

Background for Conversion of Partnership Firm Into LLP

A firm may convert into a Limited Liability Partnership in accordance with the provisions of Section- 55 of LLP Act, 2008 read with **Second Schedule**.

Partnership firms are at a Disadvantage when compared to the newly introduced Limited Liability Partnership (LLP) as they do not provide limited liability protection for the partners, separate legal entity status, ability to take on unlimited number of partners and ease of ownership transfer.

Condition for Conversion of Partnership Firm Into LLP

- ❖ The firm may or may not be register with Registrar of Firms.
- ❖ There should be consent of all the Partners.
- ❖ All the Partners become partner in the LLP, in the same proportion in which their capital accounts stood in the books of the Firm on the date of the conversion.
- ❖ Every partner should contribute to the LLP.
- ❖ DIN should be acquired for all the designated

Key Requirements for Conversion of Partnership Firm Into LLP

- ❖ Up to date filing of Income tax returns
- ❖ Consent of all the unsecured creditors for the proposed conversion
- ❖ Minimum 2 Designated Partners
- ❖ At least 1 of the designated partners shall be an Indian Resident.
- ❖ The Partners and Designated Partners can be same person

Eligibility Criteria for conversion of Partnership Firm Into LLP

On Conversion, Partners of Limited Liability Partnership “LLP”

“All the Partners of the Partnership firm will be
partner of LLP”

Admission of Partner – After conversion into LLP

Retirement of partner – Before Conversion into LLP

Why LLP is better than Partnership Firm

- ❑ There is no limit to number of partners in a LLP; a partnership willing to have more than 20 partners can benefit through this.
- ❑ The liability of the partners is limited to the amount of capital contributed.
- ❑ There is no limit on the minimum amount of capital to be contributed.
- ❑ LLP is a Body Corporate.
- ❑ LLP has a perpetual succession unlike partnership which depends upon the will of the partners Separate legal entity.
- ❑ LLPs enjoy higher creditworthiness compared to Partnerships; therefore they are able to obtain better financing.

- ❑ Complete flexibility in managing the business, partners may run the business according to the terms defined in the LLP Agreement
- ❑ [Foreign Direct Investment \(FDI\)](#) in LLPs allowed.
- ❑ Now, multidisciplinary LLPs are allowed wherein professionals of varied disciplines can work together which is an exclusive advantage of LLP
- ❑ Further CA firms are now allowed to convert themselves into LLP and increase their scale of operations.
- ❑ LLP structure is also suitable for PE funds, joint ventures and venture capital funds which is not the case in partnership form
- ❑ LLPs can enter into compromise, arrangement, merger or amalgamation with other LLPs whereas partnerships cannot merge with other firm

Advantages of LLP

- ❖ Limited liability of Partners
- ❖ Perpetual Existence
- ❖ Unlimited partners
- ❖ Potential for Growth

Format of Revenue Account

Particulars	Note	Amount	Amount
Revenue from Operations		xxx	
Other Income		<u>xxx</u>	
Total Revenue			xxx
<u>Expenses</u>			
Cost of Materials Consumed		xxx	
Purchase of Stock in Trade		xxx	
Changes in Inventories of Finished goods			
Work in Progress and Stock in Trade		xxx	
Personnel expenses		xxx	
Finance costs		Xxx	
Depreciation and Amortization expenses		xxx	
Other expenses		<u>xxx</u>	
Total Expenses			<u>xxx</u>
Profit before Tax			xxx
Less: Provision for tax			<u>xxx</u>
Profit / (Loss) for the period			<u>Xxx</u>

Particulars	Note	Amount	Amount
<u>CONTRIBUTION AND LIABILITIES</u>			
<u>Partners Funds</u>			
Contribution Received		xxx	
Reserves and Surplus		<u>xxx</u>	xxx
<u>Liabilities:</u>			
Long Term Borrowings		xxx	
Short Term Borrowings		xxx	
Trade Payables		xxx	
Other Current Liabilities		xxx	
Short Term Provisions		<u>xxx</u>	<u>xxx</u>
Total			<u>xxx</u>
<u>ASSETS</u>			
Fixed Assets			
Tangible Assets			xxx
Intangible Assets			xxx
Capital Work-in-Progress			xxx
Non-Current Investment			xxx
Other Non-Current Assets			xxx
Current Investments			xxx
Inventories			xxx
Trade Receivables			xxx
Cash and Cash Equivalentents			xxx
Short Term Loans & Advances			<u>xxx</u>
Other Current Assets			<u>xxx</u>
Total			<u>xxx</u>

Some Imp items of Financial statements

- Capital Work in Progress:

Reliance Company purchased a land

1 year – Factory machinery order – 50,00,000 adv

School benches order – 5,00,000

Hospital equipments order – 10,00,000

Factory Building construction – 25,00,000

90,00,000 lakhs spent – Capital work in progress

- Non-Current Assets – Those assets which are long term in nature