

COMMENTS ON PROPOSED DRAFT FRC ABSTRACT 1 AND CONSEQUENTIAL AMENDMENTS TO FRSSSE

Brief background of the firm

- We act for over 500 RMCs of varying shapes and sizes, including mixed developments with hundreds of units to blocks of six flats. We have followed all aspects of Tech 03/11 recognising the separation of service charge accounts from company statutory accounts.
- Our partner Chris Atkinson was a member of one of the original committees at ICAEW on this subject.

Comments and queries – FRC abstract 1

- It is disappointing to note the restrictive nature of this abstract (Scope), as there are many other related issues, such as dealing with mixed developments which have not been addressed.
- Note 6 (Residential management transactions) refers to 'profit' and 'loss'. In our view this is inappropriate and misleading. These are trust monies and cannot be expressed in terms which imply trading. A more appropriate expression is 'surplus' and 'deficit' arising from 'income' and 'expenditure'.
- It is not clear whether expenditure should be shown in total or as individual items.
- It is not clear whether expenditure includes specific transfers to reserves.
- Accumulation of reserves is an important part of Service Charge considerations and at the year end may be represented by cash or debtors.
- Note 7 (Residential management transactions) is not clear to us. We assume it means that any accruals and prepayments relating to service charge transactions are to be shown separately in a note at the year end. Does this include reserves?

Other related problems

- On many occasions the RMC owns the freehold of the relevant property. This may well mean that there are transactions which SHOULD be shown in both the Income & Expenditure Account and the Balance Sheet. We think it will confuse the reader to have notes or references to transactions some of which are included and others which appear elsewhere.
- Equally there are some instances where balances arise between the RMC and the Service Charge Statement of Costs. Again, a mix of 'live' and 'other' balances will confuse.

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Registered to carry on audit work in the UK and regulated for a range of investment business activities by The Institute of Chartered Accountants in England and Wales.

Comments on Accounting Council advice to the FRC

- We feel the statement that RMCs do not 'benefit from' but merely 'deploy' funds is most apt.
- In paragraph 44 a true and fair view requires recognition of income and expense. Surely it logically follows that to complete this view, a surplus or deficit should be shown. However this is expressly discouraged ("Not be offset").
- Reference is made to Dormant Companies and additional costs to be incurred. We suggest the word "dormant" is misleading in any case and the word "inactive" may be more appropriate. Furthermore, RMCs will now have to wait for the Service Charge Account to be prepared in order to ascertain which numbers are to be included in its accounts, whereas previously "dormant" accounts could have been filed immediately after the year end. This will result in a reduced timescale for signing and filing accounts with Companies House and may increase costs.

Our view

- We feel that the inclusion of figures in RMC accounts will cause confusion to readers. We have spent a number of years advising clients of the separateness of service charge accounts and statutory accounts. (As emphasised by tech 03/11 and other publications). Such a change will not provide third party suppliers with additional assurances.
- Further explanations will be required to assure residents that "nothing has really changed" and that this additional work is required to satisfy the more esoteric end of the accountancy world.

An example

- We are disappointed that no example was included for the avoidance of doubt, and to this end we attach our own set of "Inactive" RMC accounts in which we have tried to give effect to the proposal.

And in passing.....

- After attending the recent ARMA conference we note that following the introduction of ARMA-Q an audit of members systems will be required every three years. ARMA has awarded this 'audit' to RICS.
- Given the debate over the term audit in leases (should this be under International Standards etc?), we wonder whether such a term is appropriate. (The ICAEW does not use the term audit when referring to the work of the QAD). Accountants

do not have exclusive rights to the term audit but there is enough confusion already over what such a term means at present.

Nick Hunwick and Alison Boram on behalf of

SIMPSON WREFORD & PARTNERS

15TH OCTOBER 2013

REGISTERED NO:

0

England and Wales

(Limited by Guarantee)

DIRECTORS' REPORT AND ACCOUNTS

FOR THE PERIOD ENDED 0 JANUARY 1900

(Limited by Guarantee)

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(Limited by Guarantee)

COMPANY INFORMATION

DIRECTORS

SECRETARY

REGISTERED OFFICE

REGISTERED NUMBER (England & Wales)

ACCOUNTANTS Simpson Wreford & Partners
Suffolk House
George Street
Croydon CR0 0YN

(REGISTERED NUMBER: - England & Wales)
(Limited by Guarantee)

REPORT OF THE DIRECTORS

The directors present their report with the accounts for the period ended 0 January 1900.

ACTIVITY

The principal activity of the company was the management of the property at XXXX.

The company has no income or expenditure in its own right from which it derives economic benefit, but has the ability to deploy such funds for the benefit of residents.

Whilst certain contracts are entered into in the name of the company, the execution of these contracts and settlement of the liabilities arising are made through a Service Charge Statement of Account that does not form part of the annual accounts of the company and is not filed at Companies House.

Charges collected are held on trust for the purpose of meeting the relevant costs in relation to the property in accordance with the provisions of section 42 of the Landlord and Tenant Act 1987.

DIRECTORS

The directors who held office at any time from the beginning of the financial period until the date of this report were:

This report has been prepared in accordance with the special provisions of Part 15 of the Companies Act 2006 relating to small companies.

Signed on behalf of the board of directors

..... Director

..... Date

**(REGISTERED NUMBER: - England & Wales)
(Limited by Guarantee)**

INCOME AND EXPENDITURE ACCOUNT

FOR THE PERIOD ENDED 0 JANUARY 1900

The company has no income or expenditure in its own right from which it derives economic benefit, but has the ability to deploy such funds for the benefit of residents.

Whilst certain contracts are entered into in the name of the company, the execution of these contracts and settlement of the liabilities arising are made through the Service Charge Statement of Account that does not form part of the annual accounts of the company and is not filed at Companies House.

Charges collected are held on trust for the purpose of meeting the relevant costs in relation to the property in accordance with the provisions of section 42 of the Landlord and Tenant Act 1987.

The respective income and expenditure which has been included in the Service Charge Statement of Account is as follows:

	Current year £	Previous year £
Total Service Charges receivable	<u>XXXXXX</u>	<u>XXXXXX</u>
Total expenditure payable	<u>XXXXXX</u>	<u>XXXXXX</u>

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BALANCE SHEET AS AT 0 JANUARY 1900

	1900 £	1900 £
TOTAL NET ASSETS	<u>-</u>	<u>-</u>
CAPITAL AND RESERVES		
Income and expenditure account	<u>-</u>	<u>-</u>

The company is entitled to exemption from audit under Sections 475 and 477 of the Companies Act 2006 for the period ended 0 January 1900.

The members have not required the company to obtain an audit of its financial statements for the period ended 0 January 1900 in accordance with Section 476 of the Companies Act 2006.

The directors acknowledge their responsibilities for:-

- a. ensuring that the company keeps accounting records which comply with Sections 386 and 387 of the Companies Act 2006; and
- b. preparing financial statements which give a true and fair view of the state of affairs of the company as at the end of each financial year and of its profit or loss for each financial year in accordance with the requirements of Sections 394 and 395 and which otherwise comply with the requirements of the Companies Act 2006 relating to financial statements, so far as applicable to the company.

These financial statements have been prepared in accordance with the special provisions of Part 15 of the Companies Act 2006 relating to small companies and with the Financial Reporting Standard for Smaller Entities (effective April 2008).

Signed on behalf of the board of directors on

.....
 - Director

The notes on page 5 form part of these financial statements

(REGISTERED NUMBER: - England & Wales)
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NOTES TO THE ACCOUNTS

FOR THE PERIOD ENDED 0 JANUARY 1900

1. ACCOUNTING POLICIES

Basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective April 2008).

2. INCOME AND EXPENDITURE

The company had no income or expenditure which was attributable to it.

3. COMPANIES ACT 2006

In certain instances these financial statements do not use the terminology laid down by the Companies Act 2006. However such departures give a better understanding of the position and fulfil the requirement to show a true and fair view.

4. SERVICE CHARGE ASSETS AND LIABILITIES

Assets	Current year £	Previous year £
Bank balance		
Held in a statutory trust under S 42 of the Landlord & Tenant Act 1987	<u>XXXXXX</u>	<u>XXXXXX</u>
Service charges demanded but not yet received amounted to	<u>XXXXXX</u>	<u>XXXXXX</u>
Liabilities		
Monies due but not yet paid from the statutory trust amounted to	<u>XXXXXX</u>	<u>XXXXXX</u>