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New Accounting and Reporting Obligations of UK Companies

This advisory has been prepared as a reminder of changes to the accounting and reporting obligations of UK companies introduced by the Companies Act 2006 (the “2006 Act”). Although the changes became law last year, they only apply to accounts and reports for financial years beginning on or after 6 April 2008, and so they may have their first impact on UK companies in 2010.

The main change introduced by the 2006 Act is the reinforcement of the overarching obligation on directors of a company to satisfy themselves that the annual accounts give a true and fair view of the assets, liabilities, financial position and profits or losses of the company (or, in the case of group accounts, of the undertakings included in the consolidation as a whole) before they approve them.

While the scope for arguing that accounts which do not comply with applicable standards nevertheless give a true and fair view is very limited, it is clear that directors cannot decide that the accounts they approve are true and fair purely on the basis that they were prepared in accordance with applicable accounting standards. The company’s freedom to depart from (international or domestic) accounting standards has been preserved in the 2006 Act where an outcome would otherwise be so misleading as to conflict with the relevant financial statement’s objectives.

As with the old law, if there are special circumstances where compliance with the 2006 Act would render the accounts inconsistent with the requirement to give a true and fair view, the directors must override the provisions of the 2006 Act to the extent necessary to give a true and fair view. The details of, reasons for and effects of any true and fair “override” must be disclosed in notes to the accounts.

Other substantive changes relating to the form and availability of a company’s annual accounts:

- Parent companies are only exempt from the obligation to prepare group accounts if they satisfy certain statutory thresholds to qualify as “small companies” under the 2006 Act.
- It is no longer necessary for the accounts to disclose transactions made between the company and officers who are not directors.
- A quoted company must upload its full annual accounts and reports on a company-maintained website to which the public has free and continuous access.
- The business review in a quoted company’s annual directors’ report is required to include information on:
 - the key factors likely to affect the company’s business in the future;

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- the company's environmental impact, its employees, social and community issues, and the company's policies (if any) in relation to all of these;
- persons with whom the company has contractual or other arrangements which are business-critical.

The deadline for filing the accounts at Companies House has been reduced from ten months after the end of the relevant financial year to nine months for private companies, and from seven months to six months for public companies.

Public companies are still required by law to lay their annual accounts before a general meeting of shareholders and must send the annual accounts and reports out no later than 21 days before the general meeting at which the accounts and reports are to be laid.

The 2006 Act, however, has exempted private companies from the requirement to lay their accounts before the shareholders in general meeting and, consequently, de-linked the timeframe for circulating the accounts from the holding of the general meeting. Instead, a private company is required to send its accounts and reports out to shareholders, debenture-holders and any other persons entitled to receive them no later than the earlier of (i) the date of actual delivery to Companies House or (ii) nine months after the end of the financial year. This is a somewhat tighter timeframe than under the old law.

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