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IFRS AND XBRL

How to improve Business Reporting
through Technology and Object Tracking

KURT RAMIN AND CORNELIS REIMAN

**IFRS and XBRL:
How to Improve Business
Reporting Through Technology
and Object Tracking**

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KURT P. RAMIN

*Former Director and Head of Standards at AccountAbility
Former Director and Advisor, International Financial
Reporting Standards Foundation at the International
Accounting Standards Board, London*

CORNELIS A. REIMAN

*International Board Advisor
Former promoter of International Financial
Reporting Standards in developing countries*



A John Wiley & Sons, Ltd., Publication

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John Wiley and Sons Ltd, The Atrium, Southern Gate, Chichester, West Sussex, PO19 8SQ, United Kingdom

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Library of Congress Cataloging-in-Publication Data (to follow)


A catalogue record for this book is available from the British Library.


ISBN 978-1-118-36973-9 (hardback) ISBN 978-1-118-38785-6 (ebk)

ISBN 978-1-118-38784-9 (ebk) ISBN 978-1-118-38783-2 (ebk)

Set in Photina MT Std Regular 10/13 pt by Aptara, Inc., New Delhi, India
Printed in Great Britain by TJ International Ltd, Padstow, Cornwall, UK

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Foreword

RELEVANT, TRUSTWORTHY, COMPARABLE, TIMELY and understandable financial and business information is the lifeblood of effective capital markets and of efficient allocation of capital across companies, industries, countries and the global financial system. It is also critical to sound decision-making and operational management within individual companies and enterprises within both the private and public sectors. Thus, the quest to improve the quality, timeliness and overall usefulness of such information is an important ingredient in promoting strong and vibrant companies, sound financial systems, and to achieving economic growth and rising living standards at both the national and international levels.

In that regard, this book explains important aspects of that quest. Building upon the foundations of recent achievements relating to the growing use of IFRS and of technology in financial reporting, the authors provide insights and ideas on potential avenues for further significant advancements and the actions and resources needed to achieve them. As suggested by the title, the book provides a blueprint of changes that the authors believe are both possible and necessary to transforming corporate reporting.

As one who has devoted a significant part of my career and life to such efforts, I applaud the authors for their constructive and valuable contributions to the quest and hope that readers of this book will find it both interesting and thought provoking.

*Robert H. Herz, CPA, FCA
Former Chairman, Financial Accounting Standards Board (FASB)*

About the book

IF YOU WANT TO LEARN SOMETHING ABOUT BUSINESS reporting in the public or private domain, then this book is for you. It presents a succinct indication as to the purpose and practicality of International Financial Reporting Standards (IFRS) and helps to explain why IFRS are the key priority for private enterprises, as well as governments.

In doing so, *IFRS and XBRL: How to improve Business Reporting through Technology and Object Tracking* provides valuable commentary that captures key components of what is crucial to local, national and international business decision making. In addition, there is the productive linking of emerging technology with the growing acceptance and implementation of IFRS.

Specifically, XBRL (eXtensible Business Reporting Language) is a valuable and industrious partner that gives IFRS a vehicle to deliver financial data in a manner that makes utopian business reporting a tangible reality. As such, those who draft and deliver business reports shall have a rapid and reliable process for preparation, while anyone who uses these reports can make good use of such dependability and timeliness in optimising their decision making.

Given the immense amount of widely dispersed material related to IFRS, as well as XBRL, the authors have applied their extensive skills in condensing an overwhelming flood of associated information into a useful essence. In so doing, they present the origins, structure and necessity of IFRS and XBRL in a systematic, digestible and useful manner.

This book helps interested people to understand what lies behind the correct preparation and presentation of financial statements, and business reports generally, as are used for the benefit of external users, as well as associated public accountability. Furthermore, the authors explore how business reporting can be improved, such as through adding non-financial reporting. Of particular importance is the obvious push for a new paradigm whereby object definitions, tracking and valuation offer considerable benefits to people who produce and rely upon business reports.

Therefore, whether you are a senior executive, standard setter, finance professional, accountant, academic, student, or someone in any other managerial role, this book will give you the means by which to gain an appreciable understanding of IFRS, and XBRL, as well as the basis upon which to pursue additional learning and application in achieving better business reporting outcomes.

This is the way forward for any who want to drive change, too.

About the authors

Kurt P. Ramin

Kurt Ramin is a former director at AccountAbility where he was Global Head of Standards. He is a visionary in the accounting profession and a pioneer in global reporting languages and standards, having previously been a director and advisor to the International Financial Reporting Standards Foundation at the International Accounting Standards Board (IASB) in London for more than 10 years. His work on behalf of the IASB involved introducing XBRL and IFRS to more than 70 countries. During his tenure with the IASB he served as the global chairman of XBRL and was a member of the EU Commission High Level Expert Group and the Brookings Institution Task Force on Intangibles.

Prior to joining the IFRS Foundation and its predecessor, the International Accounting Standards Committee (IASC), Kurt was a Global Capital Markets Group Partner at PricewaterhouseCoopers in New York. He holds an MBA, as well as CPA and CEBS qualifications, and is a board member of several international organisations. Earlier in his career he was CFO at several large international companies.

He is a member of the American Institute of Certified Public Accountants (AICPA), as well as of the Financial Executives International (FEI) and other professional associations. Also, he is an honorary member of the German CPA Society. At the FEI he is a member of the Committee on Governance, Risk and Compliance (CGRC).

An accomplished writer and public speaker, Kurt has authored numerous articles on international financial reporting, XBRL and capital markets, and chaired global business conferences and summits. Presently, he is an editorial advisory board member of the *Journal of Intellectual Capital (JIC)*. He has also lectured at Columbia University, and was a professor at the College of Insurance in New York.

Kurt currently serves as treasurer on the Council of the International Union for Conservation of Nature (IUCN), the world's largest association of conservation agencies, headquartered in Switzerland.

Outside of work, Kurt likes biking, skiing and engaging with friends around the globe. In 2009 he cycled on a 4,000 km goodwill tour from Rome to Mecca. He is fluent in German and English.

Kurt can be contacted at: kurt.ramin@gmail.com.

Cornelis A. Reiman

Cornelis applies international start-up, turnaround and business development skills as a board-level advisor. Previously, Cornelis was president of an economic development entity promoting International Financial Reporting Standards in developing countries. Before that, he was dean and vice president of universities in Thailand and Singapore. Both were pivotal roles in the establishment of two business schools and related MBA programmes.

Cornelis has taught postgraduate international business, management and economics at Monash University in Australia. Prior to academia, he consulted in the private, public and not-for-profit sectors on critical issues, such as corporate management, strategic planning, regional economic development and business incubation. The global information technology provider IBM, and the former accounting services firm of Arthur Andersen & Co., have also employed him.

Cornelis has a PhD. in Economics and enjoys a number of exceptional professional qualifications in accounting, corporate governance, marketing and management, including FCPA (Australia and Singapore), FCIS and chartered accountant. He is also a senior member and certified professional with the Australian Computer Society. Furthermore, he is a former state president of the Economic Society of Australia, and former chairman of an employment development and recycling entity.

Presently, Cornelis is on the board of the Australian Institute of Management Business School and is also an independent director on the board of the Chamber of Accountants of the Republic of Kazakhstan, which became an Associate Member of the International Federation of Accountants (IFAC) in late 2011. In addition, he advises CPA Russia.

Cornelis has written on a number of international business issues, including accounting, trade, IT and organisational efficiency. Currently,

he is a member of the advisory board, *Journal of Management*, Shinawatra University Thailand

Cornelis can be contacted at: cornelis.reiman@gmail.com.

'It is a funny thing about life: if you refuse to accept anything but the best you very often get it.'

W. Somerset Maugham, English writer, 1874–1965

Preface

MUCH OF OUR WORKING LIFE puts each of us in a unique position to see evolving IFRS policies in broad forum discussion, professional development and global delivery, with this followed by international deployment in countries that understood the benefits of international financial standards. Thereafter came the onset of XBRL, which is the most exciting addition to the world of finance and accounting, and one that is worthy of focus, and, although for different reasons, also worthy of as much praise as IFRS has received. Without a doubt, IFRS and XBRL are two significant initiatives that have shaped the world of business reporting in an encouraging way that will yield increasing benefits.

When engaged in the thick of international business, however, it is easy to overlook the many people who are far from the point of focus and any related action. The same can be said in relation to the development and delivery of international financial reporting standards that, usually, involve senior finance and accounting professionals, leading public accounting firms, senior ministers of governments, as well as prominent academics.

Yet it is through the universal application of standards at the grass-roots level of business and government, and the use of relevant technological tools, that facilitates the expected successes of the general acceptance and proper implementation of accounting standards. As a direct result, there is the greater degree of confidence in business reporting that, of itself, improves community opinion of businesses, as well as of the government sector.

It is noteworthy that, with greater financial clarity and sensible delivery, there comes increased comfort in the conclusions drawn from business report and related analysis. In turn, this supports and spawns economic activity. Thus, foreign direct investment and international trade stand upon reliable reports that capture actual risks of business, rather than adding any muddiness that comes from improper accounting and reporting practices, whether accidental or purposeful.

The more people who know about IFRS and XBRL, the better it is for the global economy, as well as for related countries and their various economic sectors and societies. With such a belief in mind, we saw potential benefit in producing an introduction, if not something of a primer, which captures the attention of readers who, then, can feed the process by which international financial reporting standards are crafted initially and ultimately embraced as an essential part of business. The same can be said for XBRL as the platform that adds credibility and impetus to business reporting. Fundamentally, all of that supports our ideas for a better business reporting paradigm, being one that requires greater attention to the development of new standards, and to technological tools, too.

We have, in our past and present roles, travelled the world and engaged with many people in the public and private sectors as a means of facilitating the acceptance and implementation of IFRS and XBRL. Such experience was very valuable at a personal and a professional level, especially when we saw how we could play a more productive part in promoting IFRS and XBRL through our collaboration in shaping this particular book.

In recognition of the growing acceptance and adoption of IFRS and XBRL in numerous countries, we have crafted a simple yet effective summary for anyone who is interested in gaining a preliminary appreciation of the two supports of modern business reporting. The end result is a guide to key components of both pillars, such as who is involved in designing and delivering these, as well as what each contains, in addition to why both are important. All of this led us to see how more can be done to improve business reporting in addressing the increasing need for timeliness and integrity.

Essentially, we see this book as a beacon that attracts the attention of various people who might only have a little bit of an interest in IFRS and XBRL. Then, it points the way to additional avenues that allow access to more detailed information, as well as seeing what improvements can be made. We hope, thereby, that our united effort encourages greater public and professional interest in IFRS and XBRL, and how that perfect partnership lays a firm foundation for further advancements. Consequently, we believe that the world will improve significantly.

Kurt P. Ramin
Dubai, London and New York
Cornelis A. Reiman
Bangkok and Australia
November 2012

Acknowledgements

THE CONSIDERABLE EFFORT OF MANY PEOPLE WORLDWIDE, over a number of years, precedes what is presented in this book. Without their attention, focus and dedication, accounting standards would not exist, nor would these be at the forefront of international business, as is the case today. The same applies to pioneers who forged XBRL as the means by which accounting standards, and financial reporting, are made more useful to private analysts and public policy formulators alike.

We acknowledge, therefore, all who work with IFRS and XBRL, especially those who are connected with the IASB in London. Certainly, particular thanks must go to Paul Pacter, who, through his early work in the IASB, was a vital and driving force in the development of international accounting standards.

In addition to people at the IASB, thanks go to colleagues at AccountAbility. Plus, we thank Tom Baumann, CEO of ClimateCHECK and co-founder of the Greenhouse Gas Management Institute, especially for his assistance in relation to environmental standards. Also Erik Thomsen, chief scientist at DSS Lab, who is an internationally recognised pioneer in business intelligence (BI) and decision support systems (DSS), also called performance management. His comments and suggestions were especially insightful, as well as very useful. Also, we are thankful for handy feedback received from Robert Kirsch.

It is worth considering, at this point, the numerous professionals in commerce, industry, academia and governments who pursue the implementation of IFRS and XBRL. It is through their work that the aspiration of global accounting standards is realised. Better business reporting must be the result thereof.

Clearly, given the scope of this book, we are indebted to assorted organisations, such as the IASB, as well as various other accounting entities, from which we sourced valuable information. Whenever possible, we have cited such sources and we apologise for any omissions.

We are very grateful for the assistance given by professionals at John Wiley & Sons, Ltd. The Finance and Accounting team there were supportive of our

concept from the outset, and encouraging throughout the project. Special thanks, therefore, go to Sarah Jenkins, Stephen Mullaly and Gemma Valler. Also, those who are a fundamental part of the production process must be thanked, particularly Vivienne Church for her sterling effort as copyeditor in addition to Grace O'Byrne as production editor and Lynette James as proofreader.

Introduction to this book

THERE IS A NEED FOR COMPANIES TO REVIEW the current functioning and planned potential of associated business by testing whether there is room for improvement. That, in effect, should be a frequent occurrence. For instance, are strategies suitable to the needs of key stakeholders, as well as in line with recent, political, economic, social, technological, legal and environmental developments?

In this regard, with the increasing rise in International Financial Reporting Standards (IFRS), companies cannot remain content with the belief that existing accounting education and applications in any organisation are sufficient for future purposes. Priorities must be reconsidered, especially when the prospect of global investment and trade continues to offer profitable opportunities.

However, can key decision makers in companies and governments rely upon financial reporting? This is a critical issue that can derail excellent business opportunities due to the absence of integrity. In the context of how poorly commerce and industry, as well as the public sector, function when reliant upon poor reporting, IFRS shine brightly.

Nevertheless, it must be said that IFRS are applicable universally, and it is vital to see that XBRL (eXtensible Business Reporting Language) is linked perfectly in ensuring that this is deliverable. The best corporations embrace IFRS and

XBRL and not only to abide by increasing legislative persuasion, growing government initiatives and strong recommendations of the accounting profession; there is a clear competitive advantage available to companies that accept and integrate IFRS and XBRL as a matter of course. This can lead to gains over companies that do not follow IFRS and commensurate XBRL usage, especially when many markets and countries make IFRS mandatory for the purposes of trade and investment. As such, IFRS and XBRL offer local and global opportunities.

Furthermore, when exploring IFRS in the following pages, it is worth noting that technology is the main driver for globalisation. Particularly, it plays an important part in the implementation of IFRS. In that regard, the anticipated convergence between IFRS and US GAAP (Generally Accepted Accounting Principles) will be achieved through technology, with XBRL at the forefront of that push.

This book will do more than satisfy a current need for understanding something about IFRS and XBRL. In effect, this is a primer in that it provides a firm foundation upon which to build further learning and understanding of two significant, influential and necessary standards. If nothing else, it will facilitate an appreciation of objectives and requirements associated with IFRS and XBRL.

Essentially, this book heightens readers' attention to various issues related to the development and implementation of IFRS and XBRL. In so doing, the book equips readers with the ability to see how these standards apply to various business entities, as well as to the numerous transactions that are at the heart of commerce.

Arising from this is a greater appreciation of what is necessary for improvement in financial reporting as well as in the wider reach of business reporting. With increased interest in non-financial issues, such as those associated with corporate social responsibility, integrated business reporting has come about. Still, significant issues remain, and these must be acknowledged and remedied in order to improve the timeliness and reliability of business reporting. As such, towards the end of this book, a new reporting paradigm is proposed, one that is based upon the foundation stones presented in preceding parts and expanded to account for a more thoughtful approach to objects and values, as explained in the next section.



LEADING TO A NEW REPORTING PARADIGM – CONCEPT MAP

This is a book written in relation to the underpinning of traditional business reporting, and also in support of more advanced reporting, as facilitated by XBRL, as well as of non-financial reporting.

Although many readers will make good use of reference information contained herein, note that this book is also a structured argument for a paradigm shift in business reporting overall. Specifically, blocks of knowledge are connected and compared to produce a compelling argument for a drastic, and necessary, change in how business reporting is developed today.

For instance, consider that IFRS in place now form the stable base for financial reporting, such as the statement of financial position (also referred to as the balance sheet), the statement of comprehensive income (also referred to as the profit and loss statement), the statement of changes in equity and the statement of cash flows. It is quite apparent from industry experience that the development and delivery of these financial reports can be improved dramatically by the implementation of XBRL. However, both of the standards highlighted in this book – IFRS and XBRL – need to be developed further in addressing an increasing, and necessary, call for non-financial reporting.

Consider, for instance, the rise in importance of corporate social reporting. While various other (non-IFRS) standards have appeared in this area, there is an obvious lack of agreement in the midst of these, which is needed to refine current non-financial reporting in order to make it more useful. Even so, there is considerable room for improvement throughout due to the current business reporting model being one with inherent weaknesses, including pointless duplication of data. This leads to the clear view that objects-based valuation, as well as the associated tracking of objects, fosters a better business reporting model that is referred to herein as the new reporting paradigm.

Accordingly, this book explores core components of what are understood, generally, to be the current fundamentals of business reporting. Thereafter, it identifies why changes are advisable and how these can be achieved. As a consequence, this book sets itself apart not only in melding the two worlds of IFRS and XBRL but also in expressing cogently why this illustrious combination, when properly aligned, drives change, and how further business reporting transformation can be achieved through taking manageable steps and making important progress.

Therefore this book will appeal directly to a wide-ranging readership, including:

- accounting practitioners – to improve the development and delivery of business reporting;
- standard setters – to see gaps and opportunities that must be addressed;
- IT professionals – to plan for systems that support better business reporting;

- academics and students – to understand the issues related to current and future business reporting needs.

In addition, senior executives in the private and public sectors, as well as company directors, politicians and government ministers, will find sufficient reasons to pursue better reporting outcomes.

In support of these notions Figure I.1 is a concept map of this book. This is provided for three particular reasons, to show:

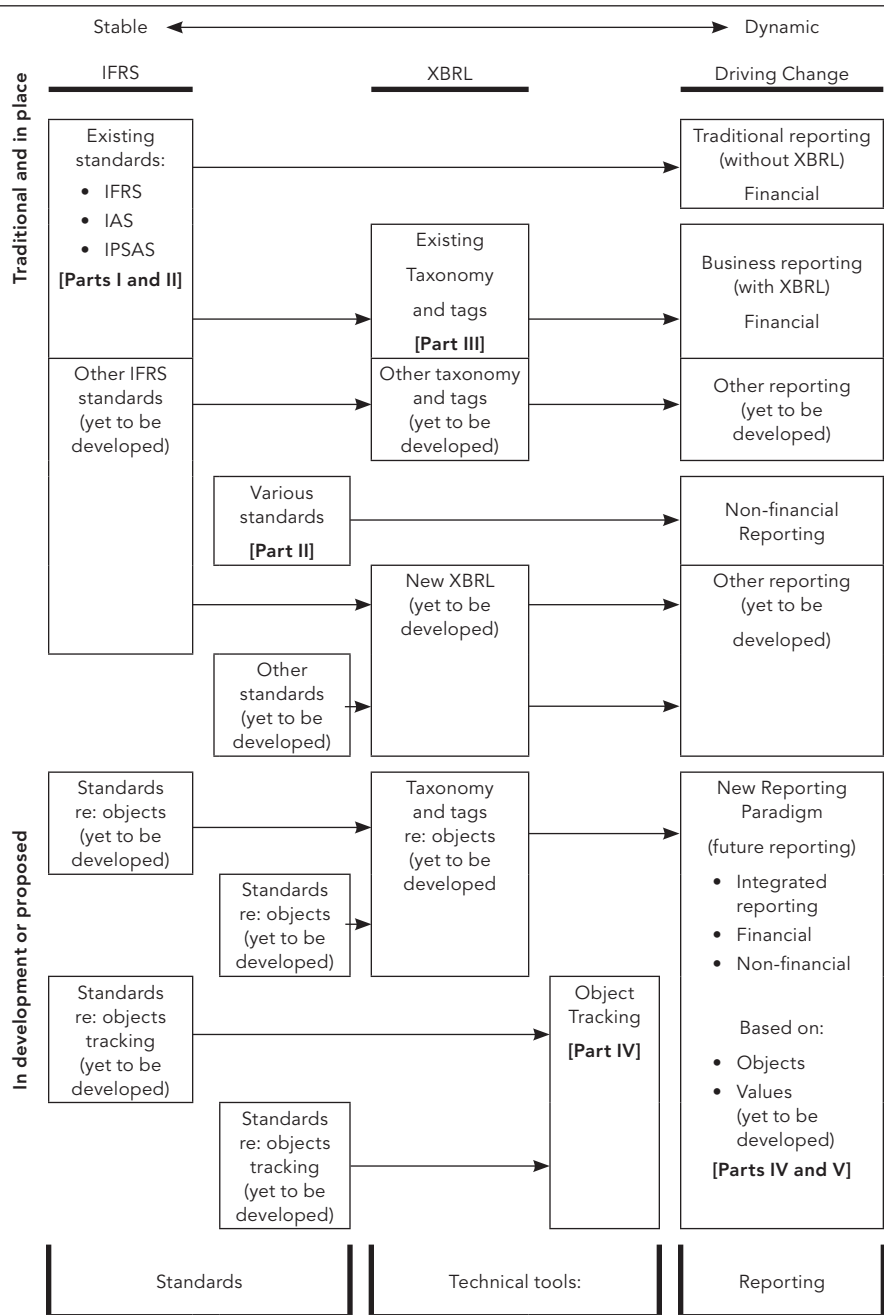
- the overall layout of the book;
- the flow of what connects key components, such as IFRS, XBRL and business reporting;
- the basis upon which change is attained and how more can be achieved.

As is apparent from the headings, there are three vertically positioned, rectangular areas: IFRS, XBRL and Driving Change. The latter part (Driving Change) features better business reporting of existing financials when XBRL is implemented, with this being faster, more reliable, more cost effective and offering more versatile business reporting. Electronic data can be re-used, as well as making possible intra-entity, inter-entity, intra-industry, cross-industry, interstate and international analysis.

Note that the columns pertaining to IFRS and XBRL show, below each initial representative area, another one related to future development in each case. In turn, this feeds into new business reporting that, as indicated, is still to be developed. In this regard, note the overarching scale denoting stable aspects of the map, such as standards, and the dynamic elements being the business reports that are crafted and delivered for assorted organisations worldwide.

Below that part of the figure, where IFRS, XBRL and business reporting are connected directly, is non-financial reporting. This represents reports related to corporate social responsibility. This relatively new form of reporting has various underlying standards, as shown to the left. Given that there is no current consensus among the related standard setters, changes are likely in this area, including further development in the areas of IFRS and XBRL, such as taxonomy and tagging, that will support, or facilitate, additional non-financial reporting outcomes.

This suggests that business reporting is not static and that changes are possible, as suggested by the upper-most 'stable–dynamic' scale. It is timely to see, too, the additional scale at the far left-hand side of the concept map, which identifies elements that are 'traditional, and in place', as per existing standards

FIGURE I.1 Overall concept map – leading to a new reporting paradigm.

Note: Length of arrows and size of rectangular areas does not denote anything of relevance. Text in angular parentheses, [], identifies relevant parts of the book.

at the top of the IFRS column. At the other end of that scale, as shown at the bottom-left part of the concept map, is the indication that elements below those that are traditional and in place are 'in development, or proposed'.

The overall classification on the basis of these two scales, although indicative and somewhat rudimentary, is that the bottom-right part of the concept map relates to future reporting opportunities. Accordingly, we can see that the 'New Reporting Paradigm' is built upon all that we see in the preceding flow of connections, resulting in a combination of financial and non-financial reporting. In other words, there is integrated reporting, reliant upon standards (IFRS and otherwise) not yet drafted or set, that will address the pertinent issue of objects, or units. The same can be said for related extensions of XBRL taxonomy and tagging that are still to come in supporting yet-to-be-developed standards, as well as strengthening the integrity and delivery of future business reporting.

The next step in this particular story is to track objects, which would be prudent in a world where many objects, such as assets, are mobile. Object tracking, therefore, is the technical and prominent partner to objects that are clearly defined by associated standards. In turn, this will fulfil a critical issue in business reporting, such as resolving potential duplication of asset ownership. As such, the future of business reporting will be tighter, and will offer greater integrity and reliability, in as much as vagaries and areas of possible misinterpretation that exist today will be removed. Thereby, business reporting will be improved dramatically.

The final line of the concept map sets the three key themes that interact throughout this book: Standards (IFRS and otherwise), Technical tools (XBRL, and object tracking, instrumental in the rapid implementation and effective delivery of standards) and Reporting (which refers to the current understanding of financial reporting, emerging non-financial reporting and the evolving integrated reporting). It is in this latter facet that a new reporting paradigm is extended when object tracking is added.

Target audience

The overall concept map above indicates the necessary breadth and depth of elements contained in this book, which play a fundamental part in supporting current and expected thoughts of a new reporting paradigm. Accordingly, we can see that the various sections of this book are likely to be of particular significance to some people more than to others.

The following table, therefore, indicates which readers are expected to have an affinity with, and interest in, the five main parts of this book.