

GENERAL ACCOUNTING

SECTION 1800

unincorporated businesses

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PURPOSE AND SCOPE

- .01 This Section establishes disclosure standards for unincorporated businesses. Minimum standards of disclosure that apply to unincorporated businesses as well as incorporated businesses are dealt with elsewhere in Part II of the Handbook. However, special problems arise in statements of unincorporated businesses because such businesses, unlike limited companies, are not entities separate from their owners. Only these special problems are dealt with in this Section. The requirements of this Section are only applicable to unincorporated businesses.

OWNERS' PERSONAL EQUITY AND LIABILITIES

- .02 The assets and liabilities of an unincorporated business belong to the owners. Thus, the assets of the business are subject to the claims of the owners' creditors, and the owners' personal assets are subject to the claims of the creditors of the business. This poses the problem of whether it is proper to present the financial position and income (before income taxes) of an unincorporated business without taking into account the owners' assets and liabilities outside the business. Such presentation is considered to be the only reasonable method of reflecting the financial position and results of operations of the business. However, the limitations of such financial statements must be clearly indicated in order to avoid misinterpretation of their significance.
- .03 When the owners engage in other business or investment activities not included in the financial statements, it may be necessary to give sufficient details of the nature of the business to distinguish it from such other activities. This information may be included in the headings of the financial statements or set out by way of note.
- .04 *The financial statements of an unincorporated business shall indicate clearly the name under which the business is conducted.*
- .05 *The fact that the business is unincorporated and that the statements do not include all the assets, liabilities, revenues and expenses of the owners shall be disclosed.*

OWNERS' SALARIES AND INTEREST ON INVESTED CAPITAL

- .06 Earnings of an unincorporated business may be considered as salaries, as interest on invested capital, as residual profits or as a combination of these. The income statement of an unincorporated business may include charges for salaries to the owners and for interest on invested capital in order to reflect more clearly the economic costs of the business or the specific terms of the partnership agreement, or for other reasons. However, these charges form part of the earnings derived by the owners from the business and the level of such charges is at the discretion of the owners.
- .07 *Any salaries, interest or similar items accruing to owners of an unincorporated business shall be clearly indicated by showing such items separately either in the body of the income statement or in a note to the financial statements.*
- .08 *If no such charges are made in the accounts, this fact shall be disclosed in the financial statements.*

INCOME TAXES

- .09 An unincorporated business, as such, is not liable for taxes on its income. While its income or losses do affect the tax liability of the proprietor or partners, any calculation of the owners' tax liability relating specifically to the business would necessarily be arbitrary because it would be affected by factors completely unrelated to the operations of the business.
- .10 *No provision for income taxes shall be made in the financial statements of businesses for which income is taxed directly to the owners.*
- .11 *A business that is not subject to tax because its income is taxed directly to its owners shall disclose that fact.*

STATEMENT OF OWNERS' CAPITAL ACCOUNTS

- .12 *The financial statements of unincorporated businesses shall include a statement setting out the details of the changes in the owners' equity during the period and this statement shall set out separately contributions of capital, income or losses, and withdrawals.*

EFFECTIVE DATE

- .13 This Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.
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