

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

## IS3

**Income (Loss) from Continuing Operations Before Equity Method Investments = Operating Income (Loss) + Nonoperating Income (Loss) - Interest And Debt Expense**

### What this rule tests

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

- Operating Income (Loss)
- Nonoperating Income (Loss)
- Interest And Debt Expense
- Income (Loss) from Continuing Operations Before Equity Method Investments

This tests the conformance to the relation between operating income (loss) and income from continuing operations before tax. The intermediate step of income (loss) from continuing operations before equity method investments is really not relevant. Income (loss) from continuing operations before equity method investments can be reconciled with income (loss) from continuing operations before tax via income (loss) from equity method investments.

Of a total 9,679 financial reports examined, 6,594 (approximately 68%) report operating income (loss). Of those reporting entities who report operating income (loss), 5,984 (approximately 91% of those who report operating income (loss)) pass this test. 599 (approximately 9%) do not conform to this relation. Of the 9% which did not conform to this relation, the following is a summary of the reasons:

- Reporting entity includes interest and debt expense within nonoperating income (expense) (about 541 entities did this)
- Seemingly random use of concepts or based on concept label
- Other issues

There are exactly two line items between operating income (loss) and income from continuing operations before equity method investments: Nonoperating income (expense) and Interest and debt expense.

The income statement of the filing below shows the general relationship between these concepts:

[http://www.sec.gov/cgi-bin/viewer?action=view&cik=932628&accession\\_number=0000932628-14-000016&xbrl\\_type=v#](http://www.sec.gov/cgi-bin/viewer?action=view&cik=932628&accession_number=0000932628-14-000016&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 Operations (USD \$) In Thousands, except Per Share data, unless otherwise specified	3 Months Ended		9 Months Ended	
	Jun. 30, 2014	Jun. 30, 2013	Jun. 30, 2014	Jun. 30, 2013
<b>Revenues:</b>				
Propane	\$ 549,976	\$ 518,361	\$ 2,941,701	\$ 2,413,802
Other	63,261	63,358	210,985	220,771
Total, Revenues	613,237	581,719	3,152,686	2,634,573
<b>Costs and expenses:</b>				
Cost of sales - propane (excluding depreciation shown below)	320,839	283,037	1,750,500	1,306,728
Cost of sales - other (excluding depreciation shown below)	22,822	22,657	61,336	63,460
Operating and administrative expenses	225,141	224,452	744,007	733,267
Depreciation	37,069	41,738	116,925	117,668
Amortization	10,788	10,775	32,411	32,825
Other income, net	(7,848)	(7,579)	(21,534)	(23,385)
Total, costs and expenses	608,811	575,080	2,683,645	2,230,563
Operating income	4,426	6,639	469,041	404,010
Interest expense	(41,328)	(41,247)	(124,964)	(124,219)
(Loss) income before income taxes	(36,902)	(34,608)	344,077	279,791

Interest expense	(41,328)	(41,247)	(124,964)	X,077
- Definition				,204)
Interest and debt related expenses associated with nonoperating financing activities of the entity.				,873)
+ References				,633)
- Details				,240)
Name: us-gaap_InterestAndDebtExpense				,689)
Namespace Prefix: us-gaap_				
Data Type: xbrli:monetaryItemType				
Balance Type: debit				
Period Type: duration				

In the case above, the line item “Interest expense” is represented using the concept *us-gaap:InterestAndDebtExpense*.

**Reporting entity includes interest and debt expense within nonoperating income (expense)**

An all-to-common mistake filer make is they redefine “Nonoperating income (expense)” to include interest and debt expense. For example, consider the income statement of this report.

[http://www.sec.gov/cgi-bin/viewer?action=view&cik=66740&accession\\_number=0001104659-14-033499&xbri\\_type=v#](http://www.sec.gov/cgi-bin/viewer?action=view&cik=66740&accession_number=0001104659-14-033499&xbri_type=v#)

Consolidated Statement of Income (USD \$) In Millions, except Per Share data, unless otherwise specified	3 Months Ended	
	Mar. 31, 2014	Mar. 31, 2013
Net sales	\$ 7,831	\$ 7,634
<b>Operating expenses</b>		
Cost of sales	4,031	3,969
Selling, general and administrative expenses	1,632	1,589
Research, development and related expenses	452	430
Total operating expenses	6,115	5,988
Operating income	1,716	1,646
<b>Interest expense and income</b>		
Interest expense	37	39
Interest income	(9)	(10)
Total interest expense - net	28	29
Income before income taxes	1,688	1,617
Provision for income taxes	463	470
Net income including noncontrolling interest	1,225	1,147
Less: Net income attributable to noncontrolling interest	18	18
Net income attributable to 3M	\$ 1,207	\$ 1,129

The reporting entity line item “Total interest expense – net” is represented using the concept *us-gaap:NonoperatingIncomeExpense*.

Total interest expense - net	28	29
<b>- Definition</b>		
The aggregate amount of income or expense from ancillary business-related activities (that is to say, excluding major activities considered part of the normal operations of the business).		
<b>+ References</b>		
<b>- Details</b>		
Name:	us-gaap_NonoperatingIncomeExpense	
Namespace Prefix:	us-gaap_	
Data Type:	xbri:monetaryItemType	
Balance Type:	credit	
Period Type:	duration	

As can be clearly seen in the US GAAP XBRL Taxonomy, as defined by the US GAAP XBRL Taxonomy Interest and debt expense is not part of Nonoperating income (expense):



**Seemingly random use of concepts or based on concept label**

Reporting entities sometimes seem to pick any concept without regard to the relation between the selected concept and other concepts. The income statement of this public company filing shows this:

[http://www.sec.gov/cgi-bin/viewer?action=view&cik=1558432&accession\\_number=0001077048-14-000195&xbri\\_type=v#](http://www.sec.gov/cgi-bin/viewer?action=view&cik=1558432&accession_number=0001077048-14-000195&xbri_type=v#)

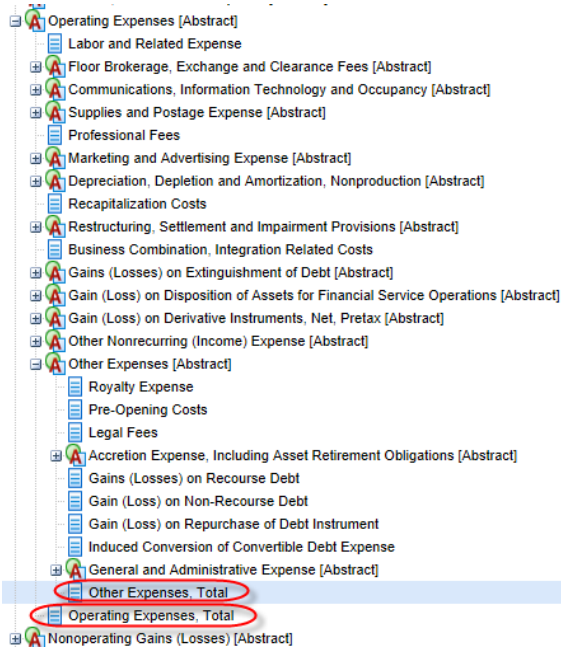
Note the line items “Total operating expenses” which is expressed using the US GAAP XBRL Taxonomy concept *us-gAAP:OperatingExpenses* and the line item “Total other expense” represented by the concept *us-gAAP:OtherExpenses*.

Statements of Operations (Unaudited) (USD \$)	3 Months Ended		6 Months Ended	
	Jun. 30, 2014	Jun. 30, 2013	Jun. 30, 2014	Jun. 30, 2013
<b>Revenue:</b>				
Unrealized gains on trading securities	\$ 2,429,417		\$ 2,429,417	
Realized gains on trading securities	13,487		13,487	
Consulting services			33,703	
<b>Total revenue</b>	<b>2,442,904</b>		<b>2,476,607</b>	
<b>Operating expenses:</b>				
General and administrative	63,663	752	63,777	1,433
Bad debt expense	44,067		44,067	
Software development	110,800		110,800	
Professional fees	56,028	45,148	125,212	109,096
<b>Total operating expenses</b>	<b>274,558</b>	<b>45,900</b>	<b>343,856</b>	<b>110,529</b>
<b>Other income (expense):</b>				
Interest income - related party			8,895	
Interest expense		(1,333)		(2,311)
Interest expense - related party		(150)	(1,610)	(298)
<b>Total other expense</b>		<b>(1,483)</b>	<b>7,285</b>	<b>(2,609)</b>
<b>Net loss</b>	<b>\$ 2,168,346</b>	<b>\$ (47,383)</b>	<b>\$ 2,140,036</b>	<b>\$ (113,138)</b>

<b>Total operating expenses</b>	274,558	45,900	343,856
- Definition			8,895
Generally recurring costs associated with normal operations except for the portion of these expenses which can be clearly related to production and included in cost of sales or services. Includes selling, general and administrative expense.			(1,610)
+ References			7,285
- Details			140,036
Name: <b>us-gAAP_OperatingExpenses</b>			
Namespace Prefix: us-gAAP_			499,502
Data Type: xbrli:monetaryItemType			

<b>Total other expense</b>	(1,483)	7,285
- Definition		140,036
This element represents a sum total of expenses not separately reflected on the income statement for the period.		499,502
+ References		\$ 0.02
- Details		
Name: <b>us-gAAP_OtherExpenses</b>		
Namespace Prefix: us-gAAP_		
Data Type: xbrli:monetaryItemType		

If you look at the presentation relation of the concept us-gAAP:OtherExpenses in the US GAAP XBRL Taxonomy, you can see that the concept is part of us-gAAP:OperatingExpenses.



Likewise, if you look at the calculation relations, the concept is part of operating expenses:

**940001 - Disclosure - Financial Services, Banking and Thrift**

	Floor Brokerage, Exchange and Clearance Fees	Dr
	Marketing and Advertising Expense	Dr
+	Depreciation, Depletion and Amortization, Nonproduction	Dr
+	Amortization of Mortgage Servicing Rights (MSRs)	Dr
+	Restructuring, Settlement and Impairment Provisions	Dr
+	Other Nonrecurring (Income) Expense	Dr
+	Other Expenses	Dr
+	Royalty Expense	Dr
+	Accretion Expense, Including Asset Retirement Obligations	Dr
+	Pre-Opening Costs	Dr
+	Legal Fees	Dr
-	Gains (Losses) on Recourse Debt	Cr
-	Gain (Loss) on Non-Recourse Debt	Cr
-	Gain (Loss) on Repurchase of Debt Instrument	Cr
+	Induced Conversion of Convertible Debt Expense	Dr
+	General and Administrative Expense	Dr
-	Gain (Loss) on Disposition of Assets for Financial Service Operations	Cr
-	Gain (Loss) on Sale of Capital Leases, Net	Cr
-	Gain (Loss) on Sale of Leased Assets, Net, Operating Leases	Cr
-	Gains (Losses) on Sales of Other Real Estate	Cr
-	Gain (Loss) on Disposition of Stock in Subsidiary or Equity Method Investee	Cr
-	Gain (Loss) on Disposition of Property Plant Equipment	Cr
-	Gain (Loss) on Disposition of Business	Cr
-	Gains (Losses) on Extinguishment of Debt	Cr
-	Gain (Loss) on Derivative Instruments, Net, Pretax	Cr
+	Business Combination, Integration Related Costs	Dr
	Operating Expenses	Dr

When selecting a concept for use, the relation or relations to other concepts are crucial and must be considered. If any reporting entity could use any concept for any purpose, there is zero probability that automated machine-based processes could be used to make use of reported information.