

How to Record Paycheck Protection Program (PPP) Loan Activity

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How to Record PPP Loan Activity

This document focuses on entries that should be made in your accounting software once you have received the PPP loan and started spending the funds. We've included instructions for QuickBooks Online (QBO) and QuickBooks Desktop (QBD). You can use the same accounts in other systems as well.

PPP Loan Income Setup – When Opening a Separate Account

Some banks may require the funds be maintained in a separate bank account or you may want to put the funds in a separate account to track the funds. A separate account is not required but avoids co-mingling of funds and creates a clear audit trail. Whichever way you decide to keep up with the funds, remember to maintain support for all payments. If you do set up a separate account, we recommend naming it **PPP Bank**.

To create the account in QB:

For QBD: Chart of Accounts | (Ctrl+N) | Bank | Continue | Account Name: PPP Bank | Save & Close

For QBO: Accounting | Chart of Accounts | New | Account Type: Bank | Detail Type: Checking | Account Name: PPP Bank | Save & Close

Setup the Loan Account

This loan will be a Liability until you determine how much of the loan will be forgiven. Start by creating new loan account in your chart of accounts. We recommend naming the account **PPP Loan**. If you have your chart of accounts broken down by current and noncurrent liabilities, you will need to decide between “Other Current Liability” (usually repaid in less than a year), or a “Long-Term Liability” (usually repaid in more than a year) account. We recommend “Long-Term Liability” since this loan is due in two years.

To create the account in QB:

For QBD: Chart of Accounts | (Ctrl+N) | Other Account Types | Other Current Liability OR Long-Term Liability | Continue | Account Name: PPP Loan | Save & Close

For QBO: Accounting | Chart of Accounts | New | Account Type: Other Current Liability OR Long-Term Liability | Detail Type: Loan Payable OR Other Long-Term Liabilities | Account Name: PPP Loan | Save & Close

Record the PPP Loan Proceeds

Once the money is received, record the deposit to the correct bank account and to the PPP Loan account. Either record the deposit as usual or you can make a journal entry such as the following.

Account	Debit	Credit
PPP Bank	20,000.00	
PPP Loan		20,000.00

To do this in QB:

Create a Deposit to deposit the funds in the correct bank account. If you have a new account, you will use the PPP Bank account created earlier.

Received From: Enter the Vendor name of your lender (you may have to create a new vendor if your lender is not set up)

From Account: Enter the PPP Loan account

Memo or Description: To record receipt of PPP Funds

Be sure to enter the correct deposit date and deposit amount.

Recording Expenses

If you are writing checks directly from your new bank account, enter the checks as usual but remember to select the correct bank account.

If you are writing checks from your existing bank account, make payments as usual but maintain separate records to support the expenses.

If you are writing checks from your existing bank account but the loan funds are in another bank account, make a transfer from your PPP Bank back to your regular business checking account as reimbursement for the allowable expense. Move the funds physically from one bank account to the other, and in your accounting software. Rather than using the QB transfer feature, we recommend you write a check in the system leaving the check # field blank.

If your online banking allows you to add a memo or description on the online banking funds transfer screen, add a short but meaningful description. When entering the transaction into QB, be sure to enter the Memo/Description in both the description and memo fields, as the description field displays on reports and the memo field displays in the register. Example: "PPP Transfer for electric bill" or "PPP Transfer for Payroll period end mm/dd/yyyy".

When doing the physical transfer, we recommend that you do not combine a transfer for different payments in a single transfer. Do a separate transfer for each expense.

Should You Change Your Payroll Bank Account to Your New PPP Bank Account?

We recommend not changing your payroll bank account. Some non-allowable expenses might be included in your payroll run, such as payments to Independent Contractors, payroll fees, reimbursable expenses, and salaries over \$100,000.

It is better to perform a manual calculation of what is allowable for each payroll run, and then transfer that specific amount. Be sure to save complete details of your backup calculations (most likely an Excel file), and your payroll reports.

Reporting

Keeping a detailed record of your expenses related to the PPP loan will make the forgiveness process smoother. You can keep up with the activity in an Excel file or run a transaction report from your accounting system from your newly created bank account. If you are using your normal operating account an Excel file will probably work best. Be sure to keep track of the payment date, check number, vendor, amount, and purpose.

For companies using QB, if you are maintaining the funds in a separate account, you can run a transaction detail and it will show you the payment information. It may not show the expense account so you will have to export the report to Excel and add that information. The QB Profit & Loss will not show regular spending compared to PPP spending, so be sure to keep a separate spreadsheet to track the PPP spending. If you have the ability to use Classes in QB you can make a separate class to track the expenses and run a P&L by class.

To run a transaction detail

QBD Report: Go to: Reports | Custom Reports | Transaction Detail. Click Customize Report. On the display tab set the dates to “All Dates” and be sure to select Cash basis under the report basis. On the Filters tab select Account and pick PPP Bank from the drop down. Run the report and make any additional adjustments such as removing columns and renaming headings. You can memorize the report to make it easier to run in the future.

QBO Report: Click on Reports and find the “Transaction Detail by Account Report” Click Customize. Set the report period to “All Dates” and pick the Cash accounting method. Remove the Amount, Num, and Split columns. Add the Debit and Credit columns and order the columns as Debit, Credit, and Balance. Under filter select Distribution Account | PPP Bank. You can make any additional adjustments such as removing columns and renaming headings. Click Run report. You can select the Save customization button to save the customized report to make it easier to run in the future.

Clearing the PPP Loan Liability

Your lender will audit the PPP spending using the backup documents for each expense. The loan will either be forgiven in full, or the lender will disallow some expenses, and require a portion of the loan to be repaid.

If the Entire PPP Loan is Forgiven

If \$20,000 in PPP funds was received, and all \$20,000 was spent on allowable expenses, the entire loan will be forgiven. Since all the cash was paid out you now have a liability account that needs to be moved to income. To keep up with forgiveness, create an Other Income account called PPP Loan Forgiveness. To zero out the liability, make a journal entry like the following:

Account	Debit	Credit
PPP Loan	20,000	
PPP Loan Forgiveness		20,000

If Only a Portion of the Loan is Forgiven

If only a portion of the loan is forgiven by the lender, say \$15,000 of the \$20,000, then make the Journal Entry for the forgiveness. The Balance Sheet will show the \$5,000 still due in the PPP Loan Liability account. Once you make the payment back to the lender, the liability account should be zero.

PPP Guidelines

A summary of provisions of the PPP established by the CARES Act can be found at:

<https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses>