



Mei Asheford
Financial Reporting Council
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6th November 2014

**Re: CONSULTATION DOCUMENT ACCOUNTING STANDARDS FOR
SMALL ENTITIES: IMPLEMENTATION OF THE EU ACCOUNTING
DIRECTIVE. SEPTEMBER 2014.**

Dear Ms Asheford,

We welcome the opportunity to comment on the above document, and I am writing now to give you ARMA's view.

In November 2013, we commented on Version 2 Draft response to FRED 50 Draft FRC Abstract 1 Residential Management Companies' Financial Statements. Insofar as they remain relevant, we would like the views we expressed then to be taken into account. I attach a copy of our letter for your reference.

In relation to the current consultation document, we have the following comments, which respond mainly to Question 5.

We welcomed the approach set out in FRED 50, especially that the Residents Management Company (RMC) acts as a principal and that they are not dormant companies. But we think it is vitally important that there is clearer guidance on the accounting treatment to be adopted by these micro-entities. The aim should be for managing agents, and others involved in the accounting process to have unambiguous guidance to support the production of clear financial records accessible to, and comprehensible to interested parties (such as leaseholders).

To achieve this, RMCs need to make it clear that there is a separate set of service charge accounts, to which people can refer for further information.

The proposed consultation document does not highlight the requirement in TECH 03/11 for separate service charge accounts to be produced. Production of service charge accounts is now a requirement of ARMA-Q, our new self-regulatory regime, to which all members will be accredited. Accreditation will provide an assurance to consumers that a managing agent is operating to best practice standards. It is important therefore

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that the role of service charge accounts in the overall accounting regime should be highlighted.

The most effective way to achieve this would be to include a note in the RMC accounting policies that the receipts, payments, assets and liabilities relate to a trust fund, and that separate service charge accounts are produced.

In the case of the accounts for micro-entities, we would suggest that the note appears in the Directors' report.

We agree that the assets and liabilities should not appear in the balance sheet, but there should be an option to include this information within the notes. The guidance should emphasise the importance of notes as a way of providing helpful information. If notes are not to be used, there should be an indication of where further information can be obtained, by interested parties.

We suggest that a profit and loss does not need to include a summary of the income and expenditure from the service charge accounts. But we know that this is a contentious issue and so we think that the inclusion of this information in the profit and loss statement should be optional.

We would support the idea of adding a new sub-section to Section 34 of FRS 102, provided that the content is clear and not unduly prescriptive.

In this context there is a need to keep in mind the possibility of future change (whether instigated by the EU or by the professional institutions in the UK). It may be worth considering the option of a sub-section containing the EU Directive requirements only, together with a requirement to be compliant with a daughter document, containing specified accounting practices. However, such an arrangement could be confusing, so it would probably only be worthwhile if there was a significant benefit from greater flexibility.

We would be very happy to engage with you further on this issue, particularly in any work to develop more detailed proposals for accounting guidance for managing agents.

Yours sincerely,

Michelle Banks
CEO