

IFRS to boost Job Creation in India: An Understanding on IFRS

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Abstract: *With different countries having different Accounting Standards, it became difficult to trade with different economies in the world. The data being based on different accounting principles cannot be fairly used to compare the accounts of different countries across nations. The need for a common Accounting principle to be used globally arose from here, which led to the development of International Financial Reporting Standards. This massive transition of change in accounting system in almost all business organization will boost the creation of jobs in accounting system across the world. For the preparation of opening IFRS statement of financial position, the accounting data of previous two year needs to be altered as per the current IFRS principles and guidelines, which will increase the demand for people with good knowledge on IFRS in the coming years. The paper studies how the application of IFRS will increase the number of jobs in India. It also studies the skills required by an individual to grab the upcoming job opportunities. There is no doubt that the implementation of IFRS is a major milestone in the Indian Accounting System. It will however require a substantial support by local accounting bodies to enable companies to adopt IFRS.*

Key Words: *Job creation, employability, Job Skills, IFRS (International Financial Reporting Standard).*

1. INTRODUCTION:

The dynamic Indian environment has been in headlines in the recent past. Social, political, economic and international environment has been constantly changing, leading to tremendous growth of the Indian Economy. One of the major change that has been made, is in the Indian System of Accounting by the Ministry of Corporate Affairs (MCA), in the late February 2011, the commitment to converge with the International Financial Reporting Standard (IFRS), denoted by Indian Accounting Standards (Ind-AS) in India. India has converged to IFRS through Ind AS with effect from April 1st, 2016. IFRS provides a platform for the global accounting standards. Earlier US GAAP (Generally Accepted Accounting Principles) were used as a common accounting system. However IFRS provides a greater preference due to its greater flexibility. These standards were issued by the IFRS Foundation and the International Accounting Standard Board (IASB). The adoption of IFRS became important because it unites the business affair across different countries of the world. Same accounting system across several countries will increase the international shareholding and trade to great extent. Also, it will ease the comparability, reliability and understand ability of financial statements of different companies across nations.

Now, the adaption of IFRS in India, will change the entire accounting systems of almost all business organizations working in India or abroad with head offices in India and they will have to rework their entire financial statements in accordance with the latest IFRS guidelines, which in itself is a huge amount of work and will create tremendous job opportunities at various levels, majorly for people with accounting and financial background.

2. OBJECTIVES AND METHODOLOGY:

The study is based on secondary data, which has been collected from various online and offline sources like official websites, journals and blogs.

The paper covers the following objectives:

- a) A basic understanding on International Financial Reporting Standards
- b) Breakthrough in the creation of jobs due to adoption of IFRS
- c) Job skills necessary to grab the upcoming job opportunities

3. ORIGIN OF IFRS:

The Indian Accounting Standards Committee(IASC) was formed in the year 1973 through an agreement made by professional accounting bodies from Australia, Canada, France, Germany, Japan, Mexico, Netherland, U.K., Ireland and the U.S.A. However, in India, the accounting standard board (ASB) was formed in 1977 to develop local standards. From 1973 -2001, IASC membership increased to 140 members representing over 100 countries. The Accounting standards were set by the IASC Board and in the year 1997, it was concluded that there must be a convergence of standards. From April 1st 2001, IASB formed to take over from IASC. Since 2001, IASB started developing and issuing new IFRS and the old Indian Accounting Standard (IAS) are eventually getting replaced by the new IFRS.

IASB has issued

- IAS 1 to IAS 41 (Ind AS1 to Ind AS 41)
- IFRS1 to IFRS 16 (Ind AS 101 to Ind AS 116)

The convergence of IFRS within the Indian context led to the development of IndAS. In India, these standards are implemented in phases and each phase has a specified limit:

Phase 1: April 1, 2011: companies other than Banking, Insurance and Non-Banking Financial Companies(NBFC)

Phase 2: April 1, 2012: Insurance companies

Phase 3: April 1, 2013: Banking and Non-Banking Financial Companies (NBFC)

4. STRUCTURE OF IFRS FORMATION:

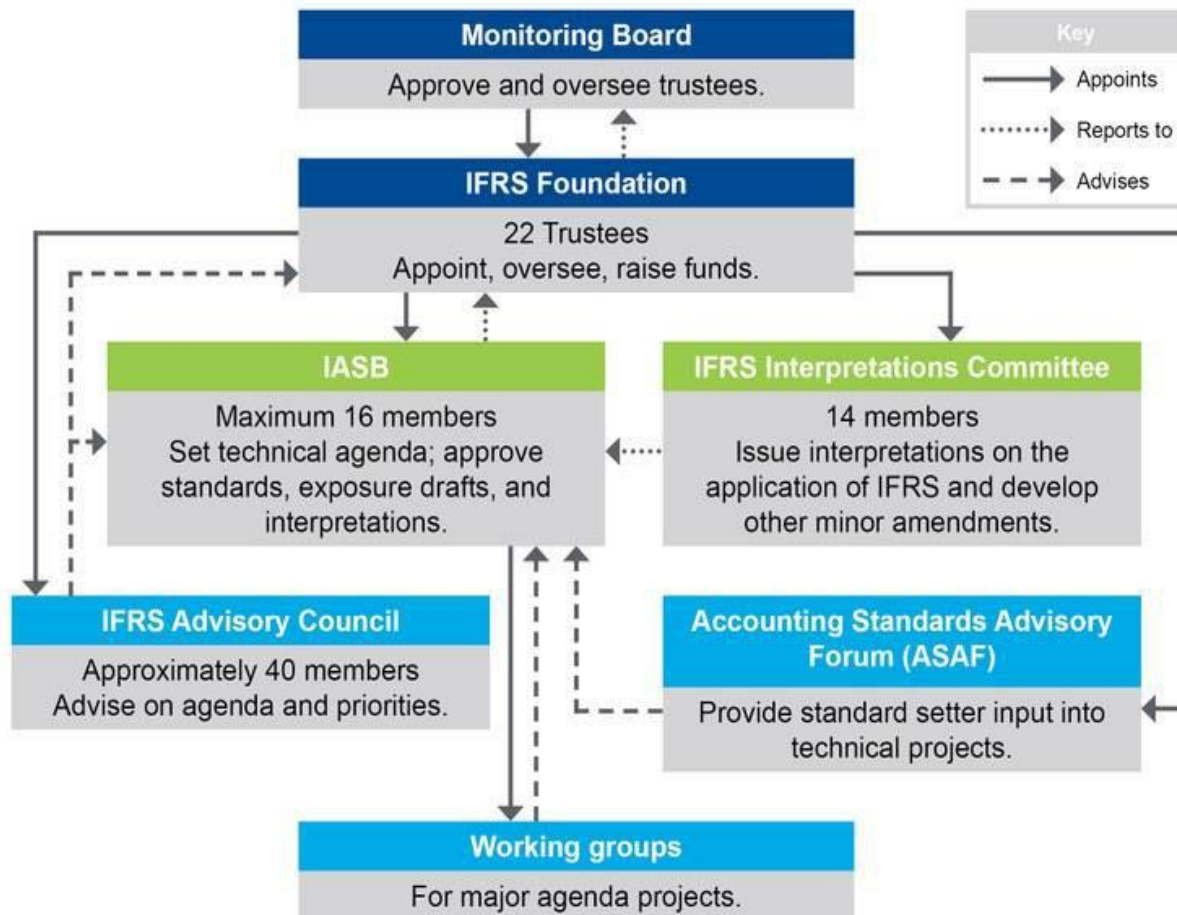


Image Source: Google image 'Structure of IFRS Foundation'

5. CONCEPTUAL FRAMEWORK OF IFRS:

The conceptual framework of IFRS determines the nature and purpose of accounting, mostly to give information to the concerned parties to help in decisions making process. It is based on certain assumptions and principles that underline the financial reporting. Absence of conceptual framework leads to conflict in certain accounting standards and principles. The purpose of framework is to provide a flexible, consistent and reliable standard of accounting and to assist the Board to prepare IFRS standard, to assist the auditors to form an opinion on the financial statements and to assist users to understand the financial statements. The framework sets the agreed objectives, qualitative characteristics, elements and definitions that underline financial reporting. It enhances consistency across standards, consistency over time when board member changes and provides benchmark for judgment. It helps to develop accounting policies in the absence of specific standard. It will also provide a better access to foreign capital markets.

6. IMPACT OF IFRS:

Implementation of IFRS will witness a large impact on how the key financial items of return on equity, operating profit, net profit, revenue, goodwill and book value will be computed. The following table shows a summarized form as to how the new standards will affect the organizations:

New Accounting Norms		
Under existing standard (IGAAP)	New accounting (Ind-AS)	Impact
Revenues calculated net of excise and duties	Revenues will be calculated by adding excise duty	Higher revenue, lower margin and EPS neutral. Consumer staples, auto, capital goods, and cement companies will be most impacted
Most companies having employee stock option (ESOP) based on intrinsic value	Mandates ESOP cost booked under fair value accounting	Likely to increase employee cost
Proposed dividend is recognised in the same year	Proposed dividend in a year when approved by shareholders	Likely to increase the year end book value of the company. This may lower return on equity (RoE) of high-dividend paying companies
Under M&A assets are recognised at book value	Asset and liability to be recognised at fair value and contingent liabilities to be accounted at fair value. Goodwill value to be tested annually	Companies having high goodwill in balance sheet will see volatilities in their earnings
Current investment valued at cost or market value	Needs to be valued at fair value	Greater volatility in other income, cash-rich companies will be more impacted
Redeemable preference share treated as part of equity	Will be treated as liability, preference dividend will be treated as interest cost	Higher debt to equity and lower EPS
Major repair charged as expenses	Allowed to capitalised	Could lead to lower EPS

Source: CS

Image Source: <http://img.etimg.com/photo/53200567/untitled-1.jpg>

7. JOB OPPORTUNITIES CREATED:

The application of IFRS will change the way accounting was previously done in Indian organizations, and thus will lead to tremendous increase in job opportunities across the nation. Various listed and unlisted Indian Companies with net worth above Rs 500 Crore have already started preparing their financial statements based on Ind AS or IFRS. Companies with net worth above Rs 250 Cr but less than 500 Cr have started altering their financial statements with the current year. Banks and Insurance companies will be required to alter the same from April 1, 2018 and April 1, 2019 respectively. The data clearly shows the astounding amount of work of converting the already existing records as per the new stated guidelines provided by IFRS, which needs to be done in the coming years. A lot of job opportunities have been created and are being created with introduction of IFRS in Indian markets.

Since it's a new system of accounting, lesser people have complete and proper knowledge of IFRS. But, on the other hand, since it is being adopted by large number of listed and unlisted companies, the demand for IFRS Professionals has increased through leaps and bounds.

Also, consultancy services can be offered by experts and professionals to companies adopting IFRS standards. Following are the areas where tremendous rise in Job opportunities can be seen:

- **Career Prospects for Professionals:** It provides an excellent career option for Chartered Accountants (CA), MBA (Finance) and Certified Financial Planner (CFA). Learning about IFRS will definitely improve their career prospects. Many Companies on large scale would need IFRS Certified individuals to alter their books of accounts as per the latest standards leading to a large number of job creations in the field.
- **Students Placement Opportunities:** Students with understanding of IFRS principles and standards can be easily employed in large number of organizations to study their financial data of past two years and make them in accordance with the latest IndAS standards, hence giving a rise to their employability.
- **Faculty Employability:** Not only students, the employability of teacher as faculties with great understanding on IFRS (IFRS Certified) can be increased for they will be needed to make students good at their job. Also, it is an entirely new area for research which provides a great scope for new findings and suggestions. Thus, professors and researchers can also improve their employability by researching on the area.
- **Individual Trainers:** Companies will be employing trainers in large numbers to train the already existing employees on IFRS so they may contribute towards the changing concepts on financial accounts preparation. Basic understanding on IFRS is a must have for all the employees in an organization especially the ones who

take care of finance and accounts as there are many changes in the IFRS system. For instance, earlier there was no Accounting for agricultural products, but there is now, for food processing, livestock farming, poultry, etc. Such changes must be clear to all the concerned employees of the organization, so they may contribute their bit towards the company, through various training programmes. Thus, leading to a rise in demand for IFRS Certified trainers.

- **Stock Traders:** Only through the proper understanding on IFRS, can the major stocks of companies will be bought and sold. Application of IFRS, will create jobs for stock brokers with proper knowledge on IFRS. Companies which are a part of NSE-NIFTY 50, BSE-SENSEX 50, with net worth above Rs 1000 Crore are covered in Phase 1, therefore leading to a rise in IFRS competent stock brokers.
- **Tax Consultants:** With the latest changes, the profit of organizations might show drastic change, which may create employment for tax consultants with knowledge on IFRS. With the adoption of new accounting system, the recognition of a lot of financial items like goodwill, return on equity, etc will change and the demand for tax consultants will rise among the companies to avail the tax benefits in the new scenario. Under GAAP, an employee purchase of share, after meeting certain criteria is not considered compensatory, however under IFRS, all the shares purchased by an employee are considered compensatory with a scope for share based payment guidance also. Not only companies but individuals will also need tax consultancy as per the IFRS standards.
- **New Software Development:** Employability for IT engineers will increase as new software with IFRS accountability will be needed by the organizations. New software for revenue recognition needs to be developed as certain assets and liabilities will be recognized and derecognized as per the new IFRS guidelines
- **Accounting standard for Trusts:** New International Accounting standards for trust will be developed soon, which will be made mandatory for all the NGO's and trusts to be complied with from 2021 onwards. Again, a huge scope for employability in the area.
- **Self-Employment:** Individuals with IFRS Certification may start up their own advisory and consultancy services. Thus can be employed and meet the rising demand for IFRS certified professionals.

8. IFRS CERTIFICATION AND SKILL DEVELOPMENT:

A student or a professional with good knowledge on IFRS has a tremendous scope for job opportunities in present times as well as in near future as many companies have already shifted to the IFRS system of reporting and many will switch in the upcoming years.

Students and professionals in finance industry should plan for getting an IFRS certification to increase their career prospects. For specializing in IFRS, the student needs to be of finance or accountancy background with strong knowledge on basic accounting. The student must have interest in the field as there is a need to unlearn the old accounting standards and learn the new ones.

Following institutions offer Certified Courses on IFRS:

1. ICAI for CA members : Certificate Course on IFRS (100 hours)
2. ICWAI for University faculties: Certificate course on IFRS Convergence (2 months)
3. KPMG for 2+ year working professional : Advanced Certificate Programme on IFRS (6 weeks)
4. ACCA for graduates (3+ year work experience) and post graduates (2+ year work experience) (3-6 months)
5. Various Universities have also included the IFRS Certification course in their curriculum.

Certification in IFRS from any one of the above mentioned institutes will help in developing the required skills in students and professionals to be market ready for IFRS transition. The demand for IFRS reporting Professional is going to be high because the listed companies with asset worth equal to or above Rs 500 Crore are targeted in the first phase of IFRS implementation. An individual seeking a career in the field must have a sound knowledge on Accounting and Financial Reporting, great memory, concept clarity and a knack for learning. In the words of *Alex Hagger*, Manager of Finance and Accounting at Badenoch & Clark, *'An IFRS specialist can expect the nature of their work to be fairly technical. The type of work includes financial accounting, preparation of statutory accounts, accounting work that might underpin mergers and acquisitions or an IPO, for example.'*

9. LIMITATION:

IFRS, though is leading to a globalised market with transparency, efficiency and accountability to financial markets around the globe, suffers from the following limitations:

- **Costly Affair:** IFRS implementation is going to be a costly affair when implementing for the first time as all the accounting records of the previous two years will need to get altered. Hiring an IFRS Professional and training of employees on the basics of IFRS will in itself bear huge cost to company.

- **Limited applicability:** The application of IFRS or IndAS does not apply to immaterial items and are neither retrospective in nature.
- **Governed by Local Laws:** Each country has its own rules and regulations. These local regulations govern the issue of IFRS within each individual country.
- **All items not covered:** Since IFRS is to be adopted by countries across the world, it concentrates only on essential items and items involving complexities are avoided to make it easier for global adoption. But, for doing so, it has left certain items of importance uncovered under the IFRS system.

10. CONCLUSION:

Adoption of IFRS is a breakthrough in Indian Accounting System to provide a common global language to interpret the accounting data across countries. It provides general guidelines to prepare financial statements. It will provide a cohesive view of finances to investors and auditors. This in turn has increased the demand for IFRS Professionals in India. It is obligatory for organizations which function through international stock exchange and joint ventures to follow IFRS. Thus, creating large number of job opportunities in India. It is also mandatory for people who are financial controller, accountants, analyst, auditors, portfolio managers, bank managers to be proficient in IFRS, leading to rise in demand for IFRS Certified Courses. It is going to affect the company's day to day operations in a significant manner and will also have an impact on the profitability of the business. It brings an opportunity to comprehensively reassess the financial reporting system in India.

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