

Trends and Challenges in the Profession



The profession of Accountancy has been playing a pivotal role in various sectors contributing to the economic growth of the nation. From the traditional core areas of assurance to the modern avatar of a business solution provider, a Chartered Accountant plays a vital role linking different stakeholders in the spectrum of the fast growing Indian economy. Accounting and reporting; direct and indirect taxation; management consultancy are the most common areas in which our fraternity plays dominant lead roles in the policy formulation, implementation and advisory functions. All these areas are poised for drastic changes calling for re-orientation of knowledge and demanding transformation of the understanding and approach in these areas of practice. Technology is assuming a predominant role in many things the profession does and technological tools are evolving to improve the operational efficiency of the professionals. In this article, the author analyses the trends and challenges in the accountancy profession.



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At the macro level, one cannot fail to capture the fact that the decade ahead from now would be a promising period for India as a nation and the role of the profession would assume an altogether different magnitude and significance from what it was in the past. India would be doing everything to transform itself into a developed nation by 2020. There would be resurgence in the overall economic activity and buoyancy in many sectors. As accounting and finance professionals, Chartered Accountants both in Industry and practice, would have a pivotal role to play in multiple capacities to promote the prosperity of the business houses and

thereby facilitate the economic growth of the nation. The growing trend of more members joining industry and more females enrolling and qualifying as Chartered Accountants might facilitate the accomplishment of this objective in a better manner.

XBRL Initiative

The Ministry of Corporate Affairs, vide Circular No. 9/2011 dtd. 31-03-2011 as modified by Circular No. 37/2011 dtd. 07-06-2011, has mandated that the following class of companies have to file the financial statements in XBRL from 2010-2011:

- All companies listed in India and their Indian subsidiaries;
- All companies having a paid up capital of ₹5 crore and above;
- All companies having a turnover of ₹100 crore and above;

However, banking companies, insurance companies, power companies and Non-Banking Finance Companies (NBFCs) are exempted from XBRL filing till further orders.

eXtensible Business Reporting Language (XBRL) is a new reporting methodology involving technology for better, faster and smarter presentation of financial information of an entity. XBRL enables preparers of the business reports to meet business reporting demands effectively and cost efficiently. XBRL facilitates the investors to decipher the figures in the Balance Sheet and other financial statements in a uniform and harmonious manner across the globe. For this purpose, taxonomy, which is a kind of dictionary containing organised group of definitions that represent information found in a variety of business reports and the relationships of the items found in those business reports, is required to be adopted.

XBRL increases the usability of financial statement information. The need to re-key financial data for analytical and other purposes can be eliminated. By presenting its statements in XBRL, a company



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can benefit investors and raise its profile. It will also meet the requirements of regulators, lenders and others consumers of financial information, who are increasingly demanding reporting in XBRL. This will improve business relations and lead to a range of benefits.

With full adoption of XBRL, companies can automate data collection. For example, data from different company divisions with different accounting systems can be assembled quickly, cheaply and efficiently. Once data is gathered in XBRL, different types of reports using varying subsets of the data can be produced with minimum effort. A company finance division, for example, could quickly and reliably generate internal management reports, financial statements for publication, tax and other regulatory filings, as well as credit reports for lenders. Not only can data handling be automated, removing time-consuming, error-prone processes, but the data can be checked by software for accuracy. Our profession can play a vital role in this whole exercise by associating with the government, stock exchanges and the notified companies in its effective implementation.

Convergence with IFRS

By Notification No. G.S.R. 179(E), dated 3-3-2011, the Ministry of Corporate Affairs has notified Ind AS which is comparable with the IFRS. There have been certain carve outs and modifications as compared with IFRS. Although the roadmap for convergence with IFRS was earlier indicated to commence from 01.04.2011 in a phased manner and get completed by 2014, the actual date of applicability has been deferred and is expected to be notified separately. The primary reason for the deferral seems to be the lack of clarity on the tax implications arising out of the implementation of Ind AS. The Finance Ministry, it appears, is seized of the matter and a decision may be taken in this regard in the near future.

In view of the new set of standards, Ind AS, expected to be applicable soon, there is immense scope of practice in the field of client advisory services for a Chartered Accountant. The subject being new and the expertise being limited, opportunities are emerging in the field of training for Ind AS and even for implementation of systems and processes in the organisations that are expected to follow Ind AS in Phase-I. Over the next about 5 years, the need for convergence implementation services by way of transforming the accounting and financial reporting from I GAAP to Ind AS would be in abundance.

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specialisation. Again, when called upon to audit the accounts of an enterprise which has adopted Ind AS, knowledge of IFRS would be inevitable to discharge the attest function responsibility in a proper manner. Any Chartered Accountant gaining expertise over IFRS in the near future can cater to the demands of not only the entities seeking services on the domestic turf but also that of the multi-national business entities and entities in other jurisdictions as well.

Direct Taxes Code

The Direct Taxes Code Bill, 2010 was introduced in Parliament in August 2010. The Bill has been referred for consideration by the Standing Committee which has been consulting and receiving representations from various forums and bodies including ICAI. After receiving the report of the Standing Committee, the Finance Ministry is expected to finalise the Code for its enactment during this year for implementation with effect from 1st April, 2012.

Majority of our members in practice, especially in smaller places, specialise in taxation. There needs to be a paradigm shift in this segment of practice as the implementation of DTC would usher in a new era of taxation regime. Substantial segment of the present judicial precedents might become irrelevant on the implementation of DTC. The only hope is that, the room for fresh litigation under DTC may not be as fertile as it is under the existing legislation. It is good to note that, in spite of the recession followed by slowdown of the economy during 2008-2009 and 2009-2010, the revenue collection on the direct tax front has seen a phenomenal increase. Moderation of tax rates, simplification of laws and better compliance, it is expected, would propel the economy into a double-digit growth trajectory. The profession can gear up to translate this expectation into reality.

Goods and Services Tax

The Empowered Committee of State Finance Ministers is still grappling with the formulation of Goods and Services Tax (GST) model. Since GST can take shape only in concert with the States, the date of implementation is quite uncertain. However, the Finance Minister has indicated that there is considerable progress in the dialogue between the Union and the States and that the areas of divergence have been narrowed. He has also mentioned that the work is underway on drafting of the model legislation for the Central and State GST. Besides, a strong IT infrastructure is being established in the form of GST network. The National Securities Depository Limited (NSDL) has been selected as technology partner for incubating the National Information Utility that will establish and operate the IT backbone for GST.

GST, as and when introduced would bring in uniformity in the levy of tax on goods and services and the profession can plunge into this field of services in a comprehensive manner. GST is proposed to encompass all the levies that are now imposed in the nature of Excise duty, Additional Customs duty (CVD), VAT, Service tax, Entertainment taxes, Octroi, Entry taxes, Luxury tax, Cess, Stamp duty etc., Consequently, GST would be a significant contributor to the government exchequer and the role of the profession in this branch of law, would accordingly become more important.

Business Advisory

Management Consultancy practice and Corporate Advisory Services would assume greater proposition in the wide range of services to be rendered by members of the profession. Mergers and Acquisitions leading to growth and expansion of businesses would be the order of the day. As part of the expansion plan, many companies would go in for IPO to raise capital in the domestic markets. Besides, Indian companies are going global by establishing subsidiaries and acquiring businesses abroad. Indian accounting profession should also think and act global. More and more corporate entities would be raising funds in the versatile global markets and the authenticity of the financial information as certified by the profession would therefore assume paramount importance.

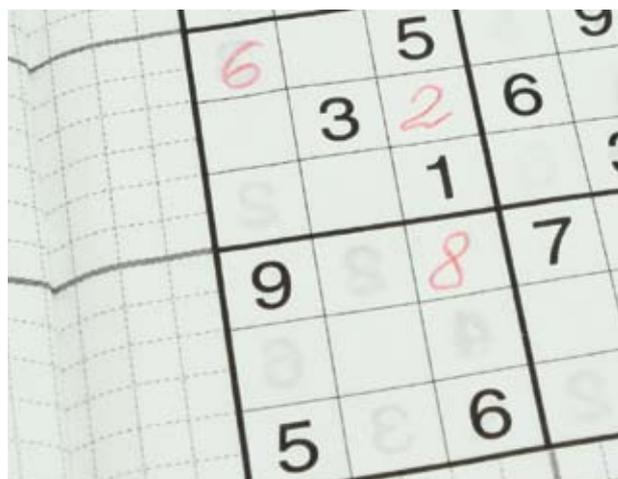
Further, restructuring as part of business reengineering could be of immense value addition to the business enterprises. Corporate Funding for new ventures as well as for diversification projects need to be handled by the profession by providing back to back services. Therefore, the profession needs to empower itself in all these areas to cater to expectations and do effective hand holding in execution of these various strategic plans. An audit firm can render these services

at a smaller scale comfortably. When the size and magnitude keeps growing, it would be better to create a corporate entity so that massive human resource recruitment with wider horizons of expertise and capabilities becomes feasible.

Chartered Accountants can architect business growth and expansion; advocate for business reengineering; doctor the revival of sick units; engineer viable business solutions; navigate implementation of Systems and Procedures; pilot various strategic plans; negotiate for cost optimisation and thereby author business success stories in the country. Consultancy services need to be encouraged and pursued as they provide value addition to the clients and facilitate faster growth of the economy.

LLPs and MDPs

Limited Liability Partnership (LLP) as an entity has come into vogue in India with the passage of the Limited Liability Partnership Act, 2008. The provisions of the Income tax Act have also been amended to treat LLP at par with a partnership firm under the Partnership



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Act, 1932 for taxation purposes. LLP has the distinct advantage of a company as it restricts the liability of the partners and at the same time preserves the operational flexibility of a partnership firm. Yet another advantage of a LLP is that there is no ceiling on the number of Partners. If ICAI can come out with the necessary notification with the approval of the Ministry, members should be in a position to carry on the practice in the form of LLP.

The concept of Multi Disciplinary Partnership (MDP) firm has also been recognised when the Chartered Accountants Act, 1949 was amended by the Chartered Accountants Amendment Act, 2006. The First Schedule of the Act (Clause (4) of Part I) was amended to permit members of the profession to enter into partnership with members of other profession as may be notified. The council deliberated in the context of such amendment and recommended to the government, way back in 2006-2007, that a Cost Accountant, a Company Secretary, an Advocate, an Engineer, an Architect and an Actuary may be notified as eligible to be admitted as partners in a CA firm.

Once the relevant notification is issued, MDP would become a reality and CA firms can admit the above class of professionals. Further, as and when ICAI enters into Mutual Recognition Agreement (MRA) with any professional body or institution situated outside India, members of ICAI will be in a position to enter into partnership even with members of such bodies/institutions.

Composition of Membership

In the eighties, most of the membership was in practice and only a small percentage of the members were in employment. With globalisation, liberalisation and privatisation from 1991 onwards, phenomenal increase in opportunities was witnessed in the manufacturing and service sectors for CAs resulting in more and more influx into employment than in practice.

There are two revelations on analysing the membership of ICAI which stood at 1,61,516 as on 01-04-2010. Firstly, the size of the members in employment has grown to 49.45 per cent (79,873) and those in practice account for 50.55 per cent (81,643). Secondly, on analysing the membership increase of 37,970 during the last five years (from April 2005 to March 2010), it is interesting to note that 90.82 per cent (34,485) have taken up employment and only the rest have obtained certificate of practice (COP). Of course, those who are recruited by audit firms as employees are also treated as being in employment since they don't obtain COP. If this trend continues, a decade later, the situation may be such that about 80 per cent would be in employment and those in public practice

may dwindle similar to what is prevalent in developed economies.

Another trend that needs to be comprehended is the steep increase in the composition of female members and also of girls pursuing CA curriculum. In 2000, the female members of ICAI accounted for about 8 per cent whereas in 2010 it stands at 16 per cent of the overall membership. This implies that the percentage of composition of 8 per cent achieved over 50 years since inception of the profession in 1949 has been doubled over the last ten years. Between 2000 and 2010, the growth of total membership is 71,142 out of which the female membership accounts for 18,397 (26 per cent). In respect of student population, there has been acceleration in the inflow of female students who now account for about 34 per cent at CPT/PCC/IPCC levels and about 28 per cent at Final level.

ICAI may have to keep in mind the above trends and accordingly formulate policies relating to the course curriculum; continuing professional education methodology and content; formulation of various standards and on other related aspects.

Conclusion

In the present day scenario, the real challenge to the profession is to learn, unlearn and relearn. The rigorous training that we underwent, the robust education system that we qualified and the aptitude for continuous learning imbibed within us would stand us in good stead to overcome this challenge. We should aim at achieving excellence in all our endeavours. Excellence is like the summit of a pyramid – larger the base, higher could be the summit. The quality and credibility of the profession should be such that, we are in a position to build a pyramid of excellence, the summit of which is unmatched by that of any other profession.

One generation of India gave theosophy to humanity; another generation built monuments; yet another brought in agricultural revolution; later generation navigated the industrial revolution and the last one revitalised the economy with the service sector revolution. What is going to be the present generation's contribution to India is a thought worth pondering about. The response, undoubtedly, is that we should be instrumental in ensuring probity in public life by exposing the corrupt and cleansing the political and bureaucratic environment. We can do this by creating greater awareness; mobilising strong public opinion and enabling clean and patriotic persons to plunge into public life and thereby avert the leadership crisis that is engulfing the nation. ICAI, as a premier accounting body can formulate standards for ensuring accountability and transparency in public spending by the Governments and Local Bodies.



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ICAI can also participate in the policy formulation for curbing corruption and ensuring fiscal discipline in the utilisation of the budget allocations. Let us join hands to construct a credible economy in this incredible India as "Partners in Nation Building". ■