



Award Winning Online Accounting Software

Changing from a Sole Trader to a Limited Company

Let's say you've been trading away as a sole trader and hopefully earning more and more profit and now the time has come to change your business to a Limited Company. This is great news, well done.

You're going to need to set up a new company on SortMyBooks. You don't have to pay for a second subscription because it is the same business, just trading as Limited now. But you do have to set up a new company on SortMyBooks because the new Limited Company has to start a whole new set of records.

Set up a new company on SortMyBooks and clone some of the settings from the Sole Trader business eg. Nominals, Suppliers, Customers, Services and Products. Do Not Clone the bank accounts. See here for cloning. <https://sortmybooks.zendesk.com/hc/en-us/articles/235884928-How-to-clone-a-company>

This is also a good time to do a tidy up. Before you start entering any new transactions on the new company, click on Sales and Customers and do a tidy up of the Customer list. Delete any duplicates or any Customers that you no longer do business with. Do the same for Suppliers and do the same for the Nominals, Products and Services.

Also let the SortMyBooks team know that you need to set up a new subscription for your Limited Company business and archive your Sole Trader business.

From a practical point of view you are going to need to bring the balances from the Sole Trader business eg. Debtors and Creditors, Bank Account Balances, Loan Balances and Fixed Assets into the new company. But from an accounting point of view this is a brand new company and it can't have any opening balances. So follow the instructions below to make sure that you account for everything correctly.

1. The first thing you need to do is set up a Nominal Account on the Balance Sheet that is going to track all of the balances that are coming from the Sole Trader business. Click on Tools and Nominals and scroll down to Current Liabilities. Click on one of the Nominals called eg. Current Liability 1 and change the name to Sole Trader Control.

Opening Debtors (these are sales invoices from the Sole Trader business that aren't yet paid):

1. Click on Sales and Invoices and click on Add. If you've cloned the Customers from the Sole Trader file then type in the Customer name and then tab to the date field. **In the date field make sure you type in the first date of the accounting year** for the new company and click on OK.
2. On the next screen, if you are registered for VAT on a cash receipts basis then make sure to select the correct VAT rate. If you are registered for VAT on an invoice basis then you should choose Zero% as the VAT rate. This is very important to get right. If you are on Invoice Basis then you've already reported that VAT in your old Sole Trader business. If you are on Cash Receipts you haven't yet paid that VAT.
3. It is very important that for the Nominal you choose the 'Sole Trader Control' Nominal that you've already set up. The reason being: you don't want these sales invoices showing up



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on the Profit and Loss because they've already been entered into your Sole Trader business's accounts.

4. For the accountants: what's happening in the background is 'Debit Debtors, Credit Sole Trader Control.

Opening Creditors (these are the purchase invoices from the Sole Trader business that aren't yet paid):

1. Click on Sales and Invoices and click on Add. If you've cloned the Suppliers from the Sole Trader file then type in the Suppliers name and then tab to the date field. **In the date field make sure you type in the first date of the accounting year** for the new company and click on OK.
2. On the next screen choose Zero% as the VAT rate because you've already claimed back the VAT in the Sole Trader business.
3. It is very important that for the Nominal you choose the 'Sole Trader Control' Nominal that you've already set up. The reason being: you don't want these purchase invoices showing up on the Profit and Loss because they've already been entered into your Sole Trader business's accounts.
4. For the accountants: what's happening in the background is 'Debit Sole Trader Account, Credit Creditors.

Bank Accounts:

1. You will have a new bank account that started with a 0 balance. You need to account for any money that you've lodged into this account that hasn't come from new sales. Eg. let's say you transferred the money from the Sole Trader bank account into the new bank account. Click on Accounts and click on MiscLodgments. Click on Add. For Payee add a new payee with name eg. Sole Trader. Type in the date the money went into the account and most importantly when you get to the Nominal choose 'Sole Trader Control'.
2. When you are lodging money received from Sales from the Sole Trader business, please allocate those to the Sales Invoices created in the previous step. Same with paying for purchase invoices from the previous Sole Trader business, allocate them to the invoices created in the previous step.

Loans:

1. Create a Loan Account in Accounts and Bank. Make sure to choose Account Type - Loan.
2. To enter the balance on the Loan, click on Accounts and MiscPayments and Add a Payee called Loan and enter in the amount outstanding on the loan. Most importantly make sure that you choose Nominal Account 'Sole Trader Control'. And the date should be the first day of the accounting year for the new company.

