Disclosure Analysis - Required Disclosures

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There are four required disclosures which would always appear in the disclosure notes of a financial report: significant accounting policies, basis of reporting, nature of business, and revenue recognition policy. This document provides the line of reasoning used to reach this conclusion.

These required disclosures are represented by one or more concepts contained in the US GAAP XBRL Taxonomy. It would be expected that all or almost all economic entities would therefore report these four required disclosures in their financial reports and that searching for specific US GAAP XBRL Taxonomy concepts provided within an XBRL-based financial report this information should be identifiable and extractable from such reports. However, the following analysis of disclosures found that was not the case.

First, no professional accountant could conceivably argue against the proclamation that the **significant accounting policies**[1] are a require disclosure and MUST therefore be identifiable within an XBRL-based financial report.

Empirical evidence supports this assertion. Of 5,895 XBRL-based financial reports submitted with 10-Ks analyzed, only 88 did not provide an identifiable significant accounting policies disclosure; whereas 5,807 or 99% of all public companies did provide that disclosure.

Significant Accounting Policies Note [Note Level]	DISCLOSURE	5807	99%	88	1%	5807	99%	88
Statement of Changes in Equity [Roll Forward]	STATEMENT	5467	93%	428	7%	5467	93%	428

Second, ASC 235-10-50-1 https://asc.fasb.org/section&trid=2122385 states that the significant accounting policies is a required disclosure and ASC 235-10-50-3 https://asc.fasb.org/section&trid=2122385 articulates examples of some of the types of significant accounting policies that must be disclosed; the revenue recognition policy is provided as a specific example of the required significant accounting policy. As such, **revenue recognition policy** is a required disclosure. If it is the case that an economic entity does not have revenue; the revenue recognition policy may still need to be disclosed because it is that policy which must be used to determine that the economic entity, in fact, did not have revenues. If there were no revenue recognition policy how would the economic entity reach the conclusion that they had no revenues?

Although, conceivably, there could be a set of circumstances that would make it so an economic entity might not need to provide a revenue recognition policy. If such circumstances did exist, then those

[1] Note that XBRL-based financial reports that are submitted to the SEC by public companies require both a Level 1 Note [Text Block] for the set of significant accounting policies and Level 2 Policy [Text Block]s for the individual policies. This analysis is looking at the Level 1 Note [Text Block] for the significant accounting policies disclosure.

circumstances should be describable. Then, given those circumstances, one could determine if they would tend to agree or disagree that a revenue recognition policy is, or is not, warranted[2].

Based on the most current examination of XBRL-based financial reports of public companies, only 77% provided an identifiable revenue recognition policy. That policy was not discovered in 1,361 financial reports.

Revenue Recognition Policy [Policy Text Block]	DISCLOSURE	4534	77%	1361	23%	4534	77%	1361

Because there are so many possible concepts, it is likely the case that a concept could be missing from the business rules used to detect this disclosure. An examination of each of the 1,361 10-Ks will determine the exact situation for each of the 1,361 financial statements that were not found to have an identifiable revenue recognition policy.

It is not the case that providing information on adopting the new accounting pronouncements relating to revenue recognition rules would satisfy the requirement of providing a revenue recognition policy.

The third required disclosure is the **basis of reporting** or alternative referred to as the **basis of presentation** or **basis of accounting**. While 95% of all economic entities provide the basis of reporting disclosure, there are 275 economic entity financial reports where that basis of reporting disclosure is not discovered.

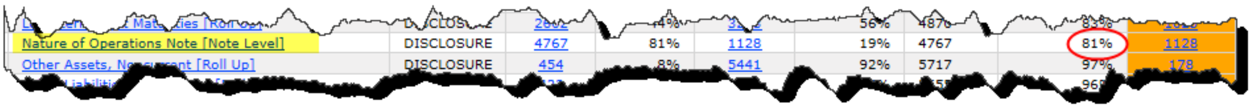
Balance Sheet	STATEMENT	5743	97%	152	3%	5743	97%	152
Basis of Reporting Note [Note Level]	DISCLOSURE	5620	95%	275	5%	5620	95%	275
Cash Flow Statement [Roll Forward]	STATEMENT	5313	90%	582	10%	5313	90%	582

So, considering that 95% of economic entities provide that disclosure is strong evidence as to the required nature of the disclosure. Also, considering that the disclosure includes information such as “the financial report has been prepared in accordance with the generally accepted accounting principles of the United States”, as contrast to having been prepared using IFRS or some other comprehensive basis of accounting; it would conceivably be very hard to argue against the proclamation that this is a required disclosure. Although, a comprehensive search of the ASC did not find what would be considered to be a strong, explicit statement that the basis of reporting is required to be provided within a financial report. That is surprising and could be considered a flaw in the ASC[3].

[2] While revenue is fundamental to any company there are some unusual companies that are listed, but do nothing but issue debt or equity and have no operations. Also, ETFs would be like this. It is the case that there may be exceptions where the company does not carry out any business operations. These are clearly exceptions to the general rule that a revenue recognition policy is required.

[3] The financial reports filed as part of 10-Ks with the SEC only allow accounts to be filed under US GAAP, so that may be one reason a basis of reporting is not provided. AICPA illustrative accounts and Big 4‘s model accounts generally always have a basis of reporting, so not surprised to see it so common place. Some may not show basis of reporting as it is required in the auditor’s statement.

Finally, the **nature of operations** or alternatively referred to as the **nature of business** or **organization** disclosure is a required disclosure if an economic entity has commenced planned principal operations. ASC 275-10-50-2 states explicitly, “If an entity has commenced planned principal operations, the entity’s financial statements *shall include* a description of…” Shall include is not vague in any way. Yet, current measurements of public company financial reports reveal that only 81% of economic entities provide the nature of operations disclosure, 1,128 do not provide the disclosure.



Nature of Operations Note [Note Level]	DISCLOSURE	4767	81%	1128	19%	4767	81%	1128
Other Assets, Noncurrent [Roll Up]	DISCLOSURE	454	8%	5441	92%	5717	97%	178

There are two reasons these required disclosures might not be discovered.

1. The economic entity DID NOT provide the required disclosure within its financial report.
2. The economic entity DID provide the required disclosure within its financial report; however the proper US GAAP XBRL Taxonomy concept(s) were not used to represent the disclosure or an extension concept was used to represent the required disclosure.

The US GAAP XBRL Taxonomy provides explicit concepts for each of these disclosures as can be shown in the first row of concepts below. (Note that the consolidation policy is not required because some economic entities might not be groups of economic entities; but that concept is included to provide a complete set of matching concepts in the reconciliation of concepts shown.)

Alternatively to the individual concepts, concepts that combined one or more of the required disclosures are provided for. Further, different terminology is used to describe the same disclosure. For example, the labels “basis of reporting” and “basis of accounting” and “basis of presentation” and “presentation of financial statements” all describe the same idea.

<table>
<tr><th>Nature of business</th><th>Basis of reporting</th><th>Significant accounting policies</th><th>Consolidation</th><th>Revenue recognition policy</th></tr>
<tr><td>us-gaap: NatureOfOperations</td><td>us-gaap: BasisOfAccounting</td><td>us-gaap: SignificantAccountingPoliciesTextBlock</td><td>us-gaap: ConsolidationPolicyTextBlock</td><td>us-gaap: RevenueRecognitionPolicyTextBlock</td></tr>
<tr><td colspan="2">us-gaap: BusinessDescriptionAndBasisOfPresentationTextBlock</td><td>us-gaap: SignificantAccountingPoliciesTextBlock</td><td>us-gaap: ConsolidationPolicyTextBlock</td><td>us-gaap: RevenueRecognitionPolicyTextBlock</td></tr>
<tr><td colspan="4">us-gaap: OrganizationConsolidationAndPresentationOfFinancialStatementsDisclosureAndSignificantAccountingPolicies TextBlock</td><td>us-gaap: RevenueRecognitionPolicyTextBlock</td></tr>
<tr><td colspan="4">us-gaap: OrganizationConsolidationBasisOfPresentationBusinessDescriptionAndAccountingPolicies TextBlock</td><td>us-gaap: RevenueRecognitionPolicyTextBlock</td></tr>
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<tr><td colspan="5">us-gaap:BusinessDescriptionAndAccountingPoliciesTextBlock (Combines #1 and #3)</td></tr>
<tr><td colspan="5">us-gaap:BasisOfPresentationAndSignificantAccountingPoliciesTextBlock (Combines #2 and #3)</td></tr>
<tr><td colspan="5">us-gaap:OrganizationConsolidationAndPresentationOfFinancialStatementsDisclosureTextBlock (Combines #1, #2 and #4)</td></tr>
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Terminology key:
Nature of operations = Business description
Basis of accounting = Basis of presentation
Basis of accounting = Presentation of financial statements
Significant accounting policies = Accounting policies
Consolidation policy = Consolidation
Nature of operations = Organization
Basis of accounting = Presentation of financial statement disclosure

Finally, none of this analysis covers the question related to whether or not a provided disclosure is appropriately provided. That is not part of this analysis. Clearly this is a very critical consideration. However, that is beyond the scope of this analysis. This analysis only addresses whether these four expected disclosures were located using one of the expected concepts or combinations of concepts provided for by the US GAAP XBRL Taxonomy. For example, the statement "Financial reports prepared using the generally accepted accounting principles of the United States many times requires the use of estimates." That is NOT a basis of reporting disclosure; that is a disclosure related to the use of estimates. That statement does not state that the financial report was prepared using US GAAP. That statement says that IF a report is created using US GAAP; THEN estimates might be used.

These disclosures are clearly required, concepts clearly exist in the US GAAP XBRL Taxonomy so that the disclosures can be represented; yet the disclosure is not discoverable by basic automated processes which are used to extract this information from the XBRL-based report. Why? Do the circumstances justify not providing the disclosure or are the missing required disclosure an error? Was an extension concept used?

The next phase of this project, which will take place beginning in March 2018 will be to identify precisely why each required disclosure was not discoverable within the XBRL-based report.

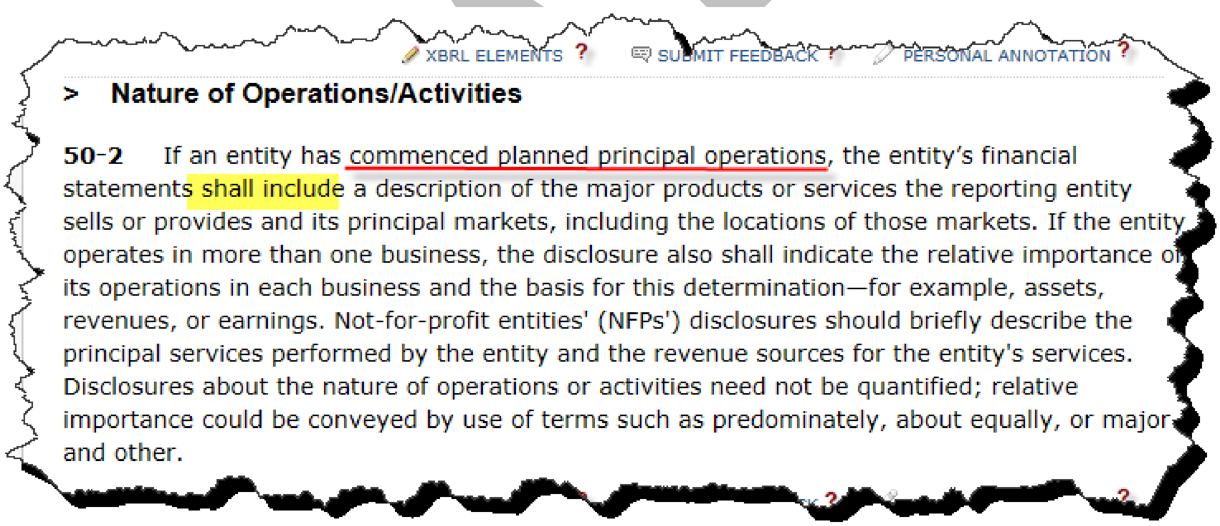
Appendix of Information about Four Required Disclosures

Nature of Operations

Name: disclosures:NatureOfOperations

Description: Disclosure of the nature of operations of an economic entity.

ASC: (275-10-50-2) https://asc.fasb.org/section&trid=2134497



XBRL ELEMENTS ? SUBMIT FEEDBACK ? PERSONAL ANNOTATION ?

> Nature of Operations/Activities

50-2 If an entity has commenced planned principal operations, the entity's financial statements shall include a description of the major products or services the reporting entity sells or provides and its principal markets, including the locations of those markets. If the entity operates in more than one business, the disclosure also shall indicate the relative importance of its operations in each business and the basis for this determination—for example, assets, revenues, or earnings. Not-for-profit entities' (NFPs') disclosures should briefly describe the principal services performed by the entity and the revenue sources for the entity's services. Disclosures about the nature of operations or activities need not be quantified; relative importance could be conveyed by use of terms such as predominately, about equally, or major and other.

Level 1 Disclosure Text Block: us-gaap:NatureOfOperations

1. **Organization**

Organization — We are a leading manufacturer, designer, and provider of consumer products for the shooting, hunting, and rugged outdoor enthusiast. We are one of the largest manufacturers of handguns, modern sporting rifles, and handcuffs in the United States and an active participant in the hunting rifle market. We are also a leading provider of shooting, hunting, and rugged outdoor products and accessories, including knives and cutting tools, sighting lasers, shooting supplies, tree saws, and survival gear.

Level 4 Disclosure Detail: Not required

Example: AMERICAN OUTDOOR BRANDS CORP

https://www.sec.gov/Archives/edgar/data/1092796/000156459017013115/0001564590-17-013115-index.htm

Basis of Reporting

Name: disclosures:BasisOfReporting

Description: Disclosure of the basis of reporting of the financial statement; in particular a statement that the report was created using US GAAP.

ASC: (235-10-50-4) https://asc.fasb.org/section&trid=2122385

> **Examples of Disclosures**

50-4 Examples of disclosures by an entity commonly required with respect to accounting policies would include, among others, those relating to the following:

a. Basis of consolidation

b. Depreciation methods

c. Amortization of intangibles

d. Inventory pricing

e. Accounting for recognition of profit on long-term construction-type contracts

f. Recognition of revenue from franchising and leasing operations

ASC: (105-10-05-3) https://asc.fasb.org/section&trid=6532146

05-3 Accounting and financial reporting practices not included in the Codification are nonauthoritative. Sources of nonauthoritative accounting guidance and literature include, for example, the following:

a. Practices that are widely recognized and prevalent either generally or in the industry

b. FASB Concepts Statements

c. American Institute of Certified Public Accountants (AICPA) Issues Papers

d. International Financial Reporting Standards of the International Accounting Standards Board

e. Pronouncements of professional associations or regulatory agencies

f. Technical Information Service Inquiries and Replies included in AICPA Technical Practice Aids

g. Accounting textbooks, handbooks, and articles.

The appropriateness of other sources of accounting guidance depends on its relevance to particular circumstances, the specificity of the guidance, the general recognition of the issuer or author as an authority, and the extent of its use in practice.

Level 1 Disclosure Text Block: us-gaap:BasisOfAccounting

Basis of Presentation

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America and are presented in US dollars. The Company's year-end is August 31. The financial statements have been prepared on a consolidated basis, with their fully owned subsidiary App Board Limited. No intercompany balances or transactions exist during the period ended August 31, 2017.

On January 22, 2016, the Company modified its business plan, and therefore the Company has classified all transactions and balances prior to the modification of the business plan as Discontinued Operations in the financial statements.

The accompanying financial statements are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the disclosure of contingent assets and liabilities, the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the periods covered by the financial statements. The most significant assumptions and estimates relate to the valuation of real estate, depreciable lives, revenue recognition, fair value measurements and the collectability of tenant receivables. Actual results could differ from these estimates.

Level 4 Disclosure Detail: Not required

Example: COCA COLA COMPANY

https://www.sec.gov/Archives/edgar/data/21344/000002134417000009/0000021344-17-000009-index.htm

Example: URSTADT BIDDLE PROPERTIES INC.

https://www.sec.gov/Archives/edgar/data/1029800/000102980018000010/form10k2017.htm

Example: AB INTERNATIONAL GROUP

https://www.sec.gov/Archives/edgar/data/1605331/000164033418000075/abqq_10k.htm

Significant Accounting Policies

Name: disclosures:SignificantAccountingPolicies

Description: Disclosure of the basis of the significant accounting policies of an economic entity.

ASC: (235-10-50-1) https://asc.fasb.org/section&trid=2122385

> Accounting Policies Disclosure

50-1 Information about the accounting policies adopted by an entity is essential for financial statement users. When financial statements that are issued or are available to be issued (as discussed in Section 855-10-25) purport to present fairly financial position, cash flows, and results of operations in accordance with generally accepted accounting principles (GAAP), a description of all significant accounting policies of the entity shall be included as an integral part of the financial statements. In circumstances where it may be appropriate to issue one or more of the basic financial statements without the others, purporting to present fairly the information given in accordance with GAAP, statements so presented also shall include disclosure of the pertinent accounting policies.

Level 1 Disclosure Text Block: us-gaap:SignificantAccountingPoliciesTextBlock

NOTE 1 — ACCOUNTING POLICIES

Accounting Principles

The consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

We have recast certain prior period amounts to conform to the current period presentation, with no impact on consolidated net income or cash flows.

Principles of Consolidation

The consolidated financial statements include the accounts of Microsoft Corporation and its subsidiaries. Intercompany transactions and balances have been eliminated. Equity investments through which we are able to exercise significant influence over but do not control the investee and are not the primary beneficiary of the investee's activities are accounted for using the equity method. Investments through which we are not able to exercise significant influence over the investee and which do not have readily determinable fair values are accounted for under the cost method.

Estimates and Assumptions

Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. Examples of estimates include: loss contingencies; product warranties; the fair value of and/or potential impairment of goodwill and intangible assets for our reporting units; product life cycles; useful

Level 4 Disclosure Detail: Not required

Example: MICROSOFT CORPORATION

https://www.sec.gov/Archives/edgar/data/789019/000156459017014900/0001564590-17-014900-index.htm

Revenue Recognition Policy

Name: disclosures:SignificantAccountingPolicies

Description: Disclosure of the basis of the significant accounting policies of an economic entity.

ASC: (235-10-50-3) https://asc.fasb.org/section&trid=2122385

50-3 Disclosure of accounting policies shall identify and describe the accounting principles followed by the entity and the methods of applying those principles that materially affect the determination of financial position, cash flows, or results of operations. In general, the disclosure shall encompass important judgments as to appropriateness of principles relating to recognition of revenue and allocation of asset costs to current and future periods; in particular, it shall encompass those accounting principles and methods that involve any of the following:

a. A selection from existing acceptable alternatives

b. Principles and methods peculiar to the industry in which the entity operates, even if such principles and methods are predominantly followed in that industry

c. Unusual or innovative applications of GAAP

Level 1 Disclosure Text Block: us-gaap:RevenueRecognitionPolicyTextBlock

Revenue Recognition

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is probable. Revenue generally is recognized net of allowances for returns and any taxes collected from customers and subsequently remitted to governmental authorities.

Revenue recognition for multiple-element arrangements requires judgment to determine if multiple elements exist, whether elements can be accounted for as separate units of accounting, and if so, the fair value for each of the elements.

Microsoft enters into arrangements that can include various combinations of software, services, and hardware. Where elements are delivered over different periods of time, and when allowed under U.S. GAAP, revenue is allocated to the respective elements based on their relative selling prices at the inception of the arrangement, and revenue is recognized as each element is delivered. We use a hierarchy to determine the fair value to be used for

Level 4 Disclosure Detail: Not required

Example: MICROSOFT CORPORATION

https://www.sec.gov/Archives/edgar/data/789019/000156459017014900/0001564590-17-014900-index.htm