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Financial Reporting Council  
5<sup>th</sup> Floor, Aldwych House  
71-91 Aldwych  
London  
WC2B 4HN

Dear Sirs,

**RE: FRED 50 Draft Abstract 1**

We refer to the above document issued in August 2013, and our comments set out below:

As a firm of Chartered Accountants who prepare accounts for a significant number of residential management schemes we as a firm have a vested interest in the above topic.

We understand that there is considerable diversity in practice, and we believe that FRED 50 has raised further issues as set out below, rather than providing guidance:

**Presentation of accounts**

It is unclear from FRED 50 how the proposed financial statements should be presented; please can the FRC provide clarity on the following points:

- According to FRSSE 2008 expenditure in the profit and loss account should be analysed under one of the following headings; cost of sales, distribution costs or administrative expenses. Can the FRC confirm under which heading the service charge expense should be recorded, as we cannot identify a suitable category.
- Clarification is required on how the income is recorded in the profit and loss account, should it be recorded as other operating income, as it would be inaccurate to class the income as turnover as it does not agree with the definitions set out in FRSSE 2008. We believe that recording income which equates to the service charge expense, and not the full service charges raised will confuse the users of the financial statements.
- Further guidance is required on how the treatment of non-cash items will be recorded in the RMC accounts, in particular contribution to reserve funds, and also the expenditure from reserve funds. The treatment of such items in the service charge accounts are often dictated by the lease, this may not always agree to the treatment dictated by the FRSSE. Presumably more complex situations such as this will result in the total expenditure in the service charge accounts being different to that which is recorded in the RMC financial statements. Therefore creating additional work and in turn more costs.

It would be helpful for the FRC to publish a pro forma of a set of the accounts that it is proposing RMCs prepare.

### Accounting Costs

FRED 50 has stated that 'the need to prepare financial statements that give a true and fair view overrides the additional costs that will be incurred by these RMCs'. We doubt that this will be sufficient justification for the lessees who are affected. As is the case with majority of the RMCs, they do not generate any income, therefore the additional accountancy costs required to prepare and file the now non-dormant accounts of the RMCs will fall upon the service charge budget and in turn the lessees. In the majority of cases the lessees are lay people and therefore unlikely to understand or appreciate the further changes that are now being imposed.

### Non Co-terminus year end dates

Where the accounting reference date of the RMC differs from the date on which the service charge accounts are made up to (as dictated by the lease) the information will not be readily available to record the service charge expense in the RMC financial statements. Further additional work will be therefore required to summarise expenditure totals, compounding the issue of additional accountancy fees.

We look forward to your response in respect of the above.

Yours faithfully

*Booth Ainsworth UP.*

BOOTH AINSWORTH LLP