

## Bookkeeping Differences Between Sole Trader/Partnership and Limited Company businesses

**Sole Trader** – single individual (may have employees)

**Partnership** – a collection of 2 or more Sole Traders (may have employees)

**Limited Company** – a separate legal entity with Directors and at least one Shareholder

It is important to set up the business correctly in SortMyBooks according to whether it is a Sole Trader or Limited Company because there are differences in rules between these business types. If you are a bookkeeper then you need to find out the legal status of the business. Unfortunately the business owner doesn't always know but their accountant will know.

**Sole Trader** businesses are taxed on their Profits using income tax calculations. In other words the profit from a sole trader business is comparable to Gross Pay. PRSI, USC and Income Tax need to be deducted from the profits and paid to the Revenue. This is calculated once per year as opposed to PAYE which is calculated each time a salary is taken from the business.

**Limited Companies** – Directors of Limited Companies are considered to be employees of the company therefore their salaries should be calculated through payroll software and entered into SortMyBooks along with salaries for other employees or the company. Directors DO NOT have Drawings even if that's what they sometimes call it. Directors can have Director Loan accounts to track the money that the company owes them. Directors should never owe money to their companies. Money withdrawn from the company should be in the form of salary or reimbursement for mileage and subsistence or repayment of funds loaned to the company.

**Mileage and Subsistence** – Directors of Limited Companies who use their own private car for business journeys are entitled to claim mileage expenses on a rate per mile. Directors are also allowed to claim a subsistence allowance. Sole Traders are not entitled to use the same allowance. They are obliged to retain receipts for all expenses relating to fuel and subsistence.

See here for instructions and rules around Mileage and Subsistence

<https://sortmybooks.zendesk.com/entries/20674501-How-to-enter-Director-Expenses-for-Mileage-and-Subsistence>

**Balance Sheet differences** – the Capital section of the Balance Sheet is where you can see the differences between Sole Trader/Partnership and Limited Companies. Sole Traders have Capital Brought Forward, Limited Companies have Retained Earnings B/F which are calculated in the same way.

Limited Companies have Share Capital and sometimes Share Premium

Sole Traders have Drawings and sometimes Funds Introduced

Share Capital and Share Premium are brought forward year to year

Drawings and Funds Introduced are calculated per year, a balance is not brought forward from year to year