

Reasons Why Fundamental Accounting Concept¹ 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#

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

CONSOLIDATED STATEMENTS OF INCOME (USD \$) In Millions, except Per Share data, unless otherwise specified	12 Months Ended		
	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

Equity income (loss) - net	602	819	690
- Definition			529
This item represents the entity's proportionate share for the period of the net income (loss) of its investee (such as unconsolidated subsidiaries and joint ventures) to which the equity method of accounting is applied. This item includes income or expense related to stock-based compensation based on the investor's grant of stock to employees of an equity method investee.			458
			812
			646
			62
+ References			584
- Details			1.88
Name: us-gaap_IncomeLossFromEquityMethodInvestments			
Namespace Prefix: us-gaap_			
Data Type: xbrli:monetaryItemType			

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#

Consolidated Statements Of Income (USD \$) In Millions, except Per Share data, unless otherwise specified	12 Months Ended		
	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011
Consolidated Statements Of Income			
Operating Revenues	\$ 128,752	\$ 127,434	\$ 126,723
Operating Expenses			
Cost of services and sales (exclusive of depreciation and amortization shown separately below)	51,464	55,228	54,904
Selling, general and administrative	28,414	41,066	41,314
Impairment of intangible assets	0	0	2,910
Depreciation and amortization	18,395	18,143	18,377
Total operating expenses	98,273	114,437	117,505
Operating Income	30,479	12,997	9,218
Other Income (Expense)			
Interest expense	(3,940)	(3,444)	(3,535)
Equity in net income of affiliates	642	752	784
Other income (expense) - net	596	134	249
Total other income (expense)	(2,702)	(2,558)	(2,502)
Income Before Income Taxes	27,777	10,439	6,716
Income tax expense	9,224	2,900	2,532
Net Income	18,553	7,539	4,184
Less: Net Income Attributable to Noncontrolling Interest	(304)	(275)	(240)
Net Income Attributable to AT&T	\$ 18,249	\$ 7,264	\$ 3,944

Equity in net income of affiliates	642	752	784
+ Definition			X 49
+ References			02
- Details			16
Name:	us-gaap_IncomeLossFromEquityMethodInvestments		32
Namespace Prefix:	us-gaap_		84
Data Type:	xbri:monetaryItemType		40
Balance Type:	credit		40
Period Type:	duration		44

Total other income (expense)	(2,702)	(2,558)	(2,502)
- Definition			X 16
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			32
- Details			84
Name:	us-gaap_NonoperatingIncomeExpense		40
Namespace Prefix:	us-gaap_		44
			66

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).

Income (Loss) from Continuing Operations before Equity Method Investments, Income Taxes, Extraordinary Items, Noncontrolling Interest [Abstract]
Operating Income (Loss) [Abstract]
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
Interest and Debt Expense [Abstract]
Income (Loss) from Continuing Operations before Equity Method Investments, Income Taxes, Extraordinary Items, Noncontrolling Interest, Total
Income (Loss) from Equity Method Investments
Income (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 \$) In Millions, except Per Share data, unless otherwise specified	12 Months Ended		
	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 ¹⁷	\$ 5,681 ¹⁷	\$ 4,928 ¹⁷

Equity in profit (loss) of unconsolidated affiliated companies	(6)
+ Definition + References - Details Name: us-gaap_IncomeLossFromEquityMethodInvestments Namespace Prefix: us-gaap_ Data Type: xbrli:monetaryItemType Balance Type: credit Period Type: duration	

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.

Profit of consolidated companies	3,809	5,708
- Definition Income (Loss) from Continuing Operations less Income Taxes and before Income (Loss) from Equity Method Investments		
+ References - Details Name: cat_ProfitOfConsolidatedCompanies Namespace Prefix: cat_ Data Type: xbrli:monetaryItemType Balance Type: credit Period Type: duration		

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):

132001 - Statement - Statement of Income, Interest Based Revenue
Income Statement [Abstract]
Statement [Table]
Scenario [Axis]
Statement [Line Items]
Net Income (Loss) Available to Common Stockholders, Basic [Abstract]
Net Income (Loss) Attributable to Parent [Abstract]
Net Income (Loss), Including Portion Attributable to Noncontrolling Interest [Abstract]
Income (Loss) from Operations before Extraordinary Items [Abstract]
Income (Loss) from Continuing Operations, Including Portion Attributable to Noncontrolling Interest [Abstract]
Income (Loss) from Continuing Operations before Equity Method Investments, Income Taxes, Extraordinary Items, Noncontrolling Interest [Abstract]
Earnings (Losses) of Noncontrolling Interest and Equity Method Investments [Abstract]
Income (Loss) from Equity Method Investments
Income Tax Expense (Benefit)
Income (Loss) from Continuing Operations, Including Portion Attributable to Noncontrolling Interest, Total
Income (Loss) from Discontinued Operations, Net of Tax, Including Portion Attributable to Noncontrolling Interest [Abstract]
Income (Loss) from Operations before Extraordinary Items, Total
Extraordinary Item, Gain (Loss), Net of Tax, Including Portion Attributable to Noncontrolling Interest [Abstract]
Net Income (Loss), Including Portion Attributable to Noncontrolling Interest, Total

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 \$) In Millions, except Per Share data, unless otherwise specified	12 Months Ended		
	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011
Revenues and Other Income			
Sales and other operating revenues	\$ 220,156 ⁽¹⁾	\$ 230,590 ⁽¹⁾	\$ 244,371 ⁽¹⁾
Income 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 ⁽¹⁾	12,376 ⁽¹⁾	15,628 ⁽¹⁾
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⁾

Consolidated Statement of Income (USD \$) In Millions, except Per Share data, unless otherwise specified	12 Months Ended	
	Dec. 31, 2013	Dec. 31, 2012
Revenues and Other Income		
Sales and other operating revenues	\$ 220,156 ⁽¹⁾	\$ 230,590 ⁽¹⁾
Income from equity affiliates	7,527	6,889

+ Definition
+ References
- Details
Name: us-gaap_IncomeLossFromEquityMethodInvestments
Namespace Prefix: us-gaap_
Data Type: xbrli:monetaryItemType
Balance Type: credit
Period Type: duration

Total Revenues and Other Income	228,848	241,909
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+ Definition
+ References
- Details
Name: us-gaap_Revenues
Namespace Prefix: us-gaap_
Data Type: xbrli:monetaryItemType
Balance Type: credit
Period Type: duration

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 us-gaap: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 \$) In Millions, except Per Share data, unless otherwise specified	3 Months Ended	
	Mar. 31, 2014	Mar. 31, 2013
Revenues and other income		
Sales and other operating revenue	\$ 101,760 ^{(1),(2)}	\$ 103,378 ^{(1),(2)}
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 ⁽²⁾
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

Income from equity affiliates	4,108	4,418
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+ Definition
+ References
- Details
Name: us-gaap_IncomeLossFromEquityMethodInvestments
Namespace Prefix: us-gaap_
Data Type: xbrli:monetaryItemType
Balance Type: credit
Period Type: duration

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

Total revenues and other income	106,773	108,357
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- Definition
Total revenues and income from equity affiliates and other income.
+ References
- Details
Name: xom_TotalRevenuesAndOtherIncome
Namespace Prefix: xom_
Data Type: xbrli:monetaryItemType
Balance Type: credit
Period Type: duration