ARMA

Mei Ashelford
Financial Reporting Council
Aldwych House
71-91 Aldwych
London
WC2B 4HN

12th November 2013

Re: Version 2 DRAFT RESPONSE TO FRED 50 Draft FRC Abstract 1 Residential Management Companies' Financial Statements

Dear Mei Ashelford,

Summary

- ARMA supports overall the conclusions of this abstract and we welcome the opportunity to clarify the contents of RMCs' statutory accounts.
- We agree that RMCs act as principals.
- We welcome the clear statement that separate service charge accounts are a requirement for RMCs.
- We agree that RMCs that carry out management of blocks of flats and collect service charges, as trustees are not dormant companies.
- There is insufficient clarity on what should be in the RMC's statutory accounts.
- We wish the final version of the abstract to contain a worked example.
- The definition of residential management company used is too wide and should be the same as in Tech 03/11 guidance on service charge accounts-resident management company.
- We support the proposed effective implementation date for the abstract.
- The introduction of Tech 03/11guidance on residential service charge accounts was a huge advancement in providing clear, concise and consistent service charge accounting information. In dealing with the statutory accounts of RMCs we urge the FRC not to undo much of this good work by providing leaseholders who are also shareholders with a further set of accounts which has too much of the same information in a different format.

We now present greater explanation of these points and some other details.

The Need for Example Accounts

Feedback from ARMA'S members including reporting accountants suggests that clarity in the draft would be improved if an example set of accounts was attached to the final abstract.

ARMA

Points for Clarification

- It is not clear whether expenditure should be shown in total or as individual items.
- It is presumed that the total service charge expenditure be shown and then an equal contribution from the trust fund that matches.
- It is not clear if expenditure includes transfers to reserves.
- It is not clear what should be shown in the balance sheet of the company.
- Does the balance sheet show the contribution to be brought from the service charge trust fund?
- Do cash and other assets need to be disclosed separately?
- The Abstract appears to require disclosure of assets but not liabilities.
- No guidance is given on prior year comparatives and/or prior year adjustments.

Definition of Residential Management Company (RMC)

The definition used in the FRC paper is not the same as that in the guidance about service charge accounts and this may cause some confusion. We prefer the term 'Residents' management company (RMC)' to Residential Management Company. Residential Management Company could refer to quite different commercial entities to RMCs which look after the management of one block.

This is the definition on Tech 03/11 guidance:

"Residents' management company (RMC)
An organisation which may be referred to in the lease, which is responsible for the provision of services, and manages and arranges maintenance of the property, but which does not necessarily have any legal interest in the property. As the term implies, most or all of the members of RMCs will be leaseholders. In this guidance the term landlord includes RMCs and Right to Manage Companies (RTMCos)."

Disclosure Note about Trust Funds

The disclosure note on page 8(b) refers to RMCs that are trustees over more than one trust. We think that needs to be clarified because this is not a situation that we recognise. Most RMCs are over one trust only. It is common for one RMC to have multiple schedules of expenditure on service costs and multiple bank accounts for different schedules and day to day versus reserve funds. But this does not mean there is more than one trust in place for one estate or scheme. Please clarify this point.

Terminology - Profit and Loss, Income and Expenditure, Surplus and Deficit

The Companies Act allows for alternative terminology, replacing Profit & Loss with Income and Expenditure. Most RMCs are not in the business of making profits and losses and the abstract should explain that alternative terminology may be used in the relevant paragraphs. We also recommend that the abstract itself uses the terms surplus and deficit not profit and loss.

Telephone 020 7978 2607
Facsimile 020 7498 6153

info@arma.org.uk
www.arma.org.uk

The Association of Residential Managing Agents Ltd
178 Battersea Park Road, London SW11 4ND

Company Limited by Guarantee
Registered in England No. 5128635 at the above address

VAT Number: 707 3118 58

Financial Year Ends for Company versus Service Charge Accounts

It may be the case that where separate service charge accounts to company account shave been prepared to date that the financial year ends are not the same. The impact of this abstract is that it would make sense for the year-ends to match because of the need to carry across service charge figures into the statutory accounts.
We think the abstract should acknowledge this impact and advise that it would be sensible to adjust the year-end for the company to align with the service charge year-end in the leases.

Some Other Issues

ARMA's members have raised the issue of what is the correct form of accounts for mixed-use properties (developments of commercial and residential properties); situations where there are both commercial and residential transactions within the same management company. We do not see this as an issue that can be addressed in this Abstract but ARMA would be happy to cooperate with FRC or other accountancy bodies in developing good practice for mixed use developments. These developments are not as common as RMCs of residential leasehold blocks but they are becoming far more common and handle substantial amounts of money.

Yours sincerely,

Michelle Banks
CEO

Telephone 020 7978 2607
Facsimile 020 7498 6153

info@arma.org.uk
www.arma.org.uk

The Association of Residential Managing Agents Ltd
178 Battersea Park Road, London SW11 4ND

Company Limited by Guarantee
Registered in England No. 5128635 at the above address

VAT Number: 707 3118 58