Service Charge Reconciliation
GUIDE

Re-Leased

GUIDE OVERVIEW

01

SERVICE CHARGE RECONCILIATION

How to implement paid income and expenses

During your implementation to Re-Leased you will probably be part way through a service charge period for your properties. If you have not done a part year reconciliation when you cut off from your previous system you will want to implement income and expenses previously paid. Also, if you are taking on the management of a property part way through a service charge year you will need to record income and expenses paid by the previous managing agent.

STEP ONE
Setup chart of account codes for 'Previously paid Service Charge' as a Revenue type code and 'Previously paid Service Charge' as an Expenses type code.

STEP TWO
To load the paid income:
1. Create an income invoice for each Tenant using your usual Service Charge income chart of account
2. Create an income credit note for each Tenant using the above 'Previously paid Service Charge' income chart of account for the exact opposite of the invoice
3. Allocate the credit note to the invoice
4. Do not include the Previously paid Service Charge chart of account as a Tenant income code in your budget (this will ensure that only the income invoice side of these transactions will be included)
5. Ensure that the VAT is shown exactly the same on the invoice and credit note (this will ensure that your VAT position will be zero and your VAT reporting will not be affected)

STEP THREE
To load the paid expenses:
1. Create one expense invoice, add a separate line item for each expense code with a paid balance
2. Create one expense credit note for the total amount of the invoice above using the above 'Previously paid Service Charge' expense chart of account
3. Allocate the credit note to the invoice
4. Do not include the Previously paid Service Charge chart of account as an expense code in your budget (this will ensure that only the expense invoice side of these transactions will be included)
5. Ensure that the VAT is shown exactly the same on the invoice and credit note (this will ensure that your VAT position will be zero and your VAT reporting will not be affected)

NOTE: To ensure these items do not show on your Client statement, you should setup a new separate ledger for these adjustments to go through and as long as you are using a Client Statements with a sheet per ledger you can just disregard the ledger. Keeping a separate ledger will also help you to easily keep track of any adjustments you make.

02 SERVICE CHARGE RECONCILIATION
Setup required when one Lease covers multiple areas

The below scenario details what happens when a lease covers more than one area the recommended way to setup the property and budget is as follows:

SCENARIO

Property: Midland House

Areas: Ground Floor Front
Ground Floor Rear
First Floor
Second Floor

Tenants: Smith Management have 1 lease covering Ground Floor Front and First Floor

Areas Setup within Property: Ground Floor Front (including First Floor)
Ground Floor Rear
First Floor
Second Floor

Tenant Setup for the areas: Smith Management are in the following Areas:
Ground Floor Front (including First Floor)
First Floor

NOTE: Both areas are set against the Tenancy, this will ensure that the rent psf, rent to area allocation and tenancy schedule all show correctly.

SERVICE CHARGE SETUP

Budget only includes these areas: Ground Floor Front (including First Floor)
Ground Floor Rear
Second Floor

NOTE: Only set one of the areas of the multiple areas covered by the one lease. This will ensure that the budget understands the correct income.

NOTE: If both areas are set against the Tenancy, when the reconciliation is performed as it's by area the income from the Tenant will be counted twice - ie it will be counted for each area in the budget.

NOTE: This will only work if all areas set against the Tenancy are in the same Service Charge Schedule If a budget includes a lease covering multiple areas where some of the areas are in different schedules separate versions of the lease need to be created and set against each area.

03 SERVICE CHARGE RECONCILIATION
Accruals and Pre-Payments

Re-Leased does not currently have a specific option to handle accruals and pre-payments between service charge periods. Please follow the process below to handle this.

EXPENSE ACCRUALS

1. Create one expense invoice with a line per chart of account with an accrual in the budget and an issue date within the budget period. (It could be a neat process to always use the last day of the service charge period). Enter the description as 'SC Accrual' and select 'Out of Scope' VAT type
2. Create an expense credit note using the same information as the invoice above and with an issue date in the next budget period (It could be a neat process to always use the first day of the new service charge period).
3. Allocate the credit note to the invoice. This process will then put the credit in the new service charge period (ie the reversal of the accrual).

INCOME ACCRUALS

1. Create an income invoice per Tenant using their usual Service Charge income chart of account code with an issue date within the budget period. (It could be a neat process to always use the last day of the service charge period). Enter the description as 'SC Accrual' select 'Out of Scope' VAT type
2. Create an income credit note per Tenant using the same information as the invoice above and with an issue date in the next budget period (It could be a neat process to always use the first day of the new service charge period)
3. Allocate the credit note to the invoice. This process will then put the credit in the new service charge period (ie the reversal of the accrual)

EXPENSE PRE-PAYMENTS

1. Create one expense invoice with a line per chart of account with a pre-payment and an issue date in the next budget period. (It could be a neat process to always use the first day of the next service charge period). Enter the description as 'SC Pre-payment' and select 'Out of Scope' VAT type
2. Create an expense credit note using the same information as the invoice above and with an issue date in the current budget period (It could be a neat process to always use the last day of the service charge period).
3. Allocate the credit note to the invoice. This process will then put the invoice in the new service charge period (ie the reversal of the pre-payment)

INCOME PRE-PAYMENTS

1. Create an income invoice per Tenant using their usual Service Charge income chart of account code with an issue date in the next budget period. (It could be a neat process to always use the first day of the next service charge period). Enter the description as 'SC Pre-Payment' select 'Out of Scope' VAT type
2. Create an income credit note per Tenant using the same information as the invoice above and with an issue date in the current budget period (It could be a neat process to always use the last day of the current service charge period)
3. Allocate the credit note to the invoice. This process will then put the invoice in the new service charge period (ie the reversal of the pre-payment)

NOTE: If your property is VAT elected and you need to do VAT reporting on it, you will find that the Re-Leased VAT solution will currently include 'Out of Scope' items on the VAT report (they will however, be in their own section, so easily identifiable) You will need to adjust your figures by the total of the 'Out of scope' balances. Please be advised that we are currently waiting for our Development team to correct this.

NOTE: If you do not want the accruals and pre-payments showing on your Client statement, you should setup a new separate ledger for accruals and pre-payments to go through and as long as you are using a Client Statements with a sheet per ledger you can just disregard the ledger. Keeping a separate ledger will also help you to easily keep track of the accruals and pre-payment.

03 SERVICE CHARGE RECONCILIATION

Managing an expense invoice where part is recovered from Service Charge & part recharged to tenants

This section covers the two different processes that need to be followed when an expense invoice is partially recovered from the service charge and partially recharged to Tenants.

If the split is known when the expense invoice is created on Re-Leased the process is different from if the split is realised at a later date. This document explains both scenarios:

SCENARIO ONE

When the split between Service Charge and Tenant Recharge is known when the expense invoice is created in Re-Leased:

Let's Assume you have an expense invoice for £100, 40% is recoverable from the Service Charge under expense COA - S1 Insurance and 60% is to be recharged to tenants

1. On your expense invoice create 2 separate invoice lines codes as follows:
    *   Unit price - £100 - quantity - 0.4 - COA S1 Insurance
    *   Unit price - £100 - quantity - 0.6 - COA Tenant Recharge (or similar code)

That is all that is required, the service charge will only account for £40 and you can then create your tenant recharge invoices as usual.

SCENARIO TWO

When the split between Service Charge and Tenant Recharge is only known at a later date and the invoice has been paid:

Let's Assume you have the same expense invoice for £100, 40% is recoverable from the Service Charge under expense COA - S1 Insurance and 60% is to be recharged to tenants

On your expense invoice code £100 all to COA S1 Insurance

When you later realise that 60% of this invoice needs to be recovered from Tenants

1. Create an Expense Credit Note coded as follows:
    *   Unit price £100 - quantity - 0.6 - COA S1 Insurance (this will reduce the service charge expense in the budget)

2. Create an Expense Invoice coded as follows:
    *   Unit price £100 - quantity - 0.6 - COA Tenant Recharge (or similar code)
    *   Create your tenant recharge income invoices as usual

04 SERVICE CHARGE RECONCILIATION
Changes to an Area part way through a budget

For when percentage allocations change part way through the service charge period:

- Modify budget and set the budget end date to be the date of the change, approve the budget using skip and approve

- Rollover the budget, the start date of the new budget will be the day after the end of the previous budget and set the end date to the actual end date. Edit the title to indicate it is 'part 2' of the previous budget. So you should have the full service charge period covered by the combination of these two budgets

- In the new 'part 2' budget, edit the percentages to reflect the new percentages

- Approve the budget using skip and approve

- At the end of the year when you are ready to reconcile, you will need to reconcile both at the same time.

- This will potentially generate 2 balancing charges / credits for each tenant and the combination of both of these will be correct.

- This will also provide 2 reconciliation statements for each tenant, with their change of percentage throughout the year.

05 SERVICE CHARGE RECONCILIATION
Process to perform a Cross Ledger Allocation

If you want to allocate a credit note from one ledger to an invoice on a different ledger there is no automatic funds checking and no automatic movement of cash to go with the cross ledger allocation.

Therefore you need to follow the process below to ensure the correct movement of cash.

Example of a Tenant who has a £50 balancing service charge credit and would like to offset this against an outstanding rent invoice for £100.

1. Refund the credit note (but don't do anything with the bank file)
2. Create a manual bank statement with 2 lines as follows
    - £50 received item
    - £50 spent item
3. Reconcile the £50 spent item to the refunded credit note
4. Reconcile the £50 received to the rent invoice

By following this process you will mark the credit note as paid and the rent invoice as part paid and move the cash between the ledgers.

Using the Ledger Transfer option does not provide any ability to allocate the transfer to a chart of account and does not provide any backup.

This could be used to move funds from the Service Charge ledger into the Sinking Fund ledger.

1. The process below should be followed to move funds between two ledgers in the same Bank Account with a full audit:

2. Lets assume we are transferring £500 from the Service Charge Ledger to the Sinking Fund Ledger.

3. Create an Expense invoice for £500 with no VAT, coded to the Service Charge Ledger and the Chart of Account of your choice.

4. Perform a Creditor disbursement and pay the expense invoice (do nothing with the bank file produced)

5. Create an Income invoice for £500 with no VAT, coded to the Sinking Fund Ledger and the Chart of Account of your choice.

6. Create a manual Bank Statement with an Received amount of £500 and a Spent amount of £500 (the balance of the Bank will stay the same)

7. Reconcile the Spent amount of £500 to the disbursement

8. Reconcile the Received amount of £500 to the Income invoice

NOTE: When you are coding your invoices you can create and use a 'dummy contact' that you have setup for this purpose. Ie call it something like 'Funds Transfer'. You will then be able to run a Creditor transaction report which should always show a zero balance.

Re-Leased

This guide has been put together to support attendees at the United Kingdom Service Charge Reconciliation webinar.

For more information please see the knowledge hub or contact support@re-leased.com

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