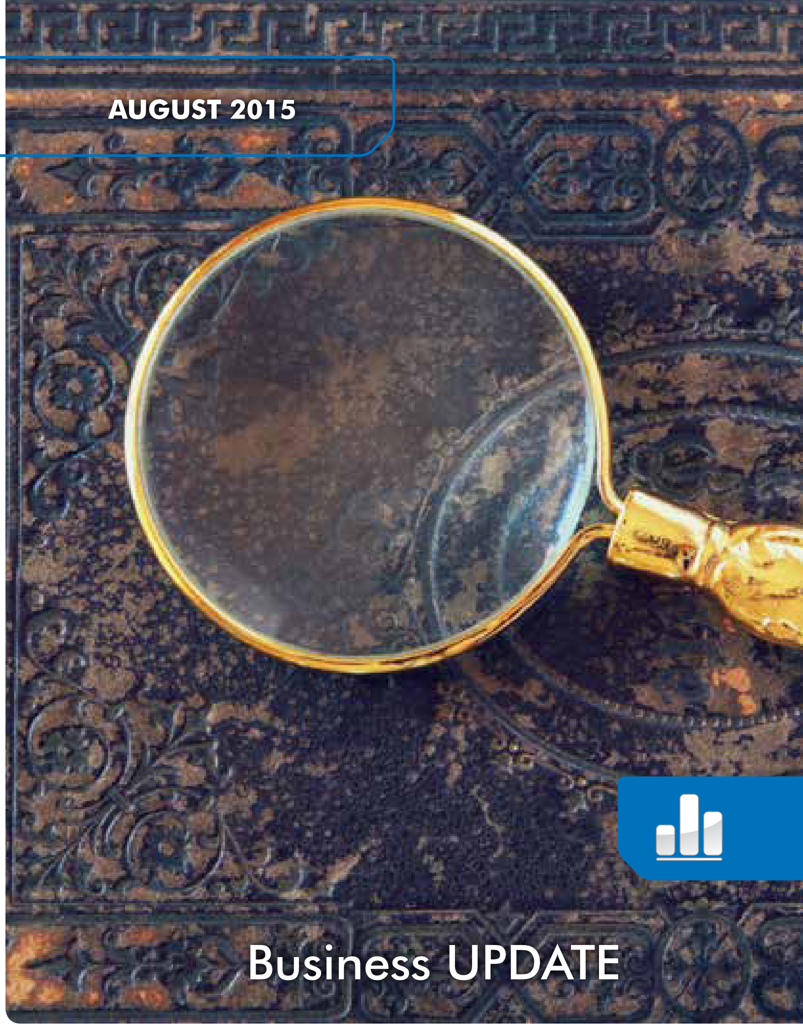

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Accounting for change: audits and annual accounts

This article looks at the accounts that companies need to keep.

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.

This is part of a new European Commission directive which allows member states to choose whether to significantly raise the existing threshold to reduce unnecessary and burdensome red tape. The UK chose to do so and the new threshold was written into the statute under the Companies Partnership and Groups (Accounts and Reports) Regulations 2015.

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
- 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.

What are full statutory accounts?

HMRC requires the following:

- balance sheet detailing the value of everything the company owns and is owed on the last day of the financial year and must be signed by a director
- profit and loss account showing the company's sales, running costs and the profit or loss it has made over the financial year

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- notes about the accounts
- director's report.

What are abbreviated accounts?

Companies House will accept the following as abbreviated accounts:

- balance sheet from your company's statutory accounts, signed by a director
- notes about the accounts.

Please note you will still have to prepare full accounts for your shareholders.

Keeping records

There is a mismatch between what HMRC and Companies House require when it comes to how long an organisation must keep certain kinds of data.

Companies Act 2006 states that accounting records need to be kept for 3 years from the date they are made. HMRC however, requires that records used to complete company tax returns must be kept for 6 years from the end of the accounting period to which the records relate.

To keep on the safe side and not risk prosecution for failing to keep adequate and accurate records, you should keep the following for at least 6 years:

- record of goods and services bought and sold
- record of income and expenditure
- sales books
- petty cash books
- invoices and receipts
- orders and delivery notes
- contracts
- till rolls
- business bank account statements
- VAT records
- PAYE records for employees
- record of assets and liabilities
- statement of stock at the end of each financial year
- record of dividend payments, if applicable.

Your records can be kept in digital format, paper based or a mix of both. What's important is that they are organised in a way that means information is easy to find.

Penalties and 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.

To make matters more complicated, you don't get a bill for corporation tax. It's up to you to work out how much your company owes.

Missed the deadline for filing account at Companies House?

The penalty charges are as follows:

Time after the deadline	Penalty (for private limited companies)
Up to 1 month	£150
1 to 3 months	£375
3 to 6 months	£750
More than 6 months	£1,500

The penalty is doubled if your accounts are late 2 years in a row.

Missed the deadline for your company tax return?

Time after the deadline	Penalty
1 day late	£100
3 months late	Another £100
6 months late	HMRC will estimate your company's tax bill and add a penalty of 10% the unpaid tax
12 months late	Another 10% of any unpaid tax

If your returns are late 3 times in a row, the £100 penalties are increased to £500 each.

If your return is more than 6 months late HMRC will do a 'tax determination' to tell you how much corporation tax they think you must pay. What's more, you can't appeal against it.

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.

Contact us to discuss audits.