

Certification of XBRL Financial Statements – Practical Issues



Over the years, much has been talked about the filing of financial statements and various other documents with the regulatory authorities like Ministry of Corporate Affairs, Reserve Bank of India, Insurance Regulatory and Development Authority, etc. In the financial year 2010-11, Ministry of Corporate Affairs (MCA) vide general circular no. 37/2011 dated 7.6.2011 certain class of companies were required to file their Financial Statements in XBRL Form. For the financial year 2011-12, the MCA vide its circular dated 6th July 2012 mandated certain class of companies to file its Financial statements for financial years commencing on or after 1st April 2011 in XBRL: ‘All companies listed in India and their Indian subsidiaries (foreign subsidiaries are not currently included),’ ‘All companies having a paid up capital of ₹5 crore and above,’ ‘All companies having a turnover of ₹100 crore and above,’ ‘All companies who were required to file their financial statements for FY 2010-11, using XBRL mode (Even if they do not fall in any of the other categories above). Read on to know more...



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Considering the fact that this time the Companies were required to prepare their financial statements as per new Schedule VI of the Companies Act, the XBRL taxonomy for filing financial statements for financial year 2011-012 is also comprehensively changed as compared to the XBRL taxonomy for the financial year 2010-11.

The Institute has also come out with a Guidance Note on Certification of XBRL Financial Statements. As per this Guidance Note, the Chartered Accountants Firms are required to give the certificate in the following manner:

“To The Board of Directors of
Company Limited

We have examined the attached Balance Sheet of Company Limited (“the Company”) as at 31st March, 2012, the Statement of Profit and Loss and the Cash Flow Statement of the Company (“the Financial Statements”) for the year ended on that date, both annexed thereto, prepared by the Company in the eXtensible Business Reporting Language (XBRL) mode (“the XBRL financial statements”). These XBRL financial statements have been prepared on the basis of the audited financial Statements of the Company for the year ended 31st March, 2012, on which we/M/s..... Chartered Accountants (whichever is applicable) have expressed an opinion vide our/ their (whichever is applicable) Audit Report dated _____, 2012.

The Management of the Company is responsible for the preparation of the XBRL financial statements in accordance with the taxonomy specified by the Ministry of Corporate Affairs for filing of the financial statements in the XBRL mode. Our responsibility is to certify the XBRL financial statements based on our examination, which was conducted in accordance with the Guidance Note on Certification of XBRL Financial Statements issued by the Institute of Chartered Accountants of India.

Based on our aforesaid examination and to the best of our Knowledge and belief and according to the information, explanations and representations given to us by the management of the Company, we certify that these XBRL financial statements fairly present, in all material respects, the aforementioned audited financial statements of the Company for the year ended 31st March, 2012, in accordance with the taxonomy specified by the Ministry of Corporate Affairs for filing of the financial statements in the XBRL mode.

This Certificate is intended solely for your information and for purposes of filing of the Company’s financial statements in the XBRL mode in accordance with the Ministry of Corporate Affairs’ General Circular dated 6th July, 2012 and is not to be used, referred to or distributed for any other purpose without our prior written consent.

For _____
Chartered Accountants
(Firm Registration No. _____)

(Name of the Member)
Designation
(Membership No. _____)”

The question arises whether even though some disclosures are not given in the audited financial statements, should the same be given in the XBRL Financial Statements. For this, attention is invited to the language of certification which states that XBRL financial statements fairly present the audited financial statements. Further, the filing manual also states that the complete information as contained in the annual accounts and related documents; and the information required to be filed with the Registrar of Companies should be reported in the XBRL instance documents to be submitted with MCA. Thus, while verifying the XBRL Financial Statements, one should ensure that no additional information is mapped which is not reported in the audited financial statements.

The Certificate is also in line with Form No. 23AC – XBRL and 23ACA – XBRL. Further Para 1.1 of XBRL Filing manual v 2.0 dated 6th October 2012 describes the mapping as follows:

“Mapping is the process of comparing the concepts in the financial statements to the elements in the published taxonomy, assigning a taxonomy element to each financial concept.

Selecting the appropriate elements for some financial statement element may require a significant amount of judgement. For that reason, those in the company who are most familiar with the financial statements should be involved in matching financial statements concepts to taxonomy elements. The mapping should be reviewed before proceeding further as the complete reporting would depend on the mapping.

In case any information is present in the financial statements for which corresponding tag/element is not available in the taxonomy, then the same needs to be captured in the next best fit element in the taxonomy or should be included under the corresponding ‘Others’ element. Further, it is imperative to include footnote w.r.t. the same while preparing the instance document.

For tagging or capturing the information which is often included in brackets in the labels in the company’s financial statements, can either be captured as footnote or if detailed tags are available, the same should be tagged with the detailed tags in the taxonomy.

The complete information as contained in the annual accounts and related documents; and the information required to be filed with the Registrar of

Companies should be reported in the XBRL instance documents to be submitted with MCA.”

Para 27 of the Guidance Note provides as under:

“27. The XBRL financial statements though prepared on the basis of audited financial statements of the company, do not per se result in a verbatim reproduction of the latter. The process of conversion of audited financial statements into XBRL financial statements requires application of judgment, including, in matters of mapping the financial statement items to the appropriate tags in taxonomy. Currently, the taxonomy prescribed by MCA does not permit any extensions. As a result, sectors may not have exact corresponding tags in the taxonomy. In such cases, judgement is required to be exercised by the management, having regard to factors such as the nature of the financial statement item / account head to ensure selection of the most appropriate tag to represent that financial statement item / account head to ensure selection of the most appropriate tag to represent that financial statements item / account head. Accordingly, having regard to exercise of such judgment by the management as well as the limitations of any normal procedure of certification, would normally not be possible for the practitioner to certify, that the XBRL financial statements fully represent or reflect the audited financial statements of the company or the accuracy or correctness of such XBRL financial statements. In such circumstances, a practitioner can, at best, only certify that the XBRL financial statements fairly present, in all material respects, the audited financial statements of the Company from which such XBRL financial statements have been prepared, in accordance with the taxonomy prescribed by MCA.”

Thus, chartered accountants are required to certify that XBRL Financial Statements fairly present, in all

material respect, the audited financial statements of the company. In this certification, there are various issues which arises. The following paragraphs discuss these issues in detail:

Non-compliance of requirement of Schedule VI of the Companies Act, 1956 and the Accounting Standards:

The XBRL taxonomy issued by Ministry of Corporate Affairs are issued after considering the various requirements of the Schedule VI of the Companies Act, 1956 and the Accounting Standards. However, the companies may sometime not follow various disclosure requirements in its audited financial statements. For example, in the audited financial statements related parties disclosure as required in the AS – 18 ‘Related Party Disclosure’ or segmental information as required in the AS 17 – ‘Segmental Reporting’ are not given. The question arises whether even though such disclosures are not given in the audited financial statements, should the same be given in the XBRL Financial Statements. For this, attention is invited to the language of certification which states that XBRL financial statements fairly present the audited financial statements. Further, the filing manual also states that the complete information as contained in the annual accounts and related documents; and the information required to be filed with the Registrar of Companies should be reported in the XBRL instance documents to be submitted with MCA. Thus, while verifying the XBRL Financial Statements, one should ensure that no additional information is mapped which is not reported in the audited financial statements. An illustrative list of certain non-compliance of accounting standard, presentation requirement, possible mistake during mapping and suggestive reporting in XBRL Financial Statements are explained in the following table:

Non compliance of AS/Presentation requirement as per new Schedule VI	Requirement of AS/ new Schedule VI	Possible mistake during mapping	Suggested Reporting in XBRL
The Companies many times do not report prior period items separately. Rather the same is reported as footnote to various notes related to income or expenditure of statement of profit & loss.	Additional disclosure for prior period is required in schedule VI. Para 15 of AS 5 ‘Net profit or loss for the Period, Prior Period Items and Changes in Accounting Policies’ requires separate disclosure in the statement of profit and loss.	In the XBRL Financial Statements, it may be separately identified by the preparer after considering the footnotes in the audited financial statements. This will reduce the respective expenses and add a separate line item for prior period expenses in expenses schedule.	In the XBRL Financial Statements also prior period items should be disclosed by way of footnotes to the respective head of expenses as shown in the audited financial statements.

Income from long term and current investments such as interest, dividend, rentals etc. are not shown separately.	Para 35(c)(i) of AS 13 'Accounting for Investments' requires to disclose interest, dividends, and rental on investments showing separately from long term and current investments.	The preparer may separately extract the detail from books and map the same in the XBRL Financial Statements.	The respective items should be mapped in one of the element of income (either from current or long term) and in the footnote, it should be mentioned that in the audited financial statements separate details are not given, hence the same is tagged with this element.
Profit & loss on disposal / changes in value of current / long term investment is/ are not separately stated	Para 35 (c)(ii) & (iii) of AS 13 'Accounting for Investment' requires to disclose profit & loss on disposal/changes in value of current/long term investment	Same as above	Same as above
Deferred Tax Asset/ Liability (net) reported without giving details of items with respect to which DTA / DTL are created.	Para 31 of AS 22 'Accounting for Taxes on Income' provides that the break-up of deferred tax assets and deferred tax liabilities into major components of the respective balance should be disclosed in the notes to accounts.	The preparer may take these details from the records available and tag the same though the same are not reported in audited financial statements.	In the taxonomy, various elements are given for showing the break-up of deferred tax asset/liability. However, since in the audited financial statements break-up is not given, entire DTA/DTL should be classified under the head 'Others' by disclosing a suitable footnote.

Apart from above, there are certain differences in the practices for preparing financial statements and the XBRL Taxonomy. An illustrative list of these practices is as follows:

- i. The Companies have the practice to disclose their tax expenses by giving following bifurcation in the face of statement of profit & loss:

Current year taxes
Earlier year taxes
Deferred taxes

In the taxonomy released by MCA on the face of

statement of profit & loss, two elements are given for tax expenses which are as under:

Current Tax
Deferred Tax

Further in the notes, the Current Tax has been further bifurcated into following two elements:

Current Tax pertaining to Previous Years
Current Tax pertaining to Current Year

Thus, earlier year taxes which is reflected as a separate line item in the statement of profit & loss should be mapped in the notes while preparing XBRL

financial statements. A footnote in this respect may be inserted in the statement of profit & loss.

ii. The Companies report the Employee Benefits provisions such as Gratuity, Leave encashment, Pension etc. as part of their current liabilities instead of provisions. Whereas in the XBRL Taxonomy, the same are reported as provisions as per follows:

- Provision Gratuity
- Provision Leave Encashment
- Provision Pension
- Provision Employee Insurance Scheme
- Provision Other Employee Related Liabilities

In such situation, if Employee benefits provisions are tagged with respective elements given in XBRL Taxonomy, there will be differences in total current liabilities/provisions as reported in the audited financial statements and XBRL financial statements. However, so far as overall liabilities and provisions are concerned, there will be no difference. Considering the fact that a certification by the chartered accountant that XBRL Financial Statements fairly presents the audited financial statements is required, such tagging can be done by inserting a suitable footnote in the XBRL financial statements.

iii. The Companies report the increase decrease in stock as under:

Particulars	Current Year	Previous Year
Opening Stock:		
Work in Progress	XXXXXX	XXXXXX
Raw Material	XXXXXX	XXXXXX
Finished Goods	XXXXXX	XXXXXX
Total 'A'	XXXXXX	XXXXXX
Closing Stock:		
Work in Progress	XXXXXX	XXXXXX
Raw Material	XXXXXX	XXXXXX
Finished Goods	XXXXXX	XXXXXX
Total 'B'	XXXXXX	XXXXXX
Increase (Decrease) in Stock (A – B)	XXXXXX	XXXXXX

In XBRL taxonomy, the following elements are given for increase/decrease of inventory:

- Changes in Inventories of finished goods, work-in-progress and stock-in-trade (Abstract)
- Changes in inventories of work-in-progress
- Changes in inventories of stock-in-trade
- Changes in other inventories



Thus in XBRL Taxonomies, net figures are required to be reported, as elements for opening inventory and closing inventory are not separately given. A separate footnote for each element of changes in inventory may be given, explaining how the changes in inventories are arrived at.

iv. In the note related to Tangible/Intangible Assets, most of the Companies have reported the itemwise details for the reporting period whereas for previous year only aggregate figures are given. As against this in the XBRL Taxonomy for the year 2012, the Generic business rules provides that if any financial element is entered in current year then it shall be mandatory to enter corresponding previous year. In the XBRL taxonomy for the year 2011, an exception was provided regarding Fixed Assets. This exception is not provided in the current year. Thus, tagging for previous years' information for each item tangible/intangible assets is mandatory in XBRL Taxonomy for current year. The companies therefore need to tag itemwise information for previous year also, though the same may not be reported in audited financial statements.

Conclusion

The Companies and the professionals certifying the XBRL Financial Statement should not consider XBRL Financial Statements merely as filing requirements at par with the Non-XBRL Financial Statements. In times to come, not only the MCA but also other regulatory bodies or government department or stakeholders will use these XBRL Financial Statements extensively for their analysis purpose. XBRL Taxonomies will also be improved/updated to have checks and controls over reporting requirements. In such scenarios, the companies should involve those who are most familiar with the financial statements in matching financial statement concepts to taxonomy elements to avoid any wrong reporting in the XBRL Financial Statements. ■