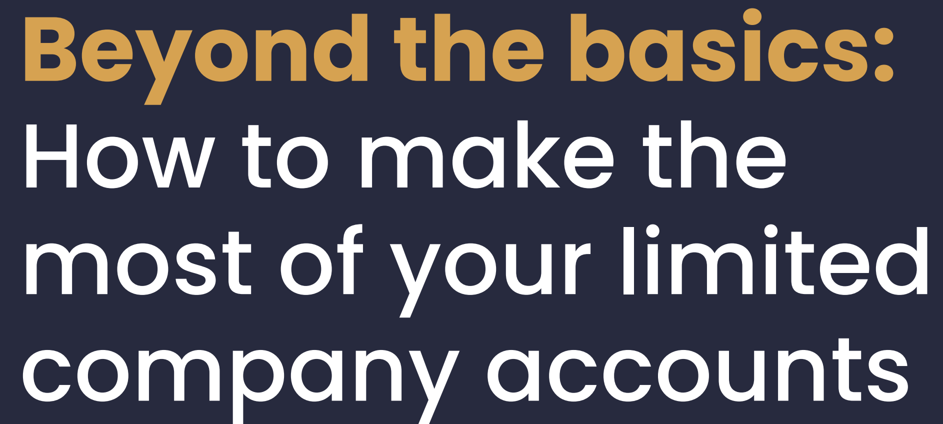

Fairman Keable

020 3137 9659
info@fairmankeable.co.uk

Statutory accounts are the yearly financial reports that limited companies are required to prepare to submit to Companies House.

Your statutory accounts offer you, your shareholders, and the tax authorities a clear picture of your business's financial standing.

In these reports, you'll find details about your company's earnings, spending, and overall financial health over the past year.

However, they aren't just vital documents for compliance with the Companies Act – they're also essential for keeping track of how your business is performing financially.

This guide breaks down what goes into these accounts, why they matter for your business, and how to squeeze insights out of them.

What are statutory accounts?

Statutory accounts refer to the annual financial statements limited companies are legally required to prepare, file with Companies House, and make available to shareholders.

Here's the 'need to know':

- Full accounts consist of a balance sheet, a profit and loss account, notes to the accounts, a directors' report, and an auditor's report. However, smaller private limited companies can prepare simpler "abridged accounts" – more on that shortly.
- Companies must file their accounts within nine months of the end of their financial year. The timeline for publicly listed companies (PLCs) is slightly different. They are typically required to publish their accounts within six months after the end of their financial year.
- The accounts must show a "true and fair view" of the company's financial position and performance. They are prepared using accounting standards like Generally Accepted Accounting Principles (UK GAAP) or International Standards (IFRS) – more on what that means shortly.
- Companies can be fined for failing to submit accounts on time. Directors can also face penalties and disqualification for not filing correct accounts

How to prepare accurate, compliant accounts

All limited companies are required to prepare statutory accounts annually. This includes small companies and micro-entities. With that said, there are notable exceptions and variations between what companies of various sizes must submit:

1. **Dormant companies:** Companies with no significant financial transactions in the financial year are considered 'dormant' by Companies House and have simpler reporting requirements.
2. **Small companies:** A company is 'small' if it meets any two of the following criteri a: a turnover of £10.2 million or less, £5.1m or less on its balance sheet, or 50 employees or less. Small companies can submit abridged accounts and have audit exemptions.
3. **Micro-entities:** These are 'very small' companies with a turnover of £632,000 or less, £316,000 or less on the balance sheet, and 10 employees or less. Micro-entities can prepare simpler accounts and benefit from the same exemptions as small companies.
4. **Unlimited companies:** Must deliver accounts to Companies House only under specific conditions, such as being a subsidiary or a banking/insurance company.

Components of statutory accounts

Let's take a closer look at the components of statutory accounts:

- **Balance sheet:** A financial statement required for all companies. It details a company's assets, liabilities, and shareholders' equity at the end of the financial year. It provides a clear picture of the company's financial health at a specific point in time.
- **Profit and loss account:** The P+L account, necessary for most companies, records the company's revenue, expenses, and the resulting profit or loss over the financial year. It's essential for assessing the company's operational efficiency and financial performance. Since the Economic Crime and Corporate Transparency Act, small companies and micro-entities must also submit this in detail to Companies House.

- **Notes about the accounts:** These explanatory notes provide additional details and context for the figures in the balance sheet and profit and loss account. Small companies and micro-entities can prepare simpler accounts, which may include fewer notes.
- **Director's report:** This report offers insights into the company's operations, strategy, and future outlook. Micro-entities and small companies are now also required to submit this report.
- **Auditor's report:** An independent auditor assesses whether the financial statements present a true and fair view of the company's financial position and performance. This is not mandatory for small companies and micro-entities, as they are often exempt from the audit requirement.
- **Director's signature on the balance sheet:** This is a requirement for all companies, where a director must sign the balance sheet, affirming their responsibility for the accuracy of the financial information presented.

Complying with accounting standards

In addition to the above, the Companies Act requires that statutory financial statements present a "true and fair view" of business performance and financial position, prepared in accordance with accounting standards.

Accounting standards are guidelines for how companies in the UK should report their financial activities. They ensure that financial statements are consistent, clear, and comparable across different businesses. Registered private limited corporations comply with UK GAAP standards. The choice of standard (FRS 102, FRS 105 for micro-entities, or full IFRS in certain cases) depends on various factors like the company's size and complexity.

For public limited companies (PLCs), reporting requirements differ slightly, as PLCs with a Premium or Standard listing on the Main London Stock Exchange are legally required under the UK Listing Rules and IAS regulation to prepare consolidated group accounts using International Financial Reporting Standards (IFRS).

Understanding the financial year

A limited company's financial year is essential to understanding the purpose of financial accounts and when they need to be prepared and submitted.

Your 'accounting period' for Corporation Tax normally aligns with the financial year covered by your company's annual accounts. This period can't exceed 12 months and is crucial in determining your deadlines for paying Corporation Tax and filing a Company Tax Return.

When you register your company for Corporation Tax, HMRC will give you the specific dates for your accounting period. It's important to note that your accounting period can differ from your financial year in certain situations.

For example, if you lengthen your company year or are closing your company or shortening its year, the accounting period will adjust accordingly. In cases where your accounts cover more than 12 months, you'll need to file two returns, as the accounting period can't be longer than a year.

Filing accounts with Companies House

Filing complete, accurate, and timely statutory accounts is a legal obligation for all private limited companies.

Let's break down the key steps involved:

When to file your accounts

- Review your company's incorporation documents to confirm the annual financial year-end date. This is also known as your accounting reference date.
- After the above financial year-end, the statutory filing deadline is 9 months (or 10 months for first-year accounts). Missing this deadline triggers automatic late filing penalties.
- For example, a company with a 31 March 2023 year-end date must file accounts by 31 December 2023.

Preparing your accounts for submission

- Start early, allowing sufficient time to carefully prepare GAAP/IFRS-compliant accounts and have them professionally audited if required, approved by the Board, and digitised for online filing. Rushing leads to errors.

- Ensure all directors properly sign off your accounts, auditors (if applicable), and the company secretary prior to filing.
- Carefully check that all accounting statements - including the detailed notes - are complete, accurate, and follow the correct formatting rules. Any deviations risk rejection by Companies House.

How to file your annual accounts

Companies House offers three main methods to file accounts:

1. **Online filing:** This is the most efficient and preferred method. Companies can use the Companies House WebFiling service to submit their accounts electronically. This method is quick, secure, and allows for immediate submission confirmation. It's also environmentally friendly and reduces the risk of delays associated with postal services.
2. **Postal filing:** Companies can choose to file their accounts via post. This traditional method involves sending hard copies of the financial statements to Companies House. While this method is still valid, it's generally slower than online filing, and there's a higher risk of documents getting lost or delayed in the post.
3. **Using third-party software:** Some companies choose to prepare their accounts with software, like Xero, which is compatible with Companies House systems. This method is particularly useful for companies with more complex filing requirements.

Consequences of late filing

- Missing the 9-month deadline automatically incurs penalties, starting at £150 for up to 1 month late up to £1,500 for over six months. Penalties for PLCs are much harsher.
- If late filing happens for two consecutive years, penalties double. Persistent delays are also red flags for creditors and can disqualify directors.

Post-filing recommendations

- Retain copies of your filed accounts and Companies House submission confirmation with other company records.
- Monitor the Companies House public record to ensure accounts are properly recorded. Rectify any issues immediately.
- Diary your next year-end well in advance to allot preparation time for the next filing cycle.

Making the most of your limited company accounts

Your company's financial statements - the balance sheet and profit and loss account – may seem like tedious documents required for legal compliance, but they offer invaluable insights into the financial health of your business.

The **balance sheet** provides a quantitative snapshot of the company's financial position at the end of the fiscal year. It catalogues all assets owned – from cash to intellectual property – and liabilities owed, with the difference representing shareholders' equity.

Assessing the balance between current assets and short-term liabilities indicates your business's liquidity and ability to meet upcoming obligations. Studying longer-term asset investment trends and tracking intangible asset values over time reveal the business's financial foundation.

Meanwhile, the **profit and loss account** details all operations' total income generated and expenses incurred over the full fiscal year. Reviewing the revenue patterns provides clues on customer demand and seasonality. In addition, examining expense breakdown and margins sheds light on operational efficiency.

Comparing these metrics year-over-year shows the trajectory of the business. Together, the balance sheet and P&L statements allow directors to diagnose areas of financial strength or concern, identify improvement opportunities, and benchmark progress – far surpassing the purpose of basic legal compliance.

Analysing the balance sheet and profit and loss account

The two core components of accounts are the balance sheet and the profit and loss account.

Here's how to analyse them:

Exploring the balance sheet

A balance sheet is like a financial snapshot of a company at the end of its fiscal year. It tells you what the company owns (assets), what it owes (liabilities), and the value left over for shareholders (shareholders' equity).

When you look at assets, you check the company's resources. Current assets like cash, inventory, and accounts receivable should easily turn into cash within a year – they're key to understanding short-term financial health. Non-current assets, such as property and equipment, are more about the long-term – they show where the company is investing for the future.

Liabilities shed light on the company's debts. Current liabilities, due within a year, can show how well the company manages its short-term obligations. Long-term liabilities, on the other hand, reflect the company's approach to longer-term financing and investment.

Shareholders' equity is what's left when you subtract liabilities from assets. It represents the company's net worth and can give you an idea of its profitability and growth over time.

Understanding the profit and loss account

The profit and loss account, or the income statement, shows how the company has performed operationally over the year. It shows you the money coming in (revenue), going out (expenses), and what's left over (profit or loss).

Start with the revenue – it's the top line and gives you the gross figure of the company's earnings. Then, look at the costs and expenses, like the cost of goods sold and operating expenses, to see how efficiently the company operates.

The bottom line, or net profit, tells you what the company has earned or lost after all expenses. This figure is crucial – it shows you the company's real earning power.

Comparing the current year's figures with previous years can be eye-opening. It reveals trends and patterns in revenue, costs, and profitability, offering insights into the company's performance over time.

Lastly, don't forget about financial ratios like gross and net profit margins. These ratios can provide deeper insights into the company's operational efficiency and financial health.

An example of analysing financial ratios

While the raw numbers provide crucial baseline insights, evaluating financial ratios enables more powerful relative analysis when interpreting your accounts. Key ratios assess liquidity, operational efficiency, profitability, market value and more.

Let's walk through a quick gross margin analysis using a fictional limited company to showcase how directors can unlock more value from compliance activities.

Meet Acme Limited. Acme Ltd is a stable £5m annual turnover manufacturer of generic consumer goods operating for over a decade. Recently, directors have set strategic goals to bolster profitability amid rising materials costs.

Below are extracts from Acme's statutory returns showing last two years turnover and costs of goods sold (COGS):

2021 Accounts

- Revenue - £5 million
- COGS - £3.75 million
- Gross profit - £1.25 million

2022 Accounts

- Revenue - £5.5 million (+10% growth)
- COGS - £4.1 million
- Gross profit - £1.4 million

2021 Gross margin = £1.25m/£5m = 25%

2022 Gross margin = £1.4m/£5.5m = 25.5%

Despite 10% turnover growth, Acme's gross margin only improved 0.5%. At first glance, this suggests production and supply chain teams broadly kept pace, supplying 10% more goods while limiting COGS to below 10%. However, with rising materials costs, margin pressure may still squeeze profits going forward.

Summing up

Statutory accounts are more than just a legal obligation for limited companies.

They are a key resource for understanding your business's financial health and guiding strategic decisions. By carefully preparing and analysing the balance sheet, profit and loss account, and other components, directors can gain valuable insights into operational efficiency and financial performance.

This process, while mandatory, offers an opportunity to steer the company towards sustainable growth and profitability. Remember, well-managed accounts don't just meet legal requirements; they become a strategic asset for your business's future.

For expert guidance on preparing and maximising the value of your company accounts, reach out to Fairman Keable. Our team of professionals is ready to assist you with tailored accounting solutions.

Ready to find out more?

Fairman Keable
020 3137 9659
info@fairmankeable.co.uk
fairmankeable.co.uk