

## **ACCOUNTS AND ANNUAL RETURNS**

### **Annual Financial Accounts**

Every company must prepare annual financial accounts that report on the performance, activities and the assets and liabilities of the company. The accounts must be prepared in accordance with provisions laid down in Companies legislation and with accounting standards and practices.

Generally, accounts must include:

- a profit and loss account;
- a balance sheet signed by a director;
- an auditors' report signed by the auditor (if appropriate);
- a directors' report signed by a director or the secretary of the company;
- notes to the accounts; and
- group accounts (if appropriate).

Most companies must have their accounts audited by an independent auditor. The auditor must generally be a member of one of the Accountancy bodies. The auditor must report on whether the financial accounts give a true and fair view of the company and its activities. The auditor looks at the company's internal books of accounts, controls and systems in order to give his report.

There is an exemption from the audit requirement for certain small companies, if they are eligible and wish to take advantage it. To qualify for total audit exemption, a company must qualify as small, have a turnover of not more than £1 million; and have a balance sheet total of not more than £1.4 million.

The director's report usually describes the company's activities, reviews business and indicates future developments. A business review is mandatory since 1st October 2007. It must provide information on the company's performance and prospects. The directors' report must include details of directors and share interests or options and the company details of dividends and details of research and development as well as political and charitable gifts. Where a company is part of a group, group accounts may be required.

The first accounts are due within 22 months of the date of incorporation. Thereafter accounts are due 9 months after the annual accounts date. The accounting reference date can be changed upon notification to the Companies Office.

### **Obligations to Companies House**

There is an obligation to make an annual return and file accounts with Companies House. There are certain exemptions. Small and medium size companies and limited liability partnerships can benefit from certain relaxations from the general obligations to audit and file accounts.

Most small or medium size businesses and limited liability partnerships are entitled to submit abbreviated to Companies Office. There is a right to file abbreviated accounts if the company passes certain tests in relation to size, employees and turnovers. Small firms are those with a turnover of £6.5M or less, balance sheet total of £3.26M or less and less than 50 employees. Medium size firms are those with a turnover of £25.9M or less, balance sheet of less than £12.9M and no more than 250 employees.

In the case of small companies and limited partnerships, an abbreviated balance sheet only and notes are required together with a special audit report. Alternatively, an audit exemption may be available (see above).

In the case of medium size companies and limited liability partnerships, abbreviated profit and loss accounts, full balance sheet and special auditors report is required. Some small companies qualify for an exemption from filing audited accounts. Audited accounts may still be necessary for other purposes. .

Audit exempt companies and limited liability partnerships must deliver unaudited accounts to the Companies Office in the form of an unabbreviated balance sheet and notes. The note must make certain confirmations. Where the audit exemption applies company tax returns may also be submitted on the basis of an unaudited account. Audit exemptions are also available for certain dormant companies.

### **Annual Returns**

An annual return may be filed on line and 70% of UK companies now do so. The fee payable with the annual return is £30.00. Filing on line attracts a reduced filing fee of £15.00. The company directors and secretary are responsible for filing annual return within 28 days of the date to which it is made up. The law determines the annual return date. There are penalties for failure to make an annual return.

The annual return includes details of the name of the company, address, principal activities, details of company secretary, residential address, nationality, date of birth of directors and the company's "made up" date. The obligation applies to limited companies and limited liability partnerships.

Details of share capital is required including the nominal value of the total share capital, shareholders names and address, numbers and types of shares issued and total value of each type of share. Similar information is required for limited liability partnerships.

The "made up" date is the official date on which all information on the annual return must be correct. The made up date is usually the anniversary of incorporation or the made up date of a previous annual return.

A full list of shareholders is required on the company's first return and every subsequent third return or each time an alternation is made to the shareholders. Details must be given of the name and class of share. Shareholders information must include the name and address of the shareholders at the made up date, shareholders who have ceased to be members since last made up date, each members total shares in each class aswell as the made up date.

This Guide is intended as an overview and broad outline of the matters covered in it. Its purpose is to inform and raise awareness. We are happy to offer specific legal advice on particular circumstances.

This Guide should not be relied on as a substitute for comprehensive legal advice with reference to the particular circumstances.

While we have taken due care in the preparation of this publication, we do not accept legal liability as a result of any reliance placed on anything in this Guide. The reader should rely only on specific legal or taxation advice.

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