



Accounting for Loan Forgiveness for the Paycheck Protection Program (PPP)

COVID-19 has brought with it many uncertainties, especially the ever-changing rules and regulations required to obtain loan forgiveness for PPP funds.

This article does not focus on the changing landscape of obtaining loan forgiveness, but instead focuses on how to account for loan forgiveness under the Paycheck Protection Program.

Accounting for the receipt of PPP funds is rather straight forward and should include a debit to cash and a credit to a liability account, as follows:

| G/L account | Debit | Credit |
|-------------|-------------|-------------|
| Cash | \$1,000,000 | |
| PPP loan | | \$1,000,000 |

And don't forget, the monthly interest of 1% should be accrued:

| G/L account | Debit | Credit |
|---------------------------|---------|---------|
| Interest expense | \$1,000 | |
| PPP loan accrued interest | | \$1,000 |

Business Entities

Within U.S. GAAP, there is no specific guidance on accounting for government loans or grants in the for-profit arena. However, U.S. GAAP provides some relevant guidance from which we can infer **how** (and **where**) and **when** PPP loan forgiveness should be recorded.

HOW

ASC-220-20-60-1 states:

“A material event or transaction that an entity considers to be of an unusual nature or of a type that indicates infrequency of occurrence or both shall be reported as a separate component of **income from continuing operations**. The nature and financial effects of each event or transaction shall be presented as a separate component of income from continuing operations or, alternatively, disclosed in notes to financial statements. Gains or losses of a similar nature that are not individually material shall be aggregated. Such items shall not be reported on the face of the income statement net of income taxes.”

The FASB ASC Master Glossary defines infrequency of occurrence and unusual nature, as follows:

Infrequency of Occurrence – the underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates.

Unusual Nature – the underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity, taking into account the environment in which the entity operates.

Loan forgiveness and COVID-19 appear to meet the “infrequent and unusual” criteria. To record PPP loan forgiveness, the following entries would be required:

| G/L account | Debit | Credit |
|--------------------------------------|-------------|-------------|
| PPP loan (liability) | \$1,000,000 | |
| Other revenue - PPP loan forgiveness | | \$1,000,000 |

An example of income statement presentation for PPP loan forgiveness might look something like this:

XYZ Company
STATEMENT OF INCOME
December 31, 2020

| | |
|-------------------------------|---------------------|
| Revenues: | \$ 6,500,000 |
| Operating Expenses: | |
| Salaries and wages | 3,400,000 |
| General and administrative | 1,780,000 |
| Sales and marketing | 750,000 |
| Total operating expenses | 5,930,000 |
| Income from Operations | 570,000 |
| Other Income (Expense) | |
| Interest expense | (1,000) |
| PPP loan forgiveness | 1,000,000 |
| Total other income | 999,000 |
| Net Income | \$ 1,569,000 |

Offsetting of revenue with expenses is not a preferable presentation method (i.e. netting costs against revenue, or offsetting costs with revenue).

WHEN

There are several applicable standards that provide guidance from which we can infer when loan forgiveness should be recognized.

ASC 450-30 - Gain Contingencies, states:

“A gain contingency is defined as an existing condition, situation, or set of circumstances involving uncertainty as to possible gain to an entity that will ultimately be resolved when one or more future events occur or fail to occur. A contingency that might result in a gain usually should not be reflected in the financial statements because to do so might be to recognize revenue before its realization.”

ASC 470-50 – Debt Modifications and Extinguishments, states:

“Debt is considered to be extinguished when: (a) the debtor pays the creditor; or, (b) the debtor is legally released from being primary obligor.” Further, “A gain or loss should not be recognized before the debt is extinguished through repayment, legal release, or substantial modification. Once one of these conditions is satisfied, . . . a gain or loss should be recognized whether the debt is retired or held as treasury debt.”

From this authoritative guidance, we can conclude that PPP loan forgiveness should only be recognized when formal notice is provided to the business entity by the U.S. government specifying the amount of loan forgiveness.

In Summary . . .

- **Forgiveness of PPP loan proceeds should be recorded as income from continuing operations, as a separate line item.**
- **Forgiveness of PPP loan proceeds should only be recognized when formal acknowledgement of loan forgiveness from the U.S. government is received.**