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Companies House filing - tips and advice

Confusion still remains around reporting frameworks and the formats available to companies when filing financial results with Companies House. Joanna Lovatt FCA considers the key issues to consider when filing accounts at Companies House under FRS 102 Section 1A

As the winds of change blow through the accountancy community in the UK, there remains confusion surrounding not only the applicable financial reporting frameworks which apply to company reporting but also the options and formats that companies may choose to lodge their financial results with Companies House. The changes and differences generally apply to those companies defined as 'small' under company law.

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Towards the end of 2016 there was a reported surge in the number of accounts rejected by Companies House. There was much debate as to whether this was a result of confusion both at Companies House and within the accountancy profession, regarding the nature of the filings required, or, due to issues internally at Companies House.

While HMRC has been extremely vocal about the introduction of Making Tax Digital, Companies House has taken a more silent approach to digital filing. It is aiming for full digital compliance by the end of 2018/19. In theory, digitalisation brings its own benefits; timely and immediate submission, less room for human error and standardisation in the format of reporting. However, for many companies, recent legislative changes can bring confusion and errors in reporting, especially for smaller entities ahead of electronic filing.

It appears that digitalisation is on the near horizon as companies sail towards it both for financial reporting and tax purposes. The key areas to focus on in order to navigate the financial reporting frameworks and filings, are detailed below. Changes in company law regarding company size and reporting frameworks, options to file, and the pitfalls and errors arising from recent filings also need to be considered.

◀ 9 months

Company size classifications

In June 2013, the European Commission introduced a new set of rules for simplifying the regulations for small company accounting and reporting. In addition, new rules for micro companies were introduced. The main aim of the new regulations was to simplify accounting requirements for smaller companies and the administrative burden thereon, increase clarity and comparability of financial statements of companies across the EU, and to protect the end user of the financial statements by retaining necessary accounting information. The effective date for change is for financial years beginning 1 January 2016 although early adoption to 1 January 2015 is permitted. Audit exemption is not permitted to be early adopted based on revised company thresholds.

Deadline for filing annual accounts with Companies House is nine months after company's financial year ends

Small company thresholds are now defined by two out of three criteria for two successive years:

- turnover – £10.2 m;
- balance sheet total – £5.1m;
- average employees – 50.

In addition to the small company threshold there is now a category of much smaller entities which are referred to as micro entities. Their size criteria is:

- turnover – £632,000;
- balance sheet total – £316,000;
- average employees – not more than 10.

Care should be taken that these are also not ineligible companies, ie, a charity, a quoted PLC, carrying on an insurance market activity, ineligible financial services company or part of an ineligible group.

Impact of changing company size requirements

The UK financial reporting framework for all companies in the UK has changed for periods commencing 1 January 2016. The withdrawal of FRSSE 2015 Financial Reporting Standard for Smaller Entities means that not only will medium-sized companies and above apply FRS 102, but so will all small companies unless the company decides to adopt and fit the micro-entities criteria. In that case it will apply FRS 105 Financial Reporting Standard applicable to the Micro-entities Regime.

The basis of recognition and measurement for all FRS 102 companies will be consistent although small companies are permitted to apply FRS 102 Section 1A Small Entities, having fewer presentation and disclosure requirements.

Small companies preparation and filing options under FRS 102 Section 1A

Small companies who previously prepared full sets of accounts for members and filed a much shorter abbreviated accounts at Companies House are no longer able to file abbreviated sets of accounts. The new regime introduces what is called a 'file what you prepare' model. There are now two options; small companies may prepare and file abridged accounts or they can prepare and file filleted FRS 102 Section 1A accounts at Companies House.

Abridged accounts have not proved popular to date. Directors are able to produce and prepare for members abridged accounts rather than full statutory 'traditional' financial statements. They comprise an abridged or limited information balance sheet and/or profit and loss account and/or directors report. There is very little analysis required of key debtor and creditor balances. The accounts must include all small companies' disclosures required by law and meet the requirement to give a true and fair view.

If a small company decides to abridge its accounts it must deliver to Companies House a statement that each member has consented to the abridgement annually. Once the abridged accounts have been approved and presented to members, directors then may choose to 'fillet' these abridged accounts and remove the profit and loss account and directors report from the copy filed at Companies House.

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Filing less financial information could be dangerous as credit reference agencies will have less information on which to base their computer-generated ratings

The filleting option is available even where the abridged option has not been taken. In essence, filleted accounts under section 444 of the Companies Act 2006 are the usual FRS 102 Section 1A accounts having the profit and loss and directors report removed in the copy filed at Companies House. This is not a new option but is increasingly popular as the closest equivalent option to filing abbreviated accounts.

Micro entities benefit from the same exemptions available to small companies in terms of filleting their accounts. However, when adopting FRS 105 care needs to be taken whether this basis would be preferable to FRS 102 as there is no option for the revaluation of assets, fewer intangibles are recognised on business combinations and no deferred tax is allowed to be recognised under this regime. There is very limited detail given with a simplified profit and loss account, which can be filleted out for filing, the balance sheet and two simple notes to the accounts.

Key filing problems under the new regime

Our experience under the new regime has primarily been focused on filleted FRS 102 Section 1A accounts rather than abridged format accounts. Key items to address to avoid rejection are listed below:

- where accounts have been filleted to avoid confusion at Companies House it needs to be noted that the accounts clearly state that these are filleted or are pages for filing only with the Registrar. This differentiates the filleted accounts from full accounts.
- the notes are best renumbered along with page numbers in the filleted set of

accounts.

- if a small company decides not to file either the directors report or the profit and loss account then the balance sheet must contain a statement stating that the accounts have been delivered in accordance with the small companies regime.
- if a company chooses not to file the profit and loss account it must also state on the balance sheet that it has chosen not to file the profit and loss account.
- there is no need to file any profit and loss account notes if this statement is removed except those of items of income/expenditure of an exceptional note or incidence.
- an employee numbers' note is not considered to be a profit and loss note and **is** required in the filed set of accounts at Companies House.
- all accounting policies should be filed within the filleted set at Companies House
- it is in the guidance from the ICAEW that filleted accounts are confirmed formally by the board of directors as suitable for filing.
- a small company that has undergone an audit is only required to file its audit report when it has chosen to file a copy of the profit and loss account.
- when a company has chosen not to file its profit and loss account but has had an audit, it must state, whether the opinion was qualified or unqualified, any basis for qualification, any emphasis, if unqualified, and the name of the audit firm and senior statutory auditor. This statement typically appears in the notes to the accounts.

Company directors need to consider so much more than in the past regarding the nature and type of accounts filings. Directors have generally left all those decisions to their accountants and advisers. Going forward the impact of these decisions may have a huge impact on their business.

The ability to file less financial information may have much appeal but this could be dangerous as credit reference agencies will have less information on which to base their computer-generated ratings. Moreover, consideration should be given to the main users of the accounts, whether these are bankers, existing and new suppliers, customers or, potential future lenders, investors and venture capital houses. Discussions and decisions need to be carefully made. Ironically, transparency and full disclosure may be the best path to navigate in some circumstances.

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