

LBCA Chartered Accountants Accounting & Audit Exemptions

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Accounting and audit exemptions for small companies

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Introduction

Small and medium-sized companies and limited liability partnerships (LLPs) can benefit from **relaxation** of the general requirement to supply full, audited accounts to Companies House.

In many cases they can prepare and file **shortened versions** of their accounts. Some small companies and LLPs don't need to have their accounts audited at all and are not required to appoint an auditor.

This guide sets out which companies and LLPs qualify for these arrangements and tells you what information they must provide to Companies House. It also outlines the audit exemption for dormant companies and LLPs.

Recent extensions to the scheme have also allowed some small financial services businesses and some small businesses, such as home-finance providers, that comply with Sharia law to take part.

Can you file abbreviated accounts?

In most cases, **small** and **medium-sized** companies and limited liability partnerships (LLPs) are entitled to submit **abbreviated accounts** to Companies House - which means they have to provide less information.

For financial years starting **before 6 April 2008**, to be a small company you must meet at least two of these three conditions:

- annual turnover must be £5.6 million

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- or less
- balance sheet total must be £2.8 million or less
- average number of employees must be no more than 50

For financial years starting **on or after 6 April 2008**, a small company (not an LLP) must meet at least two of the following conditions:

- annual turnover must be no more than £6.5 million
- balance sheet total must be no more than £3.26 million
- average number of employees must be no more than 50

For financial years starting **before 6 April 2008**, to be a medium-sized company (not an LLP), you must meet at least two of these three conditions:

- annual turnover must be £22.8 million or less
- balance sheet total must be £11.4 million or less
- average number of employees must be no more than 250

For financial years starting **on or after 6 April 2008**, a medium-sized company (not an LLP), must meet at least two of the following conditions:

- annual turnover must be no more than £25.9 million
- balance sheet total must be no more than £12.9 million
- average number of employees must be no more than 250

Small and medium-sized LLPs can take advantage of the higher thresholds for

accounting periods starting on or after 1 October 2008.

Even if a company or LLP stops being small or medium-sized through expansion, it will still be regarded as such for **one financial year afterwards**. If it then reverts to being a small or medium-sized company the following year, the exemption will continue uninterrupted.

If you think your company or LLP might qualify, you may consider consulting a professional accountant before preparing abbreviated accounts.

There are special rules for groups of small and medium-sized companies and LLPs whose total overall size falls within the small and medium categories. For further information [read the guide to thresholds and groups on the Department for Business, Innovation & Skills \(BIS\) website - Opens in a new window.](#)

The right to prepare abbreviated accounts for Companies House does not affect the company's obligations to prepare full accounts for its members.

Recent expansions to the scheme have allowed some small financial services providers and some small businesses, such as home-finance providers, that comply with Sharia Law to take part in the scheme. [Read about the new types of company that can file abbreviated accounts on the BIS website - Opens in a new window.](#)

Exemptions

A small company cannot submit abbreviated accounts if it is, or was at any time during the financial year:

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- a public company
- an authorised insurance company, a banking company, an e-money issuer, a Markets in Financial Instruments Directive (MiFID) investment firm or an Undertakings for Collective Investment in Transferable Securities (UCITS) management company
- a company that carries out an insurance market activity
- a member of an ineligible group

A group is ineligible if any one of its members is:

- a public company
- a corporate body (other than a company) whose shares are traded on a regulated market in any European state
- a person (other than a small company) who has permission under Part 4 of the Financial Services and Markets Act 2000 to carry on a regulated activity
- a small company that is an authorised insurance company, a banking company, an e-money issuer, a MiFID investment firm or a UCITS management company
- a person who carries out an insurance market activity

A medium-sized company cannot submit abbreviated accounts if it is, or was at any time during the financial year:

- a public company
- a company that has permission under Part 4 of the Financial Services and Markets Act 2000 to carry on a regulated activity or that carries on an insurance market

activity

- a member of an ineligible group

A group is ineligible if any of its members are:

- a public company
- a corporate body (other than a company) with shares on a regulated market
- a person (other than a small company) who has permission under Part 4 of the Financial Services and Markets Act 2000 to carry on a regulated activity
- a small company that is an authorised insurance company, a banking company, an e-money issuer, a MiFID investment firm or a UCITS management company
- a person who carries on insurance market activity

An **LLP** cannot submit small abbreviated accounts if it is, or was at any time during the financial year:

- an LLP whose securities are admitted to trading on a regulated market in an **European Economic Area (EEA) State**
- an LLP that is, or was, an authorised insurance company, a banking LLP, an e-money issuer, a MiFID investment firm or a UCITS management company
- carried on insurance market activity
- a member of an ineligible group

A group is ineligible if any of its members is:

- a public company
- a body corporate (other than a company) whose shares are

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admitted to trading on a regulated market in an EEA State

- a person (other than a small company or small LLP) who has permission under Part 4 of the Financial Services and Markets Act 2000 to carry on a regulated activity
- a small company or small LLP that is an authorised insurance company, a banking company or banking LLP, an e-money issuer, a MiFID investment firm or a UCITS management company, or
- a person who carries on insurance market activity

An **LLP** cannot submit medium abbreviated accounts if it is, or was at any time during the financial year:

- an LLP whose securities are admitted to trading on a regulated market in an EEA State
- an LLP that has permission under Part 4 of the Financial Services and Markets Act 2000 to carry on a regulated activity, or carries on insurance market activity
- a member of an ineligible group

A group is ineligible if any member is:

- a public company
- a body corporate (other than a company) whose shares are admitted to trading on a regulated market
- a person (other than a small company or small LLP) who has permission under Part 4 of the Financial Services and Markets Act 2000 to carry on a regulated activity
- a small company or small LLP that is an authorised insurance company, a banking company or banking LLP, an

e-money issuer, a MiFID investment firm or a UCITS management company

- a person who carries on insurance market activity

Abbreviated accounts for small companies and limited liability partnerships

The abbreviated accounts of a small company or limited liability partnership (LLP) don't have to include the full balance sheet, profit and loss account or director's report normally required by Companies House.

But you must include:

- **An abbreviated balance sheet and notes** explaining in more detail the make-up of the figures in the balance sheet.
- A special **auditor's report** - unless you're also claiming an audit exemption. If you are claiming an audit exemption, you are not required to appoint an auditor. See the page in this guide: [do you qualify for an audit exemption?](#)

The auditor's report must state that in the auditor's opinion you are entitled to submit abbreviated accounts in line with the relevant section of the Companies Act.

For financial periods starting on or after 6 April 2008 (or 1 October 2008 in the case of small LLPs) accounts must be prepared in accordance with the Companies Act 2006. Small companies and LLPs must include a statement on the balance sheet that the accounts are prepared in accordance with the special provisions applicable to

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companies (or LLPs) subject to the small companies' or LLPs' regime.

In the note to the annual accounts, you are also required to disclose the amount of remuneration paid to the auditor (including any benefits in kind) for auditing the company accounts.

The right to prepare abbreviated accounts for Companies House does not affect a company's or LLP's obligations to prepare full accounts for its members.

For more information on submitting your accounts, see our guide on how to [file accounts at Companies House](#).

Abbreviated accounts for medium-sized companies and limited liability partnerships

The abbreviated accounts of a qualifying medium-sized company or limited liability partnership (LLP) don't have to include the full profit and loss account that larger companies and LLPs have to file at Companies House.

But you must include:

- An abbreviated **profit and loss account**. Note that medium-sized LLPs are no longer exempt from disclosing turnover in abbreviated accounts for accounting periods that began on or after 1 October 2008. However, the exemption from disclosing detailed particulars of turnover in the notes to the accounts remains.
- A **full balance sheet**, signed by a

director.

- A special **auditor's report**.
- A **directors' report** with a business review (no requirement for equivalent members' report for LLPs).
- **Notes to the accounts**.

For companies where the accounting reference period started before 6 April 2008 (and for LLPs with accounting reference periods starting before 1 October 2008), in the balance sheet and directors' report you must state that the accounts have been prepared in line with the special provisions in part VII of the Companies Act 1985 which relates to medium-sized companies and LLPs.

For companies, the auditor's report must state that your company is entitled to submit abbreviated accounts in line with the relevant section of the Companies Act 2006 for financial periods starting on or after 6 April 2008.

For financial periods starting on or after 1 October 2008, the auditor's report for LLPs must state that the LLP is entitled to submit abbreviated accounts in line with the relevant section of the Companies Act 2006 as applied to the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

Your notes to the accounts must also disclose the amount of remuneration paid to the auditor (including any benefits in kind) for auditing the company accounts.

See our guide on how to [file accounts at Companies House](#).

Do you qualify for an audit

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exemption?

Although all companies and limited liability partnerships (LLPs) have to submit some form of accounts to Companies House, these accounts don't have to be audited for financial years starting **before** 6 April 2008 or prior to 1 October 2008 for LLPs if you:

- qualify as a small company or LLP for the purposes of filing abbreviated accounts - see the page in this guide: [can you file abbreviated accounts?](#)
- have a turnover of no more than £5.6 million
- have a balance sheet total of no more than £2.8 million

For financial years starting **on or after** 6 April 2008, to qualify for total audit exemption, a company must:

- qualify as a small company
- have a turnover of no more than £6.5 million
- have a balance sheet total of no more than £3.26 million

Small and medium-sized LLPs can take advantage of the higher thresholds for accounting periods starting on or after 1 October 2008.

In these cases you can submit audited accounts if you wish, but it's not compulsory. Bear in mind there can be **drawbacks**. Banks, credit managers and your customers and suppliers rely on information from Companies House to assess creditworthiness and will be reassured by an independent audit. If you decide to submit audited accounts, you must appoint an

auditor.

Even if a small company meets the criteria, it must still have its accounts audited if any of the following ask for an audit:

- a member or members holding at least 10 per cent of the value of issued share capital or 10 per cent of any class of shares
- in the case of a company limited by guarantee - 10 per cent of its members in number

Recent changes to the rules have allowed some small financial services businesses and some small businesses, such as home-finance providers, that comply with Sharia law to qualify for an audit exemption. However, businesses taking advantage of the audit exemption should be aware that shareholders who own 10 per cent or more of the company still have the right to ask for an audit.

What audit-exempt companies and limited liability partnerships must send to Companies House

If you qualify for audit exemption, you can deliver unaudited accounts to Companies House in the form of an abbreviated balance sheet and notes.

The balance sheet must contain the following statements above the director's signature:

- the company or limited liability partnership (LLP) was entitled to audit exemption for that year under the relevant section of the Companies Act 2006

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- in the case of companies, shareholders haven't required the company to obtain an audit
- the accounts have been prepared in accordance with the special provisions of the Companies Act relating to small companies and LLPs
- the directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of accounts

The audit exemption also applies to Company Tax Returns (CT600). This means companies can also submit the unaudited accounts they prepare for Companies House to HM Revenue & Customs (HMRC). [Find information on Company Tax Returns on the HMRC website - Opens in a new window.](#)

Audit exemptions for dormant companies and LLPs

A company or limited liability partnership (LLP) is dormant if it has had no 'significant' accounting transactions during a financial year. A significant accounting transaction is one which the company or LLP should enter in its accounting records.

Some dormant companies and LLPs can't take advantage of audit exemptions. They include regulated financial companies and insurance market businesses.

If your company or LLP is dormant, you can generally claim an **exemption** from sending in audited accounts and need only prepare and deliver an **abbreviated balance sheet** and notes to Companies House.

A company does not have to include a profit and loss account and directors' report in dormant company accounts, but a directors' report must be provided to shareholders.

Unaudited dormant accounts are much **simpler** than those of a trading company or LLP. However, they must contain:

- an abbreviated balance sheet stating that the company or LLP was dormant throughout the accounting period
- any previous year's figures for comparison
- notes to the balance sheet - covering a wide range of information (the information required differs for companies and for LLPs)

The right to prepare a dormant balance sheet for filing at Companies House does not affect a company's or LLP's obligations to prepare full accounts for its members.

Remember that if your company or LLP starts trading again, full accounts would then be needed for that period and you might need to appoint auditors.

Helplines

Companies House Contact Centre

0303 1234 500

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[Member directory from the Association of Chartered Certified Accountants](#) - Opens in a new window

[Corporation Tax information from HMRC](#) - Opens in a new window