

Consultants to Charities and Voluntary Sector Organisations

Telephone: 01904 788885

Sharon Grant  
Manager, CCAB  
By email: [sharon.grant@ccab.org.uk](mailto:sharon.grant@ccab.org.uk)

5 August 2016

Dear Sharon

**Accounting by LLPs - Consultation on draft revised SORP (August 2016)**

I am pleased to respond to the consultation on the Revisions to the LLPs SORP published this month.

I am responding as a Partner/Designated Member of a micro LLP - and occasionally I act as a professional adviser to other LLPs (although most of my work is with charities).

I am responding solely on QUESTION 1 - MICRO LLPs

I think it is right that the Government has concluded that micro-LLPs should be allowed to apply the Micro-Entities Regime and hence to follow FRS105.

But I do not agree that with the CCAB's conclusion *"that LLPs applying the former standard [FRS105] should be scoped out of this draft SORP. Instead, such LLPs should simply follow the relevant requirements of FRS 105"*.

The problem is that FRS105 is primarily intended for companies, and even with the Amendments published by the FRC in May 2016 for LLPs, more detail is needed as to how to apply the FRS105 regime to LLPs. In particular, all the helpful material in the LLPs SORP on presentation of Members' Interests needs to be reflected somewhere for those LLPs applying the FRS105 regime.

I can see three ways possible way forward:

- (A) FRS105 itself could be amended to include all guidance reasonably needed by LLPs. I note that in May 2016 the FRC issued *Amendments to FRS105* to allow for LLPs. So far, however, FRS105 does not appear to have been reissued with these these amendments incorporated which makes them hard to use. But more fundamentally, the only guidance on accounting for LLP Members' Interests in the revised FRS105 appears to be in a footnote that appears on page 9 of the Amendments document. More guidance along the lines of the SORP is clearly needed,
- (B) The LLPs SORP could be updated to include a section on the application to LLPs in the micro-entities regime. Of course, the Working Party may conclude that that some parts of the draft revised LLPs SORP – particularly on the presentation of Members' Interests – would be equally applicable whether the LLP was following FRS102 or FRS105. But if so, this needs to be stated explicitly, rather than scoping out micro LLPs.
- (C) CCAB – as the SORP-making body for LLPs – could issue separate guidance on the application FRS105 to LLPs. This would probably only need to be two or three pages- though it would need to repeat some of the definitions from the main LLPs SORP. However, in terms of content the main information needed will be to give a typical layout for the balance sheet of a micro-LLP. (But I guess such a document would technically be another SORP in its own right.)

Any of these solutions would be acceptable from my point of view as a preparer, but I do not think the FRC is likely to offer any further guidance beyond the published Amendments to FRS105. So I think we must look to the SORP-making body – CCAB – for help, i.e. option (B) or (C). My preference would be a standalone document – option (C).

Either way, I am sure it must be the case that there are more micro-LLPs than small, medium or large LLPs, so I hope the guidance for micro-LLPs will be issued no later than the revised SORP for other LLPs – in order to allow those of us running micro-LLPs to apply FRS105 as soon as possible.

#### Additional Comment – LLPs with No Members' Agreement

Can I also make a plea for the revised LLP SORP – and the micro-LLP-SORP if issued separately – to deal explicitly with the *treatment of Members' profit shares in an LLP that has no members' agreement*, and hence where the profits are divided purely in accordance with the LLPs Act 2000 and Part VI of the LLP Regulations 2001. There must be thousand of LLPs in this situation.

It is very difficult, under the existing wording in the LLPs SORP, to work out which of the various options should apply to the profit shares in these circumstances – i.e. whether it is a discretionary or non-discretionary distribution. The draft published this month does not seem to address this.

Thank you for considering these comments. I confirm I am happy for them to be placed in the public domain.

Yours sincerely

*GARETH MORGAN*

**Dr Gareth G Morgan**

The Kubernesis Partnership LLP