

The closing of accounts for a Private Limited company

What is a financial year and accounting period? What is “ARD” ?

The financial year starts on the day of incorporation of the company and usually ends 12 months after – at the end of the month. Exceptionally the first accounting year can be 18 months long.

The following years, it is automatically set at 12 months except if you modify the Accounting Reference Date : ARD , by completing the form AA01 and by filing it with the Companies House in due time. Only one change every 5 years is accepted by the Companies House.

How to prepare & file the accounts?

All companies must maintain accounting records respecting English accounting & tax regulations. Accounting records have to be kept for a minimum of 3 years for Private Limited Company, and up to 6 years for public limited companies.

To maintain accounts means posting entries for sales, expenses, vat issues, payroll, making calculations for depreciations, following carefully professional expenses, determining what is entertainment & mission costs, calculating taxes, and being able to produce a general ledger, trial balance, profit & loss, balance sheet, accountant's reports, director's reports ...& to produce Financial Statements & a Corporation tax returns at the end of your ARD.

The accounts & the Tax return (CT600) have to be delivered to the companies House 9 months after the Accounting Reference Date (ARD). There is an automatic civil penalty for late filing from £150 until 3 months, and over £1500 after 6 months. Failing to deliver the accounts on time is a criminal offence for which Directors can be prosecuted. Corporation tax payments can be paid through 2 pre-payments (instalments) or in full when delivering the CT600, in due time.

Audit exemption for small companies?

The Companies House is considering three types of companies : small, medium & large companies.

It is not required by small companies to deliver fully audited accounts if :

- the company is qualify as a small company/group IF its annual turnover remains under £6.5 million GBP & has less than 50 employees
- the balance sheet or the net balance sheet of the group combined is no more than 3.26 million GBP

The demand for audited accounts has to be in the form of written notice to the company at the registered address at least one month before the end of the financial year.

Be carefull to consider differently “Chartered Accountant” and “Auditor”. Auditor are preparing audits of accounts, not Chartered Accountants, but some of them have got the double title : they can not conduct both audit & prepare financial statements.

What does an audit-exempt company need to send to Companies House?

If the companies does not need audited accounts, it has therefore to deliver full accounts AND abbreviated accounts : Profit & Loss, Balance Sheet and notes with specific statements signed by the Directors to Companies House.

What are the corporation tax rates applicable?

The calculation of the corporation tax is not only based on the profit of the company but also on the structure of the Shareholding. Small profits rate is 21 % in 2010, for profits not exceeding 300 000 GBP. Above it, Corporation tax rate is 28% in 2010.

Be very careful when assessing your taxable profit, as “entertainment costs” are not tax deductible in the UK.