Reasons Why Fundamental Accounting Concept[1] 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#

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[1] 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
Revenues:				
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
Costs and expenses:				
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
Interest and debt related expenses associated with nonoperating financing activities of the entity.

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,873

+ References
- Details

,633)

Name: us-gaap_InterestAndDebtExpense
Namespace Prefix: us-gaap_
Data Type: xbrli:monetaryItemType
Balance Type: debit
Period Type: duration

,240

,689

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&xbrl_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
Operating expenses		
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
Interest expense and income		
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

- Definition
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).

+ References
- Details
Name: us-gaap_NonoperatingIncomeExpense
Namespace Prefix: us-gaap_
Data Type: xbrli: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):

It could be the case that there is a concept missing from the US GAAP XBRL Taxonomy, "Nonoperating income (expense) including interest and debt expense". It likewise could be the case that filers should never combine these concepts, the line items should always be provided separately. If one or the other line items are immaterial, that would not affect expressing this information correctly.

It is not the case that the US GAAP XBRL Taxonomy says that any filer can reorganize any relation in any way they may see fit. If that were true, it would never be possible for machine-based automated processes to make use of XBRL-based financial information. That would basically mean that every relationship between every concept is essentially random. This is not the case.

For additional information about this test see this analysis:
http://www.xbrlsite.com/2014/Reference/AnalysisOfIS3.pdf

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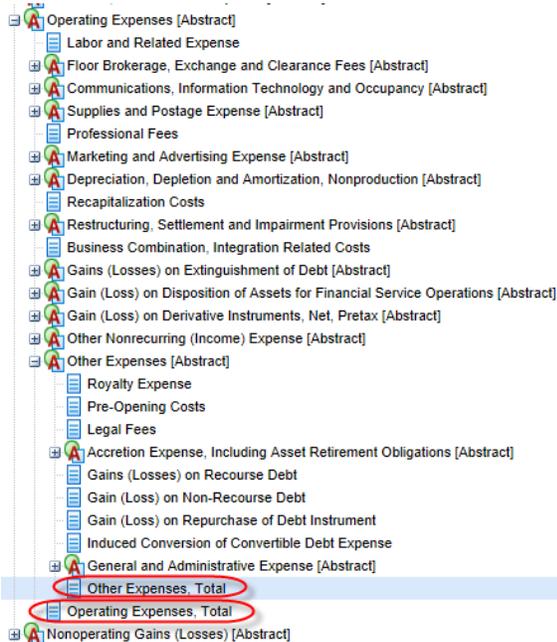
Note the line items "Total operating expenses" which is expressed using the US GAAP XBRL Taxonomy concept *us-gaap:OperatingExpenses* and the line item "Total other expense" represented by the concept *us-gaap:OtherExpenses.*

Statements of Operations (Unaudited) (USD $)	3 Months Ended		6 Months Ended	
	Jun. 30, 2014	Jun. 30, 2013	Jun. 30, 2014	Jun. 30, 2013
Revenue:				
Unrealized gains on trading securities	$ 2,429,417		$ 2,429,417	
Realized gains on trading securities	13,487		13,487	
Consulting services			33,703	
Total revenue	2,442,904		2,476,607	
Operating expenses:				
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
Total operating expenses	274,558	45,900	343,856	110,529
Other income (expense):				
Interest income - related party			8,895	
Interest expense		(1,333)		(2,311)
Interest expense - related party		(150)	(1,610)	(298)
Total other expense		(1,483)	7,285	(2,609)
Net loss	$ 2,168,346	$ (47,383)	$ 2,140,036	$ (113,138)

Total operating expenses		274,558	45,900	343,856

X

- Definition
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.

+ References
- Details
Name: us-gaap_OperatingExpenses
Namespace Prefix: us-gaap_
Data Type: xbrli:monetaryItemType

8,895

(1,610)
7,285
140,036
499,502

Total other expense		(1,483)	7,285

X 140,036

- Definition
This element represents a sum total of expenses not separately reflected on the income statement for the period.

+ References
- Details
Name: us-gaap_OtherExpenses
Namespace Prefix: us-gaap_
Data Type: xbrli:monetaryItemType
Balance Type: debit

499,502

$ 0.02

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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:

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.