

# Small companies – what to file at Companies House



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## Main points

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- Abbreviated accounts are abolished for accounting periods beginning on or after 1 January, 2016.
- The new regime is based on a ‘file what you prepare’ approach.
- Small companies can choose not to file their P&L account and directors’ report at Companies House.

A focus on what small companies should file now that abbreviated accounts are being abolished.

The Companies, Partnerships and Groups (accounts and reports) regulations 2015 (Statutory Instrument 2015/980) amended the Companies Act 2006 such that small companies no longer have the option to file abbreviated accounts at Companies House (for periods beginning on or after 1 January 2016).

The regulations introduce the principle of ‘file what you prepare’ so that small companies may:

- Prepare and file full accounts

- Prepare and file 'abridged accounts' (all members must agree to the abridgement)
- Use the option (under section 444(1) – this option was first introduced in the CA 2006) – not to file the profit and loss account and directors report i.e. file only the balance sheet and notes.

This article looks at what should be filed under the third option.

The relevant legislative requirements are set out below:

Companies Act 2006 section 444 Filing obligations of companies subject to small companies regime (amended by Statutory Instrument 2015/980).

(1) The directors of a company subject to the small companies regime:

(a) must deliver to the registrar for each financial year a copy of the balance sheet drawn up as at the last day of that year, and

(b) may also deliver to the registrar—

(i) a copy of the company's profit and loss account for that year, and

(ii) a copy of the directors' report for that year.

(2) Where the directors deliver to the registrar a copy of the company's profit and loss account under subsection (1)(b)(i), the directors must also deliver to the registrar a copy of the auditor's report on the accounts (and any director's report) that it delivers.

(2A) Where the balance sheet or profit and loss account is abridged pursuant to paragraph 1A of Schedule 1 to the Small Companies and Groups (Accounts and Directors' Report) Regulations (S.I. 2008/409)(2), the directors must also deliver to the registrar a statement by the company that all the members of the company have consented to the abridgement.

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(5A) Subject to subsection (5C), where the directors of a company subject to the small companies regime do not deliver to the registrar a copy of the company's profit and loss account—

(a) the copy of the balance sheet delivered to the registrar must disclose that fact, and

(b) unless the company is exempt from audit and the directors have taken advantage of that exemption, the notes to the balance sheet delivered must satisfy the requirements in subsection (5B).

## The existing position

Whilst the option not to file the profit and loss account and directors' report has existed for a number of years, it is not likely to have been widely used, as the option to file abbreviated accounts provides a specified format for the filed information. The existing option has generally been interpreted to mean that the balance sheet and 'related notes' should be filed.

## Definition of notes to the accounts

Section 472 of the Act defines this as follows:

References in this Part to a company's annual accounts, or to a balance sheet or profit and loss account, include notes to the accounts giving information which is required by any provision of this Act or international accounting standards, and required or allowed by any such provision to be given in a note to company accounts.

Therefore it can be interpreted that notes can be classified as:

- Notes to the accounts (e.g. accounting policies)
- Notes to the balance sheet (i.e. notes that relate to specific line items in the balance sheet)
- Notes to the income statement (i.e. notes that relate to specific line items in the income statement)

### **What should be filed for a small company under SI 2015/980 and FRS 102 (section 1A)**

As noted above, the new accounting regulations introduce a 'file what you prepare' approach, meaning that a small company must file at Companies House 'the' balance sheet it prepares for members, rather than 'a' balance sheet under the old legislation (which allowed for the use of the abbreviated format).

The starting point for filing is therefore the full accounts – minus the directors report and profit and loss account (including any directly related notes).

All of the notes required to be presented by small companies adopting the small companies regime are set out in Appendix C to section 1A of FRS 102. Beyond this, small companies are required to present any additional notes necessary to give a true and fair view.

Working on the basis of the three categories of notes set out above, the only note specified in FRS 102 section 1A relating to the profit and loss account/income statement is:

- 'The amount and size of any individual items of income or expense of exceptional size or incidence must be stated.' (1A.32)

FRS 102 also lists as a 'note supporting the income statement' - 'the average number of persons employed by the small entity in the reporting period.' However, this fits more readily into the category of a 'note to the accounts' since it does not relate to a specific income statement line item, therefore should be filed with the balance sheet.

The only notes that may be omitted from the filed accounts are therefore any directly related to a profit and loss account line item that a company has chosen to present in order to provide a true and fair view.

The end result is that it is likely that small companies taking this filing option will file a greater number of notes than they did under abbreviated accounts (e.g. related parties

will be required). There will also be a greater variation in the notes filed by different companies, dependent on factors such as the nature of their activities, and whether or not they have prepared an abridged balance sheet.

### **Audit report**

Under existing requirements, if a small company takes the option not to file its P&L account and directors' report but the accounts are audited, it is required to file the full audit report.

The 2015 regulations remove this requirement – instead if the accounts are audited, the filed balance sheet must include a note which must:

- State whether the auditor's report was qualified or unqualified;
- If the report was qualified, disclose the basis of the qualification and
- If the report was qualified, disclose the basis of the qualification and reproduce any statement under section 498(2)(a), if applicable;
- If the report was unqualified, but contained an emphasis of matter paragraph (for example because of going concern issues), this emphasis of matter paragraph should be included; and
- Provide the name of the auditor and (where the auditor is a firm) the name of the person who signed the auditor's report as senior statutory auditor.

### **Early adoption**

It should be noted that the changes introduced by Statutory Instrument 2015/980 can be early adopted for accounting periods beginning on or after 1 January 2015 provided that FRS 102 or FRS 102 including Section 1A – small entities is also adopted.

The option to file abbreviated accounts is removed from the date at which a small company adopts the new legislation. This means that for 2015 year ends, small companies still using the FRSSE will be entitled to file abbreviated accounts, while those early adopting must use one of the filing options set out above.