

## **INTERNAL MEMORANDUM**

**TO:** L&A Internal  
PPP Recipients

**FROM:** B. Lanigan & T. Harrison

**RE:** Update Number 1 regarding PPP Loans and Suggested Accounting

**DATE:** April 24, 2020

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We have many clients who have received the SBA – PPP Loans. Some will be forgiven under certain conditions, while others will be required to be partially or fully paid back over 2 years. This memo includes ideas to record PPP loans and prepare to document the allowed spending which will be used to request forgiveness of the loan after June 30, 2020.

This memo will need to be updated as there is little guidance currently on forgiveness, or the documentation they will require to be provided in order for the loan to be forgiven. We do know the loan proceeds can be spent on covered payroll (as defined including employer group health insurance and employer retirement contributions) and up to 25% of total proceeds on covered mortgage interest, covered rent, and covered utilities for the eight-week period following the loan.

We attach the PPP application with underlines that emphasize the requirements and usage of the loan proceeds. We are concerned if these usage requirements and certification criteria are not followed, the loan will be required to be repaid, or the recipient may be held legally liable, such as charges for fraud.

**Suggested Accounting**

1. We suggest best practice is to put the loan proceeds in separate bank account (i.e. Payroll impress account if you already have one, or open a new special purpose bank account) that payroll is paid from or reimbursed, and the general account is reimbursed there from for covered costs of mortgage interest, rent and utilities, employer share of group health insurance, and employers share of retirement contributions. This way you can trace the proceeds and disbursements and later pay back if all or part is not forgiven.
2. We suggest recording the PPP loan in a separate liability (new) account in the general ledger as “PPP – SBA Loan.”

a. Example Journal Entry to record initial deposit:

Cash (new account)	\$XXX	Debit
PPP-SBA Loan Note Payable	\$XXX	Credit

3. **We suggest running your payroll as you would normally do for the next eight weeks from loan funding date.** *Do not change over to a manual payroll system if you are on an automated system like ADP or QuickBooks payroll, as they will help with documentation for the forgiveness.* **We suggest that when you run your payroll you transfer the exact amount of cash from the new bank account into your normal account to cover the payroll. This transfer should be limited to the covered payroll so adjustments for employees that make over \$100K should be considered.**

Likewise, you will pay your bills just like you would normally pay them and include items for covered mortgage interest, rent, utilities, employer portion of group health insurance and employer portion of retirement contributions. **Once you write your checks you should transfer cash from the new PPP bank account into your checking account to cover the amounts for covered mortgage interest, rent, utilities, employer**

**portion of group health insurance and employer portion of retirement**

**contributions.** At the present time, assume that the payroll and other covered costs will be deductible expenses as normal, and that forgiveness will be tax free, but other regulations will likely be forthcoming and may change this conclusion.

- 4. You have 8 weeks from the date of your loan being funded to spend the money on covered costs.**
- 5. We suggest you start a file to support and substantiate covered costs of payroll (including health insurance employer paid part, employer retirement contributions and gross payroll, etc.) and other covered items reimbursed or paid from PPP proceeds and separate account.** This would include invoices for covered utilities, rent and mortgage interest. We think any loan forgiveness will be strictly enforced and substantial support, in addition to certifications from the borrower to the government/SBA will be made in order to obtain forgiveness. We think it is important to be able to have detailed support and use loan tracing rules to document the forgiveness amount of the PPP loan.
- 6. We suggest you forecast your payroll for the next 8 weeks (limited to covered payroll costs under \$100K per employee) to estimate the amount and compare to the loan proceeds to determine if it is at least 75% of the loan proceeds.** If your payroll has changed in either number of employees or you have decreased the amount you pay your employees by more than 25%, you will need to analyze these changes as they affect the amount of the loan proceeds that will be forgiven. This program is designed for you to keep employees, rehire furloughed employees and employees that have been placed on unemployment. A decrease in number of employees or a cut in average compensation of more than 25% will reduce the amount of the loan that can be forgiven below 100%. If either of these apply, you should prepare to repay some or all of your loan over the two

year repayment period. You will not be able to make the final 75% payroll to 25% covered mortgage interest, rent and utilities, allowable computation until the end of the eight-week allowable payroll period to determine the amounts you are eligible to spend on interest, rent and utilities.

7. The forgiveness formula =

(i) sum of the rent, payroll, utility, etc. payments for the eight week following the date of the loan multiplied by (x) (ii) the (a) average number of full-time employees per month during Feb. 15, 2020 through June 30, 2020 divided by (b) the average number of full time employees per month from either 2/15/19 through 6/30/19 or 1/1/20 through 2/29/20  
Reduced by (-) the amount of wage reduction greater than 25% of the total salary\* or wages of the most recent full quarter before the covered period.

\*Excludes those making \$100,000 or more.

\*\* There is also an exemption to the loan forgiveness formula if any reduction in the number of employees or reduction in salary (which is effectuated between Feb 15, 2020 and 30 days after enactment) is made whole by June 30, 2020.

\*\*\* Decision on forgiveness is supposed to be within 60 days of application.

8. Once the certifications are made and confirmation of forgiveness is received, **we suggest that any forgiveness amount of PPP loan be reclassified by recording a journal entry to an “Other Income” section on the Income Statement, as the amount of the forgiveness is excluded from taxable income.** Any amount not forgiven should be left on the books as a Loan – Note Payable until it is repaid to the bank over the two-year repayment period. <sup>1</sup>

a. Example Journal Entry to Record Loan Forgiveness:

PPP-SBA Loan Note Payable	\$XXX	Debit
Other Income – SBA-PPP Loan Forgiveness <sup>2</sup>	\$XXX	Credit

Enclosure

Footnotes:

<sup>1</sup>Loans will be for a term of 24 month with a fixed rate of 1%. You can pay your loan back sooner than 24 months. No collateral is required for the loan. No personal guarantee is required for the loan.

<sup>2</sup>Will be excluded from gross income so it is important to separate from other revenues that are included in taxable income.