

Gordon Whelan

associates

Chartered Accountants

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Jenny Carter
Financial Reporting Council
8th Floor
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17 November 2014

Dear Ms Carter

FRC CONSULTATION - ACCOUNTING STANDARDS FOR SMALL ENTITIES

INTRODUCTION

Gordon Whelan Associates Limited is a firm of Chartered Accountants based in Hampshire with clients across the UK. We specialise in the certification of Service Charge accounts and also provide consultancy services to Managing Agents and directors of Resident Management Companies. This work accounts for a significant proportion of our revenues and so we have a keen interest in matters which affect the Residential Property Management sector. We are affiliate members of the Association of Residential Managing Agents (ARMA) and act as Honorary Consultants to the Federation of Private Residents' Associations.

.As we stated in our response to FRED 50 – we strongly support TECH03/11 (this is the guidance issued by the professional accountancy bodies jointly with the Association of Residential Managing Agents (ARMA) and the Royal Institution of Chartered Surveyors (RICS)).

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We agree with TECH 03/11 that *"If the service charge statement is prepared on behalf of an RMC or RTM Co then it should be a separate statement to the annual accounts for the company required to be filed at Companies House."*

Where leases set out the way in which Service Charges are to be accounted for, then the requirements of the lease should be followed. Most leases require service charge accounts to be provided to lessees. We also note that ARMA have recently launched a new self-regulatory regime, ARMA-Q, which requires members to follow TECH03/11.

QUESTION 5

"FRED 50 Draft FRC Abstract 1 – Residential Management Companies' Financial Statements was issued in August 2013. After considering the comments received, the FRC publicised its intention to roll this project into the work required to implement the new EU Accounting Directive. Do you agree, in principle, with adding a new sub-section to Section 34 Specialised Activities of FRS 102 to address the principles of accounting by residential management companies (RMCs) (see paragraph 3.27)? If not, do you consider this unnecessary, or would you address the issue in an alternative way?"

RESPONSE TO Q5

We do not agree with adding a new sub-section to Section 34 Specialised Activities of FRS 102

We do not think that adding a sub-section to FRS102 is the best way to resolve the particular issues of accounting for Residential Management Companies (RMC's).

FRS102's focus is rightly on commercial organisations. An RMC is not a commercial organisation. It is an entity created either at the development of residential property or at a later date to enable collective management and /or freehold ownership. Furthermore, given the repeated discussion and controversy this topic has caused we do not think that it would be sufficient for only "principles of accounting by RMCs" to be set out. This issue needs to be resolved with clear and comprehensive guidance.

We note that it is the FRC's intention that no new disclosures be shown in the proposed sub-section. We feel that it is important that there is clear guidance on disclosures which clarify what should be shown in RMC accounts and how these accounts should explain that there are service charge accounts prepared in accordance to the lease which are separate from the company accounts.

Alternative proposal for RMC accounting – The issue of a new Statement of Recommended Practice (SORP).

We believe that the accounting for RMC's would be best resolved through the issue of a Statement of Recommended Practice (SORP). We would welcome the development of such a SORP by the CCAB (the Consultative Committee of Accounting Bodies) in conjunction with ARMA and RICS.

"Statements of Recommended Practice (SORPs) are sector-driven recommendations on accounting practices for specialised industries or sectors which supplement accounting standards and other legal and regulatory requirements in the light of the special factors prevailing or transactions undertaken in a particular industry or sector. SORP's are not issued by the FRC, but by SORP-making bodies recognised by the FRC for that purpose." [Source FRC website].

Existing SORPs cover the accounting for Authorised Funds, Charities, Further and Higher Education, Investment Companies, Limited Liability Partnerships, Pension Schemes and Registered Providers of Social Housing. We note that the CCAB issued the Limited Liability Partnership SORP.

As the purpose of a SORP is to interpret accounting standards by providing recommendations on financial reporting for specific industries or sectors it would appear to be the perfect vehicle to resolve this matter and the best way to arrive at guidance that meets the needs of the industry.

Yours sincerely



Gordon Whelan

On behalf of Gordon Whelan Associates Limited