Accounting for Paycheck Protection Program Loans

Guidance has recently been issued on how to account for the Paycheck Protection Program (PPP) loans on your financial statements.

For governmental entities who follow Governmental Accounting Standards Board (GASB) accounting standards (Public Hospital Districts, county or city owned Hospitals), this guidance comes from a GASB proposed technical bulletin. For nongovernmental entities who follow Financial Accounting Standards Board (FASB) accounting standards (nonprofit or for-profit entities), guidance comes from a Questions and Answers document from the American Institute of Certified Public Accountants (AICPA).

Although the current guidance available is not authoritative, it may be relied upon, as no other guidance is currently available addressing this kind of loan with forgiveness.

Governmental Entities

Governmental entities report the loan as a liability until legally released from the debt, i.e. when the application for forgiveness is approved. Entities who have requested forgiveness in the current fiscal year but for which the application for forgiveness has not been approved will reflect a liability until the forgiveness has been approved. In some cases, forgiveness will be approved in the fiscal year after the funds have been spent.

Once legally released from the debt, the governmental entity should report an inflow of resources in the fiscal period forgiveness is approved. This should be presented as a gain on forgiveness of debt and included in nonoperating revenue.

Nongovernmental Entities

While governmental entities have a prescribed accounting method, nongovernmental entities have two choices—they can either account for the PPP loan as a liability until it is forgiven, or as a conditional grant and recognize the revenue as the conditions are met (as qualifying expenses are incurred). The difference between these two options is in the timing of the revenue recognition, elaborated below:

- **Accounted for as Liability:** If the PPP loan is accounted for as a liability, it should be recorded as debt and interest should be accrued. The loan will remain as a liability until either the entity is legally released from its obligation (forgiveness is approved) or it pays back the loan. Because a borrower would not be legally released from being the primary obligor of a PPP loan until forgiveness is actually granted, income from the forgiveness of the loan would only be recognized once the borrower's application for forgiveness is approved. Any amount forgiven would be recognized in the income statement as a gain on forgiveness of debt.

- **Accounted for as a Grant:** If an entity expects to meet the PPP's eligibility requirements and concludes the PPP loan represents, in substance, a grant expected to be forgiven, it may account for the PPP loan as a conditional contribution. The loan is initially recorded as a liability; as qualifying expenses are incurred, the liability is reduced and recognized as revenue.

Disclosures in the Financial Statements

Both governmental and nongovernmental entities should disclose their accounting policy for PPP loans and the related impact to the financial statements.

In summary: governmental entities must wait until loan forgiveness is approved before they can recognize the revenue. Nongovernmental entities can choose to recognize the revenue when loan forgiveness is approved, OR recognize the revenue during the period covered by the PPP loan as qualifying expenses are incurred.

Closing

Please feel free to reach out with any questions to Joe Lodge at 509.251.5351, Shaun Johnson at 509.321.9472, or your favorite DZA representative.

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