



The Consultative Committee of Accountancy Bodies

For immediate release: Friday 30 September 2005

CCAB PROPOSES NEW ACCOUNTING RULES FOR LIMITED LIABILITY PARTNERSHIPS

The Consultative Committee of Accountancy Bodies (CCAB) has today (Friday 30 September) published an exposure draft of a revised Statement of Recommended Practice (SORP) on accounting by Limited Liability Partnerships (LLPs). The SORP applies UK Generally Accepted Accounting Practice (GAAP) to LLPs incorporated in Great Britain.

Much of the original SORP published in 2002 is unamended. However, changes in GAAP since then will have a major impact on LLPs' financial statements. These include:

- amounts contributed by members to the LLP will be shown as debt rather than equity, unless the LLP has the right to withhold repayment;
- members' remuneration will be charged as an expense in the profit and loss account, rather than treated as an appropriation of profit, unless the LLP has the right to withhold payment
- any liability for post-retirement payments to members (often referred to as annuities) will be accrued as the rights to the payments accrue. Such rights in many cases arise during the period of a member's service to the LLP, and under current practice would not be recognised until the member's retirement.

Andrew Vials, Chairman of the Steering Committee that oversaw the development of the exposure draft, said: "LLPs have been well-served by the current SORP since its introduction in 2002. However, recent changes in GAAP mean that we have had to readdress some issues that are central to the way LLPs report. We believe the solutions we are proposing to some difficult technical problems will be welcomed both by LLPs and by users of LLPs' accounts."

Peter Saunders, Chairman of the Working Party that dealt with the detailed technical issues in the SORP, said: "Recent changes in GAAP are likely to have a radical effect on the way LLPs present their financial position to the world. We have worked hard to find practical and workable solutions for LLPs to some of the new and complex issues that accounting standards have presented and very much look forward to commentators' views on the approach we have taken in the draft SORP."

Media enquiries:

Andrew Vials, Chairman, SORP Steering Committee	020 7694 8473
Peter Saunders, Chairman, SORP Working Party	020 7007 8016
Desmond Wright, CCAB	020 7920 8527

Notes for editors:

1. The CCAB comprises the six major accountancy bodies in the United Kingdom and Ireland.
 - The Institute of Chartered Accountants in England and Wales (ICAEW)
 - The Institute of Chartered Accountants of Scotland (ICAS)
 - The Institute of Chartered Accountants in Ireland (ICAI)
 - The Association of Chartered Certified Accountants (ACCA)
 - The Chartered Institute of Management Accountants (CIMA)
 - The Chartered Institute of Public Finance and Accountancy (CIPFA)
2. The CCAB provides a forum for co-ordinating views on a wide range of issues of interest to the accountancy profession as a whole.
3. The Preface to the exposure draft lists the members of the SORP Steering Committee and the SORP Working Party.
4. A copy of the exposure draft *Accounting by limited liability partnerships* is attached. It is also available online at:-
<http://www.ccab.org.uk/documents.php>
5. The exposure draft has been developed by the CCAB as the appropriate SORP-making body recognised by the Accounting Standards Board. The process has been overseen by a Steering Committee, the membership of which is drawn from business sectors in which LLP status is common, including the accountancy and legal professions and the construction industry, and from amongst users of LLP accounts. The Working Party reports to the Steering Committee and deals with detailed technical issues.
6. Limited Liability Partnerships (LLPs) were established in Great Britain by the Limited Liability Partnerships Act 2000. Registration as an LLP has been available from 6 April 2001. The detailed accounting requirements relating to LLPs are set out in the Limited Liability Partnerships Regulations 2001 (SI 2001/1090), as amended by The Limited Liability Partnerships (Amendment) Regulations 2005 (SI 2005/1989). The Regulations apply, with appropriate modifications, the accounts and audit provisions of the Companies Act 1985 to LLPs. The SORP does not specifically apply to overseas LLPs which trade in this country or to unincorporated partnerships.
7. The draft SORP requires members' participation rights in the assets of an LLP to be analysed between those that are, from the LLP's perspective, either a financial liability or equity, in accordance with FRS 25 (IAS 32) *Financial*

Instruments: Disclosure and Presentation and UITF 39 Members' shares in co-operative entities and similar instruments. A member's participation right will result in a liability except to the extent that the right to any payment or repayment is discretionary on the part of the LLP.

8. The draft SORP also requires the treatment of members' remuneration in the profit and loss account to be based on the same principles as are used for determining debt and equity in the balance sheet: where the LLP has no discretion over the payment of a benefit to a member it should be charged as an expense in the profit and loss account.