

*Paycheck Protection
Program Loan
Accounting*

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1. Paycheck Protection Program Loan Information

1.1. What is a Paycheck Protection Program?

The Paycheck Protection Program is a loan designed to provide a direct incentive for small businesses to keep their workers on the payroll.

SBA will forgive loans if all employees are kept on the payroll for eight weeks and the money is used for payroll, rent, mortgage interest, or utilities.

You can apply through any existing SBA 7(a) lender or through any federally insured depository institution, federally insured credit union, and Farm Credit System institution that is participating. Other regulated lenders will be available to make these loans once they are approved and enrolled in the program. You should consult with your local lender as to whether it is participating in the program.

<https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program>

1.2 Who Can Apply?

The following entities affected by Coronavirus (COVID-19) may be eligible:

- Any small business concern that meets SBA's size standards (either the industry based sized standard or the alternative size standard)
- Any business, 501(c)(3) non-profit organization, 501(c)(19) veterans organization, or Tribal business concern (sec. 31(b)(2)(C) of the Small Business Act) with the greater of:
 - 500 employees, or
 - That meets the SBA industry size standard if more than 500

- Any business with a NAICS Code that begins with 72 (Accommodations and Food Services) that has more than one physical location and employs less than 500 per location
- Sole proprietors, independent contractors, and self-employed persons

<https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program>

1.3 Loan Details and Forgiveness

The loan will be fully forgiven if the funds are used for payroll costs, interest on mortgages, rent, and utilities (due to likely high subscription, at least 75% of the forgiven amount must have been used for payroll). Loan payments will also be deferred for six months. No collateral or personal guarantees are required. Neither the government nor lenders will charge small businesses any fees.

Forgiveness is based on the employer maintaining or quickly rehiring employees and maintaining salary levels. Forgiveness will be reduced if full-time headcount declines, or if salaries and wages decrease.

This loan has a maturity of 2 years and an interest rate of 1%.

<https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program>

2. Helpful Best Practices for PPP loans and forgiveness

To ensure your PPP loan is forgiven, you want to keep your accounting records up-to-date. Before you begin accounting for your PPP loan, check out these three tips:

#1 Create a separate bank account for PPP transactions

A new bank account for the PPP loan money will help you keep PPP funds and transactions organized. A separate account allows you to easily show that your business used PPP funds for eligible expenses. A separate PPP loan account also will help simplify the PPP loan forgiveness process.

Here are some other accounts that you may consider:

NUMBER	ACCOUNT	TYPE
1150	Bank Account (PPP)	Bank
2160	PPP Loan Payable	Other Current Liability
6035	COVID-19 Rent Expense	Expense
6245	COVID-19 Payroll Expenses	Expense
6247	COVID-19 Utilities	Expense
7600	Debt Forgiveness	Other Income

#2 Track everything. Document Every Disbursement.

To ensure loan forgiveness, make sure you keep track of the following in your books:

- Payroll costs
- Eligible mortgage
- Rent
- and utility payments

Use the actual checks/electronic payment receipts to document the amounts and dates of payments. The more records you track, the better off your business will be when it comes to loan forgiveness.

#3 Don't make your books sloppy.

Don't make your books sloppy. Create a new account for Loan Forgiveness (See above table) . Separate your business revenue and PPP loan proceeds. Make sure you can easily track transactions for loan forgiveness.

3. PPP loan accounting process

4. 3.1 To enter a PPP Loan

PPP Loan increases your business's funds and liabilities. This is a liability until your lender tells you that part or all of the loans is forgiven. To post this increase, debit an asset account (your bank account) and credit a liability account.

Dr. Bank Account XXXX
 Cr. PPP Loan Payable XXXX

Whatever accounts you decide to use, debit your bank account for the amount of the loan and credit your liability account for the amount of the loan.

Example: You receive a PPP loan totaling \$100,000. You can record it in two ways:

OPTION 1:

Go to Transactions > Financial > Make Journal Entries

Lines	Communication	Related Records	System Information	Custom	GL Impact
100,000.00 •					
ACCOUNT	DEBIT	CREDIT	MEMO		
1150 Bank Account (PPP)	100,000.00				
2160 PPP Loan Payable		100,000.00	To record PPP loan		

OPTION 2:

Go to Transaction> Bank> Make Deposit>Other Deposit

Deposit

DEP00000003

Edit

Back



Actions ▾

Primary Information

DEPOSIT #
DEP00000003

DATE
5/8/2020

ACCOUNT
1150 Bank Account (PPP)

AMOUNT
100,000.00

CURRENCY
USD

EXCHANGE RATE
1.00

TO BE PRINTED

Classification

LOCATION

Deposits

Communication

System Information

Custom

EFT

WMS

Loyalty Program

Payments 0.00 **Other Deposits 100,000.00** • Cash Back 0.00

NAME	AMOUNT	ACCOUNT	PAYMENT METHOD
	100,000.00	2160 PPP Loan Payable	

3.2 Record PPP loan expenses such as Rent, Mortgage interest, Utilities and Payroll

You can choose between three ways to track your expenditures: with bills, with checks or journal entries.

If you choose to enter bills into NetSuite, you will be able to track paid and unpaid vendor bills. You enter bills when they arrive, and then pay them when they are due.

You can also choose to track expenditures with checks. NetSuite supports running your business on a cash basis. If you prefer to operate on a cash basis, keep track of when bills are due outside of NetSuite and only create checks in NetSuite to pay them when they are due.

You can also do this as journal entries.

For your PPP loan, use funds only for eligible payroll costs and other authorized expenses under CARES, such as rent, mortgage interest or utilities (max of 25% of loan).

Again, you can create a separate bank account for your PPP loan for simple tracking.

Rent, mortgage interest or utilities (max of 25% of loan)

Example : You have a \$3,000 rent expense

OPTION 1: Track expenditures with Bills

Go to Transactions >Payables> Enter Bills.

Dr. Rent Expense account	\$3,000
Cr. AP Account	\$3,000

Expenses and Items			Promotions	Billing	Approvals	Relationships	Intercompany Mgt	Vendor Prepay
Expense 30,000.00			Items 0.00					
ACCOUNT	AMOUNT	MEMO						
6035 COVID-19 Rent Expense	30,000.00	COVID-19 Rent Expense						

To make a payment, Go to Transactions >Payables> Pay Bills

Dr. AP Account	\$3,000
Cr. Bank Account (Regular)	\$3,000

Address Relationships Communication System Information Custom GL Impact Related Records NS WMS Vendor Prepayments Collections Inspection Loyalty Program									
30.00 - Credits Applied 0.00									
TYPE	REF NO.	ORIG. AMT.	AMT. DUE	CURRENCY	DISC. DATE	DISC. AVAIL.	DISC. TAKEN	PAYMENT	
Bill		30,000.00	30,000.00	USD				30,000.00	

Yes, You can use your regular bank account to pay for your payables. Then, you can transfer the appropriate PPP loan funds from your PPP account to your regular bank account to replenish the money in your regular bank account.

To record an expense on a journal entry. Go to Transaction > Financial > Make Journal Entries.

3,000.00 •			
ACCOUNT	DEBIT	CREDIT	MEMO
6390 General and Administrative : Rent Expense	3,000.00		
1001 Operating		3,000.00	

Again, you can replenish the money in your regular bank account by transferring money out of your PPP loan account for both option 1 and 2.

NOTE: If your loan is not in a separate bank account. You don't need to make a fund transfer. But please make sure you can easily track the loan proceeds spending from your combined fund.

3.3 Payroll expenses

Payroll expenses at least 75% of the forgiven amount must have been used for payroll for forgiveness.

Example: You have a total of \$30,000 in payroll expenses over a biweekly payroll period.

If you lump all your payroll expenses under a COVID-19 Payroll Expense account :

Dr. Payroll Expense	\$30,000
Cr. Bank Account	\$30,000

Transaction > Financial > Make Journal Entries

Lines	Communication	Related Records	System Information	Custom	GL Impact	NS WMS
30,000.00 •						
ACCOUNT		DEBIT	CREDIT	MEMO		
6245 COVID-19 Payroll Expenses		30,000.00				
1001 Operating			30,000.00	to record COVID-19 Payroll Expenses		

But if you detail your payroll-related expenses, you will need two journal entries:

First entry:

Dr. Payroll Expense	\$21,000
Dr. Payroll Taxes	3,000
Dr. Health Insurance	3,000
Dr. 401(k) Expense	3,000
Cr. Bank Account	\$30,000

Go to Transaction > Financial > Make Journal Entries

Lines	Communication	Related Records	System Information	Custom	GL Impact	NS WMS
30,000.00 •						
ACCOUNT		DEBIT	CREDIT	MEMO		
6240 General and Administrative : Payroll Expenses		21,000.00				
6246 Payroll Taxes		3,000.00				
6247 Health Insurance Expense		3,000.00				
6249 401 (k) Expenses		3,000.00				
1001 Operating			30,000.00	to record Payroll expenses		

Second Entry is a reclassification entry:

Transaction > Financial > Make Journal Entries

Lines	Communication	Related Records	System Information	Custom	GL Impact	NS WMS	Tax P
30,000.00 •							
ACCOUNT	DEBIT	CREDIT	MEMO				
6245 General and Administrative : Payroll Expenses : COVID-19 Payroll Expenses	30,000.00		reclassification COVID-19 expenses				
6240 General and Administrative : Payroll Expenses		21,000.00	reclassification COVID-19 expenses				
6246 Payroll Taxes		3,000.00	reclassification COVID-19 expenses				
6247 Health Insurance Expense		3,000.00	reclassification COVID-19 expenses				
6249 401 (k) Expenses		3,000.00	reclassification COVID-19 expenses				

3.4 Record accrued interest expenses

This loan has a maturity of 2 years and an interest rate of 1%. You can record interest accruals during your month end closing process.

You can use this formula, to calculate the accrued interest for the PPP loan.

Accrued Interest Formula is represented as follows,

*Accrued Interest Formula = Loan Amount * (Yearly Interest / 365) * Period for which the Interest is Accrued*

Example:

Your loan amount is \$100,000 and you received the loan proceeds on April 15. When you're recording the loan in your books on April 30, the accrued interest would equal \$41.10 for the month of April.

$$\$100,000 \times (1\% / 365) \times 15 = \$41.10$$

Entry

To record accrued interest in Netsuite for PPP loan: (April 2020)

Dr. Interest Expense account 41.10

Cr. Accrued Interest Payable

41.10

Transaction > Financial > Make Journal Entries

Lines	Communication	Related Records	System Information	Custom	GL Impact	NS WMS
41.10 •						
ACCOUNT			DEBIT		CREDIT	MEMO
6899 General and Administrative : Other Expenses : Interest Expense			41.10			PPP Loan Accrued Interest
2200 Accrued Expenses					41.10	PPP Loan Accrued Interest

To record accrued interest in Netsuite for PPP loan: (May 2020)

Dr. Interest Expense account 84.93

Cr. Accrued Interest Payable 84.93

$$\$100,000 \times (1\%/365) \times 31 = \$84.93$$

To record accrued interest in Netsuite for PPP loan: (June 2020)

Dr. Interest Expense account 82.19

Cr. Accrued Interest Payable 82.19

$$\$100,000 \times (1\%/365) \times 31 = \$84.93$$

The total accrued interest from April to June is 208.22

3.5 Writing off the forgivable portion of the PPP loan

A debt Forgiveness account type is other income. Again, Separate your business revenue and PPP loan proceeds so that you can easily track your PPP

transactions. It can be partially forgiven or fully forgiven loan. Depends on how much of the loan is forgiven.

Example#1 : You have a partially forgiven loan of 50,000. Half of your 100,000 PPP loan.

To record partially forgiven loan:

Dr. PPP Loan Payable	50,000	
Cr. Debt Forgiveness		50,000

Transaction > Financial > Make Journal Entries

Lines	Communication	Related Records	System Information	Custom	GL Imp
50,000.00 •					
ACCOUNT	DEBIT	CREDIT	MEMO		
2160 PPP Loan Payable	50,000.00		Write off the forgivable portion		
7600 Debt Forgiveness		50,000.00	Write off the forgivable portion		

In this case, you still have a balance of \$50,000. Each time you make a payment, you need to create payment to reduce the remaining balance over the repayment period.

Example#2 : You have a 100% forgiven loan of \$100,000

To record fully forgiven loan:

Dr. PPP Loan Payable	100,000	
Cr. Debt Forgiveness		100,000

Transaction > Financial > Make Journal Entries

