BWM
CHARTERED ACCOUNTANTS

Audits and annual accounts requirements

A guide for clients

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Changing requirements

The threshold for compulsory filing of audited financial statements rose on 6 April 2015 to those businesses with a turnover of £10.2 million or more for periods commencing from 1 January 2016 so 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

This means that most small and medium-sized private limited companies are no longer required to have their accounts audited. There are exceptions, with the following limited companies still being required to carry out an audit even if they do not exceed the threshold:

- a subsidiary company (unless it qualifies for an exception)
- an authorised insurance company or company carrying out insurance market activity
- a company involved in banking or issuing e-money
- a Markets in Financial Instruments Directive (MiFID) investment firm or an Undertakings for Collective Investment in Transferable Securities (UCITS) management company
- a corporate body whose shares have been traded on a regulated market in a European state.

In addition, an accounts audit will be required if shareholders who own at least 10% of shares (by number or value) request it. This can be an individual shareholder or a group of shareholders.

Many companies, however, are continuing to be audited by choice. This is because it is an excellent way to determine exactly where you stand at the point of audit and what changes if any need to be made to keep you on the right track.

An audit also provides a lot of the information you need to comply with your annual reporting requirements.

Whether you are legally obliged to have an audit or not, annual reporting requirements are not optional. They are required by law and failure to submit them to the deadline can result in harsh penalties.

Size matters

The amount of information you have to submit depends on the size of your business. There are effectively 4 classifications of size: large, medium, small and micro-entity. The classification is determined by various thresholds for annual turnover, the balance sheet and average number of employees. It also depends on which body you are submitting them to.

Whilst companies that qualify as micro-entities, small or medium-sized business can submit abbreviated accounts for Companies House, all sizes of business must submit full statutory accounts to HMRC with their company tax returns.

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 asset 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 period beginning before 1 January 2016.

Previously, you may have prepared your full accounts for your members and abbreviated accounts for filling 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.

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.

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

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.

Company size thresholds

The revised sized thresholds with effect for accounting periods commencing on or after 1 January 2016 are as follows:

	Turnover	Balance Sheet Total	Average no. of employees
Micro-entity	Not more than £632,000	Not more than £316,000	Not more than 10
Small company	Not more than £10.2 million	Not more than £5.1 million	Not more than 50
Small group	Not more than £10.2 million net OR Not more than £12.2 million gross	Not more than £5.1 million net OR Not more than £6.1 million gross	Not more than 50
Medium-sized company	Not more than £36 million	Not more than £18 million	Not more than 250
Medium-sized group	Not more than £36 million net OR Not more than £43.2 million gross	Not more than £18 million net OR Not more than £21.6 million gross	Not more than 250
Large company	£36 million or more	£18 million or more	250 or more
Large group	£36 million net or more OR £43.2 million gross or more	£18 million net or more OR £21.6 million gross or more	250 or more

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 the 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
1-3 months	£375
3-6 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.

The deadline for filling 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.

Deadlines

The one area where there is no confusion is when it comes to penalties. After the end of your financial year, you must prepare full statutory annual accounts, pay corporation tax and file a company tax return within the appropriate deadlines.

Action	Deadline
File annual accounts with Companies House	9 months after your company's financial year ends
Pay corporation tax	9 months and 1 day after your company's financial year ends
File a company tax return	12 months after your company's financial year ends

If your accounting period is different to your financial year, your corporation tax and company tax return deadlines may be different.

No hiding place

Now that anyone with internet access can immediately view your company data, your age, address and a veritable mine of other information, compliance and transparency is more important than ever.

Potential clients can see at a glance whether you consistently file late returns or whether any directors have been struck off to name just a fraction of data that is freely available. Any blips could be seen in a negative light. Could your business withstand the scrutiny?

An audit, particularly one carried out by an external, impartial professional can not only ensure you don't miss deadlines but can also provide that extra level of reassurance for investors, lenders and new clients alike.

If you need more information please contact our Audit Partner Lesley Malkin.