Self-employed person and accounting

SELF-EMPLOYED PERSONS ARE ACCOUNTING ENTITIES

Self-employed persons 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 self-employed person 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 self-employed person 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 SELF-EMPLOYED PERSON'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.

Self-employed persons 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 and other requirements from the Estonian financial reporting standard, which regulate the accounting on cash basis.

Self-employed persons keeping accounts on accrual basis have to follow the entire Accounting Act.

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