

# Association of Accounting Technicians response to CCAB's draft "Statement of Recommended Practice - Accounting by limited liability partnerships" (LLP SORP)

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## 1. Introduction

- 1.1. The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to the CCAB's draft "Statement of Recommended Practice - Accounting by limited liability partnerships" (LLP SORP), published on 1 August 2016.
- 1.2. AAT is submitting this response on behalf of our membership and for the wider public benefit of achieving sound and effective administration of Limited Liability Partnerships (LLPs).
- 1.3. Furthermore, the comments reflect the potential impact that the proposed changes would have on SMEs and micro-entities, many of which employ AAT members or would be represented by AAT's 4,200 licensed accountants.

## 2. Executive summary

- 2.1. AAT welcomes the update of the LLP SORP for changes in the reporting regime for LLPs arising from the law and from changes to UK accounting standards. The Statement of Recommended Practice (SORP) continues to provide useful and relevant guidance, which is important given the approach in the law to LLP accounting is neither complete nor entirely appropriate to the unique legal structure of LLPs.
- 2.2. AAT agrees with the majority of the proposals, as indicated in the answers below. However, AAT has some concerns in relation to Question 1 and Micro-LLPs. While appreciating the reasons for the CCAB taking the decision to disapply the SORP to Micro-LLPs that follow the micro-entity regime and FRS 105, it will be clear in practice how Micro-LLPs should apply the rules on distinguishing liabilities and equity to members' interests, which remains one of the main areas of difficulty in LLP accounting. If the CCAB does not propose dealing with this issue in this edition of the SORP, AAT suggests that the CCAB and FRC should keep the situation under review in case it becomes clear that more guidance is required in practice, particularly if there is significant take-up of the micro-entity regime by LLPs.

## 3. AAT response to the draft SORP

- 3.1. The following paragraphs outline AAT's response to the proposals outlined in the Draft LLP SORP.

### Question 1 – Micro-LLPs

- 3.2. The question of how to deal with Micro-LLPs is a difficult one and AAT appreciates why the CCAB has chosen the decision to disapply the SORP to Micro-LLPs which choose to report as such, leaving them to follow the law and FRS 105 (3, condoc). In particular, because the accounts required by law are deemed to show a true and fair view, there is effectively a prohibition on adding further disclosures on a mandatory basis and even encouragement to disclose additional information may be deemed to be gold-plating.

- 3.3. Nevertheless, AAT is concerned that there are certain aspects of recognition and measurement in LLP accounts that will not be understood by those Micro-LLPs which only refer to the law and FRS 105 for guidance. In particular, it will not be clear how Micro-LLPs should apply the rules on distinguishing liabilities and equity to members' interests, which has been one of the main areas of difficulty in LLP accounting. The distinction between liabilities and equity in an LLP context has always been difficult to interpret and the LLP SORP provides rigorous guidance on the issue. FRS 105 Section 17 should in theory lead to the same answers as the LLP SORP, but in AAT's view the standard does not provide sufficiently comprehensive guidance on this point.
- 3.4. AAT is concerned that in practice it may prove that the problems of interpretation of the liability/equity distinction are just as prevalent for Micro-LLPs as for larger LLPs. AAT therefore proposes that the CCAB should consider stating that the relevant paragraphs in relation to liabilities and equity, namely paragraphs 32 to 50 of the LLP SORP, should be applied by Micro-LLPs that are following FRS 105 as to recognition and measurement requirements, even though no additional disclosure beyond the legal minimum can be mandated. The alternative might be to ask the FRC to consider adding a paragraph to Section 17 of FRS 105 on this point at its next update. At the very least, AAT believes that the CCAB and FRC should monitor this issue and respond with some action if it proves to be a point of difficulty in practice, particularly if there is a significant take-up of the micro-entity regime by LLPs.
- 3.5. This concern also applies to a lesser extent to the treatment of retirement benefits (point 75-94, page 27 condoc), where the recognition and measurement issues may, in principle, be complicated for Micro-LLPs such that reference to FRS 105 on its own is insufficient. However, AAT's view is that these circumstances are less likely to apply in practice and therefore probably do not need to be addressed for Micro-LLPs.

#### **Question 2 – Small LLPs**

- 3.6. AAT's view is that the balance between mandated and encouraged disclosures for small LLPs is appropriate given the lack of capital maintenance rules for LLPs. The requirement for disclosures on the ranking of amounts due to members in relation to other lenders are necessary in order for users to fully understand the financial position of the LLP.
- 3.7. AAT agrees that, although in many cases a reconciliation of members' interests will be helpful to users, it would be an unnecessary burden to require this of all small LLPs. Encouragement to include such disclosure should be sufficient to cause small LLPs to think about whether, in their own circumstances, they should make the effort to include such a statement.

#### **Question 3 – Ranking of loans and other debts**

- 3.8. As noted in 3.6 above, AAT agrees that it is proportionate to require disclosure of the ranking of loans and other debts in the absence of the sort of capital maintenance provisions that apply to companies.

#### **Question 4 – Statement of changes in equity**

- 3.9. AAT agrees with the proposal that no statement of equity be required where an LLP has no equity (59A, condoc), but that there should be an explicit statement of that fact on the face of another primary statement or in the notes. LLPs which have no equity should make an effort to demonstrate the relationship between the LLP and its members in order to explain the lack of equity, and this statement should be part of that overall explanation.

### **Other observations**

- 3.10. AAT agrees that the modest drafting changes to aid understanding of the division of profits (48, condoc), the use of merger accounting (105, condoc) and changes arising from the ability to modify the statutory formats (for example, 58, condoc) are helpful and proportionate.

### **4. About AAT**

- 4.1. AAT is a professional accountancy body with approximately 50,000 full and fellow members and 80,000 student and affiliate members worldwide. Of the full and fellow members, there are over 4,200 licensed accountants who provide accountancy and taxation services to individuals, not-for-profit organisations and the full range of business types.
- 4.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

### **5. Further information**

If you have any questions or would like to discuss any of the points in more detail then please contact Aleem Islan, AAT Technical Consultation Manager, at:

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