

The Chairman

Accounting Standards Board, ICAI

Dear Sir,

Please find herein the below comments received from the Vijayawada Branch (SIRC) Members.

Respected Sir/Madam,

I appreciate the initiative of the Accounting Standards Board (ASB) of ICAI in proposing a separate set of Accounting Standards (AS) for Limited Liability Partnerships (LLPs). Below are my comments and suggestions for your consideration:

General Comments:

1. Necessity for a Separate Standard

- The issuance of separate Accounting Standards for LLPs is a welcome step, considering their distinct legal structure and financial reporting needs.
- However, it is essential to ensure that these standards do not create unnecessary divergence from the Companies (Accounting Standards) Rules, 2021, unless justified by the specific nature of LLPs.

2. Alignment with Existing Standards

- The Exposure Draft states that no conceptual changes are proposed from the existing standards, except for necessary modifications relevant to LLPs.
- A comparison document highlighting the key differences between LLP AS and Company AS would enhance clarity for stakeholders.

Specific Comments

1. Definition of Small and Medium-Sized LLPs (SMLLPs)

- The Exposure Draft defines SMLLPs as LLPs with:

1. Turnover \leq ₹250 crore
2. Borrowings \leq ₹50 crore
3. Not a holding/subsidiary of a non-SMLLP

Suggestion:

- The turnover and borrowing thresholds appear high compared to the definition of MSMEs under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006.
- Consider aligning the classification criteria with MSME definitions for better consistency across regulatory frameworks.

2. Applicability of AS to LLPs

- Currently, LLPs apply ICAI Accounting Standards for non-company entities.
- The draft does not clarify whether certain LLPs (e.g., large LLPs with public interest) should adopt Ind AS.

Suggestion:

- Provide guidance on whether LLPs meeting specific thresholds (e.g., turnover above ₹500 crore or LLPs with public interest obligations) should follow Ind AS.

3. Cash Flow Statements (AS 3)

- The draft exempts Small and Medium-Sized LLPs (SMLLPs) from preparing Cash Flow Statements.
- While this reduces compliance burden, cash flow statements are crucial for financial transparency.

Suggestion:

- Consider encouraging SMLLPs to voluntarily prepare cash flow statements rather than providing a complete exemption.

4. Disclosure of Accounting Policies (AS 1)

- The draft adopts existing disclosure requirements under AS 1, requiring LLPs to disclose significant accounting policies.

Suggestion:

- Introduce a specific disclosure requirement for LLPs regarding:
 - Partner's capital contributions

- Partner withdrawals
- Profit-sharing adjustments

5. Recognition of Contingencies and Post-Balance Sheet Events (AS 4)

- The draft aligns with AS 4 in recognizing contingent liabilities and post-balance sheet events.
- However, LLPs often have partner-related contingent liabilities that may not exist in companies.

Suggestion:

- Clarify whether partner liabilities (e.g., guarantees, indemnities, or withdrawal of capital impacting solvency) should be specifically disclosed.

Conclusion

- The draft is a positive step toward uniformity in LLP financial reporting.
- However, additional clarifications, alignment with MSME regulations, and voluntary disclosures can enhance its effectiveness.

I appreciate the opportunity to provide comments and would be happy to participate in any further discussions on this matter.

Thank you for your consideration.

VIJAYAWADA BRANCH OF SIRC OF ICAI

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