

# XBRL in Business Reporting



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## BUSINESS REPORTING EVOLUTION

Hard-copy paper documents have been the traditional medium for business reporting to shareholders and investors. More recently, electronic versions of business reports have become common on company Web sites. However, electronic formats do not guarantee that information can be properly searched and extracted since distinct types of users have different needs of information. Several reporting languages have been developed to solve these problems.

## BACKGROUND

Corporate decision-makers (investors, analysts, regulators, etc.) require precise, useful and on-time information (Hunton et al., 2003). For this reason, traditional means of information disclosure are being systematically superseded by new models, based on new technologies.

Business reports convey plenty of information, useful to a wide range of parties, like institutions, managers, investors and regulators. But, do these reports satisfy all information needs of any particular party? For instance, is a bank capable of deciding whether or not to grant a loan to a company, based on its business report? Is this financial information ready to be used by local entities, when calculating a company's taxable income? Can an investor compare distinct companies in an automated manner? The answer is "*probably not*", because information that these users require is not the same. Commonly, a custom-built report has to be submitted for each entity and sometimes for each purpose. Imagine the work required when new documents are prepared—the time lost, and the money spent in order to comply with the requirements of each requester. On the other hand, paper or electronic business reports, are

static and hence "... unlikely to survive much longer as the preferred business information presentation format ..." (Jones & Willis, 2003, p. 32).

Hoffman et al. (1999) mentioned the need for standardization of financial information, so it could be understood independently of the platform used. Debreceeny and Gray (2001) identified the main problem associated with financial information retrieval and analysis on the Internet: the absence of information standards. Consequently, there is a strong argument that the usefulness and relevance of financial information can be maximized through development of a universal financial reporting language—one that would increase the quality and transparency of information. Users might be able to compare companies and periods in an easier and faster way, without concerns about the type of operating system in which the information was produced originally (Bonsón, 2000).

Since 1998, a new markup language, *extensible business reporting language* (XBRL), has offered the prospect of revolutionising decision-making processes by assuring a faster, cheaper and more cost-effective business reporting. XBRL is based on *extensible markup language* (XML), a flexible language for data definition and storage. Like XML, XBRL is an open standard, independent of any hardware or software platform and free from licence fees.

With XBRL, financial information is tagged using unique elements that remove the ambiguity of the information, making it more amenable to multiple users. Each element in the taxonomy defines only one concept in the financial statements and refers to relevant national or international accounting standards (Ramin & Prather, 2003). Thus, since the XBRL tag is a universal identifier and locator, it can be used to assist decision-making by a wide range of users for a wide range of decision-related purposes.

## XBRL STRUCTURE

XBRL is being developed and supported by a not-profit consortium, *XBRL International Incorporated* (XBRL II), which integrates approximately 450 of the world's leading government agencies, software industry firms, stock exchanges, banks, accounting firms and professional accounting associations. The organisation endorses the adoption of the standards, by promoting and developing the technology (XBRL, n.d.a). XBRL II is composed of several local jurisdictions, which promote local XBRL adaptation and develop taxonomies or extensions to be used by their members to comply with local accounting standards.

XBRL documents are comprised by the XBRL specification, the taxonomies and the instance documents:

- **XBRL specification** is the main intellectual property of the consortium (Turner & Hamscher, 2005). Within that specification lay the rules and the structure with which all taxonomies should comply. These rules may be mandatory, recommended or optional. Their adoption is essential for the documents to be valid, to comply with evolving specifications, and to guarantee the consistency of the information (Ramin, 2002).
- **Taxonomies** are syntactical rules that define the structure of a valid instance document for a given jurisdiction or standardization board. In December 2001, XBRL II issued the *Financial Reporting Taxonomies Architecture* (FRTA) which defines the rules and references for taxonomies creation and usage. This document became a Recommendation in April 2005 (XBRL, n.d.b).
- **Instance documents** are concrete representations of a specific reality of a given organization, structured in a way that the information can be automatically processed.

## ADVANTAGES AND DISADVANTAGES OF XBRL REPORTING

The following are the main advantages alleged to arise from XBRL reporting (Coffin, 2000; Willis, 2000; Berkeley et al., 2002; Willis et al., 2002; Boritz & No, 2003; Brown & Willis, 2003; Hawes & Cheifetz, 2003; Hodge et al., 2004; Best & Grossman, 2005; Gray, 2005; Hoffman et al., 2005; Watson, 2005):

- In XBRL, each information element is properly identified and categorized according to a specific taxonomy in such a way that the data can be transmitted and processed automatically. This reduces costs and the time taken to disclose information.
- Having each information element categorized, it is possible to reuse it in other documents, without having to prepare the information again. Thereby, human intervention is limited and typing errors can be reduced.
- Information gathering can be automatic without the need to re-key information by users. The analysis of information can also be expedited with XBRL-enabled financial analysis tools.
- With faster information disclosure and more powerful tools, financial information will gain new value. It will be possible to analyse and compare multiple companies through time and across distinct sectors.
- As XBRL adoption in any particular company grows, increasingly, the information flow will tend to be automated, as more information systems are integrated. This will lead to higher preparation efficiency and improved internal control.
- Any XBRL instance document can be transformed into common information formats, like *HyperText Markup Language* pages, spreadsheets or *Portable Document Format* files.

The main disadvantages of XBRL (Keller, 2003; Watson, 2005) are its:

- Reliance on complex technologies that have to be integrated into new and existing software tools
- Requirement for skilled professionals in the information preparation phase and in taxonomy customization—this complexity may be a significant drawback to widespread adoption.
- Need to assemble jurisdictions—This is a complex and lengthy process that can delay XBRL adaptation by local organizations. They may require local approved taxonomies to take full advantage of XBRL reporting.
- Failure to guarantee the quality of the information presented, since preparers have full control of information disclosures. On the other hand, without proper digital signatures, it may be difficult to guarantee that a particular XBRL document has not been tampered with.

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