FRS105 FINALISED – NO CHANGE FOR RESIDENTS’ MANAGEMENT COMPANIES

The Financial Reporting Council (FRC) has finalised the new reporting regime for small and micro entities in a new accounting standard FRS105, *The Financial Reporting Standard applicable to the Micro Entities Regime*. Buried deep in the document are two paragraphs relating to the accounting treatment of Residents’ Management Companies. After four years of heated debate and controversy on this subject, the conclusion of the FRC is that FRS105 should not be changed in any way to accommodate RMCs. The grounds for this conclusion are that,

- The issue is too narrow and sector specific
- The benefits of changing current practices would not outweigh the costs.

Therefore, there is to be no change in current practices and no renewed guidance on how to prepare accounts for RMCs. The implications of this are that dormant accounts are still an option for RMCs and the agent/principal issue is no longer a consideration when preparing RMC accounts.

Given the above, directors of RMCs should now take the following steps,

- If appropriate, continue to file dormant company accounts
- If dormant company accounts are not appropriate, because there are transactions in the accounting period that relate to the company, then RMCs should follow the Micro Entity regime which has been available since 2013. FRS105 becomes effective from 1st January 2016. RMCs can then take advantage of the limited disclosures required in micro entity accounts which should make the accounts easier to prepare and therefore less costly.

The FRC does not give guidance on whether service charge transactions should appear in statutory accounts and those accountants who prepare statutory accounts that include service charge income and expenditure are under no obligation to change their practises under FRS105. This means that we will still have diversity in the approach to RMC accounts which is confusing for everyone involved in the sector.
However, the way is now clear for a body like ARMA to direct its members on expectations for RMC accounts and to advise them that two sets of accounts are required,

1. Statutory accounts that only include the transactions that relate to the company and exclude any service charge income or expenditure.

2. Separate service charge accounts prepared in accordance with best practice (TECH03/11) and the requirements of the lease for the property.

This approach is compatible with the early stages of the ARMA Q regime which has emphasised that service charge accounts should not include company expenditure unless it is permitted under the terms of the lease.

ARMA is now in a strong position to ensure that its members only use accountants that agree with the above approach and to indicate to the accountancy profession what it believes to be best practice going forward.

The debate on accounting for RMCs is hopefully now at an end and the decision of the FRC to wash its hands of the matter is probably in the best interests of everyone involved in the sector.