



## Residents' management companies: service charge accounts

A residents' management company (RMC) is one that is owned by lessees. Lessees pay service charges to the RMC, which has a legal or contractual obligation to provide services, repairs, maintenance, improvement, insurance or management. If the RMC is entitled under the terms of a lease to levy variable service charges on residential property, it is subject to the provisions of the Landlord and Tenant Acts (LTAs) 1985 and 1987 in relation to accounting for service charges.

This factsheet considers how service charge accounts should be prepared.

### How does an RMC account for service charges?

Service charge monies paid by lessees are trust monies. LTA 1987 states that such monies should be held in ring fenced designated bank accounts.

If the lease/tenancy agreement sets out the way in which service charges are to be accounted for, who shall certify or approve the accounts, the costs that can be recovered and the periods of time for which accounts should be prepared, then the requirements of the lease must be followed.

In other situations, the requirements for service charge accounting in the LTAs do not equate to accruals-based accounting and there is no requirement for any sort of balance sheet. However, the Institute of Chartered Accountants (ICAEW) recommends that the annual statement should include an income and expenditure account and a balance sheet and be prepared on an accruals basis.

### When do service charge accounts need to be prepared?

Current legislation does not state how soon the annual statement of accounts for service charges should be produced and issued to leaseholders after the year end.

However, the ICAEW's guidance states that it is best practice to issue the service charge

statement within six months of the accounting year end.

### Do service charge accounts need to be audited?

The lease is the contract for the administration of service charges so if it refers to an audit then, in principle, an audit should be carried out.

The age of the lease should be considered though - the term 'audit' in a lease made before 1980 would not have involved any particular procedures beyond those needed to assist in the preparation of the accounts, for an auditing professional or other qualified, practising accountant to state now that an audit has been undertaken requires the professional to follow generally accepted auditing standards. In these cases, the lessees may agree to another, less disproportionate, form of examination.

The ICAEW guidance offers an alternative form of engagement - an examination resulting in a report of factual findings on the service charge accounts.

### Other filing requirements

The service charge statement should be a separate statement to the annual accounts for the company required to be filed at Companies House.

Generally, HMRC considers RMC's to be dormant companies for corporation tax purposes, although there are several conditions that must be met for this to be the case. For more information please see HMRC's guidance below.

### Further information

The ICAEW have published guidance on preparing residential service charge accounts: [tech-03-11-residential-service-charge-accounts.ashx](https://www.icaew.com/technical/technical-articles/tech-03-11-residential-service-charge-accounts.ashx)

HMRC's guidance:

[Set up and run a flat management company - GOV.UK](https://www.gov.uk/guidance/set-up-and-run-a-flat-management-company)