

Fact Sheet 1

Service charge accounting

Important new guidance issued on service charge accounting

Important and potentially controversial new guidance on accounting and reporting in relation to residential service charge accounts for residential properties has just been released and is set to affect thousands of blocks of flats across the country.

Without doubt, awareness of the need for better service charge accounting is required in order to improve standards and promote best practice in the administration of service charge accounting. However the issue as to whether the service charge transactions should be included in the landlord's own accounts has been referred to the 'Urgent Issues Task Force' to deliberate on. Should they do so, no additional guidance is expected until 2012.

This guidance relates to residential leasehold property on which variable service charges are paid by leaseholders in accordance with their leases to cover the cost of providing services, repairs, maintenance, improvement, insurance or management. It has been prepared by a joint working group comprising representatives of the Association of Chartered Certified Accountants (ACCA), the Institute of Chartered Accountants of England and Wales ICAEW, the Association of Residential Managing Agents (ARMA) and the Royal Institution of Chartered Surveyors (RICS).

Some of the key messages on best practice in the guidance include:

- All lessees paying variable service charges should receive an annual service charge statement from their landlord or Residents' Management Company (RMC) (including Right to Manage Companies (RTMCo)) within six months of the end of the accounting year.
- The annual statement should include an income and expenditure account and a balance sheet and be prepared on an accruals basis. This guidance includes an illustrative example of a service charge statement.
- All annual statements of account should be subject to an examination by an independent accountant before issue to lessees where the costs can be recovered in the service charges.
- If the service charge statement is prepared on behalf of an RMC or RTMCo then it should be a separate statement to the annual accounts for the company required to be filed at Companies House.

Many RMCs and RTMs still continue to include, incorrectly, service charge transactions in their accounts and fail to ensure that corporation tax liabilities, if any, are correctly calculated and, as such, fail to follow the statutory trust concept relating to service charge transactions. Companies House appear to take a softly softly approach to the filing of RMCs and RTMs statutory accounts in terms of appropriate disclosures and content of accounts. If the position changes following this guidance release, then the imposition of potential significant late filing penalties may occur if Companies House reject filed accounts close to the filing deadline. Such penalties, and the cost of re-working the accounts, may fail to be recoverable from the tenants. This may be in addition to any costs, which are not recoverable from tenants where more than 18 months has elapsed since the cost was incurred. RMCs/RTMs should ensure that they provide their tenants with service charge accounts within 6 months to meet their obligations.

Accounting for service charges in the property industry is a specialised area that requires expertise and an understanding of the sector. For specialist advice in this area please contact: Nick Bullen on nickb@whitleystimpson.co.uk or **01295 270200**

We accept no liability to any person for any inaccuracy in any of the information on this fact sheet. The above guidance has been prepared by a joint working group comprising representatives of the ACCA, ICAEW, ARMA and RICS. Contact Whitley Stimpson for specialist advice in this area.