

e | **FREE**
DOWNLOAD

HOW TO ACCOUNT FOR AND RECORD PAYMENTS RECEIVED UNDER THE FFCRA, CARES ACT AND THE PPP AND HCE ACT

..... • **PREPARED BY**
ZINNER & CO. RECOVERY SPECIALISTS

 **zinner**&CO.
Certified Public Accountants
Management Consultants *Since 1938*

3201 Enterprise Parkway, Suite 410 • Beachwood, OH 44122
P: 216.831.0733 • F: 216.765.7118 • zinnerco.com

HOW TO ACCOUNT FOR AND RECORD PAYMENTS RECEIVED UNDER THE FFCRA, CARES ACT AND THE PPP AND HCE ACT

As the Federal government continues to implement new measures to help businesses manage the economic consequences of the COVID-19 pandemic, questions have been raised as to how businesses should account for assistance payments and expense deferrals they have received or hope to receive.

The accounting and financial reporting implications can vary depending on whether the assistance is considered a loan, a grant or a tax deferral.

With approvals and funding of Payroll Protection Program (PPP) loans ongoing, and many tax credits already in full swing, the following summary includes some key accounting guidance.

PAYCHECK PROTECTION PROGRAM LOANS

Initial issuance, reporting and operational guidance

- Loan proceeds received under the Paycheck Protection Program should initially be recorded as a loan payable in the liability section on the Company's balance sheet.
- We suggest opening up a new bank account for the proceeds from the loan. This allows you to not commingle these proceeds with other cash assets. This will help ensure you can easily account for the tracing of how proceeds were used, which is information you will need in order to obtain loan forgiveness later.
- As expenses are paid with the proceeds received from the PPP loan, they should be recorded as they would be normally in the correct expense accounts on the income statement. These payments for payroll, payroll taxes, health insurance, retirement plan contributions, rent, utilities and interest related to mortgage debt are recognized costs in the income statement and not reductions of the loan balance. Such costs are not to be reflected on the balance sheet, during the eight-week forgivable measurement period.
- Borrowers must formally apply for PPP loan forgiveness and submit certain documentation verifying the existence and accuracy of qualified expenses. Once you obtain loan forgiveness, the debt will be reduced either to zero or to the amount not forgiven. You will record book income for the debt forgiveness in the amount of the loan, which is formally forgiven. This forgiveness income is only going to be reported for book purposes. For tax purposes, the forgiveness of the loan will not be recognized as income, but the Internal Revenue Service issued guidance

on April 30, 2020, which provides related expenses paid using proceeds from the PPP loan forgiven, will not be deductible for tax purposes. It is important to note, at the time of authoring this E-book, many lobbying groups are advocating for changes to be made to allow expenses paid with forgiven PPP funds to remain tax deductible. Finally, it is important to remember that in order to obtain maximum loan forgiveness, 75 percent of the loan proceeds must be used for payroll related costs. Loan forgiveness may also be reduced if there is a decrease in the number of full-time employees or a reduction in wages for any employees of more than 25 percent.

- All lenders differ in what documentation they may require in the forgiveness process, so you will want to make sure to consult with your specific lender to find out exactly what they are requesting you provide in order to obtain loan forgiveness. The guidance is still unclear as to exactly how the process will work. However, to prepare, you should ensure your documentation includes verification of the number of full-time equivalent employees on payroll and related pay rates, payroll tax filings, payroll registers, unemployment insurance filings, documentation supporting non-payroll expenses for mortgage interest, utilities expense and rent expense such as canceled checks, payment receipts, account statements, invoices, etc. You may also need financial statements verifying payment on debt obligations incurred before the covered period, and the SBA may require additional documents in future clarifications or rulings.

Loan Forgiveness

- You only have eight weeks from the time the loan proceeds are obtained to expend the funds. You will need to have all of the funds used within this 8-week window in order to maximize loan forgiveness.
- Any PPP loans over \$2 million will undergo a full audit by the lender on behalf of the SBA to insure requirements of the loan program were met. Loans under \$2 million may also be selected for audit.

Compliance, FAQs and Interim Final Rulings

- When the CARES Act was approved and the Paycheck Protection Program was first announced, it specifically waived the normal SBA requirement that you did not have any other sources of credit available. This waiver was heavily scrutinized when the media reported many large corporations with cash reserves and access to other market capital had received PPP loans. The SBA then issued guidance in the form of Frequently Asked Questions (FAQs) and Interim Final Rules. These rules indicated all borrowers in the second round funding must still certify, in good faith, their PPP loan request is necessary. All borrowers should review the required certification that “current economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant.” In their clarification, the SBA stated borrowers should look at their other sources of liquidity and evaluate whether it would be significantly detrimental to the business if they were to utilize these funds.

- To ensure you are in compliance with the Interim Final Rules of the PPP, you should document the following as of the PPP application date:
 - Current economic uncertainties making the loan necessary.
 - Specifically identify anticipated or actual losses.
 - Identify possible employee consequences if funding not received (layoffs/furloughs, etc.).
 - Analysis of other funding sources for payroll. Include a statement the CARES Act specifically waives “credit not available elsewhere” requirement.
- From the standpoint of using PPP proceeds for expenses, it is advisable to proceed with normal business practices. Any large pay increases or extraordinary business expenditures you would not have in the ordinary course of business prior to the pandemic should not be paid with PPP funds. Keep in mind, the original purpose of the PPP was to protect paychecks, keep your staff employed and help you keep your business afloat during these difficult times.
- Click on the following link to access the Paycheck Protection Program Frequently Asked Questions issued by the SBA and the Treasury Department on April 26, 2020:
<https://home.treasury.gov/system/files/136/Paycheck-Protection-Program-Frequently-Asked-Questions.pdf>

Grants or other Loans

There are a number of Federal, state and local agencies offering low interest emergency loans and/or grants. In addition, the SBA has expanded its Economic Injury Disaster Loan (EIDL) program and has included a grant provision. The city of Cleveland also has an emergency loan program available. If you are a recipient of any grants, it will be recorded as grant income when received, since this money will not be paid back. If repayment is required on any portion of loan proceeds obtained from any program or agency, the amount will be booked as a loan payable in the liability section on the balance sheet, and will be considered short-term or long-term depending upon the term of repayment.

Tax Credits

If your business is able to take advantage of one of the available various tax credit programs, such as the employee retention credit or the tax credit for paying employees sick and family leave, you will want to ensure you keep track of any payroll paid under these programs separately in your general ledger, as well as any related credits you receive. This will ensure ease in reconciliation of wages and related taxes at year-end. Most payroll providers have added new codes to their reports to ensure proper classification of wages and related tax credits.

Payroll Tax Deferral

If your company is taking advantage of the deferral of the employer portion of social security tax (incurred between March 27, 2020 and Dec. 31, 2020), 50 percent will be deferred and due by Dec. 31, 2021 and the other 50 percent will be due by Dec. 31, 2022. The taxes are still payable and should remain on the liability section of the balance sheet classified as either short-term if due within

12 months, or long-term if due over more than 12 months, until they are paid. You may want to create a new liability account for these deferred taxes, so they are easy to identify. If you are interested in taking advantage of deferring the employer portion of social security taxes, you should contact your payroll provider to ensure they are aware of your decision. It is also important to alert your payroll company if you have been a recipient of a PPP loan, as some benefits received under the FFCRA cannot be duplicated in benefits received under the PPP.

COVID-19 Related Financial Statement Disclosures

Many organizations operate on a calendar year basis, and due to the COVID-19 pandemic, their Dec. 31, 2019 financial statements may not be complete. If this is the case, there are requirements you may need to consider and disclose regarding one of two types of subsequent events:

1. An event provides additional information about pre-existing conditions, which existed on the balance sheet date, and/or
2. A subsequent event provides new information about a condition, which did not exist on the balance sheet date.

COVID-19 is the latter of the two types of subsequent events. Most organizations would require a subsequent events disclosure pointing out to the users of the financial statements the COVID-19 pandemic has caused business disruption through mandated and voluntary closings of many of the company's facilities and that of customers. The extent of the impact of COVID-19 on the company's operational and financial performance will depend on certain developments, including the duration and spread of the pandemic and the impact on the company's customers, employees and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the company's financial condition or results of operations is uncertain. If there are specific impacts such as, but not limited to, major closures, layoffs, loss of major customers or suppliers and financing related issues those would be specifically disclosed. Furthermore, there may also be disclosures related to the decline in market value of investments, which were held on Dec. 31, 2019, as all investment markets have suffered significant declines during this pandemic.

COVID-19 Related Extraordinary Costs

Many businesses are going to incur unusual costs due to the staged reopening of the economy. Some of these costs include purchases of personal protection equipment (PPE) for staff or customers, sanitation supplies and health screenings. You may want to consider separately identifying these costs on the income statement, so you can segregate and measure the financial impact these costs have on your business.

IN CLOSING

We are traversing uncertain times and new information continues to come out daily. We are doing our best to keep up with the ever-changing updates and providing accurate, timely information.

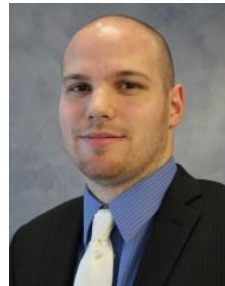
If you have any questions or need additional assistance, please feel free to contact a member of your Zinner Client Service Team or one of our Recovery Specialists.

CONTACT US

Zinner & Co. LLP, is here to help. If you have any questions or would like to talk to someone about ways you and/or your business can take advantage of these government support programs, please reach out to one of our Recovery Specialists:



Laura Haines
LHaines@zinnerco.com
(216) 831-0733, Ext 177



Richard Huszai
RHuszai@zinnerco.com
(216) 831-0733, Ext 104

ABOUT ZINNER

In 1938, Harry Zinner had a vision for long term success. He founded a Cleveland-based bookkeeping firm that focused on integrity, commitment and a pledge to help individuals, not-for-profit organizations and closely-held companies grow and prosper, not just for today, but for decades to follow.

Today, Zinner & Co. provides tax, accounting and management advisory services to guide businesses from startup to succession planning and help individuals create a solid financial foundation.

Our Beachwood, Ohio office is home to a dedicated team of CPAs and management advisors that provide a full slate of services beyond traditional tax and accounting. Contact us to discover how we can help you achieve your greatest financial potential.

www.zinnerco.com

info@zinnerco.com

216.831.0733

