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Small Company Accounting

This factsheet sets out the choices that small companies have with regards to preparing accounts and filing them at Companies House. The nature of the company's activities, the types of assets which it has and whether external scrutiny is required / desired will need to be considered.

We would be happy to assist you in providing specific advice for your company.

UK GAAP for small companies

Small companies, depending on size, have the following options:

- to use the same accounting standard as non-small UK companies - FRS 102
- to use the FRS 102 reduced disclosure regime (Section 1A), or
- where relevant, to apply an alternative standard - FRS 105 'The Financial Reporting Standard applicable to the Micro-entities'.

Size limits for small and micro-entities

The government has uplifted the company size thresholds, which take effect for periods beginning on or after 6 April 2025.

The current size limits to qualify as a small entity are set out below:

	Current
Turnover	£15m (previously £10.2m)
Total assets	£7.5m (previously £5.1m)
Employees	50

The size limits to qualify as a micro-entity are set out below:

	Current
Turnover	£1m (previously £632,000)
Total assets	£500,000 (previously £316,000)
Employees	10

A company needs to meet two out of three of the above criteria for two consecutive years to qualify as a small or micro company, unless it is the first year of the company's existence, in which case only that year has to be considered. The turnover limit is adjusted if the financial year is longer or shorter than twelve months.

There are certain exclusions from the above small and micro-entity size limits which are set out in the Companies Act 2006. Certain types of entities are prohibited from preparing micro-entity accounts, for example charities.

Small companies previously had the option of not filing their profit and loss account and/or directors' report at Companies House, known as filing 'filleted' accounts. Small companies also had the option of preparing less detailed accounts (abridged accounts) for members, providing every member agreed annually, and then upon filing were able to choose to abridge the balance sheet, the profit and loss account or both. Charities were prohibited from preparing abridged accounts.

Please note, that while the effective date is unknown, legislation changing the filing requirements for small companies has been passed into law. This means that small companies will no longer have these options available to them.

Contents of micro-entity accounts

The accounts of a micro-entity are considerably shorter and simpler than those otherwise required for a small company. Micro-companies are no longer required to prepare a Directors' report.

The profit and loss account and balance sheet include less detail. For example, current assets are shown in aggregated total on the balance sheet rather than being analysed into stocks, debtors and cash.

Notes of the following should be disclosed at the foot of the balance sheet:

- off balance sheet arrangements average monthly employees
- directors' advances, credits and guarantees, and
- guarantees, contingencies and other financial commitments.

Only the balance sheet and the footnotes need to be filed at Companies House. The profit and loss account does not need to be filed (though this is anticipated to change in the near future as a result of secondary legislation intended to support the Economic Crime and Corporate Transparency Act).

The company does not need to produce (nor file) typical small company notes such as:

- accounting policies
- post balance sheet events, and
- related party transactions.

Fair value accounting and alternative accounting rules cannot be applied in micro-entity accounts, meaning no revaluations or measurement at fair value is permitted.

Contents of FRS 102 1A accounts

The financial statements of a small entity must give a true and fair view of the assets, liabilities, financial position and profit or loss of the small entity for the reporting period.

A complete set of financial statements of a small entity must include all of the following:

- a statement of financial position as at the reporting date
- an income statement for the reporting period, and
- notes to the accounts.

A statement of cashflows is not required.

The following may however be required in order to show a true and fair view:

- when a small entity recognises gains or losses in other comprehensive income it may need to present a statement of total comprehensive income, and
- when a small entity has changes in equity other than profit and loss it may need to present a statement of changes in equity or a statement of income and retained earnings.

Comparison of FRS 102 1A accounts and FRS 105

The table below sets out the requirements including those encouraged for FRS 102 Section 1A and FRS 105:

	FRS 102 (Section 1A)	**FRS 105**
Directors' report	Yes	No
Profit and loss account	Yes	Yes
Statement of comprehensive income / Statement of total recognised gains/losses	May be needed for true and fair view	No
Statement of changes in equity / Statement of income & retained earnings / shareholders' funds note	May be needed for true and fair view	No
Balance sheet	Yes	Yes
Statement of cash flows	No	No

FRS 105 imposes simpler accounting treatment compared to FRS 102 Section 1A. There are numerous differences between FRS 102 Section 1A and FRS 105 but the most significant are as follows:

Revaluation / fair value of assets

Fair value accounting is not permitted under FRS 105. By contrast, FRS 102 Section 1A permits (and in some cases requires) some assets to be measured at fair value annually.

The following assets and liabilities are most significantly impacted by fair value accounting under Section 1A:

- Investment properties, for example those properties held to earn rental income, should be revalued every year to fair value.
- Forward foreign currency contracts require restatement to their fair value at the balance sheet date.
- Loans payable or receivable (for example to or from a director) falling due more than one year, with a nil or below market rate of interest, must be measured at the present value of future cash flows, however there is an optional relaxation of this requirement permitted within FRS 102 for small entities, in certain circumstances.

Deferred tax

FRS 105 does not allow companies to recognise deferred tax. By contrast, FRS 102 Section 1A requires deferred tax to be provided on fair value adjustments, and therefore likely to occur more frequently than before.

Periodic Review 2024 amendments

The Periodic Review 2024 amendments which will be applicable for accounting periods beginning on or after 1 January 2026 introduces a five-step model for revenue recognition into both FRS 102 and FRS 105 but with simplifications for those preparing financial statements under FRS 105. While changes to lease accounting requirements for lessees have been made in FRS 102, lease accounting remains unchanged under FRS 105.

How we can help

We will be very pleased to discuss the impact on your small company of which accounting standard is to be used. If you would like to discuss these issues in more detail, please contact us.

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