



## THE POWER OF BEING UNDERSTOOD

### Changes to company law for small entities applying UK GAAP

From periods starting on or after 1 January 2016, in addition to the amendments to the Accounting Standard, small entities who apply UK GAAP must also observe the following changes to ensure their accounts comply with the Companies Act.

COMPANIES ACT 06 REFERENCE	TOPIC	SUMMARY OF AMENDMENT
s394B	Companies excluded from the dormant subsidiary exemption	Traded companies replace quoted companies in the list of those entities that are excluded from exemption.  Traded companies defined in s474 as a company any of whose transferable securities are admitted to trading on a regulated market.
s396	Companies Act Individual Accounts	Must disclose: <ul style="list-style-type: none"> <li>• the part of the UK in which the company is registered;</li> <li>• the company's registered number;</li> <li>• whether the company is public or private and whether limited by shares or guarantee;</li> <li>• address of the company's registered office; and</li> <li>• where appropriate, the fact that company is being wound up.</li> </ul>
s399	Duty to prepare group accounts	A company is exempt from the requirement to prepare group accounts if it would be subject to the small companies regime but for being a public company and it is not a traded company.
s400	Exemption for a company included in EEA group accounts of a larger group	Criteria for claiming exemption has changed. The main changes are as follows: <ul style="list-style-type: none"> <li>• CA 06 now requires unanimous agreement by the minority shareholders when the immediate parent owns 90 per cent or more but not all of the intermediate parent;</li> <li>• where the intermediate parent is more than 50 per cent but less than 90 per cent owned by its immediate parent, the minority shareholders have to serve any objection to the exemption not later than six months before the end of the financial year to which it relates; and</li> <li>• address of the registered office of the parent that draws up group accounts must now be disclosed.</li> </ul>
s401	Exemption for a company included in non EEA group accounts of a larger group	Criteria for claiming exemption has changed – as per section 400.
s408	Individual profit and loss account where group accounts are prepared	The profit for the year must be shown on the company's annual accounts sheet for the exemption to omit the company profit and loss account from the annual account to be taken.  The exemption not to disclose the information specified in s411 related to employee numbers and costs has been removed.

**COMPANIES ACT 06  
REFERENCE**

**TOPIC**

**SUMMARY OF AMENDMENT**

s410	Information about related undertakings (alternative compliance)	Removed meaning that information about related undertakings set out in s409 and the regulations must be provided for all related undertakings.
s410A	Information about off-balance sheet arrangements	Where a company has been party to off balance sheet arrangements and, at the balance sheet date, the risks or benefits arising from those arrangements are material, all companies will need to disclose the nature and business purpose of the arrangements.
s411	Information about employee numbers and costs	In the case of companies subject to the small company regime, the notes to the annual accounts must disclose the average number of persons employed by the company in the financial year.
s413	Information about directors' benefits: advances, credit and guarantees	Any amounts waived and/or written off shall be disclosed.
s442	Period allowed for filing accounts	Any extension granted by the Secretary of State must not have the effect of extending the period for filing to more than 12 months after the end of the of the relevant accounting reference period.
s444	Filing obligations of companies subject to small companies regime	<p>An audit report need only be delivered to the registrar if the entity opts to file the profit and loss account and it is not subject to audit exemption.</p> <p>Where the directors do not deliver a copy of the company's profit and loss account, the balance sheet must disclose that fact and if applicable, the notes to the balance sheet state:</p> <ul style="list-style-type: none"> <li>• whether the auditor's report was qualified or unqualified;</li> <li>• where the report is qualified state the basis of the qualification;</li> <li>• where the report is unqualified state whether an emphasis of matter was included; and</li> <li>• the name of the auditor.</li> </ul> <p>The option to file abbreviated accounts has been removed.</p>
s448B	Companies excluded from the dormant subsidiaries exemption	<p>Traded companies have been added to the list of those entities that are excluded from the exemption.</p> <p>A traded company is defined in s474 as a company any of whose transferable securities are admitted to trading on a regulated market.</p>
449s/ 450	Special auditor's report where abbreviated accounts are delivered / approval and signing of abbreviated accounts	Removed as abbreviated accounts have been eliminated.
s474	Minor definitions	<p>Traded company – a company whose transferable securities are admitted to trading on a regulated market.</p> <p>Turnover – in relation to a company, means the amounts derived from the provision of goods, after deduction of trade discounts, VAT and any other taxes based on the amounts so derived. It no longer refers to 'falling within the company's ordinary activities'.</p>
Statutory Instrument 2008/409	Small company Accounts regulations	<p>Balance sheet format 2 should state 'capital reserves and liabilities' rather than 'liabilities'.</p> <p>Profit and loss formats refer to 'expenses' rather than 'charges' and eliminates any reference to 'ordinary activities'.</p> <p>Profit and loss formats 3 and 4 removed.</p> <p>Increased flexibility about the presentation of development costs as the SI now refers to the fact that development costs 'may' be included in 'other intangible assets' under fixed assets.</p> <p>Clarification that any incidental reductions shall be deducted from the cost of acquisition of an asset.</p> <p>Participating interests may now be accounted for using the equity method of accounting. Regulations set out how this can be achieved. (This is not permitted by FRS 102 so will only be relevant to those applying FRS 101).</p>

## COMPANIES ACT 06 REFERENCE

## TOPIC

## SUMMARY OF AMENDMENT

Statutory Instrument  
2008/409

Small company  
accounts regulations

Removal of the option to measure investments and stock at current cost.

The option to refer to the revaluation reserve under an alternative name has been removed.

Provides the option to hold stocks at fair value under section D.

Disclosures relating to reserves and dividends, share capital, investments, miscellaneous matters, supplementary information about the profit and loss account, particulars of turnover, sums denominated in foreign currencies, fixed cumulative dividends in arrears and dormant companies acting as agents have been removed.

All other amendments, including those setting out the disclosure requirements, have been incorporated into FRS 102.

Information about related undertakings where a company is not preparing group accounts – section has been removed.

Directors remuneration – section has been removed.

Abbreviated accounts – section has been removed.

### **Section applicable to group accounts – Schedule 6.**

Clarify that the small company disclosures set out in Paragraph 1A of Schedule 1 does not apply to group accounts.

New requirement to draw up group accounts up to the same date as the accounts of the parent company

Clarifying that negative goodwill should be treated as a negative asset and credited back to the profit and loss on an appropriate basis.

Simplification of the criteria for merger accounting eliminating the need for 90 per cent of the relevant shares to be acquired but requiring control to be the same before and after the consolidation. In addition, the limit on the cash consideration to be issued has been eliminated.

Additional disclosures where merger accounting has been adopted to include in the notes to the accounts.

Minority interests changed to be non-controlling interests.

Insert regarding deferred tax balances – requires them to be recognised on consolidation when it is probably that a charge for tax will arise within the foreseeable future for one of the undertakings included in the consolidation.

Related party transactions – where the parent company or other undertakings included in the consolidation have entered into transactions with related parties that are material and not conducted under normal conditions, disclosure is required per paragraph 66 of Schedule 1 in the group accounts unless the transactions are intra-group transactions.

When preparing group accounts, the registered office address must be disclosed (irrespective of where the undertaking is incorporated) for subsidiary undertakings, associated undertakings and other significant holding.

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