J H GREENWOOD & COMPANY

CHARTERED ACCOUNTANTS

Micro Entity Accounting

FACTSHEET

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Small companies, which qualify as 'micro-entities', have a choice of accounting standards:

- to use the same accounting standard – FRS 102 – as larger UK companies but using a reduced disclosure regime (section 1A) within the standard, or
- to apply an alternative standard - FRS 105.

FRS 102 introduced some significant accounting challenges including more widespread use of 'fair value' accounting so there may be a temptation to use FRS 105 as fair value accounting must not be applied. However, this may not always be the best choice for the company.

Qualifying as a micro-entity

The main criterion is based on the following size limits. The company has to meet two out of three size limits, for two consecutive years:

- turnover of £1m or lower
- balance sheet total (gross assets) of £500,000 or lower, and
- 10 or fewer employees (averaged throughout the year)

The threshold was increased by the government for periods commencing on or after 6 April 2025 from the previous turnover and balance sheet thresholds of £632k and £316k respectively (requirements in relation to the average number of employees remain the same).

Certain financial services firms, such as credit institutions and insurers, and also charities, are excluded from qualifying and there are special rules if the company is part of a group.

Simplified accounts

Accounts prepared under FRS 105 need consist of only a simplified Profit & Loss Account , a Balance Sheet and four notes to the balance sheet. Currently, the accounts filed with the registrar at Companies House need not include a profit and loss account - however, this is expected to change as part of Accounts Reform under the Economic Crime and Corporate Transparency Act. The exact timeline on this is not clear but it is anticipated that this will change over the next couple of years.

Company law presumes that micro-entity accounts prepared as above are assumed to give a true and fair view. This means that the company is not required to add any further disclosure. If instead the company opts for the reduced disclosure regime under FRS 102, there may be a need for extra disclosure to ensure that the accounts give a true and fair view.

Simpler accounting

FRS 105 imposes simpler accounting treatment compared to FRS 102. There are numerous differences between FRSs 102 and 105 but the three most significant are likely to be:

Revaluation / fair value of assets

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

Avoiding the need to obtain regular fair values may prove more convenient and less costly for the business. However, if the company is currently revaluing properties and has significant loans and other debts against these properties, using FRS 105 would mean re-measuring the properties at 'depreciated cost', which could reduce the balance sheet value considerably.

Fewer intangible assets

Under FRS 105, fewer intangible assets are recognised than under FRS 102. For instance, if the company were to acquire a business, the purchase price will be divided between tangible assets and liabilities and goodwill – the company would not need to identify separate individual intangible assets such as customer lists and brand names. It also means, however, that internally-generated intangibles such as development costs cannot be treated as assets; instead, such costs must be expensed through profits as incurred.

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No more deferred tax

FRS 105 does not allow companies to recognise deferred tax. By contrast, FRS 102 includes deferred tax 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.

Other things to consider

The relatively brief information presented within micro-entity accounts means that less financial detail is available to the public (via the filed accounts at Companies House). Directors may find this an advantage; however, this lack of information could impact the company's credit-rating. The shareholders of the company will also receive less information in their members' accounts.

Directors can provide more information in the accounts than the statutory minimum, should they prefer to do so. We will be happy to supplement the minimum statutory information with extra analysis so that directors have enough financial detail to make informed decisions in running the business.

We want to ensure that directors are prepared and informed about the accounting choices for the company, which include (but are not limited to) the issues we have covered above. Please do get in touch.

How we can help

We can help you to find an appropriate source of grant funds and also assist with your business plan and detailed application. Contact us to find out more.

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