Accounting for PPP Loans and Maximizing Forgiveness

If you have a Paycheck Protection Program (PPP)loan, it is important to track these funds in great detail. It is a loan until you are granted forgiveness.

Jeffrey Parsell, Partner Audit & Assurance Services

LONG BEACH, CA, UNITED STATES, May 1, 2020 /EINPresswire.com/ -- If your company has a loan from the Paycheck Protection Program (PPP), these steps will help track the activity of these funds.

The first step: set up a separate bank account for the PPP funds, if practical. Track every transaction separately, keeping it separated from your normal operating bank accounts. Regulators will review bank accounts and records, as well as supporting documentation during the forgiveness application process. Prepare to explain all activity and have complete records of all transactions. Cash going out of the account should document and support the nature of the expense. See below for documentation guidance.

The next step is to set up three new accounts on your books to track any activity in the separate bank account, as follows:

A PPP Loan Funds Cash, where the PPP loan funds are deposited and cash is disbursed;
PPP Loan Liability (a current liability); and
Other Income – PPP Loan Funds (other income account, below operations). Make sure to classify, name, or group this account as non-taxable. The funds are not taxable as income. Do not include the funding in revenue or operating income.
Mark each transaction as PPP Funds so that all activity can be separately tracked. Ideally, set it up to allow for reporting of the funds carved out of the income statement as a separate column, similar to department level or location reporting, or class tracking.

The following is the transaction cycle and the journal entries to record:
When you receive the funds, debit the PPP Loan Funds Cash account and credit the PPP Loan Funds account (current liability).

Each time funds from the cash account are used to pay qualifying expenses, debit the expense accounts based on the type of expenses per the normal process, and credit the PPP Loan Funds Cash account. However, code each transaction as PPP Funds (as noted above for separate class tracking of all PPP activity). Note that the PPP Loan Liability account and the Other Income – PPP Loan Funds account will remain unchanged during this time.

Once granted forgiveness, move the amount forgiven from the PPP Loan Liability account to the

Other Income – PPP Loan Funds account by debiting the liability account and crediting the Other Income account. It may be appropriate to characterize the amount as grant income or debt forgiveness at such time, although there is no specific guidance in US GAAP with respect to forgivable loans from government agencies. We expect further guidance to be announced from standard setters and regulators on this issue.

For amounts not forgiven, treat as a normal loan for accounting purposes, including interest expense under the interest method.

Keep copies of all of the documentation supporting the activity of the PPP funds in a separate file for later review by regulators. At a minimum, these documents will be needed for the eight-week period beginning with the initial loan funding date when reporting the use of the funds and applying for loan forgiveness:

Separate accounting activity for cash movement and transactions recorded related to the use of every dollar of PPP funds (see above).
Third-party or internal payroll reports for each pay period, including gross wages for paid time off.
Payroll tax reports filed with state agencies, the IRS, and unemployment agency reports.
Utility statements and proof of payments.
Lease agreements for real and tangible personal property and proof of payments.
Interest statements on debt, include payment amount and proof of payments.
Monthly invoices or statements supporting health insurance premiums paid by the company under a group health plan include company owners.
Supporting schedules and documents for the calculation of employer contributions to retirement plans, include remittance payment documentation.

The PPP loan will be forgiven only to the extent proceeds paid for qualifying expenses during the eight-week period after initial loan funding. The following are qualified expenses:

Payroll costs including salaries, wages, commissions, and other cash compensation paid to employees up to $100,000 annualized compensation. $15,835 is the maximum amount per employee.
Qualified expenses include healthcare, retirement, and employee state taxes paid by the employer. Note it does not include employer portion of FICA and Medicare, separation or dismissal, or sick or family leave paid for which a tax credit is provided under the CARES Act.
Mortgage and business debt interest paid for obligations in place before February 15, 2020.
Rent paid for leases in place before February 15, 2020.
Utility payments for service agreements in place before February 15, 202Refinance of Economic Injury Disaster Loans made between January 31 and April 3, 2020.
There are also payroll use and employee and salary retention requirements for loan forgiveness.
A borrower will be eligible for forgiveness if it used at least 75% of the proceeds on qualified payroll costs. The remaining 25% can be used to pay interest, utilities, and rent.
The amount of loan forgiveness may decrease if there is a reduction in full-time equivalent employees.
The amount of loan forgiveness is further decreased if employees who make less than $100,000 in annualized wages receive a reduction in pay of more than 25% during the eight-week period.
A borrower can cure reductions of employment that occurred between February 15 and April 26, 2020, by eliminating reduction in full-time equivalent employees or reducing wages by June 30, 2020, with no requirement to rehire the same employees.

The SBA will issue additional guidance on the loan forgiveness element of the PPP. In response to a large number of questions received, the AICPA has requested clarification from the SBA on how reductions in forgiveness are to be applied. This includes the intended order of the application of reductions in forgiveness since some requirements cause a dollar reduction while others

produce a percentage reduction, and the order of application can significantly impact the amount of forgiveness. The AICPA also developed recommendations for applying for loan forgiveness added to earlier recommendations on how to apply for PPP loans. A full recommendation list is on the AICPA's website.
Additional guidance at Windes COVID-19 Resource Center.

Jeffrey Parsell
Windes
+1 844-494-6337
email us here
Visit us on social media:
Facebook
Twitter
LinkedIn

This press release can be viewed online at: http://www.einpresswire.com

Disclaimer: If you have any questions regarding information in this press release please contact the company listed in the press release. Please do not contact EIN Presswire. We will be unable to assist you with your inquiry. EIN Presswire disclaims any content contained in these releases.
© 1995-2020 IPD Group, Inc. All Right Reserved.