

Guide from

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Preparing for your annual accounts

All companies must prepare annual accounts: for shareholders, and for returns to HM Revenue & Customs (HMRC) and Companies House. Small companies generally do not require an audit if they satisfy any two of the following: annual turnover of less than £10.2 million; total assets under £5.1 million; 50 employees or fewer.

Almost all companies use accounting software and the services of an accountant to prepare their accounts. Being organised makes it relatively simple to provide the information your accountant needs. You can also use this information to review and improve your business operations.

1. Legal requirements

The accounts you submit to HMRC form the basis for the company's tax calculations

- They are submitted online with the company's tax return, within 12 months of your company's financial year end.
- The tax becomes payable at nine months so accounts are normally submitted around this date.

You must also file accounts with Companies House

- The accounts you file become publicly available.
- The accounts must be submitted within nine months of your company's year end.
- The contents of filed accounts is reduced for medium, small or micro-entity companies based on turnover, balance sheet assets and the number of employees.
- Most small companies can, if they wish, file abridged accounts. These contain a reduced version of the balance sheet, profit and loss account and directors' report but an election can be made to only file the balance sheet with Companies House.
- Further exemptions apply to micro-entities satisfying any two of the following: annual turnover of less than £632,000; balance sheet assets less than £316,000; 10 employees or fewer.
- Most medium-sized companies (satisfying any two of the following: annual turnover of less than £36 million; balance sheet assets less than £18 million; 250 employees or fewer.) can file slightly reduced accounts. These omit some of the detailed information required for large companies.
- Company directors are legally responsible for ensuring the accuracy of the accounts. Using an accountant does not reduce this responsibility.

2. Statutory accounts

To avoid confusion with everyday management accounts, the company's annual accounts filed at Companies House are referred to as "statutory accounts".

There are usually four main sections

- A directors' report, giving a business review and their view of the firm's performance and prospects.
- A balance sheet, outlining the company's financial position on the final day of the accounting period (the year end). Essentially, this shows what the company owns and what it owes.
- A profit and loss account, showing the trading performance over the accounting period (usually 12 months). This summarises sales, costs and expenses, profits (or losses), and any tax charges.
- Notes, giving more details about the information in the balance sheet and the profit and loss account.

The Companies Act sets out how the accounts will be presented

- The format should also comply with UK accounting standards, which dictate how certain transactions should be treated in the financial statements.
- Directors have to make sure that financial statements give a 'true and fair view' of the company's financial position.

3. Accounting records

All companies are legally required to keep detailed accounting records

These must include details of:

- income and expenditure;
- assets and liabilities;
- stock and any stocktakings used to work this out;
- goods sold or purchased and who you deal with (except for retail transactions).

You must keep financial documentation to back up your tax return

This can be kept in hard copy or electronic form and will include:

- records of all income and expenditure such as copies of orders, invoices and receipts;
- other relevant information such as bank statements, cheque books and paying-in books.

Almost all businesses must file their annual tax return online

- Most businesses use an accounting software system to simplify this process.

4. Planning

How much of the accounting work will you do yourself?

- Accounting software can simplify the process and help minimise errors.
If you want to switch from a manual accounting system, speak to your accountant to ensure you purchase the best software for your needs.
- All figures should add up correctly and tally with your invoices, bills, paying-in books and most importantly with your bank statements.
- Depending on your company's accounting expertise, you may be able to produce a trial balance. This lists the totals of the credit entries and the debit entries in the accounts, and shows that they agree.

Ask your accountant whether there are any tax-planning steps you should take

- You may need to take action before your company's year end. For example, you may be advised to bring forward certain purchases, so that they count in the current accounting period.

Ask what other information and explanations the accountant will need

These are likely to fall into four key areas:

- purchases and sales;
- stock and uncompleted work;
- fixed assets;
- employees.

Book a date for a feedback (closing) meeting with the accountants

- See 'feedback meeting'.

5. Purchases and sales

Your accounting records should be clear and logical as this saves time for everyone involved. Keep record-keeping simple and do it in a way that helps your business.

Cross-referencing means that each transaction can be traced

- The cross-referencing creates a trail right through the records.

List sales made before the year end, but not yet paid for, as outstanding debtors

- Include the amount, invoice number and invoice date.
- Note any invoices that you suspect may not be paid, with a brief explanation. The accountant may make a 'provision for bad debts'. This effectively cancels the sale in your accounts.

List purchases made before year end, but not yet paid for, as outstanding creditors

- Include the amount, the supplier's name and the payment due date.
- Note any invoices you dispute and do not expect to pay, with a brief explanation.

As general good practice, list and analyse your debtors and creditors

- An 'aged' list gives details by due date. The list makes it immediately clear where problems may arise, such as bad debts. This is easier if you use accounting software rather than manual records.
- How much of your overdraft is used to give your customers free credit?

Only include invoices for the financial year in question, not the subsequent period

Laying the trail

Simple, systematic bookkeeping creates a trail that can be traced back to provide a full history of each transaction.

Every sale has a unique invoice number

- When the invoice is paid, you write on it the date payment was received and how it was paid.
- When banking cheques, record the invoice number and paying-in date. You can then check your bank statement to see whether the cheques have cleared.

Each purchase originates with a supplier's invoice

- Record the cheque or payment reference number against it. If you use purchase orders, record the purchase order number as well.
- In the case of credit card purchases, there may be several invoices (or receipts), with one payment reference number, against that month's credit card bill.

6. Stock and uncompleted work

The value of stock is a key element in retail and manufacturing businesses. It includes work-in-progress. Service businesses have little physical stock, but may have considerable work in-progress, such as half-finished projects.

The cut-off between stock, purchases and sales can cause accounting errors

- If a purchase has arrived in the warehouse, but an invoice has not been received, the cost is included in the accounts.
- If you have sold (and invoiced) but not yet delivered goods, exclude these goods from the valuation of your stock. The sale will already be in your accounts as a debtor.

Unless stocks are a minor item, you will need to carry out a stocktake

- This is a physical count-up of the goods on your premises. It is made easier and faster with careful planning.
- Set out stocktaking procedures in writing.
- Lay out stock in a logical way, so that all stock of the same type is in one place.
- Label the stock and print lists of the different types of stock on hand.
- Ensure no stock comes in on the day of the stocktake. If this is unavoidable, stock movements must be tightly monitored and recorded.
- Unless you have good stock records, you will probably need to carry out the stocktake at the end of the financial year.

Once the stock has been counted, it needs to be valued

- This will be based on either the cost to you or the amount for which you expect to sell the goods, whichever is lowest.
- Have your suppliers' price lists or a copy of goods' invoices to hand. Describe the items on your stock list as they are described on the supplier's price lists, so everything can be matched.
- Make a note of any old, outdated or damaged goods.

- Make a note of unfinished pieces of work and record what has to be done, giving it a value at the end of the year.

Service providers are required to include partly completed work

This uses the stage to completion method. For example, if a contract is 75% complete, then 75% of the contract value would be included in the year end accounts as uncompleted work. Keep a list of:

- Work you have started but haven't yet invoiced.
- The estimated sales value when the work is completed.
- An accurate estimate of the percentage of the work you have completed. You can use time records, job costing or diaries to help you work out the percentage.

7. Fixed assets

Fixed assets include buildings (if you own them), equipment, vehicles, and 'fixtures and fittings' (eg shelving).

Keep a fixed-assets register, detailing all the assets that the company owns

- Break it down into different types of asset.
- A purchase date, purchase price, description and location for each item.
- Note any items that have been purchased, sold or scrapped during the year. Give your accountant a copy of relevant purchase or sales invoices or any other documents.
- An asset register makes completing your annual insurance form easy, as you can attach the list of assets.
- You can also record details which would be useful if say equipment breaks down (eg supplier contact details, PIN numbers etc).

Keep the documents proving ownership

The cost of fixed assets should be written off over time

- This is done through an annual depreciation charge. Details can be recorded on the asset register.
- Generally depreciation cannot be offset against tax. Instead, you claim a capital allowance for some assets, using a rate of deduction which is fixed by HMRC.
- Small companies can get 100% relief when purchasing certain fixed assets, so it is important to speak to your accountant before any purchase.

8. Employees

Payroll and expenses claims are of particular interest to HMRC.

Your accountant should check your calculations

- It is important to get these right, whether you or a payroll bureau handle this. The business is liable for incorrectly deducted tax and National Insurance, not the employee.

Keep records for all expense claims

- Expenses claim forms make it easy to keep track of expenses. Employees attach the relevant receipts to the completed form, in order to receive reimbursement.

- You no longer have to report these expenses on P11Ds but HMRC must be satisfied that you reimburse nothing more than the legitimate costs incurred or an HMRC approved flat rate. You will still need to keep records of any payments made.

Tax on benefits in kind can be paid through your payroll

- You must register with HMRC and add the cash equivalent of the benefit to the employees pay through the payroll.
- You don't need to complete P11Ds but you must submit P11D(b)s to calculate National Insurance contributions.

9. Feedback meeting

Once the accounts are finished, a feedback meeting with your accountant can produce good ideas and advice on how business practices can be improved.

What do you need?

- What information would help you run your business?

Can you improve your book-keeping system?

- Does it handle VAT quickly and easily, including VAT returns?
- Is there a better way to record income and expenditure?

Should you introduce or upgrade accounting software?

Can you improve your credit control?

- What payment targets should you aim for?
- How can you cut exposure to bad debts?

Can you find ways of providing more timely and useful management information?

- Up-to-date management information during the accounting year helps you make better decisions.

Can you reduce your tax bill?

Signpost

- Download details of [company annual requirements](#) from Companies House.

Expert quotes

"Annual accounts need to be accurate. As a formal record of your business' finances, they are not just necessary for the taxman, but well-prepared accounts are an excellent way to impress your bank, other potential investors, existing and new clients." - ACCA

"You can use the final numbers in your year-end accounts to help you prepare a budget for the following year." - Sayers Butterworth LLP

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