



By email to: [sharon.grant@ccab.org.uk](mailto:sharon.grant@ccab.org.uk)

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10 January 2014

Dear Sharon

**STATEMENT OF RECOMMENDED PRACTICE 'ACCOUNTING BY LIMITED LIABILITY PARTNERSHIPS'**

We welcome the opportunity to comment on the proposals in Draft Statement of Recommended Practice 'Accounting by Limited Liability Partnerships' (the 'SORP') and accompanying appendices.

FRS 102 cannot be early adopted if it conflicts with an existing SORP (to which an entity is subject) and there were concerns in the industry that due to conflicts between the current SORP, entities that are required to comply with the SORP would be unable to early adopt FRS 102. So, to eliminate such conflicts and enable entities under the scope of the SORP to early adopt FRS 102, we support the proposals to update the SORP including:

- Updating the guidance on business combinations and group accounts to reflect the fact that FRS 102 only allows merger accounting to be used for group reconstructions;
- Updating the guidance on contractual or constructive obligations and annuities to reflect the fact that FRS 102's requirements relating to financial liabilities differ from current UK GAAP requirements;
- Updating references throughout to reflect the introduction of the option to produce a single statement of comprehensive income, including adding an additional exhibit in appendix 1; and
- Stating that if a reconciliation of members' interests is to be shown as a primary statement in place of the statement of changes in equity then comparatives must be shown for all figures presented.

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We acknowledge the CCAB's efforts in taking this opportunity to also update the SORP to clarify existing requirements and address known issues and misunderstandings, including:

- Improving the table that follows paragraph 60 to ensure the recommended format not only provides a reconciliation of members' interests but also meets related Companies Act requirements. We think that the changes add clarity to the guidance;
- Providing more guidance on cash flow statement presentation to reduce divergent practices;
- Refining the examples in appendix 2 to focus on more commonly encountered scenarios and to eliminate some duplication; and
- Streamlining the guidance on the 'puttables exception' to FRS 25, acknowledging that this is no longer a controversial area.

The SORP provides guidance in Appendix 4 on merger accounting on initial transition of an existing undertaking to a single-entity LLP but does not specifically consider the implications of also making the transition to FRS 102 around the same time. We think that this is an area that might prove challenging for entities in this particular scenario and additional guidance should be provided.

Our answers to your specific questions are included in Appendix 1. Other drafting comments are noted in Appendix 2.

Please contact Dave Walters or Satya Beekarry if you would like to discuss the contents of this letter.

Yours sincerely

PricewaterhouseCoopers LLP



### Question 1

**Do you agree that the guidance provided in this draft SORP is helpful in applying the requirements in FRS 102? If not, how do you think it could be improved?**

We note that all references to 'Old' UK GAAP in the previous SORP have been updated with relevant references in FRS 102. We think that this guidance will be helpful to LLPs applying the requirements in FRS 102. As noted in our response to Question 3 below, we think that additional guidance could be provided for entities transitioning to FRS 102 at the same time as transferring an existing undertaking to a single-entity LLP.

### Question 2

**Do you agree that changes to current UK GAAP have been adequately reflected in this draft SORP?**

The SORP does not seek to replace the requirements in FRS 102 and accordingly, does not provide detailed guidance for all requirements in FRS 102. Other than as noted in our response to Question 3 below, we think that the SORP provides adequate guidance on the changes to UK GAAP which are most relevant for LLPs.

### Question 3

**The guidance on business combinations and group accounts in paragraphs 102-119 has been updated to reflect the fact that FRS 102 only allows merger accounting to be used for group reconstructions. Is the revised guidance clear? Does it adequately reflect FRS 102's new requirements? If not, why not?**

We welcome the detailed guidance provided on business combinations around both the purchase method and merger accounting, including the issues considered in more detail in Appendix 4 to the SORP. But we think that more guidance should be included for entities that may be transitioning to FRS 102 and transferring an existing undertaking into single-entity LLPs around the same time.

For example consider the transfer of an existing undertaking with a 31 December calendar year that currently reports under UK GAAP, into a single-entity LLP on 1 July 2015. Assume that the LLP will first prepare its accounts for the period ended 31 December 2015. We think that the mandatory adoption date of FRS 102 would be 1 January 2015 and the transition date 1 January 2014. So, for the purposes of calculating the book values at the date of transfer (i.e. 1 July 2015) under paragraph 115 of the SORP (i.e. determining the opening statutory balance sheet), we think that the LLP would need to apply its FRS 102 accounting policies to the existing undertaking from 1 January 2014. This will be necessary to accurately reflect the statutory profits for the period from 1 July 2015 to 31 December 2015.

Similarly, consider the same fact pattern as in the preceding paragraph except that the transfer to a single-entity LLP happens on 1 July 2014 and FRS 102 is not early adopted. The LLP prepares its first financial statements for the period ended 31 December 2014 under 'Old' UK GAAP, applying the guidance in the SORP. The next year's financial statements will be prepared under FRS 102. In this scenario, we think that the transition date to FRS 102 will again be 1 January 2014 as above, which will likely result in a restatement of the 2014 statutory results (and the book values at transfer date under paragraph 115) due to any GAAP differences.



We believe that including additional guidance around transition to FRS 102 alongside the transition to single-entity LLPs would help users deal with the complexities involved in the above scenarios. You might consider basing such guidance on the above examples.

#### **Question 4**

**The guidance on contractual or constructive obligations (paragraph 76) and annuities (paragraph 80) has been updated to reflect the fact that FRS 102's requirements relating to financial liabilities differ from current UK GAAP requirements. Is the revised guidance clear? Does it adequately reflect FRS 102's new requirements? If not, why not?**

The revised guidance in paragraphs 76 and 80 (and accompanying new paragraphs) is clear. We do not propose any further amendments.

#### **Question 5**

**Although it does not relate to the introduction of FRS 102, it was felt appropriate to update the guidance on analysing puttable instruments to reflect the fact that many of the issues associated with the introduction of FRS 25 and the subsequent 'puttables amendment' are now behind us. The basic accounting remains unchanged. As part of this process, the flowcharts in appendix 3 of the SORP have been removed. Is the revised guidance clear? Do you agree with the removal of the flowcharts? If not, why not?**

The revised guidance is clear and we agree with the removal of the flowcharts.

We note that per paragraph 45, no proposal has been made to include the principles of the puttable exception into the FRSE and FRSE reporters should continue to comply with the requirements of the FRSE in respect of liabilities and equity. The guidance in paragraph 45 appears inconsistent with paragraph 29 which states that FRSE 'preparers should have regard to FRS 102, not as a mandatory document, but as a means of establishing current practice'. It is not clear why any FRSE reporters who wish to use the puttables exceptions should not be allowed to do so.



| Paragraph no. | Drafting comment   |
|---------------|--|
| Throughout    | The SORP generally includes relevant references from FRS 102 as a source. But it is unclear in other instances where a requirement arises from (i.e. FRS 102 or LLP Regulations or other). For entities reporting under the FRSSE, including the relevant sources to the guidance in the SORP would facilitate compliance as they are not technically required to apply all the FRS 102 requirements. The text should also clarify whether FRSSE reporters can state compliance with the SORP per paragraph 132 without necessarily applying all the FRS 102 specific requirements.  |
| 2<br>28       | Paragraph 2 states that ‘In the event of conflict, the LLP regulations and accounting standards take precedence over this SORP’. A similar comment is included in paragraph 28. As this is a SORP, there should be no conflict with the accounting standards. Further, this could result in a circular issue for entities who want to early adopt FRS 102 as paragraph 1.14 in FRS 102 prohibits early adoption in case of a conflict with the requirements of a current SORP. We suggest deleting the quoted sentence in paragraph 2 if there are indeed no conflicts with FRS 102 and instead note that any future changes made to FRS 102 that conflict with the requirements of the SORP will prevail over the SORP requirements until such time that the SORP has been updated for such changes. We recommend that the CCAB also set out a periodic timetable for such updates to the SORP going forward. |
| 6             | This states that the appendices are not an integral part of the SORP. As the SORP is by nature guidance on applying FRS 102 and the FRSSE for LLPs, while we understand why it might be reasonable to exclude the basis of conclusions, it is not clear why the appendices which provide meaningful application guidance should be excluded. These were not excluded in the previous version of the SORP.  |
| 26            | This includes guidance on the composition of the financial statements. An exception to this is included in paragraph 59A. We think that moving paragraph 59A to just below paragraph 26 might be useful.   |
| 29            | <p>We note the following typo – ‘...Where no equivalent section of the FRSSE exists, then as...’</p> <p>This paragraph also states in the context of FRSSE reporters that ‘preparers should have regard to FRS 102...’. The revised FRSSE actually states that ‘preparers should have regard to FRSs (including FRS 102)...’. So the FRSSE does not limit its preparers to only having regard to FRS 102 and the SORP is slightly inconsistent with the FRSSE in this respect.</p>   |
| 60            | The table under paragraph 60 has some typos under the ‘Debt’ columns in the final rows. We think that the ‘Amounts due to members’ and ‘Amounts due from members’ should be in the ‘Other amounts’ column. Also the amounts in the ‘Total column’ are missing for the rows ‘Other movements’ and ‘Balance at [end of the period]’  |

| Paragraph no. | Drafting comment  |
|---------------|---|
| 72            | <p>This states (in relation to disclosing the largest profit share required under paragraph 71) that ‘the LLP Regulations do not provide specific guidance as to how the disclosable amount should be determined.’</p> <p>We think that you could use this as an opportunity to provide guidance in this area and increase consistency among users. The guidance might be based on the expected total distribution to that member in relation to the financial year.</p>  |
| 73            | <p>We think that the following guidance could be simplified and/or clarified: ‘If any other figure for average members’ remuneration is given, it should be reconciled to the figure calculated in accordance with this paragraph’ (being the average remuneration based on accounting profit).</p> <p>We think that in some instances an alternative qualitative explanation might be preferable to a numerical reconciliation if this is more meaningful.</p> <p>Consideration might also be given to a requirement to state the average actual or expected distribution of profits as the current paragraph calculates average remuneration based on accounting profit which will often not be the amount actually distributed to members.</p>   |
| 74<br>74A     | <p>Paragraph 74 refers to Section 7 of FRS 102 in requiring a cash flow statement. We think that it would be meaningful to also refer to the exemption from preparing cash flow statements in paragraph 1.12 of FRS 102 for qualifying entities.</p> <p>Paragraph 74A provides application guidance on classifying certain cash flows. We welcome the guidance but note that there is not enough clarity on the rationale for the proposed classifications. In particular, we note that the SORP includes ‘Other remuneration (discretionary or non-discretionary) for services provided’ as an operating cash flow. This treatment for discretionary remuneration appears inconsistent with the treatment of members’ remuneration in the income statement under paragraph 54. ‘Discretionary remuneration for services provided’ might be considered to be an allocation of profit, and so, a financing item. This should be clarified in the guidance by including an additional row in the table for ‘Payments to members arising from discretionary allocations of profit’ and classifying such cash flows as financing. Conceptually, we think that the classification in the cash flow statement should be consistent with the income statement.</p> |
| 80C           | <p>This notes that for practical purposes, applying FRS 103 will result in a similar outcome to applying section 21 of FRS 102 as FRS 103 would permit entities to continue with previous accounting policies. While we do not disagree with this statement, we think that the SORP should also draw attention to potential additional disclosure requirements from FRS 103 (relating to insurance contracts) even though the measurement basis might not change.</p>   |



| Paragraph no. | Drafting comment  |
|---------------|---|
| 102           | Reference is made to 'Section 9 Consolidated and Separate Financial Statements...' rather than 'Section 9 Consolidated and Separate Financial Statements of FRS 102...' or simply 'Section 9 of FRS 102...'. This is inconsistent with references to FRS 102 throughout the rest of the SORP.   |
| Appendix 1    | This provides various examples of presenting division of profit. In a number of our clients the member agreements have different layers of allocation, usually a fixed amount (effectively annual salary), discretionary allocation and then the remaining profit is automatically allocated in accordance with partnership points. We think that in this case, all three layers should be treated as 'Members' remuneration charged as an expense', as under the specific fact pattern in this example, eventually all profits will be automatically allocated (regardless of any discretionary allocation to individual members). A question also arises as to whether these should be presented as a single line item or each layer analysed separately within 'Members' remuneration charged as an expense'. It could be argued that the latter presentation provides more meaningful information to users. We recommend that you include an example that shows how the division of profit under such agreements should be presented. |