



McCleary & Company Ltd.

Chartered Accountants & Registered Auditors

Accounts for limited companies

Audits may be a thing of the past, but certain annual reports still apply.



If you're a business owner, you may be familiar with the process of submitting your accounts for official inspection by an independent body. This is known as an audit.

You may also breathe a sigh of relief as most small businesses are no longer required to get their financial statements audited after the exemption thresholds were increased for financial years that begin on or after 1 January 2016.

However, shareholders can still request your accounts be subjected to an external audit if they own at least a 10% stake in your business.

On the other hand, some firms voluntarily choose to be audited to ensure all financial reporting is in line with current accounting standards and legislation.

Even though audits may be a distant memory for most business owners, certain annual reports are still required by law and failure to submit them to deadline can lead to severe penalties.

Statutory accounts

All companies are legally obliged to file statutory accounts on an annual basis with HMRC as part of their company tax return.

These are prepared from your financial records before being reported at your financial year-end.

Your statutory accounts should include:

A balance sheet showing the assets owned by the company, any outstanding debts and anything your business is owed on the last day of your financial year.

A profit and loss account outlines the company's sales, running costs and the profits or losses made over the course of the financial year.

A director's report will explain the financial state of the company and its compliance with a set of financial, accounting and corporate standards (the very smallest companies, known as micro entities, don't need to produce a director's report).

An auditor's report may be needed depending on the size of the company.

You must send copies of your accounts to:

- shareholders
- anyone who can go to your company's general meetings
- HMRC
- Companies House.

Abridged accounts

Small businesses and micro entities can no longer submit abbreviated accounts to Companies House – unless they relate to accounting periods beginning before 1 January 2016.

Previously, you may have prepared your full accounts for your members and abbreviated accounts for filing on the public record.

However, you may be able to send abridged accounts instead of full accounts to Companies House.

These contain a simpler balance sheet which means less information about your company will be publicly available.

Abridged accounts are prepared in a similar way to abbreviated accounts, although the decision to abridge all or part of your annual accounts must be universally pre-agreed by your members.



Accounts for limited companies

Members' consent must be obtained in the previous financial year and an accompanying statement must contain the sentence: "members have consented to the abridgement" to outline their approval before the accounts are filed with Companies House.

A company is considered **small** if it meets two of the following criteria:

- annual turnover of £10.2 million or less
- assets worth £5.1 million or less
- 50 or fewer employees.

Your company may be able to disclose less information than a small business if it is classed as a micro entity.

To qualify as a **micro entity**, your business must meet two of the following the criteria:

- annual turnover of £632,000 or less
- assets worth £316,000 or less
- 10 or fewer employees.

Owners of micro entities can prepare simpler accounts to meet statutory minimum requirements, such as sending a balance sheet containing less information to Companies House.

Record keeping

Your business is legally obliged to keep company records as well as financial and accounting records.

Records should usually be kept for at least six years from the end of a tax year.

Company records

Company records you are obliged to keep include:

- details of company directors, shareholders and secretaries
- loans or mortgages secured against company assets
- indemnity promises
- debentures promises (for the company to repay loans at specific dates in the future)
- results of shareholder votes or resolutions
- transactions when someone buys company shares.

In addition, you must also keep a register of **people with significant control** in your business. This should contain details of anyone who:

- owns more than a 25% stake in your company
- has the power to remove or appoint directors
- can influence or control your company.

Accounting records

Among other things, your accounting records should include all income and expenditure plus details of any assets, debts or stocks either owned or owed at the end of your company's financial year.

You should also retain any invoices, receipts and any other documents you may need to prepare or file your annual company tax return.

Failure to maintain accounting records could land you a £3,000 fine.

Penalties

Failing to send your accounts to Companies House on time will incur a penalty. The following penalties will apply:

Time after deadline	Penalty
Up to 1 month	£150
1 to 3 months	£375
3 to 6 months	£750
More than 6 months	£1,500

You can appeal against late penalties but must provide a valid reason.

You can't appeal penalties by claiming:

- your company is dormant
- you cannot afford to pay
- it's the fault of your accountant
- you don't know how to file your accounts
- your accounts were delayed or lost in the post
- the directors live, or were travelling, overseas.

Deadlines

The deadline for filing your accounts for the first time is 21 months after the date you incorporated your company with Companies House.

If you're filing your accounts annually, the deadline is nine months after the end of your company's financial year.

Companies House may extend the deadline if your business is prevented from sending your accounts due to circumstances beyond your control, or if you apply for more time before the deadline has passed.

Reasons for being audited

All private limited companies are subject to annual statutory audits unless they meet two of the following conditions:

- annual turnover of no more than £10.2 million
- assets worth no more than £5.1 million
- 50 or fewer employees.

The audit process

Audits are conducted by external auditors. These are usually independent accountants who ensure your financial statements are accurate and compliant with UK GAAP.

There are five stages to an audit:

- planning the audit approach
- testing the company's internal financial controls
- evaluating the company's recording of transactions
- analysing or testing a company's financial records
- producing an auditor's report.

The auditor will ensure they understand your business' industry, regulators, accounting policies, objectives and strategies, and business risks before commencing the audit.

They will check financial records, receipts, invoices, bank statements and compare financial information with non-financial company information to check consistency.

The auditor's final report will include their conclusion as to whether the company's financial statements are accurate and fairly presented before signing it, dating it and filing it with Companies House.

Talk to us about filing your annual accounts.