PROS AND CONS OF XBRL  (A NEW ERA IN THE FIELD OF COMMERCE)

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ABSTRACT
XBRL (eXtensible Business Reporting Language) is a language based on XML for the electronic communication of business and financial data. This paper is intended to: (1) Give a brief presentation of the XBRL language and its applicability to financial analysis; (2) Define the requirements of a software application supporting financial analysis and planning capable of processing financial data in the XBRL format; (3) Appreciate the potential of Quantrix Modeler, a multi-dimensional spreadsheet software, as a platform for implementing XBRL-enabled financial models. The audience for this document is end-users interested in adopting XBRL as a language for preparing, analyzing and communicating financial information. This is based on the mark-up language of the business world, the eXtensible Business Reporting Language, and makes use of the concept of Multidimensionality. This paper gives an over view of pros and cons of XBRL.

INTRODUCTION
A large number of companies in India are waking up to a new format of financial reporting. As per the circular from the Ministry of Corporate Affairs, dated 31st March 2011, eligible Indian companies would now have to file their audited financial statements in an XBRL format instead of the prevailing PDF format.

XBRL (eXtensible Business Reporting Language) has been evolving since its conception in 1998. A number of countries have adopted XBRL in varying degrees. While a number of businesses played an important role in the development and adoption of XBRL for business reporting, XBRL adoption has been driven primarily through regulators. Regulators across the globe – the SEC in the United States, APRA in Australia, and HMRC in the United Kingdom etc. have all mandated an XBRL compliant filing of statements. There are compelling reasons for regulators to adopt XBRL and the trend of increased stringency as far as regulatory reporting on XBRL is concerned will continue. Furthermore, there have been increasingly interesting developments in the way analysts are adopting XBRL. There is greater transparency and ease with which analysts can compare data across different organizations and reach conclusions. While in India there is push from the regulators to adopt XBRL, companies should also be aware of the benefits which will accrue from the whole hearted embrace of this new way of doing things. There are compelling reasons to do so apart from compliance. Regulators gain from a reduction in manual effort and potentially greater accuracy. Businesses gain from increased interoperability and greater ease of information monitoring and control and reduced costs due to standardization.

Over the long term we see a trend towards standardization of business reporting resulting in lesser burden of compliance. We also see the evolution of social analytics in India. However in the short term most organizations, at least those covered by the MCA mandate will need to figure out a way to generate the XBRL documents. The MCA mandate is not voluntary and the time window is short.

To comply without penalty organizations can go for a ‘bolton’ software tool or outsource the tagging exercise to a third party with expertise in this area. These solutions however are not recommended over the long term as they do create some hurdles in realizing the full potential of XBRL adoption. Organizations needing to comply may need to start thinking about planning for a ‘built-in’ approach to software selection and installation.

DEVELOPMENT AND ADOPTION
XBRL is developed and promoted by XBRL International (www.xbrl.org) a non-for profit consortium with to date approximately 600 worldwide member companies, associations, and
government agencies. There are currently 26 jurisdictions which focus on the dissemination of XBRL in their region. Worldwide more than twenty regulatory entities and other public authorities are adopting XBRL for reporting purposes. At present, XBRL is obligatory for financial reporting in a variety of countries. For a complete list see http://www.xbrl.org. It is notable that the regulatory reporting - enforced by governmental organizations and institutions - speed up the adoption compared to volunteer XBRL filings or inter/intra-company communication.

THE ADVANTAGES OF XBRL

XBRL is a universally accepted information sharing tool. XBRL is available universally in many countries and facilitates sharing business information in many languages, on virtually any computer platform and in multiple accounting standards. Investors can access business information electronically with XBRL thereby enabling almost real-time analysis. Business information tagged with XBRL can be converted into a variety of formats including HTML, spreadsheets and databases. Because XBRL is so widely accepted, companies can increase automated information sharing with minimal implementation costs.

XBRL is beneficial for a variety of stakeholders. XBRL has broad appeal because it can be utilized by investors to facilitate analysis of financial results, by companies to eliminate manual input and review of information passed through the financial reporting process, and by governmental entities to efficiently gather information from business. XBRL can drive business information sharing efficiencies in a variety of situations. Companies should begin to explore using XBRL in other ways once they complete SEC compliance requirements.

XBRL adapts well to a variety of uses. XBRL is not just a financial reporting tool. XBRL can be used in a variety of business information sharing situations. XBRL could streamline tax return preparation and reporting, sharing of non-financial business information, like production volumes, inventory reserves or merchandise shrinkage. XBRL could facilitate internal corporate efficiencies including the automated movement of information from its source to its end use. XBRL can also enable information sharing between companies and their vendors, customers and business partners. Consider for instance that automated matching of purchase orders, receiving documents and invoices could be automated utilizing XBRL technologies. In addition, there is an open source taxonomy, Global Ledger, that companies could utilize to jump-start the use of XBRL within their organization. XBRL provides context, validation, persistence and reusability. A company can use XBRL to improve both the speed and accuracy of information moved through its reporting cycle. In addition, XBRL can improve spreadsheet controls by electronically accessing information from source systems thereby significantly mitigating human input errors. In addition, business information tagged with XBRL persists from period to period and is thereby easily reusable.

XBRL is an open source. Organizations have paid to develop taxonomies that can be used without any cost to those that use them. There are also web-based readers to read the taxonomies and web-based tools for rendering XBRL Instance files. Even Microsoft Office, a tool widely available in almost every company, is XML enabled (XBRL is a special type of XML). By utilizing the freely available XBRL resources, companies can benefit from XBRL while keeping implementation costs to a minimum.

- Provides a standardized language for all companies reporting their financial data.
- Allows investors and stakeholders to easily download and understand financial reports.
- Provides a list of definitions (taxonomies) for the financial terms used.
- Saves times in entering and reporting data and increases efficiency.
- It is very cost effective.

THE DISADVANTAGES OF XBRL

XBRL facilitates near real-time disclosure. The potential to quickly report information in automated ways is a double edged sword. On the one hand, near real-time disclosure improves transparency and sharing of information for a variety of beneficial purposes. On the other hand, near real-time
Disclosure may emphasize short-term results at the expense of long-term objectives. Some argue that financial information shared in a real-time way may cause undue volatility in stock prices and impulsive decisions by investors, suppliers, customers and business managers.

XBRL increases the potential for error. Many cite the potential for errors and inconsistencies as a major disadvantage. If companies select the wrong tag from a taxonomy (for example the US GAAP Taxonomy or “UGT”) then users of that information would rely on the incorrect information. This is a concern during implementation as companies begin to select UGT elements for the first time, but the UGT “tags” chosen by companies will improve over time as XBRL users learn how to select the best UGT elements to represent their information. In addition, the SEC will review XBRL exhibits and make comments where they believe corrections should be made. Since XBRL persists from period to period, electronic reporting accuracy should improve over time.

XBRL may increase information abuse. In an information age where dishonest people are electronically enabled, abuse is bound to occur. As more information becomes electronically companies will need to implement appropriate safeguards to protect their information, including XBRL tagged information.

XBRL taxonomies are extensible. Taxonomies are extensible. In other words, they can be expanded to meet a variety of purposes. One such reason for extending a taxonomy is to add a new taxonomy element that better describes an amount for which there is not a currently available taxonomy element. Extending a taxonomy is perfectly appropriate in some cases such as tagging disclosures required by a newly effective accounting standard that has not yet been incorporated into the UGT. However, some argue that companies can over use taxonomy extensions thereby rendering (pardon the pun) the resulting instance document less comparable with companies in the same industry. Overuse of taxonomy extensions can be a problem. There are examples of companies utilizing UGT extensions exclusively in their filings with the SEC. Extensions are a necessary part of XBRL use, but use of extensions should be made only when appropriate taxonomy elements are not available.

- It is not used by all publicly traded companies as of now.
- Tags may be wrongly assigned to financial terms.
- There is lack of consistency in the use of standards.
- Wrong definitions (taxonomies) may be given to certain financial terms.
- It may pose security risks for companies publically reporting their financial information.

CONCLUSION

Companies need to utilize XBRL in the ways that are beneficial for information sharing internally and externally. At the same time they should consider information security, taxonomy element selection accuracy and internal controls to prevent abuse and minimize errors. Companies should also prepare for more frequent electronic reporting and shorter reporting cycles, especially if the SEC begins to implement portions of its Twenty First Century Disclosure Initiative. It would also be a good idea for companies to consider the auditor’s role in the XBRL process as well as how audits may become more automated using XBRL technologies. In addition, companies should encourage conversations about XBRL between their accounting and finance staff and the information technology department.

REFERENCES


