

SPECIAL EMPHASIS ON ACCOUNTING PROFESSION IN THE PRESENT SCENARIO

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Abstract

Accounting and accountability are the core of the accounting profession. The challenge lies in using the core competencies are the profession to act not only as an accountant and auditor, but also as an analyst, consultant, manager and reformist.

The profession should take initiatives, among other areas, in institutional reforms of shifting the focus from inputs to outputs and outcomes leading to better utilization of resources, and accountability at all levels.

With the average rate of economic growth in the developing countries being twice that of the world economy, there would be enormous demand for accountants and the accounting services world over of the magnitude never witnessed before.

The forces of globalization might create pressures for opening up of the market for accountancy services in India. There has to be a greater realisation at the level of accounting firms and the accountants, of the possible competitive scenario, and based on that, adoption of firm-level strategies for upgradation and diversification of skills, increase in size and capabilities through networking or otherwise, and for developing a reach for global market.

There is an urgent need for a paradigm shift in the thinking and vision of the accounting profession by using a post mortem approach to a position of leadership, guiding decision making process at every stage of development, i.e., planning, policy making investment, implementation and evaluation.

Introduction

An accounting professional was earlier either an auditor or a segment contributor. As an auditor, he knew how to put his head down and use color pencils for ticking vouchers. As a tax practitioner, he used to handle annual returns. As an employee, he would contribute long hours of duty to tally the trial balance. He was regarded by society as a conservative person having no major interest in what is around him. But, the future is to be much different. Gone are the days of tradition. Ahead are the days of revolution, mobility and changes. The future will belong to those who can cope with changes.

The speed of this change would be far greater than the change which has taken place over the last century. Two very important macro level changes are – globalisation and information technology.

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Globalisation

The world trade order has completely changed trade of goods between countries. Goods freely move from one country to other without entry barriers. The world has also seen capital flow from one country to other in a more liberalized environment. The opening up of ownership of companies from cross border is rapidly changing the control of businesses. The listing of securities in a foreign country is the order of the day. Mergers and acquisitions both within the country as well as across the border are rapidly taking place. The investors of a country are investing in companies of other countries across the world. This trend would only accelerate in future.

With such large cross-border transactions taking place, there would be a complete transformation of the services rendered by accounting professionals. As regards the service sector, the openings are now taking place. Sectors like Information Technology have seen huge volumes of cross-border rendition of services. The profession of accountants has yet to see full-scale opening up. In my opinion, this would happen in the near future. Traditionally, the accountancy profession world over has developed in their jurisdiction and there has been small amount of cross-border rendering of services. The way forward for the accountancy profession world-wide is to open up and thereby there would be free movement of both professionals across the globe as well as rendering of service by a professional from one country to another.

Information Technology

In every sphere of life, information technology has made sweeping changes and is continuing to rapidly change the way we work. Talking of the accountancy sector, the traditional books of account has given way to books being maintained on computers. With more and more digitization of data, the way in which businesses are run has dramatically changed and will continue to change because of large volumes of business being done electronically.

The skill set for rendering services in this new digitized environment would need sweeping changes in the way the accountancy profession renders services. A competent accountant will have to work with information technology to render any kind of service, e.g. audits would be needed to be done on the computer rather than around the computers. This opens a tremendous opportunity to render service. The location of an accountant is no longer relevant in view of the Internet. A day would come, not in the distant future, when an accountant from any part of India would be auditing a company situated in any corner of the world.

History of Accountants in India

The profession of accountancy was unregulated in India before 1925 and there were many different people who used to be accountants, auditors, advisers, etc. There were a few accounting institutes in the UK which had been granted the Royal Charter by the King and so their members could call themselves "Chartered Accountants." Many Indians acquired this membership and also called themselves Chartered Accountants. At the same time, in India, there were accountants who qualified the examination of the Accountancy Board set up by the government and worked as registered accountants. It was widely perceived and admitted that the examinations and training standards of the UK institutes were much more rigorous though both Registered Accountants and Chartered Accountants had the same right to audit and practice in India. There was a very strong political move leading to a very heated debate in March, 1936 in the Legislative Assembly seeking to grant the right to the RAs to use the designation of CA. The RAs used arguments in their petition alleging

racial discrimination and evoking national sentiments. Parliamentarians of eminence like Sir Abdur Rahim, Sir Nripendra Sircar, Pandit Govind Ballav Pant, Pandit Krishnakant Malaviya, Sir Cowasji Hehangir, Sir H. P. Modi and Mohammad Ali Jinnah had heated debates for a number of days on this very issue.

Present Global Scenario

With Enron in the USA, Parmalat in Europe Satyam in India and other scams that have hit the headlines, the confidence of the world on the accountancy profession has been waning. It has taken stringent legislation (in the form of Sarbanes Oxley Act in the US and the Corporate Governance Code in India) to restore some of this confidence.

Since 2002, the international accountancy profession is also undergoing a major upheaval. As a result of the Norwalk Agreement signed by the US Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB), FASB and IASB have agreed to converge the US accounting standards and those issued by IASB and develop high quality compatible accounting standards (to be called International Financial Reporting Standards – IFRS) that could be used for both domestic and cross-border financial reporting. The FASB and IASB seek to ensure adherence to high quality professional standards and are committed to the establishment of transparent accounting and financial systems. This alone will ensure that the confidence of the end users of the services of the accountancy profession is not lost in an era where globalization is leading to a smaller and flatter world.

Developments in India

The developments and trends taking place in the fields of accounting and auditing in India in the last 10 years also reflect the international trends and developments. As the forces of globalization prompted India to open its doors to foreign investment and as the Indian companies expanded across borders, both the public and private sectors increasingly recognized the benefits of having a commonly understood financial reporting framework supported by strong globally accepted auditing standards.

Though India had been lagging behind in issuing accounting standards, the ICAI has, in recent times, promulgated a spate of new accounting standards. The fast pace at which the ICAI has worked in order to keep abreast with the rest of the world can be seen from the fact that only 15 accounting standards were issued from 1982 (when the Accounting Standards Boards was established) to 2000, whereas since 2001, 14 more accounting standards have already been effected and another 7 are in the pipeline.

Some of the recent accounting standards are quite complex and involve new concepts like deferred taxes, recognition principles for intangible assets, etc. There is a chance that these concepts may not be uniformly interpreted and followed. To reduce ambiguities, ICAI has also issued 29 Accounting Standard Interpretations (ASIs).

In addition to the formulation of the accounting standards, ICAI has also been active in issuing Auditing and Assurance Standards (AAS). AAS (or SAPs as they were earlier called) are mandatory for auditors to follow while giving their opinion on the "truth and fairness" of financial statements. The AAS issued by the Auditing and Assurance Standards Board of ICAI follow the international standards on auditing (ISAs) issued by IFAC. Till date, ICAI has issued 34 AAS.

Emerging opportunities Challenges

Opportunities

The rapid globalization, liberalization and deregulation of the economy have provided not only many challenges but lots of opportunities also to the profession. The accountants are providing more and more IT and E-enabled services and support to their clients. Many professionals have become experts in their respective areas. The thrust now is on specialization and finding the niche market. A refined professional renders multifarious services to his clients. The important amongst them are as follows:

- (i) Taxation, a major traditional area of professional practice. Direct and indirect taxation, International taxation.
- (ii) Stockbrokership, investment banking, technical research analysis, asset management, etc.
- (iii) Consultant in the area of venture capital funding.
- (iv) Arbitration and other methods of alternate dispute resolution.
- (v) Management Consultancy Services.
- (vi) Audit, Statutory Audit, Tax Audit, Internal Audit, Environmental Audit, Information System Audit, Carbon Credit Audit, etc.
- (vii) Project Evaluation, Financial and Profitability Evaluation.
- (viii) Foreign Collaborations.
- (ix) Structuring of a Transaction.
- (x) Mergers, Acquisitions and Takeovers.
- (xi) Winding up and Voluntary Liquidation.
- (xii) Cost Control and MIS.
- (xiii) Arrangement for the Sources of Finance.
- (xiv) Pricing of Issues
- (xv) Business Valuation

In the recent past, we have seen that more Indian companies have tapped the US capital market and some more are expected to tap the US capital market in the near future. These companies are required to present their accounts as per GAAP and this need to be certified by international firms registered with Securities' Exchange Commission of the United States. There are many other corporates who want to publish their accounts as per US GAAP or IFRS as an additional disclosure. This has opened a new window for professionals who can extend their services and advise the clients in preparation of accounts as per GAAP or IFRS.

Challenges

In earlier times the marketing of services was considered to be the biggest challenge before professionals. This is no longer the case. All across the globe, the biggest challenges before accountants around the world are:

- Hiring and retaining talent
- Compliance with standards
- Technology advancement
- Ensuring quality in assignments
- Succession planning
- Investment in research
- Marketing of services
- Competition from non-qualified accountants and other services providers

In the above context it is relevant to refer to Wong's report "Challenges and Successes in Implementing International Standards: Convergence to IFRSs and ISAs" based on an international study commissioned by the Board of the International Federation of Accountants. The study indicated that, while there are compelling reasons for international convergence of auditing standards, challenges to the convergence are formidable. The study identified the following challenges, amongst others, which are also relevant to accountants.

- Length and complexity of the international standards
- Cost of compliance with IFRSs versus benefits obtained
- Inconsistent application of the international standards and
- Lack of sufficient professional representation on the international standard-setting boards.

In addition, the report states, "Virtually all participants raised issues concerning the relevancy and appropriateness of the international standards to accounting firms."

Conclusion

With the dawn of the 21st Century the accountants become an all rounder in finance functions and poised for taking top managerial positions in the higher echelons of hierarchy. All accounting professionals have, by necessity, to strengthen themselves through consolidation and networking and train specialists in different disciplines. All valuable advice on business could be had under one roof, for which the infrastructure should be in place.

The opportunities can be well utilized and challenges met confidently, if the accountants attune and prepare themselves to work in harmony with professionals from other disciplines. It is clear that with the fast pace of globalisation, the traditional role of accounting professionals have undergone a sea change. There is an imperative need to change the perceptions and attitudes of professionals so as to meet the challenges of the new millennium. The future will belong to those who can cope with the changes.

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