



ACCOUNTS FILED AT COMPANIES HOUSE

AVOID A DIFFICULT CONVERSATION

These notes reflect our experience of compliance with the UK accounting framework before 1 January 2015. You should be aware of the widespread changes that will apply from that date, and the options for early adoption of some requirements.

We continue to find a number of common failings in statutory accounts, which indicate a lack of care. These sometimes include accounts filed without an audit, when one was required. Take some time to look at the questions below.

Do any of these apply to accounts prepared by your firm?

Have you assumed that a company can take audit exemption when it can't? We sometimes find that an audit was required, but firms have overlooked this requirement. Since the audit and small company thresholds were aligned in 2012, the more common reasons for this error are:

- A small parent company can't take the audit exemption if the group it heads is not small.
- Some companies are ineligible whatever their size eg public companies, banks, insurance companies.
- Falling within the small company thresholds in one year will not be enough, if the company was previously medium or large.
- Omission of the section 477 statement at the foot of the balance sheet will trigger an audit requirement.
- Claiming the exemption for subsidiary companies, without obtaining the parent company guarantee, or failing to meet the other conditions for this exemption.

If in doubt, consult the technical helpsheet [Audit exemption thresholds for companies](#) or telephone our technical helpline +44 (0)1908 248 250.

Do the accounts comply with current accounting standards?

We often find company accounts do not comply with current accounting standards in the following areas.

- Tangible or intangible assets not depreciated and no 'true and fair override' explanation.
- Equity dividends paid not debited directly to equity.
- Deferred tax calculated on a partial rather than a full provision basis or not provided at all. If the company has a deferred tax asset rather than a liability, that should be accounted for too, if it is assessed as recoverable.

Does the directors' report contain all the required disclosures?

Our reviews sometimes identify incomplete or missing directors' reports. Don't forget if the directors' report doesn't include a part 15 of the Companies Act 2006 statement claiming small companies' exemptions, full disclosures such as enhanced business review, key performance indicators and description of principal risks and uncertainties are required.

Is the company using the FRSSE or isn't it? If so is it using the right one?

We identify accounts that disclose the incorrect or missing FRSSE effective date.

We also see accounts not prepared under the FRSSE, but no FRS 3 disclosures regarding continuing and discontinued operations and total recognised gains and losses.

Has the company disclosed all the accounting policies significant to the understanding of the accounts?

- Missing or inappropriate accounting policies (turnover, deferred tax).
- Incomplete or missing fixed asset and depreciation information.
- Is the company entitled to claim exemption from preparing group accounts?

Don't forget that only parent companies that head up a small group are exempt from the requirement to prepare group accounts. A medium-sized company is not exempt from that requirement unless it is an intermediate parent company and can take the exemptions set out in section 400 and 401 of the Companies Act 2006.

Are transactions with directors disclosed correctly?

There is some confusion about the requirements to disclose information about loans and transactions with directors as set out in s413 of Companies Act 2006. Individual or group accounts need to show the following in the notes to the accounts:

- advances and credits granted to directors, details to include its amount, an indication of the interest rate, its main conditions and any amounts repaid; and
- guarantees of any kind entered into on behalf of directors, details to include its main terms, maximum liability that may be incurred by the company for the purpose of fulfilling the guarantee.

ICAEW guidance suggests that you create a chronological record of transactions with directors to establish whether there are any advances. Having done that you should identify opening and closing debit balances and material advances in the period (those over £10,000 need prior approval by the members); aggregate the remaining advances; identify amounts repaid by the director listing material amounts separately. You can then compile the note from this information and add details of interest, security etc.

Are the accounts presented correctly?

We find the following common presentation errors are:

- Bank overdrafts shown as negative current assets.
- Balance sheet headings not in accordance with the prescribed Companies Act formats (or in the wrong order).
- Notes not agreeing with the balance sheet.
- Casting errors.
- Misuse of brackets to give the impression the company is profitable when it is not.
- Missing or incorrectly-headed comparative figures.
- Date of approval of the accounts either missing or incomplete.
- Prior year adjustments not properly explained, or allocated to incorrect periods.

Has the company made all the disclosures it needs to?

Examples of information we find missing or incomplete include:

- Directors' loans and other transactions with directors' and related parties.
- Fixed assets held under finance leases.
- Note why revalued investment properties, or other properties, have not been depreciated in departure from Companies Act 2006 and explain the effect on the profit/loss if the departure had not been made.
- Operating lease commitments (with property rents frequently overlooked).
- Pension contributions.
- Amounts of secured creditors.
- Details of the controlling party.

- Going concern explanation when the company appears to be technically insolvent.
- Small company exemptions taken and FRSSE applied when company does not meet small company criteria.

Some technical wording inaccuracies can have unforeseen knock-on effects.

- If the directors' report does not include a part 15 of the Companies Act 2006 statement claiming small companies' exemptions, full disclosures such as enhanced business review, key performance indicators and description of principal risks and uncertainties are required.
- If there is no part 15 of the Companies Act 2006 statement claiming small companies' exemptions, the full disclosures for medium-sized and large companies are required.
- Incorrect small company exemption provision references in the directors' report and balance sheet statement, and the lack of a 'section 394 and 395 Companies Act 2006' reference in the directors' balance-sheet statement, render the accounts non-compliant with the Companies Act.

Reference to the wrong version of the FRSSE on the balance sheet and/or accounting policies note with the result that the wrong accounting framework has been referred to so some accounting policies may appear to be out of date.

Do the filed accounts suggest the directors appear to have acted unlawfully?

We sometimes see company accounts where it seems the directors appear to have acted unlawfully:

- By paying an illegal dividend – refer to our [*Illegal dividends in a private company technical helpsheet*](#).
- By filing abbreviated accounts when the company is not eligible to do so as it doesn't meet the small or medium company exemption limits.

Have you expressed a true and fair opinion?

We find a number of instances where firms include an opinion on the truth and fairness of the accounts, even though they are not registered auditors. This may result in disciplinary action being taken against the firm. ICAEW's recommended accountants' report wording is set out [*in AAF 02/10 Chartered Accountants' reports on the compilation of financial statements of incorporated entities*](#).

Make sure you get them right

Firms can avoid the majority of these issues if you:

- invest in and properly use specialist accounts preparation software,
- check company accounts against a regularly-updated disclosure checklist; and
- get a member of staff who is technically up-to-date to carry out a final read-through.

We urge all firms to recognise the importance of setting up appropriate procedures to check all sets of company accounts before you send them to your clients for signature.

The accounts you prepare for your corporate clients that are filed at Companies House are your shop window. The directors of these companies rely on your advice to make sure they fulfil their responsibilities. Make sure you get it right and prevent:

- Unaudited accounts being filed that should have been audited.
- Unaudited accounts being filed at Companies House that:
 - do not comply with current UK accounting standards or legislation
 - are internally inconsistent, or
 - contain typographical errors.