

### **Comments on Exposure Draft of Guidance Note on Financial Statements of LLPs**

The Exposure Draft proposes that the Guidance Note shall supersede the Technical Guide on Financial Statements of LLPs issued by the ICAI. This is a welcome move.

The Exposure Draft similar to the Technical Guide considers partners' current account as equity rather than as liability though the GN adopts the definitions of assets, liabilities and equity given in the Framework for the Preparation and Presentation of Financial Statements issued by ICAI (Framework). However, the balance sheet looked confusing as there was no separate sub-total for equity. The ICAI may think to replace equity and liabilities with Partners' fund and Liabilities. This is because the definition of equity is not suited to LLP where partners' can withdraw profits at their will.

A partner can withdraw the amount from his / her current account and therefore, the partners' current account does not meet the definition of equity. Therefore, partner's current account is a liability for the LLP. The profit of the LLP is transferred to the partner's current account in the ratio as mentioned in the LLP agreement. Therefore, the profit does not result in increase in equity of LLP. The profit represent increase in liability of LLP. The exposure draft adopts the definition of incomes and expenses as given in Framework. An item to be income must result in increase in equity other than contributions from equity participants. An item to be expense must result in decrease in equity other than distributions to equity participants. Income and expense of LLP result in profits that are withdrawable by partners from their current accounts. Therefore, neither income nor expense result in increase or decrease in equity respectively. The GN must amend either the definition of equity or the definition of liability to permit balances in partners' current account and profits to be recognised as equity. This amendment will also meet the definition of income and expense. The ICAI may add "and Partners' Funds" in the definition of equity.

The GN may include an exception to the definition of liability such that amounts representing partners' fund shall not be liability regardless of the absence of unconditional right of LLP to refuse withdrawal of funds at will of the partners. The ED may define Partners' Fund as Amounts that are available for distribution to partners.