

## **Accounting For Your PPP Loan**

Once your PPP loan actually gets funded, here are our recommended steps for handling those funds and accounting for them on your books so that you can prove the forgivability of the loan.

### **How To Handle The Funds**

Ideally, you would open a separate bank account specifically for the PPP loan funds. Or if you have a dormant or seldom used bank account you can repurpose to only hold those funds. The key is to keep the funds outside of your normal checking account/operating funds so you can easily trace and document where each dollar was spent.

There will be government oversight on how these funds were used. Regulators will check the bank's files when you apply for forgiveness.

Your goal is to make it as simple as possible for whoever will be verifying how you used the funds. You want clean records and bank transactions that match, penny for penny the story that your financial books document the flow of those funds.

Any money coming out of that separate account should be well documented.

### **How to manage the PPP funds within your accounting software**

Have your bookkeeper turn on class tracking (this is what QuickBooks and QuickBooks Online calls it. If you use a different accounting software, ask your bookkeeper for the equivalent to QuickBooks class tracking).

This will allow your bookkeeper to code certain transactions as "PPP Loan Funds". Then they will be able to run a report that includes those PPP funds in a separate column, essentially stripping out those figures from others in your P&L.

### **Accounting for PPP Loan Funds**

Set up two new accounts on your books:

- Paycheck Protection Program Loan (a current liability account)
- Extraordinary Income (Non-Taxable) (an other income account)

When you receive the deposit of PPP loan proceeds to your account, code that deposit to the Paycheck Protection Program Loan account. (Remember this IS still a loan until you are able to apply for forgiveness.)

As you spend these funds for their intended purpose, expense those as normal. (Your PPP Loan account will remain unchanged during this time.)

Once you apply for forgiveness, you (or your bookkeeper or accountant) will move the amount forgiven from the PPP Loan account to the Extraordinary Income account.

This will be a form of income to your business. It is “other income” so should show up near the bottom of your P&L, not co-mingled with your main revenue accounts.

Be sure to include “(Non-Taxable)” in the account name. That way, when your tax advisor prepares your tax returns for 2020, they will at see that and question it. You don’t want someone inadvertently including those forgiven loan funds as actual income on your tax return.

### **Documents/proof you will need to provide to proof forgivability of the loan**

Keep a separate file and be prepared to present all of the following:

- Copies of payroll tax reports filed with the IRS (including forms 941, 940, state income and unemployment tax filing reports) for the 8-week period following the funding of your loan

- Copies of payroll reports for each pay period for the 8-week period following the original of the loan. Gross wages include PTO (vacation, sick, or other PTO) should be reflected
- Documentation reflecting the health insurance premiums paid by the company under a group health plan including the owners of the company for the 8-week period following the origination of the loan. Copies of monthly invoices should suffice
- Documentation of all retirement plan funding by the employer for the 8-weeks following the origination of the loan should be sufficient. Copies of work papers, schedules and remittances to the retirement plan administrator should be available
- Copies of all lease agreements for real estate and tangible personal property should be presented along with proof of payment during the 8-week period following the loan's origination date
- Copies of all statement of interest paid on debt obligations unsure prior to February 15th, 2020 indicating payment amounts and proof of payment for the 8-week period following the loan origination date
- Copies of cancelled checks, statements or other evidence of utilities paid during the "covered period" for the 8-week period following the origination date

*NOTE: This is as of 4/13/2020. More guidance on this will be coming by 4/26/2020.*