Whitepaper

3 good reasons why your micro-entity clients shouldn't try to DIY

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1.0

3 good reasons why your micro-entity clients shouldn't try to DIY

The Small Companies (Micro-Entities' Accounts) Regulations 2013, the new regulations affecting smaller business, came into force on the 1st December 2013. The new regime has the aim of cutting down on the bureaucracy that diverts owners and managers of small companies from focusing on running their business.

The assumed benefit of this simplification is that for small businesses it will reduce the need to use external bookkeeping and accountancy services.

"Micro-entities are, in many instances, effectively owner-managed. Statutory financial statements of micro-entities, therefore, may not need to facilitate communication between shareholders and management in relation to the company's performance.

For the smallest of companies, the burdens associated with comprehensive financial reporting requirements may be disproportionate when compared with other small companies."

Department for Business, Innovation and Skills, 2013

How will this change the relationship between accountants and their clients?

A quick round-up of the criteria:

There is a strict definition as to what constitutes a 'micro-entity'. At least two of the following criteria must be met:

- **Turnover** - not more than £632,000 (adjusted proportionately if the financial year is longer or shorter than 12 months)
- **Balance sheet total** - not more than £316,000
- **Average number of employees** - not more than 10

The regulations can be applied to financial years ending on or after 30th September 2013. The micro-entity exemptions are available to only companies; i.e. clients operating as sole traders are not affected. Entities such as LLPs and charities are excluded.

This short guide arms you with reasons why clients should not take the new regulations as the green light to cut corners with their paperwork or to take on preparing their accounts themselves. You may need to spend time 'educating' clients who question whether they will need as much of your time as in previous years or even whether they will need your services at all!

The main implications of the regulations to point out to clients are as follows…

1 *The accounts prepared under the new regulations are greatly simplified from the perspective of presentation.*

The profit and loss account and balance sheet have few details; the directors' report will state little more than the names of the directors; and only two notes to the financial statements are required. But, as any accountant knows, much of the effort that goes into preparing a set of accounts centres on the preparation of financial data in accordance with accounting principles. This will not go away and the only time saved is in the presentation. In other words, while the reporting output is certainly lighter, the input is not a million miles away from what has always been required.

So your client may well see a simplified profit and loss account and balance sheet, but you still need to prepare the accounts and they still need to keep detailed records to have the right information to hand to reach those simplified outputs.

2 *Detailed information on the financial health of the business must still be available to secure funding from sources such as the banks.*

Even if there is no immediate plan to seek investment, a business might want to disclose more information than the regulations suggest, such as going concern disclosure, to maintain its good credit rating.

3 *As always, the accounts must give a true and fair view of the business.*

It is possible that if the client presents only the 'highlights', with the bare minimum of data, they may put themselves at greater risk of an investigation by HMRC.

To sum up, underlying the apparent new simplicity there remains the same 'iceberg' of accounting complexity that there always has been. If you've built a good relationship with your clients, they will still come to you for advice and follow your recommendations. It is unlikely that UK accountants will be out of a job any time soon.

2.0
The IRIS response to the new micro-entity regulations

IRIS Accountancy Suite v11.4 includes new functionality so that micro-entity accounts can be prepared in line with the new regulations.

As fully integrated software, IRIS draws on the data you have entered to produce accounts in any of the following formats without rework, virtually at the touch of a button:

- Small company accounts as in previous years
- Accounts in line with the new micro-entity requirements
- More detailed iXBRL-tagged accounts for filing with HMRC along with the corporate tax return

Whichever approach you and your client decide is the right one, IRIS helps you to effortlessly produce the appropriate accounts.

"The flexibility of IRIS Accounts Production means I can choose to prepare micro-entity or FRSSE accounts at the press of a button. In addition, the powerful integration within the software means that iXBRL-tagged HMRC-ready accounts are prepared and attached to the CT600 return with no additional effort on our part."

Steve Collings, audit and technical director for Leavitt Walmsley Associates Ltd, author of 10 books on accountancy and financial standards, and winner of the AIA Outstanding Contribution to the Accountancy Profession award 2013

With 30 years' experience, IRIS Software Group is the leading provider of business critical software and services to accountants and payroll professionals in the UK.

More than 15,000 accountants and 30,000 small and medium sized companies rely on IRIS every day to run their business.

IRIS Accountancy Solutions offers customers the greatest choice of specialist accountancy software and services managed under three leading brands - IRIS, PTP and Drummohr. With 98% customer retention, 2.5 million tax returns successfully filed with HMRC and 60% of the top 50 practices as customers, IRIS is the most trusted accountancy software provider in the UK today.

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