

Why Should Management Accountants Care about XBRL?

RECENTLY I RECEIVED AN E-MAIL FROM DANKA

Starovic, the senior technical issues manager at the United Kingdom-based Chartered Institute of Management Accountants. (CIMA is the U.K. professional body for management accountants, and they have more than 60,000 members.) She asked a very basic question: Why should management accountants care about XBRL?

Here are excerpts from her e-mail:

I am writing an article for CIMA's online newsletter *Insight* (www.cimaglobal.com/newsletters) to raise awareness of the benefits of using XBRL internally. Most of what is currently written about XBRL concerns financial—i.e., external—reporting. I am writing to ask for your help around some of the issues raised by recent *Strategic Finance* articles.

The gist of the Wacoal article (“Breathing New Life into Old Systems” by Morikuni Haseqawa, Taiki Sakata, Nobuyuki Sambuichi, and Neal Hannon, *Strategic Finance*, March 2004) seemed to be about how XBRL reduces the need for ERP-type solutions as it facilitates connectivity between different legacy systems. I can understand why this is a good idea. If a company is large and has lots of subsidiaries or business units, it's likely to have serious problems with the quality of data, especially its accuracy and the speed of getting the data.

What are the benefits of XBRL for companies that already have ERP solutions? Can XBRL help them in terms of internal reporting? Also, financial data such as that contained in general ledgers is only a part of what is in a data warehouse—it will contain a lot of nonfinancial in-

formation. Have there been any moves to develop taxonomies for this internationally?

I think there is little awareness of XBRL amongst management accountants. Do you think there are other issues that concern them directly?

Here are excerpts from my response:

XBRL is built for much more than just external financial reporting. Mike Willis, the founding chair of XBRL International, recently described XBRL as:

“The Internet's information format for describing financial and business reporting data in a way that all software can capture and process. By tagging individual pieces of business information with common data definitions and providing the means of transporting the information over the Internet, these standards, which we'll call 'XBRL Web services,' enable disparate software applications to transmit and share information directly with each other.

“Current accounting processes include many processes that are largely manual and include significant 'cut and paste' and manual data-entry that degrade the completeness, accuracy, and validity of information. These manual processes highlight a need for greater accuracy and efficiency within company processes. As a result, the cost of producing and consuming information is high, accuracy and timeliness are victimized, and analysis is adversely impacted.”

[Source: www.webcpa.com]

Willis's major point is that any time management accountants take information from existing financial systems and cut and paste their results into spreadsheets to create usable reports, inaccuracy and inefficiency can result.

XBRL can help. It focuses 100% of its horsepower on the description of data and 0% of its power on data presentation. This is very powerful because it generates opportunities for financial professionals to reuse the underlying data many times with much lower risk of error. If you go to the same pure data source for each type of report generated, all you need to be concerned with is the formatting of the report, not the data.

Contrast the above situation with today's typical ERP system output. Most financial modules of ERP systems require good report writers as interfaces in order to generate meaningful reports. The underlying data lie in proprietary formats that need special assistance to be transformed into management information. With the ERP systems either generating XBRL code inside the programs or an additional XBRL conversion program running outside the ERP system, accountants can now create management reports without the inaccurate and messy cut-and-paste techniques.

Willis continues:

"XBRL has a 'Ledger' or 'General Ledger' idea that enables the tagging of information used within the company. So, when you're thinking about all of the time spent moving data from one internal application to another, cutting and pasting, re-checking macro-formulas due to spreadsheet format changes and the related manual controls over these processes, consider using the XBRL Ledger taxonomy to transform these to a straight-through reporting process."

XBRL GL, the ledger taxonomy, specifically addresses the need to "drill down" into financial data for answers. With XBRL GL, each ac-

counting transaction is coded with identifiers that allow a management accountant to "see" the makeup of any amount subsequently rolled up into a business report.

XBRL specification includes methods for tagging nonfinancial information, such as data typically found in footnotes to financial statements.

I see a great role for XBRL-tagged data in the feeding of online business reporting, such as digital dashboards, balanced scorecards, monitoring key performance indicators, and other forms of business intelligence. Imagine how simple the informational feeds to these systems will be if the underlying data are fully identified by using the XML-compliant markups contained within the XBRL specification.

Regarding international markups for other data, consider ebXML, the electronic business extensible markup language (see www.ebxml.org for more details). ebXML is a markup language specifically designed to capture business processes and transactions prior to accounting inception. From the ebXML website:

"ebXML (Electronic Business using eXtensible Markup Language) is a modular suite of specifications that enables enterprises of any size and in any geographical location to conduct business over the Internet. Using ebXML, companies now have a standard method to exchange business messages, conduct trading relationships, communicate data in common terms, and define and register business processes."

ebXML will affect management accountants whose companies are conducting business over the Internet. Business events, marked up in the digital language ebXML, will provide a natural feed into enhanced business reporting models.

In the U.K., many of your members will soon face the Financial Services Authority (FSA) XBRL requirement for filings in 2005. See www.fsa.gov.uk for details on the Integrated Regulatory Reporting requirements. All insurance and mortgage and general insurance carriers will need to learn about XBRL and how they can comply with regulations. Inland Revenue also has an XBRL program set to change the makeup of tax reporting in the U.K. From the Inland Revenue website:

"Tax computations, and eventually accounts, will be compiled using XBRL as projects to develop taxonomies of financial terms are completed. The Revenue has developed a taxonomy suitable for filing tax computations. The ICAEW is working on a taxonomy that links to the U.K. GAAP. The Revenue will be able to receive computations in XBRL from October 2003 and plans to extend this to statutory accounts in 2004."

[Source: www.inlandrevenue.gov.uk]

Beyond government regulation, the U.K. companies that will be required to report in XBRL will be seeking information about how to use the power of XBRL for their internal reporting. This represents a huge challenge and opportunity for management accountants worldwide. ■

Neal Hannon is an accounting lecturer for the Barney School of Business at the University of Hartford. Author of two books and numerous articles, Hannon is the IMA's representative to the XBRL International consortium. An elected member of the XBRL-US steering committee, he is the chair of the XBRL-US Education Work Group.