

Indian Accounting Standards (Ind AS)— Professional Opportunities Galore for CAs



The Indian Accounting Standards (Ind AS), which are substantially based on International Financial Reporting Standards (IFRS) that are required or permitted in over 140 jurisdictions, have unleashed mega accounting reforms in India. This is going to be cherished by Institute of Chartered Accountants of India (ICAI) and its members for decades to come. The sustained efforts of the ICAI over last one decade has culminated in implementation of Ind AS converged with IFRS by a majority of companies from accounting year 2016-17. In India, there are nearly 7,000 listed companies that are required to prepare Ind AS based financial statements. Also, unlisted companies with net worth above Rs 250 crore are subject to Ind AS roadmap.

In terms of GDP and Listed Companies, usage of IFRS Standards is nearly 54% and 68%, respectively. At a global level, US, the largest economy, permits foreign securities issuers to use IFRS Standards and more than 500 companies do so. Also, Japan permits IFRS Standards on a voluntary basis for domestic companies. It is not surprising that IFRS Standards are now known as Gateway to Global Capital Markets. In the above background, there is reasonable justification to say that Ind AS implementation opens up window of professional opportunities to members of our profession, on domestic front as well as on international platform. Members of our profession can explore opportunities in variety of roles i.e. auditor, accountant and consultant. Read on to know more...

Let us first look at the history of global accounting scenario. In the initial decades following the end

of World War II, the world started witnessing a period of rapid growth of international trade and foreign direct investment, and increased cross-border transactions, mergers and acquisitions. As a result, many global institutions came into

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existence to enable international co-operation, convergences and supervision. E.g. International Monetary Fund and World Bank (known as Twins of Bretton Woods Conference) in 1945; General Agreement on Trade and Tariffs (GATT) in 1948, which was replaced by World Trade Organisation (WTO) in 1995; The Organisation for Economic Co-operation and Development in 1961; Basel Committee on Banking Supervision (BCBS) in 1974; The International Organisation of Securities Commissions (IOSCO) in 1983. Accounting and Financial Reporting domain was no exception to this global phenomenon. The leaders of accounting profession saw this as an international challenge as well as an opportunity to usher in era of international accounting standards. The reasons being the accounting is a social science and it is not totally divorced from societal thinking and changes occurring in the society. Many developed and prominent economies had (or started) developing their own jurisdictional accounting regimes called Generally Accepted Accounting Principles (GAAP, a term coined by U.S.). However, there were many Gaps (differences) between these national GAAPs in critical accounting areas. In the year 1973, two significant developments of international impact on accounting profession took place – establishment of Twins of 1973, International Accounting Standards Committee (IASC) (international standard-setter) and Financial Accounting Standards Board (U.S. national standard-setter). IASC was established by accountancy professional bodies of nine countries with the main objective to harmonise accounting standards worldwide and issue standards titled International Accounting Standards (IASs). Soon after, in 1974, The Institute of Chartered Accountants of India (ICAI) became a member of IASC.

During later part of 20th century, globalisation and liberalisation of Trade and Commerce further intensified and many global economies got highly integrated. In the year 2007 (J.K. Industries Ltd & Anr versus Union of India & Ors), while upholding the validity of AS 22 *Accounting for Taxes on Income* issued by ICAI as part of its initiative to harmonise the accounting standards with IASs, the Hon'ble Supreme Court of India said that in the era of globalisation and liberalisation, the world has become an ***economic village***. In this

context, the global accountancy profession took serious note of the effectiveness and adequacy of the IAS Framework. It was noted that IAS Framework required complete overhaul in critical areas – removal of accounting options, comprehensive standards on financial instruments and derivatives, business combinations, consolidations, share-based payments, operating segments and above all robust disclosures. At the dawn of 21st century, this led to restructuring of IASC and emergence of reinvigorated not-for-profit private sector international standard-setting body currently known as IFRS Foundation with an independent standard-setting arm called International Accounting Standard Board (IASB). The standards issued by IASB are titled as International Financial Reporting Standards (IFRS) and it also adopted IASs issued by its predecessor IASC.

ICAI has been a critical wheel in the accounting standard-setting chariot of this nation since its formation and in the year 1977 it established a fully dedicated non-standing committee called Accounting Standards Board (ASB or the Board). The ASB has been working in larger public interest to enable the Nation with high quality globally accepted accounting standards and has successfully implemented accounting reforms from time to time. In the beginning of new millennium, ICAI strengthened the Accounting Standards (AS) Framework by issuing as many as 12 new ASs considering the prevailing IASs issued by IASC. In the year 2006-2007, it took cognizance of the global developments i.e. momentum towards adoption of/convergence with a single set of high quality globally acceptable accounting standards; some of the major economies like European Union, Australia adopting/converging with IFRS Framework, China and Canada expressing their intentions to do so and the US GAAP and IFRS Convergence plans. ICAI released a Concept Paper which advocated convergence with IFRS Framework and identified a few key benefits to the Nation such as efficiency/economy in mobilisation of funds from international markets, increased professional opportunities for Indian Accountancy Professionals, improvement in the image of Indian accountancy profession and so on. A decade long sustained efforts of ICAI

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have led to implementation of IFRS converged Indian Accounting Standards (Ind ASs) by large majority of companies from accounting year 2016-2017. No doubt, this is a mega reform in accounting sector that ICAI and its members can cherish for decades to come. In order to derive maximum possible benefits of convergence with high quality IFRS Standards, it has been ensured that there are very minimal carve-outs, above all there is transparency about these carve-outs, ICAI continues to evaluate the status of these carve outs and also monitors changes in the dynamic IFRS Framework to remain converged all the time. It is also worthwhile to note that IFRS Standards, which are the basis of Ind ASs, have emerged as a credible and robust set of high quality financial reporting standards that are widely used across major global economies and capital markets. Currently, these are either required or permitted in over 140 jurisdictions across the globe. In terms of GDP and Listed Companies, usage of IFRS Standards is nearly 54% and 68%, respectively. Let us not forget that US, the largest economy, permits foreign securities issuers to use IFRS Standards and more than 500 companies do so. Also, Japan permits IFRS Standards on a voluntary basis for domestic companies. It is not surprising that IFRS Standards are now known as *Gateway to Global Capital Markets*.

In the above background, there is reasonable justification to say that Ind AS implementation opens up window of professional opportunities to members of our profession, on domestic front as well as on international platform. Members of our profession can explore opportunities in variety of roles i.e. auditor, accountant and consultant. Let us look at this aspect in a fair and with positive frame of mind.

Ind ASs are Principle Based Comprehensive Standards Requiring Expert Services in Many Areas

There are a number of Ind ASs or areas in certain Ind ASs that require professional guidance, robust validation and control mechanisms by experts, in house or external sources. These expert services would be required at the initial transition to Ind AS as well as at each reporting

date on on-going basis. A few prominent areas requiring involvement of accounting experts are highlighted below.

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- **Fair Value Measurement – Valuation, Validation and Controls:**

There is extensive application of fair value measurement concepts across Ind AS Framework. Ind ASs that entail use of fair value measurement are those relating to Financial Instruments, Property Plant and Equipment, Business Combination, Employee Benefits and so on. The standards require disclosure of fair values for certain items even where those are measured at cost or amortised cost. As the Ind ASs only lay down principles around fair value measurement, professional services would be required not only as a valuation professional but to design, implement and validate a suitable internal control framework around this entire exercise. Further, the standards bring in some valuation challenges such as Highest & Best Use (HaBu) concept for non-financial assets, valuation of unlisted shares/entities, valuation in illiquid or inactive markets etc. Hence, this entire accounting area requires sound knowledge of finance, accounting, statistical techniques, economics etc. and accountancy professionals have natural edge in this domain. In view of the emerging significance of valuation activity, ICAI has established a Valuation Standards Board to develop and issue valuation standards in line with global practices and policies. It may also be noted that ICAI also conducts ICAI Education and Certification Course on Valuation.

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- **Financial Instruments – Need of Professional's Services:**

-Expected Credit Loss: Ind AS 109 requires impairment loss recognition and measurement for certain category of financial instruments based on new approach called 'Expected Credit Loss (ECL)' instead of 'Incurred Loss Approach'. In this approach, impairment loss will be determined not only based on historical loss data or prescribed impairment indicators but also taking into account the forecast future conditions. ECL approach brings in certain new concepts such as bucketing of assets based on level of increase in credit risk, measurement of loss amount considering time value of money, expected recoveries or cash flows, probability-weighted outcomes, valuation of collaterals etc. These concepts in many cases need suitable data and tools to quantify sophisticated credit risk parameters/techniques such as Probability of Default, Loss given Default, Exposure at Default etc. As a consequence, there will be opportunities to render services to entities in developing policy and procedures of use of these techniques, data base developments, data quality and integrity validation services, development and/of credit risk parameters, independent validation of models.

-Hedge Accounting: Ind AS 109 Hedge Accounting model is intended to align the entity's risk management activities and strategy, its rationale for hedging and impact on financial statements. It lays down robust criteria for an entity to apply hedge accounting such as what are qualifying hedging instruments, eligible hedge items, formal designation and documentation hedging relationship, the entity's risk management objective, hedging strategy and hedge effectiveness testing etc. One can see that entities would be looking to avail the services of accountants to ensure that they are able to derive the benefits of hedge accounting privilege.

-Disclosures: In view of the increased use of derivatives for risk management etc and to provide appropriate information about the nature and extent of risks from all types of

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financial instruments, Ind AS 107 lays down comprehensive set of disclosure requirements. The disclosure requirements comprise qualitative and quantitative aspects about the various types of risks such as credit risk, market risk, liquidity risk arising from financial instruments. Like the disclosure requirements of fair value measurement, the Ind AS requires details of policies, processes of the entity to identify, measure and manage those risks. Accountancy Professionals have an added opportunity to guide the development and/or selection of risk management policies and practices by the entities.

Impairment of Assets - Intangible Assets – Goodwill Impairment Test

Under Ind AS, consolidated financial statements have assumed prominence and hence recognition and measurement of the intangible assets like Goodwill, Trademarks, Brands, Customer-related intangible assets bring in fresh challenges. Under Ind AS 36, Goodwill is not amortised but tested

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ICAI has completed its due process for formulating new Ind AS on Insurance Contracts following the issuance of IFRS 17 Insurance Contracts by IASB. It requires complete overhaul of the policies, processes, operating structures and IT systems of insurance industry globally. In this huge transition, accountants will have pivotal role to play to guide and hand hold the entities for smooth and trouble-free transition to new era in insurance contracts accounting.

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for impairment only. Therefore, professional services to determine recoverable amount of an asset or cash-generating unit on reliable basis would be required.

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issuance of IFRS 17 Insurance Contracts by IASB. IFRS 17 is a fundamental overhaul of insurance accounting and replaces the current myriad of accounting approaches with a single approach that will provide investors and others with comparable and updated information. IFRS 17 is truly international IFRS Standard on insurance contracts. Therefore, it requires complete overhaul of the policies, processes, operating structures and IT systems of insurance industry globally. In this huge transition, accountants will have pivotal role to play to guide and hand hold the entities for smooth and trouble-free transition to new era in insurance contracts accounting.

Career Opportunities in Industry

In view of the availability of suitably skilled human resources, India has been a preferred destination for global processing hubs commonly known as BPOs/KPOs, of multinational giants from different nations across the world. Global Financial Reporting Vertical is substantial part of the activities of these processing centres of excellence and importantly, most of these

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global giants are from jurisdictions that follow either IFRS Standards or US GAAP. It may be worthwhile note here that there are many new Ind ASs, which are based on IFRS standards which have been the outcomes of IFRS and US GAAP convergence projects. Considering the fact that Ind ASs are substantially converged with IFRS Standards, professionals with Ind AS knowledge will be preferred choice in talent hunt. So, is the case with nation i.e. India with large population of professionals with globally acceptable standards will attract more and more BPO/KPO hubs in the years to come which will have multiplier effect on career opportunities.

Global Opportunities – Ind AS Widens the Professional/Career Canvas

One of the key virtues of Ind AS is its substantial convergence with IFRS Standards, a set of high quality global standards required or permitted in over 140 jurisdictions. Accordingly, proficient knowledge of Ind AS will enable a level playing field in accounting profession or career internationally. In order to enable its members to derive this professional advantage, it may be noted that ICAI conducts IFRS Certification Courses for its member abroad. This can be global passport for worldwide accountancy career. Further, as mentioned earlier there are many critical Ind AS (e.g. Ind AS 103, Ind AS 108, Ind AS 113, Ind AS 115, Ind AS 116) formulated based on IFRS Standards that are outcomes of IFRS – US GAAP Convergence initiatives. Also, there are many areas that have principles similar to US GAAP. Accordingly, Ind AS professionals can also explore opportunities in the US GAAP domain with some extra efforts.

Training and Consulting

As highlighted above, Ind AS or its mentor IFRS Standards have wide spread use across many entities and jurisdictions. In India, there are nearly 7,000 listed companies that are required to prepare Ind AS based financial statements. Also, unlisted companies with net worth above ₹ 250 crore are subject to Ind AS roadmap. This large number domestic potential client bases coupled with many listed entities using IFRS Standards, offers a very attractive profession in training and consulting domain. ■