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Dear Sharon

BDO LLP response to 'Draft Statement of Recommended Practice - Accounting by Limited Liability Partnerships (LLPs SORP)'

We are pleased to have the opportunity to comment on the proposed amendments to the LLPs SORP set out in 'Draft Statement of Recommended Practice - Accounting by Limited Liability Partnerships (LLPs SORP)' (the 'Draft SORP').

We are supportive of the amendments proposed in, and the approach taken by, the Draft SORP. In particular, we welcome the additional guidance around the division of profits but consider greater clarity and consistency in terminology is still required.

Our responses to the specific questions asked in the Draft SORP are set out in an appendix to this letter.

If you wish to discuss any of the points further, please do not hesitate in contacting me directly.

Yours sincerely,

Anthony Appleton
Partner
For and on behalf of BDO LLP



*Appendix: Responses to the questions asked in the consultation**Divisions of profit***Question 1**

Do you agree with the changes made to the definitions outlined in the SORP? In particular, the terms: division of profits, divided profits, discretionary division of profits and automatic division of profits. [Paragraphs 8 - 24]

Yes, we agree with the proposed amendments in the Draft SORP. We consider that this additional clarification and consistency of terminology throughout the SORP will be of significant benefit to preparers of LLP financial statements, however further clarification is required here in relation to the definition of debt, or a cross-reference to where this is provided.

It is noted within the SORP (e.g. paragraph 31C) that the point of division may not be clear and advice may need to be taken to determine when this is. As it is acknowledged that this can be complex, and understanding the point at which divided profits become debt is critical, the definition of debt is fundamental to resolving some of the key LLP issues in relation to this area.

We have the following specific observations in relation to this point:

- The definition of divided profits in paragraph 11A is fundamental to understanding the following definitions of division of profits within paragraph 11B, as these are based around the mechanism and point at which profits become a debt.
- Therefore understanding paragraphs 11A and 11B is dependent upon understanding the definition of 'debt' and the point at which this arises.
- Whilst the footnote to paragraph 11A refers to paragraph 31B for further discussion, paragraph 31B focusses more on the difference between allocated, divided and distributed rather than a further explanation of what divided means beyond stating that it is when profit becomes a debt.
- Further paragraphs within the 'members' remuneration and interests' section are also circular with regards to this definition, for example paragraph 31D and 45D state that the profits become debt when they have been divided, but the definition of divided (paragraph 11A) is the point at which they become debt.
- A definition of 'debt' should therefore be included within the definition section of the Draft SORP. We note that paragraph 14 within definitions defines 'Loans and other debts due to members' but this does not define the term debt itself.
- Paragraph 32 onwards uses the term 'financial liability' whilst the definition of divided profits refers to 'debt due to members'. There should be either consistency in the use of terms here, or clarification that 'debt due to members' is a financial liability.

We noted a typographical error in that footnote 3 to paragraph 11B refers to BC26 when it should instead refer to BC4.

Question 2

Do you agree with the proposed guidance to help determine when an LLP has an unconditional right to avoid delivering cash or other assets to members? [Paragraphs 31B - 31D, 45C - 45D, 48A, 49E - 49F, 50A-50F]

Yes, we agree with the proposed amendments in the Draft SORP. We particularly consider that paragraphs 31B and 31C will be of benefit to users of the SORP although we have the following observations:

- Paragraph 31C; it should make it clear that ‘subject to a further decision’ refers to the timing of the distribution and not the ability of the LLP to avoid distributing these indefinitely (ie. to avoid the division of profits).
- Paragraph 31C; the example referring to ‘once the profits for the period have been ascertained’ should refer to paragraph 49C for further examples to ensure that this is not interpreted such that, for example, the finalisation of audited accounts post year end is interpreted as resulting in division of profits not occurring until that finalisation occurs.
- Refer to our response to Question 1 in relation to defining ‘debt’ within the definitions section of the Draft SORP.

We noted a typographical error in that paragraph 31A refers to a move of text from Appendix 1 rather than Appendix 2. We also note that whilst the question refers to paragraph 49F, there is no 49F in the Draft SORP.

Energy and carbon report**Question 3**

Do you agree with the proposal to refer to the requirement for large LLPs and groups to produce an energy and carbon report? [Paragraphs 25A - 25B]

Yes, we agree with the proposed amendments in the Draft SORP although it would be helpful for the Draft SORP to provide guidance on instances when it expects an LLP to be able to apply the ability to refer to the online list published at Companies House as set out in paragraph 25B.

Cash flow statement presentation**Question 4**

Do you agree with the proposed changes to the guidance on cash flow statement presentation in paragraph 74A?

Yes, we agree with the proposed amendments in the Draft SORP.

*Other considerations***Question 5**

*Do you agree that the proposed changes outlined in this document should come into effect for periods commencing on or after 1 January 2022, with early adoption permitted?
[Paragraph 133]*

Yes. As the changes are predominately clarifications rather than introducing new requirements, we agree with a 1 January 2022 effective date.

Question 6

Are you aware of any other developments which might suggest that further guidance is needed in the SORP? In particular, where LLPs have wholly owned subsidiaries and prepare both group and solus accounts, the Steering Group is interested to hear views on whether there is a need for specific guidance in the SORP on how members' remuneration charged as an expense is measured in those accounts where members' agreements require group profits to be automatically divided and where members' agreements require only the LLP's own profits to be automatically divided.

We are not aware of any other developments suggesting further guidance is needed in the SORP.

We are not aware of any particular issues seen in practice surrounding members' remuneration charged as an expense in the scenario of LLP group accounts however we would be supportive of additional guidance if this is an issue that commonly occurs as diversity in practice could arise from this.

Question 7

Do you have any other comments on the draft LLP SORP?

We have no further comments on the draft LLP SORP.

The following typographical errors were noted:- Paragraphs 42D(1) and 53 are missing full-stops.