

Checking annual accounts of your limited company when contracting

If a contractor is trading through their own [limited company](#) and is a director, they have a statutory duty to submit annual accounts for the company to [Companies House](#). These accounts are also required by [HMRC](#) to assist with Corporation Tax calculations.

Although this sounds daunting, in practice most contractors have to do very little as their accountants perform most of the work. However, the onus is on contractors, and not their accountants, to sign off on the accounts and attest to their accuracy. And if there are errors, it will be the contractor who is held responsible, and penalties can range from fines to criminal charges and imprisonment.

Of course not all contractors choose to use limited companies as their trading vehicle, and others typically use either a [contractor umbrella company](#) or an offshore solution. Each option has its pros and cons and a certain amount of administration that the contractor is required to complete, but this article focuses on the duties of limited company directors.

First, know when the accounts are due

A limited company's annual accounts are a snapshot of its financial health at the end of the previous financial year. The technical terms for the financial year used by accountants and Companies House is the 'accounting reference period', or ARP.

The financial year end date is called the 'accounting reference date' or ARD. Both of these terms are important as they are used by both Companies House and HMRC to designate when certain forms and paperwork must be completed and submitted.

A small limited company, typical of those run by many contractors, has nine months from the end of their financial year, or ARD, to prepare and submit their accounts. This period has recently been amended and companies with an ARD before 6 April 2008 have ten months to prepare and submit their accounts.

So, for example, if the company's year end, or ARD, is 5 April 2008, then the accounts must be submitted by 28th February 2009, ie ten months later; and a company with a year end at, say 30th May 2008 has nine months, so accounts must also be submitted by 28th February 2009.

Next, decide who prepares the accounts

Although it is possible for contractors to prepare their own accounts, especially if the company has had few transactions, which is the case with most contractor limited companies, it is generally advisable to ask an accountant to do the job.

This is because much of the benefit to contractors of working through a limited company is tax efficiency, at which accountants are experts, and contractors may miss out on allowances and pay more tax than they should. In addition, if accounts are prepared incorrectly, then the company and its directors may be fined.

But remember, even if an accountant prepares the accounts, the directors of the company are ultimately responsible for their accuracy and are accountable for any errors.

What the accounts include

UK law in the [Company's Act](#) specifies what information a limited company must supply in its accounts, and accounting conventions dictate how the figures are calculated.

Because the turnover and value of the assets of most contractors' limited companies are below certain thresholds, they do not have to publish as much financial information as, for example, a major public company like a PLC. They are, therefore, only expected to file un-audited abbreviated accounts.

The accountants should provide the contractor with a standard set of accounts on which the abbreviated published accounts are based, including:

- o A directors report
- o A profit and loss account
- o A balance sheet
- o (Sometimes a cash flow statement)
- o Notes to the financial statements accounts.

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These may often be accompanied by:

- o An accountants report to the board of directors
- o A detailed profit and loss account
- o Notes to the detailed profit and loss account.

These might sound quite complicated, but in practice they are fairly straightforward, as the accountant has already done the complicated part by preparing the accounts.

What should the contractor check

Ideally contractors should spend enough time to read through the accounts and check with their accountants any parts they are unsure about. In practice, however, the important sections to check are the:

- o **Directors' report:** Check the dates match your ARD and that the company activities and directors' details are correct. This page needs to be signed by a director.
- o **Profit and loss account:** This is a summary of the income less the expenditure to show the profit during the previous financial year. HMRC uses this profit to calculate the Corporation Tax to be paid. Contractors should check that the sales invoiced, or turnover, is in line with what they have billed clients for the year, and that the costs, including salaries, are accurate.
- o **Balance sheet and statement of directors' responsibilities:** The balance sheet shows the company's assets and liabilities and is simply a snapshot of the company's position at the ARD. For most contractors, the assets will usually consist of items like computer and office equipment, the cash in the bank and anything owed to the company, such as unpaid invoices.
- o **Liabilities:** Liabilities include amounts due for VAT, PAYE, and possibly funds owed to directors. Unless the contractor has made some huge purchases or is owed a lot of money, most of these amounts should be small. If any of the totals look high, it might be worth checking with the accountant.
- o **Balance sheet:** The balance sheet and statement of directors' responsibilities should normally be signed by a director, usually the contractor.
- o **Notes to the financial statements:** Most of these notes are to do with technical accounting issues. However it is a worthwhile exercise for the contractor to familiarise themselves with the notes so they are aware of how the company is being managed financially.

What gets sent to Companies House and HMRC

Companies House will be sent abbreviated accounts, which will include the directors' report and an abbreviated balance sheet. The contractor will have to sign these before they are submitted.

HMRC will be sent the full accounts, including detailed profit and loss and a Company Tax Return. The accountants should calculate any Corporation Tax due, which will be verified by HMRC.

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