

Contractors annual company accounts - explained

Contractors operating under a limited company payment structure need to prepare financial accounts.

This article discusses why you need to prepare them, what the process is, together with a brief overview of their content.

Why do accounts?

Company law requires that every UK limited company prepares a set of annual accounts which comply with the format specified in the Companies Act.

Also, HMRC insist upon a copy, with a corporation tax return and computation, to assess the corporation tax on the company.

Who does them?

Most contractors use a specialist firm of chartered accountants for all their accounting services including the production of the annual accounts.

Alternatively, you could do them yourself and file them directly with Companies House. Although this will save some money, the time, trouble and effort required to prepare accounts in the correct format acceptable to Companies House and HMRC is probably not worthwhile for you.

When are they due?

Companies House require your accounts to be submitted within ten months of your accounting date.

This is extended to a maximum of 22 months after the company's date of incorporation for the first accounting period.

HMRC require the company's corporation tax liability to be paid nine months following the accounting reference date and it is therefore advisable to have the accounts prepared as soon as possible, in order to avoid the possibility of late payment.

Late submission of the accounts can result in penalties being charged for a minimum of £100 by Companies House and HMRC.

What do the accounts consist of?

The two main statements in the accounts are:

- o **Profit and Loss Account.** This shows all company income and business expenses incurred by the company during the accounting year. The difference between income and expenses incurred is the profit before taxation on which corporation tax is deducted, leaving the profit after tax, which is available for distribution to the shareholders, either by dividends or capital distribution on a winding up of the company.
- o **Balance Sheet.** The balance sheet shows the company's assets and liabilities and is simply a "snapshot" of the company's position at a point in time, being the company year end. E.g. In a computer consultancy company, the assets will usually consist of computer and office equipment (shown under fixed assets), bank account balance and amounts receivable (shown under current assets), amounts due for VAT, PAYE, director's account, etc. (shown under current liabilities) and shareholders funds, which is the accumulated profit carried forward and share capital of the company.



What effect does IR35 have?

If your company is in receipt of any IR35 caught income, then a calculation must be carried out to ensure that the appropriate level of salary is included in the accounts. If all income is caught by IR35, then the director's salary will be high and the profit (after director's salary and other expenses) will be very low. No dividends are likely to be included in the accounts in these circumstances.

If the accounts include income which is outside the scope of IR35, then the accounts are likely to show a small director's salary, leaving a far greater profit for charging to corporation tax. The after tax profits would then be distributed by dividend or carried forward within shareholders funds/profit and loss account.

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