SECTION FINANCE, BANKING, ACCOUNTING AND AUDIT

FINANCIAL REPORTING IN A EUROPEAN SINGLE ELECTRONIC FORMAT

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Abstract: *Companies with securities traded on a regulated market prepare financial statements in accordance with International Financial Reporting Standards (IFRS) and must take into account the European Single Electronic Format (ESEF) reporting requirement. was postponed by one year in 2021, coming into force for the reporting period beginning on or after the 1st of January 2021. Therefore, according to the European regulatory framework, sole proprietorships that have securities traded on a regulated market must prepare in full the annual financial statements in the Extensible Hypertext Markup Language (xHTML) format. This article aims to show what ESEF reporting is and the eXtensible Business Reporting Language (XBRL), which are the benefits of digital business reporting and the opportunities that arise from using XBRL.*

Keywords: *digitization, XBRL, IFRS, financial reporting, Single European Format, digital accounting*

JEL classification: *M40, M41, M42*

1.Introduction

In nowadays social and political context, see digitalization as the engine of global economic growth. The constraints of the COVID-19 pandemic affected the developments and there was a bugger need to make progress in a sustainable manner. In order to achieve the goal of developing sustainable solutions that can enable the digital transformation, the European Union and the European Commission has set three major objectives for the period 2020-2025: firstly, the technologies should support citizens' needs; secondly, a fair and competitive economy must be developed; and thirdly, an open, democratic and sustainable society should be achieved (Ionescu, 2022).

If a financial information user intends to perform a detailed analysis or comparison, and the approach requires more financial statements, different as a source and period, this will be forced to achieve a reintroduction of data, because they cannot be obtained from the Web in a general format accepted and intended for financial reporting. The main goal of promoting Extensible Financial Reporting Language (XBRL) is to address these issues, as well as to provide a standardized method of preparing, publishing, and transferring information in the area of financial reporting (Mangiuc, 2009). Due to the involvement of a growing number of entities

recognized at European level or locally in promoting the language, XBRL has experienced a large expansion in Europe. It is also a growth in designing taxonomies regarding various aspects of business reporting, and in creating new software or using the reporting standard. The XBRL ongoing projects are: the financial reporting; the prudential reporting; the tax information; the preparation of credit reports, economic statistics, corporate social responsibility reports, etc. (Enachi, 2015).

2.Extensible Business Reporting Language

XBRL, a close relative of the generic XML language, was born in the United States and is an Internet-based technology that is rapidly evolving to an international financial reporting standard. XBRL has been compared to entering barcodes or entering the ISBN number for books. The SEC has taken a number of important steps in implementing XBRL. Investors may request insurance during the process of framing, labelling financial information. The Public Company Accounting Oversight Board (PCAOB) has initiated general rules for attesting commitments to XBRL financial information, based on the voluntary completion of certain files at the request of the SEC, which is based on the approval of the XBRL version to the auditor.

XBRL is a language used for the electronic communication of business and financial data, which is revolutionizing business reporting from across the world. XBRL enable business to generate their required reporting information directly from their financial data. It is a consistent tool also useful for comparability and overall business (Mosteanu, 2020).

evaluation. XBRL is a universal electronic business language for information, reporting and analysis, an easier, faster and more efficient means of communicating financial accounting information. XBRL creates a link between information technology (XML) and accounting standards (GAAP). Raising the quality of financial information means extending its transparency, complying with legal regulations, simplifying and preparing them quickly. The quality of the financial statements is regulated by an insurance service. Thanks to its independence from the software and hardware platform, "XBRL is able to use the Internet for reporting, which provides an ideal basis for achieving a standard", because an XBRL taxonomy is a translation of GAAP into XML documents. XML-based work provides the financial community with a standards-based method of preparation, publication in a variety of formats, accurate extraction, and automatic exchange of corporate financial statements. XBRL allows software vendors, programmers, and users to identify specifications to enhance the creation, exchange, and comparison of reporting information by adding extensible semantics. These are possible by applying the concept of taxonomy.

In order to be able to report and distribute financial-accounting information in a consistent form, the creators of the XBRL language aim to develop a unitary vocabulary, respected in all documents reported in the net Internet network, throughout the information life cycle, starting with the creation primary documents (invoices, orders, etc.), other documents for the operations of collection, aggregation and processing of financial-accounting information, and finalizing with

legal regulations, statements of any kind and other reports of the enterprise (Andone, 2004).

Several advantages with the XBRL reporting taxonomy are identified (Beerbaum, 2021). These advantages manifest through:
•   Reducing information asymmetries of the capital market
•   Enabling participants in the financial supply chain to make an improvement of the exchange of business reporting information
•   Providing a standardized format to the users
•   Enabling software applications to exchange information without data migration
•   Entitling the automatic processing of information with the help of software applications
•   Reducing costs, as XBRL supports automated processing of financial and non-financial information
•   Facilitating the access to more granular data
•   Including the reference to the domain concept, e.g. the accounting standard
•   Including specifications about the reporting entity, which consist of meta data required for the monthly management report and the interpretation of the information
•   Recognizing international taxonomies in multi-language and multi-translation support
•   Extending reporting elements due to company-specific reasons for the flexibility of the users
•   Implementing the core information needs of the user
•   Not requiring specification of text formatting in XBRL, as the instance file is coded and not human readable
•   Regarding viewers, such as the SEC XBRL viewer enables conversion of the instance file and
•   Allowing the report to be displayed in a standardized format.
Among the potential benefits for accounting and auditing professionals of adopting XBRL, the most important are the following (Mangiuc, 2009):
• data in XBRL format are structured by marking with a set of XML tags that describe their content and relationships, providing a simpler and more efficient multi-criteria search mechanism in financial information sets;
•   XBRL documents are prepared and made in accordance with a standard taxonomy, unanimously accepted and, as a result, data can be transferred and processed without any modification or conversion efforts;
•   XBRL is independent of the platform and the operating system used, which facilitates the free exchange of data;
•   information in XBRL format is entered only once, and is then available indefinitely for a wide range of standard or custom reports, meeting the requirements of many types of users. As this facilitates "digital" financial reporting

without print support, it helps to streamline the cost-effective reporting process by reducing the resources required for data processing;

• XBRL files can be edited, processed or interpreted with the help of parser programs. As a result, electronic financial statements can be quickly and cost-effectively converted into web pages or datasets for spreadsheet applications, database management systems, decision support systems, or expert systems and applications, in the field of artificial intelligence. Financial data can be sent to a web browser for display, printed or used as a basis for creating new financial documents (e.g. consolidated financial statements);

• XBRL significantly improves the efficiency of the process of simultaneous analysis of financial information from different sources. Although it does not, by its nature, guarantee an increase in the amount of financial information available in electronic format, XBRL guarantees the possibility of uniform interpretation, analysis and processing of existing financial information;

• XBRL is widely available as an open standard.

3.XBRL in Europe and Romania

Companies with securities traded on a regulated market prepare financial statements in accordance with International Financial Reporting Standards (IFRS) and must take into account the European Single Electronic Format (ESEF) reporting requirement which was postponed by one year in 2021, coming into force for the reporting period beginning on or after the 1st of January 2021. Thus, according to the European regulatory framework, sole proprietorships that have securities traded on a regulated market must prepare in full the annual financial statements in the Extensible Hypertext Markup Language (xHTML) format.

In addition, listed companies preparing consolidated financial statements must take into account that they must be marked using the eXtensible Business Reporting Language (XBRL), in accordance with the IFRS-ESEF taxonomy. At the moment, companies are required to label only the primary financial statements, and after January 1, 2022, the labelling of notes will become mandatory. Listed companies preparing annual individual financial statements must also prepare these reports in xHTML format, but without labelling using the XBRL language in accordance with the IFRS-ESEF taxonomy.

Some companies have decided to report their financial statements using the new format as early as 2020, which has given them better visibility into how XBRL is labelled. Currently, companies preparing for these reports should be aware of a number of errors in the technical aspects or the selection of labels and their use, which have occurred during the use of the language and have been detected so far.

XBRL reporting involves the generation of three files. These can be found in the compressed reporting file (zip format) which should have a standard structure, allowing the auditor and regulators to import the file into the software used for further analysis. Errors importing the file may occur when certain folders in the reporting files are missing or the extensions used are incorrect. This leads to the inability to import the file and the inability to perform further verification and analysis.

Common types of technical errors include inconsistent calculations within the file, incorrectly assigned parent-child relationships, inconsistent use of custom tags

(extension tags) or standard ones, errors in assigning decimals, as well as incorrect use of plus / minus signs attributed to financial statements.

Companies should also consider potential errors that may occur when selecting and using labels. One of the most common problems is choosing the right labels for the company. Thus, the labels selected may be too general, without adequately reflecting the accounting nature of the financial statement line, or too specific, without fully reflecting the nature of the financial item. Some companies choose to create custom tags (extension tags) instead of using standard ESEF taxonomy tags. This may be appropriate in certain circumstances when it comes to specific aspects of an industry, but in most cases, the ESEF taxonomy already contains labels that are appropriate to the company's needs. From experience, a balanced ratio between standard labels and extension labels would be around 85-15.

If extension tags are used, it is very important to have a suitable anchor for each of the tags, either one with a smaller coverage area or a more general one. In this situation, the most common problem is the assignment of an overly general anchor that does not adequately reflect the accounting nature of the item to which it is attached.

Greater attention should also be paid to the plus / minus signs attributed to the items in the financial statements, as this error is likely to lead to significant misstatements. One important thing to note is that some labels may have different signs depending on the specifics of the line in the company's financial statements, such as "ProfitLossFromOperatingActivities" or "OtherGainsLosses".

In order to minimize the chances of these errors occurring, whether technical or occurring when selecting labels and using them, companies are encouraged to start preparing for the ESEF reporting process in a timely manner. The company has the opportunity to purchase a software solution and perform internal labelling or may outsource this process. Whatever the decision in this regard, the company should consider taking a step prior to the reporting for the current period, namely the labelling of the financial statements for the previous financial year. Therefore, the company has enough time to resolve any technical or labelling errors that may occur. Subsequently, the labelling of the financial statements for the current period (for the financial year beginning on or after the 1st of January 2021) will be performed much faster.

Postponement or failure to perform early labelling on the basis of the previous year's financial statements may lead to a significant delay in the annual financial reporting. In order to avoid delays at the last minute, it is good practice, in addition to pre-labelling the financial statements for the previous year, to establish adequate communication between all participants in this process, namely the company, software provider, external consultant and company auditor.

4. In conclusions

XBRL (Extended Business Reporting Language) is an international standard that was created in 1998 to facilitate the production and presentation of financial data. The purpose of XBRL is to automate the preparation, communication and use of financial reports and business information for decision making. The XBRL standard allows users around the world to access relevant financial information in a timely manner. The role of this reporting is to standardize and provide transparency to

financial data published worldwide. The impact of standardized financial reporting will mean streamlining reporting, transparency and reducing errors and a lack of economic and financial information. It will also reduce the time that users of this data will be able to access and use it.

Globally, XBRL is being applied more and more, being adopted by regulators and public institutions, followed by corporations and investors. In Europe, XBRL was established as a standard by both the European Banking Authority and EIOPA - The European Insurance and Occupational Pensions Authority. The adoption of XBRL in Romania would drastically reduce the costs of collecting and validating information from reporting, conversion, dissemination and exchange. The beneficiaries on the adoption of the ESEF-XBRL reporting standard in Romania would be: Romanian Government, Romanian Ministry of Finance, Banking Financial System, Romanian Chamber of Auditors, Romanian Body of Chartered Accountants and Chartered Accountants, Local Financial Administrations, Commercial Companies, National Investors and international.

Romanian companies using XBRL reduce their costs and time for processing, collecting, processing data for financial reporting. Users of financial data will be able to receive, compare and use data much faster and more efficiently. In addition, it will significantly increase the speed of financial data management, reducing errors and allowing automatic verification of information.

Acknowledgement

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