

Reasons Why Fundamental Accounting Concept¹ Test Fails

BS5

Liabilities and Equity = Liabilities + Commitments and Contingencies + Temporary Equity + Redeemable Noncontrolling Interest + Equity

What this rule tests

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

- Liabilities
- Commitments and contingencies
- Temporary equity
- Redeemable noncontrolling interest
- Equity
- Liabilities and Equity

If an economic entity does not report commitments and contingencies, temporary equity, redeemable noncontrolling interest, then those line items are imputed to be zero.

Of all filers, approximately 95% pass this test. Of the remaining 5%, the following are the reasons this test is failed:

- Rounding error (approximately 15% of failures)
- Reporting entity created an extension concept (approximately 30% of failures)
- Redeemable noncontrolling interest is reported as part of equity or liabilities (approximately 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=922011&accession_number=0001019687-13-001368&xbrl_type=v#

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

Liabilities	
Accounts payable	1,000,500
Convertible note payable, net of \$141,411 in unamortized discount	205,589
Notes payable	684,292
Notes payable - related party	1,825,929
Total liabilities	3,716,310
Non-Current Liabilities	
Asset retirement obligations	396,474
Total non-current liabilities	396,474
Total liabilities	4,112,784
Stockholders' Equity	
Preferred stock, \$.001 par value, 10,000,000 shares authorized, no shares issued and outstanding	
Common stock, \$.001 par value, 100,000,000 shares authorized, 88,369,618 issued and outstanding	88,369
Additional paid-in capital	6,234,946
Minority interest	2,005,189
Accumulated other comprehensive income	1,217,828
Deficit accumulated during development stage	(3,127,879)
Total stockholders' equity	6,418,453
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 10,531,236

As can be seen if you add total liabilities and total equity, you get 10,531,237 and so there is a \$1 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.

Reporting entity created an extension concept

A handful of SEC filers create an extension concept for something that shows up at this high-level of the balance sheet. For example, consider the following example:

http://www.sec.gov/cgi-bin/viewer?action=view&cik=354260&accession_number=0001078782-14-000640&xbrl_type=v#

CONSOLIDATED CONDENSED BALANCE SHEETS (in thousands) (USD \$)	Feb. 28, 2014	May 31, 2013
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,292	\$ 1,188
Restricted cash	35	100
Accounts receivable (less allowance for uncollectible accounts of \$29 as of February 28, 2014 and May 31, 2013)	1,202	895
Receivable from product line sale	320	0
Prepaid and other assets	55	299
Total current assets	2,904	2,482
Property and equipment, net	103	61
Goodwill	992	4,249
Capitalized software development costs, net	362	376
Capitalized patent costs	105	101
Debt issuance costs, net	210	250
Notes receivable and other assets	260	195
TOTAL ASSETS	4,936	7,714
LIABILITIES, REDEEMABLE COMMON STOCK AND SHAREHOLDERS' EQUITY		
Accounts payable	690	137
Accrued expenses	425	602
Other current liabilities	114	89
Deferred maintenance revenue	1,405	2,147
Current portion of capital lease	19	13
Current portion of debt	964	0
Total current liabilities	2,717	2,988
Capital lease, net of current portion	52	39
Long-term debt, net of current portion	0	2,700
Total liabilities	3,669	5,727
Commitments		
Redeemable common stock, \$0.10 par value, 50,000 shares issued and outstanding at February 28, 2014 and May 31, 2013	275	275
Shareholders' equity :		
Common stock, \$0.10 par value 20,000,000 shares authorized, 875,135 and 1,045,135 issued and outstanding at February 28, 2014 and May 31, 2013, respectively	100	100
Capital in excess of par value	27,314	27,369
Accumulated deficit	(25,918)	(25,333)
Accumulated other comprehensive loss	(504)	(424)
Total shareholders' equity	992	1,712
TOTAL LIABILITIES, REDEEMABLE COMMON STOCK AND SHAREHOLDERS' EQUITY	\$ 4,936	\$ 7,714

Redeemable common stock, \$0.10 par value, 50,000 shares issued and outstanding at February 28, 2014 and May 31, 2013

	275	275
--	-----	-----

- Definition
 Redeemable common stock, \$0.10 par value, 50,000 shares issued and outstanding at February 28, 2014 and May 31, 2013

+ References
- Details
 Name: fil_RedeemableCommonStock010ParValue50000SharesIssued
 Namespace Prefix: fil_

Data Type: xbrli:monetaryItemType
 Balance Type: credit
 Period Type: instant

It seems that if a filer has to create an extension concept at this high level, then a concept is missing from the US GAAP XBRL Taxonomy.

Redeemable noncontrolling interest is reported as part of equity or liabilities

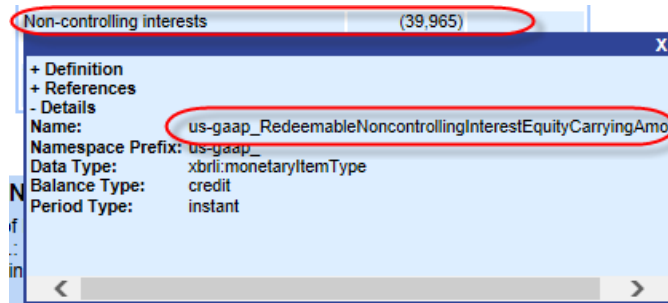
Redeemable noncontrolling interest is represented at the “mezzanine” level of a balance sheet, between equity and liabilities in the US GAAP XBRL Taxonomy similar to temporary equity. This is where the vast majority of public companies report this information if they have that line item. This can be seen in the analysis below of what concept is the total of the roll up relation of this concept in the balance sheet.

FundamentalConcept	LookedForConcept	FoundParent	Count
RedeemableNoncontrollingInterest	us-gaap:RedeemableNoncontrollingInterestEquityCarryingAmount	us-gaap:LiabilitiesAndStockholdersEquity	85
RedeemableNoncontrollingInterest	us-gaap:RedeemableNoncontrollingInterestEquityCommonCarryingAmount	us-gaap:LiabilitiesAndStockholdersEquity	17
RedeemableNoncontrollingInterest	us-gaap:RedeemableNoncontrollingInterestEquityOtherCarryingAmount	us-gaap:LiabilitiesAndStockholdersEquity	5
RedeemableNoncontrollingInterest	us-gaap:RedeemableNoncontrollingInterestEquityPreferredCarryingAmount	us-gaap:LiabilitiesAndStockholdersEquity	2
RedeemableNoncontrollingInterest	us-gaap:RedeemableNoncontrollingInterestEquityCarryingAmount	us-gaap:StockholdersEquity	2
RedeemableNoncontrollingInterest	us-gaap:RedeemableNoncontrollingInterestEquityOtherCarryingAmount	gmo:LiabilitiesRedeemableNoncontrollingInterestEquityOtherCarryingAmountAndStockholdersEquity	1
RedeemableNoncontrollingInterest	us-gaap:RedeemableNoncontrollingInterestEquityCommonCarryingAmount	us-gaap:CommitmentsAndContingencies	1
RedeemableNoncontrollingInterest	us-gaap:RedeemableNoncontrollingInterestEquityPreferredCarryingAmount	us-gaap:Liabilities	1
RedeemableNoncontrollingInterest	us-gaap:RedeemableNoncontrollingInterestEquityOtherCarryingAmount	us-gaap:Liabilities	1
RedeemableNoncontrollingInterest	us-gaap:RedeemableNoncontrollingInterestEquityCarryingAmount	us-gaap:Liabilities	1
RedeemableNoncontrollingInterest	us-gaap:RedeemableNoncontrollingInterestEquityPreferredCarryingAmount	us-gaap:RedeemableNoncontrollingInterestEquityCarryingAmount	1
RedeemableNoncontrollingInterest	us-gaap:RedeemableNoncontrollingInterestEquityCommonCarryingAmount	us-gaap:RedeemableNoncontrollingInterestEquityCarryingAmount	1
RedeemableNoncontrollingInterest	us-gaap:RedeemableNoncontrollingInterestEquityOtherCarryingAmount	us-gaap:StockholdersEquityIncludingPortionAttributableToNoncontrollingInterest	1
RedeemableNoncontrollingInterest	us-gaap:RedeemableNoncontrollingInterestEquityCarryingAmount	us-gaap:StockholdersEquityIncludingPortionAttributableToNoncontrollingInterest	1

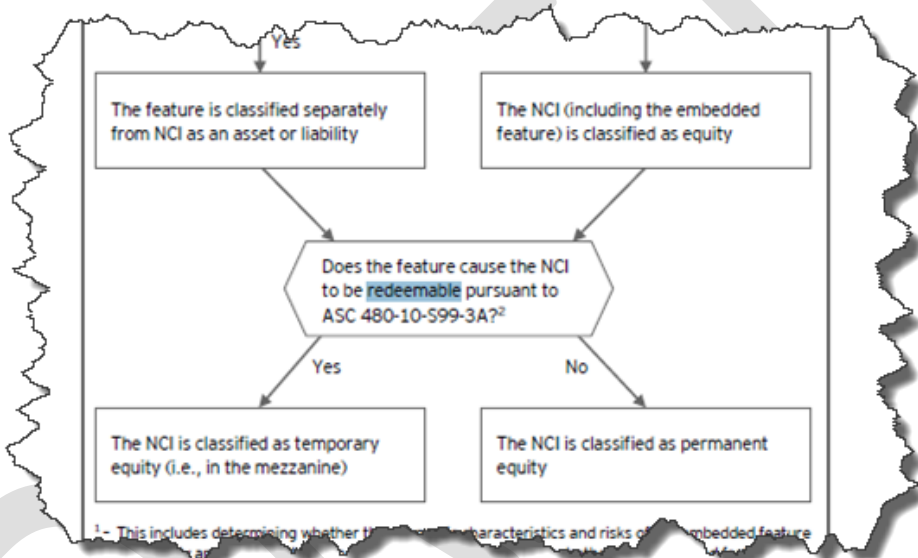
However, a small minority report what they refer to as redeemable noncontrolling interest within equity, which is shown by the example:

http://www.sec.gov/cgi-bin/viewer?action=view&cik=1495230&accession_number=0001445866-13-000425&xbrl_type=v#

BALANCE SHEETS (USD \$)	Dec. 31, 2012	Dec. 31, 2011
Current Assets		
Cash and cash equivalents	\$ 18,553	\$ 3,243
Contract receivables - net	0	64,412
Costs and estimated earnings in excess of billings on uncompleted contracts		19,321
Accounts receivable - other	348	9,261
Prepaid expenses	300,442	28,895
Total Current Assets	319,343	125,132
Property and Equipment		
Computers and equipment	10,640	10,640
Less: accumulated depreciation	(5,595)	(3,878)
Property and Equipment - net	5,045	6,762
TOTAL ASSETS	324,388	131,894
Current liabilities		
Accounts payable	343,334	152,827
Accrued expenses and other current liabilities	125,830	106,441
Due to Related Parties	30,696	3,138
Billings in excess of costs and estimated earnings on uncompleted contracts		43,399
Total Liabilities	499,860	305,805
Stockholders' Equity (Deficit)		
Common stock, \$.00001 par value, 250,000,000 shares authorized, 78,167,872 shares issued and outstanding(81,261,205 - 2011)	782	813
Additional paid in capital	2,616,359	1,828,953
Subscription receivable	(1,000)	
Treasury stock	(5,000)	
Accumulated deficit	(2,746,648)	(2,003,677)
Non-controlling interests	(39,965)	
Total Stockholders' Equity (Deficit)	(175,472)	(173,911)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 324,388	\$ 131,894



Now, if you consider this documentation which comes from *Ernst & Young's AccountingLinks*, you can see that one might ask the question, if it is redeemable it goes into temporary equity, so if it is not redeemable (i.e. nonredeemable) then it follows that if a filer puts this line item into equity, the line item is not redeemable; it is nonredeemable noncontrolling interest.



So, this concept exists in the US GAAP XBRL Taxonomy, although it is in a non-intuitive place for a balance sheet line item:

