



CALCULATING THE AVERAGE NUMBER OF EMPLOYEES

One of the relevant criteria for determining whether a company qualifies as a small company is the average number of employees. Following a number of recent queries on how to calculate this number we have set out the relevant legislation below, along with an example of how the number of persons employed each month should be calculated.

Companies Act 2006 (applicable for accounting periods beginning on or after 6 April 2008)

Section 382(6) of the Companies Act 2006 states the following:

The number of employees means the average number of persons employed by the company in the year, determined as follows -

- a) find for each month in the financial year the number of persons employed under contracts of service by the company in that month (whether throughout the month or not),
- b) add together the monthly totals, and
- c) divide by the number of months in the financial year.

Example

If we take a month where on the weekly payroll there were:

- 20;
- 15;
- 12; and
- 13 employees,

the number of persons employed in that month would not be 15 (20+15+12+13 = 60 divided by 4); it would be 20; that being the number who were employed during the month.

If you have any further questions in respect of this calculation please contact our technical queries helpline on 0116 2581200.

Companies Act 1985

The calculation referred to under section 247(6) of the Companies Act 1985 is as follows:

- (6) The number of employees means the average number of persons employed by the company in the year (determined on a monthly basis). That number shall be determined by applying the method of calculation prescribed by paragraph 56(2) and (3) of Schedule 4 for determining the corresponding number required to be stated in a note to the company's accounts.

From 4 Sch. 56:

- (1) The following information shall be given with respect to the employees of the company -

- (a) the average number of persons employed by the company in the financial year; and
- (b) the average number of persons so employed within each category of persons employed by the company.

- (2) The average number required by sub-paragraph (1)(a) or (b) shall be determined by dividing the relevant annual number by the number of months in the financial year.

- (3) The relevant annual number shall be determined by ascertaining for each month in the financial year -

- (a) for the purposes of sub-paragraph (1)(a), the number of persons employed under contracts of service by the company in that month (whether throughout the month or not);
- (b) for the purposes of sub-paragraph (1)(b), the number of persons in the category in question of persons so employed;

and, in either case, adding together all the monthly numbers.

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April 2009

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