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BULLETIN

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New financial reporting options for micro-entities

The Government has recently made changes to company law that allow many of the UK's smallest companies to prepare and file significantly simplified accounts. The changes apply to financial years ending on or after 30 September 2013. Taking advantage of the new rules is completely optional and provides those that qualify with a further choice in the level of financial information that they present in their accounts.

Which companies are affected?

Companies that qualify as 'small' under company law already have options to prepare and file simplified accounts. The recent changes introduce a new sub-classification of small company known as a 'micro-entity'. Those that qualify as a micro-entity can take advantage of further simplification in the accounts prepared and filed.

Essentially, qualification as a micro-entity entails a company satisfying two out of the three following criteria:

	Not more than
Turnover	£632,000
Balance sheet total	£316,000
Average number of employees	10

There are special rules that mean that a company qualifies, or fails to qualify, as a micro-entity only if it meets, or fails to meet, qualification criteria for two consecutive financial years.

Certain companies are excluded from the micro-entity regime. These include the categories of company that would not qualify as small, such as PLCs. Further, some companies that might be eligible to be small are specifically excluded from the micro-entities regime, such as certain investment companies, charitable companies and companies that prepare, or are included in group accounts.

What is different about micro-entity accounts?

A set of full micro-entity accounts includes a directors' report, an abridged profit and loss account and an abridged balance sheet with limited notes information. The exclusion of notes to the accounts otherwise required by company law and accounting standards is the most significant difference between the current small company and micro-entity accounts requirements.

The abridged profit and loss account and balance sheet are also less detailed than those currently applicable to small companies.

The limited notes required must be included at the foot of the abridged balance sheet and only require disclosure of information on advances, credits and guarantees in favour of directors and guarantees and other financial commitments. There is no requirement to include any of the other disclosures required by company law and accounting standards for small companies. This will therefore significantly reduce the amount of information available from the full accounts.

Are the accounting rules different for a micro-entity?

The micro-entity exemptions primarily relate to the simplification of accounts presentation. Most of the general rules and accounting principles of company law and accounting standards for small companies regarding the preparation of the underlying numbers, therefore, still apply.

As such, although additional disclosures are not required in the accounts, the underlying accounting treatments and recording of financial information will often essentially be the same as for any other company. Most of the key numbers will, therefore, not change.

One difference that may be important for some, however, is that the legislation governing micro-entities does not permit the alternative and fair value accounting rules. This means, for example, that a micro-entity cannot revalue its assets.

What does a micro entity need to file at Companies House?

As with small companies, there is an option for micro-entities to not file the directors' report and / or profit and loss account. The balance sheet filed, however, must include the appended notes discussed above. Alternatively the full micro-entity accounts can be filed at Companies House.

Whereas separate 'abbreviated accounts' may be filed for small companies, this does not apply to micro-entities.

What other factors should be considered?

Micro-entity accounts are shorter and simpler than an equivalent set of small company accounts.

A full set of micro-entity accounts will, therefore, provide less information about a business. For some, only having easy access to what may be perceived as less useful financial information could be a potential problem, in particular where this is needed by external finance providers.

Though not required for statutory reporting purposes, additional analysis may still be needed to help make commercial decisions and to satisfy bank and credit reference agency information needs.

Options available may include taking advantage of exemptions, but also enhancing the accounts with additional financial information suited to individual business needs, or continuing with existing accounts formats.

As the underlying accounting work is not very different the actual cost of preparing micro-entity accounts may not significantly change.

How can we help?

The new micro-entities legislation provides additional choice in the way those that qualify can present their accounts. There are, as always, a number of legislative details and other factors to consider before a final decision can be made to report as a micro-entity. If you would like to discuss the new options available and which level of financial reporting best meets the needs of your business in more detail, please do get in touch.