

A detailed 3D rendering of a coronavirus particle, showing its characteristic spherical shape, textured surface, and numerous spike-like protrusions. A second, slightly out-of-focus particle is visible in the background to the left.

COVID-19: GAAP Accounting Considerations in 2020

A vertical line of small white dots on the left side of the slide.

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Presenters



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Breaking News



- PPP Repayment Uncertainty
- FAQ #46 just released
- Loans less than \$2M, together with its affiliates, will be deemed to have made the required certification concerning necessity of the loan request in good faith
- Loans greater than \$2M are still subject to review by the SBA
 - If deemed not to be a necessity, repayment of PPPL is required and lender will be informed that borrower is not eligible for forgiveness.
 - If repaid, SBA will not pursue administrative enforcement
 - Will not affect the SBA's loan guarantee

Agenda Overview

- Accounting for EIDL and PPPL
- Payroll tax deferral
- Asset impairments
- Exit or disposal activities
- Debt restructuring and covenants
- Going concern
- Pending FASB deferrals



EIDL Accounting

- Day 1 - Recorded as debt on balance sheet
 - P&I payments are deferred up to 1 year
 - Monthly interest should be accrued from day 1
- Capitalize and amortize related debt issuance costs
 - Accounting and legal fees
 - Documentation prep costs
 - External, incremental costs to advisors

EIDL Accounting

- Qualified expenses accounting
 - Recorded as expense (NOT a reduction of the loan)
 - Presentation and disclosure remains the same
 - No forgiveness exists
- Emergency grant
 - If no PPP loan, no repayment is expected
 - If PPP loan also received, forgiveness amount is reduced
 - Taxation of emergency grant
- Journal entry assuming \$90,000 EIDL and \$10,000 emergency grant
 - Dr. Cash \$100,000
 - Cr. EIDL \$90,000
 - Cr. Grant Income \$10,000

PPP Loan Accounting

- Day 1 - Recorded as debt on balance sheet
 - P&I payments are deferred for 6 months
 - Monthly interest should be accrued from day 1
- Capitalize and amortize related debt issuance costs
 - Accounting and legal fees
 - Documentation prep costs
 - External, incremental costs to advisors

PPP Loan Accounting

- Qualified expenses accounting
 - Includes payroll costs, rent, utilities and mortgage debt interest
 - Recorded as expense (NOT a reduction of the loan)
 - Presentation and disclosure remains the same
- Forgiveness accounting
 - Apply for forgiveness with banker
 - Provide banker requested documentation
 - Extinguishment only after being legally released
 - Removal from balance sheet
 - CARES Act considers it canceled indebtedness

PPP Loan Accounting

Forgiveness accounting in practice

- Measured based on net carrying value related to forgiveness
 - Loan balance
 - Accrued interest (if eligible)
 - Deferred finance costs
- Journal entry to record forgiveness
 - Dr. PPP Loan
 - Dr. Accrued interest
 - Cr. Deferred finance costs
 - Cr. Gain on forgiveness

PPP Loan Accounting



- Income statement presentation of forgiveness
 - Separate line item
 - Waiting on forthcoming guidance
- EIDL emergency grant
 - \$10,000 reduces your forgiveness amount
 - Becomes part of the loan under PPP

PPP Loan Accounting

Example of accounting for EIDL emergency grant when PPP loan received

- Assume the following:
 - \$10,000 Emergency Grant received and recognized as income
 - \$250,000 PPP loan received
 - PPP loan was used 75% for payroll and 25% for nonpayroll making it all eligible for forgiveness
- Upon requesting forgiveness from the bank:
 - \$250,000 of supporting documentation provided and approved
 - \$10,000 Emergency Grant is subtracted from forgiveness amount
 - Results in \$240,000 loan forgiveness
 - Results in net PPP loan of \$10,000 @ 1% with a 2 year term
- Journal entry to record forgiveness with Emergency Grant reduction:
 - Dr. PPP Loan \$240,000
 - Cr. Gain on forgiveness \$240,000
- P&L impact would still recognize \$250,000 of "income"
- Net tax impact would be zero for EIDL grant (income offset by expenses)

PPP Loan Accounting

- What we don't know
 - Is accrued interest on forgiven amount included in forgiveness?
 - How will Gain on Forgiveness be presented in the P&L?
 - How long the lender may take to determine forgiveness amount
 - May cross over quarter/year
 - Impact to debt covenant calculations

PPP Loan Accounting – Best Practices

- Know what your bank expects for documentation
- Use a separate bank account to deposit your PPPL funds
 - Disburse payroll directly from this account or reimburse your payroll cash account each pay period
 - Disburse rent and utilities directly from this account or reimburse your operating cash account each time
 - Pay mortgage interest separately from principal payments
 - The bank account becomes your roadmap
- Update your forgiveness model with actuals each time an eligible payment is made; the model becomes the roadmap
- If multiple PPP loans received, we recommend funds are not comingled.

Employer Payroll Tax Deferral



- Deferred so long as PPP loan forgiveness has not occurred (through 2020)
- Cash flow assistance, not a reduction of expense
- Results in higher accrued expenses until paid on 12/31/21 and 12/31/22

Asset Impairments

- Subsequent events reminder: Type I vs. Type II
- Numerous “impairment” models under GAAP depending on the nature and type of account subject to assessment
- Most models incorporate a triggering event mechanism or otherwise require consideration of indicators of impairment arising during a period
- Hierarchy and sequence of impairment assessments is important
 1. Other accounts (A/R, inventory, investments, etc.)
 2. Indefinite lived intangible assets
 3. Long-lived assets held and used
 4. Goodwill

Long-Lived Assets, Goodwill and Intangible Assets

- Negative triggers (indicators of impairment) likely exist, even within models based on annual assessments
- Long-lived assets assessed for recoverability first prior to fair value measurement (undiscounted cash flows relative to carrying value)
- Goodwill and indefinite lived intangible assets have no recoverability step
- Unit of account (primary asset, reporting unit, etc.)
- Financial statement projections and scenario-based modeling
- Non-recurring fair value disclosures

Inventory



- Lower of cost or net realizable value (NRV); seasonal inventories, perishable products, and those with shorter shelf lives
- Firm purchase commitments
- Excess capacity and implications to capitalized overhead, labor and similar costs

Financing Receivables and Contract Assets (before CECL)

- Recognition for probable losses incurred based on past events and conditions existing at the date of the financial statements
- Accounts receivable collectability
 - Specific vs. general (e.g. aging) reserves
 - Consideration of subsequent events

Investments (before adoption of new credit loss/CECL model)

- Other than temporary impairment (OTTI)
 - Available for sale (AFS) or held to maturity (HTM) debt securities
 - Equity method investments
- Equity securities using measurement alternative (cost less impairment adjusted for observable prices)



Exit or Disposal Activities

- Relates to restructuring initiatives, business closures and similar reorganizations
- Long-lived assets held for sale – suspend depreciation and mark to lower of carrying or fair value if certain conditions are met
- One-time employee termination benefits
 - Recognize when communicated under most instances
 - Amount recognized depends on whether future services are required
- Contract terminations (including leases) – consideration of sub-lease rentals

Debt Restructurings and Covenants

- Three ways to account for debt restructurings:
 - Modification – substantially similar terms
 - Extinguishment – substantially different terms
 - Troubled debt restructurings (TDRs) – experiencing financial difficulty and concession granted
- Short-term loan modifications (e.g., deferral of payments) made to help borrowers that are current on existing loans and experiencing issues as a result of COVID-19, generally would not be considered TDRs
- Different accounting for unamortized deferred finance costs, fees paid to creditors and costs with third-parties
- Covenants
 - Violations subsequent to period end and before financial statements are issued are recognized subsequent events
 - Implications to balance sheet presentation (current liability) and going concern assumptions

Going Concern

- Required of management and auditors
- One year look-forward period on its ability to meet its obligations
 - One year from date of financial statement issuance
- Substantial doubt and consideration of management plans
- Mitigation plans to alleviate going concern issues
 - Capital infusion
 - Debt restructuring
 - Securing new debt
 - Financial projections

Additional Considerations

- Contingencies
 - Loss contingencies – recognize when probable and estimable
 - Gain contingencies – generally recognized when realized (cash, etc.)
 - Insurance recoveries – business interruption (gain contingency); property and casualty (accrue when probable up to amount of loss recognized)
- Revenue recognition – estimates of variable consideration
- Lessor accounting – collectability of future payments; forgiveness vs. modification
- Pension and postretirement plans – funded status, curtailment accounting for significant changes in census information
- Tax strategies and consideration of valuation allowances on deferred tax assets

Pending FASB Deferrals



- Revenue recognition – additional year for franchisors to 2021
- Leases – delay one more year to 2022

Additional Resources

- [COVID-19: Bankruptcy or Out of Court Restructuring...](#) (April 20, 2020)
- [FAQs – COVID 19: Maximizing Debt Forgiveness PPP Loan](#)
- [SBA PPP Loans: IRS Guidance on Forgiveness Expenses](#) (NEW – May 1, 2020)
- [Do You Need To Give Your PPP Loan Proceeds Back?](#) (NEW – April 28, 2020)
- [Round 2 Of The Paycheck Protection Program](#) (NEW – April 22, 2020)
- [PPP Loan for Self-Employed, Partners & Contractors](#) (April 20, 2020)
- [Accounting For PPP Loans And Forgiveness](#) (April 17, 2020)
- [5/6/20 COVID-19: SBA PPP Loans – Forgiveness Updates, Myths and Additional Scrutiny Webinar Recording](#)



Questions



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