

Changes in financial reporting

Micro-entities Q&A

and sample accounts



Originally Published: December 2013 Updated: January 2016

Legislation that came into force on 1 December 2013 means that for financial years ended on or after 30 September 2013 some companies became entitled to prepare and file micro-entity accounts. But very few did...

However, changes to legislation and the publication of FRS 105 in 2015 look set to re-ignite interest in micros regime. This updated version of our Micro-entities Q&A and [Sample Accounts](#) is designed to provide an overview of the exemptions available.

What is a micro-entity?

In 2013 the government introduced a new sub-classification of small company known as a 'micro-entity'. The legislation, which is contained in [Statutory Instrument 2013/3008 - The Small Companies \(Micro-Entities' Accounts\) Regulations 2013](#), followed a European initiative to reduce costs for small and medium-size enterprises.

Currently, micro-entity reporting exemptions are only available to companies, and even then some companies such as charitable companies are explicitly excluded from the regime.

It is expected that LLP regulations will be updated in the near future to permit Micro LLP reporting.

How does a company qualify as a micro-entity?

A micro-entity company must meet at least two of the three following 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 figure should be adjusted proportionately if the accounting period is not a year.

A company will qualify as a micro-entity in relation to its first financial year if the qualifying conditions are met in that year. In a subsequent

year, a company will qualify as a micro-entity if the qualifying conditions are met in that year. However, in relation to a subsequent financial year, where on its balance sheet date a company meets or ceases to meet the qualifying conditions, that affects its qualification as a micro-entity only if it occurs in two consecutive financial years.

In the case of a company which is a parent company, the company qualifies as a micro-entity in relation to a financial year only if:

- the company qualifies as a micro-entity in relation to that year;
- the group headed by the company qualifies as a small group, as determined by section 383(2) to (7) Companies Act 2006; and
- the company has not voluntarily elected to prepare group accounts.

Are any companies excluded from the micro-entity regime?

Yes. A micro-entity must first qualify as small which means that where it is a plc, a company carrying on an insurance market activity, an ineligible financial services company, or a member of an ineligible group, it is ineligible for micro-entity exemptions.

Companies that are part of a group will also need to take care when assessing micro-entity status. Further to micro-entity exemptions not being available where the company is a parent company preparing group accounts, the exemptions are also unavailable for non-parent companies that are included in consolidated group accounts for that year. Investment undertakings, financial holding undertakings, credit institutions, insurance undertakings and charities are also ineligible for micro-entity exemptions.



However; in spite of exemptions having been available since September 2013 year ends very few companies applied them. Changes to the wider small-entity reporting regime made in 2015, though, may make micro-entity reporting a far more attractive option going forward.

What's in a full set of micro-entity accounts for the members?

This depends on whether the micro-entity is adopting changes made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations (SI 2015/980). These changes, required for periods commencing on/after 1 January 2016 and available from periods commencing on or after 1 January 2015, dispense of the requirement for a micro-entity to prepare a directors report; a requirement under the old regulations

Micro-entities can also produce their individual accounts in accordance with reduced information balance sheet and profit and loss account formats.

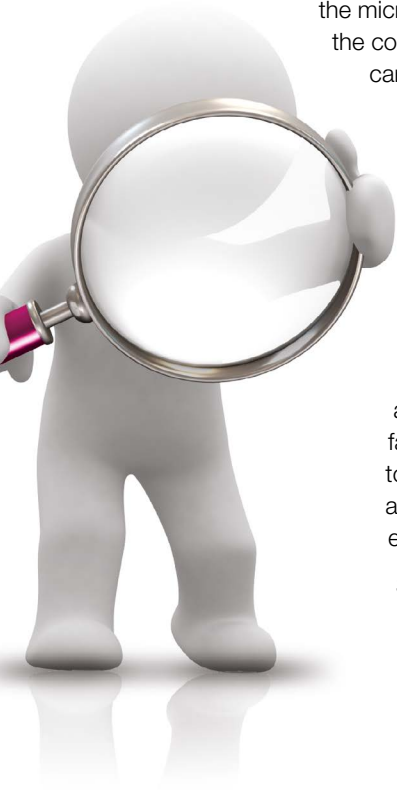
The usual company law and accounting standard notes to the accounts are also not required. The micro-entity regulations state that the notes to the accounts that are required must appear at the foot of the balance sheet. These notes are from:

- Section 413 Companies Act 2006 - Information about directors' benefits: advances, credit and guarantees; and
- Paragraph 57 of Part 3 of Schedule 1 to the small company regulations - Guarantees and other financial commitments (through the specific requirements in this area are reduced post SI 2015/980).

Note that the general rules and accounting principles of the small company regulations must be applied unless these are amended as otherwise by the micro-entity regulations. Therefore, the company is still presumed to be carrying on business as a going concern; accounting policies should be consistent; assets and income and liabilities and expenditure should not be netted off; comparative figures are required and regard should be had to the substance of transactions, etc.

The regulations state that the alternative accounting rules and fair value accounting do not apply to a company that qualifies as a micro-entity. Revaluations for example, are not therefore allowed.

See our [sample micro-entity accounts](#) for more information.



What are the filing requirements for a micro-entity?

The 'full' micro-entity financial statements for members can be filed at Companies House. Alternatively, as with small companies, there is an option to not file the directors' report and / or profit and loss account. The balance sheet filed, however, must include the notes at the foot of the balance sheet discussed above.

The concept of abbreviated accounts does not apply to micro-entities.

How do micro-entity accounts show a true and fair view?

From a legal perspective, the government has legislated to state the position for micro-entities. Additional notes and disclosures are not required and micro-entity accounts are presumed to give a true and fair view.

The figures in the accounts must, however, still be prepared in accordance with generally accepted accounting practice, even though the usual range of disclosures are not required.



What is FRS 105?

From 2016 a small company must apply the recognition and measurement requirements of FRS 102. If the small company also qualifies as a micro-entity it may choose to apply the new FRS 105: The Financial Reporting Standard applicable to the Micro-entities Regime.

Simplification in FRS 105 may make the regime a more attractive proposition when compared to the equivalent FRS 102 accounting requirements. Key accounting simplifications incorporated in FRS 105 are highlighted below.

Micro-entities cannot, by law, adopt the fair value or alternative accounting rules. This leads to a number of simplifications in FRS 105 that echo those seen when FRSSE was amended to accommodate micro-entities. These include:

- no revaluation of tangible fixed assets or investment properties being permitted
- simplified accounting for financial instruments such as current asset investments.

Whilst the effect of a lack of fair value accounting has little practical effect for most micro-entity companies currently, in a world where the alternative is FRS 102 the effect is more marked. The FRC have decided to include a number of other simplifications when compared to FRS 102. These simplifications are wide ranging, and include:

- simplification of accounting for basic financial instruments including those measured at amortised cost and financing transactions
- removal of fair value and hedge accounting requirements for other financial instruments
- removal of transition options within FRS 102 that refer to fair value (eg. using fair values as a deemed cost on transition)
- prohibition from accounting for deferred tax
- removal of accounting options to capitalise borrowing costs or use the accruals method to account for government grants
- simplification of foreign currency accounting
- removal of requirements to account for equity settled share based payments prior to the issue of shares
- simplification of defined benefit pension plan accounting requirements.

Micro-entities: What are the benefits?

Choice. The Department for Business, Innovation and Skills (BIS) [Impact Assessment](#) for the Micro-entities regulations noted that the bulk of benefits arising are 'non-monetised' and occur due to the simplification and additional choice conferred on micro-entities.

Application of the existing rules offers limited benefits in terms of time savings. While it will take marginally less time to prepare and check a micro-entity set of accounts, it is not the presentation of the accounts that takes time and money; it is largely the aggregation and preparation of the information following generally accepted accounting practice.

However, in the longer term, the story is different. Small company legislative changes will remove the option of filing abbreviated accounts. Recognition and measurement requirements for those same small entities will also align with FRS 102. This will lead to more small company information being publicly available and potentially an increased cost of complying with a more complex accounting standard. The simplified micro-entity recognition, measurement and reporting exemptions available to qualifying entities may therefore offer a route to cheaper accounting and reduced information in the public domain.

Are there any potential draw-backs?

The micro-entity proposals received a mixed reception from accountants and professional bodies throughout the entire consultation process leading to the final regulations.

There is a potential loss of transparency. Credit rating agencies and banks, for example, may need provision of additional information that could hold up credit decisions. This is similar to where a small company currently files abbreviated accounts. It may be the case, therefore, that additional non-statutory analysis is still undertaken in order to satisfy external reporting needs.

Micro-entity companies need to be aware of the options available to them for financial reporting, which may include taking advantage of exemptions, but also enhancing them with additional financial information suited to the business needs, or continuing with existing formats.

A sample set of micro-entity accounts is shown on the [next page](#).

How can Mercia help?

We can help you with the transition to New UK GAAP in the following ways:

- [courses](#)
- [webinars](#)
- [client letters](#)
- [newswire](#)
- [blogs](#)
- [e-learning library](#)

You can rest assured that we will continue to keep you up to date and take closer other areas of change using all of these channels in the months ahead. You will find details of everything that we do on our website at www.mercia-group.co.uk and a subscription to our free monthly newswire is a great way of keeping yourself up to date with these.

Find out more about the range of services we can provide to help you and your clients with the transition to new UK GAAP

www.mercia-group.co.uk/newukgaap

MERCIA MICRO ENTITY LIMITED ¹

UNAUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Company registration number: 12345678

CONTENTS	PAGE
Accountants' report	(not included)
Profit and loss account	1
Balance sheet and notes to the accounts	2-4

These sample micro-entity accounts have been prepared in accordance with FRS 105 and amendments made by the Companies, Partnership and Groups (Accounts and Reports) Regulations 2015.

MERCIA MICRO ENTITY LIMITED ²

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2015

	2015	2014
	£	£
Turnover	630,000	500,000
Other income	5,000	5,000
Cost of raw materials and consumables	(310,000)	(270,000)
Staff cost	(155,000)	(125,000)
Depreciation and other amounts written off assets	(10,000)	(10,000)
Other charges	(60,000)	(50,000)
Tax	(20,000)	(10,000)
Profit	80,000	40,000

As per the qualification criteria for small companies, micro-entity exemptions are determined on a two-out-of-three, two year assessment, based on limits including turnover. 'Other income' amounts are not included within this limit when determining size.

The profit and loss account for micro entity is not required to be filed with the Registrar.

MERCIA MICRO ENTITY LIMITED
BALANCE SHEET - 31 DECEMBER 2015

3

	2015		2014	
	£	£	£	£
Called up share capital not paid		100		100
Fixed assets		85,000		40,000
Current assets	125,000		60,000	
Prepayments and accrued income	25,000		20,000	
Creditors: amounts falling due within one year	(85,000)		(50,000)	
Net current assets		65,000		30,000
Total assets less current liabilities		150,100		70,100
Creditors: amounts falling due after more than one year		(15,000)		(20,000)
Provisions for liabilities		(5,000)		(5,000)
Accruals and deferred income		(10,000)		(5,000)
Net assets		120,100		40,100
Capital and reserves		120,100		40,100

Notes to the accounts

1. Directors' benefits: advances, credit and guarantees

During the year the company made an advance of £295 to a director of the company, to provide advance funds for expenses she was expected to incur when attending a personal training course. The balance was fully repaid at the year end.

MERCIA MICRO ENTITY LIMITED
BALANCE SHEET - 31 DECEMBER 2015 (continued)

4

2. Financial commitments, guarantees and contingencies

The total amount of financial commitments, guarantees and contingencies that are not included in the balance sheet is £14,000.

For the year ending 31 December 2015 the company was entitled to exemption from audit under section 477 of the Companies Act 2006 relating to small companies.

Directors' responsibilities:

- The members have not required the company to obtain an audit of its accounts for the year in question in accordance with section 476;
- The directors 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 micro-entity provisions.

Approved by the board of directors and signed on behalf of the board,

Icro Entity

Mr Icro Entity, Director
 1 May 2016

Company registration number: 12345678

These sample micro-entity accounts use the 'format 1' balance sheet presentation. An alternative 'format 2' presentation is also available.

The 'net assets' line is not technically included within company law formats, however, has been inserted for clarity.

The notes to the accounts are required to be included at the foot of the balance sheet. Information required is information on directors' benefits: advances, credit and guarantee requirements from the Companies Act 2006 s.413 and information on guarantees and other financial commitments as outlined in paragraph 57 of Part 3 of Schedule 1 to SI 2008/409 and amended by SI 2015/980.

Where the accounts contain an item of information additional to the micro-entity minimum accounting items, regard must be had to any provision of an accounting standard which relates to that item.

As a minimum, the balance sheet (including the notes at the foot of the balance sheet) requires filing with the Registrar.

[†] This is the wording taken from the Companies Act and guidance from Companies House. The FRSSE refers to the 'micro-entity provisions in Part 15 of the Companies Act 2006'.

** Where the profit and loss account is not filed, the statement marked with an asterisk should be "These accounts have been prepared in accordance with the micro-entity provisions and delivered in accordance with the provisions applicable to companies subject to the small companies' regime." Note also that FRSSE (effective January 2015) is applicable for periods commencing on or after 1 January 2015 and FRS 105: The Financial Reporting Standard applicable to the Micro-entities Regime will be applicable for periods commencing on or after 1 January 2016 (early adoption will be permitted in both cases).*

For information of users:

This material is published for the information of clients. It provides only an overview of the regulations in force and due to come into force at the date of publication, and no action should be taken without consulting the detailed legislation or seeking professional advice. Therefore no responsibility for loss occasioned by any person acting or refraining from action as a result of the material can be accepted by the authors or the firm. www.mercia-group.co.uk