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Accounting Profession in Mexico; Professional Accounting in Foreign Country Series

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Steven F. Moliterno

The Accounting Profession in Mexico

PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES

AICPA

American Institute of Certified Public Accountants

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The Accounting Profession in Mexico

PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES

Prepared by

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Preface

This booklet is one of a series on professional accounting in foreign countries. The material is current as of February 1988. Changes after this date in the standards of either the United States or Mexico may alter the comparisons detailed in this publication.

Included are descriptions of the accounting profession, auditing standards, and accounting principles in Mexico. The booklet also presents brief descriptions of the various forms of business organizations, taxes, and requirements for stock exchange listings and securities offerings. Checklists comparing Mexican auditing standards and accounting principles with those generally accepted in the United States are appendixes to the text.

This booklet is not intended to be a comprehensive discussion of auditing standards and accounting principles in Mexico but is designed instead to focus primarily on differences from those of the United States.

John Graves
Director—Technical Services

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The Accounting Profession

REQUIREMENTS FOR ENTRY INTO THE PROFESSION

Domestic Functions and Licensing Requirements

1. Although technical competence is required to perform accounting, consulting, and tax services in Mexico, it is not necessary to be licensed or certified. The attest function, however, in relation to financial statements and tax reports is restricted to the *Contador Publico* (C.P.) or public accountant. Article 5 of the Regulatory Law of the Constitution of Mexico requires the licensing of certain professions, including *Contador Publico*. The license is granted by the Secretary of Public Education after the applicant has completed the academic requirements as set forth in the law. The *Dirección General de Profesiones* or Department of Professions of the office of the Secretary of Education is required to form commissions to study and report on competency matters. The professional accounting organizations in Mexico are the Societies of Public Accountants ("the Societies"). The Societies, presently numbered at fifty, are located throughout Mexico. The Federation of Societies of Public Accountants comprise what is called *The Mexican Institute of Public Accountants*. The Societies control the admission and professional conduct of its members. Admittance into the membership of a Society automatically entitles the person to membership in the Institute.

2. Each company listed with the Mexican stock exchange must have its annual financial statements audited by a public accountant.

3. Companies may voluntarily submit a *dictamen fiscal* or tax report which includes financial statements and auditors' report. The auditors' report on the review of the tax situation and supplemental schedules of the financial statements is specified by the tax authorities. The information is extensive and diminishes the chance of an examination by the tax authorities. All companies filing a consolidated tax return must present consolidated financial statements that have been audited by a public accountant.

4. Contributors to the Mexican Institute of Social Security may have their records pertaining to contribution requirements examined by a public accountant. A special report, as specified by the Institute of Social Security, is issued by the public accountant. This practice also reduces the possibility of a review by the Department of Social Security.

5. The Commercial Code requires all corporations to appoint at least one *comisario* or statutory auditor. The *comisario* is appointed by the shareholders of the corporation to oversee its operation. He or she must report at least once a year to the shareholders at an official meeting. This responsibility is often assigned to a public accountant. The professional regulations require the public accountant to base this report on audited financial statements (see Bulletin H-12 in appendix A).

Foreign Reciprocity

6. Naturalized Mexicans, who have completed all the required advanced studies in Mexican accredited institutions, may practice with the same rights as Mexicans-by-birth. No foreigner may practice as a public accountant, except in the rare case in which a person has met all the requirements of the law and can prove to be a victim, in such person's country, of political persecution. In such a case, the permission is temporary.

ROLES AND RESPONSIBILITIES OF STANDARD-SETTING BODIES

Professional Standards Promulgated by Each Body

7. The Mexican Institute of Public Accountants is the standard-setting body for the profession in Mexico. The standards,

which are obligatory for the profession, are divided into four major categories: generally accepted accounting principles, generally accepted auditing standards, code of ethics, and continuing professional education. In order to prepare and review the professional standards, the Institute has specific commissions for each major category. The *Comisión de Normas y Procedimientos de Auditoría* or Auditing Standards and Procedures Commission of the Mexican Institute of Public Accountants is responsible for setting the auditing standards for the profession. The standards of auditing and the standard pronouncements are obligatory. Although the procedures are recommended by the Commission, based on the circumstances, application of the procedures is left to the judgment of the auditor. The Commission also issues definitions, concepts and interpretations, which are explanations of the expressions and words used in public accounting terminology. The income tax law may require different accounting treatment of certain items than that of generally accepted accounting principles. Regulated industries, such as banks, insurance companies and other companies owned by the government, may also require accounting treatment in certain areas that differ from generally accepted accounting principles.

Ethics Requirements

8. The Mexican Institute of Public Accountants has issued a code of professional ethics to guide its members in moral conduct and to declare its intention to serve society with trust, diligence and self-respect. The code covers a wide range of topics, including independence criteria, confidentiality of client information, respect for colleagues and the profession, setting of fees, employment offers with employees of other firms and clients, advertising, and the payment of commissions for obtaining work.

9. The code of ethics prohibits media advertising or other forms of communications that detract from the dignity of the public accountant or the profession. Technical bulletins and pamphlets, written in a plain and businesslike manner, may be circulated exclusively to firm personnel, clients, and other people who make specific requests.

10. The public accountant may offer services at a fixed percentage fee, except in the case of auditing services.

PROFESSIONAL PUBLIC ACCOUNTING ORGANIZATIONS

Requirements for Membership

11. To become a member of one of the Societies of Public Accountants, the applicant must 1) hold the professional title of Public Accountant, 2) submit a copy of his or her professional thesis, 3) be recommended by two members of the society, and 4) be approved by the membership committee.

Rights of Membership

12. Members of a Society of Public Accountants and the Mexican Institute can take advantage of technical, social and sporting activities sponsored by the organizations. Members are given preference as to fees and registration. The Mexican Institute of Public Accountants also makes research facilities and technical publications available to members.

Number of Members

13. The number of members of the Mexican Institute of Public Accountants as of February 1988 was approximately 9,880.

CPE Requirements

14. Continuing professional education is obligatory for all members of the Societies of Public Accountants. Each member is required to accumulate 60 points every two years, a point being equivalent to one hour of continuing education study. Points accumulated in excess of this amount cannot be carried forward. Societies provide lists of basic options for study; however, each member may propose other options applicable to public accounting. The points earned for optional studies are determined by the Societies. Each member prepares a two-year program that is reviewed and approved by a coordinator of the Society to which he or she belongs. The Society is then required to maintain a record on

the development and the evaluation of each member's program. Each member is also responsible for maintaining the substantiating documentation for completion of the program. Societies must sponsor a minimum of one week of continuing education programs each year.

2

Auditing Requirements

STATUTORY AUDITING AND REPORTING REQUIREMENTS

Purpose of the Statutory Audit

15. The General Law of Commercial Companies or *Ley General de Sociedades Mercantiles* requires all corporations to appoint at least one *comisario* or statutory auditor.

16. The *comisario* is charged with the vigilance of the company and has the right, among others, to request monthly financial information from management. The *comisario* is also required to submit an annual report to the shareholders on accounting and administrative matters. The *comisario* need not be a public accountant; however, because of the types of services and information required, a public accountant is usually appointed to this position. Bulletin H-12 (see appendix A) sets forth the requirements of the public accountant when acting in this capacity.

Purpose of a General Audit

17. The primary purpose of an audit for a small company would be for financing purposes. The primary purposes of an audit of a large company include providing financing, tax, and Social Security services and meeting requirements of the *Comisión Nacional de Valores* or National Securities Commission.

Entities That Are Required to Be Audited

18. Every company registered with the *Comisión Nacional de Valores* is required to have an annual audit. In addition, all companies filing a consolidated tax return must present audited financial statements to the *Division Federal de Auditoríal* or the Federal

Audit Division. The financial statements must include a balance sheet, statements of income, changes in shareholders' equity, changes in financial position (on the basis of changes in cash), and notes thereto. Auditing standards require the audit report to identify the statements that have been audited. All financial statements must be adjusted for inflation in accordance with Bulletin B-10 (see appendix B) and its amendments—*Accounting for the Effects of Inflation in the Financial Information* (trans.), issued by the Mexican Institute of Public Accountants.

Appointment and Qualification of Auditors

19. The auditor or auditing firm is generally appointed by the general manager, the board of directors, or the shareholders. The initial selection of the auditing firm is generally based on a request for a proposal. The selection of auditors of multi-national companies is strongly influenced by the parent company. The code of ethics states that the public accountant should not accept engagements for which he or she is not qualified.

20. A change in auditors may be made by the shareholders. The rules of the professional institute require the proposed replacement auditor to communicate with the retiring auditor to inform him or her of the change.

21. When a firm of auditors is appointed, the public accountant signing the report is individually responsible. A public accountant in association with others, may not contract his professional services without the consent of his partners. At least 50 percent of the partners of an accounting partnership must be Mexican public accountants.

Auditing and Reporting Responsibilities

22. The directors of the company are responsible for ensuring that the company has an adequate system of internal control, that proper accounting records are maintained, and that the financial statements present fairly the financial position of the company and its results of operations and changes in its financial position. The auditor has the right of access at all times to the books, records, and documentation of the company, as needed to carry out the audit-

ing procedures considered necessary to form an opinion on the financial information being examined.

23. A company's annual report to shareholders may include other financial information, such as summaries and statistical information, but such information is not covered by the audit report and is the sole responsibility of the directors. The auditor is required to ensure that other financial information included in the annual statement is consistent with the basic financial statements.

Filing of Reports

24. The auditor's report is usually addressed to the shareholders, the company, or the board of directors and is attached to the financial statements. Reports required to be submitted, as well as those submitted voluntarily, to regulatory agencies such as the *Comisión Nacional de Valores,* the *Departamento de Seguro Social* or Department of Social Security and the *Departamento de la Tesoreria* or Tax Department of the Treasury, are submitted by the company.

SUMMARY OF SIGNIFICANT AUDITING STANDARDS AND COMPARISON WITH U.S. GENERALLY ACCEPTED AUDITING STANDARDS (GAAS)

Standards Issued

25. Auditing standards in Mexico are set forth in technical bulletins issued by the *Comisión de Normas y Procedimientos de Auditoría* of the Mexican Institute of Public Accountants, which have been summarized and classified in the publication *Normas y Procedimientos de Auditoría (Auditing Standards and Procedures)* and *Estudio y Evaluación del Control Interno por Objetivos y Ciclos de Transacciones (Study and Evaluation of the Internal Control by Objectives and Cycles of Transactions)* by the Mexican Institute of Public Accountants. The standards are classified into three categories as set forth in appendix A. Standards A, B, C, D, E and H are obligatory; F and G include recommendations of the *Comisión* in regard to auditing procedures. These recommendations should be applied according

to the auditor's judgment, and the auditor is responsible for deviations therefrom without just reason. Standards J-01 through J-05 are opinions of the *Comisión* on policies, programs, studies, interpretations cases, and guides, and do not have the character of standards. There are certain differences between Mexican and U.S. auditing standards and procedures. The substance of the standards in both countries is very similar.

26. Differences in auditing procedures used by Mexico and the United States include the following:

- In Mexico, specific procedures to be followed in identifying related party transactions are not set forth in a standard. However, Bulletin G-12 (see appendix A) requires that auditors should be assured that important transactions with affiliated companies are disclosed. In addition, International Accounting Standard (IAS) 24, *Related Party Disclosures*, sets forth the guidelines for related party transactions.
- Although rare, the practice of joint auditors does exist. (Two firms jointly audit the financial statements of a company and issue a single report signed by the two firms.) This practice occurs when one firm cannot satisfy the tight time constraints and demands of a large engagement, and each firm is sufficiently confident in the other to sign jointly.

General Standards

27. The *Normas Generales en México* or the general standards in Mexico, as set forth in Bulletin D (see appendix A), are very similar to U.S. standards. Article 108 of the Mexican Code of Professional Ethics prohibits members of the profession from accepting engagements for which the member is not qualified to perform.

28. The standard of independence is interpreted in Mexico as prohibiting a public accountant to act as an auditor of a corporation when circumstances exist that may impair his or her objectivity and consequently reduce his or her mental independence or give such impression to the public. The services of a *comisario*, who oversees the financial and administrative aspects of the corporation, are considered to be independent and impartial because the *comisario* is not a director or board member. Although the *comisario* has a voice in the board meetings he or she has no vote.

Standards of Fieldwork

29. The standards of fieldwork are set forth in the bulletins and apply whenever an audit is performed. In summary, they are as follows:

- *Planning and supervision.* The engagement should be adequately planned, and if used, assistants should be properly supervised.
- *Study and evaluation of internal control.* The auditor should effect an adequate study and evaluation of the existing internal control as a basis for determining the degree of reliance thereon and thereby permit the determination of the nature, extent and timeliness of the application of auditing procedures.
- *Obtaining of sufficient and competent evidence.* By using auditing procedures, the auditor should obtain sufficient competent evidence to the degree necessary as an objective basis for an opinion.

30. The Mexican Institute has issued Bulletin G-20 on auditing standards, which is in response to Mexican Accounting Principles Bulletin B-10 *Accounting for the Effects of Inflation in the Financial Information* (trans.). Bulletin G-20 (see appendix A) provides guidance as to the audit procedures required for inflation accounting.

31. Specific reference is not made in the standards to illegal acts. However, acts whose effects would be material in the financial statements would be addressed in the contingency requirements.

32. The context of the standards of fieldwork, with the exception of the above paragraph on inflation accounting, is very similar to the U.S. standards of fieldwork.

Standards of Reporting

33. The standards of reporting in Mexico are very similar to U.S. standards of reporting, and are as follows:

- In all cases in which the name of a public accountant is associated with financial statements or information, he or she should express in a clear and unmistakable manner—
  a. The nature of his or her relation with such information.
  b. His or her opinion on the same.
  c. The important limitations, when applicable, that were im-

posed on the examination, the qualifications that are derived from them, or all the important reasons for which an adverse opinion is expressed, or why a professional opinion cannot be expressed after having performed an examination in accordance with auditing standards.

- The auditor, upon rendering his opinion on financial statements should observe that—
  a. They were prepared in accordance with generally accepted accounting principles.
  b. Such principles were applied on a consistent basis.
  c. The information presented therein and in the related notes is adequate and sufficient for its reasonable interpretation.

34. The audit report applies to all reports in which an auditor expresses an opinion on financial statements intended to present fairly the financial position, the results of operations, the variations in the shareholders' equity, and the changes in financial position.

35. The trend is to issue comparative financial statements in which the auditors' report covers both years, except in the *dictamen fiscal* (tax report), when the report is comparative, and the auditor's report only covers the current year, as required by the tax authorities.

36. The *Comisión* has issued the *Second Document of Changes to Bulletin B-10* (trans.), which requires that prior period financial statements be reexpressed in Mexican pesos of purchasing power of the date of the current period of the financial statement, determined with factors derived from the National Consumer Price Index. Such reexpression is for comparability presentation purposes only and does not require any changes in the accounting records. Within the evolution process of the standards related to inflation, it is also currently acceptable to disclose in financial statements as a minimum—

- The increase in the National Consumer Price Index associated with each balance sheet date and each period of the statement of operations that is presented in the financial statements for purposes of comparability.
- The following line items in Mexican pesos of purchasing power at the date of the financial statements of the current year that is being reported:

At average Mexican pesos:
Net sales
Income from operations
Net income (loss)
At current Mexican pesos:
Total assets
Shareholders' equity

37. Although the "new report" (see paragraph 46) does not make reference to auditing standards, generally accepted accounting principles, or consistency, it is implied that there was compliance therewith. The new report, however, has not gained wide acceptance in Mexico.

Standard Form of Report

38. Bulletin H-01 (see appendix A) provides the standard wording for auditors' reports in Mexico. (See appendix C for an example of an auditor's report.) The standard audit report is modified when the opinion is qualified, when a disclaimer of opinion is issued, or when an adverse opinion is expressed.

Qualification in Auditor's Reports

39. Bulletin H-01 *Dictamen del Auditor* or *Auditor's Report* sets forth the circumstances under which a qualified report is to be issued and explains the form of qualification required. An uncertainty qualification requires a *subject to,* whereas the other circumstances are dealt with as *except for.*

40. The foregoing assumes a disclaimer or adverse opinion is not required. Bulletin H-03 *Repercussion in the report of the public accountant of the recognition of the effects of inflation in the financial information* (trans.) follows the above.

41. The classifications, account systems, and accounting rules prescribed by certain regulatory agencies often differ from accounting principles, particular rules of valuation, and presentation generally accepted. The custom has been that the *dictamen del auditor* (auditor's report), on the basis of the accounting rules prescribed by the regulatory authorities, observes that these are consistently applied and adequately disclosed. It also has been the custom to show, when practicable, the principal differences between accounting principles and the monetary effect.

Dating of the Audit Report

42. Bulletin H-01 states that, as a general rule, the report should be dated the day the auditor leaves the office of the client and the fieldwork is substantially completed.

43. The occurrence of a subsequent event can be handled by double dating the report or applying adequate subsequent-events procedures to permit changing the original date to the subsequent-event date.

Other Auditors

44. Mexican reporting standards related to other auditors are similar to those in the United States. The principal auditor can decide whether to assume responsibility or not. In either case, the principal auditor must comply with prescribed procedures.

45. Joint auditors do exist in Mexico, but their occurrence is rare (see paragraph 26, herein).

Signing of the Audit Report

46. The audit report must be signed by an authorized Public Accountant, who is also individually responsible for the report. Significant differences in the reporting area between auditing standards in Mexico and the United States include the following:

- The new report in Mexico comprises solely an opinion paragraph. In addition, reference is eliminated to auditing standards and procedures, generally accepted accounting principles, and their consistent application and the attesting of fairly presented. Reference is added to the primary responsibility of the company's administration in the preparation of financial statements. Although the above references are eliminated in the report, their compliance is implied. The new opinion was recommended for use by the *Comisión* so that it would find general use; however, few auditors have adopted the new opinion, and the traditional opinions are used by the vast majority.
- Letters to underwriters are not common nor are they dealt with in a separate standard bulletin.

3

Accounting Principles and Practices

SOURCE OF ACCOUNTING PRINCIPLES

47. Accounting principles in Mexico are developed by the *Comisión de Principios de Contabilidad* or the Commission of Accounting Principles of the Mexican Institute of Public Accountants. (See appendix B for a list of the bulletins that have been issued through February 1988.) Principles specifically referred to by the *Comisión* are the reporting entity, realization, accounting period, original historical value, going concern, double entry, sufficient disclosure, materiality, consistency, and, most recently, inflation accounting.

FORM AND CONTENT OF FINANCIAL STATEMENTS

Presentation of Statements

48. Although the books and records *must* be recorded in Spanish and in Mexican pesos, they may also be maintained in another language and currency. Public companies registered with the Mexican Stock Exchange must submit annual financial statements audited by a Mexican public accountant.

Types of Statements Prepared

49. The basic financial statements include the balance sheet, statements of operations, changes in shareholders' equity and changes in financial position based on cash flow, and notes to the

financial statements, and all are prepared in comparative form. There are similarities in format between Mexican and U.S. financial statements. Current assets and liabilities are the first categories (on their respective sides of the balance sheet) and are separately subtotaled. In addition to the usual accounts shown in the balance sheet as stockholders' equity, two additional accounts generally appear: updating of the stockholders' position and accumulated results and excess (insufficiency) in the updating of shareholders' equity. The income statement follows the same format used in the United States. Before arriving at net income, provisions for current income tax and employee profit-sharing is shown.

50. The statement of changes in shareholders' equity has taken on new significance because of inflation accounting. The statement of changes in financial position is required to be presented on the basis of changes in cash. The accounting records and financial statements are required to be adjusted for inflation in accordance with Bulletin B-10, *Accounting for the Effects of Inflation in the Financial Information* (trans.) and its amendments.

51. The *dictamen fiscal* or tax report, which is voluntarily presented to the tax authorities and lessens the chance of an audit by them, contains the standard *dictamen del auditor* or auditor's report, the basic financial statements and notes thereto, the auditors' tax report on the review of the tax situation, and supplemental schedules. Although the financial statements are presented in comparative form, the auditors' opinion is given only for the latest year, as required by the tax authorities.

52. The report submitted to the Mexican Institute of Social Security is a voluntary special report and lessens the chance for a review by the *Departamento de Seguro Social.* The report is accompanied by specific information requested by the Department of Social Security related to the contribution requirements of the employer and the employees.

53. Consolidated financial statements are required when the conditions (essentially the same as those in the United States) stated in Mexican accounting principles exist. Consolidated financial statements must be audited by a public accountant and submitted to the *División Federal de Auditoría* when a consolidated tax return is filed. The filing of a consolidated tax return is a voluntary election;

however, conditions set forth in the tax law must be met to qualify for such filing.

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES AND COMPARISON WITH U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

Inflation Accounting

54. Bulletin B-10 and its amendments issued by the *Comisión de Principios de Contabilidad* require the *Accounting for the Effects of Inflation in the Financial Information* (trans.). Because historical cost amounts serve as the basis for determining updated (adjusted) amounts and must be maintained for tax purposes, the financial statements and general accounting records are inflation adjusted.

55. The accounts to be updated (adjusted) are the balance sheet, including all nonmonetary items, such as shareholders' equity (see equity section, herewith), statement of operations, costs and expenses associated with the nonmonetary assets, and if such is the case, the income associated with nonmonetary liabilities. Following are the methods for updating:

- Adjustment for changes in the general level of prices using the National Consumer Price Index published by the Bank of Mexico
- Specific cost (net replacement value)

56. The specific-cost method may only be used for inventories and tangible fixed assets and their related costs and expenses. Methods cannot be mixed for elements of the same classification, such as inventory and cost of sales.

57. Nonconsolidated subsidiaries and affiliates, which are not less than 25 percent- or more than 50 percent-owned and are not subsidiaries in foreign countries with currency control, dividend restrictions, and uncertainties of the monetary stability, regardless of the updating method used, should be valued by using the equity method and determined, based on the updated financial statements of the subsidiary or affiliate, with the same methodology used by the owning entity.

Inventories

58. Inventories may not be stated at greater than their realizable value. Valuation methods that are permitted when the specific-cost method is used are first-in/first-out, last purchase price effected in the period, standard cost when representative, use of specific indexes issued by a recognized institution or developed by the company based on technical studies, or employing replacement costs when these are substantially different from the last purchase price effected in the period. When the National Consumer Price Index is used, the historical cost of the inventories is expressed in purchasing power of the Mexican peso at the date of the balance sheet. The accounting principles permit the use of direct costing in the valuation of inventories.

59. A general provision for obsolescence is not deductible for tax purposes. The deduction is allowed only when the inventory is properly disposed.

Fixed Assets and Depreciation

60. The updated values of fixed assets are shown in the balance sheet. Depreciation is presented in the results of operations as determined in the following paragraphs.

61. The depreciation of the period is based on its average updated value and its estimated life, determined by technical estimate. To permit an adequate comparison, the system of depreciation used for updated values and for historical cost should correspond, that is, the estimated lives should be the same. The depreciation of the cost and its complement for updating should conclude in the same year.

62. Pertinent and indispensable information that will permit the user of the financial statements to understand the significant implications of the determined amounts shown for the fixed assets and depreciation should be disclosed. Such information includes the method of updating (adjustment) used by the company, its accumulated depreciation, the methods of depreciation used, the amount of assets not revalued, and the reasons for not doing so. If changes exist in the life estimates of some or all of the property that is subject to depreciation, a specific indication of the change and its effect on the financial information should be made.

63. The value determined under either method of valuation should not exceed the assets-useful value. Assets not in use should not be valued in excess of their realizable value.

Shareholders' Equity

64. Following are items of shareholders' equity that must not be updated: revaluation surplus that may exist (including amounts in capital stock) when the initial balances are updated in the first year of application, when preferred capital is subject to be paid in cash at a fixed predetermined price, and when it is considered as a monetary liability. As a result of applying inflation accounting, the following accounts could be generated in the shareholders' equity section.

65. *Updating of capital stock and accumulated results.* This requires the updating of the shareholders' contribution, whatever its origin (including capitalized retained earnings), donated surplus, if any, and retained earnings (deficit), which is the complement necessary to express in monetary units of general purchasing power at the date of the balance sheet, the balances of capital stock and other contributions not included in capital stock, and the accumulated results expressed in original monetary units.

66. *Excess or deficiency from updating of shareholders' equity.* This account is the arithmetic sum of the updated result of holding nonmonetary assets. It represents the degree to which the company has been able to maintain (excess) or not maintain (deficiency) the purchasing power of the shareholders' contribution and accumulated results in relation to accumulated inflation as measured based on the National Consumer Price Index, as a result of maintaining a predominant liability (excess) or asset (deficiency) monetary position during its existence.

Monetary Effect

67. The monetary effect of the period should be presented in the statement of operations as a part of the integral financing cost/income, which consists of interest, exchange fluctuations and, in general, all the items that are grouped within the account of finance charges and expense. The monetary effect for the period is the arithmetic sum of the monthly monetary effect determined by applying the rates of inflation of the corresponding month (quanti-

fied based on the National Consumer Price Index) to the monetary positions existing at the beginning of each month.

68. Those nonmonetary items that are not updated for a justified reason are to be considered monetary for determination of the monetary effect. The result of holding nonmonetary assets or liabilities, whether favorable or unfavorable, is included in shareholders' equity.

Foreign Currency

69. A section is included in Bulletin B-10 whereby an adjustment must be made when a short monetary position exists and the technical exchange rate, as calculated per the Bulletin, is greater than the market exchange rate.

Results of Operations

70. The reexpressed net results of operations reflected in the statement of operations should be updated as part of the items comprising shareholders' equity upon its incorporation into the balance sheet.

Consolidated Financial Statements

71. The shareholders' equity monetary effect is determined on the basis of the consolidated monetary position. The integral financing cost is determined based on the consolidated amounts of the period, segregating the minority interest portion of the subsidiaries in the shareholders' equity monetary effect.

Disclosure

72. A synthesis of the effects produced from the updating of the financial statements for the period should include the following items and amounts:

- Updating of nonmonetary assets and liabilities concurrently with the associated expenses, costs and income
- Updating of shareholders' equity
- Monetary effect
- Results from holding nonmonetary assets

73. The notes should disclose by line item the updated shareholders' equity and the accumulated results in such a manner that the amount of each item determined is expressed in monetary units of general purchasing power at the balance sheet date.

Temporary Investments

74. Short-term investments in time deposits and securities not quoted or regularly traded on the exchange are carried at their acquisition cost. Temporary investments in negotiable securities are valued at market less selling expenses. The difference between cost and realizable value is recorded in the results of operations for the period.

Receivables

75. A study of the accounts receivable must be made to determine the allowance for doubtful accounts, which is required to properly value such accounts receivable. A general provision for bad debts is not deductible for tax purposes. The deduction is allowed, however, when the account is written-off. There is no legal or accounting requirement to impute interest on receivables. Receivables and payables from related parties are required to be set out as a separate line item on the balance sheet. Disclosure is also required for significant related party transactions.

Goodwill

76. The rules pertaining to creating goodwill are similar to those in the United States. The amortization period for the write-off of such goodwill is determined by management, who must set a reasonable period by taking into account the future probable value without fixing a minimum or maximum number of years. Management is required to disclose whatever method chosen. Goodwill or its amortization is not deductible for income tax purposes. Negative goodwill will be used, at first, to reduce the value of the assets acquired to their value as determined by an independent appraiser. If the value is greater than that shown in the financial statements, the excess or total should be recorded as capital surplus.

Leases

77. Bulletin C-6 (see appendix B) of Mexican accounting principles discusses the criteria for classifying leases as either operating or financing by the lessee. No pronouncement exists regarding the treatment by the lessor. The general practice is to apply the same criteria of classification for the lessor as set forth for the lessee.

Deferred Income Taxes and Employee Profit-Sharing

78. In November 1986, the Accounting Principles Commission issued Bulletin D-4, *Accounting Treatment of Income Tax and Employee Profit Sharing* (trans.), which is effective for years ended December 31, 1987. The method selected by the *Comisión* for the recognition of deferred taxes is the *metodo de pasivo* or liability method. At the end of each period, the company should review its deferred tax situation and take into consideration the most recent evidence to determine which deferred income tax balances should be established, maintained, or eliminated. Bulletin D-4 calls for a partial basis in the recognition of deferred taxes. Accordingly, deferred taxes are provided for short-term timing differences and for those of a long-term nature for which realization has been ascertained. Loss carryforward benefits are not recognized until their realization, unless deferred credits exist that will reverse in the carryforward period. Employee profit-sharing is a percentage (currently 10 percent), as determined under the traditional tax method, of taxable income with certain adjustments as defined in Article 123 of the Political Constitution of Mexico. Differences between financial accounting and taxable income are disclosed in footnotes as is the difference between the statutory and effective tax rates.

Construction Type Contracts

79. No specific audit bulletin or tax guide has been issued on construction accounting. In the majority of cases, the percentage-of-completion is used; it is the only method acceptable for income tax purposes. In the absence of the issuance of a specific bulletin in Mexico, the International Accounting Standards (IAS) is followed. IAS No. 11, *Accounting for Construction Contracts*, permits both the percentage-of-completion and the completed-contract methods.

Segment Information

80. Mexico has not issued a pronouncement on segment accounting. The general practice is to issue reports without segment information.

Translation of Foreign Currency Financial Statements

81. A specific bulletin has not been issued by Mexico on foreign currency translation that is comparable to FASB Statement No. 52, *Foreign Currency Translation.* When conditions for consolidation exist, the practice has been to translate the financial statements of subsidiaries at the current rate. (See comments on inflation accounting on p. 17.)

Forward Exchange Contract

82. The accounting principles dealing with foreign currency transactions in Mexico make no specific reference to forward exchange contracts, therefore IAS No. 21, *Accounting for the Effects of Changes in Foreign Exchange Rates,* would be followed. IAS No. 21 states that "when a forward exchange contract is entered into to establish the amounts of the reporting currency required or available at the settlement dates of foreign currency transactions, the difference between the forward rate and the spot rate at the inception of the contract should be recognized in income over the life of the contract. For short-term transactions, the forward rates specified in the related foreign exchange contracts may be used as the basis for measuring and reporting the transactions."

Statutory Reserves

83. Five percent of net income of corporations is required to be set aside in a legal statutory reserve until the balance reaches 20 percent of the par value of the outstanding capital stock. These amounts represent appropriations of retained earnings and are included in the stockholders' section of the balance sheet.

4

Business Environment

FORMS OF BUSINESS ORGANIZATION

84. The various forms of business organizations recognized in Mexico and regulated by the Civil Code or the General Law of Mercantile Organizations, as amended, are as follows.

Entities With Corporate Attributes

85. *Sociedad Anonima (SA)* or corporation, or *Sociedad Anonima de Capital Variable (SA de CV)* or corporation with variable capital are the legal entities most used by foreign and local investors. In order to change its capital, a corporation must amend its articles of incorporation, and authorization must be obtained from the *Ministerio de Relaciones Exteriores* or Ministry of Foreign Relations unless the change affects only the *variable portion* of the stock in the case of corporations with variable capital. Mexican corporations may have restrictions on the percentage ownership by foreign shareholders. The corporation may issue common and preferred shares. A corporation may not acquire its own shares as an investment, except through a court judgment, in which case they must be sold within three months after their acquisition. Treasury shares are not allowed. Company shares may be reacquired and retired.

86. *Sociedad de responsabilidad limitada* or limited liability company has features of both a partnership and a corporation. No shares are issued, and investors vote and participate in profits in proportion to their capital account. Unanimous agreement is required to transfer or increase the capital accounts. Investors are liable for the amount of their contribution, and personal assets

cannot be reached by the creditors of the company. This form of organization is convenient for small and medium-sized enterprises.

Shareholders' Meetings

87. Although the maximum number of shareholders that a corporation must have is unlimited, there is a minimum of five. The corporation must hold a shareholders' meeting at least once annually within four months after the close of the fiscal year. The minority shareholder usually has no recourse against decisions taken by the majority. Therefore, companies with large minority shareholders have special clauses in their charters requiring a percentage greater than 52 percent for approval on certain matters.

Liabilities of Incorporators, Shareholders, and Board Members

88. Shareholders are liable only for the par value of their shares, which are not subject to assessment. Dividends can only be declared from available retained earnings. Shareholders and administrators can be held liable by creditors for the return of funds to the corporation for capital dividends. Members of the board of directors and the *comisario* are required to furnish a bond or deposit assets (of a nominal amount) to cover any liabilities they may incur. If a corporation has a deficit equal to more than two-thirds of its capital stock, by law, a creditor or minority shareholder may bring action against the company to force it into liquidation.

Branch of a Foreign Company

89. *Sucursal de sociedad extranjera* or branch of a foreign corporation is not frequently used.

Partnership Entities

90. *Sociedad en nombre colectivo* or general partnership is rarely used by foreign investors and is very similar to the general partnership found in the United States. Each partner is jointly and severally liable for the debts of the partnership to the full extent of his or her personal and business assets.

91. *Sociedad civil (SC)* or civil association is most commonly used by professional practitioners. Income tax is not paid by the *SC* but by the individual partners, whose liability is unlimited, on their share of the profits.

92. See *Sociedad de Responsabilidad Limitada* or limited liability company mentioned under "Entities with Corporate Attributes" (see paragraph 86).

93. *Asociación en participación* (joint venture) corresponds very closely to the joint venture type of business organization in the United States. This form of organization does not constitute a separate legal entity and must be agreed upon in writing. Income for tax purposes is treated as earned by the joint venture participants based on their percentage of investment interest.

94. *Sociedad en comandita simple* or limited partnership closely resembles a U.S. limited partnership. The liability of the general partners is unlimited, and the limited partners' liability is limited to their capital contributions.

Description of Other Forms of Business Organization—Sole Proprietor

95. The *empresa individual* or sole proprietorship is the most popular form of organization for a small business. A proprietor has sole responsibility for the business in which he or she is engaged and all personal and business assets are subject to the debts of the business.

REQUIREMENTS FOR PUBLIC SALES OF SECURITIES AND REQUIREMENTS FOR LISTING SECURITIES ON STOCK EXCHANGES

Registration Requirements for Public Sale

96. Before being sold to the general public, securities must be approved by the National Securities Commission and an agency of the Ministry of Finance and Public Credit. Only securities approved by the *Comisión Nacional de Valores* and included in its National Register of Securities may be listed on the Mexican stock

exchange and offered to the public. Pension funds, banks, and insurance companies may invest only in securities approved by the Commission. To register with the National Securities Commission, the company must file legal, financial, and economic information, which includes specified details and documentation of its organization, information on its officers, and a description of the business and financial information. The financial information includes financial statements for the previous year, or for the last six months if a longer period has elapsed, with the report of a Mexican public accountant. Additional information is also required for the past five years.

Requirements for Listing Securities on the Stock Exchange

97. The Mexican stock exchange is operated by a corporation, the shareholders of which are the brokers and broker-dealers registered to do business through the exchange. The principal requirement for listing on the exchange is the prior approval of the National Securities Commission.

Filing of Annual Financial Reports and Other Significant Information Required to be Filed Annually

98. Listed companies must present published, annual audited financial statements, audited by a Mexican public accountant, to the *Comisión Nacional de Valores.* Interim quarterly reports, which need not be audited, must also be submitted.

TAXES

Principal Types

99. The principal taxes in Mexico are income tax, value added tax, payroll taxes, and local tax on real property.

Corporation Tax

100. Corporations are classified as resident and nonresident. Resident corporations are required to include their income from all sources, with special treatment for certain capital gains, in an

annual return and are taxed under the traditional system at 42 percent and under the new system at 35 percent. Effective January 1, 1987, two calculations of the income tax are required to be made: one based on the rules effective as of December 31, 1986, as amended (the traditional system), and a second calculation based on the new set of rules (the new system), which includes, to some extent, the effects of inflation for tax purposes, as discussed below.

101. Once the income tax has been computed under both systems, the income tax payable is computed as follows.

	Percent Of Tax Payable		
	Traditional		*New*
Rate	*42%*		*35%*
1987	80	plus	20
1988	60	plus	40
1989	40	plus	60
1990	20	plus	80
1991			100

102. Because of the merging of the phase in, phase out process, the effective income tax rate will decrease from 40.6 percent in 1987 to 35 percent in 1991.

103. The new system introduces an inflationary component that, in the case of holding monetary assets and liabilities, as defined in the income tax law, results in a deduction or income, respectively. The new system also provides for an option to entirely depreciate new fixed assets in the year of acquisition at their present value, whose determination is based on the lives prescribed in the income tax law. The new system includes the substitution of the deduction of cost of sales for the immediate deduction of purchases of inventories, labor, and overhead related to production. With this change, the pricing method of inventory ceases to be relevant for tax purposes. The balance of inventories at December 31, 1986, can only be deducted against the old tax base. Inventory balance in existence in 1991 will be deducted in the year of liquidation of the company or when the main activity is changed, allowing for inflation between such dates.

104. Generally, reserves for doubtful accounts, obsolete inventory, and seniority premiums, for example, are not allowable. The federal labor law requires the payment of a seniority premium to employees, who have completed fifteen years of service, upon their dismissal or retirement and in certain other circumstances, such as upon the death of the employee. Bulletin D-4 (see appendix B) requires that a provision be established for this eventuality. A deduction is permitted when the amount is paid or funded.

105. Nonresident corporations are taxed only on their Mexican source income at flat rates, without deductions, based on the different types of income. No annual return is required for nonresident corporations. Dividends paid to individuals or to foreign shareholders, either individuals or corporations, require an income tax withholding of 50 percent by the corporation making the dividend payment.

Estimated Income Taxes

106. Business enterprises are required to make estimated tax payments against their annual tax liability. Payments are required to be made monthly within seven days following the month end. The determination of the amount is based on a factor that is the ratio of taxable income generated in the previous year to the gross revenue realized in such year applied to the gross revenue of the current year. If the company had a loss in the previous year, the tax law provides that the company will proceed to the next preceding year, up to five years under the traditional system and to 1987 under the new system, to determine a factor. No estimated income tax is required in the first year of existence.

Value-Added Tax

107. Value-added tax is levied at a standard rate of 15 percent on all types of consumer products and services. Value-added tax, for which a monthly return must be filed, generally does not represent an additional cost to business because the amounts paid may be taken as credits on the liability of the business enterprise for the tax on their billings to customers. The rate differs for certain specified areas ranging from 6 to 20 percent. The 6 percent rate applies to most food items and medicine; the 20 percent rate applies to items considered to be luxury items.

Capital Gains Tax

108. Capital gains are generally included with ordinary income in corporate tax returns. Special deductions are allowed for gains on sales of real estate. Gains on sale of capital stock also are given special tax consideration.

Individual Income Tax

109. Resident individuals are taxed on their worldwide income and must file an annual income tax return with special treatment for capital gains. The highest tax rate on individuals is 55 percent on income above 64,000,000 Mexican pesos (1987). Nonresident individuals are taxed only on their Mexican source income at flat rates applied to different types of gross income.

Other Taxes

110. Social Security contributions are imposed on both the employee and employer. Such amounts are withheld by the employer and remitted to the government on a monthly basis. An advance payment is made estimating the first month, and a return is filed after the second month, which includes the two-month period. The amount is assessed on a maximum of ten times the minimum wage.

111. Property taxes are levied annually by each state at widely varying rates. The tax is based on the value shown by the tax rolls. Transfer of real estate is subject to a title transfer tax.

Tax Returns

112. Resident corporations are required to file an annual income tax return within three months of their fiscal year end. Any remaining tax due must be paid at this time. The tax return may not cover a period in excess of twelve months and generally is for a one-year period. In addition, corporations are required to make a tax closing in the sixth and eleventh months and pay any tax due at such time.

113. Most resident individuals are required to file an annual income tax return before April 30 of the succeeding year. Any tax due is payable when the return is filed. Overpayments can be

applied against the following years' taxes or a refund may be requested, but may not be used to reduce taxes withheld from future salaries.

Employee Profit Sharing

114. All companies, with a few exceptions (primarily, companies in their first year of operation), are required to participate in an employee profit-sharing plan. The amount of participation of the employees in the income is the equivalent of 10 percent of taxable income determined under the traditional system. Taxable income is adjusted, for the additional deduction allowed by article 51 of the income tax law and dividends paid, for purposes of employee profit sharing. Net operating loss carryforward is also not considered. All employees participate with the exception of the manager and part-time employees who worked less than sixty days. The amounts must be paid within sixty days following the date that the annual income tax is paid.

APPENDIX A

Outstanding Auditing Pronouncements

The following is a list of the translated outstanding auditing pronouncements.

Series and Number of Bulletin	Title
A	*Character and obligatory nature of the bulletins of the Commission*
B	*Standard pronouncements of a general character on the objective and nature of the audit of financial statements*
B-02	*Quality control of the audit work of financial statements*
C	*Auditing Standards*
D	*Personal Standards Pronouncements*
E-01	*Audit planning and supervision*
E-02	*Study and evaluation of the internal control*
E-03	*Sufficient and competent evidence*
E-04	*The responsibility of the auditor in the discovery of errors and irregularities*
F-01	*Auditing procedures of general application*
F-02	*Audit sampling*
F-03	*Initial audits*
F-04	*Conclusion of the audit*
F-05	*Study and evaluation of internal control by cycles*
F-06	*Effects of the electronic data processing (EDP) in the examination of internal control*
F-07	*Auditing procedures for the study and evaluation of the function of internal auditor*
F-08	*Using the work of a specialist*
F-10	*Communication between the successor and preceding auditor*
F-11	*Analytical review procedures*
G-01	*Cash examination*

Series and Number of Bulletin	Title
G-02	*Temporary investments in securities*
G-03	*Accounts receivable*
G-04	*Inventories*
G-05	*Prepaid expenses*
G-06	*Property, plant, and equipment*
G-07	*Auditing procedures for the disclosure of the effects of inflation in the financial information*
G-08	*Intangibles*
G-09	*Liabilities*
G-10	*Shareholders' equity*
G-11	*Sales and cost of sales*
G-12	*Operating expenses*
G-13	*Examination of contingencies and commitments*
G-14	*Subsequent events*
G-15	*Examination of salaries and wages*
G-16	*Audit procedures applicable to the limited review of interim financial statements*
G-17	*Permanent investment in shares and preparation of consolidated and combined financial statements*
G-20	*Auditing procedures applicable to the examination of those items in the financial statements that recognize the effects of inflation in the financial information*
H-01	*Auditor's report*
H-02	*Opinion on financial statements prepared on a basis different from accounting principles*
H-03	*Repercussion in the report of the public accountant of the recognition of the effects of inflation in the financial information*
H-04	*Effects in the report of the auditor when the work of other auditors is used*
H-11	*Professional opinions of the public accountant issued for special purposes*
H-12	*Report of the public accountant in the performance of the function of statutory auditor*
H-13	*Report on the system of accounting internal control*
H-14	*Report on the limited review of financial statements*
H-15	*Opinion on complementary information that accompanies the basic financial statements reported upon*
H-16	*Opinion of the public accountant on the incorporation of subsequent events in pro forma financial statements*

Series and Number of Bulletin	Title
H-20	*Notes to financial statements*
H-25	*Report on internal control*
H-31	*Association of the name of the public accountant with financial statements*
H-32	*Effects of the work of a specialist in the report of the auditor*
J-01	*Guide for the study of internal control*
J-02	*Guide for the study of internal control of the purchase cycle*
J-03	*Guide for the study of internal control of the production cycle*
J-04	*Guide for the study of internal control of payroll*
J-05	*Guide for the study of internal control of the treasury*

APPENDIX B

Outstanding Accounting Pronouncements

The following is a list of the translated outstanding accounting pronouncements.

	Effective Date
Series A—Basic Accounting Principles	
1. *Outline of the Basic Theory of Financial Accounting*	Jan. 1974
2. *Entity*	Oct. 1975
3. *Realization and Accounting Period*	Sep. 1975
5. *Adequate Disclosure*	Jul. 1974
6. *Materiality*	Oct. 1981
7. *Consistency*	Jul. 1974
11. *Definition of the Integral Basic Concepts of the Financial Statements*	Oct. 1987
Series B—Principles Relative to Financial Statements in General	
1. *Objectives of the Financial Statements*	Oct. 1981
8. *Consolidated and Combined Financial Statements and Valuation of Permanent Investments*	Mar. 1976
9. *Interim Financial Information*	Jan. 1983
10. *Accounting for the Effects of Inflation in the Financial Information*	Dec. 1984
First Document of Amendments to Bulletin B-10	Dec. 1985
Second Document of Amendments to Bulletin B-10	Dec. 1987
11. *Statement of Cash Flow or Statement of Changes in Financial Position on a Cash Basis*	Dec. 1983
Series C—Principles Applicable to Specific Items and Concepts	
1. *Cash*	Jan. 1974
2. *Temporary Investments*	Apr. 1982
3. *Accounts Receivable*	Jul. 1974
4. *Inventories*	Jan. 1974

	Effective Date
5. *Prepaid Expenses*	Oct. 1981
6. *Property, Machinery, and Equipment*	Jul. 1974
8. *Intangibles*	Apr. 1976
9. *Liabilities*	Jan. 1974
11. *Stockholders' Equity*	Apr. 1976
12. *Contingencies and Commitments*	Jan. 1974
Series D—Special Problems in the Determination of Results of Operations	
3. *Accounting Treatment of Personnel Remunerations Employee Seniority Premiums, Supplement to Bulletin D-3*	Jul. 1974
4. *Accounting Treatment of Income Tax and Employee Profit Sharing*	Dec. 1987

Note:

Numbers were assigned to topics in each series prior to their being developed. Thus, gaps exist in the numbering system because some Bulletins have been cancelled, merged, or are not yet issued.

APPENDIX C

Illustrative Auditor's Report and Financial Statements

The following financial statements are intended for illustrative purposes only. The statements presented are not intended to include all information that Mexican law requires.

AUDITORS' OPINION

Company de México, SA de CV:

We have examined the consolidated balance sheets of Company de México, SA de CV and its subsidiary company as of December 31, 1987 and 1986 and the related consolidated statements of income, changes in stockholders' equity, and changes in financial position for the years then ended (all expressed in millions of Mexican pesos). Our examinations were made in accordance with auditing standards generally accepted in Mexico and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such consolidated financial statements present fairly the financial position of Company de México, SA de CV and its subsidiary company at December 31, 1987 and 1986 and the results of their operations and the changes in their financial position for the years then ended, in conformity with accounting principles generally accepted in Mexico, applied on a consistent basis.

Such financial statements have been translated into English for the convenience of readers in the United States of America.

January 20, 1988

COMPANY DE MÉXICO, SA DE CV AND SUBSIDIARY COMPANY
CONSOLIDATED BALANCE SHEETS
December 31, 1987 and 1986
(in millions of Mexican pesos)

Assets	*Notes*	*1987*	*1986*
Current assets:			
Cash and temporary cash investments	6	P 230,000	P 76,000
Notes and accounts receivable:			
Trade	7	145,000	55,000
Other		20,000	2,000
Total		165,000	57,000
Inventories—(including revaluation: 1987, $60,000; 1986, $20,000)	1	95,000	34,000
Total current assets		490,000	167,000
Property, plant and equipment			
At cost—net	1,2	50,000	29,000
Revaluation—net		660,000	230,000
Property, plant and equipment—net		710,000	259,000
Total		P1,200,000	P426,000

Liabilities and Stockholders' Equity	*Notes*	*1987*	*1986*
Current liabilities:			
Long-term debt—current portion	3,6	P 9,000	P 10,000
Bank loans and commercial paper		36,000	6,000
Notes and accounts payable	6	59,000	12,000
Accrued liabilities		24,000	8,000
Income tax		29,000	—
Employee profit sharing		17,000	3,000
Total current liabilities		174,000	39,000
Long-term debt—Less current portion	3,6	82,000	57,000
Deferred taxes	4	18,000	12,000
Allowance for seniority premiums	1	2,000	1,000
Total liabilities		276,000	109,000
Stockholders' equity	1,5		
Capital stock		8,000	8,000
Retained earnings		123,000	44,000
Updated capital stock and retained earnings		969,000	339,000
Insufficiency from the updating of stockholders' equity		(176,000)	(74,000)
Stockholders' equity		924,000	317,000
TOTAL		P1,200,000	P426,000

See notes to consolidated financial statements.

COMPANY DE MÉXICO, SA DE CV AND SUBSIDIARY COMPANY
CONSOLIDATED STATEMENTS OF INCOME
December 31, 1987 and 1986
(in millions of Mexican pesos)

	Notes	*1987*	*1986*
Net sales		P685,000	P246,000
Cost of sales		394,000	151,000
Gross profit		291,000	95,000
Operating Expenses		91,000	34,000
Operating profit		200,000	61,000
Integral financing cost	1	34,000	14,000
Income before provisions for income tax and employee profit sharing		166,000	47,000
Provisions for:	1,4		
Income tax		40,000	8,000
Employee profit sharing		19,000	5,000
Total provisions		59,000	13,000
Net income	5	P107,000	P 34,000

See notes to consolidated financial statements.

COMPANY DE MÉXICO, SA DE CV AND SUBSIDIARY COMPANY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
December 31, 1987 and 1986
(in millions of Mexican pesos)

		Retained Earnings					
	Capital Stock	*Appropriated to the Legal Reserve*	*Unappropriated*	*Total*	*Updated Capital Stock and Retained Earnings*	*Insufficiency From the Updating of Stockholders' Equity*	*Stockholders' Equity (Notes 1 and 5)*
BALANCES AT JANUARY 1, 1986	P8,000	P1,000	P 28,000	P 29,000	P146,000	P (41,000)	P142,000
CHANGES:							
Dividends in cash—190 pesos per share	—	—	(19,000)	(19,000)	—	—	(19,000)
Appropriation to the legal reserve	—	1,000	(1,000)	—	—	—	—
Net income for the year	—	—	34,000	34,000	—	—	34,000
Recognition of the effects of inflation in the financial information	—	—	—	—	193,000	(33,000)	160,000
BALANCES AT DECEMBER 31, 1986	8,000	2,000	42,000	44,000	339,000	(74,000)	317,000

(Continued on next page.)

COMPANY DE MÉXICO, SA DE CV AND SUBSIDIARY COMPANY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Cont'd)

		Retained Earnings					
	Capital Stock	*Appropriated to the Legal Reserve*	*Unappropriated*	*Total*	*Updated Capital Stock and Retained Earnings*	*Insufficiency From the Updating of Stockholders' Equity*	*Stockholders' Equity (Notes 1 and 5)*
CHANGES:							
Dividends in cash—280 pesos per share	—	—	(28,000)	(28,000)	—	—	(28,000)
Net income for the year	—	—	107,000	107,000	—	—	107,000
Recognition of the effects of inflation in the financial information	—	—	—	—	630,000	(102,000)	528,000
BALANCES AT DECEMBER 31, 1987	P8,000	P2,000	P121,000	P123,000	P969,000	P(176,000)	P924,000

See notes to consolidated financial statements.

COMPANY DE MÉXICO, SA DE CV AND SUBSIDIARY COMPANY CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

December 31, 1987 and 1986
(in millions of Mexican pesos)

	1987	*1986*
Sources of cash:		
Cash provided from operations:		
Net income	P107,000	P34,000
Plus (less):		
Depreciation	19,000	8,000
Accrued liabilities	66,000	7,000
Loans from FICORCA from the capitalization of interest costs	26,000	12,000
Monetary (loss) gain	19,000	(1,000)
Unpaid exchange fluctuations	19,000	11,000
Total cash provided from operations	256,000	71,000
Cash provided from financial transactions:		
Notes and accounts payable	47,000	6,000
Long-term debt—net	—	5,000
Bank loans and commercial paper	30,000	6,000
Total cash provided from financial transactions	77,000	17,000
Total sources of cash	333,000	88,000
Investment program in property, plant and equipment	23,000	6,000
Dividends distributed to stockholders	28,000	19,000
Other uses of cash:		
Long-term debt—net	20,000	—
Notes and accounts receivable	94,000	30,000
Inventories	5,000	—
Other	9,000	(3,000)
Total other uses of cash	128,000	27,000
Total uses of cash	179,000	52,000
Net increase in cash and temporary cash investments	154,000	36,000
Cash and temporary cash investments:		
Beginning of year	76,000	40,000
End of year	P230,000	P76,000

See notes to consolidated financial statements.

COMPANY DE MÉXICO, SA DE CV AND SUBSIDIARY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1987 and 1986
(in millions of Mexican pesos)

1. Operations and Summary of Significant Accounting Policies

OPERATIONS

The main activities of the Company are the manufacturing, marketing and selling of special products.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial statements presentation

Consolidated Statements—The consolidated financial statements include Company de México, SA de CV and its subsidiary company, Special Products, SA. The majority of its capital stock is owned by the Company.

Accounting for the effects of inflation in the financial information

The methods for determining the effects of inflation in accordance with Bulletin B-10, are summarized as follows:

Inventories—At their replacement value, which does not exceed their market value.

Cost of sales—Under the last-in, first-out ("LIFO") method.

Property, plant and equipment—Based on appraisals carried out by independent expert appraisers.

Depreciation—Depreciation of property, plant and equipment, is computed using the straight-line method, based on the estimated useful lives of the assets.

Stockholders' equity—The items included in this section are updated using the National Consumer Price Index published by "Banco de México" (Central Bank).

At December 31, the updating of capital stock and retained earnings, was as follows:

	1987	*1986*
Capital stock	P349,000	P130,000
Retained earnings	620,000	209,000
Total	P969,000	P339,000

Insufficiency from the updating of stockholders' equity—Represents basically the excess of inflation, determined based on the National Consumer Price Index, over the increase in value of nonmonetary assets, determined on the basis of replacement values.

Monetary effect—The monetary effect is determined by applying the National Consumer Price Index to the net monetary monthly position.

Income tax and employee profit-sharing

Provisions for income tax and employee profit-sharing are provided for items appearing in the statement of income regardless of the period in which such items are recognized for tax purposes (see Note 4).

The effects resulting from the adoption of Bulletin B-10 have no effect for income tax and employee profit-sharing purposes.

Seniority premiums

Provisions for seniority premiums, payable in accordance with the Federal Labor Law, are computed in accordance with the Company's experience, considering certain actuarial basis.

Pension plan

The Company has established a pension plan, which covers all non-union employees. The annual cost of the plan, which is funded and paid by the Company, is actuarially determined under the collective method and includes the amortization of past service costs over 20 years. The contributions to this plan for the years ended December 31, 1987 and 1986 amounted to P300 and P200, respectively.

2. Property, Plant, and Equipment

At December 31, property, plant, and equipment, consisted of the following:

	1987			1986
	Cost	*Revaluation*	*Total*	*Total*
Land	P 1,000	P 4,000	P 5,000	P 3,000
Buildings	4,000	141,000	145,000	53,000
Machinery and equipment	39,000	827,000	866,000	306,000
Transportation equipment	2,000	11,000	13,000	5,000
Furniture and fixtures	1,000	—	1,000	1,000
Total	47,000	983,000	1,030,000	368,000
Less accumulated depreciation	7,000	324,000	331,000	111,000
Net	40,000	659,000	699,000	257,000
Construction in progress	10,000	1,000	11,000	2,000
Total	P50,000	P660,000	P 710,000	P259,000

3. Long-term Debt

At December 31, long-term debt is summarized as follows:

	1987	1986
Loans from the Government trust for the coverage of exchange risks (FICORCA)	P 6,000	P 6,000
Additional loans received from FICORCA resulting from the capitalization of interest	46,000	19,000
Other:		
Payable in US dollars	31,000	18,000
Payable in Mexican pesos	8,000	24,000
Total	91,000	67,000
Less current portion	9,000	10,000
Long-term debt portion	P82,000	P57,000

Long-term debt portion is payable as follows:

Year	*1987*	*1986*
1988	P —	P10,000
1989	10,000	8,000
1990	9,000	8,000
1991	16,000	12,000
Subsequently	47,000	19,000
Total	P82,000	P57,000

At December 31, 1987, the Company had signed a contract with foreign banks, in the aggregate amount of US $60 million, for an unsecured revolving line of credit and/or for the issuance of commercial paper in the United States of America. As of the same date, US $30 million of commercial paper had already been issued.

The Company has signed contracts with the Government trust for the coverage of exchange risks (FICORCA), established by the Federal Government through the Banco de México (Central Bank) for the purpose of covering exchange risks from loans denominated in US dollars with foreign banks.

In accordance with such contracts, the Banco de México, sold to the Company US $42 million and loaned the Company in Mexican pesos, without guaranty, the equivalent of US $40 million payable in eight years with a four year grace period. Such US $42 million were loaned to the Banco de México and generate interest equivalent to that paid by the Company on the original loans received from foreign banks.

The responsibility to pay the loans in foreign currencies to the banks remains with the Company, should the Banco de México not pay the loans in foreign currency in accordance with the trust agreement.

Interest on loans in Mexican pesos, given by the Banco de México, is computed on unpaid balances at variable rates and are to be paid on a monthly basis. A portion of such interest was capitalized as additional debt and bears interest at the same rates as the principal debt.

The loans payable in Mexican pesos include P8,000 resulting from the issuance of the unsecured debentures issued on September 2, 1986, which funds were applied to the Company's expansion plans. Such debentures bear interest, payable quarterly, at a rate equivalent to adding 4.5 percent to the net highest yield offered by those investment instruments established in the related contract. The amortization of the debentures will be made through eight semi-annual payments of P1,000 each, commencing March 2, 1990.

The remaining long-term debt represents the loans obtained from ten banks, without guaranty, at variable interest rates and with monthly and semi-annual maturities in the majority of the loans.

At December 31, 1987, the Company has complied with the covenants established in the related loans and debentures contracts.

4. Deferred Taxes

At December 31, 1987 and 1986, the balance of deferred income tax and employee profit sharing arises from timing differences between book pre-tax income and taxable income. The sources of these differences are principally the allowances for doubtful accounts and seniority premiums, interest and exchange fluctuations.

At December 31, 1987 and 1986, the combined effective rate of income tax and employee profit sharing differs from the statutory rate due principally to the deductions from dividends paid, provisions available under article 51 of the income tax law and excess tax depreciation over book depreciation.

For 1987 and 1986, the provisions for income tax were as follows:

	1987	*1986*
Current	P36,000	P3,000
Deferred portion	4,000	5,000
Total	P40,000	P8,000

5. Stockholders' Equity

At December 31, the capital stock of the Company was represented by common shares, with no par value as follows:

	Shares	*Percentage*
Series "A"	55,000,000	55%
Series "B"	45,000,000	45%
Total	100,000,000	100%

In accordance with the Company's by-laws, at least 52 percent of the shares must be acquired by Mexican investors.

At December 31, 1987, the total of the stockholders' equity, with the exception of stockholders' contributions of P2,247 and its related tax updating, is subject to a dividend tax of 50 percent to the stockholders upon distribution to them (except stock dividends). Mexican companies that receive dividends from Mexican investees are exempt from this tax to the extent they are paid out of retained earnings.

Dividends paid in cash or with any other asset (except capital shares and negotiable instruments) are deductible by the Company for income tax purposes.

In accordance with accounting principles generally accepted in Mexico, distribution of the stockholders' equity resulting in a reduction of capital stock, including its inflation adjustment, will be considered as a capital reimbursement.

6. Exposed Position in Foreign Currency

At December 31, the Company had assets and liabilities denominated in US dollars, as follows:

	Equivalent in Mexican pesos	
	1987	*1986*
Assets	P202,000	P60,000
Liabilities	(93,000)	(25,000)
Exposed net asset position in US dollars	P109,000	P35,000

The exchange control in force consists of two exchange markets, one that is controlled and one that is free.

The controlled market includes, among other items, principal, interest and other charges related to credits denominated in foreign currency and due to Mexican or foreign credit institutions (registered with federal income tax authorities) as well as debt resulting from importing of certain products.

All transactions that do not qualify under the controlled market are included in the free market.

Obtaining foreign currency at the controlled rate is subject to its availability at the Mexican Central Bank.

At December 31, the Mexican peso exchange rates for US $1.00 were as follows:

	1987	*1986*
Controlled	P2,204.00	P925.30
Free	P2,260.00	P920.00

7. Commitments

At December 31, 1987, the commitments are summarized as follows:

- For the construction and acquisition of machinery and equipment for approximately P4,200.
- For the accounts receivable sold under a factoring transaction for approximately P23,400.

APPENDIX D

Checklist for Comparison of Generally Accepted Auditing Standards (GAAS) in the United States to Auditing Standards in Mexico

General Information	Answer	Comments
1. Is a primary purpose of an audit:		
a. to attest to information used by investors, creditors, etc. . .?	Yes	
b. to satisfy statutory requirements (for example, the Companies Act)?	Yes	
c. for tax purposes?	Yes	1*c.* *Dictamen Fiscal* (Tax Report), Social Security Report.
2. A. The United States has ten generally accepted auditing standards including general standards, standards of field work, and standards of reporting. Those standards and their interpretations constitute U.S. generally accept-	Yes	2A. Normas y Procedimientos de Auditoria (Auditing Standards and Procedures)

ed auditing standards which have been published in *Codification of Statements on Auditing Standards*. Do generally accepted auditing standards exist in your country?		
B. If so, are they published?	Yes	2B. *Auditing Standards and Procedures*, and *Study and Evaluation of the Internal Control by Objectives and Cycles of Transactions*
C. If auditing standards exist in your country, are they similar to U.S. standards?	Yes	
D. If not, what are they?		
3. Who is responsible for promulgating auditing standards (for example, the profession, a governmental body, etc.)?	The profession	3. Instituto Mexicano de Contadores Publicos, A.C. (Mexican Institute of Public Accountants), Commission of Auditing Standards and Procedures

Notes:

Checklist should be completed from the perspective of performing a local audit, *not* a referral audit.
AU numbers refer to sections in the *Codification of Statements on Auditing Standards,* unless otherwise noted.
Mexican references refer to sections in the publication *Auditing Standards and Procedures* published by the Mexican Institute of Public Accountants, unless otherwise noted.

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
4. Do auditors confirm receivables? (AU 331)	Yes. Bulletin G-03	✓			
5. Do auditors observe inventory counts? (AU 331)	Yes. Bulletin G-04	✓			
6. Do auditors receive written representations from management? (AU 333)	Yes. Bulletin F-04	✓			6. Predominant practice is to obtain a letter containing similar representations as required by AU 333 A.
7. Do auditors receive written representations from management's legal counsel? (AU 337)	Yes. Bulletin G-09	✓			
8. A. Do auditors prepare and maintain working papers? (AU 339)	Yes. Bulletin E-03	✓			8A. Bulletin E-03 specifies that the sufficient and competent evidence should be recorded in working papers.
B. If so, do they include a written audit program outlining procedures to be performed? (AU 339)	Yes. Bulletin E-01	✓			
9. Do auditors study existing internal controls as a basis for reliance thereon in determining the nature, extent, and timing of audit tests to be performed? (AU 320)	Yes. Bulletins E-02, F-05 and H-25	✓			
10. A. Do auditors communicate material weaknesses in internal accounting control to senior management of the client's board of directors? (AU 323)	Yes. Bulletin E-02	✓			

B. If so, is the communication documented? (AU 323)	Yes. Bulletin E-02	✓	
11. In obtaining evidential matter, does the auditor apply either statistical or nonstatistical procedures? (AU 350)	Yes. Bulletin F-02	✓	
12. Is the auditor responsible for planning his examination to search for errors or irregularities that would have a material effect on the financial statements? (AU 327)	Yes. Bulletins B and E-01	✓	12. The objective of the audit of financial statements is not to discover errors or irregularities; however, the auditor should plan his examination to search for errors or irregularities that would have a material effect on the financial statements.
13. A. Does the auditor perform procedures to identify related party transactions and their effect on the financial statements? (AU 334)	Yes. Bulletin G-12	✓	
B. If so, list the procedures.			13B. Specific procedures to identify related party transactions are not set forth as in the U.S., however guidance is set forth in IAS 24, *Related Party Disclosures.*
14. Does the auditor consider the adequacy of cut-off procedures to ensure that movements into and out of inventories are properly identified in the accounting records? (AU 313)	Yes. Bulletin G-04	✓	

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
15. A. Are specific auditing procedures applied to transactions occurring after the balance sheet date? (AU 560)	Yes. Bulletin G-14	✓			
B. Are other auditing procedures applied to ascertain the occurrence of subsequent events that require adjustment to or disclosure in the financial statements? (AU 560)	Yes. Bulletin G-14	✓			
16. The concept of "joint auditors" in certain countries (e.g., U.K., Canada, and Australia) is that two auditors or audit firms jointly audit the financial statements of a company and issue a single report signed by the two firms. This practice is not generally followed in the U.S. Does the concept of "joint auditors" exist in your country?	No		✓		16. Participation of joint auditors occurs on very large engagements with tight time constraints. The occasions on which this has occurred are very limited.
17. When a principal auditor is reporting on financial statements that include one or more subsidiaries, divisions, branches, or investees: (AU 543)					
A. Must the principal auditor assume responsibility for the work of the other auditor as it relates to the principal auditor's opinion?	No. Bulletin H-04	✓			

B. May the principal auditor decide not to assume that responsibility by making reference to the other auditor and indicating the division of responsibility?	Yes. Bulletin H-04	✓	
18. A. Is there a standard form of auditor's report? (AU 509)	Yes. Bulletin H-01	✓	18A. Standard two-paragraph report is generally used (scope paragraph followed by opinion paragraph).
B. List the circumstances that require a departure from the standard report and indicate the type of report required. (AU 509)			18B. See paragraphs 39 through 40 of the text.
19. A. Does the auditor's report express an opinion on the consistency of application of accounting principles? (AU 420)	Yes. Bulletin H-01	✓	19A. See appendix C.
B. If not, does it imply that either consistency exists or the financial statements disclose the inconsistency?			
20. A. Is the auditor's report dated as of the last day of field work? (AU 530)	Yes. Bulletin H-01	✓	
B. If not, what date is used?			
21. To express an opinion, must the auditor be independent? For the purpose of this checklist, independence is defined as being free of financial interest in the client. (*Code of Professional Conduct*, Rule 101)	Yes	✓	21. Mexican Institute of Public Accountants *Code of Professional Conduct*, page 7, postulate II

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
22. Please describe any standards in Mexico for which there are no corresponding U.S. standards.					22. The standards (trans.) are as follows: Bulletin G-07 *Auditing procedures for the disclosure of the effects of inflation in the financial information* Bulletin G-20 *Auditing procedures applicable to the examination of those items in the financial statements that recognize the effects of inflation in the financial information*

APPENDIX E

Checklist for Comparison of Generally Accepted Accounting Principles (GAAP) in the United States to Accounting Principles in Mexico

General Information	Answer	Comments
1. Are there generally accepted accounting principles in Mexico? If so, are they codified?	Yes	
2. Who is responsible for promulgating accounting principles (for example, the profession, a governmental body, etc.)?	The profession	2. Instituto Mexicano de Contadores Publicos (Mexican Institute of Public Accountants)

Notes:

References to the U.S. Generally Accepted Accounting Principles column are to sections in the *FASB Current Text,* unless otherwise noted.
References in the required by government or professional pronouncement and comments column are to sections in Generally Accepted Accounting Principles published by the Mexican Institute of Public Accountants unless otherwise noted.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
3. Are assets and liabilities recorded on the historical cost basis?	No. Bulletin B-10	✓			3. Financial statements must be adjusted for the effects of inflation.
4. Are interest costs, incurred while activities that are necessary to get an asset ready for its intended use are in progress, capitalized as part of the historical cost of an asset? (I67)	Yes. Bulletin C-6	✓			4. Interest accrued during the period of construction and installation of the asset as well as its related other integral costs of financing (monetary effect and exchange fluctuations) may be capitalized, charging it to the cost of the asset, or it may be charged to operations. If the integral cost of financing is in a credit position, before considering the interest capitalized, the interest capitalized in the current period must be applied to reducing such credit until the amount is zero. The remainder, if any, may be capitalized.
5. A. Is a general revaluation (either upward or downward) of assets permitted? (D40)	Yes. Bulletin B-10	✓			
B. If so, define the basis.					5B. Defined in Bulletin B-10.
6. Are nonmonetary transactions that culminate an earnings process accounted for on the basis of the fair market value of the assets involved when that value is determinable within reasonable limits? (N35)	Yes. Section C-6	✓			

7. Is revenue recognized when it is earned and its realization is reasonably assured (rather than when money is received)? (Statement of Financial Accounting Concepts No. 5)	Yes. Section A-3	✓	
8. Are costs recorded when incurred rather than when money is paid? (Statement of Financial Accounting Concepts No. 5)	Yes. Section A-3	✓	
9. A. Are consolidated financial statements required when one company has control over another company? (C51)	Yes. Section B-8	✓	
B. Is control usually indicated by ownership of over fifty percent of the outstanding voting shares? If not, how is control indicated?	Yes. Section B-8	✓	
10. A. Are there instances when an entity would not be consolidated even though control is present? (C51)	Yes. Section B-8	✓	
B. If so, list them.			10B. Following are instances when an entity would not be consolidated even though control is present: • Subsidiaries in foreign countries in which currency control exists, restrictions on the distribution of income, or uncertainties of the monetary stability

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
					• Subsidiaries dedicated to activities distinct in nature from that carried on by the rest of the group, such as institutions of credit, insurance and finance subsidiaries. However, there are certain situations when the institution should be consolidated • Subsidiaries in which control is temporary • Subsidiaries in situations of suspension of payments, dissolution and bankruptcy • An entity would not be consolidated in a tax report, in which case parent only financial statements would be issued. In addition, consolidated financial statements would not be issued in a *comisario* (statutory auditor) report, because the report must be on the individual entity
11. If consolidation is not otherwise appropriate, is the equity method used for unconsolidated subsidiaries, corporate joint ventures, and other investees, if the investments give the investor the ability to ex-	Yes. Section B-8	✓			

ercise significant influence over the investees' operating and financial policies? (I82)			
12. Are there two methods of accounting for business combinations—the pooling-of-interests method and the purchase method?	Yes. Section B-8	✓	
13. Is the method used to account for a business combination disclosed? (B50)	Yes. Section A-5	✓	
14. A. Do criteria exist for treatment of business combinations as poolings-of-interests? (B50)	Yes. Section B-8	✓	
B. If so, list the criteria.			14B. Horizontal combination (pooling-of-interest) is that in which the shareholders of the surviving company are substantially the same shareholders that possessed the majority of the shares of the combined and the combining company before the pooling was consummated.
15. A. Is goodwill arising from a business combination accounted for as an asset? (I60)	Yes. Section B-8	✓	
B. If so, is it amortized as a charge to income over the period estimated to be benefited?	Yes. Section B-8	✓	
16. Are the following disclosures made for related party transactions: (R36)			

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
a. the nature of the relationship?	Yes. Sections C-3 and C-9	✓			
b. a description of the transactions for the periods presented?	Mexican Auditing Standards and Procedures. Bulletin G-12	✓			
c. the amounts of the transactions for the periods presented?	Mexican Auditing Standards and Procedures. Bulletin G-12	✓			
d. the amounts due to or from related parties at the balance sheet date?	Yes. Sections C-3 and C-9	✓			
17. Is an estimated loss from a loss contingency accrued only if it is probable that an asset has been impaired or a liability incurred and the amount of loss can be reasonably estimated? (C59)	Yes. Section C-12	✓			
18. If a loss contingency is not accrued because both conditions for accrual listed in question 17 are not met, is disclosure of the contingency required when there is at least a reasonable possibility that a loss may have been incurred? (C59)	Yes. Section C-12	✓			

19. Are guarantees of the indebtedness of others or other loss contingencies disclosed in financial statements even though the possibility of loss may be remote? [In the U.S., guarantees are usually disclosed as loss contingencies even if the possibility of loss is remote.] (C59)	Yes. Section C-12	✓		
20. Are the following items disclosed in an enterprise's financial statements for each industry segment: (S20)				20*a-f*. There are no requirements in Mexico to present industry segment information.
a. sales to outsiders and intersegment sales?	No		✓	
b. operating profit or loss?	No		✓	
c. identifiable assets and related depreciation, depletion, and amortization expense?	No		✓	
d. capital expenditures?	No		✓	
e. equity in net income and net assets of unconsolidated subsidiaries and other investees?	No		✓	
f. effect of a change in accounting principle?	No		✓	
21. A. Are there any requirements to disclose the effects of inflation? (C27)	Yes. Section B-10	✓		
B. If so, list the disclosures required?				21B. A synthesis of the effects produced from the updating of the financial statements for the period, which should include the following items and amounts:

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
					• Updating of nonmonetary assets and liabilities along with the associated expenses, costs and income • Updating of shareholders' equity • Monetary effects (indicating the portion charged or credited to operations) • Results from holding nonmonetary assets The notes should disclose by line item the updated shareholders' equity and the accumulated results in such a manner that the amount of each item can be determined expressed in monetary units of general purchasing power at the balance sheet date.
22. Are assets segregated into current and noncurrent classifications with a total for current assets presented? (B05)	Yes. Section A-3	✓			
23. A. Are noncurrent assets those not expected to be realized within one year or the current operating cycle? (B05)	Yes. Section A-3	✓			
B. If not, how are noncurrent assets defined?					

24. A. Is an allowance established for uncollectible receivables? (C59)	Yes. Section C-3	✓		
B. If so, what is the basis (e.g., percentage of sales, aging of receivables, etc.) for calculating the allowance?				24B. Based on the estimated recoverability of the receivables.
25. Are receivables and payables, not arising in the normal course of business or subject to normal trade terms, recorded at an amount which takes imputed interest into account? (I69)	No		✓	25. No requirement for the imputing of interest.
26. A. Is inventory stated at the lower of cost or market (or net realizable value)? (I78)	No. Section B-10		✓	
B. If not, how is inventory stated?				26B. Inventory must be inflation adjusted.
C. Is the basis disclosed?	Yes	✓		
27. Does cost for inventory purposes include: (I78)				
a. materials?	Yes. Section C-4	✓		
b. direct labor?	Yes. Section C-4	✓		
c. factory overhead?	Yes. Section C-4	✓		
d. if the answer to *c.* is yes, is an allocable share of all factory overhead included?	Yes. Section C-4	✓		
28. A. Are the following cost methods permitted for reporting purposes: (I78)				28A. Inventory must be inflation adjusted for balance sheet purposes (see paragraph 58 of text). Cost of sales is determined by various permissible methods that are comparable to LIFO. The procedures used must be the same as used for the valuation of inventory.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
a. first-in, first-out (FIFO)?	Yes. Section B-10	✔			
b. last-in, first-out (LIFO)?	No. Section B-10	✔			
c. average cost?	No. Section B-10	✔			
B. Are the same methods permitted for tax purposes?	No. Article 58—income tax law title VII	✔			28B. Under the traditional system the following methods are permitted: • Identified cost • Average cost • FIFO and LIFO • Retail method
29. Is the inventory costing method used disclosed? (I78)	Yes. Section B-10	✔			
30. A. Are fixed assets depreciated over their estimated useful lives by systematic charges to income? (D40)	Yes. Sections C-6 and B-10	✔			
B. If so, is an accumulated depreciation account used?	Yes. Section C-6	✔			
31. Are disclosures made of: (D40)					
a. depreciation expense for the period?	Yes. Sections C-6 and B-10	✔			
b. balances of major classes of depreciable assets?	Yes. Sections C-6 and B-10	✔			
c. the methods used to compute depreciation for the major asset classes?	Yes. Sections C-6 and B-10	✔			
d. accumulated depreciation, either by major class of assets or in total?	Yes. Sections C-6 and B-10	✔			

32. A. Do criteria exist for classifying leases as operating leases? (L10)	Yes. Section C-6	✓	
B. If so, list the criteria and disclosure requirements.			32B. The financial statements of the lessee should contain the information necessary to permit the reader to determine the effect the lease commitment could have on the financial position and results of operations in the current year and in the future. Consequently, in the notes to the financial statements the annual amount of rents, types or classes of fixed assets, the period of lease, and whatever other obligation or guaranty, if any, and other additional information considered important, should be disclosed.
33. A. Do criteria exist for classifying leases as other than operating leases for the lessor and lessee? (L10)	Yes. Section C-6	✓	
B. If so, list the criteria, type of lease, and disclosure requirements.			33B. • The initial period of the lease is considerably less than the useful life of the asset, and the lessee has the option to renew the contract for the remaining period of the life of the asset at rents considerably lower than the original agreement.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
					• The lessee has the right during the period of the contract or at the end of the contract to acquire ownership of the asset by a disbursement, which at the date of the signing of the contract appears substantially lower than the value the asset will have at the moment that the purchase option can be exercised. • The asset was acquired by the lessor to satisfy the specific needs of the lessee and very probably is of use only for that specific purpose and for that lessee. • The lease period corresponds to the useful life of the asset and the lessee is obligated to pay such costs as taxes, insurance, maintenance, etc., which generally are attributable to the owner of the assets. • The lessee guarantees the obligations of the lessor with respect to the leased asset. • The amount of the agreed upon rents are equal to or

			greater than the market value of the asset at the date of the operation, plus the financing and expenses (taxes, line of credit, etc.) charged to the lessee.
34. Are liabilities segregated into current and noncurrent classifications with a total for current liabilities presented? (B05)	Yes. Section C-9	✓	
35. A. Are noncurrent liabilities those whose liquidation is not expected to require the use of current assets or the creation of current liabilities? (B05)	Yes. Section C-9	✓	
B. If not, how are noncurrent liabilities defined?			
36. For notes payable, is disclosure made of: (C59 and Statement of Financial Accounting Concepts No. 5)			
a. interest rates?	Yes. Section C-9	✓	
b. maturities?	Yes. Section C-9	✓	
c. assets pledged as collateral?	Yes. Section C-9	✓	
d. covenants to reduce debt?	Yes. Section C-9	✓	
e. minimum working capital requirements?	Yes. Section C-9	✓	
f. dividend restrictions?	Yes. Section C-9	✓	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
37. A. For long-term construction-type contracts, are the percentage-of-completion and completed contract methods used? (C04)	Yes.	✓			
B. If so, what are the criteria for determining the method to be used?					37B. Percentage-of-completion is used only if the outcome of the contract can be reliably estimated.
38. A. Are research costs charged to expense when incurred? (R50)	Yes. Section C-8	✓			
B. Are such costs disclosed?	Yes. Section C-8	✓			
39. A. Are development costs charged to expense when incurred? (R50)	Yes. Section C-8	✓			
B. Are such costs disclosed?	Yes. Section C-8	✓			
40. A. In the U.S. events and transactions are presented in the income statement as extraordinary items when they are unusual in nature and are of the type that would not reasonably be expected to recur in the foreseeable future. Do similar criteria for identifying extraordinary items exist in your country? (I17)	Yes. Section A-3	✓			
B. If not, what are the criteria?					

41. Are material events or transactions, that are unusual in nature or expected to occur infrequently but not both (and thus do not meet the criteria for classification as extraordinary) shown as a separate component of income or expense? (I22)	Yes. Section A-6	✓	
42. A. Are disclosures required for:			
a. extraordinary items? (I17)	Yes. Section A-6	✓	
b. material events or transactions not classified as extraordinary items? (I22)	Yes. Section A-6	✓	
c. disposal of a segment of a business? (I13)	Yes. Section A-6	✓	
B. Indicate the financial statement presentation of these items.			42B. Material events or transactions not classified as extraordinary items are reflected in the statement of operations as a separate line item before provisions for income tax and employee profit sharing, and extraordinary items. Extraordinary items would follow the above-mentioned provisions before arriving at net income.
43. A. Are pension costs provided for covered employees over the term of employment? (P15)	Yes. Section D-3	✓	
B. If so, do they include charges for costs assigned under the actuarial method used to years prior to the plan's inception?	Yes. Section D-3	✓	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
44. A. Are specific disclosures required relating to pension plans? (P15)	Yes. Section D-3	✓			
B. If so, list them.					44B. The following should be disclosed in a note to the financial statements: • A brief explanation of the existence and characteristics of the plan • Existence or nonexistence of a fund • Reference, if applicable, to deferred charges representative of the acquired benefits pending to be charged to operations and the systematic method of its amortization to future periods • Description and effects of facts or situations that have affected the comparability of the financial statements, such as accounting changes, changes in the circumstances that affect the actuarial calculation and other factors, or adoption of a new plan or modification of the existing plan

45. A. When accounting income and taxable income differ, are deferred income taxes recorded for differences (as opposed to permanent differences)? (I24)	Yes. Bulletin D-4	✓	45 A,B. Partial application as defined in Bulletin D-4.
B. If so, are deferred taxes provided for all timing differences (as opposed to only those meeting certain criteria)?	No. Bulletin D-4	✓	
C. If deferred taxes are provided only for those timing differences meeting certain criteria, what are the criteria?	See Comment		45C. Deferred income tax should be recognized for all significant timing differences that can reasonably be assumed will cause, in a definite period of time, a liability or a tax benefit and no indication exists that this situation will change, in such a manner that the liabilities or tax benefits will not materialize. Deferred income tax treatment should not be given to those timing differences that are not specifically identified as to their origin or whose materialization cannot be identified in time because, at the time of its reversal, they will be substituted by others of the same nature and similar amounts, because in these cases the effects of the creation and reversal of deferred taxes will be compensated.
46. A. Are deferred taxes determined on the basis of tax rates in effect at the time the difference originated? (I24)	No. Bulletin D-4	✓	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
B. If not, on what basis?					46B. For the determination of the effect of the deferment of income tax and employee profit sharing, the rate in effect at the balance sheet date should be used.
47. A. Is specific information related to income taxes required to be disclosed? (I28)	Yes. Section C-9	✓			
B. If so, list the requirements.					47B. The liability for income tax should be shown as a separate line item. The liability for income tax that appears in the balance sheet should represent the net of the total provision charged in the statement of operation less estimates paid. If the prepayments are greater than the provision the excess should be presented as an account receivable. The practice is also to show differences between actual and statutory rates.
48. A. Are operating losses reported on the income tax return allowed to be carried backward to earlier periods? (I37)	No	✓			
B. If so, are the tax effects of a loss carryforward included in the income in the period?					

49. A. Are operating losses reported on the income tax return allowed to be carried forward? (I37)	Yes	✓
B. If so, are the tax effects of a loss carryforward included in the income in the period realized?	Yes. Section C-12	✓
50. Are financial statements of a foreign entity prepared for consolidation purposes measured in the currency of the primary economic environment in which the entity operates? (F60)	Yes. IAS No. 21	✓
51. Are all elements of financial statements translated at current exchange rates? (F60)	No. IAS No. 21	✓
52. A. Are translation adjustments reported separately? (F60)	Yes.	✓
B. Are they accumulated in a separate component of stockholders' equity until ultimately realized?	Yes. IAS No. 21	✓
C. Is there an analysis of the changes during the period in the component of stockholders' equity relating to translation adjustments?	No. IAS No. 21	✓
53. A. Are gains and losses resulting from transactions, denominated in a currency other than that of the environment in which the entity operates, included in determining net in-	Yes. Section B-10	✓

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
come for the period in which the exchange rate changes? (F60)					
B. Is the aggregate transaction gain or loss included in determining net income for the period disclosed in the financial statements or notes?	Yes. Section B-10	✓			
54. Are gains or losses on foreign currency transactions that are intended to hedge a foreign currency commitment deferred and included in the related transaction? (F60)	No. IAS No. 21 and Section B-5			✓	
55. What information is disclosed about foreign currency restrictions?	See Comments.	✓			55. All exchange or other type of restrictions in relation to foreign currency involved in the financial statements should clearly be disclosed in the body or notes. The type of currency and the translation rate should be disclosed if significant.
56. Are significant events arising subsequent to the balance sheet date reflected in the financial statements or notes thereto?	Yes. Section A-5	✓			
57. Please list any standards in Mexico for which there are no corresponding U.S. standards.					57. The standard (trans.) is as follows: Bulletin B-10 *Accounting for the Effects of Inflation in the Financial Information*

Bibliography

(All titles below are translated from the Spanish.)

Auditing Standards and Procedures. 3rd ed. Mexican Institute of Public Accountants, AC, 1988.

Laws and Codes of Mexico, Mercantile and Cooperative Companies. 36th ed. Mexico: Editorial Porrua, SA.

Regulation of the Program of Continuing Professional Education. Mexican Institute of Public Accountants, AC, September 1984.

Regulatory Law of Article 5 of the Constitution (Relative to the exercise of the professions in the Federal District), May 1945.

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