ACCOUNTING RECORDS

One of the most commonly asked questions faced by accountants is what accounting records a business must keep, and for how long. This is not surprising, as record keeping can represent a significant administrative burden with associated costs. It can also result in penalties should a business fail to keep the records that it is required to retain. This factsheet will give you an indication of what accounting records a business must keep and for how long.

Limited companies

All companies are required to keep records that are sufficient to show and explain the transactions that have been entered into, that enable the financial position of the company to be determined with reasonable accuracy at any time, and that enable the directors to ensure that the company's accounts are compliant with the requirements of the Companies Act.

The accounting records are required to contain entries from day to day of all sums of money received and expended by the company and the matters to which they relate, and a record of the assets and liabilities of the company.

Additional requirements exist for those companies whose business involves dealing in goods, namely to retain a statement of the stock held at the end of the financial year that includes supporting stocktaking records. Unless a retail operation, there is also a requirement to maintain records of all goods sold and purchased that includes identifies the buyers and sellers.

A parent undertaking is obliged to ensure that any subsidiary undertaking also maintains adequate accounting records.

Company law requires records to be retained for a minimum period of three years (six years for a public company). As we shall see in a moment though, companies will usually be required for other reasons to retain their records for a longer period than this.

A failure to maintain adequate accounting records is considered to be a criminal offence committed by every officer of the company in default, potentially punishable by way of imprisonment of up to two years and/or a fine.

The requirements for limited liability partnerships (LLPs) mirror those for companies.

HMRC requirements

Companies

The Company law requirements for record keeping are primarily designed to enable directors to meet their obligation to prepare accounts each year for distribution to the company's shareholders and filing with Companies House. Additional requirements exist for all taxpayers, not just companies and LLPs, that enable them to demonstrate that their tax liabilities have been correctly calculated.

For businesses that fail to keep adequate records HMRC have the power to issue civil penalties of up to £3,000.

In addition to meeting the Company law requirements, HMRC require companies to retain any other financial records, information and calculations that were used to prepare the annual accounts and its corporation tax return. This goes further than the Company law requirements and will include items such as bank statements, invoices and contracts. It will also include details of judgements and estimates made when preparing the accounts that impact upon the calculation of the company's tax liability, such as provisions for stock obsolescence and bad

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debts, accruals and prepayments, and the measurement of financial instruments. It can be particularly important to retain records such as these, as these are likely to form the basis of any HMRC enquiry into the company's tax affairs.

Companies are required to keep their accounting records for a minimum of 6 years from the end of the financial year to which they relate. It may be necessary to retain them for longer than this in certain situations, such as where the company has bought fixed assets that it expects to last more than 6 years, or in respect of transactions that span more than one accounting period. The retention period is also extended when tax returns are filed late or where HMRC has started a compliance check into a tax return, in which case the records cannot be destroyed until that enquiry has been concluded.

Individuals and partnerships

The requirements for individuals, whether they operate as self-employed individuals or in partnership with others, mirror those for companies. The accounting records they are required to retain will be the same, although they are also required to retain records in support of other aspects of their self-assessment tax return such as dividend vouchers or interest statements.

For partnerships the accounting records will be shared by all the partners of the business. A nominated partner should be appointed, and it will be their responsibility for managing the partnership's tax returns and keeping business records.

The period that records need to be retained for differs slightly when compared to companies. Instead they should be kept for at least five years after the 31 January submission deadline of the relevant tax year. If the tax return is submitted more than four years after the normal filing deadline, then records must be kept for 15 months after the tax return is filed.

For individuals who are not self-employed or operating through a partnership, records should be kept for at least 22 months after the end of the tax year or for at least 15 months after the return was submitted if this is after the statutory deadline.

Value Added Tax

All VAT registered businesses are required to keep records of sales and purchases. This will include the following:

- All invoices issued
- All invoices received
- Self-billing agreements
- Name, address and VAT number of any self-billing suppliers
- Debit or credit notes
- Import and export documents
- Items you cannot reclaim VAT on
- Goods given away or taken from stock for private use

In addition some VAT records must be kept digitally as an 'electronic account' unless the business is exempt from Making Tax Digital for VAT:

- the VAT on goods and services supplied
- the VAT on goods and services received
- the 'time of supply' and 'value of supply' (value excluding VAT) for everything bought and sold
- any adjustments made to a return
- reverse charge transactions
- any VAT accounting schemes used
- your total daily gross takings if you use a retail scheme
- items you can reclaim VAT on if you use the Flat Rate Scheme
- your total sales, and the VAT on those sales, if you trade in gold and use the Gold Accounting Scheme

Generally VAT records must be kept for six years (ten years if using the VAT One Stop Shop or Mini One Stop Shop Schemes), although supporting records for bad debt relief claimed are only required to be kept for four years.

Employers

All employers are required to keep payroll records in support of the amounts paid to staff. This will include the following:

- Amounts paid to employees and the deductions made. As well as PAYE and national insurance this will include student loan repayments, pension contributions, payroll giving donations and child maintenance payments.
- Employee leave and sickness absences
- Tax code notices
- Taxable expenses or benefits
- Payroll giving scheme documents, including the agency contract and employee authorisation forms
- Reports and payments made to HMRC.

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It would also be sensible to retain other records in support of the operation of your payroll, such as employment status determinations, compliance with national minimum wage requirements and the checks you undertake to ensure that your employees have a right to work in the UK.

Payroll records must be kept for three years from the end of the tax year to which they relate.

Other

- Documents relating to government grants must generally be kept for four years from receipt of the grant. Where grant aid is still being received, no documents should be destroyed without consulting the relevant government department.
- The Limitation Act 1980 allows an action to be brought on a contract for up to six years from the event (e.g. breach) that gave rise to the claim. Where a contract is under seal (or deed), the time limit is twelve years. These periods govern how long invoices and other documents should be retained as evidence in case of a claim by, or against, another party.

Format of records

Accounting records can be kept in physical form, electronically or as part of a software program such as accounting software. Whatever format is used, records must be easy to retrieve in a readable format. Where software is required to retrieve records it is important to remember to retain access to that software for the minimum period for keeping records, for example ensuring that any necessary licence fees are paid.

Increasingly though certain records must be retained in digital format, to support HMRC initiatives such as Making Tax Digital. To date this only applies to VAT, and requires VAT registered businesses that have adopted Making Tax Digital to retain the records used to prepare the VAT return for filing in digital form.

However they are stored though accounting records should be kept in an orderly fashion that helps to ensure that records are complete and accurate, and capable of timely retrieval. Also it is imperative that you follow the rules on data protection wherever personal information forms part of your accounting records.

How we can help

We will be very pleased to discuss with you the impact these record-keeping requirements may have on your business. If you would like to discuss these issues in more detail, please contact us.

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