also be named to be relevant and setup in *Levy Invoice Codes*.

 Once the above is determined the accounts in StrataMax can be prepared for the initial and ongoing transactions and levies.

Setup Accounts

The general ledger (***Account Maintenance***) accounts required for a loan are:

Account Name (suggested)	Account Type /	Details
Cash at Bank	Asset	Operating account which will receive the loan funds
Loan Account	Liability	Reports the amount of the loan and reduces as repayments are made

Interest	Expense	Interest amounts applicable to every repayment
Bank Fees / Charges	Expense	Initial application fee / Account fee (if applicable)
Principal / Loan repayment	Expense	For budgeting only. These amounts will be applied on the liability account to reduce the amount owing.
Income Account (as required)	Income	Setup so levies can be allocated separately to normal income.

Trading Fund (if using)

Setup of a separate income and expenditure statement (*Trading Fund setup*) will allow all income and expenses related to the loan to be on a separate page of the Financial Statements.

Bank Reconciliation | Strata Loan Transactions

The following transactions are likely to occur on the bank reconciliation:

- the initial amount of the approved loan will be reflected as a receipt into the bank account.
- a loan approval fee may be automatically withdrawn.
- on-going periodic repayment amounts will be direct debited from the bank account;
    - for the repayment of the principal and
    - for the interest expense
- other transactions based on the Loan Agreement Schedule.

Initial Receipt of Loan Funds

Allocate to a liability account (after '0599 Liabilities' in the account code range in the *Master Chart*) on the balance sheet, named 'Loan' or something similar. It is a good idea to have a different account code if there is more than one loan taken out by the building / plan.

0599	LIABILITIES	H

What to do on the Bank Reconciliation

1. From **Process Bank Statements**, click the blue *Process Bank Reconciliation* icon, under the 'Actions' column to open the **Bank Reconciliation** screen for that building.
2. Highlight the funds received and open the transaction to check the Type is 'Deposit' and enter the 'Account' as the Loan Liability account as created above, the Details can be adjusted to give clear notes on the transaction if required.
3. When all items have been allocated click *Auto Process*.

These are the transactions that will be recorded in the accounts:

Type	Account Name	Account	Details
DR (+)	Cash At Bank	Asset	$$ - Loan Amount
CR (-)	Loan	Liability	$$ - Loan Amount

Loan Fees

1. From **Process Bank Statements**, click the blue *Process Bank Reconciliation* icon, under the 'Actions' column to open the **Bank Reconciliation** screen for that building.
2. Allocate the associated 'Loan Fees' to the correct expense account. Highlight the transaction in the **Bank Reconciliation** to open the transaction, change the 'Account' code to the appropriate expense code. i.e. Bank Fees / Loan Fees / etc,
3. When all items have been allocated click *Auto Process*.

	OTHER	STRATA LOANS APPROVAL FEE			600.00
		APP FEE			
Example Loan Fee Transaction					

These are the transactions that will be recorded in the accounts:

Type	Account Name	Account	Details
DR (+)	Bank / Loan Fee	Expense	$$ - Loan Amount
CR (-)	Cash At Bank	Asset	$$ - Loan Amount

Expenditure of Loans Funds

Invoices from Suppliers will be coded against the appropriate fund and may be based on approved budget items. When the payment is made to the Supplier, the funds will be spent from the Cash at Bank, as this is where the loan funds will have been deposited to.

Creditor Invoice

Type	Account Name	Account	Details
DR (+)	Fund expense	Expense	$$ - as per invoice
CR (-)	Creditor / Supplier	Liability	$$ - as per invoice

EFT / BPay / Cheque Payment

Type	Account Name	Account	Details

DR (+)	Creditor / Supplier	Liability	$$ - as per invoice
CR (-)	Cash At Bank	Asset	$$ - Loan Fee

Periodic Repayments | Principal and Interest

As the repayments of both principal and interest are separate recurring entries, these can be posted to the correct accounts. These will be split to reduce the loan liability account and increase the interest expense. A Legend could be setup to automatically allocate the transactions.

What to do on the Bank Reconciliation

1. From **Process Bank Statements**, click the blue *Process Bank Reconciliation* icon, under the 'Actions' column to open the **Bank Reconciliation** screen for that building;

- Interest: Highlight the transaction in **Bank Reconciliation** and open the transaction by clicking it, enter the 'Account' code as the appropriate 'interest expense' account.
- Principal: Highlight the transaction **Bank Reconciliation** and open the transaction by clicking it, enter the 'Account' code to the Loan liability account (as created above).

20/01/17	OTHER	STRATALOANS00165 LOAN	LOAN INTERES	2352.97	-478742.78	Y	24852	Y
20/01/17		INTEREST			-478742.78			
20/01/17	OTHER	STRATALOANS00165 LOAN	LOAN PRINCIP	10140.92	-468601.86	Y	087	Y
20/01/17		PRINCIPAL			-468601.86			

Example Transactions for interest and principal

Date	Details	Reference	Withdrawals	Deposits	Balance
	Brought forward				481,095.75
20 Jan 17	STRATALOANS00165 LOAN INT EREST	LOAN INTEREST	2,352.97		478,742.78
20 Jan 17	STRATALOANS00165 LOAN PRI NCIPAL	LOAN PRINCIPAL	10,140.92		468,601.86

Example of the Bank Statement Report