SBA EIDL/PPP Loans

and Loan Forgiveness

for Agriculture

Recommendations of the

Farm Financial Standards Council

October 2021

The stated mission of the Farm Financial Council (FFSC) is “To create and promote uniformity and integrity in financial reporting and analysis for agricultural producers.” FFSC is dedicated to helping farmers by promoting uniform financial reporting and analysis in the Agricultural Industry. Arising from that desire and dedication have been two sets of guidelines to aid farmers in capturing reports and uniformly performing financial analyses. These guidelines, “The Financial Guidelines for Agriculture” and “The Management Accounting Guidelines for Agriculture,” address the vast range of financial issues relevant to agricultural producers.

Even though the guidelines are extensively reviewed on a continual basis, issues and matters sometimes arise that are outside the “normal” financial accounting transactions typical for agricultural producers. One recent such issue is accounting for Paycheck Protection Program (PPP) and COVID-19 EIDL (Economic Injury Disaster Loan) loans and resultant (potential) loan forgiveness.

FFSC offers the following recommendations on financial accounting for SBA/PPP loans. This guidance does not address the possibly complex tax consequences of how PPP loan proceeds are utilized, which could affect tax deductibility of these expenses. Congress and the Internal Revenue Service have been and are continuing debate on these tax-related matters. FFSC recommends a discussion with your tax professional for updated tax information and guidance.

BACKGROUND

The Paycheck Protection Program (PPP) and COVID-19 EIDL (Economic Injury Disaster Loan) programs were established by the 2020 U.S. Coronavirus Aid, Relief, and Economic Security Act (CARES Act) to aid certain businesses, self-employed workers, sole proprietors, certain non-profit organizations and tribal businesses in retaining their employees. Although initially excluded, farm businesses were later included.

The PPP program allows these entities to apply for lowered-interest loans to pay payroll and certain other business expenses. Within the broad definition of “payroll costs,” the amount of the PPP loan could approximate 2.5 times the applicant’s average monthly payroll costs. The loan proceeds were intended to be utilized for paying payroll costs, rent, mortgage interest, and utilities, although the program was later updated to allow even more expenses to qualify. The loan may be partially or totally forgiven if the business maintains stable employee counts and employee wages during the evaluation period. The program is administered by the Small Business Administration (SBA). Although the original (extended) deadline for application was August 8,2020, the program was reopened (with additional rules) on January 11, 2021.

The COVID-19 EIDL loan program was created “to meet financial obligations and operating expenses that could have been met had the disaster not occurred.” Whereas PPP loans may be eligible for 100% forgiveness, a maximum of $ 10,000.00 of EIDL proceeds may be forgivable and only under specific circumstances. The specific terms, collateral, use of proceeds, and requirements for forgiveness are outside this document’s scope; the focus will be on recommended financial accounting if requirements for forgiveness are met. SBA PPP Loans (the more common program utilized in production agriculture) will be used in the following examples; however, the accounting concepts are equally applicable to COVID-19 EIDL loans.

Unlike government agricultural programs, which include a compliance requirement, there are no "farming" requirements for PPP. Given the PPP loan program's intention was to encourage businesses to retain employees, there is little deemed direct relationship between farm operating activities (either crop or livestock) and "income" derived from loan forgiveness. Utilizing this financial logic, the forgiveness of PPP loan proceeds is not deemed a farm operating revenue nor a reduction of cost(s) of production or operating expense(s). To do so would overstate farm operating income or understate farm cost of production / operating expenses and thereby distort net operating income metrics of the farm or ranch.

Recommended Financial Accounting

FFSC recommends accounting for a PPP loan as a non-current financial liability in accordance with Financial Accounting Standards Board (FASB) guidance on Debt. Farms should record the cash inflow from the PPP loan as a non-current financial liability. Interest should be accrued in accordance with the accepted loan terms until (1) the loan is partially or wholly forgiven and the debtor is legally released or (2) the loan is repaid. An example Journal Entry for a $100,000 SBA PPP Loan received under the SBA PPP is shown below:

Account	Debit	Credit
Cash	$100,000	
SBA PPP Loan		$100,000

As interest is accrued monthly, this accrued expense and liability should be recorded. SBA PPP loans (as mandated in guidance available) carry an interest rate of 1%, which is below the Applicable Federal Rate (AFR), typically requiring calculation and inclusion of imputed interest. Since the rate is set by a governmental agency, consideration, and recording of imputed interest is not required. Note: interest payments are not due until 10 months after the end of the coverage period. An example journal entry is shown below:

Account	Debit	Credit
Interest Expense	$83	
Accrued Interest		$83

Costs incurred acquiring the loan – paid to third parties – may be deferred and amortized over the loan agreement period. These deferred/amortized costs include accounting, advisory, consulting, legal services, and document preparation costs.

Account	Debit	Credit
Intangible Assets-Cost	$250	
Professional Fees		$150
Miscellaneous Expenses		$100

Due to potential immateriality, FFSC suggests it acceptable to expense these loan fees rather than amortization ratably over the loan agreement period. If deemed material, and as a result amortized, an example journal entry to record the monthly amortization is shown below:

Account	Debit	Credit
Amortization Expense	$7	
Accrued Amortization		$7

At the time forgiveness of the PPP loan (in part or whole) is pending, record the amount of expected forgiveness as an increase in Accounts Receivable on the farm Balance Sheet. Record the portion of the PPP loan expected to be forgiven as a reduction of Non-Current Liabilities Any remainder PPP loan should be recorded as a non-current liability with amortization allocation. In this example, 100% of the SBA PPP loan is expected to be forgiven along with $ 563 of Accrued Interest.

Account	Debit	Credit
Accounts Receivable	$100,000	
Other Income		$100,563
Accrued Interest	$563	
Current Portion of Non-Current Debt		$100,000
SBA PPP Loan	$100,000	

According to FASB ASC 470, the PPP loan is not derecognized until the legal release of the liability. This likely will not occur until SBA has indicated they have repaid the loan per guarantee. The account receivable is realized at the time of legal release, and the forgivable portion of the debt is liquidated. Record the reduction of current portion of non-current debt (the SBA PPP Loan forgiven) and the realization of accounts receivable. In this example, the entire $100,000 SBA PPP loan is released.

Account	Debit	Credit
Current Portion of Non-Current Debt	$100,000	
Accounts Receivable		$100,000

Recommended Reporting on the Balance Sheet

If forgiveness has not been received prior to year-end, the loan should appear on the balance sheet because the expectation is for the loan to be repaid as opposed to applying for forgiveness. In this case, it is suggested the loan be classified and reported in accordance with the contractual repayment terms of the loan like any other loan.

If the expectation is to apply for loan forgiveness, and the application is expected to be filed in the current operating cycle, classify the entire loan balance expected to be forgiven as current debt.

In situations where the expectation is partial forgiveness, FFSC suggests entities make a policy election described above for the portion expected to be forgiven and classify the amount expected to be repaid in accordance with the contractual repayment terms of the loan.

Recommended Reporting on the Income Statement

Until a legal release is issued and the liability is derecognized, FFSC suggests no reporting on the Income Statement (other than the interest expense accrued and amortization of loan acquisition costs). At the end of the operating cycle, wherein legal release occurs, and the liability is derecognized, FFSC suggests reporting the forgiven amount as a separate line item in other income (non-operating Income) with an appropriately descriptive title such as “PPP Loan Forgiveness.” This treatment would be the most consistent with how distinguishing debt is treated under U.S. GAAP.

Recommended Reporting on the Statement of Cash Flows

The initial proceeds of the SBA PPP loan should be reported as cash inflow from financing activities similar to any other loan. When the loan is forgiven (legal release occurs and the liability is derecognized), the forgiveness amount of the loan and any accrued interest should be reported as a noncash financing activity. To balance the statement of cash flows when forgiveness amount is recognized, the noncash gain should be deducted from net income - similar to the adjustment for depreciation.

Recommended Disclosures for SBA PPP Loans

FFSC recommends no specific disclosures for PPP loans different from any other debt instrument. The entity should disclose general information about the debt agreement, including typical parameters amount borrowed, interest rate, repayment provisions (including terms for forgiveness), scheduled maturity date, and the amount outstanding at period end.

If the entity intends to repay the PPP loan, FFSC recommends including PPP loans in the disclosure, which outlines maturities of debts in accordance with the contractual provisions. If the entity intends for the loan to be forgiven, this intended election and corresponding parameters (including the potential current portion of long-term debt) should be included in that schedule.