
Financial Report Semantics and Dynamics Theory

An expository paper which explains the semantics and dynamics of a financial report

Resource for software vendors, accountants, internal auditors, external auditors, regulators, financial analysts, and other business professionals working with semantic, structured, model-based digital financial reports that leverage the XBRL medium

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*For more information see:
<http://xbrl.squarespace.com/fin-report-sem-dyn-theory/>*

About the Authors

Charles Hoffman, CPA, is credited as being the Father of XBRL. He started his public accounting career as an auditor with Price Waterhouse, served various roles in industry and public accounting for over 25 years, and has worked with XBRL since its introduction by the AICPA in 1998. In 2006, he received the AICPA Special Recognition Award for his pioneering role in developing XBRL. He has authored numerous publications including *XBRL for Dummies*, a number of Journal of Accountancy articles, writes a blog relating to XBRL, and contributed to a number of XBRL related technical specification and best practices documents. Currently, Charlie works as a consultant helping accounting professionals leverage XBRL for everyday tasks and software vendors build useful software.

Charlie was co-editor of the first US GAAP taxonomy, creator of the first usable XBRL taxonomy creation utility application, contributor to the XBRL 2.1 specification and the XBRL Dimensions specification, editor of the Financial Reporting Taxonomy Architecture and Financial Reporting Instance Standards, co-author of the US GAAP Taxonomy Architecture, part of the project team which created the US GAAP Taxonomy, and a major contributor to the IFRS XBRL taxonomy, and a number of other XBRL taxonomies.

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1. Introduction

The purpose of this document is to propose that a defined set of semantics and dynamics exists for a financial report, verify the correctness of these semantics and dynamics against SEC XBRL financial filings, and to explain these semantics and dynamics.

A theory is a tool for understanding, explaining, and making predictions about a given subject matter.

The explicit formulation of the *Financial Report Semantics and Dynamics Theory* that we propose in this document is useful because most accountants and those interpreting financial statements both take these financial report semantics and dynamics for granted and generally don't think of about an underlying formalism for financial reports when they interpret the information in such reports. The *Financial Report Semantics and Dynamics Theory* brings these semantics and dynamics back into consciousness. Further, the lack of such model forces accountants to employ the model of the technical syntax should the financial report model not exist to be employed.

The information presented in this document will also help software vendors building software applications for the creation and consumption of financial reports to understand these semantics and dynamics. It is believed that this understanding will lead to easier to use software applications. This is important as the financial report transitions from a paper-based document to a semantic, structured, model-based, digital format which is can be read by computer software applications.

The information outlined in this theory was gleaned from many years of creating and testing XBRL instances and taxonomies in order to figure out how to make use of XBRL and providing input to technology experts creating the XBRL technical specifications.

Of particular value was the experience gained while creating the US GAAP Taxonomy Architecture, creating the US GAAP XBRL Taxonomy, creating SEC XBRL financial filings, and analyzing the many thousands of publically available SEC XBRL financial filings created by public companies and submitted to the SEC.

As the verification section or partial proof provided with this theory shows, this theory is supported by not some SEC XBRL financial filings (10-Q and 10-K); but rather by nearly all of the approximately 8,098 filings submitted to the SEC during the period for which SEC filings were analyzed.

It is believed that outlining this information explicitly will enable a transfer of knowledge and experience to those people less skilled in using XBRL because it provides a framework that captures the experience of those that have had the opportunity to experiment with XBRL. This knowledge transfer is achieved by articulating a set of rules that are expressed in lay person terminology. The rules are easy to understand by business users such as accountants who will likely readily relate to and agree with the stated semantics. Furthermore, the rules are expressed in a form which technical people creating software can make use of.

1.1. Metaphors, Models, and Theories

Because most accountants and software developers are not familiar with using "formal theories" it is worth explaining what a theory is. In his book, *"Models. Behaving. Badly."*, Emanuel Derman explains the differences between metaphors, models, and theories.

- A **metaphor** describes something less understandable by relating it to something more understandable.



- A **model** is a specimen that exemplifies the ideal qualities of something. Models tend to simplify. There tend to always be gaps between models and reality. Models are analogies; they tend to describe one thing relative to something else. Models need a defense or an explanation.
- A **theory** describes absolutes. Theories are the real thing. A theory describes the object of its focus. A theory does not simplify. Theories are irreducible, the foundation on which new metaphors can be built. A successful theory can become a fact. A theory describes the world and tries to describe the principles by which the world operates. A theory can be right or wrong, but it is characteristic by its intent: the discovery of essence.

This document articulates a theory. Theories can be expressed mathematically, symbolically, or in common language; but are generally expected to follow principles of logic or rational thought.

This theory can be implemented within a robust model which is understandable by computer software. However, expressing that computer readable model is not in the scope for this document. For information on modeling this theory see “*Modeling Business Information Using XBRL*” which can be found here:

<http://xbrl.squarespace.com/creating-financial-reports/>

1.2. Not a theory of financial reporting

It is the role of the FASB, IASB, and others to establish frameworks for financial reporting. The theory in no way proposes anything related to the profession of financial reporting. The theory explains the semantics and dynamics of a financial report.

This theory does not specify which financial reporting frame work to use, how financial information is reported, what financial information should be reported, how to measure what is reported, what is or is not material, or any other principle related to the practice of financial reporting or accounting.

This theory relates to the mechanics of a report and internal truths that should hold for any financial report. The financial reporting conceptual framework articulated by the FASB and IASB is leveraged by this theory to this end.

1.3. Financial reporting conceptual framework

Financial reporting has a conceptual framework. The FASB outlines this conceptual framework in CON 1 – 7. The FASB has updated this conceptual framework through Statements of Financial Accounting Concepts (SFASs). This conceptual framework is explained in intermediate accounting text books (Intermediate Accounting, Seventh Edition, Spiceland, Sepe, Nelson, page 19) and financial reporting research resources (Wiley GAAP 2011, Interpretations and Applications of Generally Accepted Accounting Principles, Bragg, page 15) This theory will leverage ~~that the US GAAP conceptual~~ framework but it is highly likely that it is equally applicable to other accounting-financial reporting conceptual frameworks.

Per the FASB, the conceptual framework for financial reporting has two primary purposes. First, it serves as a foundation upon which the FASB constructs financial reporting standards that are internally sound and consistent. Second, the conceptual framework is intended to be used by the business community reporting or consuming financial information to help them better understand and apply financial reporting standards.



The conceptual framework does this by (per the FASB Special Report, *The Framework of Financial Accounting Concepts and Standards* (1998):

- Providing a set of **common premises** as a basis for discussion
- Provide **precise terminology**
- Helping to ask the **right questions**
- **Limiting areas of judgment and discretion** and excluding from consideration potential solutions that are in conflict with it
- **Imposing intellectual discipline** on what traditionally has been a subjective and ad hoc reasoning process

As we shall see, the financial reporting conceptual framework breaks financial reporting into elements and financial statement components.

1.4. Semantics and dynamics

Syntax can be thought of as “how you say something”. Semantics can be thought of as “the meaning behind what you said”. While the verification of this theory uses XBRL which is one technical syntax which can be used for mechanical process of creating a financial report, the focus of this theory is on semantics, not any specific technical syntax.

The term dynamics is used to convey the notion that a financial report has “mechanics” or is “mechanical”. Remember, this theory in no way relates to financial reporting, it relates to the financial report. While the information expressed by a financial report is far from mechanical, the mechanism by which the information is expressed, be that using printed paper or some digital technology is mechanical.

1.5. Agnostic as to technical syntax

XBRL is one of many different technical syntaxes which can be used to express a financial report digitally. While XBRL is used to verify this theory because of the public availability of public company financial reports; this theory is and should be agnostic as to technical syntax.



2. Axioms for the Theory

Axioms describe self-evident logical principles that no one would argue with. Axioms deal with primitives and fundamentals. This section summarizes self-evident principles relating to a financial report in the form of true statements about financial reports. While it might be arguable that financial reporting can be practiced in a manner where these axioms are not adhered to; it likewise could be argued that most financial reports do adhere to these axioms, or certainly should.

2.1. Financial reports communicate facts

Financial reports communicate facts. A fact is a single, observable, reportable piece of information. Those facts have values. Those fact values might take the form of a number, textual information, or narrative/prose.

For example, the value “1000” or “first-in, first out” might be values of a fact which are communicated within a financial report.

Numeric fact values have two additional traits in order to better understand the number. First, numeric fact values have units. For example, the units might be US dollars or number of shares. Second, numeric fact values indicate the rounding used. For example, “Is the number rounded to the nearest millions or is it accurate to the cent?”

The following is the proposed formal definition of the term “fact”.

Fact: A fact is reported. A fact defines a single, observable, reportable piece of information contained within a financial report, or fact value, contextualized for unambiguous interpretation or analysis by one or more distinguishing characteristics (properties of the fact). A fact value is one property of a fact. Every fact has exactly one fact value.

2.2. Facts reported in a financial report have characteristics

Facts have characteristics. Characteristics describe facts.

For example, the number “1000” might have the characteristics of being the concept “Cash and cash equivalents”; for the period ended “December 31, 2011”; for the legal entity which is a “consolidated entity”, etc.

The following is the proposed formal definition of the term “characteristic”.

Characteristic: A characteristic describes a fact (a characteristic is a property of a fact). A characteristic or distinguishing aspect provides information necessary to describe a fact or distinguish one fact from another fact. A fact may have one or many distinguishing characteristics.

2.3. Financial reports have components

A component is a set of facts which go together for some specific purpose.

For example, a “balance sheet” is a component of a financial report and is made up of a specific set of facts.



A component may have subcomponents or disclosure blocks. For example, an “income statement” has a component-disclosure block which communicates a roll up of the items which make up net income and a component-disclosure block which communicates a hierarchy of earnings per share information.

The following is the proposed formal definition of the term “component”.

Component: A component is a set of facts which go together (tend to be cohesive and share a certain common nature) for some specific purpose within a financial report.

2.4. Facts reported within financial reports are organized into components

While financial reports communicate facts, those facts rarely, if ever, exist on their own; they are organized into components. Facts are organized into components, rather they are organized with other facts generally for some specific purpose.

For example, the fact “Cash and cash equivalents” might exist in the balance sheet component.

2.5. Financial report facts and components can be organized using a financial reporting conceptual framework

The financial reporting conceptual framework for US GAAP and IFRS based financial reporting is created by the FASB and IASB. This conceptual framework has financial report elements and financial statement components which are useful and which can be leveraged to identify facts and organize components.¹

2.5.1. Financial report elements

The financial report elements² articulated by the FASB are:

- Assets
- Liabilities
- Equity
- Investments by owners
- Distributions to owners
- Revenues
- Expenses
- Gains
- Losses
- Comprehensive income

While this is not a complete set of report elements, it is useful for identifying and organizing concepts which characterize a financial fact.

Other financial report elements which are not outlined by the FASB and which could exist within a financial report include:

- Policy
- Disclosure
- Document information
- Reporting entity information



2.5.2. Financial statement components

Financial statement components³ are defined by the FASB as:

- Balance sheet
- Income statement
- Comprehensive income
- Statement of changes in equity
- Cash flow statement
- Related disclosures

Related disclosures can be further broken down into categories, for example:

- Organization
- Consolidation related disclosures
- Basis of reporting and presentation of financial statements
- Significant accounting policies
- Financial statement accounts related disclosures
- Broad transactions categories related disclosures

These categorizations are used by the FASB Accounting Standards Codification (ASC). For more information see: (note that a free basic subscription is available)

<https://asc.fasb.org/>

2.6. Industries and reporting entities with certain activities have different reporting practices and therefore use the financial reporting conceptual framework differently

Reporting entities that belong to different industries and that have different activities may have different financial reporting practices. However, all reporting entities and all types of activities fit within the financial reporting conceptual framework under which they are reporting.

It is practice that a corporation reports “Stockholders’ equity” and partnerships report “Partner capital” and that sole proprietors report “Owner’s equity”; however, all three are “Equity” as defined by the financial reporting conceptual framework.

In practice a financial institution creates an unclassified balance sheet and general commercial and industrial companies create a classified balance sheet; but both types of reporting entities provide balance sheets.

While different industries and activities use components of the financial reporting framework differently, that does not change the financial reporting framework or change the fact that a financial reporting conceptual framework exists.

2.7. Common characteristics of financial facts exist

Some common characteristics that describe financial facts include:

- Reporting entity (which accounting or economic entity issued the reported fact; for example Microsoft or Google)
- Legal entity (to which legal entity does the reported fact relate; for example consolidated entity or parent holding company)



- Report date (what is the date on which the report was issued which contains the reported fact; for example the audit report date or the filing date)
- Reporting scenario (under which scenario was a fact reported; for example actual, budgeted, etc.)
- Concept or line item (what financial reporting concept describes the reported fact; for example Cash and cash equivalents, Assets, Net Income, etc.)
- Calendar period (to which period does the fact relate; for example which year or, current period, prior period, etc.)
- Fiscal period (to which fiscal period does the fact relate; for example, quarter 1, quarter 2, quarter 3, fiscal year)
- Fiscal year (to which fiscal year does the fact relate; for example 2011, 2012, 2013)
- Business segment (to which business segment does the fact relate; for example the consolidated entity, consolidation eliminations, subsidiaries or other business components)
- Geographic area (to which geographic area does the fact relate; for example all geographic areas combined, Europe, Asia)
- Operating activities (which type of operating activity describes the fact; continuing operations, discontinued operations)

Not all financial facts have all of these characteristics, but these are common characteristics. Other characteristics may also exist. Not all reporting entities which report financial information use these precise terms, however they use some term which basically means in essence what is outlined on the list above.

2.8. Financial facts may have parenthetical explanations

Financial facts may have parenthetical explanations which provide additional descriptive information about the fact. Parenthetical explanations may take the form of footnotes, meaning an additional piece of information printed at the bottom of a page of a financial report.

The following is the proposed formal definition of the term “parenthetical explanation”.

Parenthetical explanation: A parenthetical explanation provides additional descriptive information about a fact.

2.9. Characteristics of a financial fact may be related

Characteristics which describe a financial fact may, or may not, be related to one another.

For example, the business segments of a reporting entity along with any consolidation eliminations can be identified, articulated, and aggregated to the consolidated entity. The spectrum of relations between characteristics is:

2.9.1. Partial set

Partial sets are values of characteristics which do not comprise the full spectrum of possible options. For example, “United States” and “Spain” is a partial set of countries. The complete set of countries would be just that, a complete list of all countries.



2.9.2. Complete flat set

Complete flat set is a “flat” (meaning no sub-relations) and complete list of the values of a characteristic. For example, a list of the 15 directors of an entity is a complete, flat list of a company's directors.

2.9.3. Complete hierarchical set

Complete hierarchical set is similar to a complete flat set in that it is complete; however sub relations exist. For example, this is a complete, hierarchical list of the **locations of customers of a company**, by region and by country:

- North America
 - United States
 - Canada
- Europe
 - United Kingdom
 - Germany
 - Spain

2.9.4. Complete complex set

Complex sets round out the possible set of possibilities and are a complete set of possible options with a complex relationships structure.

2.9.5. Whole-part relations¹

Characteristics can represent a whole or some part of a whole. Parts may be related in different ways. The following is a summary of subclasses of whole-part types of relations which may, or may not, be applicable to financial reporting. Other subclasses of whole-part relations may exist.

- Component-integral object: Indicates that a component contains some integral object. For example, the component handle is part of the integral object cup; wheels are a component part of a car; a refrigerator is a component of a kitchen.
- Member-collection: Indicates that some member is part of some collection. For example a ship is part of a fleet. Or, a subsidiary is part of an economic entity.
- Portion-mass: Indicates that some portion is part of some mass. For example a slice is part of a pie.
- Stuff-object: Indicates that some "stuff" is part of some object. For example steel is part of a car.

¹ A Taxonomy of Part-whole Relations, <http://csjarchive.cogsci.rpi.edu/1987v11/i04/p0417p0444/MAIN.PDF>



- Feature-activity: Indicates that some feature is part of some activity. For example the feature "paying" is part of the activity "shopping".
- Place-area: Indicates that some physical place is part of some area. For example the place "Everglades" is part of the area "Florida".

2.10. Financial report facts may be related

Financial report facts may, or may not be related. The sections below articulate the spectrum of possibilities.

For example, "Petty cash", "Cash", and "Cash equivalents" are related to "Cash and cash equivalents" and the sum of the components adds up to the aggregate.

2.10.1. Facts can relate to one another numerically

Financial facts can relate to one another numerically. For example,

- **Roll up:** Fact A + Fact B + Fact C = Fact D (a total)
- **Roll forward:** Beginning balance + changes = Ending balance
- **Adjustment:** Originally stated balance + adjustments = restated balance
- **Variance:** Actual amount – Budgeted amount = variance
- **Complex computation:** Net income / Weighted average shares = earnings per share

A roll up-type relation can also exist across characteristics other than the concept. For example, Revenues for geographic area A + Revenues for geographic area B + Revenues for geographic area C = Revenues for all geographic areas. This is similar to a roll up as described above.

2.10.2. Facts can have a non-numerical relation to another fact

Facts can have a non-numerical relation to other facts. For example; inventory policy, revenue recognition policy, and depreciation method all relate to one another in that they are all policies.

2.10.3. Facts may not relate to any other financial fact

Facts need not have a relation to any other financial facts; they are unrelated. For example, a subsequent event does not have to be related to any other financial fact.

2.10.4. Facts have fidelity

Financial reports are detailed. Financial reports have accuracy in reporting details, a characteristic of exactness to reported facts. There exists an exactness in a fact or with a given quality, condition, or event.

2.10.5. Financial reports have integrity

While an individual fact of a financial report has fidelity; the financial report views as a whole likewise has fidelity. This holistic fidelity constitutes integrity.



For example, the concept “Cash and cash equivalents” can exist on the balance sheet in aggregate and also in the disclosures where the aggregate amount is disaggregated, providing a detailed listing of that aggregate.

Balance sheet:

	2010	2009
ASSETS		
Current Assets		
Cash and Cash Equivalents	1,000	1,000
Receivables, Net of allowance of 1,000 and 1,000 in 2010 and 2009, respectively	1,000	1,000
Inventory	1,000	1,000
Prepaid Expenses	500	500
Investments, at Cost	500	500
Other Assets, Current	1,000	1,000

Disclosure:

	As of December 31,	
	2010	2009
Details of Cash and Cash Equivalents		
Cash, Unrestricted	250	250
Cash, Restricted	250	250
Petty Cash	250	250
Other Cash and Cash Equivalents	250	250
Total	1,000	1,000

2.11. Financial report components may have core facts and relations common to all reporting entities

While not all financial reports have all facts in common, and different industries can have more or less in common, there are some core components which all accounting entities have. These facts can be thought of as “key stones” or “corner stones” which hold a financial report together or provide somewhat of a “skeleton” for a financial report. Note that this is not to say that all accounting entities report these accounting concepts; if a concept is not reported it can be logically imputed.

For example, these are fundamental accounting concepts which are common to all reporting entities in all industries and relations which exist between these concepts which can never change:

- Assets = Liabilities and Equity
- Assets = Current Assets + Noncurrent Assets (classified balance sheet)
- Equity = Equity Attributable to Parent + Equity Attributable to Noncontrolling Interest
- Liabilities = Current Liabilities + Noncurrent Liabilities (classified balance sheet)
- Liabilities and Equity = Liabilities + Commitments and Contingencies + Temporary Equity + Equity
- Assets = Liabilities + Commitments and Contingencies + Temporary Equity + Equity
- Liabilities = Liabilities and Equity - (Commitments and Contingencies + Temporary Equity + Equity)
- Current Assets = Assets - Noncurrent Assets (classified balance sheet)
- Current Liabilities = Liabilities - Noncurrent Liabilities (classified balance sheet)
- Noncurrent Assets = Assets - Current Assets (classified balance sheet)
- Noncurrent Liabilities = Liabilities - Current Liabilities (classified balance sheet)
- Gross Profit = Revenues - Cost Of Revenue (Multi-step approach)



- Operating Income (Loss) = Gross Profit - Operating Expenses + Other Operating Income (Multi-step approach)
- Income (Loss) from Continuing Operations Before Equity Method Investments = Operating Income (Loss) + Nonoperating Income (Loss) - Interest And Debt Expense
- Income (Loss) from Continuing Operations Before Tax = Income (Loss) from Continuing Operations Before Equity Method Investments + Income (Loss) from Equity Method Investments
- Income (Loss) from Continuing Operations after Tax = Income (Loss) from Continuing Operations Before Tax - Income Tax Expense (Benefit)
- Net Income (Loss) = Income (Loss) from Continuing Operations After Tax + Income (Loss) from Discontinued Operations, Net of Tax + Extraordinary Items, Gain (Loss)
- Net Income (Loss) = Net Income (Loss) Attributable to Parent + Net Income (Loss) Attributable to Noncontrolling Interest
- Net Income (Loss) Available to Common Stockholders, Basic = Net Income (Loss) Attributable to Parent - Preferred Stock Dividends and Other Adjustments
- Comprehensive Income (Loss) = Comprehensive Income (Loss) Attributable to Parent + Comprehensive Income (Loss) Attributable to Noncontrolling Interest
- Comprehensive Income (Loss) = Net Income (Loss) + Other Comprehensive Income (Loss)
- Operating Income (Loss) = Revenues - Costs And Expenses + Other Operating Income (Single-step approach)
- Costs And Expenses = Cost Of Revenue + Operating Expenses (Single-step approach)
- Net Cash Flow = Net Cash Flows, Operating + Net Cash Flows, Investing + Net Cash Flows, Financing + Exchange Gains (Losses)
- Net Cash Flows, Continuing = Net Cash Flows, Operating, Continuing + Net Cash Flows, Investing, Continuing + Net Cash Flows, Financing, Continuing
- Net Cash Flows, Discontinued = Net Cash Flows, Operating, Discontinued + Net Cash Flows, Investing, Discontinued + Net Cash Flows, Financing, Discontinued
- Net Cash Flows, Operating = Net Cash Flows, Operating, Continuing + Net Cash Flows, Operating, Discontinued
- Net Cash Flows, Investing = Net Cash Flows, Investing, Continuing + Net Cash Flows, Investing, Discontinued
- Net Cash Flows, Financing = Net Cash Flows, Financing, Continuing + Net Cash Flows, Financing, Discontinued

For example, these are financial reporting facts common to many financial reports issued by many type of reporting entity in many industries and relations between the report components and other information contained within a financial report (this is not a comprehensive list, only a set of examples):

- Balance sheets always have “Assets”, “Liabilities and Equity” and “Equity” reported
- On the balance sheet, assets foots
- On the balance sheet, liabilities and equity foots
- On the balance sheet, equity foots
- Balance sheets balance
- Income statements always report net income (loss)
- On the income statement, net income (loss) foots
- Cash flow statements report net cash flow
- On the cash flow statement, net cash flow foots
- Net cash flow per the cash flow statement reconciles beginning and ending cash and cash equivalents
- Cash and cash equivalents per the cash flow statement and cash and cash equivalents per the balance sheet are the same fact



- Beginning and ending balances of equity per the statement of changes in equity agree with equity balances per the balance sheet

There could be other core components and relations, but the above are certainly true, if someone reports the statements. It is possible for a reporting entity not to have a cash flow statement or income statement. It is less likely for a company to not have a balance sheet.

The importance of these cornerstone facts and relations is that they may form a foundation for a comparability framework. The presence of this category of facts might provide us with information about the specific types of components that are reported and the relations between components that must hold true if they are reported. They are the links in the integrity foundations for financial reports.

Different industries may have different core financial report facts common within certain components.

2.12. Financial reports have a flow

A financial report has a flow, or an ordering or sequencing of the components which make up the financial report.

Financial report creators have flexibility as to this flow, for example an income statement could come before or after a balance sheet.

The flow of a report can impact meaning in some cases, less so or not at all in other cases. The sequencing or ordering of the components of a financial report is the report flow model.

2.13. Differing sets of detailed facts for a higher-level fact does not change the definition of the higher level fact

Having different detailed line items does not change the definition of high level concepts such as assets, liabilities and equity, equity, net cash flow, net income (loss).

For example, if one financial report has the line item “Accounts receivable, net” and another report does not, the meaning of “Current assets” is not different between the two financial reports.

2.14. Financial reports may have supporting schedules

A financial report may have supporting schedules, or supplementary financial information, which is not part of the financial statements.

2.15. Reporting entities which created financial reports can be categorized into industries/activities

Industries and activities have unique financial reporting and accounting practices. The following is a summary of some reporting industries and the activities which a reporting entity may have:

- Commercial and Industrial (general, not classified into some other industry or activity)
- Agriculture
- Airlines
- Banking and Thrift
- Broadcasting
- Broker and Dealers of Securities



- Cable Television
- Casinos
- Contractors
- Development Stage Enterprises
- Extractive Activities
- Financial Services Title Plant
- Franchisor
- Health Care
- Insurance
- Investment Companies
- Motion Pictures
- Mortgage Banking
- Not for Profit
- Real Estate
- Records and Music
- Regulated Entities
- Retailers
- Software

Other industries and activities exist.

2.16. Financial analysts use certain common key financial ratios when analyzing financial report information

The following is a summary of some common key ratios used:

- Return on Investment
- Return on Equity
- Return on Total Assets
- Operating Profit
- Sales to Accounts Receivable
- Sales to Inventories
- Sales to Fixed Assets
- Inventory Days
- Debtor Days
- Corporate Liquidity
- Working Capital
- Current Ratio
- Quick Ratio
- Working Capital to Sales
- Interest Cover
- Debt to Equity
- Market Capitalization
- Dividends Per Share
- Dividends Cover Payout Ratio
- Earnings Yield
- Dividends Yield
- Price to Earnings Ratio
- Market to Book Ratio
- Capital Employed



- Working Capital Days
- Assets Employed
- Profit Margin
- Asset Turn
- Sales Margin
- Sales Turn

Other common key ratios exist.

2.17. Financial report components, facts, characteristics, parenthetical explanations, and relations have properties

Each of these primitives or fundamental building blocks of a financial report have properties. For example, a component might have a name or other such properties.

The following is the proposed formal definition of the term “property”.

Property: A property is a trait, quality, feature, attribute, or peculiarity which is used to define its possessor and is therefore dependent on the possessor (entity or thing which has the property). A property belongs to something. For example, the color of a ball belongs to and is therefore is dependent on (is a property of) the ball.



3. Theorems as deduced from the axioms

Theorems are deductions which can be proven by constructing a chain of reasoning by applying axioms in the form of if, then statements. This section summarizes deductions derived from the axioms in the preceding section in the form of true statements which relate to financial reports.

3.1. Facts of a financial report should be uniquely identifiable

If a financial report is made up of facts then financial facts should be uniquely identifiable in order to differentiate facts.

Facts of a financial report should be uniquely identifiable. No two financial report facts are exactly the same (i.e. there are no duplicate facts).

For example, a financial report would not ever need to report “Cash and cash equivalents” for the consolidated entity as of December 31, 2010 as of the same report date and the same (identical) other characteristics more than once.

3.2. Components of a financial report should be uniquely identifiable

If a financial report is made up of components then financial report components should be uniquely identifiable in order to differentiate components.

Components of a financial report should be uniquely identifiable. No two financial report components are exactly the same (i.e. there are no duplicate components). Reporting duplicate components is akin to reporting duplicate facts.

3.3. Different sets of detailed facts do not change the definition of higher level fact in general

If the axiom “Differing sets of detailed facts for a higher-level fact does not change the definition of the higher level fact” is true; then it should also be true that having different line items which detail a fact at any level should not change the definition of a fact.

For example, if the line items which make up the assets section of a balance sheet does not change the definition of the concept assets; then the line item property, plant and equipment, net should not change the definition of property, plant, and equipment, net. This same reasoning works at all levels within a financial report. Said another way, the composition of property, plant, and equipment, net such as land, furniture and fixtures, buildings, office equipment and so forth does not change the definition of the total concept property, plant, and equipment, net.

3.4. Components and facts of a financial report are comparable to the extent that the components and facts are identifiable and common

If the characteristics of a fact within one or more financial reports are the same then the facts are comparable.

Comparability is created. Comparability can be created by two or more financial reports using the same identifiable characteristic.



For example, if the component “balance sheet” is identifiable in two financial reports and if the concept characteristic “assets” is identifiable; then the two financial reports can compare the assets of both balance sheets.



4. Ethics or worldview of financial reporting

Ethics is the worldview of a financial report. While axioms are unrefutable facts which form a foundation which describes a financial report and theorems build on those axioms by deduction and therefore both axioms and theorems are objective; the ethics or worldview which describes a financial report can be more subjective. Observation, experience, introspection, and intuition determine the worldview; not tightly reasoned arguments. This section summarizes the worldview, or ethics.

4.1. Financial reports are a true and fair representation of the reporting entities financial information

The objective of a financial report is to provide a true and fair representation of the accounting entity which issued the financial report. A financial report is a true and fair representation if it is complete, correct, consistent, accurate, has fidelity and integrity. Below are definitions of these terms.

- **Completeness:** Having all necessary or normal parts, components, elements, or steps; entire.
- **Correctness:** Free from error; in accordance with fact or truth; right, proper, accurate, just, true, exact, precise.
- **Consistency:** Compatible or in agreement with itself or with some group; coherent, uniform, steady. Holding true in a group, compatible, not contradictory.
- **Accuracy:** Correctness in all details. Conformity or correspondence to fact or given quality, condition. Precise, exact. Deviating only slightly or within acceptable limits from a standard.
- **Fidelity:** Where accuracy focuses on the details of one fact; fidelity is accuracy of all facts considered as a whole in the reproduction of something as compared to actual facts.
- **Integrity:** Holistic accuracy, accurate as a whole. The quality or condition of being whole or undivided; completeness, entireness, unbroken state, uncorrupt. Integrity is a concept of consistency of actions, values, methods, measures, principles, expectations, and outcomes.

4.2. Financial reports have traits which impact their quality

The following list expresses the traits of a quality financial report.

- **All financial report formats convey the same message:** A financial statement can be articulated using paper and pencil, Microsoft Word, PDF, HTML, XBRL, or other format. But while the format may change, the message communicated, the story you tell, should not change. Each format should communicate the same message, regardless of the medium used to convey that message.
- **Information fidelity and integrity:** A financial statement foots, cross casts, and otherwise “ticks and ties”. A financial report is internally consistent. The accountant community understands this and many times this fact disappears into unconsciousness because it is so ingrained. Of course things foot and cross cast; of course the pieces tie together. Said another way, a financial statement must be correct, complete, consistent, and accurate. Only trained accounting professionals who understand how the XBRL medium works can tell if all financial statement computations are properly articulated and verified to be correct.
- **Justifiable/defensible report characteristics:** Facts reported and the characteristics which describe those reported facts should be both justifiable and defensible by an accounting entity reporting such facts.
- **Consistency between periods:** Generally financial information expressed within one period should be consistent with the financial information expressed within subsequent periods, where appropriate. Clearly new information will be added and information which becomes



irrelevant will be removed from a financial report. Changes between report elements which existed in both periods should be justifiable/defensible as opposed to arbitrary and random.

- **Consistency with peer group:** If your company chooses one approach and a peer chooses another report element selection choice; clearly some good reason should probably exist. This is not to say differences would not or should not occur. Rather, why the differences exist should make sense. Generally financial information between two peers should be more consistent as compared to inconsistent.
- ~~**Information renderings make logical sense:** Renderings of facts and characteristics which make up the components of a financial report should make logical sense. The financial report rendering should make logical sense without regard to the format of the financial report.~~
- ~~**Logical representations indicated by understandable renderings:** Human readable renderings of facts; characteristics that describe facts; parenthetical explanations which further describe such facts; and other such representation structures should make sense and be both consistent with other similar representation structures. While there may be differences of opinion as to how to format or present such information; there should be significantly less or no dispute about the logic of a machine readable representation.~~
- ~~**Clear-Unambiguous business meaning:** A financial report should be unambiguous to an informed reader. The business meaning of a financial report should be clear to the creator of the financial report and likewise clear to the users of that financial report. Both the creator and users should walk away with the same message or story. A financial report should be usable by regulators, financial institutions, analysts, investors, economists, researchers, and others to desire to make use of the information the report contains as they see fit.~~

4.3. Financial reports are used individually, compared across periods, and compared across reporting entities

Financial reports are used in different ways by users including:

- **Analysis of a single financial report:** Analysis of one financial report of one reporting entity.
- **Time series analysis of reporting entity:** Two or more financial reports of the same reporting entity are compared.
- **Comparative analysis across reporting entities:** Two or more financial reports of different reporting entities are used.
- **Ratio analysis:** An analysis of a single financial report, a time series analysis, or a comparative analysis using ratios computed from facts within a report.

4.4. Disclosures are reported, notes is a presentation related notion which refers to organization of disclosures

A reporting entity has more flexibility as to in which note of its financial statement it provides a disclosure; it has less flexibility over what it must disclose.

A note is a presentation related notion, relating to how disclosures are presented in a financial report. A disclosure is what must be disclosed. The FASB and IASB specifies what must be disclosed, and less which disclosure to use.

Disclosures are informational, they relate to information without regard to formatting or other presentational artifacts. Notes relate to organizing disclosures and are presentational in nature. Someone creating a financial report has far more latitude and discretion as to how to organize disclosures into notes than they do as to what must be disclosed.



4.5. Reporting entity segment definitions are inconsistent in financial reporting literature

The segments into which a reporting entity can be broken down are defined inconsistently in the financial reporting literature. From FASB Accounting Standards Codifications, ASC 280 relates to the classification of assets and sometimes liabilities uses the terms operating segments and reportable segments of the business. ASC 350 which relates to impairment uses the term reporting unit. ASC 860 which relates to special-purpose entities and the master glossary uses the term business. ASC 360 which relates to long-lived assets uses the term asset groups and disposal groups.

As such, the following terminology is proposed:

- Consolidated entity
- Parent holding company
- Operating segment (ASC 280)
- Reportable segment (ASC 280)
- Reporting unit (ASC 350)
- Business (ASC 805)
- Asset group (ASC 360)
- Disposal group (ASC 360)

4.6. Financial reports may be expressed using different medium

Financial reports may be expressed using different medium. For example,

- Paper and pencil, printed versions of electronic or digital, or photo static copies
- Electronic including HTML, PDF, word processor format, etc.
- Digital including XBRL, within a database or within some software application

The medium used to express a financial report MUST NOT change the meaning of the financial report.

4.7. Financial reports may contain non-financial information, sustainability information, or other information

A financial report is not limited to financial information. A financial report can also support disclosure of non-financial information, sustainability information, and other types of information.

4.8. Categorization of disclosures can be helpful

Breaking a set of disclosures into some categorized list can be helpful in making use of the disclosures. For example,

- Organization related disclosures
- Consolidation related disclosures
- Basis of reporting and presentation of financial statements
- Significant accounting policies
- Financial statement accounts related disclosures
- Broad transactions categories disclosures

Although this breakdown is not required, it is helpful. Also, this list of categories is not required, although it is reasonable. There are other reasonable categorizations.



4.9. Facts reported within a component may be illogical without the existence of other facts

Facts reported within a component may be illogical without the existence of other facts.

For example, reporting the date of a subsequent event without identifying the subsequent even is not logical.



5. Financial Report Semantics and Dynamics Theory

The next section summarizes many of the axioms, theorems, and ethics in a narrative that summarizes the *Financial Report Semantics and Dynamics Theory* in a more readable form using basic examples. This narrative is intended to be as terse and precise as possible.

5.1. Financial report semantics

A financial report communicates facts. Facts have values. Here are two facts:

Fact Value
2000
1000

Facts reported in a financial report have characteristics. Here are two facts and their characteristic “concept” and the values for each ‘concept’ characteristic; “Revenues” and “Net income (loss)” which describe the facts:

Concept	Fact Value
Revenues	2000
Net income (loss)	1000

Here is a complete set of characteristics which describe two facts:

Reporting entity	Legal entity	Period	Concept	Fact Value
ABC Company	Consolidated entity	January 1, 2011 to December 31, 2011	Revenues	2000
ABC Company	Consolidated entity	January 1, 2011 to December 31, 2011	Net income (loss)	1000

Financial reports have components. Facts reported within financial reports are organized into components. Here is a set of facts that go together to make up the income statement component (only a portion of all the facts are shown):

Reporting entity	Legal entity	Period	Concept	Fact Value
ABC Company	Consolidated entity	January 1, 2011 to December 31, 2011	Revenues	2000
ABC Company	Consolidated entity	January 1, 2010 to December 31, 2010	Revenues	2500
ABC Company	Consolidated entity	January 1, 2009 to December 31, 2009	Revenues	2300
ABC Company	Consolidated entity	January 1, 2011 to December 31, 2011	Cost of revenues	1800
ABC Company	Consolidated entity	January 1, 2010 to December 31, 2010	Cost of revenues	1700
ABC Company	Consolidated entity	January 1, 2009 to December 31, 2009	Cost of revenues	1600
ABC Company	Consolidated entity	January 1, 2011 to December 31, 2011	Gross profit	200
ABC Company	Consolidated entity	January 1, 2010 to December 31, 2010	Gross profit	800

A set of facts and other information can be used to generate a rendering of the information described by the facts, characteristics, for the component. For example, below is a rendering of an income statement:



Component → **CONSOLIDATED STATEMENTS OF INCOME**
(in millions, except per share amounts)

Characteristic →

	Year Ended December 31,		
	2009	2009	2010
Revenues	\$21,796	\$23,651	\$29,321
Costs and expenses:			
Cost of revenues (including stock-based compensation expense of \$41, \$47, \$67)	8,622	8,844	10,417
Research and development (including stock-based compensation expense of \$732, \$725, \$861)	2,793	2,843	3,762
Sales and marketing (including stock-based compensation expense of \$206, \$231, \$261)	1,946	1,984	2,799
General and administrative (including stock-based compensation expense of \$141, \$161, \$187)	1,803	1,668	1,962
Total costs and expenses	15,164	15,339	18,940
Income from operations	6,632	8,312	10,381
Impairment of equity investments	(1,095)	0	0
Interest and other income, net	316	69	415
Income before income taxes	5,853	8,381	10,796
Provision for income taxes	1,626	1,861	2,291
Net income	\$ 4,227	\$ 6,520	\$ 8,505
Net income per share of Class A and Class B common stock:			
Basic	\$ 13.46	\$ 20.62	\$ 26.69
Diluted	\$ 13.31	\$ 20.41	\$ 26.31

Fact →

Characteristic →

An income statement is a financial statement component articulated by the financial reporting conceptual framework. Financial report facts and components can be organized leveraging the financial reporting conceptual framework.

Industries and reporting entities with certain activities have different reporting practices and therefore use the financial reporting conceptual framework differently.

Common characteristics of financial facts exist such as reporting entity, legal entity, report date, reporting scenario, concept, period, etc.

Financial facts may have parenthetical explanations.

5.2. Financial report dynamics

Characteristics of a financial fact may be related. Characteristics could be a

- partial set,
- complete flat set,
- complete hierarchical set,
- complete complex set,
- express some whole-part relation.

Characteristics could have no relation to one another.

Financial facts may be related. Types of numeric relationships include a

- roll up ($a + b + c = \text{total}$),
- roll forward (beginning balance + changes = ending balance),
- adjustment (originally stated balance + adjustment = restated balance),
- variance (for example, actual – budgeted = variance),
- other more complex computations

Other types of relations may exist for non-numeric facts.

- hierarchy (or list, set, collection) is a group of concepts,

Financial facts have fidelity. Financial reports have integrity.

Financial report components may have core facts and relations common to all reporting entities such as

- Balance sheets report assets, liabilities and equity, equity, and balance sheets balance. Assets, liabilities and equity, and equity each foot.
- Income statements report net income (loss), and they foot.



- Cash flow statements report net cash flow and they foot.
- Beginning cash plus net cash flow reconciles to ending cash on the cash flow statement
- Cash per the cash flow statement agrees with cash per the balance sheet.

Financial reports have flow. Flow is an ordering or sequencing of components.

Reporting entities which create financial reports can be categorized into industries and/or activities. Different industries and activities may report different facts, different characteristics, or have different components.

Financial analysts use certain common key financial ratios when analyzing financial report information.

5.3. Financial report component example

The following is an example of a component of a financial report expressed using various formats and in various software applications. The component is the income statement disclosure. The component has two disclosure blocks: (1) a roll up of net income and (2) a hierarchy provides concepts related to net income per share:

5.3.1. SEC HTML filing

CONSOLIDATED STATEMENTS OF INCOME
(In millions, except per share amounts)

	Year Ended December 31,		
	2008	2009	2010
Revenues	\$21,796	\$23,651	\$29,321
Costs and expenses:			
Cost of revenues (including stock-based compensation expense of \$41, \$47, \$67)	8,622	8,844	10,417
Research and development (including stock-based compensation expense of \$732, \$725, \$861)	2,793	2,843	3,762
Sales and marketing (including stock-based compensation expense of \$206, \$231, \$261)	1,946	1,984	2,799
General and administrative (including stock-based compensation expense of \$141, \$161, \$187)	1,803	1,668	1,962
Total costs and expenses	15,164	15,339	18,940
Income from operations	6,632	8,312	10,381
Impairment of equity investments	(1,095)	0	0
Interest and other income, net	316	69	415
Income before income taxes	5,853	8,381	10,796
Provision for income taxes	1,626	1,861	2,291
Net income	\$ 4,227	\$ 6,520	\$ 8,505
Net income per share of Class A and Class B common stock:			
Basic	\$ 13.46	\$ 20.62	\$ 26.69
Diluted	\$ 13.31	\$ 20.41	\$ 26.31

5.3.2. SEC Interactive Data Viewer

CONSOLIDATED STATEMENTS OF INCOME (USD \$) In Millions, except Per Share data	12 Months Ended		
	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2008
Revenues	\$ 29,321	\$ 23,651	\$ 21,796
Costs and expenses:			
Cost of revenues (including stock-based compensation expense of \$41, \$47, \$67)	10,417	8,844	8,622
Research and development (including stock-based compensation expense of \$732, \$725, \$861)	3,762	2,843	2,793
Sales and marketing (including stock-based compensation expense of \$206, \$231, \$261)	2,799	1,984	1,946
General and administrative (including stock-based compensation expense of \$141, \$161, \$187)	1,962	1,668	1,803
Total costs and expenses	18,940	15,339	15,164
Income from operations	10,381	8,312	6,632
Impairment of equity investments	0	0	(1,095)
Interest and other income, net	415	69	316
Income before income taxes	10,796	8,381	5,853
Provision for income taxes	2,291	1,861	1,626
Net income	\$ 8,505	\$ 6,520	\$ 4,227
Net income per share of Class A and Class B common stock:			
Basic	\$ 26.69	\$ 20.62	\$ 13.46
Diluted	\$ 26.31	\$ 20.41	\$ 13.31



5.3.3. XBRL Viewer (Firefox add on)

105 - Statement - CONSOLIDATED STATEMENTS OF INCOME

IDENTIFIER: 0001288776 - HTTP://WWW.SEC.GOV/C 0
 LEGAL ENTITY [AXIS]: ENTITY [DOMAIN] 0


(IN THOUSANDS)			DATE	12 MONTHS ENDED 2008-12-31	12 MONTHS ENDED 2009-12-31	12 MONTHS ENDED 2010-12-31
UNIT	ITEM	NOTES				
USD	REVENUES			21,796,000	23,651,000	29,321,000
	COST OF REVENUES (INCLUDING STOCK-BASED COMPENSATION EXPENSE OF \$41, \$47, \$67)			8,622,000	8,844,000	10,417,000
	RESEARCH AND DEVELOPMENT (INCLUDING STOCK-BASED COMPENSATION EXPENSE OF \$732, \$725, \$861)			2,793,000	2,843,000	3,762,000
	SALES AND MARKETING (INCLUDING STOCK-BASED COMPENSATION EXPENSE OF \$206, \$231, \$261)			1,946,000	1,984,000	2,799,000
	GENERAL AND ADMINISTRATIVE (INCLUDING STOCK-BASED COMPENSATION EXPENSE OF \$141, \$161, \$187)			1,803,000	1,668,000	1,962,000
	TOTAL COSTS AND EXPENSES			15,164,000	15,339,000	18,940,000
	INCOME FROM OPERATIONS			6,632,000	8,312,000	10,381,000
	IMPAIRMENT OF EQUITY INVESTMENTS			(1,095,000)	0	0
	INTEREST AND OTHER INCOME, NET			316,000	69,000	415,000
	INCOME BEFORE INCOME TAXES			5,853,000	8,381,000	10,796,000
	PROVISION FOR INCOME TAXES			1,626,000	1,861,000	2,291,000
	NET INCOME			4,227,000	6,520,000	8,505,000
USD / SHARES	BASIC			0.01346	0.02062	0.02669
	DILUTED			0.01331	0.02041	0.02631

5.3.4. XBRL Viewer (XBRL Cloud)

Entity	0001288776 - HTTP://WWW.SEC.GOV/C		
Legal Entity	Entity		
Concept	Year ended 2010-12-31	Year ended 2009-12-31	Year ended 2008-12-31
Revenues	\$29,321,000,000	\$23,651,000,000	\$21,796,000,000
Costs and expenses:			
Cost of revenues (including stock-based compensation expense of \$41, \$47, \$67)	\$10,417,000,000	\$8,844,000,000	\$8,622,000,000
Research and development (including stock-based compensation expense of \$732, \$725, \$861)	\$3,762,000,000	\$2,843,000,000	\$2,793,000,000
Sales and marketing (including stock-based compensation expense of \$206, \$231, \$261)	\$2,799,000,000	\$1,984,000,000	\$1,946,000,000
General and administrative (including stock-based compensation expense of \$141, \$161, \$187)	\$1,962,000,000	\$1,668,000,000	\$1,803,000,000
Total costs and expenses	\$18,940,000,000	\$15,339,000,000	\$15,164,000,000
Income from operations	\$10,381,000,000	\$8,312,000,000	\$6,632,000,000
Impairment of equity investments	\$0	\$0	(\$1,095,000,000)
Interest and other income, net	\$415,000,000	\$69,000,000	\$316,000,000
Income before income taxes	\$10,796,000,000	\$8,381,000,000	\$5,853,000,000
Provision for income taxes	\$2,291,000,000	\$1,861,000,000	\$1,626,000,000
Net income	\$8,505,000,000	\$6,520,000,000	\$4,227,000,000
Net income per share of Class A and Class B common stock:			
Basic	26.69	20.62	13.46
Diluted	26.31	20.41	13.31



5.3.5. I-Metrix (Edgar Online)

	A	B	C	D
1				
2	Name			
3	Symbol			
4	Form			
5	Period Dates	1/1/2010 - 12/31/2010	1/1/2009 - 12/31/2009	1/1/2008 - 12/31/2008
6	CONSOLIDATED STATEMENTS OF INCOME			
7	Revenues	\$29,321,000,000	\$23,651,000,000	\$21,796,000,000
8	<i>Costs and expenses:</i>			
9	Cost of revenues (including stock-based compensation expense of \$41, \$47, \$67)	\$10,417,000,000	\$8,844,000,000	\$8,622,000,000
10	Research and development (including stock-based compensation expense of \$732, \$725, \$861)	\$3,762,000,000	\$2,843,000,000	\$2,793,000,000
11	Sales and marketing (including stock-based compensation expense of \$206, \$231, \$261)	\$2,799,000,000	\$1,984,000,000	\$1,946,000,000
12	General and administrative (including stock-based compensation expense of \$141, \$161, \$187)	\$1,962,000,000	\$1,668,000,000	\$1,803,000,000
13	Total costs and expenses	\$18,940,000,000	\$15,339,000,000	\$15,164,000,000
14	Income from operations	\$10,381,000,000	\$8,312,000,000	\$6,632,000,000
15	Impairment of equity investments	\$0	\$0	-\$1,095,000,000
16	Interest and other income, net	\$415,000,000	\$69,000,000	\$316,000,000
17	Income before income taxes	\$10,796,000,000	\$8,381,000,000	\$5,853,000,000
18	Provision for income taxes	\$2,291,000,000	\$1,861,000,000	\$1,626,000,000
19	Net income	\$8,505,000,000	\$6,520,000,000	\$4,227,000,000
20	<i>Net income per share of Class A and Class B common stock:</i>			
21	Basic	\$26.69	\$20.62	\$13.46
22	Diluted	\$26.31	\$20.41	\$13.31

5.3.6. Magnify (CoreFiling)

105 - Statement - CONSOLIDATED STATEMENTS OF INCOME				
	Q4 2007-9			
	Year ended 31-Dec-2010	Year ended 31-Dec-2009	Year ended 31-Dec-2008	
Income Statement [Abstract]				
Statement [Table]				
Statement [Line Items]				
Revenues	\$29,321,000,000	\$23,651,000,000	\$21,796,000,000	
Costs and expenses:				
Cost of revenues (including stock-based compensation expense of...	\$10,417,000,000	\$8,844,000,000	\$8,622,000,000	
Research and development (including stock-based compensation e...	\$3,762,000,000	\$2,843,000,000	\$2,793,000,000	
Sales and marketing (including stock-based compensation expense...	\$2,799,000,000	\$1,984,000,000	\$1,946,000,000	
General and administrative (including stock-based compensation ex...	\$1,962,000,000	\$1,668,000,000	\$1,803,000,000	
Total costs and expenses	\$18,940,000,000	\$15,339,000,000	\$15,164,000,000	
Income from operations	\$10,381,000,000	\$8,312,000,000	\$6,632,000,000	
Impairment of equity investments	\$0	\$0	\$(1,095,000,000)	
Interest and other income, net	\$415,000,000	\$69,000,000	\$316,000,000	
Income before income taxes	\$10,796,000,000	\$8,381,000,000	\$5,853,000,000	
Provision for income taxes	\$2,291,000,000	\$1,861,000,000	\$1,626,000,000	
Net income	\$8,505,000,000	\$6,520,000,000	\$4,227,000,000	
Net income per share of Class A and Class B common stock:				
Basic	\$26.69	\$20.62	\$13.46	
Diluted	\$26.31	\$20.41	\$13.31	



5.3.7. CalcBench

VIEW IN SPREADSHEET					
CONSOLIDATED STATEMENTS OF INCOME - Annual →Switch to Quarterly View					
EXPORT →Log in to post comments, and save data.					
	Y 2010 (1/1 - 1/1/2011) ≤Y	Y 2009 (1/1 - 1/1/2010) ≤Y Y>		Y 2008 (1/1 - 1/1/2009) ≤Y Y>	
	Compare:More Recent Y Prev Y Compare To Company:	Compare:More Recent Y Prev Y Compare To Company:		Compare:More Recent Y Prev Y Compare To Company:	
			% chg YoY		% chg YoY
Revenues	\$29,321,000,000	\$23,650,563,000	23.98%	\$21,795,550,000	8.51%
Costs and expenses:					
Cost of revenues (including stock-based compensation expense of \$41, \$47, \$67)	\$10,417,000,000	\$8,844,115,000	17.78%	\$8,621,506,000	2.58%
Research and development (including stock-based compensation expense of \$732, \$725, \$861)	\$3,762,000,000	\$2,843,027,000	32.32%	\$2,793,192,000	1.78%
Sales and marketing (including stock-based compensation expense of \$206, \$231, \$261)	\$2,799,000,000	\$1,983,941,000	41.08%	\$1,946,244,000	1.94%
General and administrative (including stock-based compensation expense of \$141, \$161, \$187)	\$1,962,000,000	\$1,667,294,000	17.68%	\$1,802,639,000	(7.51%)
Total costs and expenses	\$18,940,000,000	\$15,338,377,000	23.48%	\$15,163,581,000	1.15%
Income from operations	\$10,381,000,000	\$8,312,186,000	24.89%	\$6,631,969,000	25.34%
Operating Margin %	35.40%	35.15%		30.43%	
Impairment of equity investments	\$0	\$0		\$1,094,757,000	(100.00%)
Nonoperating Income (Expense)	\$415,000,000	\$69,000,000	501.45%	\$316,000,000	(78.16%)
Income before income taxes	\$10,796,000,000	\$8,381,189,000	28.81%	\$5,853,596,000	43.18%
Provision for income taxes	\$2,291,000,000	\$1,860,741,000	23.12%	\$1,626,738,000	14.38%
Net income	\$8,505,000,000	\$6,520,448,000	30.44%	\$4,226,858,000	54.26%
Net Income Margin %	29.01%	27.57%		19.39%	
Net income per share of Class A and Class B common stock:					
Basic	26.69	20.62	29.44%	13.46	53.19%
Diluted	26.31	20.41	28.91%	13.31	53.34%



6. Verification of axioms and theory

The following is a summary of a partial proof of the Financial Report Semantics and Dynamics Theory. This verification uses information from SEC XBRL financial filings to test this theory. These filings are appropriate for testing as they are publically available and anyone can repeat these tests. Further, SEC XBRL financial filings are significantly complex to appropriately exercise this theory. Other proofs can, and should, be create for other XBRL-based financial filings such as IFRS.

This proof is considered partial because it does not test 100% of the information in this document. For example, specific whole-part relations are not tested.

6.1. Many axioms are true by definition per the XBRL technical syntax used by SEC XBRL financial filings

Many axioms are simply true by definition for SEC XBRL financial filings. For example, consider the axiom “Financial reports communicate facts”. SEC XBRL financial filings are formatted using the XBRL technical syntax. The XBRL technical syntax is enforced by the XBRL Specification and a conformance suite which software must support. As such, these facts are true and verified by automated testing of SEC XBRL financial filing upon submission. Therefore, these axioms must be true. Other axioms are true because of the fundamental nature of US GAAP. Other axioms are true due to the nature of the US GAAP Taxonomy and filer taxonomies created and used with their SEC XBRL financial filings.

The following is a summary of all axioms which make up this theory. Un-shaded axioms are true per SEC XBRL financial filings following the XBRL technical syntax. Several shaded axioms are not in scope for this proof as the test more detailed aspects of the theory and testing will be added later. The shaded and bold, section 2.13, will be the focus of this partial proof.

#	Axiom	Explanation
2.1	Financial reports communicate facts	SEC XBRL financial filings report facts as XBRL items. The XBRL specification defines the syntax and semantics of a “fact”.
2.2	Facts reported in financial reports have characteristics	In the XBRL technical syntax, characteristics take the form of context entity identifiers, context period, and additional characteristics defined using XBRL Dimensions. Facts reported as XBRL items are each associated with a context. That context articulates characterises of the fact using various XBRL technical syntax.
2.3	Financial reports have components	SEC XBRL financial filings are supported by XBRL taxonomies. Taxonomies are organized by using networks and hypercubes (called [Table]s by the US GAAP taxonomy both of which are articulated using the XBRL technical syntax.
2.4	Facts reported within financial reports are organized into components	Same as 2.3 above.
2.5	Financial report facts and components can be organized leveraging the financial statement conceptual framework	The US GAAP Taxonomy is mapped to the Accounting Standards Codification (ASC) published by the FASB. The ASC has CON 1-7 as its conceptual framework.
2.6	Industries and reporting entities with certain activities have different reporting practices and therefore use the financial reporting conceptual framework differently	By definition within US GAAP. Although, this proof does not go to this level of detail but rather tests for the common practices which all reporting entities in all industries and activities have. See 2.13.
2.7	Common characteristics of financial facts exist	Each of these common characteristics are defined either by the XBRL technical syntax itself (entity, period, concept) or the US GAAP Taxonomy via the creation of specific [Axis] using XBRL Dimensions.
2.8	Financial facts may have parenthetical explanations	By definition within XBRL technical syntax and SEC filing rules; XBRL footnotes are used to articulate most parenthetical information. Concept labels are used to articulate other parenthetical information. Sometimes facts are used.



#	Axiom	Explanation
2.9	Characteristics of a financial fact may be related	Not in scope for this proof.
2.10	Financial facts may be related	By definition within the US GAAP Taxonomy. Roll Up's (XBRL calculations) and Roll Forward's are specifically identified. Hierarchies are identified as relations with no XBRL calculation or other computation.
2.11	Financial facts have fidelity	By definition within US GAAP.
2.12	Financial reports have integrity	By definition within US GAAP.
2.13	Financial report components may have core facts and relations common to all reporting entities	SEE TESTING BELOW.
2.14	Financial reports have a flow	By definition of the SEC which explains how networks should be numbered, categorized, and titled.
2.15	Differing sets of detailed facts for a higher-level fact does not change the definition of the higher level fact	Not in scope for this proof.
2.16	Financial reports may have supporting schedules	By definition within US GAAP.
2.17	Reporting entities which created financial reports can be categorized into industries/activities	By definition within US GAAP. Not likely to be disputed, however the exact industries and activities may differ in some cases
2.18	Financial analysts use certain common key financial ratios when analysing financial report information	Not in scope for this proof.

As such, the focus area of testing is axiom 2.13.

6.2. Methodology

The methodology of this proof is to look for the existence of core facts and relations common to all reporting entities within SEC XBRL financial filings. Forms 10-Q, 10-Q/A, 10-K and 10-K/A which were filed with the SEC between September 1, 2011 and December 1, 2011 were used. The number of SEC XBRL financial filings in this set amounted to 8,098 filings. The list of filings was obtained from the SEC here:

<http://www.sec.gov/Archives/edgar/monthly/>

Specifically, these two files containing pointers to these filings were used:

<http://www.sec.gov/Archives/edgar/monthly/xbrlrss-2011-10.xml>

<http://www.sec.gov/Archives/edgar/monthly/xbrlrss-2011-11.xml>

It was desirable to use automated processes and the entire set of 8,098 filings. As such, for this initial proof, automatable tests were used.

SEC 10-Q and 10-K filings are appropriate for this test as the financial reports follow US GAAP, and thus follow one consistent financial reporting framework within the financial report. Therefore, reported information is predictable at the level necessary. Further, SEC XBRL financial filings are verified upon submission to be compliant with the XBRL technical specification thus satisfying that the un-shaded axioms listed above are satisfied.



These tests for core financial facts are outlined here which provides the test and the fact(s) sought by the test:

#	Test	Fact(s) sought
1	Balance sheet reports assets	us-gaap:Assets
2	Balance sheet reports liabilities and equity	us-gaap:LiabilitiesAndStockholdersEquity -or- us-gaap:LiabilitiesAndPartnersCapital
3	Balance sheet reports equity	us-gaap:StockholdersEquityIncludingPortionAttributableToNoncontrollingInterest -or- us-gaap:StockholdersEquity -or- us-gaap:PartnersCapital -or- us-gaap:PartnersCapitalIncludingPortionAttributableToNoncontrollingInterest
4	Balance sheet balances	Compute the difference between the fact found for “assets” and the fact found for “liabilities and equity”
5	Cash flow statement reports net cash flow	us-gaap:CashAndCashEquivalentsPeriodIncreaseDecrease or us-gaap:CashPeriodIncreaseDecrease
7	Income statement reports net income (loss)	us-gaap:ProfitLoss -or- us-gaap:NetIncomeLoss -or- us-gaap:NetIncomeLossAvailableToCommonStockholdersBasic -or- us-gaap:IncomeLossFromContinuingOperations -or- us-gaap:IncomeLossAttributableToParent
9	Income statement reports income (loss) from continuing operations	us- gaap:IncomeLossFromContinuingOperationsBeforeIncomeTaxesExtraordinaryItemsNoncontrollingInterest -or- us- gaap:IncomeLossFromContinuingOperationsBeforeIncomeTaxesMinorityInterestAndIncomeLossFromEquityMethodInvestments -or- us-gaap:IncomeLossFromContinuingOperationsBeforeIncomeTaxesDomestic -or- us-gaap:IncomeLossFromContinuingOperationsBeforeIncomeTaxesForeign
10	Entity name reported	dei:EntityRegistrantName

Because the US GAAP taxonomy uses a number of different concepts to articulate these facts, a number of different facts could satisfy the existence of a fact in the financial report. For example, “liabilities and equity” could be either “us-gaap:LiabilitiesAndStockholdersEquity” or “us-gaap:LiabilitiesAndPartnersCapital” per the way the US GAAP Taxonomy is modeled; either concept would satisfy the test.

Further, because ambiguities exist within the US GAAP taxonomy multiple concepts could satisfy the test. For example, “net income (loss)” could be satisfied by one of four concepts; which one an SEC filer uses cannot be determined because of this ambiguity, but one of the four will exist.

Each test sought the specified fact with the specified concept or concepts for each reporting entity, for the legal entity “consolidated entity”, for the report date specified in the report by the fact “dei:DocumentPeriodEndDate” which is required for all SEC XBRL financial filings.

Information was extracted from each SEC XBRL financial filing using a database application (Microsoft Access was used), algorithms were tuned, and values extracted were written to the database application, the results were summarized using database queries from the extracted data.



6.3. Analysis performed

The analysis performed amounted to simply reading the results of the data extracted from the SEC XBRL financial filings per the algorithms explained in the methodology above.

- Did each SEC filing have a fact for “assets”?
- Did each SEC filing have a fact for “liabilities and equity”?
- Did each SEC filing have a fact for “equity”?
- Did each SEC filing a fact for “assets” equal to a fact for “liabilities and equity”?
- Did each SEC filing have a fact for “net cash flow”?
- Did each SEC filing have a fact for “net income (loss)”?
- Did each SEC filing have a fact for “income (loss) from continuing operations”?
- Did each SEC filing have a fact for “entity registered name”?

It would be expected that each of these tests would be returned with a favorable result and that the reason for the negative result could be determined. For favorable results the value of the fact was returned to the database and stored.

6.4. Overview of results

The following is an overview of the results obtained. Note that total results for all 8,098 filings were provided with additional breakdowns for the 30 Dow industrial companies, top 100 companies by total assets and top 1,000 companies by total assets.

#	Test	All 8,098 Companies	30 Dow Industrial Companies	Top 100 Companies	Top 1,000 Companies
1	Balance sheet reports assets	100%	100%	100%	100%
2	Balance sheet reports liabilities and equity	97%	96%	99%	99%
3	Balance sheet reports equity	97%	100%	100%	99%
4	Balance sheet balances	98%	96%	99%	99%
5	Cash flow statement reports net cash flow	98%	100%	93%	98%
6	Income statement reports net income (loss)	98%	100%	98%	99%
7	Income statement reports income (loss) from continuing operations	72%	73%	76%	78%
8	Entity name reported	100%	100%	100%	100%

There are a number of possible reasons for non-positive results.

- The theory could be wrong.
- The theory needs to be tuned for specific practices of specific reporting entities and industries/activities.
- The filer could have made a mistake in their filing.

Perfect results would be 100% for each test. Test 8 is a control and known to be 100% as the entity name reported is a required fact and as expected all reports contained this fact. Test 7 is likewise a control as not all financial reports are required to contain “income (loss) from continuing operations”. As expected, the results were less than 100%.



6.5. Details of results and other observations

As 100% for each test is expected and because the success rate is so high, non-positive results could be looked at one by one to see why a favorable result was not obtained. Basically, each 1% from 100% represents about 81 SEC filings which would need to be examined manually to see why the result was not favorable.

The following is a more detailed look at the results obtained. It provides a flavor for why non-positive results existed in some cases. It highlights patterns in the non-positive results.

6.5.1. Balance sheet reports assets

A number of balance sheets existed where non-positive results were experienced due to **modeling representation** approaches. For example, in the example below an SEC filer used the concept “us-gaap:AssetsCurrent” to express both current assets as well as total assets.

	June 30, 2011 (unaudited)	December 31, 2010 (audited)
ASSETS		
CURRENT ASSETS		
Cash	\$ --	\$ --
Notes receivable (Note 4)	500,000	500,000
Interest receivable	51,918	27,123
Total current assets and total assets	\$ 551,918	\$ 527,123

Or, other balance sheets had only cash and used the concept “us-gaap:CashAndCashEquivalents” rather than “us-gaap:Assets” as below:

	June 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
CURRENT ASSETS:		
Cash	\$ 15,442	\$ 3,455
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Due to Stockholders	€ 117,500	€ 117,500

Or, a small number reported nil values per the XBRL technical syntax where the value of zero exists semantically as below:



		Unaudited 6/30/2011	Audited 12/31/10
ASSETS			
CURRENT ASSETS			
Cash		\$ -	\$ -
TOTAL ASSETS		-	-
LIABILITIES AND STOCKHOLDERS' DEFICIT			
CURRENT LIABILITIES			
Accrued Liabilities		1,300	3,000
Payable to Stockholder		53,694	49,863
TOTAL CURRENT LIABILITIES		54,994	52,863
STOCKHOLDERS' DEFICIT			
Preferred Stock: Par value \$.01; 5,000,000 shares authorized; no shares issued and outstanding			
Common Stock: Par value \$.001; 25,000,000 shares authorized; 2,647,640 shares issued and outstanding		2,648	2,648
Additional paid in capital		5,160	5,160
Deficit accumulated during the development stage		(62,802)	(60,671)
TOTAL STOCKHOLDERS' DEFICIT		(54,994)	(52,863)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT		\$ -	\$ -

The accompanying notes are an integral part of these financial statements.

Either adjustments to the required ~~modelling-representation~~ techniques or adjustments to the data extraction algorithm would solve these issues.

A small number of SEC filers had amounts which did not add up due to rounding discrepancies. For example, below is the IBM balance sheet where total liabilities + total equity is off from the total by 1 (one million dollars per their scale factor).

Goodwill	25,609	25,136
Intangible assets - net	3,205	3,488
Investments and sundry assets	5,329	5,778
Total assets	113,474	113,452
Current liabilities:		
Taxes	2,363	4,216
Short-term debt	7,858	6,778
Accounts payable	7,112	7,804
Compensation and benefits	4,706	5,028
Deferred income	12,660	11,580
Other accrued expenses and liabilities	5,144	5,156
Total current liabilities	39,843	40,562
Long-term debt	21,915	21,846
Retirement and nonpension postretirement benefit obligations	16,014	15,978
Deferred income	3,641	3,666
Other liabilities	8,851	8,226
Total liabilities	90,263	90,279
IBM stockholders' equity:		
Common stock, par value \$0.20 per share, and additional paid-in capital		
Shares authorized: 4,687,500,000 Shares issued: 2011 - 2,175,594,604 2010 - 2,161,800,054	46,975	45,418
Retained earnings	97,334	92,532
Treasury stock - at cost Shares: 2011 - 981,316,389 2010 - 933,806,510	(104,073)	(96,161)
Accumulated other comprehensive income/(loss)	(17,109)	(18,743)
Total IBM stockholders' equity	23,127	23,046
Noncontrolling interests	84	126
Total equity	23,210	23,172
Total liabilities and equity	\$ 113,474	\$ 113,452

[1] Amounts may not add due to rounding.

A small number of filers created a balance sheet using the net assets approach, which is appropriate and this is not considered a violation of the model, rather it calls for a tuning of the model to take this acceptable practice into account.

Again, either modelling approaches or algorithm adjustments would increase the positive results realized.



6.5.2. Balance sheet reports equity

A small minority of SEC filers determined that it was necessary to extend the US GAAP taxonomy for the concept “member equity” rather than using an existing concept. One of two possibilities exist which can explain this need. First, the FASB defines “equity” as a financial report element, but defines concepts for both stockholder equity and partner capital. Our view that a better approach would be to simply define “equity” and adjust the label of the concept for the type of equity a filer has. The second view could be that the concept “member equity” and other equity concepts such as “owner equity” are missing from the US GAAP taxonomy and should be added. Either of these would increase the number of positive tests thus showing that balance sheets report equity.

6.5.3. Cash flow statement reports net cash flow

A small minority of SEC filers determined, for unknown reasons, that they needed to create their own concept to express net cash flow rather than using an existing concept from the US GAAP Taxonomy. For example:

- *Ford*: us-gaap:NetCashProvidedByUsedInContinuingOperations
- *Allstate Life Insurance*: alic:CashPeriodIncreaseDecrease
- *Hartford Life Insurance*: hlic:NetIncreaseDecreaseInCash
- *Allstate Corp*: all:CashPeriodIncreaseDecrease
- *Hartford Financial Services*: hig:NetIncreaseDecreaseInCash
- *General Motors*: us-gaap:CashAndCashEquivalentsPeriodIncreaseDecrease (but did not report for consolidated entity)
- *CitiGroup*: c:CashAndDueFromBanksPeriodIncreaseDecrease

Creating these concepts as opposed to using an existing concept would seem hard to justify in this case.

6.6. Conclusion

Based on the results obtained, all non-positive results obtained which were analyzed manually resulted from either (a) allowable industry practices which are different than the norm or (b) SEC filer modeling errors mostly relating to concept selection which seems hard to justify.

As such, the extraction algorithm can be more appropriately tuned to reflect specific industry practices which some filers use. Thus the positive results would increase.

The testing results without these modifications are high enough to conclude that the test was satisfied and that the predictions of the theory appear appropriate.



6.7. Repeat of test and implementation of *Financial Report Semantics and Dynamics Theory* in commercial software

The tests performed in the original partial proof were repeated for an almost complete set of SEC XBRL financial filings for 2012 and 2013. Both additional tests provided similar results to the partial proof.

Information from the 2013 test set was organized and explained in two white papers. The first white paper, *Understanding Minimum Processing Steps for Effective Use of SEC XBRL Financial Filing Information*², explains this testing in significantly more detail. The white paper, *Arriving at Digital Financial Reporting All Stars: Summary Information*³, expands on the testing results. The following table summarizes the results of this additional testing.

#	Goal or Desired State of Digital Financial Report	More information	Comments, examples, etc.	Automatable	Manual	FY 2013 (automatable tests only)	FY 2012 (automatable tests only)
1	XBRL technical syntax consistent with XBRL technical specification requirements	See		X		99.9%	99.9%
2	Consistent with requirements of EDGAR Filer automated and manual (EFM) syntax/semantics rules	See		X	X	97.9%	80.5%
3	Consistent and unambiguous report level representation or model structure	See	Tests arrangement of Network, Table, Axis, Member, Line Items, Abstracts, Concepts	X		99.9%	97.9%
4	Root entity of focus (economic entity, accounting entity) successfully and unambiguously detectable	See	If the entity of focus is not detected, unable to perform other tests	X		99.2%	98.8%
5	Current balance sheet date (document period end date) and income statement period (period context of document period end date) successfully and unambiguously detected	See		X		99.3%	99.8%
6	Fundamental accounting concept skeleton successfully and unambiguously detected and relations between concepts intact/sound	See		X		97.8%	97.9%
7	Primary financial statement roll up computations (balance sheet, income statement, statement of comprehensive income, cash flow statement) detected, intact, and foot	See	This has a dependency on discovery of fundamental accounting concepts. For example, if the concept "net cash flow" is not found, won't be able to find a roll up for net cash flow either.	X		90.1%	84.9%

Since the initial partial proof was performed, there have been three implementations of this representation model. The first was a noncommercial implementation used to gain further understanding of the representation model. The other two are commercial implementations.

The first commercial implementation was by the software vendor XBRL Cloud. The representation model was used in numerous products but is best seen in the commercial product Edgar Report Information web service⁴.

The second commercial implementation was by the software vendor 28msec. The representation model was used in the commercial product SECXBRL.info⁵. What is particularly useful about SECXBRL.info is that using information about the 30 reporting entities which make up the DOW is free. Therefore, the implementation model can be observed or used by anyone who chooses to do so.

² <http://www.xbrlsite.com/2014/Library/UnderstandingMinimumProcessSteps-2014-02-14.pdf>

³ http://www.xbrlsite.com/2014/Library/AnalysisSummary_ArrivingAtDigitalFinancialReportingAllStars.pdf

⁴ <https://www.xbrlcloud.com/home/edgar-report-information/eridev.html>

⁵ <http://app.secxbri.info/api>



7. Future work

The first results of testing our *Financial Report Semantics and Dynamics Theory* shows that the theory can successfully predict certain semantics and dynamics of a financial report. While admittedly the first rules regarding semantics and dynamics for financial statements were simple; they do indicate that the principle of defining rules for financial statement analysis and verification work.

The next steps in the development of the *Financial Report Semantics and Dynamics Theory* is to define more granular rules for financial statement semantics and dynamics that enable interpretation and verification of reported values in the various components of the financial statements.

The tool for expressing the semantics and dynamics of financial statements is that of patterns of financial reporting structures or shapes. These encapsulate the structure, semantics and mechanical behavior of such structures/shapes of financial information reporting and they can be used to develop software applications that support creation of financial statements and business reports by following a model-based approach.

The model-based approach will at all times maintain the internal consistency, mechanics, and semantic validity of the defined information by applying the *Financial Report Semantics and Dynamics Theory*.

¹ For more information on the conceptual framework see:
<http://digitalfinancialreporting.wikispaces.com/Conceptual+Framework>

² For more information on financial report elements see:
<http://digitalfinancialreporting.wikispaces.com/Elements+of+Financial+Statement>

³ For more information on financial statement components see:
<http://digitalfinancialreporting.wikispaces.com/financial+statement+components>

