



## IMPACT OF XBRL REPORTING ON THE QUALITY OF FINANCIAL REPORTING SYSTEM IN INDIA

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### ABSTRACT

XBRL is a very dynamic and modern financial reporting language which is being used around the world to communicate the results of operational and financial performance of the business organizations. It ensures accuracy, reliability, timeliness and decision usefulness to various stakeholders. The present paper focuses on the impact of XBRL reporting on the quality of financial reporting system in India and on the disclosure of both financial and non-financial information in single annual report. For this purpose study adopted both primary and secondary sources of data and for the analysis purpose it applied one-sample t-test and concludes that the XBRL Reporting positively impacts on the quality of financial reporting system in India and it also helps to communicate both financial and non-financial information under single financial report.

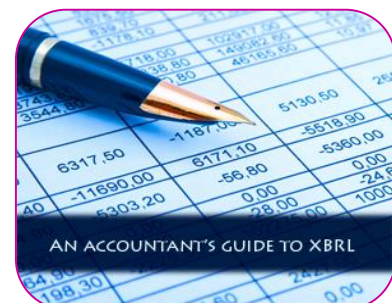
**KEY WORDS:** XBRL, Quality of financial reporting, non-financial disclosure.

### 1. BACKGROUND

Technology is one of the most influencing environmental factors on the normal business operations. Today it has gained more importance in all the corner points of the economy because; it gives unimaginable benefits to all the group of people. Among the group, a business unit is one which forms a greatest representative in the economic development. Business is enjoying more benefit from technology from the point of procuring raw materials, converting and making them into usable commodity. Besides this it's enjoying the fruits of technology in the aspect of communicating the financial information to its stakeholders.

Over the period of time the reporting and communication of financial information has moved from paper to paper less format. This is because of technological advancement in the communication of financial information to the relevant stakeholders. Among paperless formats such as pdf, word, excel html, etc. XBRL format of financial reporting is the talk of the business town. It gives benefit to large group of interested parties of business. This led to the development of virtual information system which is the mode of gathering of data, after its process communicating the same to end-users. Virtual information system is based on internet and which eases the entire information system whether management information system or accounting information system and enables various interest parties to take their dynamic decisions on various aspects of the business whether it is financial or non-financial in matter.

The present study is mainly focusing on the impact of XBRL reform on the quality of financial reporting in India. It is the need of the hour to discuss on Extensible Business Reporting Language as a virtual financial reporting mode and which produces the high quality information based on internet which positively influences on decrease in the overall cost production of financial and non-financial information



and thereby increases the confidence on the business affairs and becoming more efficient by saving time and various resources. Due to this virtual reporting initiative there is no need for having traditional documents such as word, excel, purchase orders, invoices, cheque etc., because now these are exchanged through emails through XBRL formats. And also it is avoidable to have physical reports and printouts because these are also can electronically generate. So in this context it is necessary to emphasize on the disclosure of financial and non-financial information using World Wide Web through internet and today XBRL is the unique mode of disclosing financial and non-financial information to various end-users and enables them for easy analysis and meeting legal and statutory obligations.

In India due to BRR (Business Responsibility Reporting) initiative, disclosure of financial and non-financial information under a single report has gained a greater importance so XBRL-India is in operation to develop the reporting language which is suitable for the IndAs and to meet the requirements of other regulating authorities. XBRL-India is working as per the guidelines of Ministry of corporate affairs and institute of Chartered accountants of India. The reporting based on XBRL-India Taxonomy had enhanced the quality of financial information to be disclosed to the end-users and gaining importance from the investors who are situated across the world. Here quality of financial reporting indicates there is more benefits than the cost incurred for financial reporting. The benefits of XBRL reporting is greatly enjoyed by users such as investors, creditors, tax authorities, financial analysts and preparers such as management, accountants and business as whole. Reporting costs consists of costs of hardware, XBRL software, remunerations to accountants, training and educations costs, cost of internet access , cost of information security etc.,

## 2. REVIEW OF LITERATURE

**MakhaieI .N. K and Joseph Sherer(2017).** In their study they have analyzed that the effect of political-economic reform on the quality of financial reports in Egypt. Also contributed theoretical aspect for shaping the accounting practices in socio-economic environment and investigated the influence of socio-economic factors on accounting and reporting processes in developing countries. To analyze the data authors have adopted interpretive approach and they found that political-economic reforms in Egypt have negatively affected on the quality of financial reporting.

**Ana oluic and Mamic Sacer(2013).** analyzed the impact of information technology on accounting process and on accounting information system quality. They collected data through structured questionnaire from 400 large and medium size companies and other secondary sources. Collected data was analyzed through simple statistical tools such as averages, percentages etc., finally their study concluded that the information technology is significantly effects on the quality of financial reporting system by ensuring the accuracy, timeliness and reduced cost of production accounting information. They also suggested for the improvement of some areas such as implementation of suitable training to employees and to conduct continuous auditing of information to ensure the quality of accounting information.

**AICPA and XBRL-US(2018).**had conducted a pricing study on XBRL Reporting companies. They analyzed the price data of 13 XBRL reporting agents to 1032 small reporting companies and compared between 2014 and 2017 results on reporting costs to small scale companies. Finally, they witnessed that there is a decline of 45% of average costs of financial reporting due to XBRL initiative and also the companies benefitted to reach more investors and helps analysts for easy access of detailed financial disclosure information.

**Mahdi Salehi and Elahe Torabi (2016)** studied the role of use of information technology in financial reporting and the impact of use of IT on the quality of financial reporting. For the purpose of study, the authors have adopted both primary and secondary sources for data collection purposes. The collected data were analyzed through various statistical tools such as T-test, ANOVA and Duncan's test. Finally, they found that the use of IT plays a vital role in financial reporting and enhanced the quality of financial reporting by ensuring timeliness and relevance through internet based reporting technique i.e., XBRL. And it has reduced

the reliability of financial information due to incompetency of firm in respect security of information and in continuous online financial reporting.

**Steve Yang et al.,(2016)** examined the impact of XBRL on financial statement structural comparability during the post XBRL implementation period in US. For the purpose of data, the authors have adopted secondary sources by analyzing 27,971 annual reports from 10 industries for the period 2010-2014. Data collected was analyzed through content analysis, graph similarity measure, local outlier factor algorithm and Mann-Whitney U test were applied and they analyzed income statement, balance sheet and cash flow statement structure through XBRL SEC filings and found that there is significant improvement in structural comparability of financial statements and also witnessed that the XBRL filings benefits regulators in providing suggestions for continuous development of XBRL in USA.

**Ernest and Harmon (2012)** have analyzed and predicted the role of auditors which could be expanded with the introduction of XBRL financial reporting by their conceptual study. They have found that the steps involved in creating XBRL financial statements create additional risks in financial statement disclosure. For this reason, they are in the opinion that auditors will be required to adjust their process and also master XBRL terminology, taxonomies and tools. Also suggests auditors to gain early and in depth knowledge of audit implications of XBRL which will give a strategic competitive advantage in the marketplace.

**Chunhui et al.,(2012)** have analyzed the impact of mandatory adoption of XBRL on the quality and quantity of financial information environment and on financial analyst forecast behavior .for this purpose they have studied 1430 firm-year observations and found that the mandatory adoption of XBRL is positively related to the quality and quantity of information environment and is significantly and positively associated with financial analyst forecast accuracy and suggested that the forecast behavior becomes high as time passes.

### 3. RESEARCH GAP

From the analysis of past researches on the concept of XBRL it is found that no study have focused on the impact of XBRL reform on the quality of financial reporting system in India and on the financial and non-financial information disclosure in India. So the present study is intended to fill the existing gap in the area of accenting research by conducting the study on the impact of XBRL reform on the quality of financial reporting system and on the quality of financial and non-financial information disclosures in India.

### 4. RESEARCH QUESTIONS

1. Is XBRL adoption impact on the quality of financial reporting system in India?
2. Is XBRL enables to disclose both financial and non-financial information under single annual reports?

### 5. RESEARCH OBJECTIVES

1. To analyze the impact of XBRL adoption on the quality of financial reporting system in India.
2. To examine role of XBRL on disclosing financial and non-financial information under single annual report.

### 6. HYPOTHESES

1.  $H_0$  : XBRL adoption does not significantly impact on the quality financial reporting system in India.
2.  $H_0$  : XBRL reporting does not significantly impact on the disclosure of financial and non-financial information under single annual report.

## 7. METHODOLOGY

The study is based on both primary and secondary data. Questionnaire method is employed for gathering the primary data. Books, journals, websites, news papers and other published sources are employed to gather the secondary information. Descriptive and t-test statistics are applied to analyze and draw the conclusions. Respondents consist of academicians, chartered accountants, company secretaries, financial analysts and research scholars.

## 8. DATA ANALYSIS AND INTERPRETATIONS

This section of the analyses the data collected through questionnaires. In the present study the sample size is less than 30 and which were selected based on convenience sampling method. So to test the significance of the hypothesis t-test is applied. Below shown tables are indicating the results of the t-test statistics.

	N	Mean	Std. Deviation	Std. Error Mean
1. Do you agree that there is need for XBRL reporting for Indian companies?	24	1.75	1.225	.250
2. The homogeneity of financial reporting around the world will result in better comparability of financial performance of companies.	24	1.38	.576	.118
3. XBRL reporting enables better, relevance, reliability and transparency of financial information of companies.	24	1.63	.924	.189
4. Business opportunities will be enhanced due to synchronization of XBRL for financial reporting in India	24	1.88	.850	.174
5. Do you agree that the mandatory XBRL implementation has got significance for companies?	24	2.00	.722	.147
6. Group financial statements will be prepared easily through XBRL.	24	2.38	1.135	.232
7. XBRL Reporting enables better comparison of inter-company financial statements.	24	1.67	.761	.155
8. XBRL Reporting helps to avoid dual set of financial statements for those companies which are listed outside India.	24	2.25	1.327	.271
9. XBRL Reporting will enable for easy analysis of financial statements for various decision making purpose.	24	1.79	.658	.134
10. Accuracy and reliability with "true and fair view" of Financial Statement will be enhanced	24	2.04	.955	.195
11. Internal audit will become easy	24	2.42	1.213	.248
12. XBRL reporting reduces the overall cost of auditing of annual accounts of the company.	24	2.58	1.100	.225

Source: Primary data

<b>Table:02 One-Sample Test</b>						
	Test Value = 3					
	T	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
1. Do you agree that there is need for XBRL reporting for Indian companies?	-5.000	23	.000	-1.250	-1.77	-.73
2. The homogeneity of financial reporting around the world will result in better comparability of financial performance of companies.	-13.826	23	.000	-1.625	-1.87	-1.38
3. XBRL reporting enables better, relevance, reliability and transparency of financial information of companies.	-7.292	23	.000	-1.375	-1.77	-.98
4. Business opportunities will be enhanced due to synchronization of XBRL for financial reporting in India	-6.482	23	.000	-1.125	-1.48	-.77
5. Do you agree that the mandatory XBRL implementation has got significance for companies?	-6.782	23	.000	-1.000	-1.31	-.69
6. Group financial statements will be prepared easily through XBRL.	-2.698	23	.013	-.625	-1.10	-.15
7. XBRL Reporting enables better comparison of inter-company financial statements.	-8.579	23	.000	-1.333	-1.65	-1.01
8. XBRL Reporting helps to avoid dual set of financial statements for those companies which are listed outside India.	-2.769	23	.011	-.750	-1.31	-.19
9. XBRL Reporting will enable for easy analysis of financial statements for various decision making purpose.	-8.996	23	.000	-1.208	-1.49	-.93
10. Accuracy and reliability with “true and fair view” of Financial Statement will be enhanced	-4.918	23	.000	-.958	-1.36	-.56
11. Internal audit will become easy	-2.356	23	.027	-.583	-1.10	-.07
12. XBRL reporting reduces the overall cost of auditing of annual accounts of the company.	-1.856	23	.076	-.417	-.88	.05

**Source: Primary data**

The tables 01 and 02 show the results of one-sample t-test for testing the significance of hypothesis. And reveals that the p-value of all variables are less than 0.05 hence null hypothesis rejected and alternative hypothesis is accepted. And study concludes that XBRL reporting in India have positive impact on the quality of financial reporting system because it ensures the homogeneity of financial reports and enables for the firms for easy comparison ensures relevance, reliability, and transparency of financial information. Also it enhances the accuracy of financial statements but due to taxonomy related problems it is not possible to prepare group financial statements, dual set of financial reports for the companies operating more than one

country, as per the results XBRL is less impact on internal audit and minimizing the auditing cost of the companies.

**Table No:03 One-Sample Statistics**

	N	Mean	Std. Deviation	Std. Error Mean
2.1. XBRL reporting enables companies to implement integrated reporting system in India	24	2.04	.690	.141
2.2. XBRL reporting enables the companies to fulfil the disclosure requirement various regulatory authorities of India	24	1.83	.702	.143
2.3. XBRL reporting enables company to disclose corporate governance related information by companies	24	2.13	1.035	.211
2.4. XBRL reporting enables companies to disclose employees information adequately in annual reports	24	2.42	1.060	.216
2.5. XBRL reporting enables companies to disclose environmental initiative related information adequately in annual reports	24	2.63	.924	.189
2.6. XBRL reporting enables companies to disclose all other non-financial information in annual reports.	24	2.38	.970	.198
2.7. XBRL reporting will helps to explain each and every financial aspects in notes to the accounts of the company’s annual reports.	24	1.75	.794	.162

Source: Primary data

**Table : 04 One-Sample Test**

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
2.1 XBRL reporting enables companies to implement integrated reporting system in India	-6.802	23	.000	-.958	-1.25	-.67
2.2. XBRL reporting enables the companies to fulfil the disclosure requirement various regulatory authorities of India	-8.142	23	.000	-1.167	-1.46	-.87
2.3. XBRL reporting enables company to disclose corporate governance related information by companies	-4.143	23	.000	-.875	-1.31	-.44
2.4. XBRL reporting enables companies to disclose employees information adequately in annual reports	-2.696	23	.013	-.583	-1.03	-.14
2.5. XBRL reporting enables companies to disclose environmental initiative related information adequately in annual reports	-1.989	23	.059	-.375	-.77	.02
2.6. XBRL reporting enables companies to disclose all other non-financial information in annual reports.	-3.158	23	.004	-.625	-1.03	-.22

2.7.XBRL reporting will helps to explain each and every financial aspects in notes to the accounts of the company’s annual reports.	-7.713	23	.000	-1.250	-1.59	-.91
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**Source: primary data**

Table 03 and 04 shows the results the tables 01 and 02 show the results of one-sample t-test for testing the significance of hypothesis. And reveals that the p-value of all variables are less than 0.05 hence null hypothesis rejected and alternative hypothesis is accepted. And study concludes that XBRL reporting positively impact on disclosing both financial and non-financial information in single annual reports of the company hence it enables the companies to implement integrated reporting system in their financial reporting process. And also helps the companies to meet various regulatory compliances in relation to disclosing the specific information in their annual reports as the part of environmental disclosure requirement, in addition XBRL reporting system enables companies to disclose sufficient non-financial information such as employee related information, notes to accounts and other needed information but as per the survey results the main problem involved in disclosing non-financial information is the designing of XBRL taxonomy so for this there is need of initiative to be taken by the regulatory authorities for designing comprehensive taxonomy that enables for sufficient disclosure of non-financial information in the annual reports.

**9. FINDINGS AND SUGGESTIONS**

The study found that the adoption of XBRL reporting had positively impact on the quality of financial reporting system in India because as per the survey it reveals that XBRL reporting system removes the diversity in financial reporting and brings uniformity through internet based standardized format of financial reporting in confirmation with GAAPs. This enables corporate to compare their financial affairs with others and also founds that XBRL Reporting helps in easy analysis of financial statements which serves as the base for improvement of performance of the corporate. It is evidenced that XBRL Reporting is not significantly impact on reducing the auditing costs and not helps in easing the internal auditing process. Study also reveals that the XBRL Reporting helps Indian corporate to implement integrated reporting system and which is most essential to fulfill the requirements of various regulatory authorities which are regulating different industries such as RBI, IRDAI, MCA, SEBI etc., further it meets the requirements of the corporate to fulfill the Business Responsibility Report as per SEBI guidelines. The survey also guaranteed that the new updated XBRL reporting system provides the platform for disclose both financial and non-financial information under single annual reports of the company only when the XBRL Taxonomy is designed for this purpose it is the most important notable issue identified from this study. XBRL MCA C and I Taxonomy India needs to redesign to incorporate important non-financial information in annual reports to fulfill the BRR requirement as per SEBI guidelines.

**10. CONCLUSION**

XBRL is the dynamic reporting language which produces the comprehensive detailed information of the operational and financial performance of the organizations and which will be the trend of the market in relation to financial disclosure aspects. In India XBRL is compulsory for the companies which are fulfills the threshold limit fixed by the regulatory authority that is SEBI in confirmation of MCA because XBRL reporting caters the needs of various stakeholders on their different dimensions of decisions to be taken by them in relation to particular organization thus the concludes that XBRL financial reports enhances the quality of financial reporting system India and enables the companies to move towards paperless reporting mechanism and also it positively impact on the disclosure of both financial and non-financial information in a single reports but the major suggestion is government has to take care at the time of designing the taxonomies for the purpose of reporting format.



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