

Understanding Your Accounts



This factsheet is designed to give a brief overview of your annual accounts and the figures contained within.

What are the accounts?

The annual accounts are a summary of the financial transactions of your company throughout the accounting period (normally covering 12 months). These will be prepared based on the financial information you have supplied to us (invoices, expenses, bank statements etc.) along with any other information we hold that may be relevant (salaries and dividends mainly).

When are the accounts due?

The annual accounts are due to be submitted to HMRC along with a corresponding CT600 12 months after the accounting reference date (normally the yearend date but may be earlier in the first year or extended accounting periods). However, the corporation tax is due for payment 3 months before this date i.e. 9 months after the accounting reference date.

You also have to submit abbreviated accounts to Companies House and these are due for submission 9 months after the accounting reference date.

What is included in the accounts?

Included within the accounts are the following pages:

- 1) Director's report
- 2) Accountants report
- 3) Profit and loss account
- 4) Balance sheet and
- 5) Notes to the accounts.

These are covered in more detail below.

Director's report

This is a standard report that details the period the accounts are being prepared for and that the director is presenting these in accordance with the relevant acts in force regarding this accounting period. It also details down who the directors were during the year.

The principal activity of the company is also detailed here; this will be a very brief description so if you feel you would like an alternative description please contact the person who is completing your accounts.

Accountants' report

This is a standard report that covers the fact that you (the director) have requested us to complete the accounts and we have done so based on the information you have provided to us.

Profit and loss account

This is a report of the company's trading figures throughout the year for the period being reported on. You would expect (or at least hope) that this will be showing a profit for the period, however, a loss could be shown here. The following headers will normally be shown in the profit and loss report:

- **Turnover** - This is the total income for the company throughout the period covered. It will include income from all invoices for which work has been completed within the accounting period. This figure is shown excluding VAT; however, if you operate on the flat rate scheme it will include the flat rate 'bonus'. For more details on the flat rate scheme 'bonus' please refer to our Flat Rate VAT Scheme factsheet.
- **Administrative Expenses** - This will be the majority (if not all) of the company's expenses incurred throughout the period covered. They will be taken from the information you have provided (this will include expenses paid personally and expenses paid direct from the company account) so if you have not advised us with details for a direct bank paid item it may not be shown here. We will also include the salaries processed within this figure and further details of all the expenses included (i.e. by category) can be found in the 'detailed trading profit and loss account and expense schedule' found on the last page of the accounts.

- **Tax** - This is the corporation tax charge which is the tax payable on the profits of the year after taking into account various adjustments that may be made (depreciation, capital allowances etc.). The current corporation tax rate is 20%.
- **Dividends** - This includes all the dividends declared strictly within the accounting period so it will not include dividends declared after the yearend even if they are based on the profits generated before the yearend. Please note that the level of dividends declared does not affect the amount of corporation tax payable.
- **Retained profit carried forward** - This is the profit carried forward to future accounting periods, if this figure is a loss (i.e. retained loss carried forward) then you may start to have cash flow issues and no dividends can be declared until the loss is cleared.

Balance Sheet

This is a report of the company's assets, liabilities and equity strictly at the balance sheet date i.e. it is a snapshot of the company at the yearend. The following headers will normally be shown on the balance sheet:

- **Fixed Assets** - This would include any assets purchased and still held by the company. They will be shown at their 'book value' i.e. cost less accumulated depreciation, if there are assets shown here that the company no longer owns please inform the person completing your accounts so they can be removed accordingly.
- **Current Assets** - This will normally include 'debtors' i.e. money owed to the company and 'cash at bank and in hand' i.e. the money in the company bank accounts.
- **Creditors: amounts falling due within one year** - This will be broken down as a note to the accounts but normally includes the corporation tax liability, any VAT or PAYE outstanding at the yearend and any monies owed to the director.
- **Called up share capital** - This is the share capital of the company i.e. the value of the shares in issue.
- **Profit and Loss account** - This is the retained profit (or loss) carried forward as shown in the profit and loss account.



Notes to the accounts

This is where various figures from the profit and loss account and balance sheet are shown in more detail; a number next to the category on the face of these pages indicates it is covered by a note.

The main notes to be shown are as follows:

- Director's remuneration - This will show the total of the gross salary, pension contributions and childcare paid to or on behalf of the director.
- Tax on profit - This will show the corporation charge for the year.
- Dividends - This will show the total dividends declared within the accounting period.
- Tangible fixed assets - This will show a breakdown of how the 'book value' of the assets shown on the balance sheet it made up of i.e. cost, depreciation and book value.
- Debtors - This is the total money owed to the company from various sources and would be broken down into the following sub categories:
 - Trade Debtors - Money owed to the company from clients for invoices raised.
 - Other Debtors - The total money owed by HMRC to the company (i.e. PAYE refunds) along with any money the director owes the company from a director's loan account (this will also be shown in a separate in the accounts).
 - Prepayments and accrued income - This is generally the value of any invoice dated after the yearend but for work completed before the yearend where it has been included in the accounts. Note that this will be the net invoice and any flat rate VAT 'bonus' attributable to that work.
- Creditors: amounts falling due within one year - This is the total money the company owes to various sources due within 1 year and would be broken down into the following sub categories:
 - Corporation tax - The Company's total corporation tax liability (normally equal to the charge for the year).
 - Other taxes and social security costs - This is the total of any PAYE/NIC and VAT that is owed by the company as at the yearend (even if it has been paid shortly after the yearend).
 - Director's account - Shown here would be any money owed to the director at the yearend even if it has been withdrawn shortly after the yearend i.e. the last month's salary/expenses.

- Share Capital - This will show details of the company's share capital i.e. the shares in issue.
- Transactions with director - Shown here will be a note stating the amount of dividends the company has declared that are payable to the director. If the director's loan account is overdrawn (not advisable) this will also be disclosed here showing the overdrawn balance at the end of the year along with the maximum balance this reached during the year.

How to approve the accounts?

When you receive your draft accounts from us you should review the covering letter as this will detail any queries/question we may have, please respond to these in a timely manner so we can clear them up and finalise the accounts for you in plenty of time of the necessary deadlines.

Once all the queries from our side are concluded (assuming there are some) we will send you an updated copy of the draft accounts by email for approval, you then need to review the figures to ensure they match your records. Once this is done and you are happy with the accounts you need to sign and return the approval letter (scanned copy via email is fine) and we can finalise the accounts for you.

Common Questions

- Q. You advise that I have an overdrawn director's account but I still have cash in the bank, how can this be?
- A. The director's account and the cash in your bank are two separate things. The director's account is an account within the accounts system where all the transactions between the company and the director are recorded i.e. salary, expenses and dividends due along with the amounts paid to the director in respect of these. If you take more than is owed to you then this will cause your director's account to become overdrawn which is a situation you want to avoid because it may create further tax liabilities and/or cash flow issues for the company. Any overdrawn director's account must be repaid to the company within 9 months of the accounting reference date or else a tax surcharge of 25% will apply under s455 CTA 2010.
- Q. The turnover figures in the accounts does not match my invoices, it is neither the total net amount nor the total gross amount. Please can you explain this?
- A. This may be because you are on the flat rate VAT scheme. When calculating your turnover we effectively include the gross value of the invoice and deduct from this the VAT payable under the flat rate scheme i.e. you invoice for £1,200 gross and are on 14.5% flat rate percentage we would include £1,026 in the accounts being £1,200 less £174 (£1,200 X 14.5%).
- Q. Why is my director's account overdrawn as I have never taken a loan from the company?
- A. Your director's account is overdrawn even though you have not taken an official loan because you may have taken more out of the company than was owed to you in salary/expenses/dividends and as such this will cause your director's account to become overdrawn. To avoid this happening you should only withdraw from the company the next pay per your payslip, the value of the expenses incurred personally per the expense form (sometimes included within the net pay on the payslip) and the net dividend declared per the dividend certificate.
- Q. I purchased a computer in October totalling £1,200 but this is not showing as an expense in my accounts, why is this?
- A. This is shown in your accounts, however, it is not shown as an expense in the profit and loss account because it has been capitalised. As a general rule, if you purchase equipment totalling £500 or more it will be treated as an asset in the accounts, this means it will be shown on the balance sheet, the asset is then systematically depreciated (charged to profit and loss) over its useful economic life. Depreciation is shown as an expense in the accounts but it is not deductible for corporation tax, instead capital allowances are claimed so that you get the benefit of tax relief on the full cost of the equipment in the year of purchase.

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