

Comments on Exposure Draft - Accounting Standards for Limited Liability Partnerships

The Exposure draft contains the proposals regarding Accounting Standards for LLPs. In this regard, comments are invited on the following aspects:

☐ Applicable Accounting Standards

Since the objective is to bring in the line LLPs also to comply with Accounting standards, it is better to make all standards applicable.

Already exemption / limited disclosure compliance / relaxation is given in the exposure draft itself. However, relaxations may be given in certain other matters also.

☐ Basis of accounting: Applicability of Accounting Standards to LLPs following cash basis of accounting

Since the intent is to make LLPS also to adhere to accounting standards, instead of permitting cash system, it is required to shift to the fundamental accounting concept of accrual system of accounting

Fundamental accounting assumption of Accrual system provides for Revenues and costs are accrued, that is, recognised as they are earned or incurred (and not as money is received or paid) and recorded in the financial statements of the periods to which they relate. Hence, in order to give a true and fair view of the financial results of an LLP, it is desirable to follow accrual accounting method.

Cash system, i.e. realisation method is to adopted only in case where the realisation/ settlement is remote in the normal course of business, either due to any legal issue, or other matters incidental to the transaction, where no reasonable certainty exists.

But in a case where subsequent event corroborate the position of accounts at closure, the same shall also be accounted on accrual basis which aids to better presentation of financial position of the LLP.

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

Since LLPS are mainly for small business or are mainly engaged in services where the volumes of activity are not very high. So while fixing criteria for grading between levels a more reduced limits is advisable

Exiting limits

Level	Turnover Rs. Ps	Borrowing Rs,
1	Exceeding 250 crores	Exceeding 50 corers
11	Between 50 to 250 crores	Between 10 to 50 crores

111	Between 10 to 50 crores	Between 2 to 10 crores
IV	Other than above cases	Other than above cases

Proposed limits

Level	Turnover Rs. Ps	Borrowing Rs,
1	Exceeding 100 crores	Exceeding 20 corers
11	Between 25 to 100 crores	Between 5 to 20 crores
111	Between 5 to 25 crores	Between 2 to 10 crores
IV	Other than above cases	Other than above cases

Exemptions and relaxations as already given in exposure draft. also if any LLP has difficulty in complying any accounting standard applicable to it, the LLP may be permitted to adequately the said fact in notes to accounts along with the financial impact of the same.

☒ **Transitional provisions required, if any**

If the LLP is following a particular system of accounting or presentation is being followed before making the accounting stands applicable, the said system is permitted to continue till the closure of such transactions by disclosing the said facts in notes. Else, the LLPS would find it difficult to restate the prior period financials and this might be a cumbersome exercise.

Eg. Treatment of Borrowing cost in case of qualifying assets, where an LLP charges interest to Profit and Loss account instead treating in line with Accounting standard 16. Accounting - standard 11 - The effects of Changes in Foreign Exchange rates , As 10 Property Plant and Equipment etc.

☒ **Any other matter(s)**

Since the conditions for levels are made on “or” basis i.e., levels are fixed based on complying with either of the conditions, it would be more beneficial for the LLPs if it is based on compliance with “all” the conditions. This may be provided on transition period basis too.

Disclosure requirement of AS 18 on related party can be made applicable for all levels of LLPs as it is adding a fair presentation of events. Also, the relaxation of AS 24 on discontinuing operations may also be made mandatorily applicable for all levels as it helps the users to get idea of operational efficacy of the entity.

Accounting Standard 3 on cash flow statements can be made applicable all entities as it provides a better understanding of the flow of funds from various activities.