



AVEY OF LONDON

Accounting | Financial Reporting

GROUP ACCOUNTS EXEMPTIONS

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AVEY OF LONDON
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This guidance is designed to alert to an important issue of general application. It is not intended to be a definitive statement covering all aspects of the related legislation. It is only a brief summary and no action should be taken without consulting the detailed legislation or seeking professional advice.

Should you require further information or would like to discuss any specific elements of the relevant legislation you can contact AVEY of London using details below and we will be happy to assist.

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No responsibility for any person acting or referring to act as a result of any material contained in this guidance can be accepted by AVEY of London.

Requirement to prepare group accounts

The Companies Act 2006 gives exemption from the requirement to prepare group accounts to small groups. A group qualifies as small if at least two of the following qualifying conditions are met in the current and the preceding financial years:

| Group | Financial year ends on or after 1 October 2012 | Accounting periods beginning on or after 1 January 2016 |
|---|--|---|
| Total assets | £3.26m net (£3.9m gross) | £5.1m net (£6.1m gross) |
| Annual turnover | £6.5m net (£7.8m gross) | £10.2m net (£12.2m gross) |
| Average number of employees in the year | < 50 | < 50 |

- If turnover is not a year the maximum figures for the turnover must be prorated.
- Total assets means all assets shown on the balance sheet before liabilities are deducted.
- 'net' means after any set-offs and other adjustments made to eliminate group transactions, 'gross' means without those set-offs and other adjustments.
- The group means parent and subsidiaries (not associates or joint ventures) including any overseas companies.

Under Companies Act 2006 [section 399], if at the end of a financial year the company is a parent company the directors, as well as preparing individual accounts for the year, must prepare group accounts for the year unless the company is exempt from that requirement.

There are further exemptions under:

- section 400 (company included in EEA accounts of larger group),
- section 401 (company included in non-EEA accounts of larger group), and
- section 402 (company none of whose subsidiary undertakings need be included in the consolidation).

Section 400 - Exemption for company included in EEA group accounts of larger group

A company is exempt from the requirement to prepare group accounts if it is itself a subsidiary undertaking and its immediate parent undertaking is established under the law of an EEA State where:

- it is a wholly-owned subsidiary of that parent undertaking, or
- that parent undertaking holds more than 50% of the allotted shares in the company and notice requesting the preparation of group accounts has not been served on the company by shareholders holding in aggregate:
 - a) more than half of the remaining allotted shares in the company, or
 - b) 5% of the total allotted shares in the company.

Such notice must be served not later than six months after the end of the financial year before that to which it relates.

Exemption is conditional upon compliance with all of the following conditions:

- the company must be included in consolidated accounts for a larger group, and

- those consolidated accounts and that parent's annual report must be drawn up and audited in accordance with the provisions of the Seventh Directive or International Accounting Standards (IFRS);
- the company must disclose in its individual accounts that it is exempt from the obligation to prepare and deliver group accounts;
- the company must state in its individual accounts the name of the parent undertaking that draws up the group accounts referred to above and:
 - a) if it is incorporated outside the United Kingdom, the country in which it is incorporated, or
 - b) if it is unincorporated, the address of its principal place of business;
- the company must deliver to the registrar copies of the parent undertaking's audited consolidated accounts and annual report.

The exemption does not apply to a company any of whose securities are admitted to trading on a regulated market in an EEA State.

Section 401 - Exemption for company included in non-EEA group accounts of larger group

A company is exempt from the requirement to prepare group accounts if it is itself a subsidiary undertaking and its parent undertaking is not established under the law of an EEA State, if:

- it is a wholly-owned subsidiary of that parent undertaking, or
- that parent undertaking holds more than 50% of the allotted shares in the company and notice requesting the preparation of group accounts has not been served on the company by shareholders holding in aggregate:
 - a) more than half of the remaining allotted shares in the company, or
 - b) 5% of the total allotted shares in the company.

Such notice must be served not later than six months after the end of the financial year before that to which it relates.

Exemption is conditional upon compliance with all of the following conditions:

- the company and all of its subsidiary undertakings must be included in consolidated accounts for a larger group drawn up in accordance with the provisions of the Seventh Directive, or in a manner equivalent to consolidated accounts and consolidated annual reports so drawn up;
- the group accounts must be audited by one or more persons authorised to audit accounts under the law under which the parent undertaking which draws them up is established;
- the company must disclose in its individual accounts that it is exempt from the obligation to prepare and deliver group accounts;
- the company must state in its individual accounts the name of the parent undertaking which draws up the group accounts referred to above and:
 - a) the country in which it is incorporated, or
 - b) if it is unincorporated, the address of its principal place of business;

- the company must deliver to the registrar copies of the parent undertaking's audited consolidated accounts and annual report.

The exemption does not apply to a company any of whose securities are admitted to trading on a regulated market in an EEA State.

Changes introduced following UK implementation of the EU Accounting Directive

Following the UK implementation of the new EU Accounting Directives, the Part 2 of the Regulations amends the Companies Act 2006.

Regulation 5(6), (7) and (8) amends s399 of the Companies Act 2006 and provides that a company is exempt from the requirement to prepare group accounts if:

- it would be subject to the small companies regime but for being a public company; and
- it is not a traded company.

Other changes to the law concern the exemptions from a parent company's obligation to prepare group accounts where that parent is itself included in the group accounts of a larger group. Amendments to s400 and s401 allow for the exemption to be claimed by at least 90% owned subsidiaries, as opposed to wholly-owned subsidiaries.

The new regulations apply to accounting periods beginning on or after **1 January 2016**.