Reasons Why Fundamental Accounting Concept¹ 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

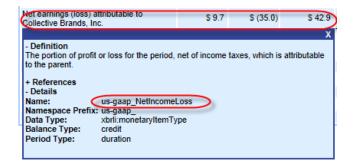
Concept inconsistencies seem to cause most of the issues I see. For example, consider the income statement and earnings per share disclosure of this filing:

http://www.sec.gov/cgi-bin/viewer?action=view&cik=1060232&accession_number=0001193125-12-377219&xbrl_type=v#

¹ 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 \$)	3 Months Ended		6 Months Ended	
In Millions, except Per Share data, unless otherwise specified	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)
Met earnings (loss) attributable to Collective Brands, Inc.	\$ 9.7	\$ (35.0)	\$ 42.9	\$ (8.6)



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

Schedule of Earnings Per Share (Detail) (USD \$)	3 Months	s Ended	6 Months Ended		
In Millions, except Per Share data, unless otherwise specified	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	,	0.4 [17]		
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:

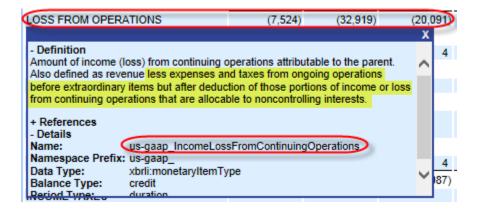
Schedule of Earnings Per Share (Detail) (USD \$)		3 Months	6 Month	
	pt Per Share data, wise specified	Jul. 28, 2012	Jul. 30, 2011	Jul. 28, 2012
Earnings Per Share	e [Line Items]			
Met earnings (loss) a Sollective Brands, Ir		\$ 9.7	\$ (35.0)	\$ 42.9
+ Definition + References				X 0.4

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&xbrl_type=v#

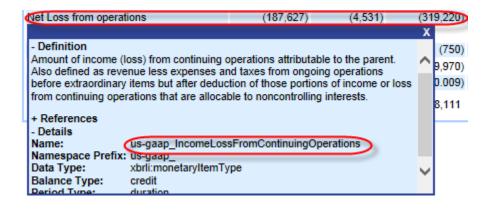
BUTTE HIGHLANDS MINING COMPANY (A Development Stage	3 Months Ended		6 Month	85 Months Ended	
Company) STATEMENTS OF OPERATIONS (Unaudited) (USD \$)	Jun. 30, 2014	Jun. 30, 2013	Jun. 30, 2014	Jun. 30, 2013	Jun. 30, 2014
Income statement					
REVENUES	\$ 0	\$ 0	\$ 0	\$ 0	\$0
OPERATING EXPENSES					
Professional 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:



http://www.sec.gov/cgi-bin/viewer?action=view&cik=1392902&accession_number=0001511164-14-000445&xbrl_type=v#

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
Income Statement				
Revenues				
Operating Expenses:				
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	
TOTAL OPERATING EXPENSES	187,627	4,531	319,220	31,480
Net Loss from operations	(187,627)	(4,531)	(319,220)	(31,480)
Non-operating activity:				
Interest expense	(375)	(375)	(750)	(750)
Net loss	\$ (188,002)	\$ (4,906)	\$ (319,970)	\$ (32,230)
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

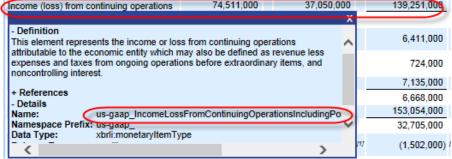


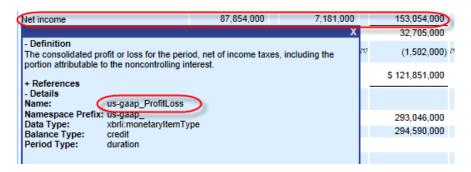
Fundamental accounting concepts does not properly consider REITs

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#







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.



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.