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Teaching and Educational note

Introducing XBRL through a financial statement analysis project

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ABSTRACT

In this project, we introduce business and accounting students to the application of eXtensible Business Reporting Language (XBRL) through the use of interactive data. Students study the basic concepts and potential benefits of interactive data and XBRL. Students learn to extract the financial reports of two companies in the same industry. Then, using traditional financial analysis techniques (ratio analysis) students can compare the performance of these companies. Thus, the project accomplishes two important objectives: it introduces students to the benefits and features of XBRL-tagged financial reporting and interactive data, and it shows how this medium can be used to facilitate the analysis of financial statements. The project uses free, publicly available interactive data tools to accomplish these objectives.

This project is appropriate for any level of financial accounting course in which students use public company financial statements to generate financial ratios and conduct analysis on them. We aim the project at MBA-type introductory accounting courses. In addition, we show how it can easily be expanded to be applied to higher level financial statement analysis courses, both at the undergraduate and graduate levels. The project provides some background into how XBRL-tagged financial reporting is generated, while the main focus is on application of interactive data and not the technology itself. Since XBRL is now mandated by the US Secu-

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rities and Exchange Commission (SEC) for most reporting entities, it is critical for today's business students to be familiar with this method of communicating financial information.

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1. Introduction

Financial information for all publicly traded companies in the US is now offered in both interactive and non-interactive formats. The purpose of this project is to introduce students to the interactive format, to understand how the interactive data are created, and to explore the benefits of using interactive data. These benefits include the ability to apply traditional financial analysis techniques, including ratio analysis, to a company and to compare companies or the performance of the same company over different periods in a much easier process than with traditionally produced (non-interactive) financial reports.

The format used to offer the interactive data is called XBRL. eXtensible Business Reporting Language (XBRL) is an internet-based language designed specifically to accommodate financial reporting. It provides data in a context-rich format that can be readily downloaded into analytical software such as spreadsheets or interactive data viewers.³ XBRL is expected to facilitate the disclosure process and the dissemination of information to users and regulators (Baldwin, Brown, & Trinkle, 2006; Hodge, Kennedy, & Maines, 2004). XBRL can be used to transmit financial statements, tax returns, and other business information (Cohen, Schiavina, & Servais, 2005). Some of the benefits and potential uses of XBRL are still being explored and developed. The richness of the interactive data now allows the user of the data to dig deeper into each account and get potentially down to the transaction level (Cohen, 2009). The standardization of the data allows companies to submit the financial data to multiple agencies (for example the SEC and the IRS or the Department of Labor) once without repeating the process for each agency.

This project is intended to be the first time students are introduced to XBRL and does not assume prior exposure to XBRL. The purpose of this project is to familiarize students with XBRL, how it is being introduced into financial reporting in the US and globally, and how it can be used to extract publicly available data from the SEC's EDGAR database for a side-by-side comparison of two companies. Though the data for this project could have been taken from other sources (for example Compustat or Factiva), we use XBRL as the source of the data to introduce students to XBRL. We chose to use XBRL given its wide international acceptance and the fact that it has now become the de facto standard for the distribution of business reporting data (Piechocki, Falden, Gräning, & Debreceeny, 2009). We have avoided incorporating into this project topics related to the technical aspect of generating XBRL reports or taxonomy issues, which are more appropriate for accounting information systems courses (Debreceeny & Farewell, 2010). The project is designed for both graduate fundamentals of accounting courses and undergraduate intermediate accounting courses in which students are familiar with financial statements and are able to apply analytical techniques such as ratio analysis to evaluate and compare financial information. This project could also be used in an undergraduate introductory financial accounting course if the students have gained enough financial statement analysis knowledge. The project could be expanded to involve more detailed analysis, therefore making it appropriate for upper-level undergraduate or graduate financial statement analysis courses (see Appendix A for details).

2. Background

XBRL provides interactive financial data through a "tagging" process. It converts financial information contained in a document (financial report or other Word, Excel, PDF, etc. documents) into a computer file with XBRL codes, which makes the document computer readable. Once entered into a financial information database investors, analysts, and others can download data quickly in a format that facilitates analysis and multi-company or multi-period comparisons.

³ The SEC is currently testing a prototype interactive data viewer and has made the source code available via their website. An example of an interactive data viewer based on the SEC's rendering engine is the RR Donnelley Interactive XBRL Viewer <http://xbrlviewer.bowne.com/>.

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