

## How to Manage Your PPP Loan in QuickBooks

As you all know, the U.S. Small Business Administration (SBA) has launched the **Payroll Protection Program (PPP)** to help small businesses keep workers on their payroll. The loans have been authorized by Congress under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). This topic assumes that a company has already applied for and received a PPP Loan.

### General Description

The funds received under this program have provisions that allow the loan to be forgiven if certain restrictions are met. The steps outlined in this article provide a way to segregate the funds so that their use can be monitored and reported back to the lending institution for compliance with these restrictions. The screen shots are from QuickBooks Online Advanced, but the techniques will work essentially the same in all QuickBooks Online and desktop editions.

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### Initial Setup

1. (Optional) – Open a separate bank account for the PPP funds at your bank. This step is not absolutely necessary because the funds can still be segregated in QuickBooks, but some business owners will find this a more obvious way to manage the usage of funds.
2. In QB, create the following accounts:

Account Name	Account Type	Purpose / Notes
PPP Funds	Bank	Used to carry the initial proceeds of the loan and the unused balance. If you have not opened a new physical bank account at your bank, make this a Sub Account of your real operating account
PPP Loan	Other Current Liability	Used to record the initial liability of the loan. After the initial 8-week review period, this amount will be reclassified to “Other Income” for the portion of the loan that is forgiven.

The screenshot shows the 'Account' creation form in QuickBooks. The following fields are highlighted with red circles:

- Account Type:** Bank
- \* Name:** PPP Funds
- \* Detail type:** Checking
- Is sub-account:**  Is sub-account
- Detail type (for sub-account):** Checking

Other visible fields include:

- Description:** Used to track use of PPP Funds
- When do you want to start tracking your finances from this account in QuickBooks?:** Choose one

Additional text in the form includes: "Use **Checking** accounts to track all your checking activity, including debit card transactions." and "Each checking account your company has at a bank or other financial institution should have its own Checking type account in QuickBooks Online Advanced."

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### Account ✕

**Account Type**  
Other Current Liabilities ▼

**\*Detail type**  
Loan Payable ▼

Use **Loan payable** to track loans your business owes which are payable within the next twelve months.

For longer-term loans, use the Long-term liability called **Notes payable**, instead.

**\*Name**  
PPP Loan

**Description**  
Used to track PPP loan liability

Is sub-account  
Enter parent account ▼

When do you want to start tracking your finances from this account in QuickBooks?  
[More info on opening balances](#)

Choose one ▼

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### Transaction Procedures

1. When you get your PPP funds, enter a Deposit into your “PPP Funds” account using the “PPP Loan” account as the distribution account.

**Bank Deposit** Help X

Account: Checking:PPP Funds Balance: \$0.00 Date: 05/08/2020 AMOUNT: **\$75,000.00**

▼ Add funds to this deposit

#	RECEIVED FROM	ACCOUNT	DESCRIPTION	PAYMENT METHOD	REF NO.	AMOUNT
1	My Bank	<u>PPP Loan</u>	Initial proceeds of PPP loan	ACH		75,000.00
2						

Other funds total: **\$75,000.00**

Memo:

Cash back goes to: Checking Cash back memo:  Cash back amount:

2. Record payments for any eligible expenses out of your PPP Funds account. Eligible expenses include:
  - a. Payroll costs (change default account in QB Payroll): Gross Wages (Net Payroll + Employee tax deductions), also including sick, vacation, and family leave pay
  - b. Other employee benefits, such as 401K retirement payments
  - c. Company paid state and local payroll taxes
  - d. Rent or mortgage interest
  - e. Utilities, including cell phones
  - f. Health insurance

Expenses **NOT** eligible:

- a. Company paid federal taxes (Medicare and FICA)
  - b. Payments to independent contractors (1099's)
  - c. Payroll service fees
  - d. Purchase another company or other business expenses
  - e. Wage amounts that would exceed \$100,000 annual payment per employee (extrapolated from weekly or bi-weekly pay)
3. As these payments are recorded, the balance in the PPP Funds account will decline. The PPP Loan balance should not change. Reconciliations will be still be done at the main account level.

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### Special situations

1. Payments from Credit card accounts: As you use your credit card, some of the credit card charges will be eligible expenses and others will not. There are two options on how to track this when you pay your credit card bill:
  - a. Make two payments – one for eligible expenses (out of your PPP Funds account) and a second payment for non-eligible expenses (out of your operating account)
  - b. Make one payment as usual for the total amount (out of your operating account). Then make a Transfer from your PPP funds sub account to your Operating account for the total of eligible expenses. Since the PPP Funds account is a sub account of your Operating account, the Operating ledger will show the Debit and Credit of the transfer that can be offset when you reconcile your next bank statement.

Note that the date of the Credit Card charge (regardless of when you paid your credit card bill) should be after the date you received your PPP loan for the charge to be eligible for forgiveness.

2. Payments out of multiple checking accounts: If you make payments out of multiple accounts, such as an Operating account and a Payroll account, make the bill payments out of the normal account you use. Then transfer the amount to cover the eligible costs from the PPP Funds account to the payment account. In this instance, you would need to make the transfer in QuickBooks from the PPP account to the payment account AND transfer the actual cash needed in your bank system from the PPP account to the payment account.

### Record Keeping

For eligible expenses, it is advised that you keep a copy of payroll reports, rent agreements, utility bills and other supporting documentation to validate the eligible expenses you are claiming.

For the 8-week period beginning on the date your funding was received, the bank that manages your PPP loan will require you to document how the funds were used. A detailed transaction report filtered using the PPP funds bank account will give you some of the details you will need. This report and the corroborating documentation will be used to calculate your “Loan Forgiveness.” Forgiveness will be based on:

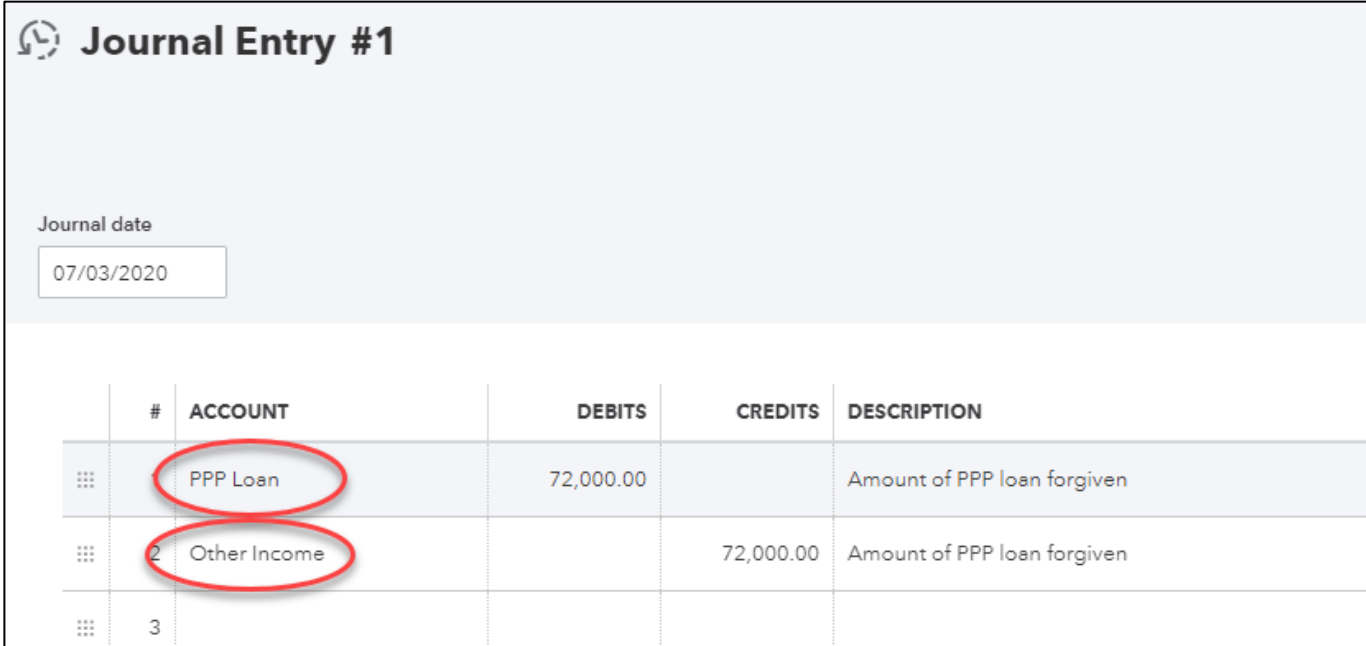
- 1) At least 75% of the funds were used for payroll; the remaining 25% can be used for other eligible expenses such as rent, etc. I am hearing from PPP related discussion groups that if you do not use at least 75% of the loan for payroll purposes, the entire loan amount is **not** eligible for forgiveness.
- 2) Employee headcount (in terms of FTE’s) from the application period is maintained after funding by the time that the 8-week funding period expires. If the headcount is less, your loan forgiveness will be reduced.

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- 3) Amounts received under the Economic Injury Disaster Loan (EIDL) program may reduce the amount you are eligible for PPP forgiveness. There have been mixed messages on this – we are waiting on further clarification from the SBA.
- 4) Because of these restrictions, there are news reports that many larger companies that got large PPP loans in the early stages of the program are returning their loans.
- 5) Further guidance and details from the SBA and lending banks are still coming out

### Record Forgiveness Amount

Once the bank calculates that amount of your loan forgiveness, the final step is to make a Journal Entry to Reclass the amount of the forgiveness from the PPP Loan to Other Income. Any amount not forgiven will be treated as a 2-year loan at 1% interest. The first payment is due six months after the loan was originally granted.



The screenshot shows a QuickBooks Journal Entry titled "Journal Entry #1" with a date of 07/03/2020. The entry consists of three lines. The first line is a debit to "PPP Loan" for 72,000.00, with the account name circled in red. The second line is a credit to "Other Income" for 72,000.00, with the account name also circled in red. The third line is a blank line with a number 3 in the first column.

#	ACCOUNT	DEBITS	CREDITS	DESCRIPTION
⋮	PPP Loan	72,000.00		Amount of PPP loan forgiven
⋮	2 Other Income		72,000.00	Amount of PPP loan forgiven
⋮	3			