

# Safely filed away

Small companies now have several options when filing their accounts, as Sarah Baxendale explains.

## TEN SECOND SUMMARY

- 1 A new reporting framework for smaller entities for accounting periods beginning on or after 1 January 2016.
- 2 The option for micro, small or medium-sized companies to file abbreviated accounts at Companies House has been removed.
- 3 The option to file “filleted” accounts is likely to become more widely used.

Small companies have recently been affected by significant changes in how they both prepare and file their annual accounts. The Companies, Partnerships and Groups (Accounts and Reports) Regulations SI 2015/980 ([tinyurl.com/y86efhtm](http://tinyurl.com/y86efhtm)) came into force back in April 2015, but for those small companies preparing and filing their accounts ahead of a 31 December 2016 year end, it is now that the impact is really beginning to show.

### New accounting standards

The Financial Reporting Council (FRC) has made amendments that apply to small companies for accounting periods beginning on or after 1 January 2016. The Financial Reporting Standard for Smaller Entities (FRSSE) has been withdrawn and smaller entities are now required to use the new UK GAAP reporting frameworks for the first time for their accounting periods beginning on or after 1 January 2016.

If still reporting under UK GAAP, small entities have the choice of full FRS 102, Section 1A of FRS 102 – reduced disclosure for small entities, or FRS 105 for micro-entities.

- Section 1A Small Entities, is an addition of FRS 102 and sets out simplified presentation and disclosure requirements for those entities which wish to apply the small entities regime.
- FRS 105 is the accounting standard that must be used for the very smallest entities if they have chosen to adopt the micro-entities regime, and are eligible.

## ➤ FURTHER INFORMATION

FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*: [tinyurl.com/y9vdswo6](http://tinyurl.com/y9vdswo6)  
FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*: [tinyurl.com/yrcbz8hz](http://tinyurl.com/yrcbz8hz)



The selection of which regime to apply will depend on the eligibility criteria (found in Companies Act 2006, s 382 to s 384), and the accounting standard under which they report should mirror the selected regime.

### New accounting regulations

One of the key impacts of The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 – which apply to accounting periods beginning on or after 1 January 2016 – is the removal of the option for a micro, small or medium-sized company to file abbreviated accounts at Companies House. An entity is now required to file the same accounts as those that they prepare for their members. However, this does not mean that all small companies are now required to file full accounts. The very smallest companies may disclose much less information by preparing micro-entity accounts. Further, other small companies may, instead of filing full accounts, choose to prepare a set of abridged accounts for their members, or use the option to “fillet” their accounts for filing as explained below.

### Abridged accounts

The new regulations introduce an important new option for small companies to prepare and file an abridged balance sheet, abridged profit and loss account, or both.

The key features of abridged accounts are that the profit and loss account will commence at gross profit with no analysis of turnover, cost of sales or other operating income required. The balance sheet disclosure requirements are also less detailed. The filing requirements for small company abridged accounts and the relevant balance sheet formats can be found in The Small Companies and Groups (Accounts and Directors' Report) Regulations SI 2008/409 as amended by SI 2015/980. However, it should be noted that,



istockphoto/Sashkinw

due to the “file what you prepare” requirement, the accounts in this format would also be those available to the members, so it is important to weigh up the benefits of the level of information members, banks or other stakeholders require against the level publicly disclosed at Companies House.

When a small company chooses to abridge its accounts, it must also deliver to Companies House a statement that all members have consented to the abridgement. In practice, this can be met by including reference to the statement within the accounts to be filed. The consent must be obtained from all members every year that abridged accounts are prepared.

### “Filletted” accounts

Small companies can also choose not to file the profit and loss account and/or the directors’ report with Companies House. This is the exemption available under Companies Act 2006, s 444 and is sometimes referred to as “filleted” accounts. Although this option isn’t new, it is likely to become more widely used as entities that wish to continue to file the minimum at Companies House will seek an alternative to filing abbreviated accounts under the old regime.

A company may take this filing exemption if it is subject to the micro-entities regime or the small companies regime. Under the later regime, the filing exemption can be taken whether the accounts are the full or abridged versions. The filing exemptions are also available regardless of whether the accounts are FRS 101, FRS 102, FRS 102 1A, FRS 105 or IAS accounts (in other words, IFRS as adopted in the EU).

Further, companies that would be subject to the small companies regime but for being part of an ineligible group may take an exemption from filing the directors’ report. In this case they must still file the profit and loss account.

However, unlike the previous option to file abbreviated accounts, there are no filing exemptions available for medium-sized companies.

Under the new regulations it is important to note that, if a small company does choose to fillet its accounts and not file the profit and loss account nor the directors’ report, this fact must be disclosed within the balance sheet in the accounts that are submitted to Companies House.

### Micro-entities

If the entity is eligible, there is an option to apply the micro-entity regime. However, the regime is optional and, therefore, the entity may choose to prepare accounts under a financial reporting regime applicable to larger-sized entities. Such businesses should carefully consider the various implications before deciding whether to take advantage of the micro-entity exemptions because the information prepared for members must be the same as that filed at Companies House.

The amount of information included in the micro-entity accounts is significantly reduced compared with that in small company accounts. The information disclosed is a simpler balance sheet and profit and loss account. A micro-entity is not required to prepare a directors’ report and no notes to the accounts are required. Instead, where applicable, details of any advances, credit and guarantees with directors (companies only) and details of any financial commitments, guarantees and contingencies should be disclosed at the foot of the balance sheet. This reduced information is referred to as the “minimum accounting items”.

Micro-entities can also take the s 444 exemption and file filleted accounts at Companies House. In such cases it would only be the balance sheet, including the information disclosed at the foot, that needs to be filed.

### Company size thresholds

To assess whether an entity can qualify as “micro” or “small” under the Companies Act 2006, standalone companies must be assessed against certain thresholds. A company would qualify as “small” if it meets two or more of the following criteria:

- Turnover not more than £10.2m.
- Balance sheet total not more than £5.1m.
- No more than 50 employees.

Even further, a standalone company would qualify to be “micro” if it meets two or more of the following criteria:

- Turnover not more than £632,000.
- Balance sheet total not more than £316,000.
- No more than ten employees.

In both these instances, a two-year rule must be applied to the micro and small assessment. However, for an entity to qualify, this is not always straightforward to apply, and is covered in further detail in the Companies Act 2006, s 382(2).



**Sarah Baxendale** is an Outsourcing Senior Manager at Mazars LLP. She leads the financial statements compliance team based in Sutton and advises clients on their financial reporting requirements.  
T: 020 86614142  
E: Sarah.Baxendale@mazars.co.uk