

Reasons Why Fundamental Accounting Concept¹ Test Fails

BS2

Assets = Liabilities and Equity

What this rule tests

This rule tests the relationship between three very common line items of a financial report:

- Assets
- Liabilities and Equity

If a reporting entity has no equity attributable to noncontrolling interest, then equity attributable to parent and equity are the same as there is no equity in noncontrolling interest.

Of all filers, approximately 99.5% pass this test. Of the remaining .5%, the following are the reasons this test is failed:

- Rounding error (31% of failures)
- Inconsistent approaches to expressing statement of net assets (30% of failures)
- Undetermined reasons

Common reasons why test fails

Rounding error

One of the most common reasons for assets not equaling liabilities and equity is a rounding error in the balance sheet. For example, consider the balance sheet of this filing:

http://www.sec.gov/cgi-bin/viewer?action=view&cik=814586&accession_number=0001072613-13-000192&xbrl_type=v

¹ For more information on the fundamental accounting concepts and the relations between these concepts please see <http://fundamentalaccountingconcepts.wikispaces.com>

Consolidated Statements Of Financial Condition (USD \$)	Dec. 31, 2012	Dec. 31, 2011
ASSETS		
Cash and cash equivalents	\$ 2,286,226	\$ 1,115,150
Investments	1,869,888	1,695,044
Certificates of deposits in financial institutions	450,000	300,000
Inventories	5,939,186	4,954,475
Accounts receivable, net of allowance for doubtful accounts and discounts	8,723,737	7,950,276
Prepaid expenses and other current assets	97,138	79,630
Other receivables	8,825	224,204
Deferred income taxes	234,687	338,690
Refundable income taxes	84,828	41,316
Total current assets	19,694,515	16,698,785
Property and equipment, net	14,986,776	15,198,822
Intangible assets		
Goodwill and other non amortizable brand assets	14,068,091	14,068,091
Other intangible assets, net of accumulated amortization of \$3,842,756 and \$3,087,940 at December 31, 2012 and 2011, respectively	4,463,242	5,218,060
Total intangible assets	18,531,333	19,286,151
Long-term accounts receivable net of current portion	294,000	289,550
Total assets	53,506,624	51,473,308
LIABILITIES AND STOCKHOLDERS' EQUITY		
EQUITY		
Checks written in excess of bank balances	0	592,040
Current maturities of notes payable	542,981	1,540,716
Accounts payable	4,256,725	4,386,239
Accrued expenses	1,155,677	553,725
Accrued income taxes	254,311	0
Total current liabilities	6,209,694	7,072,720
Notes payable	4,955,945	5,539,836
Deferred income taxes	3,028,518	3,503,595
Total liabilities	14,194,157	16,116,151
Stockholders' equity		
Common stock, no par value; 20,000,000 shares authorized; 17,273,776 shares issued; 16,346,017 shares outstanding at December 31, 2012; 17,273,776 shares issued; 16,409,317 shares outstanding at December 31, 2011	6,509,267	6,509,267
Paid-in-capital	2,032,516	2,032,516
Treasury stock, at cost	(8,187,682)	(7,606,974)
Retained earnings	38,904,777	34,431,296
Accumulated other comprehensive income (loss), net of taxes	53,591	(8,948)
Total stockholders' equity	39,312,469	35,357,157
Total liabilities and stockholders' equity	\$ 53,506,626	\$ 51,473,308

As can be seen, there is a \$2 rounding error. While this does not seem like a big problem, if you consider that for each rounding error a human needs to get involved to determine if the error is significant and that if a rounding error is appropriate on the balance sheet, are rounding errors appropriate in the disclosures and other places in the financial statement?

Also, if it is the case that 99.5% of all filers can create balance sheets which do not have rounding errors; why is it the case that the other .5% cannot also do so? These sorts of rounding errors should be dealt with in the creation of the financial statement; there is never a good reason for a rounding error. This is generally either sloppiness on the part of the external financial reporting manager or laziness.

Inconsistent approaches to expressing statement of net assets

A handful of SEC filers create a statement of net assets but call it a balance sheet. For example, consider the following two examples:

http://www.sec.gov/cgi-bin/viewer?action=view&cik=17313&accession_number=0001140361-13-023510&xbrl_type=v#

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES (USD \$)	Mar. 31, 2013	Mar. 31, 2012
Investments at market or fair value		
Companies more than 25% owned (Cost: March 31, 2013 - \$13,711, March 31, 2012 - \$14,870)	\$ 344,790,000	\$ 283,575,000
Companies 5% to 25% owned (Cost: March 31, 2013 - \$15,594, March 31, 2012 - \$14,003)	157,394,000	209,222,000
Companies less than 5% owned (Cost: March 31, 2013 - \$58,961, March 31, 2012 - \$60,120)	72,003,000	65,749,000
Total investments (Cost: March 31, 2013 - \$88,266, March 31, 2012 - \$88,993)	574,186,572	558,546,332
Cash and cash equivalents	81,767,000	64,895,000
Receivables		
Dividends and interest	2,465,000	1,741,000
Affiliates	291,000	220,000
Pension assets	8,762,000	7,349,000
Other assets	200,000	238,000
Total assets	667,672,000	632,989,000
Liabilities		
Other liabilities	3,102,000	688,000
Pension liability	2,650,000	1,568,000
Deferred income taxes	2,143,000	2,027,000
Total liabilities	7,895,000	4,283,000
Net Assets		
Common stock, \$1 par value: authorized, 5,000,000 shares; issued, 4,394,194 shares at March 31, 2013 and 4,339,416 shares at March 31, 2012	4,394,000	4,339,000
Additional capital	183,668,000	177,841,000
Accumulated net investment income	(706,000)	412,000
Accumulated net realized gain	10,437,000	498,000
Unrealized appreciation of investments	485,921,000	469,553,000
Treasury stock - at cost on 584,878 shares	(23,937,000)	(23,937,000)
Total net assets	659,777,000	628,706,000
Total liabilities and net assets	\$ 667,672,000	\$ 632,989,000

A concept for net assets exists in the US GAAP XBRL Taxonomy, but the filer creates a line item labeled “Total net assets”, but uses the concept used to express liabilities and equity:

Total net assets	659,777,000	628,706,000
- Definition		
Total of all Liabilities and Stockholders' Equity items (or Partners' Capital, as applicable), including the portion of equity attributable to noncontrolling interests, if any.		
+ References		
- Details		
Name:	us-gaap_LiabilitiesAndStockholdersEquity	
Namespace Prefix:	us-gaap_	
Data Type:	xbrrl:monetaryItemType	
Balance Type:	credit	
Period Type:	instant	

Then in this case the filer uses the concept which is used to express equity generally (or equity attributable to parent) to express what they have labeled “Total liabilities and net assets”:

Total net assets	659,777,000	628,706,000
Total liabilities and net assets	\$ 667,672,000	\$ 632,989,000

+ Definition		
+ References		7.45
- Details		
Name:	us-gaap_StockholdersEquity	
Namespace Prefix:	us-gaap_	
Data Type:	xbri:monetaryItemType	mma
Balance Type:	credit	ebt
Period Type:	instant	or qu
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A second example shows a different approach:

http://www.sec.gov/cgi-bin/viewer?action=view&cik=814676&accession_number=0000814676-13-000011&xbri_type=v#

Balance Sheets (USD \$)	Dec. 29, 2012	Dec. 31, 2011
Current assets:		
Cash and cash equivalents	\$ 306,854	\$ 1,142,429
Accounts receivable-trade, net	2,876,149	3,112,960
Inventories, net	2,457,315	3,138,617
Prepaid expenses and other current assets	140,723	152,444
Deferred taxes	354,825	287,056
Total current assets	6,135,866	7,833,506
Property and equipment:		
Production equipment	7,430,783	7,128,202
Furniture and office equipment	354,490	353,781
Leasehold improvements	735,099	735,099
Total cost	8,520,372	8,217,082
Accumulated depreciation and amortization	(6,877,285)	(6,154,193)
Construction in progress	138,133	244,156
Net property and equipment	1,781,220	2,307,045
Deferred taxes, non-current portion	2,432,148	1,193,761
Total assets	10,349,234	11,334,312
Current liabilities:		
Line of credit	500,000	
Accounts payable	1,179,313	1,463,997
Accrued expenses	938,043	660,031
Obligations under capital leases, current portion	123,366	208,504
Total current liabilities	2,740,722	2,332,532
Obligations under capital leases, non-current	76,372	199,738
Total liabilities	2,817,094	2,532,270
Stockholders Equity:		
Common stock, \$0.01 par value, authorized 15,000,000 shares; issued 12,928,042 and 12,921,942; outstanding 12,871,759 and 12,865,659 shares; at December 29, 2012 and December 31, 2011, respectively	129,281	129,220
Additional paid-in capital	33,821,961	33,569,896
Accumulated deficit	(26,284,787)	(24,762,759)
Less cost of 56,283 common shares repurchased	(134,315)	(134,315)
Total stockholders equity	7,532,140	8,802,042
Total liabilities and stockholders equity	\$ 10,349,234	\$ 11,334,312

In this case the line item labeled “Total assets” uses the concept net assets:

Total assets	10,349,234	11,334,312
- Definition The net of assets and liabilities.		
+ References		
- Details		
Name:	us-gAAP_AssetsNet	
Namespace Prefix:	us-gAAP_	
Data Type:	xbrli:monetaryItemType	
Balance Type:	debit	
Period Type:	instant	

Basically, there seems to be an incredible amount of inconsistency in expressing certain types of statements which are labeled as balance sheets. This includes economic entities which report using liquidity based reporting.

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