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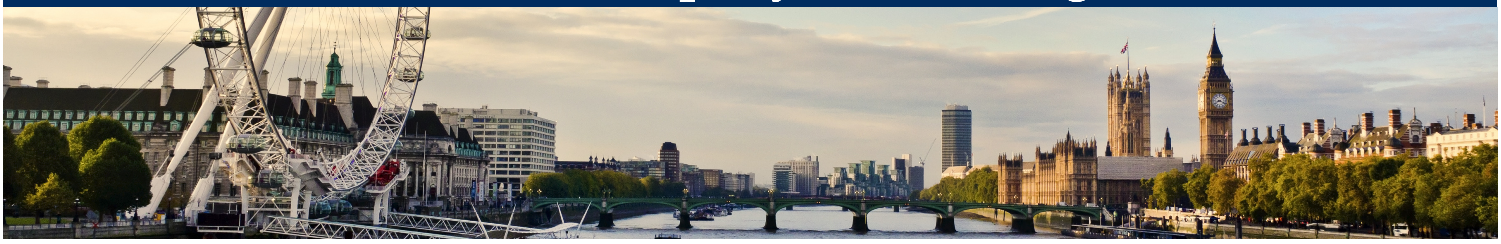
Small Company Accounting



The required format of statutory accounts that small companies have to prepare and send to Companies House has changed for accounting periods ending on or after 1 January 2016 (or 1 January 2015 if early adopted). In March 2015 the UK Government approved new regulations which have significantly changed the small companies' regime.

The extent of the change will vary on a company by company basis. It will depend upon the nature of the company's activities and the types of assets which it has.

This factsheet sets out the key changes and their impact and we would be happy to assist you in providing specific advice for your company.

New UK GAAP for small companies

In recent years many companies have been preparing and filing 'small company accounts' under the Financial Reporting Standard for Smaller Entities ('FRSSE'). However, for financial periods beginning on or after 1 January 2016, the FRSSE has been withdrawn and small companies, depending on size, have the following options:

- to use the same accounting standard as non-small UK companies - FRS 102
- to use the FRS 102 reduced disclosure regime (section 1A), or
- to apply an alternative standard - The Financial Reporting Standard applicable to the Micro-entities - FRS 105.

Increased size limits for small companies

Many more companies will qualify as small as a result of the substantially increased company size limits. The new size criteria below is mandatory for periods commencing on or after 1 January 2016, although earlier adoption is permitted for financial years beginning on or after 1 January 2015:

	Old Limits	New Limits
Turnover	£6.5m	£10.2m
Total assets	£3.26m	£5.1m
Employees	50	50

The size limits to qualify as a micro-entity are set out below:

	Current
Turnover	£632,000
Total assets	£316,000
Employees	10

A company needs to meet two out of three of the above criteria for two consecutive years to qualify as a small or micro company, unless it is the first year of the company's existence, in which case only that year has to be considered. The turnover limit is adjusted if the financial year is longer or shorter than twelve months.

There are certain exclusions from the above small and micro-entity size limits which are set out in the Companies Act 2006. Certain types of entity are prohibited from preparing micro-entity accounts for example charities.

The previous option of filing abbreviated accounts has been withdrawn, however, small companies continue to have the option of not filing their profit and loss account and/or directors' report at Companies House.

Small companies have the option of preparing less detailed accounts (abridged accounts) for members, providing every member agrees annually, and will be able to choose to abridge the balance sheet, the profit and loss account or both. Charities are also prohibited from preparing abridged accounts.

Contents of FRS 102 1A accounts

The financial statements of a small entity must give a true and fair view of the assets, liabilities, financial position and profit or loss of the small entity for the reporting period.

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:

- when a small entity recognises gains or losses in other comprehensive income it is encouraged to present a statement of total comprehensive income, and
- when a small entity has transactions with equity holders it is encouraged to present a statement of changes in equity or a statement of income and retained earnings.

In relation to the notes of the accounts one significant exemption is available in relation to related party transactions. Only material related party transactions which are not concluded under normal market conditions will need to be considered for disclosure.

Comparison of FRS 102 1A accounts to FRS 105

The table below sets out the requirements including those encouraged for FRS 102 Section 1A and FRS 105:

	FRS 102 (Section 1A)	FRS 105
Directors' report	yes	no
Profit and loss account	yes	yes
Statement of comprehensive income / Statement of total recognised gains/ losses	Encouraged	no
Statement of changes in equity / Statement of income & retained earnings / shareholders' funds note	Encouraged	no
Balance sheet	yes	yes
Statement of cash flows	no	no

FRS 105 imposes simpler accounting treatment compared to FRS 102 Section 1A. There are numerous differences between FRS 102 Section 1A and FRS 105 but the most significant are as follows:

Revaluation / fair value of assets

Fair value accounting is not permitted under FRS 105. By contrast, FRS 102 Section 1A permits (and in some cases requires) some assets to be measured at fair value annually.

The following assets and liabilities are most significantly impacted by fair value accounting under Section 1A:

- Investment properties, for example those properties held to earn rental income, should be revalued every year to fair value.
- Forward foreign currency contracts require restatement to their fair value at the balance sheet date.
- Loans payable or receivable (for example to or from a director) falling due more than one year, with a nil or below market rate of interest, must be measured at the present value of future cash flows.

Deferred tax

FRS 105 does not allow companies to recognise deferred tax. By contrast, FRS 102 Section 1A requires deferred tax to be provided on fair value adjustments, and therefore likely to occur more frequently than before.

What action should you take?

Implementing these new accounting standards is not straightforward as decisions will need to be made in relation to choosing accounting policies and complications on transition.

We will be very pleased to discuss the impact of changes to accounting standards on your company and explain what will be required and when it will need to be done. If you would like to discuss these issues in more detail, please contact us.

This factsheet is one of a series produced for general reference purposes for clients and contacts of Bourner Bullock Accountants on the basis that no responsibility is accepted for any action taken, or refrained from being taken based on this factsheet. The matters set out are necessarily of a general nature and professional advice should be taken before applying the information outlined to specific situations.