

Accounting for small companies

The required format of statutory accounts that small companies have to prepare and send to Companies House has changed for accounting years ending on or after 31st December 2016.

New UK GAAP for small companies

For years many companies have been preparing 'small company accounts' under the Financial Reporting Standard for Smaller Entities ('FRSSE') and filing abbreviated accounts. However, for financial periods beginning on or after 1 January 2016, the FRSSE has been withdrawn, along with the option of filing abbreviated accounts.

Three options available;

1. Use FRS 102 – same accounting standard used by medium and large companies
2. Use FRS 102 1a – reduced disclosure
3. Use FRS 105 – Micro entities

As well as the accounting standard changes there have been some changes to company size limits and as result more companies will qualify as small under the new limits.

	Old Limits	New limits
Turnover	£6.5m	£10.2m
Gross assets	£3.26m	£5.1m
Employee nos	50	50

Micro entity limits are listed below;

Turnover	£632,000
Gross assets	£316,000
Employee nos	50

A company will need to meet two out of three of the above criteria for two consecutive years to qualify as a small or micro company.

Decisions

Directors will now need to disclose which of the 3 options to select when preparing accounts. Some highlights for each have been given below to assist with this decision.

FRS 102

This is a completely new standard and has been in place for medium and large companies for periods commencing on after 1 January 2015.

Some of the main changes include;

- Investment properties – Annual revaluations are still required, but, the revaluation will be shown through profit loss account, whereas previously this would have been shown in a revaluation reserve, and depending on the size of the movement could have quite an effect on profit & loss.
- Goodwill & intangibles - Amortised over its useful life, if this can not be reliably measured it can not exceed 10 years. Previously this was 20 years.
- Holiday pay accrual - Accrual should be made for holiday pay and other accumulating compensated absence as the employees earn a right to them.
- Deferred tax - requires deferred tax to be provided on fair value adjustments, and therefore likely to occur more frequently than before.
- Financial instruments - Such as forward foreign currency contracts require restatement to their fair value at the balance sheet date.
- Long term loans - for example to or from a director falling due more than one year, with a nil or below market rate of interest, must be amortised cost, using a market rate of interest.

FRS 102 1A

This is part of FRS 102, but the disclosure requirements are reduced.

A complete set of financial statements of a small entity must include all of the following;

- A statement of financial position as at the reporting date
- An income statement for the reporting period, and notes to the accounts.

As with the previous small company exemptions, a cash flow statement is not required.

The following may also be required;

- Statement of total comprehensive income – if there are any gains or losses
- Statement of changes in equity – if there are transactions with equity holders.

Although abbreviated accounts no longer exist, it is possible to remove parts of the accounts when filing at Companies House. Options include the removal of;

- Income statement
- Notes to income statement (but not Companies Act requirements such as employee numbers)
- Directors report

However, balance sheet notes will have the same detail as in the FRS 102 accounts. Directors have the option of preparing less detailed accounts (abridged accounts) for members, providing every member agrees annually and a statement will need to be filed at Companies House.

Micro entity accounts

FRS 105 is a completely different standard,

Micro entities are required to present:

- A balance sheet
- 3 notes on same as page as balance
 - Advances and credits to directors
 - Security
 - Financial commitments

Under FRS 105 the accounting treatment is much simpler compared to FRS 102 1A;

- No revaluation or fair value accounting
- No deferred tax
- No requirement to account for financial instruments
- Reduced disclosures



If you wish to discuss how the above could affect your business and your reporting please do not hesitate to contact us.

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