



## Quality Bookkeeping White Paper

You have received your EIDL and/or PPP loan, and it would be even better to have the loan eventually converted to a grant.

However, you must document how you used the funds. Our recommendations for recording and tracking your PPP expenses are as follows:

- You must use at least 75% of the funds for payroll, with the balance used to pay rent, mortgage interest, and/or utilities over the 8 weeks following receipt of the money.
- Create a separate bank account for the PPP funds: Deposit or transfer the exact amount of your loan into the new account. Do not put any other funds into this account (ever).
- Book the transaction as **a bank deposit** and **a liability named "PPP short term note payable"**.
- Do not spend or transfer any money from the PPP account except for approved payments, and then **only in exact amounts with documentation showing the amount and use of the funds**.
- Payroll: Transfer the exact amount of each payroll (total gross pay) plus FICA/Medicare/State and federal unemployment to your payroll or checking account when needed. These are the exact amounts that your payroll service and federal and state governments will withdraw. You could disperse payroll and taxes directly from your PPP account, but it is generally a challenge to change the accounts from which payroll services and tax authorities already withdraw funds. **Create a paper or electronic folder named "PPP" and archive payroll summary reports that exactly match the transfer amount**.
- Rent, Utilities, and Mortgage Interest: Pay directly from the PPP account or transfer the exact amounts to your operating account and pay from there. Archive the source documents (invoices) for each payment. Only interest on mortgage payments is eligible for PPP fund use. Archive a copy of your amortization schedule that shows your monthly payment breakdown between interest and principal. Note that utilities also include telephone and internet costs.
- Your PPP bank account statement will show a deposit along with withdrawals that exactly match payroll reports and invoices archived in your PPP folder. When the bank or SBA comes knocking, print out your PPP bank statement and copies of all your source documents and hand them over. You will be approved, and they will be on their way.
- After your loan is forgiven, reclassify it from debt to income in your books.
- Eight weeks is not the same as two months. Everything we have read says that in order to be forgiven, PPP funds must be spent within eight weeks of receiving a PPP loan. Put a big red "X" on your calendar eight weeks to the day from the date you receive funding.
- Make sure you spend your funds paying eligible expenses within that eight-week period, even if it means a short payroll paid a few days early.



# Quality

Bookkeeping, LLC