

Need to know

LLP Regulations implementing EU Accounting Directive written into law



In a nutshell

- The Limited Liability Partnerships, Partnerships and Groups (Accounts and Audit) Regulations have now become law.
- These make changes to the accounting and reporting requirements for Limited Liability Partnerships (LLPs) which mirror those made last year for companies to implement the EU Accounting Directive.
- They also extend the micro-entities regime to LLPs and qualifying partnerships.
- The FRC has also made consequential amendments to FRS 105 on micro-entities.
- Most of these changes apply for financial years commencing on or after 1 January 2016, with early adoption permitted for many of the requirements.

Background

The EU Accounting Directive 2013/34/EU (“the EU Directive”) was implemented into UK law for limited companies and qualifying partnerships by the Department for Business, Innovation and Skills (BIS) during 2015. The EU Directive aimed to simplify the accounting requirements for small companies and improve the clarity and comparability of companies’ financial statements within the EU. Changes were also made by the Financial Reporting Council (FRC) to UK accounting standards in July 2015 for consistency with those changes. Whilst LLPs do not fall within the scope of the EU Directive, BIS consulted on whether the equivalent changes should be made for LLPs primarily for the purpose of maintaining consistency between company and LLP legislation.

Subsequently, the Government consulted separately on equivalent changes for LLPs and on extending the micro-entities regime to LLPs and qualifying partnerships. Following the responses received to the consultation, the Government announced it would introduce a number of key changes for LLPs and qualifying partnerships. SI 2016/575 The Limited Liability Partnerships, Partnerships and Groups (Accounts and Audit) Regulations make these changes.

What changes do the regulations make for LLPs?

Overall, the changes are intended to allow LLPs, particularly small LLPs, to benefit from a less burdensome financial reporting regime, and to align the legislative requirements for LLPs with those for limited companies. Our **A Closer Look** newsletter covered the equivalent changes for companies and qualifying partnerships which applied from 1 January 2015.

The key changes for LLPs are the increased thresholds within which an LLP qualifies as small, the extension of the micro entity-regime to LLPs, and the requirement to include a full list of subsidiaries and other related undertakings in the notes to the accounts.

The thresholds for determining the sizes of LLPs, as for companies, have been raised to the top end of the range permitted by the EU Directive. An LLP will be small if it meets at least two of: total assets <£5.1m, turnover <£10.2m, <50 employees.

Perhaps the most significant change for larger LLPs is that the regulations require that a full list of subsidiaries and other related undertakings be provided in the notes to the financial statements of an LLP. The regulations remove the concession which allowed LLPs to list only their 'principal' subsidiaries and other significant holdings in their annual accounts and file a complete list with their annual return. This change applies to accounts of LLPs approved by the members on or after 1 July 2016. A further change will come into force for periods commencing on or after 1 January 2016 whereby the address of the registered office of each subsidiary or significant holding must be given, even if it is in the UK. Our previously published **A Closer Look** on the requirement to include a full listing of related undertakings within annual financial statements covered the similar effect of these changes for companies.

The Regulations also extend the micro-entities regime to LLPs and qualifying partnerships. In addition, the scope of FRS 105 The Financial Reporting Standard applicable to the Micro-entities Regime has been amended to include LLPs and qualifying partnerships. This means that LLPs and qualifying partnerships that meet the micro-entity size thresholds (and are not otherwise ineligible) will be able to prepare very simplified accounts with only very limited disclosures.

Some of the other changes that come into force as a result of the implementation of the regulations are as follows:

- LLPs are permitted to use alternative formats to those set out in company law. In practice, this means that LLPs adopting FRS 101 may elect to apply IAS 1 Presentation of Financial Statements, with minor adaptations, and those adopting FRS 102 will have the option to use an IFRS style layout and terminology for their profit and loss account and/or balance sheet.
- Small LLP accounts disclosure requirements are simplified significantly.
- Small LLPs will have the option to prepare an abridged balance sheet and profit and loss account if approved by all members of an LLP. Abridged accounts omit the third, most detailed, level of balance sheet headings, which are otherwise most commonly included in the notes to the accounts, and combine some headings in the profit and loss account into a single heading 'Gross profit or loss'. Most notably, no turnover figure is shown in an abridged profit and loss account.

Observation

As a result of the implementation of the regulations, the legal requirements for small LLPs have generally been aligned to Section 1A of FRS 102. This will be helpful to small LLPs applying FRS 102 since the Financial Reporting Standard for Smaller Entities has been withdrawn from 1 January 2016.

When do the regulations need to be adopted by?

The regulations will apply for all LLPs and qualifying partnerships to financial years beginning on or after 1 January 2016. However, early adoption is permitted for accounting periods beginning on or after 1 January 2015 unless accounts have already been filed for that period.

The exceptions to this are:

- The requirement to include a full list of subsidiaries and other related undertakings applies for all annual reports of an LLP approved on or after 1 July 2016.
- The increased small LLP size limits cannot be adopted early for audit exemption, meaning that an LLP may be 'small' for accounting purposes in 2015 under the increased size limits but not entitled to the small companies audit exemption until 2016.

Further information

If you have any questions about the subjects raised in this publication, please speak to your usual Deloitte contact.

SI 2016/575 can be accessed at:

http://www.legislation.gov.uk/ukxi/2016/575/pdfs/ukxi_20160575_en.pdf

More information on the proposed changes to the existing UK financial reporting framework, as well as other UK accounting, reporting and corporate governance news and publications, can be found at www.ukaccountingplus.co.uk

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