

Exposure Draft  
Guidance Note  
on Financial Statements  
of Limited Liability Partnerships  
(Comments to be received by March 8,  
2023)

The Institute of Chartered Accountants of India  
(Set up by an Act of Parliament)  
New Delhi

## **Comments:**

### **General:**

The Financial Statements in this ED are re-production of financial statements for “Exposure Draft - Guidance Note on Financial Statements of Non-Corporate Entities”. An LLP is body corporate. But, the format of Financial Statements for a ‘corporate’ and ‘non-corporate’ are same. Though ‘LLP’ is a body corporate, those who opt for such LLPs are same as who are non-business entities. The overall objective of ED initiative has always been to reduce the burden of financial reporting for micro companies while keeping the obligation. The rationale for this choice is that annual financial statements are burdensome for companies, but they also to provide information for stakeholders and give an account of past transactions. Accordingly, the ‘directive’ and ‘accounting legislation’ resulting from transposition of the ‘directive’ have to be designed to strike an appropriate balance between the interests of the addressees of financial statements and the interest of undertakings in not being unduly burdened with reporting requirements. If both Non corporate entities and LLP have to prepare similar financial statement, there is no requirement of separate Guidance either for ‘Non corporate entities’ or ‘LLPs’. Therefore, in the Annexures simpler financial statements are made available which may be incorporated in the ED, if found appropriate. (Please see Annexures). The format may abridge version for financial statements but would suffice when the relevant Accounting Standards [AS/ind As/ are followed by the Non corporate entities’ or ‘LLPs’.

### **Chapter wise Comments:**

#### **Chapter I**

##### **Introduction**

##### **Background**

##### **Comment:**

This part may add-

Accounting for limited liability partnerships (LLPs) is a specialist area that requires expertise and an understanding of the business structure.

Limited liability partnerships (LLPs) are a flexible legal and tax entity that allows partners to benefit from economies of scale by working together while also reducing their liability for the actions of other partners.

Limited liability partnerships (LLPs) allow for a partnership structure where each partner’s liabilities are limited to the amount they put into the business.

Having business partners means spreading the risk, leveraging individual skills and expertise, and establishing a division of labour.

Limited liability means that if the partnership fails, then creditors cannot go after a partner's personal assets or income.

The limited liability limited partnership (LLP) structure of organizing a business allows each partner to both enjoy limited liability from outside stakeholders as well as from the other partners. All partners are thus limited partners and there is no general partner.

Generally, the regulations applicable to partnerships are not as stringent and extensive as those applicable to corporations, and partners have a great deal of flexibility in deciding how they want to set up and run their partnership. The law typically contains default provisions relating to the structure and management of a partnership, and partners can agree to modify these provisions to suit their requirements. Although by law the partners do not need to enter into a partnership agreement in order to form a partnership, a comprehensive partnership agreement is critical to the smooth functioning of any partnership.

The Guidance Note provides for-

- guidance on cash flow statement presentation to reflect the new requirement to disclose the changes in net debt between the beginning and end of the financial period
- guidance on accounting by LLPs to reflect the simpler recognition and measurement requirements available to small entities when accounting for certain loans
- provide guidance on the recognition rules for intangibles assets acquired in a business combination
- guidance on merger accounting to reflect the definition of a group re-construction.

## **Chapter II**

### **Financial Statements**

#### **Comment:**

#### **This Chapter may add-**

All basic accounting principles for any domestic company are based upon the following seven pillars namely,

- ✓ true and fair reporting,
- ✓ an orderly system of book-keeping,
- ✓ a distinction between capital surplus and earned surplus,
- ✓ a clear disclosure,
- ✓ consistency,
- ✓ prudence and
- ✓ in accordance with reliable accounting records and facts.

## General Instructions for Preparation of Statement of Profit and Loss

1. The provisions of this Part shall be applied to the income and expenditure account in like manner as they apply to a statement of profit and loss.
2. (A) Revenue from operations shall disclose separately in the 'Notes' revenue from—
  - (a) Sale of products;  
Less: Excise duty
  - (b) Sale of services;
  - (c) Other operating revenues
  
- (B) In respect of a finance Limited Liability Partnership, revenue from operations shall include revenue from—
  - (a) Interest; and
  - (b) Other financial services.

The above part to be modified as below:

2. (A) Revenue from operations shall disclose separately in the notes revenue from—
  - (a) Sale of products;  
Less: Excise duty/Goods & Services tax (GST)/VAT
  - (b) Sale of services;  
Less: Goods & Services tax (GST)
  - (c) Other operating revenues;  
Less: Goods & Services tax (GST)
  
- (B) In respect of a finance non-corporate entity, revenue from operations shall include revenue from—
  - (a) Interest; and
  - (b) Other financial services.  
Less: Goods & Services tax (GST)

## Annexures:

### Annexure – A: Balance Sheet:

	<u>20X1</u>	<u>20X0</u>
<b>Assets</b>		
Fixed Assets:		
Less Depreciation/Impairment		
Inventory		
Receivables		
Prepayments & Accrued revenues		
Other Assets		
<b>Total Assets</b>		
<b>Capital &amp; Liabilities</b>		
Capital & Reserves		
Long term Liabilities		
Short term Liabilities		
<b>Total Liabilities &amp; Capital</b>		

### Annexure-B: INCOME STATEMENT

Net turnover	
Other ordinary revenues	
Change in Inventory	
Purchase of merchandise and materials	
Personnel Expenses	
Depreciation and Amortization	
Other expenses & Losses	
Other Revenue/Income & gains	
Interest	
Income before Tax	
Less: Income tax paid/Provisions	
<b>Net Income</b>	

