



# Guidance on the UK financial reporting framework for small and micro-entities

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# Introduction

This guide aims to summarise the key points of the reporting and filing requirements for micro-entities and small companies in the UK.

## UK Financial Reporting Regime

This consists of the following:

	<b>Accounting periods beginning on or after 1 January 2021</b>
Micro-entities	Financial Reporting Standard (FRS) 105 The Financial Reporting Standard Applicable to Micro-Entities
Small entities	FRS 102 including section 1A – Small Entities
Entities not required to apply International Financial Reporting Standards (IFRS) as adopted in the UK (e.g. medium and large private companies)	FRS 102
Individual accounts of subsidiaries and ultimate parents where the group applies UK adopted IFRS	FRS 101 reduced disclosure framework
Individual accounts of subsidiaries and ultimate parents where the group is not applying UK adopted IFRS	FRS 102 – Reduced disclosures for subsidiaries (and ultimate parents)
Companies listed on UK-regulated markets (consolidated accounts)	UK-adopted IFRS

An entity may always opt to apply a more comprehensive standard, for example, a micro-entity may adopt FRS 102, or a large private company may adopt UK adopted IFRS. The only exception to this is that charities are prohibited from adopting UK adopted IFRS.

## Micro-entities regime

A micro-entity is a small company which also satisfies the following qualifying conditions:

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

The turnover limit should be proportionately adjusted if the financial year is not 12 months. The usual two-year rule applies except in a company’s first financial year. Any type of entity which is excluded from the small companies’ regime cannot qualify as a micro-entity.

Furthermore, additional types of entity e.g. charities, investment undertakings, financial holding undertakings, insurance undertakings, credit institutions, overseas companies, unregistered companies and companies authorised to register pursuant to s1040 of the Companies Act 2006 are also specifically excluded.

If a company is a subsidiary undertaking and its accounts are included in consolidated group accounts, then it cannot qualify as a micro-entity. A parent company can only qualify as a micro-entity for the purposes of its individual accounts if it qualifies as a micro-entity individually and the group headed by it qualifies as small. If a company is a parent company that prepares group accounts, then it cannot qualify as a micro-entity for the purposes of its individual accounts.

This regime was established in UK company law by the Micro-Entity Regulations 2013. The Limited Liability Partnerships (LLPs) (Accounts and Audit) Regulations 2016 extended the micro-entity regime to LLPs and qualifying partnerships that meet the qualifying criteria.

## The Financial Reporting Standard applicable to the Micro-entities Regime (FRS 105)

FRS 105 is a single financial reporting standard that applies to the preparation of individual financial statements of companies that qualify as micro-entities and choose to apply the Micro-entities Regime (also applies to LLPs and qualifying partnerships).

If transactions are not addressed by FRS 105 either directly or by cross reference to FRS 102, a micro-entity is not required to refer to FRS 102 in selecting its accounting policies. The recognition and measurement requirements in FRS 105 are broadly based on FRS 102, and amended to reflect the specific legal requirements for micro-entity accounts. FRS 105 permits, but does not require, a micro-entity to include information additional to the micro-entity minimum accounting items in its financial statements. If a micro-entity includes additional information, it has to have regard to any requirement of Section 1A 'Small Entities' of FRS 102 that relates to that information.

### Key features of FRS 105

- All assets and liabilities must be measured at cost (except in limited circumstances).
- Accounts that comply with the minimal legal requirements are presumed to give a true and fair view.
- Limited notes to the accounts are required (see below)
- Recognition of deferred tax is prohibited.
- Equity-settled share-based payments transactions are not accounted for until shares are issued.
- There are no accounting policy choices.

### True and fair view

The financial statements of a micro-entity prepared in accordance with FRS 105 that include the micro-entity minimum accounting items are presumed in law to show a true and fair view of the micro-entity's financial position and profit or loss in accordance with the micro-entities' regime.

In the absence of a requirement in FRS 105 that applies specifically to a transaction or other event or condition, paragraph 8.4 of the standard provides guidance for making a judgement and paragraph 8.5 requires a micro-entity to look to the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses and the pervasive principles set out in section 2 of the standard.

### Choice of accounting regime

Eligible entities should make a careful assessment as to whether adopting the micro-entities regime, and FRS 105, is the most appropriate option, or whether a more comprehensive standard should be used.

Consideration should be given to the following factors:

- Users of the accounts – where there are external parties interested in the accounts, such as a bank or other funder, accounts prepared in accordance with the micro-entities' regime may contain insufficient detail. In such cases, using FRS 102, or FRS 105 with additional disclosures may be more cost-effective.
- Nature of the business and types of transactions – a company may determine that accounting under FRS 102 is more appropriate to their business model. For example, a company which has investment properties and wishes to continue to measure these at market value rather than historic cost should adopt FRS 102.

- Future plans – a company looking to expand beyond 'micro' size may choose to adopt FRS 102 to avoid moving to another framework at a later date.

## Financial statements

For a micro-entity a complete set of financial statements comprises the following:

- (a) a statement of financial position as at the reporting date;
- (b) an income statement for the reporting period; and
- (c) the following notes to the financial statements which are to be presented at the foot of the balance sheet (additional disclosures can be provided voluntarily):
  - (i) off-balance sheet arrangements as required by section 410A of the Companies Act 2006;
  - (ii) employee numbers as required by section 411 of the Companies Act 2006;
  - (iii) advances, credit and guarantees granted to directors as required by section 413 of the Companies Act 2006; and
  - (iv) financial commitments, guarantees and contingencies required by regulation 5A of, and paragraph 57 of Part 3 of Schedule 1 to, the Small Companies Regulations including an indication of the nature and form of any valuable security give.

Comparative figures are also required, A micro-entity may use titles for the financial statements other than those used in FRS 105 as long as they are not misleading e.g. use of the term 'balance sheet' would be acceptable.

## Statement of compliance

On the statement of financial position, FRS 105 requires the inclusion in a prominent position above the signature, a statement that the financial statements are prepared in accordance with the micro-entity provisions.

## Format of Statement of Financial Position

A micro-entity which is a company shall present a statement of financial position in accordance with one of the formats set out in Section C of Part 1 of Schedule 1 to the Small Companies Regulations. Format 1 is as follows:

Called up share capital not paid		X
Fixed assets		X
Current assets	X	
Prepayments and accrued income	X	
Creditors: amounts falling due within one year	<u>(X)</u>	
Net current assets/(liabilities)		<u>X/(X)</u>
Total assets less current liabilities		X
Creditors: amounts falling due after more than one year		(X)
Provisions for liabilities		(X)
Accruals and deferred income		<u>(X)</u>
		<u>X</u>
Capital and reserves		<u>X</u>



## Format of Income Statement

A micro-entity which is a company shall present its profit or loss for a period in an income statement in accordance with Section C of Part 1 of Schedule 1 to the Small Companies Regulations, as follows:

Turnover	X
Other income	X
Cost of raw materials and consumables	(X)
Staff costs	(X)
Depreciation and other amounts written off assets	(X)
Other charges	(X)
Tax	(X)
Profit or loss	X/(X)

The effects of corrections of material errors and changes in accounting policies are presented as retrospective adjustments of prior periods rather than as part of profit or loss in the period in which they arise (refer to section 8 of FRS 105 'Accounting Policies, Estimates and Errors').

Micro-entities do not need to prepare a directors' report, and can take the option to file only the balance sheet (which includes the related notes) at Companies House.

## Filing requirements for micro entities

Section 441 of the Companies Act 2006 '*Duty to file accounts and reports with the registrar*' establishes the relevant sections of the Act that companies should refer to for their respective accounts filing requirements.

The filing obligations of companies subject to the small companies' regime are contained in section 444 of the Act. Micro-entities which are companies represent a subset of this category and should therefore comply with the requirements of this section. There is no separate section that deals with the filing requirements of micro-entities.

This guidance primarily focusses on unaudited accounts, as the vast majority of accounts prepared for micro-entities will not have been subject to audit.

### Unaudited accounts for micro entities – filing options under section 444 of the Companies Act 2006

The options for micro-entities with respect to filing unaudited accounts with Companies House are as follows:

- 1 File the same set of micro-entity accounts that was prepared for shareholders; or
- 2 Use the option (as per section 444(1) of the Companies Act 2006) not to file the profit and loss account and/or directors' report (if one was prepared) i.e. normally one would file only the balance sheet and notes (which are usually very limited).

We will now look at these options in greater detail.

### Option 1:

Where a directors' report has been prepared and is also filed, the balance sheet statements are the same as those in the accounts prepared for shareholders i.e.

- (i) The directors consider that the company is entitled to audit exemption (as per the requirements of Section 477 of the Companies Act 2006);
- (ii) The members have not required the company to obtain an audit of its accounts for the year in question in accordance with section 476;
- (iii) The directors acknowledge their responsibilities for complying with the requirements of the Companies Act 2006 with respect to accounting records and the preparation of accounts; and
- (iv) The accounts have been prepared in accordance with the micro-entity provisions [As per Section 414(3)].

However, where a directors' report is not filed (even although the preparation of one is not actually required for the accounts provided to members), Section 444(5) of the Companies Act 2006 requires that:

“the copy of the balance sheet delivered to the registrar must contain in a prominent position a statement that the company's annual accounts and reports have been delivered in accordance with the provisions applicable to companies subject to the small companies' regime”.

Therefore, in those circumstances, the following statement will be required in the filed set of accounts in addition to the other balance sheet statements (as per above) included in the set of accounts prepared for shareholders.

- (v) The company's annual accounts and reports have been delivered in accordance with the provisions applicable to companies subject to the small companies' regime.

### Option 2:

Using this option, the accounts to be filed will take advantage of the concessions offered by Section 444(5) of the Companies Act 2006. The profit and loss account will not be filed nor will the directors' report (if one was prepared for shareholders).

The balance sheet statements will be as per option 1 and include the additional statement as per (v) above that the accounts have been delivered in accordance with the provisions applicable to companies subject to the small companies' regime.

### Summary

What will be filed with Companies House for most unaudited micro-entities will be the balance sheet plus notes as per the full set of accounts. None of the mandated notes for micro-entities are specifically related to the profit and loss account and therefore such notes will need to be filed. The following illustrates what should be filed:

- (i) Balance Sheet (Based on Format 1)
  - A Called-up share capital not paid
  - B Fixed assets
  - C Current assets
  - D Prepayments and accrued income
  - E Creditors: amounts falling due within one year
  - F Net current assets (liabilities)
  - G Total assets less current liabilities



- H Creditors: amounts falling due after more than one year
- I Provisions for liabilities
- J Accruals and deferred income
- K Capital and reserves

(ii) The following notes to the balance sheet should appear at the foot of the balance sheet:

- off-balance sheet arrangements as required by section 410A of the Companies Act 2006;
- employee numbers as required by section 411 of the Companies Act 2006;
- advances, credit and guarantees granted to directors as required by section 413 of the Companies Act 2006; and
- financial commitments, guarantees and contingencies required by regulation 5A of, and paragraph 57 of Part 3 of Schedule 1 to, the Small Companies Regulations including an indication of the nature and form of any valuable security given.

(iii) If additional notes have been prepared on a voluntary basis then unless these are directly related to items in the profit and loss account then they would need to be filed.

(iv) Inclusion of balance sheet statements as per option 2 above.

## Audited accounts for micro-entities – filing options

### Option 1- File the same set that was prepared for shareholders

Where a micro-entity files the set of audited accounts prepared for shareholders (i.e. it files its profit and loss account) then the auditor's report as issued to members will be filed. If no directors' report has been prepared, then a balance sheet statement will need to be added as per the above to indicate that "the company's annual accounts and reports have been delivered in accordance with the provisions applicable to companies subject to the small companies' regime".

### Option 2 - Profit and Loss Account is not filed

A micro-entity is likely to take advantage of the option as per section 444(1) of the Companies Act 2006 not to file the profit and loss account or indeed the directors' report if one has been prepared. In such circumstances, a small company (of which a micro-entity is a subset) would be required as per section 444(5) to include a statement on the balance sheet to the effect that the company's annual accounts and reports have been delivered in accordance with the provisions applicable to companies subject to the small companies' regime.

The specific requirements in relation to the auditor's report in such circumstances are as follows:

Sections 444(5A) and 444(5B) of the Companies Act 2006 require:

- "(5A) Subject to subsection (5C), where the directors of a company subject to the small companies' regime do not deliver to the registrar a copy of the company's profit and loss account -
- (a) the copy of the balance sheet delivered to the registrar must disclose that fact, and
  - (b) unless the company is exempt from audit and the directors have taken advantage of that exemption, the notes to the balance sheet delivered must satisfy the requirements in subsection (5B).
- (5B) Those requirements are that the notes to the balance sheet must -
- (a) state whether the auditor's report was qualified or unqualified,
  - (b) where that report was qualified, disclose the basis of the qualification (reproducing any statement under section 498(2)(a) or (b) or section 498(3), if applicable),

- (c) where that report was unqualified, include a reference to any matters to which the auditor drew attention by way of emphasis, and
- (d) state -
  - (i) the name of the auditor and (where the auditor is a firm) the name of the person who signed the auditor's report as senior statutory auditor, or
  - (ii) if the conditions in section 506 (circumstances in which names may be omitted) are met, that a resolution has been passed and notified to the Secretary of State in accordance with that section.

(5C) Subsection (5A) does not apply in relation to a company if -

- (a) the company qualifies as a micro-entity (see sections 384A and 384B) in relation to a financial year, and
- (b) the company's accounts are prepared for that year in accordance with any of the micro-entity provisions."

**Section 444(5C), however, as illustrated above, removes the applicability of sections (5A) and (5B) for micro-entities. If section 444(5A) does not apply, then logically section 444(5B) also has no locus for micro-entities. Therefore, if a micro-entity does not file its profit and loss account then there is no need to file the auditor's report or to make any disclosures to that effect in the notes to the accounts.**

## Limited liability partnerships

Limited Liability Partnerships (LLPs) are also able to take advantage of the concessions available to micro-entities provided that they satisfy the relevant conditions.

### Basis of Preparation Statement

As per section 414 of The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 an LLP which is applying the micro-entity provisions must include a statement on its balance sheet that the accounts have been prepared in accordance with the provisions applicable to LLPs subject to the micro-entity regime.

### Filing Requirements

The filing requirements of LLPs are contained in section 444 of The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008 as updated by further statutory instruments including 'The Limited Liability Partnerships, Partnerships and Groups (Accounts and Audit) Regulations 2016' (the 2016 Regulations). These revise the earlier Regulations.

LLPs are not required to prepare a report equivalent to a directors' report.

As per the company accounts requirements, an LLP can file the set of accounts prepared for its members or take advantage of the concessions offered by section 444(1) not to file a copy of the LLP's profit and loss account for that year.

### Unaudited Accounts

Where the micro-entity files the same unaudited accounts as those prepared for members, the following balance sheet statements will be required.

- For the year ending ..... (dd/mm/yyyy) the LLP was entitled to exemption from audit under section 477 of the Companies Act 2006 (as applied by The Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008) relating to small LLPs.

- The members acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of accounts.
- These accounts have been prepared in accordance with the provisions applicable to LLPs subject to the micro-entity regime.

Where micro-entities do not file the profit and loss account in addition to the above statements the following statement must be added:

- The accounts have been delivered in accordance with the provisions applicable to LLPs subject to the small LLPs regime.

### Audited Accounts

As per section 444(2) of the LLP Regulations, when a copy of the LLP's profit and loss account is filed then, where applicable, a copy of the auditor's report on the accounts must also be filed. This requirement obviously does not apply if the LLP is exempt from audit and the members have taken advantage of that exemption.

However, when the profit and loss account is not delivered, section 444(5C) of the LLP Regulations negates the requirements of sections 444(5A) and (5B) for micro-entities.

**Therefore, the filing requirements are the same as for companies, i.e. if a micro-entity does not file its profit and loss account then there is no need to file the auditor's report or to make any disclosure to that effect in the notes to the accounts.**

## Small entities regime

The introduction of FRS 102 and the micro-entities regime, coupled with a series of changes to the Companies Act 2006 in 2015 arising from the revised EU Accounting Directive, necessitated a new accounting framework for small entities. After extensive consultation, the Financial Reporting Council (FRC) determined that small entities should apply FRS 102 for recognition and measurement, with separate presentation and disclosure requirements. They can of course choose to apply FRS 102 in full.

### FRS 102 – Section 1A

This section of FRS 102 sets out the information that requires to be presented and disclosed in the financial statements of a small entity that chooses to apply the small entities regime. Unless specifically excluded by the content of Section 1A, all of the requirements of FRS 102 apply to a small entity, including the recognition and measurement requirements.

Unless a small entity chooses to apply UK-adopted IFRS, or if eligible, FRS 101, a small entity that chooses not to apply the small entities regime is required to apply FRS 102 excluding Section 1A. Section 1A applies to all small entities applying the small entities regime, whether or not they report under the Companies Act 2006. Small entities that do not report under the Companies Act should comply with the requirements of Section 1A, and with the Small Companies Regulations (or, where applicable, the Small LLP Regulations), except to the extent that these requirements are not permitted by any statutory framework under which such entities report.

### Key features of FRS 102 Section 1A

- Under Section 1A of FRS 102, small entities are only required to prepare a profit and loss account and balance sheet. Other statements are encouraged in specific circumstances e.g. when a small

entity recognises gains or losses in other comprehensive income it is encouraged to present a statement of total comprehensive income.

- Only a minimum number of disclosure notes are mandated. However, directors of small entities are still required to ensure the financial statements provide a true and fair view and therefore may need to use more judgement to determine what additional information may be needed to achieve this.
- Section 1A of FRS 102 does not reproduce all the reporting requirements from company law but does include those relating to the financial statements. Small entities need to satisfy themselves that they have met all their legal requirements.

## Accounts formats

There are three options in relation to accounts formats for small companies in company law:

- the required balance sheet and profit and loss account formats as set out in legislation (subject to any permitted flexibility);
- the opportunity to use alternative layouts when preparing the profit and loss account and the balance sheet provided that the information given is at least equivalent to the information otherwise required by the standard formats; and
- the opportunity to prepare and file 'abridged accounts', provided that all of the members of the company agree to the abridgement. This means that a company may prepare accounts with a reduced number of line items. The accounts overall, however, must give a true and fair view, therefore additional information may be required in the notes to the accounts if this approach is taken.

## Filing requirements for small companies

Small companies may:

- Prepare and file full accounts
- Prepare and file 'abridged accounts' (all members must agree to the abridgement)
- Use the option, under section 444(1) of the Companies Act 2006, not to file the profit and loss account and directors' report i.e. file only the balance sheet and related notes.

It is likely that many companies will choose the third option as this approach minimises the amount of information on the public record.

### What should be filed for a small company under section 444 of the Companies Act?

The 'file what you prepare' approach means that a small company must file at Companies House 'the' balance sheet it prepares for members.

The starting point for filing is therefore the accounts prepared for members. Most companies will however take advantage of the option not to file the directors' report and profit and loss account (including any directly related notes). Section 472 of the Companies Act defines notes as follows:

"References in this Part to a company's annual accounts, or to a balance sheet or profit and loss account, include notes to the accounts giving information which is required by any provision of this Act or international accounting standards, and required or allowed by any such provision to be given in a note to company accounts."

Therefore, it can be interpreted that notes can be classified as:

- Notes to the accounts (e.g. accounting policies)
- Notes to the balance sheet (i.e. notes that relate to specific line items in the balance sheet)

- Notes to the income statement (i.e. notes that relate to specific line items in the income statement)

All of the notes required to be presented by small companies adopting the small companies' regime are set out in Appendix C to Section 1A of FRS 102. Beyond this, small companies are required to present any additional notes necessary to give a true and fair view.

Working on the basis of the three categories of notes set out above, the only note specified in FRS 102 Section 1A relating to the profit and loss account/income statement is:

- 'The amount and size of any individual items of income or expense of exceptional size or incidence must be stated.' (FRS 102, 1AC.32)

FRS 102 also lists as a 'note supporting the income statement' - 'the average number of persons employed by the small entity in the reporting period.' However, this fits more readily into the category of a 'note to the accounts' since it does not relate to a specific income statement line item, therefore should be filed with the balance sheet.

Therefore, the only notes that may be omitted from the filed accounts are those specified by paragraph 1AC.32 of FRS 102 and any other relating to a profit and loss account item that the company has chosen to present in order to provide a true and fair view.

Where a company does not file its profit and loss account, or directors' report, the following statement must be made on its balance sheet:

"the company's annual accounts and reports have been delivered in accordance with the provisions applicable to companies subject to the small companies regime."

Additionally, in relation to the non-filing of the profit and loss account, the balance sheet must disclose that fact.

## Audit report

If a small company's accounts are audited and it takes the option not to file its profit and loss account, the filed balance sheet shall include a note which must:

- state whether the auditor's report was qualified or unqualified;
- where the report was qualified, disclose the basis of the qualification (reproducing any statement under section 498(2)(a) or (b) or section 498(3), if applicable);
- where the report was unqualified, but contained an emphasis of matter paragraph (for example because of going concern issues), this emphasis of matter paragraph should be included; and
- Provide the name of the auditor and (where the auditor is a firm) the name of the person who signed the auditor's report as senior statutory auditor. Alternatively, if the conditions in s506 (circumstances in which names may be omitted) are met, state that a resolution has been passed and notified to the Secretary of State in accordance with that section.

## Further information

### Accounting standards

The suite of UK GAAP accounting standards is available to download from the [FRC website](#)

The FRC has published a number of [Staff Factsheets](#) on specific aspects of the application of FRS 102:

### Company law

The Companies Act 2006 can be viewed at: [The Companies Act 2006](#)

## [ICAS.com](#)

ICAS.com has a number of articles and details of courses on UK GAAP. Please search under 'Professional Resources' for the '[Corporate & financial reporting](#)' tab.

## [SORPs](#)

Details of SORPs that apply to specific industries are available from the [FRC website](#).

## [Distributable profits](#)

The ICAS/ICAEW [guidance on distributable profits](#) is available via icas.com.





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