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

### IS4

Income (Loss) from Continuing Operations Before Tax = Income (Loss) from Continuing Operations

Before Equity Method Investments + Income (Loss) from Equity Method Investments

#### What this rule tests

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

- Income (Loss) from Continuing Operations Before Equity Method Investments
- Income (Loss) from Equity Method Investments
- Income (Loss) from Continuing Operations Before Tax

This relationship exists in the US GAAP XBRL Taxonomy, is generally never reported by public companies, but it can always be easily imputed. Dropping this relation is being considered.

Of a total 9,679 financial reports examined, 1,048 entities report income (loss) from equity method investments. A total of 96% of reporting entities conformed to this relationship. There were 424 (4%) reporting entities which testing showed did not conform to this relationship. Of the 4% which did not conform to this relation, the following is a summary of the reasons:

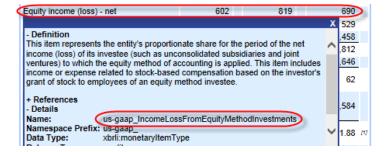
- Income (loss) from equity method investments is reported as a part of nonoperating income (expenses) (approximately 128 entities), this means that a concept is missing from the US GAAP XBRL Taxonomy
- Income (loss) from equity method investments is reported after tax as opposed to before tax (approximately 110 entities), this is NOT A REPORTING ERROR
- Income (loss) from equity method investments is reported as part of revenues (approximately 20 entities), this is NOT A REPORTING ERROR
- Other issues

Generally, economic entities report the line item income (loss) from equity method investments between operating income (loss) and income (loss) from operations before tax. The income statement of this financial report is an example:

http://www.sec.gov/cgi-bin/viewer?action=view&cik=21344&accession\_number=0000021344-14-000008&xbrl\_type=v#

<sup>&</sup>lt;sup>1</sup> For more information on the fundamental accounting concepts and the relations between these concepts please see <a href="http://fundamentalaccountingconcepts.wikispaces.com">http://fundamentalaccountingconcepts.wikispaces.com</a>

	CONSOLIDATED STATEMENTS OF INCOME (USD \$)	12 Months Ended					
	In Millions, except Per Share data, unless otherwise specified	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011			
	NET OPERATING REVENUES	\$ 46,854	\$ 48,017	\$ 46,542			
	Cost of goods sold	18,421	19,053	18,215			
	GROSS PROFIT	28,433	28,964	28,327			
	Selling, general and administrative expenses	17,310	17,738	17,422			
	Other operating charges	895	447	732			
	OPERATING INCOME	10,228	10,779	10,173			
	Interest income	534	471	483			
	Interest expense	463	397	417			
(	Equity income (loss) - net	602	819	690			
	Other income (loss) - net	576	137	529			
	INCOME BEFORE INCOME TAXES	11,477	11,809	11,458			
	Income taxes	2,851	2,723	2,812			
	CONSOLIDATED NET INCOME	8,626	9,086	8,646			
	Less: Net income attributable to noncontrolling interests	42	67	62			
	NET INCOME ATTRIBUTABLE TO SHAREOWNERS OF THE COCA-COLA COMPANY	\$ 8,584	\$ 9,019	\$ 8,584			



This is one of the ways the line item is represented in the US GAAP XBRL Taxonomy.

#### Common reasons why test fails

# Income (loss) from equity method investments is reported as a part of nonoperating income (expenses)

Approximately 128 economic entities report income (loss) from equity method investments as a sub part of nonoperating income (expense) which means that a concept is missing from the US GAAP XBRL Taxonomy:

http://www.sec.gov/cgi-bin/viewer?action=view&cik=732717&accession\_number=0000732717-14-000010&xbrl\_type=v#

12	d			
Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011		
\$ 128,752	\$ 127,434	\$ 126,723		
51,464	55,228	54,904		
28,414	41,066	41,314		
0	0	2,910		
18,395	18,143	18,377		
98,273	114,437	117,505		
30,479	12,997	9,218		
(3,940)	(3,444)	(3,535)		
642	752	784		
596	134	249		
(2,702)	(2,558)	(2,502)		
27,777	10,439	6,716		
9,224	2,900	2,532		
18,553	7,539	4,184		
(304)	(275)	(240)		
\$ 18,249	\$ 7,264	\$ 3,944		
642	752	784		
		X :49		
+ Definition + References - Details Name:				
(2,702)	(2,558)	(2,502) X 16		
- 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_				
	\$ 128,752  \$ 128,752  \$ 1,464  28,414  0  18,395  98,273  30,479  (3,940)  642  596  (2,702)  27,777  9,224  18,553  (304)  \$ 18,249   sFromEquityMeth  /pe  (2,702)  nse from ancillary  ctivities considered	51,464 55,228  28,414 41,066 0 0 18,395 18,143 98,273 114,437 30,479 12,997  (3,940) (3,444) 642 752 596 134 (2,702) (2,558) 27,777 10,439 9,224 2,900 18,553 7,539 (304) (275) \$ 18,249 \$ 7,264  642 752  SFromEquityMethodInvestments //pe  (2,702) (2,558)  nse from ancillary business-relation crivities considered part of the normal crivities crivities considered part of the normal crivities crivities considered part of the normal crivities criv		

This economic entity includes the 642 amount of income (loss) from equity method investments within the line item labeled "Total other income (expense)" represented by the concept *us-gaap:NonoperatingIncomeExpense*. -3940 + 642 + 596 = -2702. This is in essence redefining the meaning of the concept *us-gaap:NonoperatingIncomeExpense*. It appears that an appropriate solution to this is to include an additional concept in the US GAAP XBRL Taxonomy which is the combination of *us-gaap:NonoperatingIncomeExpense* and *us-gaap:IncomeLossFromEquityMethodInvestments*. (such as "Nonoperating Income (Expense) which Includes Income (Loss) From Equity Method Investments.

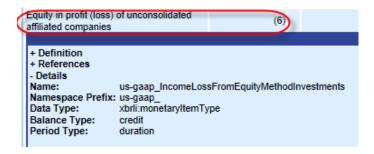
<b>9</b>	ì	Inco	ome (Loss) from Continuing Operations before Equity Method Investments, Income Taxes, Extraordinary Items, Noncontrolling Interest [Abstract]
G	Ð(	A	Operating Income (Loss) [Abstract]
G	3(	A	Nonoperating Income (Expense) [Abstract]
		⊕(	investment Income, Nonoperating [Abstract]
			Gain (Loss) on Contract Termination
			Gain (Loss) on Condemnation
		-	Loss from Catastrophes
			Public Utilities, Allowance for Funds Used During Construction, Additions
			Foreign Currency Transaction Gain (Loss), before Tax
			Health Care Trust Fund, Investment Gains (Losses), Net
		-	Health Care Trust Fund, Administrative Expense
			Health Care Trust Fund, Interest Income
		⊕(	Other Nonoperating Income (Expense) [Abstract]
			Nonoperating Income (Expense), Total
G	Ð(	A	Interest and Debt Expense [Abstract]
_			Income (Loss) from Continuing Operations before Equity Method Investments, Income Taxes, Extraordinary Items, Noncontrolling Interest, Total
℄		Inco	ome (Loss) from Equity Method Investments
		Inco	ome (Loss) from Continuing Operations before Income Taxes, Extraordinary Items, Noncontrolling Interest, Total

## Income (loss) from equity method investments is reported after tax as opposed to before tax

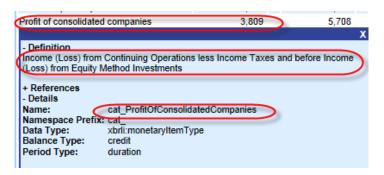
Approximately 110 economic entities report income (loss) from equity method investments after tax in the same location as discontinued operations and extraordinary items. The income statement of this reporting entity is an example of this situation:

http://www.sec.gov/cgi-bin/viewer?action=view&cik=18230&accession\_number=0000018230-14-000058&xbrl\_type=v#

Consolidated Results of Operations (USD \$)	12 Months Ended			
In Millions, except Per Share data, unless otherwise specified	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011	
Sales and revenues:				
Sales of Machinery and Power Systems	\$ 52,694	\$ 63,068	\$ 57,392	
Revenues of Financial Products	2,962	2,807	2,746	
Total sales and revenues	55,656	65,875	60,138	
Operating costs:				
Cost of goods sold	40,727	47,055	43,578	
Selling, general and administrative expenses	5,547	5,919	5,203	
Research and development expenses	2,046	2,466	2,297	
Interest expense of Financial Products	727	797	826	
Goodwill impairment charge	0	580	0	
Other operating (income) expenses	981	485	1,081	
Total operating costs	50,028	57,302	52,985	
Operating profit	5,628	8,573	7,153	
Interest expense excluding Financial Products	465	467	396	
Other income (expense)	(35)	130	(32)	
Consolidated profit before taxes	5,128	8,236	6,725	
Provision (benefit) for income taxes	1,319	2,528	1,720	
Profit of consolidated companies	3,809	5,708	5,005	
Equity in profit (loss) of unconsolidated affiliated companies	(6)	14	(24)	
Profit of consolidated and affiliated companies	3,803	5,722	4,981	
Less: Profit (loss) attributable to noncontrolling interests	14	41	53	
Profit	\$ 3,789 M	\$ 5,681 🙉	\$ 4,928	



To represent the line item "Profit of consolidated companies" the filer created an extension concept cat:ProfitOfConsolidatedCompanies with the definition "Income (loss) from continuing operations less income taxes and before income (loss) from equity method investments". This seems justifiable because in the US GAAP XBRL Taxonomy concept which could be appropriate implicitly define the concept to include income (loss) from equity method investments.



On the other hand, it can also be said that the extension concept is NOT appropriate because the US GAAP XBRL Taxonomy also expresses income (loss) from equity method investments as a sibling of Income tax expense (benefit):



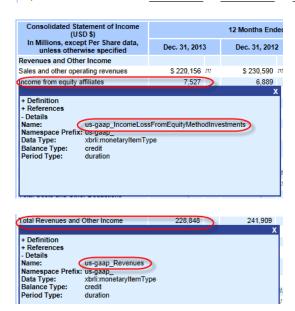
Further analysis of this is necessary, however it seems that there are issues with the US GAAP XBRL Taxonomy for representing income (loss) from equity method investments.

#### Income (loss) from equity method investments is reported as part of revenues

Approximately 20 reporting entities express income (loss) from equity method investments as part of revenues. The income statement of this financial report is an example:

http://www.sec.gov/cgi-bin/viewer?action=view&cik=93410&accession\_number=0000093410-14-000011&xbrl\_type=v#

Consolidated Statement of Income (USD \$)	12 Months Ended					
In Millions, except Per Share data, unless otherwise specified	Dec. 31, 2013		Dec. 31, 2012	2	Dec. 31, 201	1
Revenues and Other Income						
Sales and other operating revenues	\$ 220,156	17	\$ 230,590	M	\$ 244,371	M
ncome from equity affiliates	7,527		6,889		7,363	
Other income	1,165		4,430		1,972	
Total Revenues and Other Income	228,848		241,909		253,706	
Costs and Other Deductions						
Purchased crude oil and products	134,696		140,766		149,923	
Operating expenses	24,627		22,570		21,649	
Selling, general and administrative expenses	4,510		4,724		4,745	
Exploration expenses	1,861		1,728		1,216	
Depreciation, depletion and amortization	14,186	2],[3]	13,413	[2],[3]	12,911	[2],[3]
Taxes other than on income	13,063	17	12,376	M	15,628	M
Total Costs and Other Deductions	192,943		195,577		206,072	
Income Before Income Tax Expense	35,905		46,332		47,634	
Income Tax Expense	14,308		19,996		20,626	
Net Income	21,597		26,336		27,008	
Less: Net income attributable to noncontrolling interests	174		157		113	
Net Income Attributable to Chevron Corporation	\$ 21,423		\$ 26,179	[4]	\$ 26,895	[4]

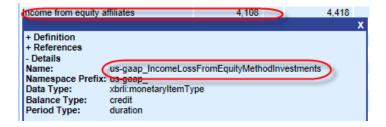


Here, the economic entity moved income (loss) from equity method investments to be part of revenues (this reporting approach is not shown anywhere in the US GAAP XBRL Taxonomy), and the filer does not create an extension concept to indicate that they redefined the concept "revenues" to include income (loss) from equity method investments. The US GAAP XBRL Taxonomy gives no indication that usgaap:Revenues includes income (loss) from equity method investments.

For contrast, this reporting entity also included income (loss) from equity method investments in revenues, but they DID create an extension concept. Consider the income statement of this filing:

http://www.sec.gov/cgi-bin/viewer?action=view&cik=34088&accession\_number=0000034088-14-000019&xbrl\_type=v#

Condensed Consolidated Statement Of Income (USD \$)	3 Months Ended				
In Millions, except Per Share data, unless otherwise specified	Mar. 31, 2014	Mar. 31, 2013			
Revenues and other income					
Sales and other operating revenue	\$ 101,760 (13,02)	\$ 103,378 [17,12]			
Income from equity affiliates	4.108	4.418			
Other income	905	561			
Total revenues and other income	106,773	108,357			
Costs and other deductions					
Crude oil and product purchases	58,314	59,449			
Production and manufacturing expenses	10,088	9,736			
Selling, general and administrative expenses	3,132	3,118			
Depreciation and depletion	4,192	4,110			
Exploration expenses, including dry holes	317	445			
Interest expense	66	24			
Sales-based taxes	7,416 [2]	7,492 🖾			
Other taxes and duties	8,021	7,945			
Total costs and other deductions	91,546	92,319			
Income before income taxes	15,227	16,038			
Income taxes	5,857	6,277			
Net income including noncontrolling interests	9,370	9,761			
Net income attributable to noncontrolling interests	270	261			
Net income attributable to ExxonMobil	\$ 9,100	\$ 9,500			



In the extension concept definition, they clearly are saying they created this concept because they are including income from equity affiliates within revenue:

