

# **XBRL : Financial Reporting for the New Millennium**

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## **Introduction**

A new standard in financial reporting is poised to take the business world by storm. It will not only streamline how financial information is updated, but make it more readily available to those who need it. It is known as the eXtensible Business Reporting Language, or XBRL.

## **XBRL: A Technical Overview**

XBRL is an open source financial reporting system designed to accommodate the electronic preparation and exchange of business reports around the world (Richards and Smith, 2004). The basic concept behind it is an ID tag used to identify financial documents, much like an ISBN tag on books, or a bar code on retail products (Richards and Smith, 2004). XBRL is derived from XML, or the eXtensible Markup Language (IASCF). There are two basic principles surrounding the development of an XBRL system, the taxonomy, and the instance documents.

Taxonomy is a hierarchal classification of objects. In the case of XBRL, it is used to classify documents in a similar way. For example, in accounting, cash is considered a subset of current assets (Richards and Smith, 2004). The taxonomy may also be known as the XML schema (Richards and Smith, 2004). Once the taxonomy has been agreed upon, the data is mapped to the taxonomy. The result is called an instance document, which contains the tagged data (Richards and Smith, 2004).

## **Benefits of XBRL**

There are many benefits that can be associated with using a standard such as XBRL. The creators have emphasized three key benefits: Better, Faster, and Cheaper. With regard to the “Better” benefit, it provides a more effective use of financial data. Since much of the work is now automated with XBRL, it provides much higher quality and more accurate information. With more accurate information, the potential likelihood of having to restate earnings or making amendments to financial statements greatly decreases (Ernst & Young). The information is also more readily accessible with XBRL (Ernst & Young). Along with this, it is much easier to compare companies or various financial documents within the same company, and can be done using simple, over-the-counter software (Ernst & Young).

Another of the key benefits of XBRL is “Faster.” With XBRL much of the work is now automated, which allows companies to greatly decrease their turnaround time when producing financial statements. A process that could take weeks or months before may now take as little as a few days. Also, by producing the instance documents, companies can virtually eliminate the need for a printing company to produce their financial statements for the masses (XBRL for Earnings Releases). Companies can also produce financial statements more frequently than they could before. Externally, this means investors and analysts can receive information to make decisions much more quickly. Internally, managers can have the information required to make decisions when they need it, instead of making critical business decisions with little, no, or outdated information (Ernst & Young).

The final key benefit is “Cheaper.” Every company is always looking for a way to improve their bottom line, and one of the easiest and most common ways to do this is by lowering costs. XBRL can help this in several ways. First of all, the XBRL standard is software independent. Since the license is open source, and is derived from the major open source language XML, any company can use it (XBRL). It can be incorporated into such major pieces of cheap, turn-key business software, such as Microsoft’s Excel. Most every company has access to this software, and can very easily customize their own software for their personal needs, incorporating the XBRL standard into Excel. The second way XBRL can help to lower costs is by lowering or eliminating re-keying or reformatting of data (Ernst & Young). Any rework required adds time and eventually costs to the overall job. Lastly, since most of the process is now automated, it now frees up the people who were originally in charge of producing financial statements, and allows them to make a more effective and profitable use of their time.

### **Effects on the Financial Reporting Chain**

The potential effects of this new technology are substantial. Since the main goal of XBRL is efficiency, everyone in the financial reporting chain is affected. Regulatory reporting agencies such as the SEC are able to receive financial information faster and hopefully detect and prevent fraud. Individual investors and analysts are able to make more informed and accurate decisions in much less time. Everyone in the chain can benefit.

Fraud is a hot topic in the field of accounting today. With the scandals of such famous companies as Enron, WorldCom, and Arthur Anderson still fresh in the public’s memory, preventing similar events in the future is a huge issue. With both the Sarbanes Oxley Act and the implementation of XBRL, the SEC can hopefully detect and further prevent fraudulent activities like these from happening again. In a speech given on November 11, 2005, SEC Chairman Christopher Cox stated, “Interactive data [XBRL] can make the SEC a far more effective regulator, by helping us focus on preventing fraud, not just reacting to it...” (SEC, 2005)

Currently, producing financial information for investors and analysts is an inefficient, time consuming process. Documents can take weeks or even months before they are finally made available to the public. During this time a company can completely change their business model or go from high profits to high losses. By automating this process using XBRL, the information can be made automatically available to those who need it. Moreover, the investors and analysts can use the same readily available software the companies themselves use, and compare various companies to make their decisions. This can lead to potential increased earnings for investors.

### **The Future of XBRL**

The future of XBRL has great potential. Since the source code is readily and freely available to anyone, companies have little excuse not to adopt the standard. On March 22, 2006, the United Kingdom passed a bill requiring all companies to have adopted XBRL for their financial reporting by the year 2010 (XBRL, 2006). A move like this makes sense for government agencies around the world. As was stated above by Chairman Cox, implementing XBRL gives government reporting agencies the opportunity to be more preventative than reactive. Every company capable of implementing XBRL will also be able to benefit in the future. By

being able to produce financial documents much more quickly, they will be able to keep their investors happy and up to date. They will also be able to better see the financial effects of business decisions they have made in the past, and how to better forecast based on those decisions in the future. Since there is little delay involved, these decisions can come much quicker and management can feel much more secure about the decisions they are making. In the long run, this will reduce costs to companies by reducing erroneous decisions.

Investors and analysts will also greatly benefit from having this new technology become a standard in the coming years. Like the internal management of a company, they will be able to receive information much quicker that will keep them from making quick, blind decisions. This can lead to much stronger and healthier financial markets and economies in the long run.

In Alles, Kogan, and Vasarhelyi's article published in 2000, titled, "Accounting in 2015," a concern was stated that with the implementation of XBRL and similar technologies, accountants, mainly auditors, would no longer be necessary, since the accounting function would be so highly automated (Alles, Kogan and Vasarhelyi, 2000). While this is a possibility, accountants may shift towards the way doctors have in the past few decades, going from general medical practitioners to physicians highly specialized in certain fields (Alles, Kogan and Vasarhelyi, 2000).

### **Limitations and Potential Downfalls**

While XBRL is has great potential, it is by no means perfect. Since it is open source software, it has no concrete backing from a reputable software company, and therefore is dependent on the goodwill of its creators and proponents for any backing support or updates to the software. If the software becomes a standard by which companies operate, this will not prove much of a problem, but the support is required for the project to have any chance of survival.

Another set of potential problems are the hidden costs associated with the project. While overall XBRL reduces costs of producing financial statements, the people who will be working with the software need to be trained on how it actually works. This training will ultimately cost time and money. Also, if any custom software is required, it means one of two things: Either hiring programmers to code the software packages, or training the staff to code in XML and XBRL and having them develop the software themselves in-house. Either way, this is an additional hidden cost. Looking at these potential pitfalls, it is easy to see that the benefits of XBRL greatly outweigh any of the potential problems.

### **Conclusion**

XBRL is an amazing new technology has a great chance for success. It is quickly being adopted as the new standard. By taking advantage of a few key benefits, everyone in the financial reporting chain has the opportunity to reap rewards in the future. As the eXtensible Business Reporting Language continues to grow and mature, the business world as we know it will change forever.

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