

UNDERSTANDING YOUR ANNUAL ACCOUNTS

The annual end of year accounts for a company can look a little daunting, however break them down and they can be understood.

The format of company accounts is governed by the Companies Act; although some leeway is given for formatting and presentation, the accounts must follow a set format. For a client of Garbetts this will be:

- Cover page
- Information and contents page
- Directors report
- Accountants report
- Statutory profit and loss account
- Balance sheet
- Notes to the accounts
- Detailed profit and loss account

Why two profit and loss accounts? The statutory profit and loss account is summarised and follows a strict Companies Act format. If full accounts were being filed at Companies House it would be part of the full accounts; shareholders have a right to see it. By contrast the detailed profit and loss account is a management information report and is not covered by the Companies Act – HMRC have a right to see it, but shareholders do not and if full accounts were being filed at Companies House then it does not have to be included.

Abbreviated accounts and Companies House – a small company – which all PSCs are – has only to file abbreviated accounts at Companies House – essentially a balance sheet and a few specific notes; the full accounts do not have to be filed. As the filings at Companies House can be read by anyone, this gives some extra privacy to small companies.

Audit reports – a frequent cause of confusion on the accounts is that the accountants report refers to the accounts not being audited. In accounting terms “audit” has a precise term – it is a detailed examination of a set of accounts and underlying records in considerable detail; most UK companies with a turnover of less than £1m (to be increased to £5.6m from early 2004) are exempt from this requirement. They still have to prepare accounts, but not have them audited. In practical terms this means that we can take what is in the companies records at face value rather than seeking additional confirmations.

Depreciation – in the company accounts capital assets are shown in the balance sheet as an asset and depreciated over a period of time. For convenience the common depreciation rates used are 25% PA for equipment and 2% PA for buildings. However depreciation is not tax allowable – instead Capital Allowances, a form of tax approved depreciation are given. Some assets, eg equipment (40%), computers (100% to 1 April 2004 then 40%) have higher initial allowances (first year allowances) – these are given separately in the tax computation but will not show on the face of the accounts.

A model set of accounts, with notes, follows:

© Garbetts – updated 12 May 2010 – guidance for illustration only, please seek advice before taking any course of action if you are unsure.

UNDERSTANDING YOUR ANNUAL ACCOUNTS - *continued*

File Number:
Security Number:
Company Number:

MODEL
PRG
123456

MODEL PSC LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2003

This is the cover sheet
for the accounts

GARBETTS
Chartered Certified Accountants and Registered Auditor
Arnold House 2 New Road Brading Isle of Wight PO36 0DT

UNDERSTANDING YOUR ANNUAL ACCOUNTS - continued

MODEL PSC LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2003

DIRECTORS

John Model

SECRETARY

Jane Model

This is the information
and contents sheet for
the accounts

REGISTERED OFFICE

c/o Garbetts
Arnold House
2 New Road
Brading
Isle of Wight
PO36 0DT

COMPANY NUMBER

123456

ACCOUNTANTS

Garbetts
Chartered Certified Accountants and Registered Auditor
Arnold House
2 New Road
Brading
Isle of Wight
PO36 0DT

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The following do not form part of the statutory financial statements:

11	Trading and Profit and Loss Account
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UNDERSTANDING YOUR ANNUAL ACCOUNTS - continued

MODEL PSC LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2003

This is the directors report. Its format is set out by the Companies Act and it is fairly brief.

The directors present their report and the financial statements of the company for the year from 1 April 2002 to 31 March 2003.

PRINCIPAL ACTIVITIES

The principal activities of the company are the provision of computer consultancy services.

DIRECTORS

The directors who served during the year are shown below:

John Model

If you were a PLC you could have glossy pictures of the board here....

The directors beneficial interests in the issued ordinary share capital were as follows:

		2003	2002
		Shares	Shares
John Model	Only the directors shareholdings are shown here – if other family members have shares they are not shown.	70	80

The above report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

This report was approved by the board on 7 July 2003 and signed on their behalf.

Signed
J Model

UNDERSTANDING YOUR ANNUAL ACCOUNTS - continued

MODEL PSC LIMITED
ACCOUNTANTS REPORT
ON THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2003

We have prepared the annexed accounts on the basis of information and explanations given to us by the directors.

We have not carried out an audit as the company is exempt from audit under S249(1) Companies Act 1985.

This is the accountants report. Note that the accounts are not audited – this is normal for small Companies

GARBETTS

Garbetts Ltd
Chartered Certified Accountants
Registered Auditor

7 July 2003

Arnold House
2 New Road
Brading
Isle of Wight
PO36 0DT

UNDERSTANDING YOUR ANNUAL ACCOUNTS - continued

MODEL PSC LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2003

	Notes	2003 £	2002 £
TURNOVER			
Continuing operations	2	74,145	67,526
		<hr/>	<hr/>
GROSS PROFIT		74,145	67,526
Net operating expenses	3&4	(18,620)	(19,597)
		<hr/>	<hr/>
OPERATING PROFIT			
Continuing operations	4	55,525	47,929
Interest receivable and similar income	6	998	328
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		56,523	48,257
Tax on ordinary activities	7	(11,870)	(11,503)
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		44,653	36,754
		<hr/>	<hr/>
PROFIT FOR THE FINANCIAL YEAR		44,653	36,754
Dividends	8	(44,000)	(37,000)
		<hr/>	<hr/>
RETAINED PROFIT/(LOSS) FOR THE FINANCIAL YEAR		£ 653	£ (246)
		<hr/>	<hr/>

The company made no recognised gains and losses other than those reported in the profit and loss account.

This is the statutory profit and loss account – fairly and truly in its contents, which are governed by the Companies Act.

The same information is given in a more accessible form in the detailed profit and loss account at the end of the accounts.

The notes on pages 6 to 10 form part of these accounts

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UNDERSTANDING YOUR ANNUAL ACCOUNTS - continued

MODEL PSC LIMITED
BALANCE SHEET
AT 31 MARCH 2003

This is the balance sheet

	Note	2003 £	2002 £
FIXED ASSETS			
Tangible assets	9	2,487	1,423
CURRENT ASSETS			
Work in Progress	10	-	1,313
Debtors	11	3,483	-
Cash at bank and in hand		32,040	24,816
CREDITORS: Amounts falling due within one year	12	35,523	26,129
		<u>36,999</u>	<u>27,194</u>
NET CURRENT LIABILITIES		(1,476)	(1,065)
NET ASSETS		£ 1,011	£ 358
CAPITAL AND RESERVES			
Called up share capital	13	100	100
Profit and loss account	14	911	258
TOTAL CAPITAL EMPLOYED		<u>£ 1,011</u>	<u>£ 358</u>

In approving these financial statements as directors of the company we hereby confirm that:

- for the year in question the company was entitled to exemption under section 249A(1) of the Companies Act 1985;
- no notice has been deposited under section 249B(2) requesting that an audit be conducted for the year ended 31 March 2003; and
- we acknowledge our responsibilities for:
 - ensuring that the company keeps accounting records which comply with section 221, and
 - preparing accounts which give a true and fair view of the state of affairs of the company as at the end of the financial year and of its profit for the financial year then ended in accordance with the requirements of section 226, and which otherwise comply with the provisions of the Companies Act relating to accounts, so far as applicable to the company.

The accounts have been prepared in accordance with the special provisions of part VII of the Companies Act 1985 relating to small companies and with the Financial Reporting Standard for Smaller Entities (effective June 2002).

The accounts were approved by the board of directors on 7 July 2003

J Model, Director

The notes on pages 6 to 10 form part of these accounts

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UNDERSTANDING YOUR ANNUAL ACCOUNTS - continued

MODEL PSC LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2003

Notes to the accounts – as required by
the Companies Act

1. ACCOUNTING POLICIES

1a. Basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2002).

1b. Tangible fixed assets

Fixed assets are shown at historical cost.

Depreciation is provided, after taking account of any grants receivable, at the following annual rates in order to write off each asset over its estimated useful life.

		2003	2002
Equipment	- % on book value	25	25

These depreciation rates are not necessarily
the rates at which tax allowances are given

1c. Taxation

Corporation tax payable is provided on taxable profits at the current rate.

In the opinion of the directors no material tax liability is likely to arise in future years as a result of current timing differences, and hence no provision is made for deferred taxation.

1d. Pension costs

The company provides pensions to employees with long term contracts through a defined contribution pension scheme. Contributions are charged to the profit and loss account as they fall due.

1e. Turnover

Turnover comprises the value of sales (excluding VAT and similar taxes and trade discounts) of goods and services in the normal course of business.

1f. Cash flow statement

The company has taken advantage of the exemption in Financial Reporting Standard No 1 from producing a cash flow statement on the grounds that it is a small company.

2. TURNOVER

Turnover and profit on ordinary activities before taxation are attributable to the provision of computer consultancy services.

UNDERSTANDING YOUR ANNUAL ACCOUNTS - continued

MODEL PSC LIMITED
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2003

Notes to the accounts – as required by the
Companies Act

3. COST OF SALES AND NET OPERATING EXPENSES

	2003 £	2002 £
Net operating expenses:		
Administrative expenses	17,792	19,122
Depreciation	828	475
	£ 18,620	£ 19,597

4. OPERATING PROFIT

	2003 £	2002 £
Profit on ordinary activities is stated after charging:		
Accountants remuneration	650	650
Depreciation and amortisation		
Tangible assets: owned	828	475
Staff costs (note 5)	10,863	10,447
	£ 10,863	£ 10,447

5. DIRECTORS AND EMPLOYEES

Particulars of employees (including directors) are shown below:

Employee costs during the year amounted to:	2003 £	2002 £
Wages and salaries	5,700	5,700
Social security costs	171	171
Other pension costs	4,992	4,576
	£ 10,863	£ 10,447

The average weekly numbers of employees during the year were as follows:

	2003 No.	2002 No.
Management and administration	1	1

Directors' remuneration:

	2003 £	2002 £
Directors' fees	5,700	5,700
	5,700	5,700

UNDERSTANDING YOUR ANNUAL ACCOUNTS - continued

MODEL PSC LIMITED
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2003

Notes to the accounts – as required
by the Companies Act

6. INTEREST RECEIVABLE AND SIMILAR INCOME

	2003	2002
	£	£
Bank interest receivable	998	328
	<u>998</u>	<u>328</u>
	£ 998	£ 328

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2003	2002
	£	£
Corporation tax at 19%	11,870	11,503
	<u>11,870</u>	<u>11,503</u>
	£ 11,870	£ 11,503

8. DIVIDENDS

	2003	2002
	£	£
Ordinary shares	44,000	37,000
	<u>44,000</u>	<u>37,000</u>
	£ 44,000	£ 37,000

9. TANGIBLE FIXED ASSETS

	Fixtures & Equipment	Total
	£	£
Cost		
At 1 April 2002	3,075	3,075
Additions	1,892	1,892
At 31 March 2003	<u>4,967</u>	<u>4,967</u>
Depreciation		
At 1 April 2002	1,652	1,652
For the year	828	828
At 31 March 2003	<u>2,480</u>	<u>2,480</u>
Net Book Amounts		
At 31 March 2003	<u>£ 2,487</u>	<u>£ 2,487</u>
At 31 March 2002	<u>£ 1,423</u>	<u>£ 1,423</u>

The fixed assets are at original cost, less accumulated depreciation – their current value may be different of course.

UNDERSTANDING YOUR ANNUAL ACCOUNTS - continued

MODEL PSC LIMITED
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2003

Notes to the accounts – as required by
the Companies Act

		2003	2002
		£	£
10. WORK IN PROGRESS			
Work in progress comprises:			
Work in progress		-	1,313
		<u>£ -</u>	<u>£ 1,313</u>
11. DEBTORS		2003	2002
		£	£
Trade debtors	These are amounts owed to the company by customers	3,483	-
		<u>£ 3,483</u>	<u>£ -</u>
12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR		2003	2002
		£	£
UK corporation tax	These are amounts which the company owes. The Directors Account – owed to the director is often the largest amount. Social Security and other taxes will be PAYE and VAT	8,120	8,003
Social security and other taxes		3,402	3,427
Directors current account		25,146	15,401
Accruals		331	363
	Accruals are miscellaneous amounts owed to suppliers – often accountancy is the only item here. Sometimes called trade creditors.	<u>£ 36,999</u>	<u>£ 27,194</u>
13. CALLED UP SHARE CAPITAL		2003	2002
		£	£
Authorised:	The authorised share capital is a theoretical maximum number of shares which can be issued		
1,000 Ordinary shares of £1 each		<u>£ 1,000</u>	<u>£ 1,000</u>
Allotted, issued and fully paid:	The issued share capital is the total shares in issue.		
100 Ordinary shares of £1 each		<u>£ 100</u>	<u>£ 100</u>

UNDERSTANDING YOUR ANNUAL ACCOUNTS - continued

MODEL PSC LIMITED
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2003

Notes to the accounts – as required by
the Companies Act

14. RESERVES

At 1 April 2002
Profit for the year

At 31 March 2003

The reserves will normally be retained profit – that is to say profit which has not been declared as a dividend. It has been subject to Corporation Tax, and is not taxed further if it is left in the company.

	Profit & loss account
	£
	258
	653
	<hr/>
£	911
	<hr/>

UNDERSTANDING YOUR ANNUAL ACCOUNTS - continued

MODEL PSC LIMITED
TRADING AND PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2003

The detailed profit and loss account – the interesting bit!

		2003	2002
		£	£
Sales	Sales will be invoiced amounts to customers – basically money received adjusted for opening and closing debtors, ex vat	74,145	67,526
Bank interest receivable		998	328
		<u>75,143</u>	<u>67,854</u>
Less:			
Use of home as office	Use of home as office, sometimes called "office facilities", is an allowance for the costs of working at home	520	520
Directors remuneration		5,700	5,700
Directors NIC (employer)		171	171
Pension contributions		4,992	4,576
Training and technical reference		11	92
Computer costs		1,498	3,784
Motor expenses		3,198	2,847
Travel and subsistence		29	58
Accountancy		650	650
Stationery & office supplies		134	66
Telephone		756	488
Sundry expenses	Expenses are all shown after VAT – they should tie up to your expectations	83	70
Bank charges		50	100
Depreciation of equipment		828	475
		<u>18,620</u>	<u>19,597</u>
Net profit for the year before taxation		56,523	48,257
Taxation	Taxation is Corporation Tax only	11,870	11,503
Net profit for the year after taxation		44,653	36,754
Dividends		44,000	37,000
	Dividends are the tax optimised amount given – they may not all have been drawn – any excess will be in the directors account	<u>44,000</u>	<u>37,000</u>
Retained profits brought forward		653	(246)
		<u>258</u>	<u>504</u>
Retained profits carried forward		£ 911	£ 258

Directors remuneration is the basic salary which the company directors have agreed for themselves – intended to give maximum tax and NI benefit

So, how much did you make?

The best guide to this is net profit + depreciation + directors remuneration + directors NI + pension contributions

In this case £68,214

Retained profit agrees to the statutory profit and loss account and to the balance sheet

This page does not form part of the Company's Statutory Financial Statements and is prepared for the information of the Directors only.