

# Reasons Why Fundamental Accounting Concept<sup>1</sup> Test Fails

## CF2

**Net Cash Flow** = Net Cash Flows, Continuing = Net Cash Flows, Operating, Continuing + Net Cash Flows, Investing, Continuing + Net Cash Flows, Financing, Continuing

### What this rule tests

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

- Net cash flow, operating activities, continuing
- Net cash flow, investing activities, continuing
- Net cash flow, financing activities, continuing
- Net cash flow, continuing

On the cash flow statement, continuing operations from operating, investing, and financing activities foots to a total (whether that total is explicitly reported or not).

Of all filers, approximately 97% pass this test. Of the remaining 3%, the following are the reasons this test is failed:

- Erroneously using concept Net Cash Flow from Continuing Operations to express Net Cash Flow (approximately 70% of errors)
- Undetermined reasons

### Common reasons why test fails

#### ***Erroneously using concept Net Cash Flow from Continuing Operations to express Net Cash Flow***

This error is easily identified because the amount of the error will be equal to the concept Exchange Gains (Losses). What the filer is doing is using the concept *us-gaap:NetCashProvidedByUsedInContinuingOperations* when they should have used the concept *us-gaap:CashAndCashEquivalentsPeriodIncreaseDecrease*. For example, consider the cash flow statement in the following example:

[http://www.sec.gov/cgi-bin/viewer?action=view&cik=1551152&accession\\_number=0001104659-14-058340&xbrl\\_type=v#](http://www.sec.gov/cgi-bin/viewer?action=view&cik=1551152&accession_number=0001104659-14-058340&xbrl_type=v#)

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

Condensed Consolidated Statements of Cash Flows (unaudited) (USD \$) In Millions, unless otherwise specified	6 Months Ended	
	Jun. 30, 2014	Jun. 30, 2013
<b>Cash flows from operating activities</b>		
Net earnings	\$ 2,078	\$ 2,036
<b>Adjustments to reconcile net earnings to net cash from operating activities:</b>		
Depreciation	192	192
Amortization of intangible assets	209	271
Stock-based compensation	154	133
Acquired in-process research and development	16	70
Other, net	(60)	33
<b>Changes in operating assets and liabilities, net of acquisitions:</b>		
Accounts and other receivables	120	585
Inventories	97	(50)
Prepaid expenses and other assets	(248)	136
Accounts payable and other liabilities	(217)	(182)
<b>Cash flows from operating activities</b>	<b>2,341</b>	<b>3,224</b>
<b>Cash flows from investing activities</b>		
Acquisitions and investments, net of cash acquired	(17)	(134)
Acquisitions of property and equipment	(279)	(207)
Purchases of investment securities	(1,160)	(14)
Sales and maturities of investment securities	300	2,075
<b>Cash flows from investing activities</b>	<b>(1,156)</b>	<b>1,720</b>
<b>Cash flows from financing activities</b>		
Net change in short-term borrowings	(162)	(604)
Dividends paid	(1,314)	(1,274)
Purchases of treasury stock	(353)	(121)
Proceeds from the exercise of stock options	127	190
Net transactions with Abbott Laboratories, excluding noncash items	53	(172)
Other, net	(43)	(101)
<b>Cash flows from financing activities</b>	<b>(1,692)</b>	<b>(2,082)</b>
<b>Effect of exchange rate changes on cash and equivalents</b>	<b>(2)</b>	<b>(20)</b>
<b>Net (decrease) increase in cash and equivalents</b>	<b>(509)</b>	<b>2,842</b>

**Net (decrease) increase in cash and equivalents** (509) 2,842

**- Definition**  
The increase (decrease) in cash associated with the entity's continuing operating, investing, and 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\_NetCashProvidedByUsedInContinuingOperations

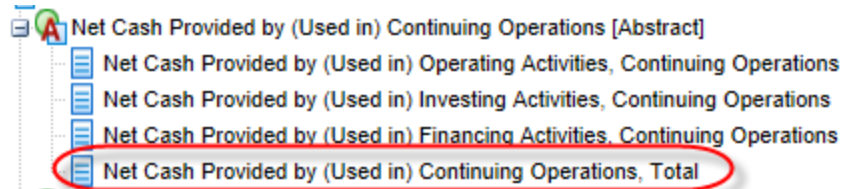
**Namespace Prefix:** us-gaap\_

**Data Type:** xbrl:monetaryItemType

**Balance Type:** na

**Period Type:** duration

In the US GAAP XBRL Taxonomy, the concept is clearly shown as the sum of net cash provided by (used in) continuing operating, investing, and financing activities.



A screenshot of a table of contents with a red circle around the last item. The items are listed as follows:

- Net Cash Provided by (Used in) Continuing Operations [Abstract]
- Net Cash Provided by (Used in) Operating Activities, Continuing Operations
- Net Cash Provided by (Used in) Investing Activities, Continuing Operations
- Net Cash Provided by (Used in) Financing Activities, Continuing Operations
- Net Cash Provided by (Used in) Continuing Operations, Total

The definition of this concept is, “The increase (decrease) in cash associated with the entity's continuing operating, investing, and financing activities. While for technical reasons this element has no balance attribute, the default assumption is a debit balance consistent with its label.” Yet, the filer is including the line item effect of exchange rate changes on cash and cash equivalents which is not included in that definition.

The definition would likely be improved by stating something like, "The sum of net cash provided by (used in) continuing operating, investing and financing activities."

The concept *us-gAAP:CashAndCashEquivalentsPeriodIncreaseDecrease* is the concept which should be used in this situation to overcome this issue.