

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

## IS6

**Net Income (Loss)** = Income (Loss) from Continuing Operations After Tax + Income (Loss) from Discontinued Operations, Net of Tax + Extraordinary Items, Gain (Loss)

### What this rule tests

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

- Income (Loss) from Continuing Operations After Tax
- Income (Loss) from Discontinued Operations, Net of Tax
- Extraordinary Items, Gain (Loss)
- Net Income (Loss)

If a reporting entity has no income (loss) from discontinued operations or extraordinary items; then income (loss) from continuing operations after tax will equal net income (loss). Of a total 9679 financial reports examined, 9,115 reporting entities, 97% of the total, conformed to this relationship pattern. A total of 291, 3% of that the total, do not conform to this pattern. Of the 3% which did not conform to this relation, the following is a summary of the reasons:

- Concept use inconsistent with concept meaning (most nonconforming filings)
- Fundamental accounting concepts does not properly consider REITs (about 6 of these)

### Common reasons why test fails

#### ***Concept use inconsistent with concept meaning***

Concept inconsistencies seem to cause most of the issues I see. For example, consider the income statement and earnings per share disclosure of this filing:

[http://www.sec.gov/cgi-bin/viewer?action=view&cik=1060232&accession\\_number=0001193125-12-377219&xbri\\_type=v#](http://www.sec.gov/cgi-bin/viewer?action=view&cik=1060232&accession_number=0001193125-12-377219&xbri_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>

On the income statement, the line item “Net earnings (loss)” is represented using the US GAAP XBRL Taxonomy concept us-gAAP:NetIncomeLoss which expresses the fundamental accounting concept Net income (loss) attributable to parent:

Condensed Consolidated Statements of Earnings (Loss) (USD \$) In Millions, except Per Share data, unless otherwise specified	3 Months Ended		6 Months Ended	
	Jul. 28, 2012	Jul. 30, 2011	Jul. 28, 2012	Jul. 30, 2011
Net sales	\$ 886.0	\$ 882.4	\$ 1,798.1	\$ 1,751.4
Cost of sales	590.9	673.9	1,177.9	1,233.0
Gross margin	295.1	208.5	620.2	518.4
Selling, general and administrative expenses	273.9	260.9	549.8	528.4
Impairment of goodwill		10.0		10.0
Operating profit (loss)	21.2	(62.4)	70.4	(20.0)
Interest expense	7.5	10.0	15.8	20.9
Interest income	(0.2)	(0.1)	(0.3)	(0.2)
(Loss) earnings before income taxes	13.9	(72.3)	54.9	(40.7)
Provision (benefit) for income taxes	2.4	(39.0)	9.4	(35.6)
Net earnings (loss)	11.5	(33.3)	45.5	(5.1)
Net earnings attributable to noncontrolling interests	(1.8)	(1.7)	(2.6)	(3.5)
Net earnings (loss) attributable to Collective Brands, Inc.	\$ 9.7	\$ (35.0)	\$ 42.9	\$ (8.6)

Net earnings (loss) attributable to Collective Brands, Inc.	\$ 9.7	\$ (35.0)	\$ 42.9
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- Definition  
The portion of profit or loss for the period, net of income taxes, which is attributable to the parent.

+ References

- Details  
Name: us-gAAP\_NetIncomeLoss  
Namespace Prefix: us-gAAP\_  
Data Type: xbrli:monetaryItemType  
Balance Type: credit  
Period Type: duration

Then in the earnings per share disclosure, the same fact is reported,

Schedule of Earnings Per Share (Detail) (USD \$) In Millions, except Per Share data, unless otherwise specified	3 Months Ended		6 Months Ended	
	Jul. 28, 2012	Jul. 30, 2011	Jul. 28, 2012	Jul. 30, 2011
Earnings Per Share [Line Items]				
Net earnings (loss) attributable to Collective Brands, Inc.	\$ 9.7	\$ (35.0)	\$ 42.9	\$ (8.6)
Less: net earnings allocated to participating securities	0.1 <sup>(1)</sup>		0.4 <sup>(1)</sup>	
Net earnings (loss) available to common shareholders	\$ 9.6	\$ (35.0)	\$ 42.5	\$ (8.6)

But a different concept is used to report the same fact:

Schedule of Earnings Per Share (Detail) (USD \$) In Millions, except Per Share data, unless otherwise specified	3 Months Ended		6 Month
	Jul. 28, 2012	Jul. 30, 2011	Jul. 28, 2012
<b>Earnings Per Share [Line Items]</b>			
Net earnings (loss) attributable to Collective Brands, Inc.	\$ 9.7	\$ (35.0)	\$ 42.9
<b>+</b> Definition			
<b>+</b> References			
<b>-</b> Details			
Name:	us-gaap_IncomeLossFromContinuingOperations		0.4
Namespace Prefix:	us-gaap_		\$ 42.5
Data Type:	xbri:monetaryItemType		60.4
Balance Type:	credit		61.1
Period Type:	duration		\$ 0.70
			\$ 0.70

In the filing below, the economic entity uses a concept intended to express information after tax, but uses it to express before tax information. See the income statement:

[http://www.sec.gov/cgi-bin/viewer?action=view&cik=1455926&accession\\_number=0001052918-14-000314&xbri\\_type=v#](http://www.sec.gov/cgi-bin/viewer?action=view&cik=1455926&accession_number=0001052918-14-000314&xbri_type=v#)

BUTTE HIGHLANDS MINING COMPANY (A Development Stage Company) STATEMENTS OF OPERATIONS (Unaudited) (USD \$)	3 Months Ended		6 Months Ended		85 Months Ended
	Jun. 30, 2014	Jun. 30, 2013	Jun. 30, 2014	Jun. 30, 2013	Jun. 30, 2014
Income statement					
REVENUES	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
OPERATING EXPENSES					
Professional fees	6,362	22,191	18,557	23,506	251,319
Depreciation					1,295
Officers and directors fees					6,000
General and administrative	1,162	10,728	1,534	18,922	63,653
TOTAL OPERATING EXPENSES	7,524	32,919	20,091	42,428	322,267
LOSS FROM OPERATIONS	(7,524)	(32,919)	(20,091)	(42,428)	(322,267)
OTHER INCOME (EXPENSES)					
Interest income	2		4	502	10,813
Interest expense					(553)
Other income					740
Other expense					(459)
Other than temporary impairment of investment					(165,240)
Gain on sale of investment					66,072
TOTAL OTHER INCOME (EXPENSES)	2		4	502	(88,627)
LOSS BEFORE TAXES	(7,522)	(32,919)	(20,087)	(41,926)	(410,894)
INCOME TAXES					
Income tax benefit					50,764
Tax expense					(3,161)
TOTAL INCOME TAXES					47,603
NET LOSS	\$ (7,522)	\$ (32,919)	\$ (20,087)	\$ (41,926)	\$ (363,291)

The line item "LOSS FROM OPERATIONS" is represented using an after tax concept:

LOSS FROM OPERATIONS	(7,524)	(32,919)	(20,091)
- Definition			
Amount of income (loss) from continuing operations attributable to the parent. Also defined as revenue less expenses and taxes from ongoing operations before extraordinary items but after deduction of those portions of income or loss from continuing operations that are allocable to noncontrolling interests.			
+ References			
- Details			
Name:	us-gaap IncomeLossFromContinuingOperations		
Namespace Prefix:	us-gaap_		
Data Type:	xbri:monetaryItemType		
Balance Type:	credit		
Period Type:	duration		

ENDURANCE EXPLORATION GROUP, INC. - Statements of Operations (USD \$)	3 Months Ended		6 Months Ended	
	Jun. 30, 2014	Jul. 31, 2013	Jun. 30, 2014	Jul. 31, 2013
<b>Income Statement</b>				
Revenues				
<b>Operating Expenses:</b>				
Operations and research	72,631		108,781	
Marketing and promotion	32,852		52,712	
General and administration	58,275	4,531	110,664	31,480
Depreciation	23,869		47,063	
<b>TOTAL OPERATING EXPENSES</b>	<b>187,627</b>	<b>4,531</b>	<b>319,220</b>	<b>31,480</b>
<b>Net Loss from operations</b>	<b>(187,627)</b>	<b>(4,531)</b>	<b>(319,220)</b>	<b>(31,480)</b>
<b>Non-operating activity:</b>				
Interest expense	(375)	(375)	(750)	(750)
<b>Net loss</b>	<b>\$ (188,002)</b>	<b>\$ (4,906)</b>	<b>\$ (319,970)</b>	<b>\$ (32,230)</b>
Basic and diluted loss per share	\$ (0.005)	\$ (0.002)	\$ (0.009)	\$ (0.013)
Weighted average number of shares outstanding	36,123,328	1,993,495	35,948,111	1,993,495

<b>Net Loss from operations</b>	<b>(187,627)</b>	<b>(4,531)</b>	<b>(319,220)</b>
<b>- Definition</b>			
Amount of income (loss) from continuing operations attributable to the parent. Also defined as revenue less expenses and taxes from ongoing operations before extraordinary items but after deduction of those portions of income or loss from continuing operations that are allocable to noncontrolling interests.			(750)
			9,970)
			0.009)
			8,111
<b>+ References</b>			
<b>- Details</b>			
<b>Name:</b>	<b>us-gaap_IncomeLossFromContinuingOperations</b>		
<b>Namespace Prefix:</b>	us-gaap_		
<b>Data Type:</b>	xbri:monetaryItemType		
<b>Balance Type:</b>	credit		
<b>Period Type:</b>	duration		

**Fundamental accounting concepts does not properly consider REITs**

The following example shows an error in the software algorithm which computers the fundamental accounting concepts. REITs report Gain (loss) from real estate disposition between Income (Loss) from Continuing Operations After Tax and Net income (loss). This is not considered by the software algorithm and is an error in the algorithm. Consider the income statement of this filing:

[http://www.sec.gov/cgi-bin/viewer?action=view&cik=766704&accession\\_number=0000766704-14-000019&xbrl\\_type=v#](http://www.sec.gov/cgi-bin/viewer?action=view&cik=766704&accession_number=0000766704-14-000019&xbrl_type=v#)

Consolidated Statements of Income (Unaudited) (USD \$)	3 Months Ended		6 Months Ended	
	Jun. 30, 2014	Jun. 30, 2013	Jun. 30, 2014	Jun. 30, 2013
<b>Revenues:</b>				
Rental income	\$ 347,847,000	\$ 298,873,000	\$ 684,303,000	\$ 591,516,000
Resident fees and services	467,639,000	370,995,000	923,904,000	698,319,000
Interest income	8,933,000	7,640,000	17,527,000	16,696,000
Other income	2,027,000	1,025,000	2,520,000	1,725,000
Total revenues	826,446,000	678,533,000	1,628,254,000	1,308,256,000
<b>Expenses:</b>				
Interest expense	121,065,000	109,465,000	241,898,000	218,303,000
Property operating expenses	343,754,000	277,958,000	685,185,000	530,780,000
Depreciation and amortization	214,449,000	198,062,000	447,766,000	382,750,000
General and administrative	51,660,000	23,902,000	84,524,000	51,081,000
Transaction costs	7,040,000	28,136,000	7,993,000	94,116,000
Loss (gain) on derivatives, net	351,000	(2,716,000)	351,000	(407,000)
Loss (gain) on extinguishment of debt, net	531,000	0	383,000	(308,000)
Total expenses	738,850,000	634,807,000	1,468,100,000	1,276,315,000
Income (loss) from continuing operations before income taxes and income from unconsolidated entities, total	87,596,000	43,726,000	160,154,000	31,941,000
Income tax (expense) benefit	(1,569,000)	(1,215,000)	(3,830,000)	(3,978,000)
Income (loss) from unconsolidated entities	(11,516,000)	(5,461,000)	(17,073,000)	(3,198,000)
<b>Income (loss) from continuing operations</b>	<b>74,511,000</b>	<b>37,050,000</b>	<b>139,251,000</b>	<b>24,765,000</b>
<b>Discontinued operations:</b>				
Gain (loss) on sales of discontinued properties, net	6,411,000	(29,997,000)	6,411,000	52,495,000
Income (loss) from discontinued operations, net	264,000	128,000	724,000	1,720,000
Discontinued operations, net	6,675,000	(29,869,000)	7,135,000	54,215,000
Gain (loss) on real estate dispositions, net	6,668,000	0	6,668,000	0
<b>Net income</b>	<b>87,854,000</b>	<b>7,181,000</b>	<b>153,054,000</b>	<b>78,980,000</b>
Less: Preferred stock dividends	16,352,000	16,602,000	32,705,000	33,203,000
Less: Net income (loss) attributable to noncontrolling interests	(327,000) <sup>(?)</sup>	(913,000) <sup>(?)</sup>	(1,502,000) <sup>(?)</sup>	(774,000) <sup>(?)</sup>
<b>Net income (loss) attributable to common stockholders</b>	<b>\$ 71,829,000</b>	<b>\$ (8,508,000)</b>	<b>\$ 121,851,000</b>	<b>\$ 46,551,000</b>

Income (loss) from continuing operations      74,511,000      37,050,000      139,251,000

**- Definition**  
 This element represents the income or loss from continuing operations attributable to the economic entity which may also be defined as revenue less expenses and taxes from ongoing operations before extraordinary items, and noncontrolling interest.

**+ References**

**- Details**

**Name:** us-gaap\_IncomeLossFromContinuingOperationsIncludingPo

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

**Data Type:** xbrl:monetaryItemType

Net income	87,854,000	7,181,000	153,054,000
			32,705,000
<b>- Definition</b>			
The consolidated profit or loss for the period, net of income taxes, including the portion attributable to the noncontrolling interest.			
			(1,502,000)
			\$ 121,851,000
<b>+ References</b>			
<b>- Details</b>			
Name:	us-gaap_ProfitLoss		
Namespace Prefix:	us-gaap_		
Data Type:	xbrii:monetaryItemType		293,046,000
Balance Type:	credit		294,590,000
Period Type:	duration		

The algorithm computes the relation between Income (Loss) from Continuing Operations After Tax and Net income (loss) and properly considers Income (loss) from discontinued operations; but does NOT consider the Gain (loss) on disposition of assets.

Gain (loss) on real estate dispositions, net	6,668,000	0	6,668,000
			153,054,000
<b>- Definition</b>			
Amount of gain (loss) on sale or disposal of assets, including but not limited to property plant and equipment, intangible assets and equity in securities of subsidiaries or equity method investee.			
			(1,502,000)
			\$ 121,851,000
<b>+ References</b>			
<b>- Details</b>			
Name:	us-gaap_GainLossOnDispositionOfAssets1		
Namespace Prefix:	us-gaap_		
Data Type:	xbrii:monetaryItemType		293,046,000
Balance Type:	credit		294,590,000
Period Type:	duration		

The fundamental accounting concepts need to be adjusted to consider the way a REIT reports. Since commercial and industrial companies report this line item as part of operating expenses, separate fundamental accounting concept relations need to be created for a REIT.