

## RESIDENTIAL SERVICE CHARGE ACCOUNTS

Tech 01/10 Accounting for service charges [<http://www.icaew.com/en/about-icaew/what-we-do/technical-releases?utm=widget>] contains a section on statutory and service charge accounts when the landlord is a company, such as a residents management company (RMC). Tech 01/10 also contains an illustrative example of the RMC statutory accounts.

The draft guidance has been revised extensively as a result of comments received on the consultation draft issued in October 2010. ICAEW obtained legal advice on draft Tech 01/10 to clarify the following points:

- the need to prepare separate service charge accounts and statutory company accounts,
- the application of the statutory trust provisions of section 42 of the 1987 Landlord and Tenant Act to residents' management companies including those where all lessees are members of the company and vice versa.

A key point that could not be settled, however, was the treatment of service charge transactions in the RMC statutory accounts. In order not to hold up publication of guidance on the preparation and external examination of service charge accounts, the new Technical Release will cover service charge accounts only. Statutory accounts of RMCs will be the subject of separate guidance.

The area under debate is limited to the treatment of service charge transactions in the statutory P&L/I&E account of the RMC. The point was considered by ICAEW's Financial Reporting Committee at its meeting in September 2011 and the Committee concluded that the issue is a matter for UITF rather than ICAEW to take forward. This is because the statutory accounts have to reflect the economic substance of the transactions which depends on the interaction of the statutory trust provisions of the Landlord and Tenant Act (LTA) 1987 with the terms of the lease. Existing accounting pronouncements do not cater for this point so new ground has to be broken. ICAS and ACCA, who are involved in the development of the guidance, agreed that the question should be referred to UITF.

The next steps depend on whether UITF agrees to take on this issue and, if it does, the nature of any resultant pronouncement. If UITF declines or makes no definitive pronouncement, then it is likely that draft guidance will be published on the ICAEW website for discussion and development with input from members and other organisations.

In the meantime, it is sensible for practitioners to continue to prepare the statutory accounts on their current basis (whether or not the member has recently reflected the draft guidance in Tech 01/10), reporting what they consider to be the substance of the transactions in accordance with the form and content set out in Schedule 1 to the applicable Accounts and Directors' Reports Regulations 2008 and having regard to the statutory trust over service charge monies created by s.42 LTA 1987. ICAEW's Technical Advisory Helpline (link <http://www.icaew.com/en/members/advisory-helplines-and-services>) will be pleased to help members who have queries about a specific set of accounts.

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