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## What Is an Owner's Drawing in Accounting?

by Cam Merritt; Reviewed by Jayne Thompson, LL.B, LL.M; Updated January 31, 2019



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### Tip

An owner's draw is a legitimate way for the owner of a sole proprietorship or partnership to pay himself.

### Types of Businesses

In general, only the owners of sole proprietorships and partnerships can draw cash straight from the business for personal use. It's especially convenient in very new or very small enterprises, which can't afford to pay out to the owner on a regular basis. By contrast, in businesses organized as corporations – even if the corporation has only one owner – owners can't take draws. They need to either be on the payroll as employees or receive distributions of profits as dividends.

### Know the Tax Treatment

An owner's drawing is not a business expense, so it doesn't appear on the company's income statement, and thus it doesn't affect the company's net income. Sole proprietorships and partnerships don't pay taxes on their profits; any profit the business makes is reported as income on the owners' personal tax returns. Since the owner is going to pay personal income taxes on that money regardless of what happens to it, he's free to take it out of the company at any time.

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### Know the Accounting Treatment

For sole proprietorships and partnerships that keep formal financial records, the owner's drawing appears as a temporary account under owner's equity. Each owner of the business typically has an equity account, or capital account, in the company's books that keeps track of his stake in the company. It's made up of the money he's invested, plus his share of accumulated profits, minus the amounts he has withdrawn.

Any money an owner has pulled out of the business over the course of a year is recorded in the temporary drawing account. At the end of the year, the drawing account is closed out, meaning the balance is subtracted from the owner's capital or equity account.

### Making Money Not Raiding It

To those unfamiliar with business, taking a draw might seem like raiding the company for money. It isn't. Owners who take draws are doing nothing inappropriate, as long as they're not violating a partnership agreement by taking more than they're allowed. People set up sole proprietorships and partnerships to make money, and this is how they pay themselves. If they're successful, they should eventually be taking draws well in excess of the money they've put into the company.

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### About the Author

Cam Merritt is a writer and editor specializing in business, personal finance and home design. He has contributed to USA Today, The Des Moines Register and Better Homes and Gardens"publications. Merritt has a journalism degree from Drake University and is pursuing an MBA from the University of Iowa.



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