

Reasons Why Fundamental Accounting Concept¹ Test Fails

CF1

Net Cash Flow = Net Cash Flows, Operating + Net Cash Flows, Investing + Net Cash Flows, Financing + Exchange Gains (Losses)

What this rule tests

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

- Net cash flow, operating activities
- Net cash flow, investing activities
- Net cash flow, financing activities
- Exchange gains (losses)
- Net cash flow

Reporting entities generally report a cash flow statement and if a cash flow statement is reported, the object of that statement is to report net cash flows broken out by operating, investing, and financing activities. This is separate and apart from breaking out cash flows from continuing and discontinued operations.

Of all filers, approximately 96% pass this test. Of the remaining 4%, the following are the reasons this test is failed:

- Rounding error (approximately 30% of errors)
- Double count cash flows from discontinued operations (approximately 10% of errors)
- Concept missing from the US GAAP XBRL Taxonomy (approximately 10% of errors)
- Undetermined reasons

Note that because there are 461 errors in this category and all specific error patterns were not explicitly identified, there is a small chance that some filings marked as errors may not be errors. While no such situations have been identified, not enough work has been performed on this specific test to rule out the possibility of falsely reported errors for this specific test.

Common reasons why test fails

Rounding error

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

One common reason for net cash flow not footing is a rounding error. For example, consider the cash flow statement of this filing:

http://www.sec.gov/cgi-bin/viewer?action=view&cik=867028&accession_number=0001493152-14-002667&xbrl_type=v#

Condensed Statements of Cash Flows (Unaudited) (USD \$)	6 Months Ended		20 Months Ended
	Jun. 30, 2014	Jun. 30, 2013	Jun. 30, 2014
Cash flows provided by (used for) operating activities:			
Net loss	\$ (175,590)	\$ (20,873)	\$ (676,392)
Adjustments to reconcile net profit to net cash provided by (used for) operating activities:			
Depreciation	2,347		2,379
Issuance of common stock for services and consultants	1,500		414,600
Changes in assets and liabilities:			
Deposits	(2,200)	(2,200)	(4,600)
Prepaid rent	9,100	6,900	
Accounts payable	1,506		1,506
Total adjustment	12,253	4,700	413,885
Net cash used in operating activities	(163,337)	(16,173)	(261,191)
Cash flows provided (used) for investing activities:			
Deposit for investment in vehicles			(86,000)
Purchase of property and equipment	(36,336)		(37,685)
Investment in license			(50,000)
Net cash used for investing activities	(36,336)		(173,685)
Cash flows provided (used) by financing activities:			
Proceeds from related party advances	50,000		130,063
Payments made on related party advances	(1,000)	(1,000)	(79,300)
Proceeds from issuance of common stock	3,000		498,350
Net cash provided by financing activities	52,000	(1,000)	549,113
Net decrease in cash	(147,674)	(17,173)	114,237

As can be seen, 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. Rounding errors should never exist.

Double count cash flows from discontinued operations

A handful of SEC filers use the cash flows concepts which includes continuing AND discontinued operations to report operating, investing, and financing activities and then in addition report discontinued operations. As discontinued operations are included in the initial breakdown, cash flows from discontinued operations is in essence counted twice. For example, consider the following example:

http://www.sec.gov/cgi-bin/viewer?action=view&cik=32878&accession_number=0001193125-11-311513&xbrl_type=v#

Consolidated Statements of Cash Flows (Unaudited) (USD \$) In Thousands	3 Months Ended	
	Sep. 30, 2011	Sep. 30, 2010
Cash flows from operating activities:		
Net loss	\$ (56,122)	\$ (13,535)
Income from discontinued operations, net of tax	1,339	1,824
Net loss from continuing operations	(57,461)	(15,359)
Adjustments to reconcile net loss from continuing operations to net cash provided by (used in) operating activities:		
Impairment loss	34,276	
Depreciation and amortization	1,892	5,334
Amortization of debt discount and deferred financing fees	4,191	4,242
Share-based compensation	1,030	881
Gain on debt extinguishment		(1,189)
Net (gain) loss on disposal of property, plant and equipment		(76)
Equity loss	118	34
Changes in operating assets and liabilities, net of foreign exchange:		
Accounts receivable	12,578	12,945
Inventories	(2,009)	(875)
Other assets	11,927	(229)
Accounts payable and accrued expenses	(15,400)	9,444
Other liabilities	2,792	1,007
Net cash provided by (used in) operating activities	(6,066)	16,159
Cash flows from investing activities:		
Purchases of property, plant and equipment	(4,573)	(12,068)
Purchases of investments		(45,478)
Proceeds from maturities and sale of investments	24,288	33,459
Proceeds from sale of property, plant and equipment		126
Development loans		(3,275)
Increase in restricted cash	(356)	(408)
Net cash (used in) provided by investing activities	19,359	(27,644)
Cash flows from financing activities:		
Principal payments under capitalized lease obligations and other debt	(308)	(426)
Net cash used in financing activities	(308)	(426)
Effect of exchange rate changes on cash and cash equivalents	(752)	(1,323)
Cash flows from discontinued operations:		
Operating activities	1,816	3,039
Investing activities	700	
Net decrease in cash and cash equivalents	14,749	(10,195)

Net cash provided by (used in) operating activities	(6,066)	16,159
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The net cash from (used in) all of the entity's operating activities, including those of discontinued operations, of the reporting entity. Operating activities generally involve producing and delivering goods and providing services. Operating activity cash flows include transactions, adjustments, and changes in value that are not defined as investing or financing activities. While for technical reasons this element has no balance attribute, the default assumption is a debit balance consistent with its label.

+ References
- Details
Name: **us-gaap_NetCashProvidedByUsedInOperatingActivities**
Namespace Prefix: us-gaap

Net cash (used in) provided by investing activities	19,359	(27,644)
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- Definition
The net cash inflow or outflow from investing activity.

+ References
- Details
Name: **us-gaap_NetCashProvidedByUsedInInvestingActivities**
Namespace Prefix: us-gaap
Data Type: xbrli:monetaryItemType
Balance Type: debit
Period Type: duration

Net cash used in financing activities	(308)	(426)
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- Definition
The net cash inflow or outflow from financing activity for the period.

+ References
- Details
Name: **us-gaap_NetCashProvidedByUsedInFinancingActivities**
Namespace Prefix: us-gaap
Data Type: xbrli:monetaryItemType
Balance Type: debit
Period Type: duration

The fact that this is an error can be clearly seen by the revised 2015 US GAAP XBRL Taxonomy concept documentation for the investing and financing activities concepts:

Net Cash Provided by (Used in) Investing Activities

Type	Lang	Label
Standard Label	en-US	Net Cash Provided by (Used in) Investing Activities
Documentation	en-US	Amount of cash inflow (outflow) from investing activities, including discontinued operations, investing activity cash flows include making and collecting loans and acquiring and disposing of debt or equity instruments and property, plant, and equipment and other productive assets.
Total Label	en-US	Net Cash Provided by (Used in) Investing Activities, Total
Change Label 2013	en-US	[2012-06] (Modified Documentation Label. Originally read as follows: The net cash inflow or outflow from investing activity.)

References

Property	Value
Name	NetCashProvidedByUsedInInvestingActivities
Namespace	http://fasb.org/us-gaap/DRAFT
Data Type	xbrli:monetaryItemType
XBRL Type	monetaryItemType
Substitution Group	xbrli:item
Period Type	duration
Abstract	false
Nilable	true
Balance	debit

Net Cash Provided by (Used in) Financing Activities

Labels		
Type	Lang	Label
Standard Label	en-US	Net Cash Provided by (Used in) Financing Activities
Documentation	en-US	Amount of cash inflow (outflow) from financing activities, including discontinued operations. Financing activity cash flows include obtaining resources from owners and providing them with a return on, and a return of, their investment; borrowing money and repaying amounts borrowed, or settling the obligation; and obtaining and paying for other resources obtained from creditors on long-term credit.
Total Label	en-US	Net Cash Provided by (Used in) Financing Activities, Total
Change Label 2013	en-US	[2012-06] {Modified Documentation Label. Originally read as follows: The net cash inflow or outflow from financing activity for the period.}

References		
Properties		
Property	Value	
Name	NetCashProvidedByUsedInFinancingActivities	
Namespace	http://fasb.org/us-gaap/DRAFT	
Data Type	xbri:monetaryItemType	
XBRL Type	monetaryItemType	
Substitution Group	xbri:item	
Period Type	duration	
Abstract	false	
Niltable	true	
Balance	debit	

Approximately 41 SEC filers make this mistake, about 10% of this type of error

Concept missing from the US GAAP XBRL Taxonomy

Filers report a handful of miscellaneous cash flow items as line items not included in net cash flows. There tend to be two categories of these line items: cash flows related to held-for-sale assets and VIE or other entities. For example, consider the cash flow statements of the following filings:

http://www.sec.gov/cgi-bin/viewer?action=view&cik=800240&accession_number=0001193125-14-294476&xbri_type=v#

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (USD \$) In Millions, unless otherwise specified	6 Months Ended	
	Jun. 28, 2014	Jun. 29, 2013
Cash flows from operating activities:		
Net loss	\$ (298)	\$ (61)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	155	96
Charges for losses on inventories and receivables	35	28
Asset impairments	72	10
Changes in working capital and other	(126)	(167)
Net cash used in operating activities	(162)	(94)
Cash flows from investing activities:		
Capital expenditures	(66)	(62)
Proceeds from sale of available for sale securities	43	
Proceeds from assets sold and other	8	(5)
Net cash used in investing activities	(15)	(67)
Cash flows from financing activities:		
Net proceeds (payments) on employee share-based transactions	1	(2)
Preferred stock dividends		(20)
Payment for noncontrolling interests		(1)
Net payments on long- and short-term borrowings	(10)	(11)
Net cash used in financing activities	(9)	(34)
Effect of exchange rate changes on cash and cash equivalents	3	(4)
Impact of change in cash and cash equivalents included in assets of consolidated joint venture held for sale	3	
Net decrease in cash and cash equivalents	(180)	(199)

Impact of change in cash and cash equivalents included in assets of consolidated joint venture held for sale	3
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- Definition
Impact of change in cash and cash equivalents included in assets of consolidated joint venture held for sale.

+ References

- Details
Name: odp_ImpactOfChangeInCashAndCashEquivalentsIncludedInAss
Namespace Prefix: odp
Data Type: xbrli:monetaryItemType
Balance Type: debit
Period Type: duration

http://www.sec.gov/cgi-bin/viewer?action=view&cik=53669&accession_number=0000053669-14-000027&xbrl_type=v#

Effect of exchange rate changes on cash and cash equivalents	24	0	(15)	(28)
Change in cash held for sale	(27)	0	(26)	0

- Definition
The change in cash and cash equivalents in the period due to changes in the amount classified as held for sale.

+ References

- Details
Name: jcl_ChangeInCashHeldForSale
Namespace Prefix: jcl
Data Type: xbrli:monetaryItemType
Balance Type: debit
Period Type: duration

http://www.sec.gov/cgi-bin/viewer?action=view&cik=874761&accession_number=0000874761-14-000046&xbrl_type=v#

Net cash used in financing activities	(250)	(799)
Effect of exchange rate changes on cash	(14)	(39)
Decrease in cash of discontinued and held-for-sale businesses	75	8

- Definition
Represents the change in cash and cash equivalents for discontinued operations for the period.

+ References

- Details
Name: aes_NetCashChangeOfDiscontinuedAndHeldForSaleBusinesses
Namespace Prefix: aes_
Data Type: xbrl:monetaryItemType
Balance Type: debit
Period Type: duration

Assets received upon sale of subsidiaries 44 0

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