

MANAGEMENT ACCOUNTS

The purpose of this Appendix is to set out the basis on which we act as your accountant in regard to the preparation of management accounts and your responsibilities. If we undertake bookkeeping services then this work will be covered in a separate appendix.

We will communicate with the person who has signed the Letter of Engagement in relation to this assignment having agreed with you that they will represent you.

This is a continuing engagement and this Appendix replaces our previous Letter of Engagement

You have engaged us to prepare monthly/quarterly management accounts. We have agreed to prepare these no later than 30 working days after the reporting date.

1. Your responsibilities

- 1.1 You consider that it is necessary to prepare management accounts for any or all of the following reason(s):
- to fulfil the requirement of a banking covenant;
 - to facilitate the effective management of your business;
 - requirement of a regulator,
 - to ensure that dividends are lawful.
- 1.2 You consider that the management accounts should comply with the measurement principles of United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice (UK GAAP)) with the following exceptions:
- no provision will be made for corporation tax;
 - no provision will be made for deferred tax;
 - as a stock take was not undertaken at the reporting date, stock will be estimated based on historical gross profit margins or your stock estimation.
- 1.3 You are responsible for determining whether it is appropriate to follow the measurement principles of the micro entity regime though in general, we suggest that this regime is ignored since it is unhelpful for credit scoring purposes
- 1.4 Where management accounts are required to be submitted to a third party, it is your responsibility to submit them on a timely basis and to ensure that we are aware of any specific reporting requirements that the third party has imposed upon you, unless told otherwise we will assume that there are none.
- 1.5 You must not submit management accounts to third parties for the purpose of raising finance for either the business or its proprietors without our firm's express written consent.
- 1.6 In preparing the management accounts, we will help you to:
- select suitable accounting policies and then apply them consistently;
 - make judgements and estimates that are reasonable and prudent; and
 - prepare the management accounts on the going concern basis unless it is inappropriate to presume the business will continue to trade.

- 1.7 You are responsible for keeping adequate accounting records that set out with reasonable accuracy at any time the business's financial position.
- 1.8 You are also responsible for such internal control as you determine is necessary to enable the preparation of management accounts that are free from material misstatement whether due to fraud or error.
- 1.9 You are responsible for ensuring that the businesses assets are safeguarded, and for establishing arrangements designed to deter fraudulent or other dishonest or irregular conduct and detect any that occurs.
- 1.10 You are responsible for ensuring that the business complies with applicable law and regulations, and for establishing arrangements designed to prevent any non-compliance with law and regulations and to detect any that occur.
- 1.11 You have undertaken to make available to us, as and when required, all the businesses accounting records and related financial information, including minutes of management meetings necessary for the compilation of the management accounts. You will make full disclosure to us of all relevant information that we need to do our work.
- 1.12 You acknowledge that we have advised you, that these management accounts will only be suitable for determining the lawfulness of any dividends, when they comply **fully** UK GAAP.
- 1.13 You acknowledge that we have informed you that these management accounts, must not be submitted to HMRC or used as a basis to calculate your tax liability under self-assessment.

2. Scope of our work

- 2.1 You have asked us to assist you in the preparation of the management accounts. We will compile these management accounts based on the accounting records maintained by you and the information and explanations given to us by you. We shall prepare draft management accounts for your approval. In carrying out our engagement we will make enquiries of management and undertake any procedures that we judge appropriate but are under no obligation to perform procedures that may be required for assurance engagements such as audits and other assurance assignments.
- 2.2 You have advised us that the management accounts should be prepared under the measurement principals of FRS 105.
- 2.3 Although your management accounts do not need to comply with company law you have advised us to follow Format 1 regarding the balance sheet, and the usual Format regarding the profit and loss account, albeit with appropriate modifications.
- 2.4 You have advised us NOT to include in your management accounts details of your accounting policies.
- 2.5 Our work as the compilers of the management accounts will not be an audit of the management accounts in accordance with International Standards on Auditing (UK). Consequently, our work will not provide assurance that the accounting records or the

management accounts are free from material misstatement, whether caused by fraud, other irregularities or error.

- 2.6 We have a professional responsibility not to allow our name to be associated with financial information (including management accounts) which may be misleading. Therefore, although we are not required to search for such matters, should we become aware, for any reason, that the management accounts may be misleading, we will discuss the matter with you with a view to agreeing appropriate adjustments and/or additional disclosures that we consider appropriate. If an agreement cannot be reached and as a result we consider that the management accounts are misleading, we will withdraw from the engagement.
- 2.7 We will advise you as to the adequacy of your records for preparation of the management accounts and make recommendations for improvements, which we consider necessary.

3. Form of the accountant's report

- 3.1 We shall report to the management, with any modifications that we consider may be necessary, that in accordance with this engagement that we have compiled, without carrying out an audit or any other assurance service, the management accounts from your accounting records and from the information and explanations supplied to us. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than you and those charged with governance as a body for our work or for this report.
- 3.1 We have not included an accountant's report on the management accounts, this is on the basis that they are prepared solely for your confidential use. The management accounts must not be recited or referred to in whole or part in any other document. The management accounts must not be made available, copied or recited to any other party without our express written permission.