

Comments on FRED 50 Draft FRC Abstract 1

Background

Our firm acts for hundreds of RMCs working with several different managing agents.

At present we are adopting the treatment recommended in ICAEW Tech 03/11. We are treating the RMC as if it is an agent when transacting with third party suppliers. Separate Service Charge accounts are prepared and service charge transactions are not included within the statutory accounts. The fact that the RMC is acting as agent and service charge transactions are excluded from the accounts is made clear in both the director's report and the notes to the accounts.

Comments

The proposed treatment is an unsatisfactory compromise. Expenditure is to be recognised by the RMC but income will just be a notional 'matching' figure. Similarly a creditors figure will be recognised but with a notional 'matching' debtors figure. This 'partial accounting' treatment of service charge transactions is likely to be confusing rather than informative.

- The tenants will still need service charge accounts with a balance sheet in order to get a true understanding of the assets and liabilities held in the Service Charge Fund.
- Under the Tech 03/11 regime, for a company receiving income in its own right (e.g. ground rent) the transactions were distinct from the Service Charge Transactions. Tenants /shareholders understood this distinction. The new treatment is going to confuse matters.
- Who is going to benefit from the statutory accounts in this proposed format? Certainly not the tenants. They will have to suffer the inevitable additional cost of preparing these strange hybrid accounts.
- The draft Abstract should have included a worked example as it is not entirely clear how the income and expenditure should be disclosed.

Conclusion

Although the lengthy debate regarding the treatment of Service Charge Transactions in RMC accounts needs to be drawn to a conclusion, we do not feel that FRED 50 has come up with the answer. Tech 03/11 was a far more satisfactory and common sense solution to the problem.