



Our Ref LLP SORP/MSH

Mrs Sharon Grant  
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Dear Sharon

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**Draft Statement of Recommended Practice: Accounting by Limited Liability Partnerships (the draft SORP)**

We are pleased to respond to the consultation on the exposure draft of the SORP. In short we consider that the draft SORP appropriately incorporates the changes to FRS 102 and the LLP Regulations and provides useful guidance to enable users of the draft SORP to navigate the issues.

Our responses to the questions are attached to this letter.

Where we consider them relevant we also include observations in relation to other matters that we believe could be addressed in the draft SORP.

If you have any questions regarding this response, please contact Mandy Haslinger (t: 0151 224 0882; E: [Mandy.S.Haslinger@uk.gt.com](mailto:Mandy.S.Haslinger@uk.gt.com)) or Peter Gamson (t: 0207 728 2861 ; E: [Peter.J.Gamson@uk.gt.com](mailto:Peter.J.Gamson@uk.gt.com)).

Yours sincerely

A handwritten signature in blue ink that reads "Grant Thornton UK LLP".

Grant Thornton UK LLP

## Responses to specific questions

### 1. Micro LLPs

**FRS 105 is available to qualifying LLPs choosing to apply the micro-entities regime. The significant differences between FRS 105 and FRS 102 – the standard upon which this SORP is based – lead CCAB to conclude that LLPs applying the former standard should be scoped out of this draft SORP. Instead, such LLPs should simply follow the relevant requirements of FRS 105. Do you agree with these proposals? If not, why not?**

1.1 We agree that qualifying LLPs applying the micro-entities regime which choose to apply FRS 105 should be scoped out of the SORP. Instead such LLPs should follow the relevant requirements of FRS 105.

### 2. Small LLPs

**Small LLPs qualifying for and choosing to apply the small entities regime are required to comply with the recognition and measurement requirements of FRS 102 and of this draft SORP. However, small LLPs are only required to comply with the disclosure requirements of Section 1A Small Entities of FRS 102 rather than the disclosure requirements of this draft SORP.**

**The accounts of such LLPs must, however, give a true and fair view. Judgement will therefore be needed when considering whether further disclosures over and above those required by Section 1A of FRS 102 will be needed in order to ensure that the accounts give a true and fair view. Depending on the individual facts and circumstances, some or all of the disclosures included in this draft SORP may be needed in order to ensure that the accounts give a true and fair view.**

**CCAB believes that the disclosures about how the loans and other debts due to members rank in relation to other unsecured creditors as required by paragraphs 63 and 64 of this draft SORP are necessary in order to ensure that the accounts give a true and fair view. See question 3 below for more details. This draft therefore requires small LLPs to make such disclosures.**

**The reconciliation of the movement in members' other interests detailed in paragraph 59 of this draft SORP may be necessary in some instances in order to ensure that a true and**

**fair view. CCAB does not, however, believe that it is necessary to require all small LLPs to include such a reconciliation. This is consistent with requirements for small companies, which are not required to produce a statement of changes in equity. This draft SORP, does, however, encourage small LLPs to include this reconciliation.**

**This draft SORP does not require small LLPs to make any other disclosures over and above those required by Section 1A of FRS 102.**

**Do you agree with these proposals? If not, why not? Do you think that it is necessary for small LLPs always to include a reconciliation of the movement in members' other interests in order to give a true and fair view? Are there any other specific disclosures that you think should be required for small LLPs?**

- 2.1 Whilst we appreciate that the disclosures about how the loans and other debt due to members rank in relation to other unsecured creditors as required by paragraphs 63 and 64 of the draft SORP may be useful to certain users of the financial statements such as banks, we believe that it may not be the case in all circumstances that these disclosures would be required in order to give a true and fair view. Therefore, we propose that the draft SORP could encourage such disclosure to be provided by small LLPs but not state that it is required in order to give a true and fair view.
- 2.2 We agree with the proposals that the draft SORP should be consistent with the guidance in paragraph 1A.9(b) of Section 1A of FRS 102 to encourage (but not explicitly require) a small LLP to present a reconciliation of members' other interests.
- 2.3 We note that paragraph 1A.5 of Section 1A of FRS 102 (and section 393 of Companies Act) requires that the financial statements of a small entity (including a small LLP) shall give a true and fair view of the assets, liabilities, financial position and profit or loss of the small entity for the reporting period. Paragraph 1A.6 of Section 1A of FRS 102 explains that additional disclosures to those required by Section 1A of FRS 102 may be needed in order for a small entity to comply with the requirement to give a true and fair view.

We note that the draft SORP provides similar guidance in paragraph 27B for small LLPs to consider whether additional disclosures are required in order for the financial statements of a small LLP to give a true and fair view.

In this context, as the draft SORP states that a small LLP (apart from paragraphs 63 and 64 of the draft SORP) should only be required to follow the disclosure requirements of Section 1A of FRS 102 (and consequently the small LLP regulations) we believe that it may be beneficial if additional guidance is provided in respect of the presentation of Members' remuneration charged as an expense for a small LLP in profit or loss.

The prescribed formats in the small LLP Regulations do not include a line item for 'Members remuneration charged as an expense' as the formats for the income statement stop at 'profit or loss for the financial year before members' remuneration and profit shares'.

In light of the removal of the requirement in the small LLP regulations to include a reconciliation of loans and other debts due to members, we believe it may be beneficial to provide in the draft SORP additional guidance clarifying that the additional line item, 'Members' Remuneration charged as an expense' should be included in the profit or loss after the line item, 'profit or loss for the financial year before members' remuneration and profit shares' in order to give a true and fair view.

We believe that this element of the LLP financial reporting requirements is still widely misinterpreted (and presented) and so we would recommend that the draft SORP require the additional line items in the profit or loss to demonstrate the split between Members' remuneration charged as an expense and profit available for discretionary division in order to give a true and fair view.

### **3. Ranking of loans and other debts**

**When we last consulted on changes to the SORP, some respondents said that they felt the disclosures about how loans and other debts due to members rank in relation to other unsecured creditors as required by paragraphs 63 and 64 of this SORP were onerous and overly burdensome in comparison to financial reporting by other types of entities.**

**However, as LLPs do not have any of the capital maintenance provisions that apply to companies, CCAB believes that these disclosures are necessary in order to ensure a true and fair view, regardless of the size of the LLP. They have therefore been retained in this draft SORP. Moreover, as noted above, they are the only additional disclosures over and above those required by Section 1A of FRS 102 that this draft SORP mandates for LLPs qualifying for and choosing to apply the small entities regime. Do you agree with these proposals? If not, why not?**

3.1 As noted in 2.1 above, whilst we appreciate that the disclosures about how the loans and other debts due to members rank in relation to other unsecured creditors as required by paragraphs 63 and 64 of the draft SORP may be of interest to certain users of the financial statements, such as banks, we believe that they may not in all circumstances be required in order to give a true and fair view.

### **4. Statement of changes in equity**

**Unlike previous editions of the SORP, this draft SORP states explicitly that a statement of changes in equity does not need to be prepared if an LLP has no equity. In such circumstances, a statement should be made either on the face of one of the other primary statements or notes to the accounts that the LLP has no equity and consequently a statement of changes in equity is not given. Do you agree with these proposals? If not, why not?**

4.1 We agree with the proposals.

