Paycheck Protection Program Loans:
PPP Loan Accounting 102

With Updates as of July 2, 2020

This information is provided for general informational and educational purposes only and does not constitute legal, accounting or financial advice. Please note guidance is changing regularly. We encourage you to check with the SBA and your lender for updated guidance and check our FMA toolkit for updated materials.
Overview:

PPP Loan Accounting

1. Record loan proceeds in your general ledger as a liability

2. During the loan period, accrue monthly interest & record expenses, tagging allowable expenses

3. Determine forgiveness & recognize in GL

4. Prepare to pay back what isn't forgiven
PPP loan proceeds are not immediately recorded as revenue when received under either of the 2 accounting options available:

Option 1 – Follow guidance related to accounting for conditional contributions

Option 2 – Follow guidance related to accounting for debt and then potentially debit forgiveness
1. Recording PPP Loan Proceeds

**Option 1 – Accounting as conditional contribution**

- Conditional contributions involve “barriers” that must be overcome before the contribution can be retained.  
  \[ \text{Barrier} = \text{requirement to satisfy PPP forgiveness terms} \]

- Until barriers are overcome, any related cash received is a liability  
  \[ \text{Record liability PPP Loan Payable or Refundable Advance} \]

- WHEN and IF barriers are overcome the liability will convert to revenue  
  \[ \text{Covert loan to revenue when . . . see step 3} \]
Option 2 – *Accounting as debt*

- Not initially different as recording liability in Option 1 approach – record PPP Loan Payable

- Loan payable is reduced:
  - When, and if, the loan is forgiven (legally released), either in full or partially OR
  - as the organization makes principal payments to the lender.
1. Recording PPP Loan Proceeds

How do I choose between Option 1 and Option 2?

If you consider your PPP loan to be, in substance, a grant that will not have to be repaid, you may lean towards Option 1.

Otherwise, you can choose Option 2.

If not already in place, create new accounts in your chart of accounts for Refundable Advance or PPP Loan Payable (Liability Accounts).
**Option 1 and 2 comparison**

Assuming $50,000 PPP loan proceeds received on 5/1/2020

<table>
<thead>
<tr>
<th></th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>50,000</td>
<td></td>
</tr>
<tr>
<td>Refundable Advance</td>
<td></td>
<td>50,000</td>
</tr>
</tbody>
</table>

To record cash receipt & PPP loan payable liability

<table>
<thead>
<tr>
<th></th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>50,000</td>
<td></td>
</tr>
<tr>
<td>PPP Loan Payable</td>
<td></td>
<td>50,000</td>
</tr>
</tbody>
</table>

To record cash receipt & PPP loan payable liability

*In substance, the same financial statement effect - Increase in cash and increase in liability. No P&L effect.*
2. Accounting During Loan Period

**Any special accounting consideration for PPP eligible expenses?**

- As related invoices and payments are processed through accounts payable, book as you normally would.

- Also create a way to track PPP eligible expenses (e.g., tag to PPP as funder/grant). Code/tag accordingly.

**Should we accrue monthly interest expense?**

- Under Option 2 - accrue interest expense at 1% APR applied to outstanding loan amount until full forgiveness confirmed or all funds paid back.

- Under Option 1 - while it would be unusual to record interest expense related to a conditional contribution, depending on whether the potential interest is material AND the risk you will not achieve maximum forgiveness, consider accruing.
If you chose Option 1 –
Reduce PPP Refundable Advance Liability and Record Revenue when conditions have been satisfied.

Judgement is involved to determine when this happens:

• If you are confident that your own estimation of forgiveness satisfies conditions (barriers) and forgiveness is certain, reduce the liability by your forgiveness estimation at the end of the covered period.

• You may decide to wait for your lender or the SBA to issue a formal forgiveness determination before reducing the liability, based on the complicated considerations involved.
If you chose Option 2 –
Reduce PPP Loan Payable and Record Revenue when your lender confirms your amount for forgiveness:

- Reduce **PPP Loan Payable** liability account by the amount (principal + interest) forgiven
- Increase **Forgiveness of Debt** revenue account by the amount forgiven
Option 1 and 2 comparison

Assuming $50,000 PPP loan forgiven (conditions met in Option 1 and legally released in Option 2)

<table>
<thead>
<tr>
<th>Option 1</th>
<th>Debit</th>
<th>Credit</th>
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</thead>
<tbody>
<tr>
<td>Refundable Advance</td>
<td>50,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Other Revenue</td>
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<td></td>
</tr>
</tbody>
</table>

To recognize forgiven PPP loan principal

<table>
<thead>
<tr>
<th>Option 2</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>PPP Loan Payable</td>
<td>50,000</td>
<td></td>
</tr>
<tr>
<td>Accrued Interest Payable**</td>
<td></td>
<td>500</td>
</tr>
<tr>
<td>Forgiveness of Debt Income</td>
<td></td>
<td>50,500</td>
</tr>
</tbody>
</table>

To recognize forgiven PPP loan principal and interest

In substance, the same financial statement effect - Decrease in liability and increase in revenue.

** Any interest accrued under either Option 1 or Option 2 would be relieved when and if forgiven.
FMA Paycheck Protection Program Toolbox

Paycheck Protection Program Toolbox

Most recent updates below: Tuesday 6/23 1:30 pm ET
On June 16th, the SBA released a revised Loan Forgiveness Application and added a new form EZ for a more streamlined application process that will apply to some organizations. We are actively reviewing the applications and will be updating our materials to get you the latest information. Please stay tuned.

Click to Subscribe for PPP Updates  Take our brief PPP Survey

Our PPP Toolbox is designed to support nonprofit organizations as they navigate the Paycheck Protection Program, from Application, through Loan Management and Reporting, and Forgiveness. If you are looking for information to support a small business, you may find our tools useful, but they are designed primarily with the needs of nonprofit organizations in mind. The links below will take you to the relevant section of this page:

- **FMA Resources** — The latest tools and answers to your questions
- **FMA Clinics** — Free assistance in a live webinar format, daily.
- **Federal Government Resources**
- **Others’ Resources**

https://fmaonline.net/ppptoolbox/