

Exposure Draft  
Accounting Standards for  
Limited Liability Partnerships  
(Last date for the comments: November 27, 2023)  
Issued by  
Accounting Standards Board



The Institute of Chartered Accountants of India

## **Applicable Accounting Standards**

Accounting Standards 1 to 5, 7, 9 to 19 and 21 to 29, as notified under Companies (Accounting Standards) Rules, 2021, shall be applicable to the LLPs. AS 20 Earning Per Share shall be exempted to the LLPs.

### **Comments:**

#### **1. Para: III.**

**This Para may add-**

**Terminology used in the Accounting Standards notified under the Companies (Accounting Standards) Rules, 2021, shall be understood and applied in context of LLPs, e.g., terms 'Annual report' shall be read as 'Financials', 'shareholder' as 'partners', 'shareholders funds' as 'partners funds', 'dividend' shall be read as 'distribution to partners' etc.**

#### **2. Para: VII. Criteria for classification of Limited Liability Partnerships**

2.1 This Para provides for the criteria to classify the LLPs as Level-I, Level-II, Level-III and Level-IV. The Clause (iii) of all level states "Holding and subsidiary LLPs of any one of the above".

2.2 If we refer provisions of LLP Act, 2008, it recognises LLP as body corporate, but there is no reference to the term 'director' and it recognises concept of 'partner' and 'designated partner'. If we refer the definitions of partner and designated partner and compare it with the definition of 'director' in the Act, then these definitions cannot be compared on the basis of roles, responsibilities of director as enumerated in the Act as the basic structure of Company and LLP is not comparable. LLP is basically a partnership firm with limited liability and the concepts of Director, Shareholders, General Meetings etc., does not exist in case of LLPs. Therefore, to treat LLP as subsidiary, the first condition of holdings subsidiary relationship, i.e., control on composition of Board of Directors cannot be fulfilled.

2.3 The structure of LLP is totally different from company. Further with respect to voting power, the voting in LLP is defined by LLP agreement, whereas voting in a company is proportionate to its paid-up capital. In case of LLP, there is no connection of voting power with contribution made and there is no concept like Ordinary resolution and Special resolution. The concept of control by way of exercising more than half of the total voting power do not exists in LLP. Therefore, to treat LLP as subsidiary, the second condition of holding-subsiary relationship also cannot be fulfilled.

2.4 Therefore, there is a need to bring parity by the law makers in this provision of section 2(87) of the Act in line with the Ind AS-110 and settle this question of "whether LLP can be considered as a subsidiary under section 2(87) of the Act".

2.5 The new definition of MSME, applicable with effect from 01.07.2020, is based on the composite criteria of turnover limits and limits of investment in plant and machinery or equipment. The same limits apply to both manufacturing enterprises and service enterprises.

2.6 Whereas the ED classification is based on turnover or borrowing or Holding-Subsidiary. Since the standards are for LLPs in India it would be more appropriate to follow the Criteria for MSME under MSME Development Act, 2006 as amended from time to time. Further, relaxations/exemptions is given from complying Para: 87 relating to encouraged disclosures in Accounting Standard (AS) 10 Property, Plant and Equipment only for Level III and Level IV Limited Liability Partnerships. Therefore Level: I & II LLPs to be categorised based on Investment in Plant & Machinery.

2.7 Neither Limited Liability Partnership Act, 2008 or THE LIMITED LIABILITY PARTNERSHIP (AMENDMENT) ACT, 2021 defines the terms 'Holding' and 'Subsidiary' or specifies criteria for 'holding' or 'subsidiary' company.

2.8 Clause (ta) of Section:3 of LIMITED LIABILITY PARTNERSHIP (AMENDMENT) ACT, 2021 defines "small limited liability partnership". The ED has no discussion on applicability of ED for such SLLPs though we can take it as ED is applicable only for LLPs.

2.9 For a limited liability partnership, having one or more subsidiaries calls for specific accounting rules. The business must consolidate its performance data summaries with affiliates' operating results, ensuring that information about all entities under its control makes its way into the LLP's stand-alone period-end results. These include a statement of cash flows, a statement of income, a balance sheet and a statement of profit and loss. It's often good for business when industry players strike a deal to collaborate on a single project, exchange technical expertise or advance their mutual commercial interests. But regulatory agencies appreciate it even more when commercial alliances foster transparency, compliance and accountability -- fostering economic activity and financial statement consolidation along the way.

### 3. Accounting Standard (AS) 27

#### Financial Reporting of Interests in Joint Ventures

##### Comments

3.1 The notion of 'accountability' should form part of the objective of financial reporting. Accountability emphasises the provision of information on the events that have occurred in the reporting period; that is, historical information. In contrast, decision-usefulness implies a focus on the future because rational decisions can only be made on the basis of future prospects. Despite this apparent divergence, there is a very significant overlap between accountability and decision-usefulness as:

- Information prepared for accountability purposes necessarily includes information on the financial position at the end of the period: that information will be heavily influenced by projections of the future.
- Information on future events is usually incomplete and the most relevant basis for an assessment of the future is often an account of past events.

3.2 Both accountability and decision-usefulness should form part of the objectives of financial reporting. That said, it is probable that the relative emphasis between them varies depending on the nature of the report concerned. The AS for LLP should consider whether this potential difference in emphasis should be acknowledged in the Framework.

3.3 ASB should consider developing a Framework in two stages that focuses initially on financial statements (including the notes) and then address how it might apply to other kinds of financial reporting. This will enable a robust framework to be developed for financial statements, but will also highlight their limitations and hence show the need for other kinds of information. It is likely to result in a higher quality product and would hope that differences could be resolved as the Frameworks develop.

3.4 The Comment is not premised on the view that financial statements are more important than other elements of financial reporting, but rather on the desirability for a clear delineation between the two. Financial statements and other parts of financial reporting are both vitally important and complementary, but there are significant differences between them. At a general level, financial statements are, for good reason, bounded by conventions and constraints that limit what they can deal with: other parts of financial reporting seek to provide information beyond the bounds of these limitations, including information on process, performance, policy and programmes, and in so doing enhance the usefulness of financial reporting.

#### 4. Basis of accounting: Applicability of Accounting Standards to LLPs following cash basis of accounting

##### Comments:

4.1 The cash basis is a simplified regime for calculating taxable profits for businesses with straightforward tax affairs. The regime allows businesses to calculate their taxable profit as the difference between income and expenditure when money is actually received or paid out. This eliminates accounting and tax complexities such as accruals and most capital allowances, and simplifies reporting. Tax simplification is a priority for the government, and in particular for small businesses; simplifying the tax system helps to boost productivity, increase business confidence, and reduces the amount of time and money businesses spend on tax administration. The cash basis is an example of a successful tax simplification which has made the tax affairs of many small businesses more straightforward, cutting down on the number of tax and accounting adjustments that small businesses are required to make, and making a business's tax position easier to understand.

4.2 To continue to simplify the tax system further, and to make sure as many small businesses as possible are able to use the simplifications already on offer, the ED has to expand and simplify the cash basis. The ED has to recognise the benefits that the cash basis offers to small businesses, and consider to exclude the SLLPs and Level IV LLPs from compliance of the accounting standards.

## 5. Classification of LLPs and Exemptions: Criteria for classification of LLPs for applicability of Accounting Standards and exemptions/relaxations available to LLPs.

Comments:

(i) Accounting Standard (AS) 10 Property, Plant and Equipment Level III and Level IV Limited Liability Partnerships may not comply with paragraph 87 relating to encouraged disclosures.

Since investment in Plant & machinery is one of the criteria for MSME the exemption form Paragraph 87 to be re-examined.

(ii) AS 11 The Effects of Changes in Foreign Exchange Rates Level III and Level IV Limited Liability Partnerships may not comply with paragraph 44 relating to encouraged disclosure.

No change required since Level-III & IV may not have much Foreign Currency transactions.

(iii) AS 13 Accounting for Investments

Level IV Limited Liability Partnerships may not comply with paragraph 35(f) relating to disclosures.

Where the disclosures specifically required by the relevant statute governing the enterprises are involved, it cannot be excluded from Disclosure, since it requires legal compliance and hence cannot be excluded form Disclosures.

Accounting Standard (AS) 15 Employee Benefits

This Para provides that Level II and Level III Limited Liability Partnerships whose average number of persons employed during the year is 50 or more may not comply with the Clause (a) to (d) of the paragraph. The ED further provides that Level II and Level III Limited Liability Partnerships whose average number of persons employed during the year is less than 50 and Level IV Limited Liability Partnerships irrespective of number of employees may not comply with Clauses (a) to (d) of the paragraph.

Employee benefits are governed by various statutory laws that are to be complied and hence no exception/exemption to be given to any level of LLP in the interest of the Labour force.

## 6. Transitional provisions required, if any

### Comments

As we are in end of November 2023, the applicability of the ED to be effective from 1 April 2025 to provide adequate time to LLPs to prepare themselves for implementation.

## 7. Any other matter(s)

### Comments:

7.1 The ED has to take into account the following legal aspects as otherwise compliance of Accounting Standard may not help the stakeholders:

7.2 The profits of a limited liability partnership (LLP) are only converted into a debt due to its members when the members have agreed to divide the profits among themselves. The division of profits is a matter of the internal management of the LLP, as it is in the case of a company and a partnership.

7.3 The Limited Liability Partnership Regulations do not provide for an LLP (unlike a company) to include in its balance sheet the balance on its profit and loss account under the separate heading of 'Profit and loss account'. Accordingly, after the profits have been ascertained and in the absence of any agreement between the members to the contrary, the balance on profit and loss account would need to be included under the balance sheet heading 'Other reserves' pending an agreement to divide the profits among the members. The heading of 'Other reserves' is wide enough to encompass the balance on profit and loss account.

7.4 It is open to the members of an LLP to agree that the profits of the LLP shall be automatically divided between the members after they have been ascertained. Whether or not an agreement between the members has this effect is a matter of construction. The division of profits must be distinguished from the arrangements for profit sharing. A provision in an agreement between the members which sets out the profit shares of the members does not of itself constitute an agreement for the division of profits. It merely sets out the respective profit shares of the members which will apply to profits after the members have decided to divide them among themselves.

7.5 If the members agree to the automatic division of profits, then albeit that there is a scintilla of time between the ascertainment of the profits and their division among the members and notwithstanding that the balance sheet is contemporaneous with the profit and loss account, it would be acceptable to credit the profits directly to the current accounts of the members without first including the profits under the balance sheet heading 'Other reserves'.

7.6 An LLP could only have a revaluation reserve if there was no agreement between the members for the automatic division of profit. This is because the old common law rules regarding distributions would apply to LLPs and under these rules a revaluation reserve was distributable.

7.7 Whether a contribution made by the members to an LLP constituted capital or debt was a matter of construction of the intention of the members. For a contribution to constitute capital it must clearly be designated as capital. Otherwise, the presumption will be that it constitutes debt.

7.8 Where the members make a contribution of capital to an LLP, they can subsequently convert the capital into debt by agreement. What constitutes an agreement between the members and in particular what majority is required to convert capital into debt is a matter of construction of the agreement between the members.

7.9 On an insolvency of an LLP amounts credited to capital and reserves in its books immediately prior to the commencement of the winding up would disappear and would not constitute debt which could be proved for in the winding up.

