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This guidance note is designed to assist companies in their preparation of accounts and specifically the legal requirements relating to the administration of company accounts and audit requirements.

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Preparing the annual accounts and reports

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All limited and unlimited companies must keep adequate accounting records. Accounts must be prepared in order to comply with the Companies Act 2006. Unless otherwise stated this guidance note deals with the requirements for small companies (as defined by the Companies Act 2006).

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The preparation of accounts is the duty of the directors. There is no requirement for companies to use a professional accountant to prepare the accounts. However, if directors are uncertain about the requirements, they should consider seeking professional advice.

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Accounts must be prepared for each financial year. For an individual company (as opposed to a group preparing accounts) companies must prepare a balance sheet, profit and loss account and notes to the accounts. A private company must also have its accounts audited. The directors' report provides information about the company's performance and figures. There are certain exemptions for small companies. If a company is audited, their accounts, this is discussed in greater detail.

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Accounting Reference Date (ARD)

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A company produces its accounts by reference to an Accounting Reference Date (ARD). For newly incorporated companies, the first ARD will be the last day of the month in which the company was incorporated. Subsequent ARDs will be on the same date each year. For example, if a company was incorporated on 1 June 2014 its first accounting reference date will be 30 June 2015 and 30 June for every year thereafter.

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The ARD can be changed by submitting a notice to Companies House before the last date for filing of the accounts. A company can extend or shorten the accounting period, however a company may not extend the accounting period by more than 18 months from its current accounting reference date.

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Approval of Accounts

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Directors must approve the annual accounts and reports. They must satisfy themselves that the accounts give a true and fair view of the financial position of the company. The board of directors must pass a resolution approving the accounts and a director must be authorised to sign the accounts. For private companies, there is no statutory requirement for the accounts to be audited.

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There is also no statutory obligation for a company to hold a general meeting. This is because the Companies Act does not require a company to hold AGMs. However, if a private company does not hold a general meeting, it must lay its accounts before its members at a general meeting. Alternatively, the shareholders may pass a shareholders' resolution to remove that provision.

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Distributing the report and accounts

Before they are filed with the registrar, the report and accounts must be distributed, regardless of the size of the company. The report and accounts must be sent to every shareholder, debenture holder and person entitled to attend general meetings. If the accounts are sent by post, they can be sent to the registered office of the company.

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A company may pass a resolution to dispense with the distribution of the report and accounts. However, members always have the right to request a copy of the report and accounts.

Articles to the effect that the company may dispense with the distribution of the report and accounts are not valid. In any event, members always have the right to request a copy of the report and accounts.

Filing the report and accounts with the registrar

Private companies must file their accounts with the registrar. Failure to deliver accounts on time is a criminal offence and can result in a fine on the company for the late filing of accounts.

Accounts must be filed with Companies House within 9 months of the ARD. In addition, the law imposes a civil penalty on companies that fail to file accounts on time.

Newly incorporated companies must file their accounts with the registrar within 21 months after the date the company was incorporated.

Accounts must be filed with Companies House within 21 months of the date of incorporation. Failure to do so is a criminal offence.

Regime for Small Companies

As stated above, every company must file accounts with the registrar. However, small or medium-sized companies can file abbreviated accounts with Companies, Partnerships and Groups Regulations 2015 (the "2015 Regulations"), the Companies Act 2006 or after 1 January 2016, the abbreviated accounts regime has been removed. Companies must file accounts for their members as for the public record and would then decide whether to file abbreviated accounts for circulation to shareholders.

As stated above, every company must file accounts for circulation to shareholders. However, small or medium-sized companies can file abbreviated accounts, known as 'abbreviated accounts', following the introduction of the 2015 Regulations. For accounting periods beginning on or after 1 January 2016, the abbreviated accounts regime has been removed. Companies must file the same set of accounts for circulation to shareholders as they would prepare full accounts for its public record.

As a practical point this means that from 1 January 2016, all companies must either prepare full accounts or take advantage of exemptions in the new regime available for small companies.

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The very smallest companies can choose to prepare abbreviated accounts. This option is available to medium sized companies. There is also an option for small companies to prepare abbreviated accounts.

Small or medium-sized companies can choose to prepare abbreviated or simplified accounts (this is not possible for public companies without unanimous shareholder consent. See "Simplified Accounts").

Abridged Accounts

Abridged accounts contain a reduced set of information compared to full accounts. Abridged accounts contain a balance sheet that is included in a full profit and loss account. Likewise, the profit and loss account contains a subset of the information that is included in a full profit and loss account. Companies can choose whether or not to file its directors' report with the Registrar of Companies.

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The full requirements for small companies can be found in the Small Companies Accounts Regulations 2015.

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Regulations 2008 as amended by the Institute of Chartered Accountants can be accessed [here](#) and on their website.

Unanimous shareholder consent is required to be made and a statement is required to be made and agreed to the abridgement. Without the consent of the members (at the end of the financial year) and filed. The abridgement must be prepared for the financial year. If the company wishes to obtain unanimous shareholder consent, the shareholders will not be required to prepare, the shareholders will not be required to prepare, rather they will receive abridged accounts and should include a statement containing the abridgement”.

“Filleed Accounts”

Small companies can also choose to prepare a report. These are so called “filleed accounts”. Small companies can elect not to file their accounts with Companies House. The Companies Act 2006, 2015 Regulations, if a small company does not file its directors’ report, the balance sheet and profit and loss account, the ICAEW provides guidance on filleted accounts, the ICAEW link above link.

Thresholds

Note that the 2015 Regulations also define a medium company. The thresholds are:

<i>Small company</i>
Turnover must not exceed £10.2 million
Balance sheet total* must not exceed £5.1 million
Total number of employees: maximum: 50

There is also helpful guidance from the ICAEW (ICAEW) on the subject; which can be accessed [here](#).

The preparation of abridged accounts and a statement is required to be made and agreed to the abridgement. Without the consent of the members (at the end of the financial year) and filed. The abridgement must be prepared for the financial year. If the company wishes to obtain unanimous shareholder consent, the shareholders will not be required to prepare, the shareholders will not be required to prepare, rather they will receive abridged accounts and should include a statement containing the abridgement”.

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Thresholds for what qualifies as a small or medium company.

<i>Medium-sized company</i>
Turnover must not exceed £36 million
Balance sheet total must not exceed £18 million
Total number of employees: maximum: 250

* Balance sheet total means the aggregate of the company’s fixed assets and current assets on the company’s balance sheet

To qualify as a small or medium company, a company must meet at least two of the relevant criteria. In calculating the aggregate of the amounts shown in the accounts, the turnover must be adjusted when dealing with a period of less than 12 months.

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The Financial Reporting Council (FRC) provides guidance on the accounting standards under which UK companies prepare their accounts. More information on the FRC can be accessed [here](#). More information on Companies House website.

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Micro-entities

The Small Companies (Micro-Entities) Regulations 2013 came into force for financial years ending on or after 30 September 2013. The Regulations preparing Companies Act individual companies to prepare simplified financial statements (profit and loss account and balance sheet) exemption applies to companies which are small companies. Only companies formed and registered (or incorporated) under the Companies Act 2006 have the benefit of the micro-entities regime. The following criteria:

- Balance sheet total: £316,000
- Net turnover: £632,000
- Average number of employees: 10 (or fewer).

Micro-entities will be able to draw up accounts which will also continue to be exempt from audit. They will also continue to be exempt from filing accounts with Companies House. If the accounts are prepared, the balance sheet must contain a statement of compliance. Further details are available on the FRC website.

Summary

For accounting periods that start on or after 1 January 2013, small companies have 3 choices:

- they may prepare micro-entities accounts (if they are within the threshold);
- they may prepare abridged accounts (if they are not within the threshold);
- they may prepare full accounts (if they are not within the threshold).

In all cases a small company can choose to prepare full accounts and file a profit and loss account. In every case a company must file a balance sheet and any related notes.

Audit

Is an audit required?

In a private company, an auditor must be appointed for each financial year, unless the directors resolve otherwise on the grounds that the appointment is unlikely to be required (Section 485 Companies Act 2006). The appointment must be reasonable.

Audit exemption for small companies

There is an exemption from audit for small companies but only if they are eligible for it. To qualify for the exemption, a company must qualify as a small company (at least 2 of the following must be met: turnover of no more than £10.2 million, assets worth no more than £5.1 million, employees on average) in relation to that financial year. A company benefiting from the exemption is still required to send copies of its accounts and reports to the Registrar at Companies House. It may file unaudited accounts with

Note that even if a small company may not have its accounts audited if a member or member (by value) ask it to. This can be an individual or a group of shareholders. They must make the request in writing and send it to the registered office address. The request must arrive at least one month before the financial year that the audit is being asked for (section 476 Companies Act 2006).

The administrative advantage of not having to have its accounts audited must be weighed up against the potential creditworthiness of a company. This may be a particular issue should the company require external finance such as a bank loan, where the lender will likely wish to see audited accounts.

Audit exemption statement

A company must include the following statement in its annual financial statement if using an audit exemption:

“For the year ending [insert company name] the company was entitled to an exemption from audit under section 476 of the Companies Act 2006 relating to small companies.

The members have not required an audit of its accounts for the year in question in accordance with section 476 of the Companies Act 2006.

The directors acknowledge their obligations under section 476 of the Companies Act with respect to accounting records.

These accounts have been prepared in accordance with the provisions applicable to small companies subject to the small companies exemption.

Appointment of an auditor

An auditor of a private company may be appointed in any of the following ways:

- (1) appointed by the members (s.485 Companies Act 2006); or
- (2) appointed by the directors (s.485 Companies Act 2006); or
- (3) deemed re-appointed (s.487(2) Companies Act 2006); or
- (4) appointed by the Secretary of State (s.486 Companies Act 2006).

For each financial year for which an auditor is to be appointed (other than the company's first financial year), the appointment must be made in the 'period for appointing auditors'. This is before the end of the period for appointing auditors with:

- the end of the time allowed for the preparation of the company's annual accounts and reports for the previous financial year; or
- if earlier, the day on which the company's annual accounts and reports for the previous financial year are laid before the company.

There is an exception to the sending where a court is satisfied that the unnecessary publicity for defamatory ma

Resignation of the auditor

Section 516 of the Companies Act 2 notice to the company deposited at t

For financial years beginning on or a notice of resignation depend on whe company any of whose transferable equity share capital is officially listed public interest companies.

An auditor of a non-public interest co company a statement of his reasons

- The auditor ceases to hold office
- The auditor’s reasons for leaving connected with his ceasing to ho the members’ or creditors’ atten

”Exempt reasons” are that:

- The auditor is to no longer carry the Companies Act 2006.
- The company is (or is to become
- The company is a subsidiary un parent prepares group accounts group accounts who is also con subsidiary undertakings that are
- The company is being wound up

However, if an auditor of a non-publ auditor considers that none of the re connected with cessation of his offic attention, he must include a stateme

For any company, where there are m (other than the auditor’s actual reaso need to be brought to the members’ of those matters.

A statement required by section 519

- The auditor’s name and address
- The auditor’s number on the reg
- The company’s name and regist

For financial years beginning on or a company is not required to send the of it being deposited.

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requirements for an auditor’s public interest company” (that is, a the Official List or any of whose guidance note only deals with non-

to hold office must send to the unless:

for appointing auditors; or

” and there are no matters considers need to be brought to

within the meaning of Part 42 of

orporated parent undertaking and the replaced with the auditor for the ng, the audit of any of the parent’s and included in the consolidation. vency Act 1986.

quired to send a statement and the hold office and no matters (if any) he members’ or creditors’

e auditor ceasing to hold office auditor considers these matters e statement must include details

tion 517 is repealed and the notice of resignation within 14 days

Where an auditor sends a statement
send a copy of the statement to the a

auditor must at the same time
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An effective notice of resignation brings
which the notice is received or such

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