

Sole proprietor and accounting

SOLE PROPRIETORS ARE ACCOUNTING ENTITIES

Sole proprietors are accounting entities and they are required to organise their accounting in the cases and pursuant to the procedure provided for in the **Accounting Act**.

A sole proprietor may apply either a cash based or an accrual based accounting principle in its business accounting. When choosing the accounting principle, attention should be given to the fact that **in the taxation of business income, the cash basis principle is used (Income Tax Act § 36 (1) and (3))**. It means that if a sole proprietor keeps accounts on accrual basis, the business income will be adjusted to cash basis for completing Form E of the tax return .

The requirements for accounting are provided for in the Accounting Act and in the guidelines of the Accounting Standards Board.

THINGS TO BE FOLLOWED IN A SOLE PROPRIETOR'S ACCOUNTING

Accounting entities are obliged to:

- ✓ organise their accounts in accordance with the principles generally accepted in Estonia and the international financial reporting standards to ensure the provision of up-to-date, relevant, objective and comparable information concerning the financial position, financial performance and cash flows of the accounting entity;
- ✓ document all their business transactions;
- ✓ record all their business transactions in accounting ledgers and journals on the basis of source documents or corresponding summary documents;
- ✓ preserve accounting documents.

Sole proprietors keeping accounts on cash basis have to follow sections 1 to 3, 4 (except clause 4)), 5, 6 (except subsection (3)), 7, 9, 10 and 12 of the **Accounting Act**, and other requirements from the Estonian financial reporting standard, which regulate the accounting on cash basis.

Sole proprietors keeping accounts on accrual basis have to follow the entire Accounting Act.