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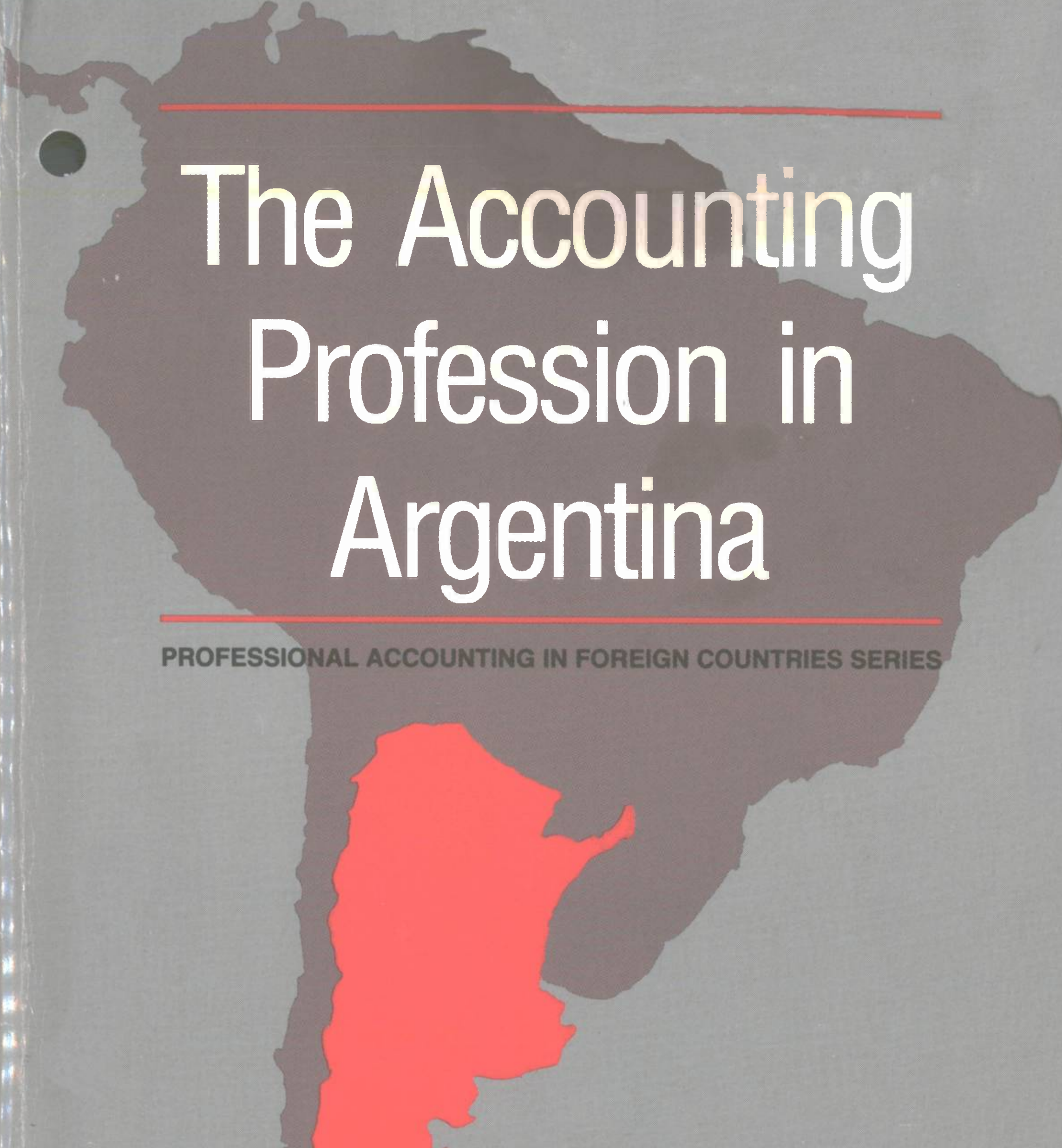
Coopers & Lybrand, Argentina

Harteneck, Lopez & Cia

Steven F. Moliterno

The Accounting Profession in Argentina

PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES



AICPA
American Institute of Certified Public Accountants

The Accounting Profession in Argentina
PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES
AICPA

NOTICE TO READERS

The Professional Accounting in Foreign Countries series is designed to be educational and used as reference material for the members of the Institute and others interested in the subject. It is not intended to establish standards.

The International Practice Committee gratefully acknowledges the contributions made to the development of this series by former committee chairmen Howard P. Keefe and Harvey D. Moskowitz; former committee members Dale D. Baker, R. Harry Beattie, J. Stanley Blumin, Campbell E. Corfe, John F. Green, James M. Halsey, Perry D. Harbour, W. Edward Hastings, Konrad W. Kubin, Angus McDowell, Alan C. Murphy, Ronald Nash, Walter F. O'Connor, W.C. Brian Peoples, Bruce D. Robertson, Martin Rotheim, and Anthony L. Smith; and former staff aides James F. Flynn and Susan Sgromo. The committee would also like to acknowledge the fine editorial efforts of Carrie Vaccaro and Gene Smith and the production work of Robert DiCorcia, Jeanmarie Brusati and Lisa Schmelzer.

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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 June 30, 1988. Changes after this date in the standards of either the United States or Argentina may alter the comparisons and references detailed in this publication.

Included are descriptions of the accounting profession, auditing standards, and accounting principles in Argentina. 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 Argentine 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 Argentina 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. Throughout Argentina, public accounting is governed by Law 20488, which is applicable to the practice of all economic science professions and sets two basic requirements for those practicing public accounting. Practioners must—

a. Hold a *Contador Público* (Public Accountant) degree that has been issued by an officially recognized national, provincial, or private university and falls within the framework of Laws 14557 and 17604 and related regulations.

b. Be licensed to practice in the corresponding jurisdiction (City of Buenos Aires or province) by 1) filing an application based on presentation of the *Contador Público* degree with the Professional Council, 2) registering his or her name, and 3) paying an annual license fee.

Firms may be registered only when all the individuals whose names are included in the firm name hold an Argentine *Contador Público* degree.

Foreign Reciprocity

2. Law 20488 provides that public accounting may be practiced by anyone holding a *Contador Público* degree issued by a foreign university or a professional institution that has been revalidated by

an Argentine national university. Such revalidation is subject to the following requirements:

a. The foreign degree can be issued to the candidate only after he or she has completed a full high school curriculum and shown proof of having fulfilled the same requirements and attained the same knowledge as that of a recipient of the *Contador Público* degree from an Argentine national university.

b. Unless the candidate holding the foreign degree is an Argentine citizen, he or she must have two years of continuous residence in Argentina.

ROLES AND RESPONSIBILITIES OF STANDARD-SETTING BODIES

Professional Standards Promulgated by Each Body

3. Authority for issuing professional standards is vested in the Professional Councils that function in the various jurisdictions (for example, the provinces and the City of Buenos Aires). The background research and drafting of technical accounting standards, however, are handled by the *Centro de Estudios Científicos y Técnicos—CECYT* or Center of Scientific and Technical Studies, which is a branch of the *Federación Argentina de Concejos Profesionales de Ciencias Económicas—FACPCE* or Argentine Federation of Professional Councils in Economic Sciences.

4. The *Instituto Técnico de Contadores Públicos—ITCP* or Technical Institute of Public Accountants, which is a branch of the *Federación Argentina de Graduados en Ciencias Económicas—FAGCE* or Argentine Federation of Graduates in Economic Sciences also issues technical standards. These standards are guidelines rather than obligatory requirements.

5. An agreement, reached on April 6, 1985, between the *FACPCE* and the *FAGCE* sets a procedure for coordinating the issuance of technical standards pertaining to the accounting profession. Under the agreement, although the *FACPCE* is responsible for issuing and promulgating the standards, it must first consult the *FAGCE*.

6. Standards issued by the *FACPCE* are known as *Resoluciones Técnicas* or Technical Resolutions. When issued, each of the provincial professional councils decides whether to adopt the standards within its province; compliance is obligatory within the jurisdictions whose professional councils have approved the standards. The *FACPCE* also issues reports on topics of professional interest.

Ethics Requirements

7. The most common ethical rules governing the profession are contained in the Argentine Codes of Ethics issued by the *FACPCE*, which aims to safeguard the public against careless or unscrupulous professionals. The *FACPCE* also protects professionals against dishonest competition and helps to promote self-discipline, moral integrity, and independence, as well as contribute to resolving cases. The existing Codes of Ethics contain rules of professional conduct governing general aspects, relationships between practitioners, publicity, the confidentiality of client information, independence, matters relating to fees, and other topics. A disciplinary court is responsible for monitoring compliance with the Codes of Ethics. Its members are elected based on the direct vote of all registered professionals.

PROFESSIONAL PUBLIC ACCOUNTING ORGANIZATIONS

8. Two basic organizations group public accountants:

- *Colegios de Graduados en Ciencias Económicas* (Colleges of Graduates in Economic Sciences)
- *Concejos Profesionales de Ciencias Económicas* (Professional Councils of Economic Sciences) or *CPCE*

Requirements for Membership

9. The *Concejos Profesionales de Ciencias Económicas* are public entities not controlled by the state and have the authority to monitor public accounting practice and issue obligatory technical standards. The only membership requirement is that members must

hold the degrees of Public Accountant, Bachelor of Business Administration, and Bachelor of Economics or Actuary, issued by an Argentine university. Further competitive examinations or tests or experience with a public accounting firm are not required.

10. There is a *Concejo Profesional* for the City of Buenos Aires, Tierra del Fuego, Antarctica and the South Atlantic Islands, and others in each province.

11. The *Colegios de Graduados en Ciencias Económicas* are civil associations with voluntary membership that do not necessarily belong to the *FAGCE*. The colleges look after members' interests, organize cultural activities, and issue technical guidelines. There may be more than one such college in a province.

12. The aforementioned professional organizations are grouped in the following second-tier bodies:

a. Federación de Graduados en Ciencias Económicas (FAGCE) or the Argentine Federation of Graduates in Economic Sciences

b. Federación Argentina de Concejos Profesionales de Ciencias Económicas (FACPCE) or the Argentine Federation of Professional Councils of Economic Sciences

Rights of Membership

13. A *contador público* must be a member of the appropriate *Concejo Profesional* in order to be licensed to practice independently in a given jurisdiction.

14. As a member of the professional organizations, a *contador público* is entitled to receive professional update literature and attend CPE courses at preferential rates, as well as receive the benefits associated with being represented by a union.

15. Membership in a *Colegio de Graduados en Ciencias Económicas* does not entitle a *contador público* to engage in independent practice.

Number of Members

16. Membership in the *FAGCE* (which has a twenty-two member *Colegio de Graduados*) is estimated at 10,000, while that of the

FACPCE (which comprises twenty-five member *Concejos*) is estimated at 64,000, of which about 38,000 are members of the City of Buenos Aires *CPCE*.

CPE Requirements

17. Although continuing professional education is not mandatory for *contadores públicos* in Argentina, it is greatly encouraged by the professional organizations, which have set up committees covering the following practice fields:

a. Accounting, auditing, and systems

- Preparation, analysis and auditing of financial statements and financial forecasts
- Organization and implementation of accounting and data processing systems and administrative and accounting policies, methods, and procedures

b. Tax services

- Tax advice
- Representation before fiscal courts

c. Judicial

- Receivership and insolvencies
- Settlement of damages and claims
- Dissolution and liquidation of partnerships and companies
- Expert appraisals

2

Auditing Requirements

STATUTORY AUDITING AND REPORTING REQUIREMENTS

Purpose of the Statutory Audit

18. An independent audit of financial statements consists of their examination by an independent *contador público* with the objective of issuing a technical opinion as to whether the statements present fairly the entity's financial position and results for the period subject to review, so as to increase the reliability of the accounting information. The general consensus among professionals is that the financial statements should at least provide information on—

a. The net worth position at a given date.

b. The changes in the net worth over a given period.

c. The activities that affected the financial structure over the period.

19. Although the information that should be disclosed through certain financial statements is minimal, the balance sheet, the statement of income, and the statement of changes in net worth are mandatory. Presentation of a statement of changes in financial position is optional, except for companies whose shares are listed on the Buenos Aires Stock Exchange.

20. In all cases, the independent auditor's responsibility is limited to the issuance of a professional opinion. The financial statements constitute management representations for which management assumes responsibility. Under a number of different special legal provisions, independent audits are required for many companies. However, under the Argentine Company Law [*trans.*], cor-

porations are required to have one or more *syndics* (statutory auditors) and an equal number of alternate *syndics* appointed at the stockholders' meeting by the stockholders, who exercise private supervisory functions over the corporations.

21. The *syndics* may be *contadores públicos* or lawyers. They have, among others, the following rights and duties: to examine the company's books and records and verify its funds, commercial paper, and securities at least once every three months; to attend board meetings and stockholders' meetings (at which they may voice an opinion, but have no right to vote); to report on the annual board report and financial statements; and, to check that the corporate bodies abide by the bylaws and the decisions of stockholders.

Entities That Are Required to Be Audited

22. An independent audit is required by the Argentine Company Law only in exceptional cases as it refers to the subject. However, general corporations are required to have one or more *syndics* (closely held companies need not have a *syndic*, if this is expressly provided in their bylaws). In practice, the two functions are often combined, for example, by having one or more partners of the engaged auditing firm act as *syndics*, while another partner signs the independent audit report.

23. The following laws or regulations issued by control authorities include provisions requiring independent audits or accountants' certificates for certain entities:

- Resolution No. 6/80 [*trans.*] of the *Inspección General de Personas Juridicas* or Corporation Control Authority, which specifies that financial statements that meet certain conditions require an accountant's certificate
- Tax Department Resolution No. 2710 [*trans.*], which requires special forms with key financial statement data, covered by an accountant's certificate, to accompany tax returns
- Regulations issued by the Argentine Securities Commission regarding corporations whose shares are publicly traded
- Financial Entities Law 21526 [*trans.*]

- Law 20091, governing insurance companies
- Law 20337, governing cooperative societies
- Law 21801, governing the audit department responsible for state-controlled corporations (*Sindicatura General de Empresas del Estado*)

Appointment and Qualifications of Auditors

24. The *syndics* and alternate *syndics*, who may be either *contadores públicos* or lawyers, are appointed by the shareholders of a corporation at their annual general meeting. Independent auditors are usually appointed by the board of directors or at the shareholders' meeting. Audit committees are not usual in Argentina.

25. In the case of companies whose shares are quoted on the Buenos Aires Stock Exchange, the appointment of auditors and approval of their fees is done at the shareholders' meeting. In the case of banks and other financial entities, the auditors are appointed by the board of directors, which must inform the control authority (*Banco Central*) of the appointment. The reappointment of auditors must also be reported to the *Banco Central.*

Auditing and Reporting Responsibilities

26. The financial statements always constitute representations made by the management of an entity, which is therefore responsible for their contents. The auditor's responsibility is limited to giving an opinion on the fairness of the financial statements. The auditor has the right of access at all times to the books, records, and vouchers of the entity, as needed, to carry out his or her duties.

27. The *syndics* are held responsible to an unlimited extent for the failure to fulfill their duties and are jointly responsible with the directors for any acts or omissions of the latter causing damages that would not have occurred if they had properly discharged their duties. The responsibility associated with the *syndic's* report is limited to the fairness of the statements made in the board report, as well as those made in the inventory and financial statements.

28. Failure by the auditor to perform his or her duties, with regard to the examination of financial statements, may lead to monetary, criminal, professional, or other consequences applicable under the regulations of the control authorities involved. Due to negligence on his or her part, the auditor, in the event of deception or fraud, may be responsible for paying damages to the client or another party. In the case of fraud, an auditor may be held criminally responsible, not necessarily for the perpetration of crimes, but rather for complicity or concealment, such as providing false or misleading examinations of financial statements. Failure to observe ethical requirements with regard to other accountants and methods of conduct of work may lead to warnings, private or public admonitions, suspensions ranging from one month to one year, or disbarment.

Filing of Reports

29. The Argentine Company Law requires that the financial statements of corporations with the related board report must be submitted to and approved by the shareholders at the shareholders' meeting.

30. The shareholders' meeting must be held within five months of the financial closing date. The approved financial statements must be filed with the *Inspección General de Personas Juridicas* within fifteen days of the shareholders' meeting. When the corporate capital is above a certain limit, the entities engage in specifically listed activities (such as savings and loan operations, public utilities, and the like) or their shares are publicly listed. These corporations are subject to permanent government supervision and are required to file the board report, financial statements, and the *syndic's* report with the *Inspección General de Personas Juridicas* fifteen days before the date set for the shareholders' meeting.

31. The board report must refer to the company's present situation, past activities, and future prospects, in addition to 1) mentioning the reasons underlying significant changes in asset and liability captions, 2) describing and explaining the reasons for extraordinary income or expenditures and prior period adjustments, 3) detailing relationships with controlling, controlled, and related companies and changes in the equity and receivables and

payables involving them, and 4) explaining the reasons supporting any proposed reserve allocations or noncash dividend payments.

32. The audit report must be addressed to the party responsible for engaging the auditor and should accompany the applicable financial statements. The basic financial statements discussed in the opinion must be signed by the auditor. Accompanying supplementary schedules may be either signed or initialled.

33. The financial statements of corporations must be filed with the *Inspección General de Personas Juridicas* whose jurisdiction encompasses the area where the entity is domiciled. The financial statements, the board report, certain supplementary schedules and data, the *syndic's* report, and, if applicable, the auditor's report must be filed within four months of the financial closing date.

34. Branches of foreign companies must file their annual financial statements with the *Inspección General de Personas Juridicas* within sixty working days of their annual closing date. In the case of specific industries subject to a special control authority, the filing requirements differ. For example—

- Publicly listed corporations must file quarterly and annual financial statements with the Argentine Securities Commission.
- Banks are required to file certain monthly statements of position and quarterly and annual financial statements with the *Banco Central.*
- Using a June 30 annual closing date, insurance companies are required to file quarterly and annual financial statements with the *Superintendencia de Seguros de la nación* or National Insurance Superintendency, which supervises insurance companies.

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

Standards Issued

35. In Argentina, GAAS are issued by the professional organizations. On September 26, 1985, the governing body of the

FACPCE issued Technical Resolution No. 7 [*trans.*], which concerns auditing standards. Its provisions cover both general auditing standards and those relating specifically to independent audits of financial statements. Additionally, the resolution set rules governing audit practice, with specific reference to independence and guidelines for the conduct of audit assignments and the preparation of audit reports.

36. In Buenos Aires, as well as in those provinces whose professional councils have adopted the resolution, adherence to its provisions is mandatory. The *FACPCE* has also issued Report No. 5 (*Manual of Auditing*) [*trans.*], which provides guidelines for the application of auditing procedures.

37. Argentine GAAS are substantially similar to U.S. GAAS. However, while the U.S. standards are fairly detailed and, in general, are codified, Argentine standards are more general and do not deal with the following:

- Quality control considerations
- Training and proficiency
- Due care in the performance of work
- Communications between predecessor and successor auditors
- Impact on financial statements due to illegal acts by clients
- Procedures for identifying related party transactions and disclosure thereof (although the predominant practice is to follow the guidelines of SAS No. 45, *Omnibus Statement on Auditing Standards—1983*, "Related Parties")
- Using the work of a specialist

38. Argentine auditing standards do not require an auditor's report to express an opinion on consistency, unless an exception exists involving consistency in the application of prevailing accounting standards.

General Standards

39. Argentine standards of independence are based on an objective definition of *lack of independence*. Conversely, AICPA standards require the auditor to be independent.

Standards of Fieldwork

40. In Argentina, the working papers need not necessarily include an audit program, although the existing standards indicate that written documentation of work programs should be preferred. Furthermore, although the Argentine GAAS provide that auditors may use statistical methods, the standards do not explain which statistical methods should be applied.

Standards of Reporting

41. The purpose of an audit is to issue a professional opinion as to whether the financial statements present fairly the financial position of an entity and the changes therein during the period covered.

42. The audit report is addressed to whomever engaged the audit services and provides users with assurance about the fairness of the information included in the financial statements.

43. There are standard audit-report formats that have been issued by the City of Buenos Aires *CPCE*. Although their use is not mandatory, it is generally used. Furthermore, *FACPCE* Technical Resolution No. 7 [*trans.*] sets the minimum data that must be included in an audit report. An example of a standard report on financial statements follows:

> We have examined the balance sheet of ABC Sociedad Anónima at December 31, 19XY and 19XX, and the related statements of income, changes in shareholders' equity and funds for the financial years then ended, as well as the notes and schedules that form an integral part of the aforementioned financial statements.
>
> Our examination was conducted in accordance with prevailing auditing standards and, therefore, included such tests of the accounting records and documents and other auditing procedures as we considered necessary in the circumstances.
>
> In our opinion, the attached financial statements mentioned above in paragraph 1 present fairly the net worth and financial position of ABC Sociedad Anónima at December 31, 19XY and 19XX, and the results of its operations, changes in

shareholders' equity, and sources and use of funds for the financial year then ended, in accordance with professional accounting standards.

44. The variances from the standard form of report do occur for qualifications as to accounting treatment, subject to opinions for uncertainties, and disclaimers or adverse opinions.

45. The audit technical pronouncement, Technical Resolution No. 7 [*trans.*], states it is not necessary for the auditor to state that the accounting information is consistent with that of prior years, as the absence of a statement to the contrary implies consistency has been observed. When it has not been observed, the exception must be described in relation to the accounting guidelines or criteria followed in the previous period, mentioning the underlying reasons and quantitative effect. Moreover, the auditor must state whether he or she agrees with the change.

46. The date of the report, according to the pronouncements, is generally the date when the audit work at the premises of the entity to which the financial statements correspond is concluded.

47. The pages containing the basic financial statements referred to in the opinion must be signed by the auditor, while accompanying supplementary schedules may be signed or initialled. The audit report is to bear the signature of the individual partner of the accounting firm.

3

Accounting Principles and Practices

SOURCES OF ACCOUNTING PRINCIPLES

48. Until 1969, Argentine accounting principles comprised technical recommendations stemming from the National Assemblies of Graduates in Economic Sciences. The VII Assembly (a periodic meeting of the Argentine accounting profession) approved a set of generally accepted accounting principles and technical standards for the preparation of financial statements. These disclosure and valuation principles are still used.

49. In 1969 and 1973, two different entities were created: the *ITCP*, which is subordinated to the *FAGCE*; and the *CECYT*, which responds to the *FACPCE*. Both entities began preparing opinions or technical resolutions, recommendations, and reports designed to form part of the generally accepted accounting principles. Depending on the geographic location involved (for example, the *ITCP*'s pronouncements apply in the City of Buenos Aires, whereas those of the *CECYT* are obligatory in most of the provinces), their pronouncements have gained acceptance as GAAP.

50. A special committee was created under the *FACPCE* to standardize and merge the technical standards. Among the committee's recent developments are three pronouncements called the *Resoluciones Técnicas* or Technical Resolutions, which are applicable throughout Argentina, as well as a study of the standardization of other existing GAAP.

51. The Argentine Company Law also contains disclosure rules, and further regulations on the subject have been issued by

the control authorities. Basic accounting principles (going concern, consistency, prudence, and so on) are similar to those prevailing in the United States.

52. The Argentine accounting principles concerning the currency in which transactions and financial statement items are expressed differ greatly from those practiced in the United States. Standard practice requires constant-currency financial statements. For example, financial statements are presented in terms of the local currency value prevailing at the closing date.

FORM AND CONTENT OF FINANCIAL STATEMENTS

Presentation of Statements

53. The Company Law specifies the general reporting requirements for company financial statements. The *Inspección General de Personas Juridicas* has issued detailed regulations governing their presentation, as well as the standard format for the basic financial statements and certain mandatory supplementary schedules providing additional data. When one corporation owns over 50 percent of the equity in another corporation, it is required to file the latter's financial statements together with its own.

Types of Statements Prepared

54. As required by the Argentine Company Law, the basic financial statements, which must be prepared in constant-currency and released annually within specified time limits, comprise a balance sheet, a statement of income, and a statement of changes in shareholders' equity (or net worth).

55. Although various technical pronouncements call for presentation of a statement of source and application of funds, in practice, very few companies include this statement in their financial package. In the case of companies that are not publicly listed, it is not necessary to file this statement with the *Inspección General de Personas Juridicas*.

56. The subsidiary schedules, which must also be included in the financial package, contain detailed information on the break-

down of certain captions, the activity in certain accounts for the reporting period, or a breakdown of expenses by major classifications. These schedules must, at least, include—

- Fixed assets. Detail providing the following data by major captions: opening balance, additions, deletions, closing balance, accumulated depreciation at beginning of period, eliminations, depreciation rate and depreciation for the period, accumulated depreciation at year end, and net carrying value.
- Intangibles. Detail similar to that for fixed assets.
- Investments in shares, debentures, and other serially issued securities and equity in other companies. Detail disclosing the kind, face value, number of shares or bonds held, acquisition cost, year-end quotation (if available), and certain information on the investee (capital, net income, and total shareholders' equity reported in the most recent financial statements).
- Other investments. Detail similar to above, but excluding the data on the investee.
- Allowances and provisions. Detail showing the opening balance, increases, decreases, and closing balances of each allowance or provision account.
- Cost of sales. Detail disclosing the method used to determine the cost of sales in terms of opening inventory, plus purchases and expenses, less closing inventory.
- Foreign currency assets and liabilities. Detail by account caption and currency.
- Detail showing the expenses for the reporting period, broken down by caption (such as, salaries and wages, maintenance, depreciation, interest, and so forth), and final allocation (cost of sales, cost of fixed or other assets, administrative expenses, marketing expenses, financial charges, among others).

57. Since the 1983 amendment of the Argentine Company Law, which regulates companies and business, corporations that control other corporations must include consolidated financial statements as supplementary data in their reporting package. Such consolidated financial statements may be limited to the basic financial statements and footnotes; the supplementary schedules are not required.

58. Significant minimum footnote disclosures as required by the regulations follow:

- Any restricted assets, with details of the restriction
- Any assets covered by mortgages, pledges, and so on, with details of the commitments that they guarantee
- Inventory valuation method
- Asset revaluations or devaluations, related procedures, and effect on net income
- Changes in accounting principles or disclosure as compared with the previous year, with explanations thereof, and disclosure of the effect on net income
- Significant subsequent events occurring between the financial statement closing date and the date of the board report that could significantly alter the entity's financial position or results (and effect thereof)
- Gain or loss arising from intercompany transactions
- Restrictions on profit or dividend distributions
- Details of contingent liabilities, such as surety bonds or guarantees granted on behalf of other parties

59. Following are some differences that exist between the financial statement presentation rules promulgated by the professional organizations and those established by legal regulations and the *Inspección General de Personas Juridicas*:

- While professional rules require a comparative financial statement format (showing the current year and the previous one), this is not a legal requirement.
- Although professional rules require that when there is a choice between alternative accounting policies, the footnotes to the financial statements should disclose the valuation criteria followed, the legal requirement applies only to inventories.

60. As in such cases, because the legal regulations are concerned with *minimum disclosure*, there is no real incompatibility. Nevertheless, the two sets of rules are at variance with regard to—

- *Income tax allocation* (issued by the *ITCP*). Opinion No. 8 requires the income-tax charge to be allocated to ordinary income, extraordinary income, or prior period adjustments, depending on the underlying taxable income; whereas the *Inspección General de Personas Juridicas* requires the income-tax charge to be shown as a one line-item.

- *Prior period adjustments.* According to Opinion No. 8 these should be shown as a separate item in the Statement of Changes in Shareholders' Equity. However, the legal regulations call for their inclusion in the Statement of Income for the reporting period in which the adjustment is recognized, after the extraordinary items and before the income tax charge.

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

61. The economic environment in Argentina has recently been characterized by triple-digit inflation (on occasions exceeding 30 percent in a single month). Consequently, one of the major goals of both the accounting profession and the business community has been achieving a financial statement presentation that reflects fairly the net worth, financial position, and operating results of the reporting entities. Accounting principles have therefore gradually tended to accept criteria that departed from using an historical-cost accounting method towards using a current-cost accounting method. As a result, valuation criteria responding to both approaches currently coexist as generally accepted accounting principles.

62. The principal areas in which alternative valuation criteria coexist, and are accorded equal acceptance provided they do not exceed market value, are the following:

a. Either of the following valuation methods may be used for inventories, provided net realizable value is not exceeded:
- Original cost, restated at year-end currency values
- The year-end replacement or reproduction cost for the entity under normal purchase or production terms

b. Publicly listed securities may be valued at their year-end market quotation less estimated selling expenses, provided the quotation is not inordinately high due to temporary market fluctuations.

c. Readily saleable commodities may be valued in the same way as current investments, that is, using the quotation on the market in which the entity normally operates.

d. Either of the following valuation methods may be used for equity in related companies:

- Original cost, restated at closing currency values
- Equity value, based on financial statements expressed in closing currency values

e. In the case of a parent company holding a controlling investment, the investment in its subsidiary must be recognized under the equity method of accounting.

f. Fixed assets and investments in properties and movable assets may be valued using either of the following methods:

- Original cost restated at closing currency values, less accumulated depreciation
- Technical appraisal values

63. Using closing-currency values leads to a current gain or loss that may be included in the statement of income together with the financial gain or loss in a caption called "financial or holding gain or loss (including gain or loss on exposure to inflation)" [*trans.*].

64. One exception to this rule concerns the increase in valuation of fixed assets and investments in properties and movable assets stemming from a technical appraisal. In this case, the difference between the carrying value of the assets in the currency values prevailing at the appraisal date and the appraisal valuation must be allocated, without being reflected in the statement of income, to a special reserve that is part of the shareholders' equity.

65. Following are the significant generally accepted accounting principles prevailing in Argentina that differ from those used in the United States.

Price-Level Adjustment

66. The price-level adjustments required under Argentine GAAP are oriented towards stating all the financial statement captions in terms of currency with the purchasing power prevailing at the end of the reporting period. For this purpose, the accounts are classified into monetary and nonmonetary items.

67. Monetary items represent rights and obligations in closing-currency values (cash and banks, local currency receivables, payables not subject to indexing, and so forth) and therefore do not require adjustment. Moreover, maintaining them over a period of time produces a loss due to inflation in the case of assets (as their real value diminishes) or a gain due to inflation in the case of liabilities (as the amount owed diminishes in real terms). In the event of deflation (currency appreciation rather than depreciation), the reverse would occur.

68. Nonmonetary captions are required, however, to be adjusted for inflation. In general, because they fluctuate with inflation, their maintenance leads to neither a gain nor a loss on account of inflation. Nonmonetary captions comprise index-linked accounts receivable and payable, inventories, and fixed assets. They are adjusted by determining their inception date and value and also extending the value by the factor that results from comparing the general wholesale price-level index for the closing month of the period to the corresponding index for the month in which the item originated.

69. Although net worth (equity) is the variable entering into the adjustment, essentially it is not a nonmonetary item. The capital is thus adjusted to the values contributed, and the other retained earnings accounts reflect the adjustment variances arising from holding monetary assets and liabilities.

70. The primary difference between Argentine and U.S. GAAP is that under the latter certain financial-statement items are determined in constant-currency and at current cost. However, this information is disclosed as supplementary data accompanying the basic financial statements presented under the historical cost convention. Under prevailing Argentine GAAP two valuation criteria exist—one generically termed the *current value* approach and the other, the *cost valuation principle*—and the choice between these alternatives is not linked to the currency unit in which the financial statements are stated. Therefore, the price level adjustment of each financial-statement item does not change the principle involving valuation at cost.

71. The gain or loss on exposure to inflation corresponding to the current period is included as a special caption in the corre-

sponding statement of income. The captions for this statement are also restated in constant-currency. Income and expenditure items are adjusted as from the dates they were generated or incurred, except in the case of assets consumed, such as inventories and depreciation, which are recognized as charges to income at amounts based on the inflation-adjusted values of the underlying assets. In accordance with the foregoing, Technical Resolution No. 6, *Constant-Currency Financial Statements* [*trans.*], provides that the financial income (or expenditure) and exchange gains (or losses) generated by assets and liabilities must be presented in real terms, such as the net of the inflationary content included in the corresponding interest rates or the devaluation of the local currency in foreign currency terms.

Income Tax Accounting

72. Both before and after the release of the Technical Institute's Recommendation No. 7, *Accounting for Taxes—Procedure Applicable to Taxes on Profits* [*trans.*], which subscribes to the deferred tax allocation method, income tax accounting has been discussed at length by the accounting profession. Nevertheless, since Recommendation No. 7 has not yet become an Opinion and, thus, mandatory in practice, both full deferral and no deferral of income tax coexist as GAAP.

73. Recommendation No. 7 provides that the tax effect (at the prevailing rate) of timing differences must be allocated to a deferred tax asset or liability account and disclosed under deferred charges or accruals depending on whether it has a debit or credit balance, and depending on when the underlying timing differences are expected to reverse, broken down to either a current or noncurrent nature. In other words, the link with the assets or liabilities generating timing differences is not considered as a basis for their current or noncurrent classification. Recommendation No. 7 also provides that, when there is a change in the general tax rate, the balances deferred must be adjusted based on the new rate and the resulting difference recognized as a charge or credit to income in the financial year in which the change is known.

74. Under the Argentine income law, losses may be carried forward for five years to offset against 50 percent of future taxable income (under a 1987 amendment, however, no offsetting of losses

may be recognized in fiscal years ending in 1988 and 1989). Any loss carryforwards utilized are recognized as income in the period of utilization (when absorption occurs), and there is no carryback. Recommendation No. 7 considers that the gain arising from a loss carryforward should be accounted for in the fiscal year in which it is used as extraordinary income of that period. In addition, it should only be recognized earlier, in exceptional circumstances, when its utilization is assured beyond doubt. Only then may the gain be recognized in the year in which it arises or the conditions are met. These conditions, all of which must be present, are similar to those set by Accounting Principles Board (APB) Opinion 11, *Accounting for Income Taxes*, namely—

- The entity normally must be reasonably profitable.
- The loss must be attributable to isolated, identifiable, and nonrecurring events.
- The future profits anticipated must be sufficient to absorb the loss carryforward before it becomes statute-barred (in five years).

75. Recommendation No. 7 states that, when there are recurring losses for tax purposes, the situation should be carefully analyzed to determine the advisability of carrying on with the method and maintaining the deferred balances. When the method is first adopted, its initial effect must be treated as a prior-period adjustment.

Equity Method of Accounting for Permanent Capital Investments

76. This valuation criterion is governed by *FACPCE* Technical Resolution No. 5, *Valuation of Investments in Controlled and Related Companies* [*trans.*], and is applicable throughout Argentina. The use of the equity method of accounting for such investments is obligatory with regard to the investor's financial statements when the investor exercises control over the investee. Control is deemed to exist when the investor holds, either directly or indirectly, more than 50 percent of the voting rights.

77. The equity method is considered the most appropriate for accounting for an investment when the investor exercises significant influence, even when outright control is not held. In contrast with APB Opinion 18, *The Equity Method of Accounting for Investments in Common Stock*, Technical Resolution No. 5 does not define a

minimum ownership percentage for assuming that significant influence exists, but merely provides guidelines deemed indicative of the existence of such influence. These guidelines, similar to those provided by U.S. GAAP, follow:

- To hold sufficient votes to influence the approval of financial statements and the distribution of profits
- To be represented on the board of directors or top governing body of the entity and be able to change or replace the board members involved
- To participate in the setting of policies
- Existence of significant transactions between the investor and investee or a situation where the latter is technically dependent on the former

78. Additionally, Technical Resolution No. 5 states that it is necessary to consider how the remainder of the capital is held and whether there are any agreements or situations under which the management is vested in minority groups.

79. The financial closing dates should be the same, and the investee's financial statements must be restated in closing-currency values. When the financial closing dates are not the same, a time difference of up to three months is acceptable, and the investee's financial statements must be restated in currency values prevailing at the investor's closing date. When the time difference is greater, the investee must prepare special financial statements.

80. When the equity method of accounting is first adopted, there are the following alternative treatments for the difference between the acquisition cost and equity value of the investment.

Underlying Reasons	*Accounting Allocation*
• Departures from GAAP or accounting errors by investee	Value of investment
• Difference between book value and objectively verifiable current value of assets and liabilities	Value of investment

Underlying Reasons	*Accounting Allocation*
• Other differences	Loss (in the event of an impairment; Goodwill (in the event of an appreciation)

81. If an entity begins to apply the equity method after the purchase or after successive purchases, the source of the differences must be analyzed and allocated based on the retained earnings, either to current income or loss accounts or prior-period adjustments, as applicable. If differences exist, they are dealt with in the same way as for an acquisition.

82. When circumstances no longer require the equity method to be used, the investment must be valued in accordance with the applicable Argentine GAAP that refers to inflation-adjusted acquisition cost or market quotation. The difference between this new value and the equity value must be currently recognized in income in the year in which the equity method is discontinued.

83. As called for by Technical Resolution No. 5, disclosure includes the investee's name, percentage of equity held, mention of the financial statements used when the closing dates differ, and whether the investee follows the same accounting policies as the investor or others. When the investor holds 50 percent or more of the investee's equity, the investee's financial statements are legally required to be presented together with those of the investor.

Consolidated Financial Statements

84. In 1984, the *FACPCE* simultaneously issued Technical Resolution No. 5 and promulgated Technical Resolution No. 4, *Consolidation of Financial Statements* [*trans.*], which is also applicable throughout Argentina. The latter calls for the presentation of consolidated financial statements of a controlling entity and its subsidiaries when the controlling entity holds sufficient voting rights to make policy decisions at the level of the subsidiaries (no set percentage is specified). These consolidated financial statements constitute additional or supplementary data with respect to the controlling entity's financial statements.

85. When a subsidiary's business differs substantially from that of the group as a whole, Technical Resolution No. 4 calls for the use of the equity-value method, including footnote disclosure of the circumstances.

86. Unless dividends are anticipated (in which case part of the minority interest is classifiable as a current liability), minority interests must be presented in a separate section of the balance sheet (between liabilities and shareholders' equity). The minority interest in the net income or loss must be shown as the last line corresponding to net operating income, extraordinary items, or prior-period adjustments, as applicable.

87. When an investor ceases to control an investee, consolidation for the financial year in which it occurs is no longer required, but footnote disclosure is necessary. Footnote disclosure is also necessary when a new entity is included in the consolidation.

88. In special circumstances, when effective control is lost or impaired (due to agreements, court intervention, and so on), consolidation, with appropriate footnote disclosure of the facts, is still required.

89. When the entities forming the economic group operate in different business segments, segment information must be provided.

90. Other disclosure requirements, for example, concerning investees recognized under the equity method of accounting, are similar to those set out in Technical Resolution No. 5.

Implicit Financial Components Included in Asset, Liability, and Operating Accounts

91. The term *implicit financial components*, by definition, includes two clearly distinct items that, in practice, are difficult to segregate, namely, inflationary overpricing and implicit financial interest.

92. Since the issuance of Technical Resolution No. 6, *Constant-Currency Financial Statements* [*trans.*], it has been mandatory to segregate the implicit financial components of asset and liability balances and disclose them separately when they are significant and can be reasonably estimated. Resolution No. 6 defines these

components as the difference between the cash price of a transaction and the price paid in a deferred-payment transaction. The deferred portion of the transaction is disclosed in the financial statements in an adjusting account linked to the underlying receivables or payables.

93. In the statement of income for a given period, these components are deemed to form part of the gain or loss arising from exposure to inflation: When the cost of hedging against inflation can be segregated from the true interest component, the hedging cost is included in the gain or loss on exposure to inflation, while the interest is included with other interest charges or income.

94. The segregation applies to both short- and long-term transactions. Therefore, it is important to stress that the implicit financial components must be segregated regardless of the period covered by the underlying transaction.

4

Business Environment

FORMS OF BUSINESS ORGANIZATION

95. The types of business organizations recognized in Argentina are defined in the Argentine Commercial Code, which includes the Argentine Commercial Company Law of 1972. The only company entities with corporate attributes are the *sociedad anónima (SA)* or corporation and the *sociedad en comandita por acciones* or stock-issuing partnership, which is rarely used.

96. Each is formed on the basis of an incorporation agreement that must be registered with the Commercial Court of Records, after which the *Inspección General de Personas Juridicas* (or in the case of listed companies, the Argentine Securities Commission) has supervisory faculties over them. The rules governing the formation of companies and partnerships are uniform in the federal capital, as well as all provinces.

Entities With Corporate Attributes

97. The *sociedad anónima,* deemed a legal entity in its own right, receives its authorization to incorporate from the province (or the federal district) in which it is domiciled and is the only business entity entitled to issue shares or *share deeds*; the face value of which must be uniform and stated in Argentine currency. In addition, the share deeds must be registered in the names of the shareholders.

98. An annual general meeting of shareholders must be held within five months of the fiscal closing date. During this meeting, matters, such as the corresponding board report, financial state-

ments, distribution of profits and appointment, removal and compensation of the managing and control bodies, are handled. Shareholders' meetings must also be convened to increase the capital of the *SA* or to deal with matters not incumbent on ordinary meetings of shareholders.

99. The management is vested in a board of directors. The board represents the *SA* and is responsible for conducting its business in accordance with legal requirements. Should the board fail to properly fulfill its functions, all the directors are held jointly responsible and to an unlimited extent.

100. Private supervisory functions are normally vested in one or more *syndics* appointed by the shareholders' meeting. The directors, *syndics*, and managers have the right and duty to attend shareholders' meetings. They have both voice and voting rights similar to those of shareholders. With regard to the commitments undertaken in connection with the incorporation of the *SA*, the incorporators are responsible jointly and to an unlimited extent. Shareholders' liability is limited to the contribution of the subscribed capital.

101. Board members may be held liable for any breach of law, including violations of tax laws, which could include arrest and imprisonment in the event of providing tax authorities with misleading statements or filing fraudulent tax returns.

102. At least 5 percent of the liquid and of the net realized profits reported in the constant-currency financial statements must be appropriated to a legal reserve until it equals 20 percent of the corporate capital. The appropriation to the legal reserve is compulsory, regardless of any other reserves that may be set up, including those required under special laws (such as those governing insurance companies and banks).

103. Permanent government supervision is exercised over—

- Publicly listed companies
- Companies whose capital is above a certain limit
- State-controlled corporations and mixed ownership companies
- Savings and loan associations and similar companies
- Companies operating government concessions or public utilities

- Companies that control or are controlled by another company already encompassed by the permanent government supervision requirement.

All other *SA*s are subject to the control of the appropriate corporation control authority. However, control is exercised only in connection with the incorporation agreement, subsequent amendments to it, changes in capital, and the filing of financial statements and certain other papers relating to the annual shareholders' meetings.

Branches of a Foreign Company

104. Foreign companies are subject to the laws of the country in which they were formed, insofar as concerns their existence and formation. They are specifically authorized to carry out isolated business operations in Argentina and to be parties in legal suits.

105. To form a branch office, a foreign company must fulfull the requirements for forming or becoming a shareholder in an Argentine *SA*, as follows:

a. Provide evidence of the existence of the foreign company under the laws of its country.
b. Establish a domicile in Argentina and fulfill the publication and registration requirements set for local companies.
c. Support the decisions for creating a branch in Argentina and appointing the person who will be responsible for its management. The assigned capital should also be established.

106. The management and representation of a branch of a foreign company is vested in the person appointed, or his or her successor, in the deed of formation, whose appointment must be suitably recorded in the Commercial Court of Records. In general, branch managers have the same responsibilities as directors of corporations.

107. Foreign companies operating in Argentina are mandatorily required to keep separate accounting records for their Argentine operations. Branch offices of foreign companies are required to file their annual financial statements with the appropriate corporation control authority.

Partnership Entities

108. Various forms of partnerships are used and provided for by the Argentine Company Law. The *sociedad de responsabilidad limitada (SRL)* or limited partnership is somewhat similar to a limited liability partnership.

109. In general, the formation and administration of an *SRL* is relatively uncomplicated. However, because majority and, in some cases, unanimous consent is required for all changes, effective continuity of an *SRL* is dependent upon relations existing among its members. Corporations may not be partners of *SRLs*.

110. Capital is divided into quotas of equal value and equal voting rights, and the responsibility of the partners (there must be between two and fifty) is limited to paying up the subscribed quotas. *SRLs* may be formed through a public or private deed, which must be registered in the Commercial Court of Records after notice of formation is published in the *Official Bulletin* [*trans.*], a government newspaper in which all acts need to be published to be deemed official.

111. If the partnership contract does not contain specific rules for meetings, the rules set for *SA* meetings must be applied, with the difference that rather than convene the meetings by use of published notices, the notices must be sent to the partners. The partners must appoint one or more managers who need not themselves be partners, to assume direct responsibility for the business' operations. The managers have the same rights and duties as the directors of corporations. One or more *syndics* must be appointed when the *SRL* has twenty or more partners, and such appointment is optional when there are less. The *syndics* are governed by the applicable portions of regulations for *sociedades anónimas.*

Other Forms of Business Organization

112. Other forms of Argentine business organization include—

- General partnerships (all partners are held responsible jointly and severally to an unlimited extent).
- Limited partnerships (the active partners may be compared with

the partners in a general partnership, and the silent partners with the partners in an *SRL*).

- Partnerships in which some put up capital and others furnish services (the "capitalist" partners may be compared with the partners in a general partnership, and the others merely contribute their services).
- Stock-issuing partnerships (similar to limited partnerships, but the "silent" part of the capital is represented by shares).
- State-controlled corporations (similar to *SA* but subject to certain specific regulations because of the state's majority holding).
- Mixed ownership companies (similar to state-controlled corporations).
- Cooperative societies (profits are not always distributed in proportion to the capital contributions).

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

Registration Requirements for Public Sale

113. The *Comisión de Valores* or Argentine Securities Commission approves applications for registration on the stock exchanges. Applicants must meet certain basic requirements, such as—

a. Have a subscribed and paid-up capital above a certain limit, with a par value for all shares that is a multiple of the currency unit.

b. Have financial and management arrangements satisfactory to the commission.

c. Have statutes (such as charters or bylaws) conforming to the requirements of the commission, which include the following:

- No series or class of ordinary shares may be deprived of voting rights.
- Qualification for the post of director may not be restricted to election by a certain class of stock. Total remuneration to directors can be no more than 25 percent of total income for the fiscal year.
- Shareholders must have preemptive rights to subscribe for subsequent issues.

Requirements for Listing Securities on the Stock Exchanges

Preparation and Filing of Listing Applications

114. Applicants must furnish copies of their bylaws and financial statements for three years. When an issue is to be offered publicly, a prospectus must be issued containing—

a. A brief history of the company.
b. The composition of authorized and issued share capital and the details relating to issues during the previous ten years.
c. A description of and details relating to forthcoming issues (within twelve months).
d. A list of board members and *syndics*.
e. A summary of royalties paid for the previous three years.
f. Balance sheets and profit and loss statement for the previous three fiscal years. When the results shown in the latter statements are not strictly comparable, the pertinent additional information must be shown in a specially prescribed form. All the statements and supplementary information must be certified by a national *contador público* in a form established by the *Comisión de Valores.*
g. Details of the distributions of profits during the previous three years including all fees and remunerations paid to directors during the same period that were split between fees arising from distribution of profits and remunerations charged to expenses.
h. Details, supported by financial statements, of investments in other enterprises where the holdings of the applicant are in excess of 20 percent of the share capital of the issuing corporation.
i. Details of real estate, including any revaluations made thereof, and rates of depreciation and amortization for these and other fixed assets and intangibles.
j. Details of any debentures and mortgages with creditors.
k. Summarized analyses of payables and receivables.
l. Information about acquired companies, if any, including a comparison of the price paid, net book value, and the estimated market value of such assets acquired within the last five years. If

this comparison indicates an excess of price paid over book or market value the reasons for this excess must be stated.

m. Insurance coverage.

115. The prospectus also must state that the results of operations for the period have been stated in the same manner as those for the preceding year.

116. When an issue is not to be offered publicly, a *resena* or summary of the information otherwise contained in a prospectus must be submitted to the *Comisión de Valores* and published in the stock exchange bulletin for all issues of shares of registered companies.

Filing of Financial Reports and Other Regular Information

117. Publicly listed companies are required to submit quarterly and annual financial statements that have been duly certified by a *contador público* and in the form prescribed by the regulations set by the *Comisión de Valores* and the stock exchange. The *Comisión de Valores* has issued rules covering accounting valuation and disclosures for companies whose shares are listed on stock exchanges.

118. The examinations made of the quarterly financial statements vary quite widely in scope, ranging from a mere comparison with the books to a review with procedures approaching an annual audit. The report accompanying such quarterly reviews would vary according to the type of examination made. Subsequent issues of shares require similar registration, except if shares are registered within two years of the original registration, then a brief supplementary report may be filed.

Impact on Accounting Requirements

119. *SA*s that are authorized to offer their shares to the public, with the exception of financial entities and insurance companies, are required to file annual and quarterly financial statements that adhere to the disclosure and valuation rules contained in various technical pronouncements as well as certain formal requirements of the *Comisión de Valores'* Resolution 110 [*trans.*]. In certain cases (such as inventories, which must be stated at replacement values), the regulations mandate the principles that must be followed.

TAXES

Principal Types

120. Taxes are levied at the national, provincial, and municipal levels. The major sources of revenue for the federal government are the income tax (corporate and individual), value-added tax, excise taxes, and customs duties. The provinces may also levy taxes on income, gross revenue, estates, real property, and so on. For the sake of efficiency, however, most provinces have relinquished their major levies to the federal government, which in turn distributes its receipts among them. The primary taxes actually levied by the provinces are the taxes on gross revenue. The provinces and municipalities also impose minor indirect taxes and charge rates for services to taxpayers.

121. Argentine tax legislation is based on the "source" principle, under which only income from sources within Argentina (that is, derived from capital, rights, or property located, employed, or utilized in Argentina, that stemming from trading activities carried out or personal services rendered in Argentina, and income earned by Argentine residents from occasional personal services abroad) and assets and rights held in Argentina are taxed.

Corporations

122. The tax rate applicable to the taxable income of Argentine corporations is 33 percent. The same rate applies to the silent equity of stock-issuing partnerships. Argentine corporations are not granted income tax exemption in connection with foreign taxes paid. Nevertheless, as Argentina's taxes are levied on the basis of the source principle, profits obtained by Argentine corporations from sources outside Argentina are not taxed.

Branch Offices of Foreign Companies

123. The income tax rate for taxable income of branch offices and other permanent establishments belonging to foreign companies or nonresidents is 45 percent. There are no other differences between the tax treatment of branch offices and corporations.

Limited Liability Partnerships

124. Limited liability partnerships are required to report their taxable income, showing its allocation to the partners, who must bring their share into their personal income tax returns and pay tax thereon at the applicable progressive rates. The same treatment applies to the active equity of stock-issuing partnerships.

Individuals

125. A calendar-year basis is used for individual taxpayers. Individuals who have been residents in Argentina at least six months of the year may claim personal allowances. Deductions may be taken for contributions to Social Security funds and medical plans, life insurance premiums, and certain other items.

126. Resident individuals are taxed at progressive rates, which has a current range of 10 percent on approximately the first Argentine Australs (A) 9,450 to 45 percent on taxable income over approximately A 133,000. Salaries and wages are subject to income-tax withholding at source. Payments of rents, interest, fees, and commissions above certain limits are subject to income-tax withholding. In most cases, the tax rate is 10 percent for payments to registered taxpayers and 25 percent for those who are not registered. Nonresident individuals who work temporarily in Argentina (that is, those who work less than six months of a given calendar year) are entitled to a flat-expense allowance equivalent to 30 percent of their Argentine source income. Nonresidents are taxed at a straight 45-percent rate on the excess, bringing the effective tax rate to 31.5 percent.

Nonresidents

127. Dividends paid in cash or in kind (except for fully paid stock dividends and capital distributions stemming from accounting revaluations) to nonresident shareholders by companies or stock-issuing partnerships are subject to a flat 17.5-percent income-tax withholding. The remittance of profits by branch offices or other permanent establishments belonging to foreign companies is not taxed, but the branch office is taxed on the profits at 45 percent. Any other Argentine source profits paid to nonresident beneficiaries (including those collected in Argentina while the

beneficiaries have not established permanent residence in the country) are subject to a flat 45-percent income-tax withholding, if they are of Argentine source and are not covered by any other special provision.

128. Under the special provisions covering payments to nonresident beneficiaries, royalties covering technical assistance, engineering or consulting services actually rendered in Argentina that are not otherwise available are subject to an effective withholding rate of 27 percent, provided the underlying contracts fulfill the requirements of the technological transfer law. Royalties for operating patents and other types of consideration covered by contracts fulfilling the requirements of this law are subject to an effective withholding of 36 percent. Royalties paid to nonresidents under copyrights registered with the Argentine National Copyright Board as well as interest payments to nonresidents are both taxed at the effective rate of 15.75 percent.

129. In cases such as payments for international freight services, container services, international news services, underwriting premiums, and license fees for the use of films, special rules establish the taxable portion of income deemed to be of Argentine source (without allowing any proof to the contrary). In the case of certain types of outward remittances, the regular withholding rates are reduced under the provisions of double-taxation treaties with Austria, West Germany, Sweden, France, and Italy.

Capital Gains Tax

130. Capital gains tax levied at the single rate of 15 percent currently applies only to individuals. Residents are entitled to an annual nontaxable allowance.

Value Added Tax (VAT)

131. VAT is levied at a standard rate of 15 percent at all stages of production and trading, including retailing, as well as on a wide range of services. Some sale transactions are exempt, such as those involving livestock, certain grains, unprocessed meat, fruit, flour, butter, sugar, salt, bread, milk, coffee, tea, and cheese; crude oil, gasoline, and certain other liquid fuels with controlled prices that

include a fuel tax; unprocessed and processed tobacco (subject to excise tax); certain sales to the armed forces; and the first sale of certain kinds of produce when no processing has taken place. Exports are not subject to VAT, and exporters may recognize a tax credit for the VAT billed to them for the exported goods. Imports are subject to VAT at the rates corresponding to the items involved.

Taxes on Capital

132. Taxes on capital are levied on the business capital of companies and on the net worth of individuals, as follows:

- *Tax on business capital.* This tax is levied at 1.5 percent of the year-end capital (net worth), as determined for tax purposes, on companies, branch offices, partnerships, and sole proprietorships. The tax payable is waived when it is below a set limit (currently A 89). Investments in government securities and assets permanently located abroad are excluded from taxable assets. These exclusions must be matched by a proportionate exclusion of the taxpayer's liabilities.
- *Tax on net worth.* This tax is levied on net worth at December 31 of each year, comprising assets that are located in Argentina and belong to individuals or undivided estates, regardless of their domicile.

133. Residents are taxed at progressive rates (maximum 2 percent) on their Argentine assets minus liabilities, with the real-estate properties and chattels revalued upwards for inflation using the official indices. The nontaxable limit is annually adjusted for inflation (currently A 94,686). Investments in government securities are excludable from the taxable net worth and must be matched by a proportionate exclusion of the taxpayer's liabilities. For investments or equity in firms or companies subject to the tax on business capital, taxpayers may recognize a tax credit of up to 1.5 percent.

134. The tax rate for nonresidents is 2 percent. The law assumes that assets and receivables owned by nonresident legal entities belong indirectly to nonresident individuals or estates. Local investees or debtors are required to act as withholding agents for the 0.5 percent rate difference (2 percent nonresident net-worth tax less 1.5 percent business-capital tax credit).

Inheritance and Gift Taxes

135. In most provinces, which also includes, on the federal level, the City of Buenos Aires, Tierra del Fuego, and the Antarctic Territory, gift and estate taxes are no longer levied and have been replaced by the annual taxes on business capital and net worth.

Taxes on Payrolls (Social Security)

136. Following are the main Social Security rates levied in Argentina:

	Employer Contributions	*Employee Withholdings*
Pension fund	12.5%	13%
Family-subsidy fund	9.0%	—
Health program	4.5%	3%
National-housing fund	5.0%	—

The obligatory legal bonus of one month's salary per year is subject to similar contributions.

Stamp Duty

137. Stamp duty is levied by the federal district, as well as by the provinces on documents supporting legal transactions, such as deeds, mortgages, contracts, and letters accepting proposals. The rates and rules for assessment are determined in each jurisdiction, but, depending on the type of document, generally range from 0.5 percent to 2.5 percent.

Tax on the Purchase and Sale of Foreign Exchange

138. This 0.6-percent tax is levied on transactions involving the purchase or sale of foreign currency by banks or authorized exchange brokers. Although the tax is borne by the other party, it is withheld by the bank or broker.

Tax on Interest on Fixed Term Deposits

139. This 2-percent national tax is levied on interest and the indexing of fixed-term deposits with banks and finance companies, which are required to withhold the tax from the interest payments.

Tax on Current Accounts With Banks

140. Charges to current accounts with banks and finance companies carry a 0.7-percent tax. This tax is levied on the holder of the account payable through withholding by the banks and finance companies. Seventy percent of this tax may be recognized as a credit against income tax on the taxpayer's annual income tax returns, but may not lead to a tax credit or offset against other taxes.

Excise Taxes

141. These nationwide federal taxes are levied on the manufacturers or importers of tobacco, alcoholic beverages, tires, fuel and lubricants, as well as on the manufacturers, importers, bottlers, packagers, and finishers of toiletries, luxury articles (such as jewelery and furs), soft drinks, syrups, extracts and concentrates, television sets, tape recorders, record players, radios, automobiles, magnetic tapes, phonograph records, and photographic plates and film. Insurance companies are also levied with respect to the premiums they charge. Excise taxes are paid on the basis of sworn returns or through stamps affixed to the products sold. In the case of cigarettes, rates vary considerably ranging up to 70 percent of the retail selling price.

Taxes on Gross Revenue

142. The provinces and the City of Buenos Aires levy taxes on gross receipts from business activities and services rendered within their respective jurisdictions. Deductions from gross sales are usually allowed for discounts, returns and excise taxes, as well as VAT. Export transactions and trading in government securities are exempt. Rates vary from one province to another. The standard rate levied by the City of Buenos Aires is 3 percent, while the following differential rates also apply: 1 percent for primary production activities, 1.5 percent for manufacturing and processing activities, 2 percent for moneylenders and pawnbrokers, 4.5 percent for financial entities, savings and loan associations, insurance, advertising, and brokerage, and 15 percent for entertainment establishments. The rates in the province of Buenos Aires are similar to those cited above.

Tax on the Transfer of Securities

143. This 0.75-percent national tax is levied on the transfer of ownership for valuable consideration of shares, bonds (including government bonds), debentures, and other securities. The tax is not levied on original subscriptions and payments of securities, on the distribution of fully paid stock dividends or stock corresponding to the capitalization of accounting revaluation surpluses, on transfers of shares due to mergers and corporate reorganizations, or on swap operations and pledges covering securities transactions. The tax rate is reduced to 0.5 percent for transfers of government bonds through the Stock Exchange.

Tax on Profits Transferred Abroad

144. Profit remittances to nonresidents in cash or in kind (with the exception of fully paid stock dividends) with respect to registered foreign capital investments are subject to a special excess-profits tax. This tax is levied on annual profit remittances in excess of 12 percent of registered capital, as follows:

Percent of Profits Remitted	*Tax (%)*
Between 12 and 15%—(tax on amount over 12%)	15%
Between 15 and 20%—(tax on amount over 15%)	20%
Over 20%—(tax on amount over 20%)	25%

145. Profit remittances corresponding to registered foreign investments in the consulting, engineering, and technical advisory service fields pay the excess profits tax at a straight 10-percent rate, regardless of the percentage of the investment they represent.

Land and Property Taxes

146. Land and property taxes are levied by the provinces and the municipality of Buenos Aires, based on the assessed valuation of the property. Rates vary from one jurisdiction to another. Although the assessed valuation is adjusted annually for inflation, it is usually below the current market value.

Taxes on Natural Resources

147. The principal taxes levied on natural resources relate to oil and gas operations, which are subject to special rules. For

exploration permits and operating concessions, under a 1967 law, an annual rate is charged on the area leased. Besides a single flat income-tax rate of 55 percent, against which most other taxes are creditable, a 12-percent royalty is also charged on the oil or gas pumped out at each well. Companies engaged in oil and gas exploration and operation under the more recent *risk contract* system are subject to the normal tax system and are entitled to a number of tax-abatement benefits.

Tax Returns

148. The tax law is administered at the federal level by the *Dirección General Impositiva* or the General Tax Department, a semi-autonomous agency connected with the *Secretaría de Hacienda* or Treasury Department. The *Dirección Impositiva* issues special resolutions that explain details of particular areas of taxation. The Director General of the *Dirección* is authorized to issue formal and informal rulings on specific tax problems for taxpayers. Usually, unofficial rulings are easier to obtain and more practical than formal written rulings. Disputes with tax authorities are usually settled at the administrative level, but procedures are available when appeals to the Fiscal Court must be made. If necessary, appeals may be further taken to the Supreme Courts of Justice.

149. Stiff penalties for violations of fiscal laws exist and include default interest, fines, and the arrest of taxpayers who fail to comply with formal requirements within a specified time of being served with official notices. Taxpayers who make misleading statements or file fraudulent tax returns may be imprisoned for up to two years. Such imprisonment provisions do not only extend to taxpayers, but also include the directors, managers, attorneys, or other legal representatives of companies or other legal entities. Under the statute of limitations, claims made by registered taxpayers involving national taxes are barred five years after the end of the calendar year in which the related tax returns were filed. In the case of claims made by nonregistered taxpayers, national taxes are barred ten years after the end of the calendar year in which the returns should have been filed.

150. For income tax, capital tax, and VAT purposes, companies, and other business entities, must use a fiscal period that

coincides with their financial closing date. The filing and payment deadline is approximately five months after the financial closing date. Companies are required to make three prepayments towards their annual income-tax liability and to pay the balance upon filing their income-tax returns. The prepayments are due on the fifteenth of the seventh, ninth, and eleventh months following the closing date and are equivalent to 40 percent, 30 percent, and 20 percent, respectively, of the previous year's income-tax liability, adjusted for inflation using indices published by the *Dirección Impositiva*. The procedures for capital and net-worth taxes are similar, but the prepayment deadlines fall in even, rather than odd months.

151. In the case of VAT, payments are determined monthly by deducting the fiscal credits, billed by suppliers of inputs connected with taxable revenue, from the fiscal debits (computed on taxable revenue at the applicable tax rate). In the case of fixed-asset purchases, the tax credits are deferred over three years. The deadline for paying the net tax liability arising from each monthly position computation is approximately twenty days after the corresponding month end. The provincial or municipal taxes on gross revenue are also reported and paid on the basis of provisional monthly returns, followed by a comprehensive annual tax return.

152. The net operating loss of a particular year may be deducted from the taxable income of future years. Loss carryforwards are available for five years and may be adjusted for inflation on the basis of the variation in the wholesale price index between the end of the fiscal year in which they arose and are used. There is no loss carryback. Under a recent amendment (Law No. 23549), the right to offset loss carryforwards has been suspended for two years, after which their offsetting is limited to 50 percent of the taxable income for any given year.

Use of Forms and Related Schedules

153. All national, provincial, and municipal tax returns are filed by using special forms designed by the appropriate tax authority. Taxpayers are required to register with the appropriate tax authorities. They are then assigned a registration number that must be shown on all subsequent tax returns and deposit slips.

Requirements for Preparing Accompanying Financial Statements

154. Companies, partnerships, and sole proprietorships are required to file special forms (Nos. 526 and 526A) with their key annual financial-statement figures, together with income-tax and capital-tax returns. The tax returns must agree with the net income or asset and liability figures reported in the financial statements and show the various positive or negative adjustments required to arrive at the applicable tax basis. The forms submitted must be certified by a *contador público,* whose signature must be countersigned as valid by the appropriate *Concejo Profesional de Ciencias Económicas.*

Computation of Taxable Income

155. In general, only income from an Argentine source is taxed. For determining the net income subject to tax, the law permits the deduction from gross taxable income of all necessary expenses incurred to obtain, maintain, preserve, and collect that income, as well as of the expenses incurred to maintain and preserve the source that produces the taxable income.

156. Depreciation taken for tax purposes is normally determined by using the straight-line method, at varying rates established for the asset classification involved, based on their probable useful life. Other depreciation systems may be used provided they are justifiable from a technical viewpoint. Depletion charges may be computed on the basis of units extracted, in relation to the estimated productive capacity. The *Dirección Impositiva* may also authorize other technically justifiable methods for computing depletion charges.

157. Major inflation has caused annual revaluations of fixed assets to be recognized for purposes relating to the computation of depreciation charges and the adjustment of the carrying value of the assets. Such revaluations are done by applying the official monthly wholesale price-level indices published by the *Dirección Impositiva* to the basic depreciation and carrying value of the assets, computed on a historical-cost basis. Price-level adjustments must also be recognized for tax purposes by companies, partnerships, branch offices of foreign firms, and other types of associations and sole proprietorships. These adjustments are aimed at achieving a

more equitable tax basis for both income-tax and capital-tax purposes.

158. Generally, the adjustment on the difference between the initial balances of assets exposed to inflation and liabilities is computed by using the factor corresponding to the variation in the wholesale-price index over the fiscal year. (There are detailed rules as to which asset and liability items are included or excluded for purposes of the adjustment.) Additional partial adjustments for inflation are also recognized with respect to major changes in the underlying assets, such as increases or reductions in the capital, dividend distributions, fixed asset acquisitions, and foreign investments.

159. When the assets subject to adjustment are greater than the corresponding liabilities, the adjustment represents a loss due to inflation and is fully deductible in the fiscal year involved. When the reverse occurs, there is a gain due to inflation, which may either be allocated in full to the year involved or spread equally over that year and the two subsequent years. Although a gain deferral is allocated to the fiscal closing, it is adjusted in a similar fashion for inflation. Deferment is conditioned on the taxpayer's not distributing cash dividends or profits until that gain deferral has been absorbed.

OTHER MATTERS OF IMPORTANCE

160. Income-tax exemptions and allowances may not be claimed when they would indirectly lead to a transfer of revenue to any foreign taxing authority (except in the case of the exemptions covering gains arising from adjustments for inflation and interest on government bonds and those granted to certain types of interest on foreign credits). The amount of any such *transfer* is determined from the evidence that the shareholders or other nonresident payees must provide when remittances made to them include any income covered by exemptions or allowances.

Currency and Exchange

161. The *Banco Central* is responsible for all matters concerning exchange controls. Its regulations call for all foreign exchange

operations to be channelled through banks, authorized financial institutions, or exchange houses. Due to the balance of payment difficulties, a May 1984 decree established that the *Banco Central* should make only *Bonex* (Argentine-government dollar-denominated external bonds) available for dividend remittances and capital repatriations by foreign investors whose investments are registered with the Foreign Investments Department. Since this decree is still in effect, such remittance only may be made by means of the purchase and transfer (with consent of the payee) of these *Bonex*, which accrue interest roughly at the LIBOR rate and are traded in the City of Buenos Aires in both local currency and U.S. dollars, as well as abroad in U.S. dollars at roughly 14 percent below par.

162. Private individuals may freely hold foreign currency, keep accounts in foreign currency with local banks, collect interest in foreign currency, or sell property against payment in foreign currency. However, with regard to the 1982 exchange controls, they should also be able to justify the foreign currency's source.

APPENDIX A

Publications of the Argentine Federation of Professional Councils in Economic Sciences (*FACPCE*)

The following is a list of the translated titles of publications that have been issued.

Technical Resolution No. 1:	*Financial Statement Presentation Model*
Technical Resolution No. 2:	*Indexing of Financial Statements* (superseded)
Technical Resolution No. 3:	*Auditing Standards* (superseded)
Technical Resolution No. 4:	*Consolidation of Financial Statements*
Technical Resolution No. 5:	*Valuation of Investments in Controlled and Related Companies*
Technical Resolution No. 6:	*Constant Currency Financial Statements*
Technical Resolution No. 7:	*Auditing Standards*

APPENDIX B

Publications Issued by the City of Buenos Aires Professional Council of Economic Sciences

The following is a list of the translated titles of the accounting and auditing publications that have been issued:

Accounting

Report No. 1: *Analysis of Accounting Standards*
Report No. 2: *Standards Relating to Accounting and Documentation Pursuant to the Company Law*
Report No. 3: *Valuation Accounting Standards*
Report No. 4: *Inflation Adjustment*
Report No. 5: *Accounting for Investments in Controlled and Related Companies*
Report No. 6: *Consolidation of Financial Standards*
Report No. 7: *Accounting Disclosure Statements*
Report No. 8: *Effects of Decree No. 1096/85 on the Valuation of Local Currency Receivables and Payables*
Report No. 9: *Proposed Professional Accounting Standards*
Report No. 10: *Comments on Accounting Matters Dealt With in the Draft Law Covering the Unification of the National Civil and Commercial Legislation*
Report No. 11: *Disclosure of Accounting Information*

Auditing

Report No. 1: *Reports and Certificates Covering Financial Statements*
Report No. 2: *Auditing of Cost Structures for Price Certificates*
Report No. 3: *Standards for the Review of Financial Statement Projections*
Report No. 4: *Auditing of Technical Revaluations*
Report No. 5: *Application of Auditing Standards at Small- and Medium-Sized Entities*
Report No. 6: *Limited Review*

Report No. 7: *Internal Auditing*
Report No. 8: *Reports and Certificates* (1st version)
Report No. 9: *Auditing of Consolidated Financial Statements*
Report No. 10: *Report on the Approach Towards the Independent Auditor's Assessment of Internal Control*
Report No. 11: *Reports and Certificates* (2nd version)

APPENDIX C

Illustrative Auditors' Reports and Financial Statements

The following translated financial statements are intended for illustrative purposes only. The statements presented are not intended to include all information that Argentine law requires. It should be noted that Schedule B, which covers intangibles, is not presented because the sample company does not have this asset.

AUDITORS' OPINION

To the Members of the
Board of Directors of
A.B.C. Sociedad Anónima

1. **Financial Statements Audited**

   We have examined the balance sheet of ABC Sociedad Anónima at December 31, 19XY and 19XX and the related statements of income, changes in shareholders' equity and funds for the financial years then ended, as well as the notes and schedules which form an integral part of the aforementioned financial statements.

2. **Scope of the Audit Work**

   Our examination was conducted in accordance with prevailing auditing standards and, therefore, included such tests of the accounting records and documents and other auditing procedures as we considered necessary in the circumstances.

3. **Opinion**

   In our opinion, the attached financial statements mentioned in paragraph 1 present fairly the net worth and financial position of ABC Sociedad Anónima at December 31, 19XY and 19XX and the results of its operations, changes in shareholders' equity and sources and use of funds for the financial year then ended, in accordance with professional accounting standards.

4. **Special Information Required Under Argentine Regulations**

   In order to fulfil the requirements of the National Securities Commission and the Buenos Aires Stock Exchange, we report that:

a. The attached financial statements have been prepared in accordance with Laws Nos. 19550 and 22903, and Resolution 110 of the National Securities Commission and agree with the accounting entries in the official books of the Company, and the records of these agree with those of the auxiliary and other supporting documentation.

b. We have seen the corresponding Supplementary and Explanatory Statement of the Board about which, in matters of our competence, we have no observations to make.

c. All the facts and circumstances that came to our knowledge as a result of the work done, have been considered in the documents examined, which have been prepared in the technically correct manner required by Laws Nos. 19550 and 22903 and Resolution No. 110 of the National Securities Commission, on a basis consistent with that of the previous year.

d. At December 31, 19XY, as mentioned in Note 8 to the financial statements, the subscribed and paid-up capital amounts to A6,777,015, which is authorized for public offering.

As required by the provisions of Article 10 of Law 17250 we report that at December 31, 19XY, the liabilities accrued in favour of the National Social Security Department in respect of employer contributions and employee withholdings due to the National Pension Funds amounted to A2,369,634.92 according to the Company's accounting records, no part of which was overdue at that date.

Buenos Aires
March 21, 19XZ

[*Name of Accounting Firm*]
[*Partner*]

[*Name*]
Public Accountant (U.B.A.)
C.P.C.E. CAP. FED. To. Fo.

SYNDICS' REPORT

To the Shareholders of
A.B.C. Sociedad Anónima

Dear Sirs,

In accordance with the requirements of clause 5 of Article 294 of Law No. 19550 and Article 51 of the Buenos Aires Stock Exchange Regulations in force, we have examined the Inventory and Balance Sheet of ABC Sociedad Anónima at December 31, 19XY, as well as the related Statement of Income, Statement of Changes in Shareholders' Equity, and Statement of Funds and supplementary accounting information for the financial year then ended. We have also examined the corresponding Board Report and Supplementary and Explanatory Statement of the Board.

On the basis of the examination we performed and considering the opinion issued by the independent auditors that reported on the financial statements, we have found that they agree with the accounting records contained in the Company's books.

In our opinion, the aforementioned financial statements present fairly the net worth and financial position of the Company at December 31, 19XY, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We have no observations to make regarding the Board Report and Supplementary and Explanatory Statement of the Board.

Consequently and in view of the work done, we recommend the approval of these documents by the shareholders.

Buenos Aires
March 21, 19XZ

[*Name*]
Doctor of Economics
Public Accountant (U.B.A.)
C.P.C.E. CAP. FED. To. Fo.

[*Name*]
Doctor of Economics
Public Accountant (U.B.A.)
C.P.C.E. CAP. FED. To. Fo.

[*Name*]
Public Accountant (U.B.A.)
C.P.C.E. CAP. FED. To. Fo.

Surveillance Committee

A.B.C. SOCIEDAD ANÓNIMA
BALANCE SHEET
December 31, 19XY and 19XX
(stated in Argentine australs)
(Note 1)

	19XY	*19XX*
Assets		
Current Assets		
Cash and Banks (Notes 2 and 4, and Schedule G)	A 23,560,404.16	A 22,239,686.79
Investments (Note 2 and Schedules D & G)		
Nontransferable certificates of deposit	31,418,477.52	38,629,510.20
Government Bonds	70,873,689.48	5,966,041.70
Other investments	90,595,834.88	48,532,279.78
	192,888,001.88	93,127,831.68
Receivables (Notes 2 and 5, and Schedules E & G)		
For sales (net of allowances of A3,204,128.70 and A302,334.87 at December 31, 19XY and 19XX, respectively)	33,183,685.11	32,811,699.17
Others	21,339,512.91	35,210,448.27
	54,523,198.02	68,022,147.44
Inventories (Note 2, and Schedules E & F)		
Finished goods	92,004,754.40	46,247,975.93
Goods in process	8,345,656.69	4,316,166.21
Raw materials and materials	169,701,722.98	143,871,153.76
Materials and raw materials in transit	4,123,386.41	877,887.25
	274,175,520.48	195,313,183.15
Less: Allowance for devaluation of inventories	1,538,804.19	197,924.18
Allowance for inventory differences	1,184,656.89	1,184,656.89
	271,452,059.40	193,930,602.08
Total Current Assets	542,423,663.46	377,320,267.99
Noncurrent Assets		
Receivables (Notes 2 and 5, and Schedule G)		
Others	1,208,358.28	4,952,785.94
Investments (Notes 2 and 10, and Schedules C & D)		
Related Companies	1,282,872.72	1,421,007.90
Others	18,754,423.33	19,474,711.65
	20,037,296.05	20,895,719.55
Fixed Assets (Notes 2 and 9, and Schedule A)		
Gross values	364,076,569.16	405,151,920.66
Less: Accumulated depreciation	186,381,636.95	187,158,826.43
	177,694,932.21	217,993,094.23
Total Noncurrent Assets	198,940,586.54	243,841,599.72
Total	A741,364,250.00	A621,161,867.71

	19XY	*19XX*
Liabilities and Shareholders' Equity		
Current Liabilities		
Payables (Notes 2 and 6, and Schedule G)		
Trade	A 40,432,869.43	A 31,872,562.79
Banking	99,196,567.13	76,928,509.13
Others	231,770,659.80	178,316,850.36
	371,400,096.36	287,117,922.28
Total Current Liabilities	371,400,096.36	287,117,922.28
Noncurrent Liabilities		
Payables (Notes 2 and 6, and Schedule G)		
Banking	1,771,436.17	74,287,106.20
Total Noncurrent Liabilities	1,771,436.17	74,287,106.20
Subtotal	373,171,532.53	361,405,028.48
Shareholders' Equity		
Per Statement of Changes in Shareholders' Equity		
Capital Stock (Notes 1.b and 8)	6,777,015.00	713,370.00
Special Reinvestment of Retained Earnings		
Per Resolution 61/83 of the Subsecretariat of Economy (Note 11)	464,145.23	464,145.23
Capital Adjustment	210,094,352.75	200,995,960.61
Irrevocable contributions for future share subscriptions (Note 1.c)	35,440,195.74	26,500,376.64
Reserves	25,784,605.18	25,505,734.70
Retained Earnings	89,632,403.57	5,577,252.05
Total Shareholders' Equity	368,192,717.47	259,756,839.23
Total	A741,364,250.00	A621,161,867.71

The accompanying notes & schedules are an integral part of these financial statements.

[Name of Accounting Firm]
[Partner]

[Name]
Public Accountant (U.B.A.)
C.P.C.E. CAP. FED. To. Fo.
See separate professional opinion

[Name]
President

[Name]
Doctor of Economics
Public Accountant (U.B.A.)
C.P.C.E. CAP. FED. To. Fo.

[Name]
Doctor of Economics
Public Accountant (U.B.A.)
C.P.C.E. CAP. FED. To. Fo.

[Name]
Public Accountant (U.B.A.)
C.P.C.E. CAP. FED. To. Fo.

Surveillance Committee*

*These signatures appear at the bottom of each financial statement. For editorial purposes, they are not shown on the other financial statements.

A.B.C. SOCIEDAD ANÓNIMA
STATEMENT OF INCOME (LOSS)
December 31, 19XY and 19XX
(stated in Argentine australs)
(Note 1)

	19XY		*19XX*	
Net sales revenue		A2,113,510,978.70		A1,732,993,909.09
Less:				
Cost of goods sold (Schedule F)		1,935,674,408.18		1,636,416,465.82
Gross profit		177,836,570.52		96,577,443.27
Loss arising from holding of nonfinancial assets		7,240,795.56		11,555,684.01
Administrative expenses (Schedule H)	A 59,691,400.18		A46,404,817.87	
Marketing expenses (Schedule H)	105,769,119.94	165,460,520.12	76,693,042.30	123,097,860.17
Operating profit—(Loss)		5,135,254.84		(38,076,100.91)
Effects of financing:				
Financial income (expense) generated by assets				
Interest income	34,609,459.17		10,085,055.93	
Gain (loss) on exposure to inflation	(147,443,172.04)		(53,715,364.79)	
Exchange gain (loss)	6,830,495.28		464,349.22	
Income from Government bonds	18,628,691.82	(87,374,525.77)	3,494,885.99	(39,671,073.65)
Financial income (expense) generated by liabilities				
Interest income	834,719.86		—	
Gain (loss) on exposure to inflation	241,433,587.96		89,946,299.11	
Exchange gain (loss)	(24,916,463.35)		(2,915,140.83)	
Other expenses (Schedule H)	(7,083,289.69)	210,268,554.78	(22,331,800.81)	64,699,357.47
Other income		7,785,943.10		3,620,887.01
Other expenditure		(39,940,080.42)		(7,148,309.42)

Income (loss) for the year before income tax and extraordinary item	95,875,146.53	(16,575,239.50)
Income tax	(27,777,645.00)	(2,677,039.06)
Income (loss) for the year before extraordinary item	68,097,501.53	(19,252,278.56)
Extraordinary item—Utilization of loss carryforward for income tax purposes (Note 12)	27,777,645.00	2,677,039.56
Final Net Income (Loss)	A 95,875,146.53	A (16,575,239.00)

The accompanying notes and schedules are an integral part of these financial statements.

A.B.C. SOCIEDAD ANÓNIMA
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
December 31, 19XY and 19XX
(stated in Argentine australs)
(Note 1)

	Corporate Capital		*Reinvestment of Retained Earnings per*			*Capital*
Details	*Out-standing Shares*	*Shares to Be Issued*	*Economy Dept. Res. No. 61/83*	*Law 17335 Revaluation Surplus (Not Capitaliz.)*	*Law 19742 Revaluation Surplus (Not Capitaliz.)*	*Law 19742 Revaluation Surplus (Capitalizable)*
Opening balances at Jan. 1, 19XX	713,370	—	A464,145.23	A 0.60	A 356,685.00	A 63,705,213.26
Adjustment per Securities Commission Res. #98—Revaluation of fixed assets	—	—	—	(0.60)	(356,685.00)	(63,705,213.26)
Change in valuation criterion	—	—	—	—	—	—
Irrevocable contributions for future share subscriptions	—	—	—	—	—	—
Effect of specific adjustment (see Note # 1.c)	—	—	—	—	—	—
Loss for year ended Dec. 31, 19XX	—	—	—	—	—	—
Closing balances at Dec. 31, 19XX	713,370	—	464,145.23	—	—	—
Appropriation to Legal Reserve, resolved by Shareholders' Meeting held on April 30, 19XY	—	—	—	—	—	—
Irrevocable contributions for future share subscriptions	—	—	—	—	—	—
Effect of specific adjustment (see Note # 1.c)	—	—	—	—	—	—
Subscription of shares	—	A6,063,645.00	—	—	—	—
Net income for year ended Dec. 31, 19XY	—	—	—	—	—	—
Offsetting of negative balance in irrevocable contributions for share subscriptions account	—	—	—	—	—	—
Balances at Dec. 31, 19XY	713,370	A6,063,645.00	A464,145.23	A —	A —	A —

The accompanying notes are an integral part of these financial statements.

Adjustments		*Shareholders' Contributions not Capitalized*		*Reserves*			
Law 19742 Related Companies	*Overall Adjustment of Capital*	*Irrevocable Contributions for Future Share Subscriptions*	*Overall Adjustment of Irrev. Contr. for Future Share Subsc.*	*Legal Reserve*	*Discretionary Reserve*	*Retained Earnings (Accumulated Loss)*	*Total*
A 17.99	A 224,884,377.98	—	—	A 1,992,482.10	A 25.39	A(69,631,473.82)	A 222,484,843.73
(17.99)	(23,888,417.37)	—	—	23,458,245.70	54,981.51	64,437,107.01	—
—	—	—	—	—	—	27,346,858.36	27,346,858.36
—	—	A 6,403,848.16	A20,096,528.48	—	—	—	26,500,376.64
—	—	2,979,100.61	(2,979,100.61)	—	—	—	—
—	—	—	—	—	—	(16,575,239.50)	(16,575,239.50)
—	200,995,960.61	9,382,948.77	17,117,428.87	25,450,727.80	55,006.90	5,577,252.05	259,756,839.23
—	—	—	—	278,870.48	—	(278,870.48)	—
—	—	4,134,413.73	4,574,805.62	—	—	—	8,709,219.35
—	—	26,446,112.33	(26,446,112.33)	—	—	—	—
—	8,243,675.97	(4,523,279.09)	(5,932,529.52)	—	—	—	3,851,512.36
—	—	—	—	—	—	95,875,146.53	95,875,146.53
—	854,716.17	—	10,686,408.36	—	—	(11,541,124.53)	—
A —	A210,094,352.75	A35,440,195.74	A —	A25,729,598.28	A55,006.90	A89,632,403.57	A368,192,717.47

A.B.C. SOCIEDAD ANÓNIMA
STATEMENT OF FUNDS
December 31, 19XY and 19XX
(stated in Argentine australs)

	19XY	*19XX*
SOURCES OF FUNDS		
Profit (loss) from ordinary operations	A 68,097,501.53	A(19,252,278.56)
Less:		
Charges not involving outlays of funds:		
Depreciation of fixed assets and investments	25,503,892.06	25,223,188.19
Equity value of permanent investments	138,135.14	13,586.73
Net book value of fixed assets and investments deleted	32,106,372.66	14,197,236.86
Subtotal	125,845,901.39	20,181,733.22
Extraordinary income for the year	27,777,645.00	2,677,039.06
Total funds generated by operations	153,623,546.39	22,858,772.28
Irrevocable contributions for future share subscriptions	8,709,219.35	26,500,376.64
Capital contributions	3,851,512.36	—
Decrease in long-term receivables	3,744,427.66	—
Increase in long-term debt	—	55,967,797.90
Total sources of funds	169,928,705.76	105,326,946.82
FUNDS USED		
Purchase of noncurrent investments	—	57,925.18
Purchase of fixed assets	16,591,814.34	5,152,103.70
Decrease in long-term debt	72,515,670.03	—
Increase in long-term receivables	—	4,310,800.83
Total funds used	89,107,484.37	9,520,829.71
Increase in working capital	80,821,221.39	95,806,117.11
TOTAL	169,928,705.76	105,326,946.28
The increase in working capital consists of the following:		
Increase (decrease)		
Cash	1,320,717.37	1,038,339.34
Temporary investments	99,760,170.20	82,107,063.94
Short-term receivables	(13,498,949.42)	32,072,188.32
Inventories	77,521,457.32	19,600,232.32
Short-term debt	(84,282,174.08)	(39,011,706.81)
TOTAL	A 80,821,221.39	A 95,806,117.11

The accompanying notes and schedules are an integral part of these financial statements.

A.B.C. SOCIEDAD ANÓNIMA
BALANCE SHEET
December 31, 19XY
Composition of Capital
(stated in Argentine australs)

	Approved for Public Listing	*Issued, Subscribed, and Paid Up*	*Subscribed and Paid Up*
Class of shares:			
Ordinary	A 713,370.00	A713,370.00	—
Preferred	6,063,645.00	—	A6,063,645.00
TOTAL	A6,777,015.00	A713,370.00	A6,063,645.00

Characteristics:

Ordinary: Face value: A 0,10 each

Preferred: Face value: A 0,10 each; carrying a cumulative annual dividend of 6% of the capital adjusted based on the dollar exchange rate quoted by the Banco de la Nación Argentina.

A.B.C. SOCIEDAD ANÓNIMA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 19XY and 19XX

1. Overall Adjustment for Inflation

This includes the adjustments arising from computing the effect of inflation in line with the provisions of the National Securities Commission's Resolution No. 110.

The basis followed for determining these adjustments is as follows:

a. All the financial statement captions are stated in December 31, 19XY currency values, except for those which for legal reasons must be stated at their face values, together with their related adjusting accounts. The adjustment has been accomplished using factors derived from the General Wholesale Price Index published by the National Statistics and Census Institute.

b. The Corporate Capital account has been adjusted as from the subscription date. The difference between the Corporate Capital restated at closing currency values and the Corporate Capital without any restatement is shown in the "Overall Capital Adjustment" account.

c. The account captioned "Irrevocable Contributions for Future Share Subscriptions" has been updated as from the date on which the corresponding funds were received. The difference between the irrevocable contributions for future share subscriptions, restated in closing currency values, and the irrevocable contributions for the future share subscriptions without any restatement, plus specific adjustment, is shown in the account captioned "Overall Adjustment of Irrevocable Contributions for Future Share Subscriptions." As called for by the National Securities Commission, the negative balances of the "Overall Adjustment of Irrevocable Contributions for Future Share Subscriptions" account were reclassified using the Retained Earnings account.

d. The operating accounts for the year were adjusted extending the monthly amounts shown in the books by the factors corresponding to the months concerned, except in the case of charges corresponding to assets consumed (fixed asset depreciation, assets sold and/or retired from use and the accrual of prepaid expenses), which have been determined on the basis of the adjusted amounts of the assets concerned, the cost of goods sold, which is determined based on their replacement values for the month of sale, restated at December 31, 19XY currency values, and financial results, which are disclosed in real terms, restated in year-end currency values.

2. Valuation Criteria

The valuation criteria followed for December 31, 19XY, financial statement purposes are as follows:

a. Cash and banks, placements of funds, receivables and liabilities to be settled in Argentine currency that do not carry adjustment or indexing clauses: these are determined at their face value, plus or minus—as applicable—the financial results applicable to them up to the year-end closing date.

b. Cash and banks, receivables and liabilities to be settled in foreign currency: these are stated at the closing rate of exchange.

c. Receivables and payables subject to adjustment or indexing clauses: these are valued taking into account the adjustments accrued up to the year-end closing date based on the specific clauses applicable to each transaction.

d. Government Bonds have been valued at their market quotation, net of estimated selling expenses, at the year end closing date.

e. Inventories are valued at the lower of their replacement or reproduction cost, or market value, at the year end closing date.

f. Permanent investments in controlled and related companies: these are valued at their equity value.

g. Fixed assets and investments in properties not fully depreciated and fit for use at January 1, 19XY are valued at their restated original cost, less depreciation, except for the property referred to in Note 11 to the financial statements.

The restated value of these assets, taken as a whole, is not in excess of their current market prices and/or value to the business.

Depreciation is determined following the straight line method.

3. Comparative Presentation of Financial Statements

The financial statements are presented as called for by the National Securities Commission's Resolution No. 110. Figures corresponding to the financial year ended December 31, 19XX, have been restated in December 31, 19XY, currency values for comparative purposes.

4. Cash and Banks

As at December 31, 19XY and 19XX, cash and banks were made up as follows:

	19XY	*19XX*
Cash	A 255,697.10	A 235,235.03
Banks	5,919,994.36	7,899,543.59
Checks to be deposited	17,346,628.05	14,077,561.23
Sundry collections	38,084.65	27,346.94
Total	A23,560,404.16	A22,239,686.79

5. Receivables

At December 31, 19XY and 19XX, receivables were as follows:

	19XY	*19XX*
Current Receivables		
Trade		
Not documented:		
Ordinary	A35,352,354.70	A32,188,138.46
Under legal action	1,008,253.57	302,334.37
	36,360,608.27	32,490,472.83
Documented:		
Ordinary	27,205.54	623,560.71
	27,205.54	623,560.71
Less:		
Provision for doubtful accounts	3,204,128.70	302,334.37
Subtotal	33,183,685.11	32,811,699.17
Others:		
Related companies	3,825,721.00	2,173,537.16
Advances to suppliers	5,916,675.54	4,976,820.31
Interest receivable	4,195,299.83	3,064,368.60
Chattel mortgage debtors	1,078,611.44	—
Mortgage debtors	1,763,547.03	2,895,083.44
Deposits per Central Bank Communication "A" 459	—	694,661.54
Loans to staff	382,617.18	275,489.78
Prepaid expenses	192,216.52	57,514.01
Sundry	3,984,824.37	2,714,038.95
Subtotal	21,339,512.91	16,851,513.70
Total current receivables	54,523,198.02	49,663,212.87
Noncurrent Receivables		
Others:		
Forced savings	616,998.28	1,096,742.80
Mortgage debtors	591,360.00	3,856,043.14
Total noncurrent receivables	1,208,358.28	4,952,785.94
TOTAL	A55,731,556.30	A72,974,933.38

6. Payables

At December 31, 19XY and 19XX, payables are as follows:

	19XY	*19XX*
Current Payables		
Trade		
Suppliers:		
Documented	A 1,996.45	A 1,382,959.79
Not documented	22,495,610.81	17,634,421.93
	22,497,607.26	19,017,381.72
Related companies	11,018,946.98	11,301,716.78
Customers' advances	6,916,315.19	1,553,464.29
	40,432,869.43	31,872,562.79
Banks:		
Documented	99,196,567.13	44,927,380.61
Not documented	—	32,001,128.52
	99,196,567.13	76,928,509.13
Others:		
Related companies	—	11,330,929.31
Special fund	18,797,231.65	16,788,461.01
Social Security and taxes:		
National Excise Tax	187,943,265.33	130,348,766.86
Sundry	13,825,168.54	10,312,550.82
	201,768,433.87	140,661,317.68
Sundry	11,204,994.28	9,536,142.36
	231,770,659.80	178,316,850.36
Total current payables	371,400,096.36	287,117,922.28
Noncurrent payables		
Banks:		
Documented	1,771,436.17	74,287,106.20
	1,771,436.17	74,287,106.20
Total noncurrent payables	1,771,436.17	74,287,106.20
TOTAL	A373,171,532.53	A361,405,028.48

7. Related Companies

The operations effected during the financial year ended December 31, 19XY and 19XX with controlling companies OPQ Incorporated and LMN GmbH with controlled companies RST S.A. and UVW S.A. and with related company XYZ S.A. are as follows:

	19XY	*19XX*
OPQ Incorporated		
License and technical assistance royalties	A20,107,444.15	A15,640,351.49
Purchases of fixed assets, raw materials and materials	349,377.61	324,479.65
LMN GmbH		
License and technical assistance royalties	107,557.23	92,197.23
RST S.A.		
Purchases of publicity and agency services	18,186,134.88	12,420,400.54
UVW S.A.		
Consultancy services	26,635.04	32,442.61
XYZ S.A.		
Commissions and expenses	165,789.18	550,183.04

8. Status of Capital

The status of the capital as at December 31, 19XY and 19XX is as follows:

		Approved by		*Registered With the Commercial Court of Record*
Capital	*Amount*	*Date (Latest)*	*Body*	*(Latest)*
Issued, subscribed and paid up	A 713,370.00	April 26, 1984	A.G.M.	June 25, 1984
Subscribed and paid up	6,063,645.00	December 30, 1985	A.E.M.	June 22, 19XY
Total at December 31, 19XY	A6,777,015.00			

9. Fixed Assets Retired From Operating Purposes

The Company retired fixed assets from operating purposes during the previous financial year; the net book values of these retired fixed assets at December 31, 19XY and 19XX are A3,973,396.24 and A883,365.88, respectively, and do not exceed their possible realizable value at those dates.

10. Noncurrent Investments in Related Companies

The permanent investments in controlled companies RST S.A. and UVW S.A. and the related company XYZ S.A. at December 31, 19XY and 19XX have been valued at their equity value.

In determining their equity value, the following facts were taken into account:

a. A.B.C. Sociedad Anónima's equity in the controlled companies and in the related company is as follows:

Company	*Equity*
RST Sociedad Anónima	90
UVW Sociedad Anónima	98
XYZ Sociedad Anónima	50

b. In the case of RST S.A. and UVW S.A. these percentages were applied in relation to the equity reported in the statutory financial statements of these companies for the financial years ended December 31, 19XY and 19XX.

c. In the case of XYZ S.A., the percentage corresponding to the equity held was applied to the net worth stemming from the special financial statements for the six-month periods ended December 31, 19XY and 19XX.

The accounting principles observed for preparing the financial statements of the investees are similar to those applied by A.B.C. Sociedad Anónima.

11. Reinvestment of Retained Earnings

The Annual General Meeting of Shareholders held on April 26, 1984 agreed to allocate A464,145.23 of the retained earnings at December 31, 1983, to a capital account, as laid down by article 3 of Resolution No. 61/83 of the Subsecretariat of Economy, this allocation being subject to the obtainment of the actual registration under the abovementioned resolution. The expiration date for the realization of that proceeding was set for December 31, 19XY, by the Extraordinary Meeting of Shareholders held on December 30, 1985.

12. Extraordinary Item—Utilization of Income Tax Loss Carryforward

During the current year the Company absorbed A84,174,682 of the loss carryforward it had accumulated for income tax purposes in previous years. The income tax effect of this absorption amounts to A27,777,645, which is disclosed as an extraordinary item in the income statement. This leaves a balance of approximately A123,000,000 of the loss carryforward at December 31, 19XY, which may be offset against 50 percent of any taxable income arising in future years, until December 31, 1990.

A.B.C. SOCIEDAD ANÓNIMA
BALANCE SHEETS
December 31, 19XY and 19XX
Fixed Assets
(stated in Argentine australs)
Schedule A

PRINCIPAL ACCOUNT	*Opening Value*	*Increases*	*Transfers*	*Decreases*	*Value at Year End*
Land	A 18,862,695.25	A 651,870.33	—	A 9,830,986.31	A 9,683,579.27
Land improvements	19,982.88	—	—	—	19,982.88
Buildings	96,523,188.55	3,235,916.03	A 83,964.07	16,345,912.51	83,497,156.14
Installations	39,943,363.44	229,022.23	884,458.40	12,345,407.06	28,711,437.01
Machinery, equipment and timber for packing	210,972,955.13	52,565.11	(482,769.43)	11,385,515.71	199,157,235.10
Data processing equipment	4,124,959.76	3,894,101.62	1,097,311.71	—	9,116,373.09
Furniture and fixtures	11,051,458.89	105,552.57	(489,062.36)	2,942,956.42	7,724,992.68
Vehicles	17,773,575.77	3,431,333.93	1,546,738.93	3,282,744.25	19,468,904.38

Improvements on leased assets	372,061.11	—	—	—	372,061.11
Tools	856,397.86	—	—	856,397.86	—
Work in progress	4,651,282.02	4,838,175.68	(2,487,364.47)	677,245.73	6,324,847.50
Fixed assets in transit	—	153,276.85	(153,276.85)	—	—
TOTALS AT 12.31.XY	405,151,920.66	16,591,814.35	—	57,667,165.85	364,076,569.16
TOTALS AT 12.31.XX	A432,836,279.28	A 5,152,103.70	A (11,534.83)	A32,824,927.49	A405,151,920.66

A.B.C. SOCIEDAD ANÓNIMA
BALANCE SHEETS
December 31, 19XY and 19XX
Fixed Assets
(stated in Argentine australs)
Schedule A (Continued)

	Depreciation		
Principal Account	*Accumulated at Beginning of Year*	*Decreases*	*Transfers*
Land	—	—	—
Land improvements	A 16,443.88	—	—
Buildings	24,553,134.53	A 4,019,066.81	—
Installations	15,132,345.83	6,015,715.99	A734,506.87
Machinery, equipment and timber for packing	122,892,478.01	9,719,671.28	(920,307.77)
Data processing equipment	2,737,848.26	—	343,079.82
Furniture and fixtures	7,434,399.82	2,288,088.18	(362,624.98)
Vehicles	13,163,792.01	2,812,821.65	205,346.06
Improvements on leased assets	371,986.23	—	—
Tools	856,397.86	856,397.86	—
Work in progress	—	—	—
Fixed assets in transit	—	—	—
TOTALS AT 12.31.XY	187,158,826.43	25,711,762.37	—
TOTALS AT 12.31.XX	A181,444,323.12	A18,932,419.00	A —

Depreciation			
Rate %	*Amount*	*Accumulated at Year End*	*Net Carrying Value*
—	—	—	A 9,683,579.27
10	A 2,242.30	A 18,686.18	1,296.70
2 and 3.33	2,746,780.66	23,280,848.38	60,216,307.76
10	3,587,798.80	13,438,935.51	15,272,501.50
3.33; 5 and 10	14,629,403.53	126,881,902.49	72,275,332.61
10	825,180.63	3,906,108.71	5,210,264.38
10.5; 6.66 and 10	947,330.10	5,731,016.16	1,993,946.52
10 and 20	2,195,836.87	12,752,153.29	6,716,751.09
—	—	371,986.23	74.88
20	—	—	—
—	—	—	6,324,847.50
—	—	—	—
—	24,934,572.89	186,381,636.95	177,694,902.21
—	A24,646,922.31	A187,158,826.43	A217,993,094.23

A.B.C. SOCIEDAD ANÓNIMA
BALANCE SHEETS
December 31, 19XY and 19XX
Investments, Shares, Debentures, and Other Serially Issued Securities Equity in Other Companies
(stated in Argentine australs)
Schedule C

DENOMINATION AND CHARACTERISTICS OF THE SECURITIES *Issuer*	*Class*	*Face Value*	*Amount*	*Adjusted Cost Value*	*Book Value*	*Market Quota-tion*
Noncurrent Investments						
Related companies						
Shares of UVW S.A.	Ordin.	A0.001	A 98,000	A 20,869.07	A 23,662.28	—
Shares of RST S.A.	Ordin.	0.000001	18,000,000	12,356.69	77,659.97	—
Shares of XYZ S.A.	Ordin.	0.001	69,593,000	1,634,863.21	1,181,550.47	
Subtotal				1,668,088.97	1,282,872.72	
Other				349.48	349.48	
TOTAL AT 12.31.XY				A1,668,438.45	A1,283,222.20	
TOTAL AT 12.31.XX				A1,668,438.45	A1,421,357.34	

Information on the Issuer

	Last Financial Year					
Main Activity	*Date*	*Capital*	*Income (Loss)*	*Total Equity at Year End*	*Equity of Investment*	*% of Capital Stock Owned*
Data processing services	31.12.XY	A 100	A (2,839.35)	A 24,145.19	A 23,662.28	98
Publicity agent	31.12.XY	20	(10,299.10)	86,288.86	77,659.97	90
Ind. & Com.	31.12.XY	139,186	418,306.75	2,363,100.98	1,181,550.47	50

A.B.C. SOCIEDAD ANÓNIMA
BALANCE SHEETS
December 31, 19XY and 19XX
Other Investments
(stated in Argentine australs)
Schedule D

Principal Account and Characteristics	*Cost*	*Depreciation*	*Book Value*	*Market Quotation*
Current Investments				
Nontransferable Certificates				
of Deposit	A 31,418,477.52	—	A 31,418,477.52[2]	—
Housing Bonds				
• 3rd. Series	188,358.86	—	122,340.92[1]	A 124,160.00
• 4th. Series	2,945,696.37	—	2,517,681.98[1]	2,607,275.00
Adjustable Government Bonds	919,694.81	—	881,782.53[1]	915,600.00
Adjustable Government Bonds				
Linked to Exchange Rate				
• 1st. Series	11,833,276.52	—	16,763,525.78[1]	17,351,040.00
• 2nd. Series	30,975,442.35	—	34,015,069.34[1]	34,707,600.00
Assured Real Income				
Adjustable Bonds				
• 2nd. Series	1,760,689.24	—	1,787,634.83	—

Argentine Republic External Bonds (BONEX)				
• Series: 1982	13,485,698.70	—	14,571,507.19[1]	15,310,000.00
External Bonds (BONEX) given in guarantee				
• Series: 1982	237,663.17	—	214,146.91[1]	225,000.00
Other placements of funds	110,994,580.26	—	90,595,834.88[2]	—
Subtotal	A204,759,577.80	—	A192,888,001.88	—
Noncurrent Investments				
Others				
Land	A 4,087,155.53	—	A 4,087,155.53	—
Buildings	17,294,858.33	A(3,040,717.67)[3]	14,254,140.66	—
Works of Art	412,777.66	—	412,777.66	—
Subtotal	21,794,791.52	A(3,040,717.67)[2]	18,754,073.85	—
TOTALS AT DEC. 31.XY	A226,554,369.32	—	A211,642,075.73	—
TOTALS AT DEC. 31.XX	A113,223,492.86	A —	A112,602,193.85	A —

[1]The difference between book value and market quotation is due to accrued interest not yet due, which is carried under Receivables, and to the valuation of the investments, as explained in Note 1.g.

[2]The accrued interest is included in Other Receivables.

[3]The portion accrued in the period is deducted in the statement of income under the caption "Other Income—Rent."

A.B.C. SOCIEDAD ANÓNIMA
BALANCE SHEETS
December 31, 19XY and 19XX
Provisions
(stated in Argentine australs)
Schedule E

Caption	*Opening Balance*	*Increases*	*Decreases*	*Inflation Adjustment*	*Balance at Year End*
Subtracted from Assets					
Bad Debts	A 302,334.37	A6,011,895.43[1]	A 351,279.04	A2,758,822.06	A3,204,128.70
Devaluation of raw materials and materials	197,924.18	2,086,068.79[2]	745,188.78[3]	—	1,538,804.19
Inventory differences	1,184,656.89	—	—	—	1,184,656.89
TOTALS AT DEC. 31.XY	A1,684,915.44	A8,097,964.22	A1,096,467.82	A2,758,822.06	A5,927,589.78
TOTALS AT DEC. 31.XX	A1,659,532.16	A1,638,718.54	A1,537,133.68	A 76,201.58	A1,684,915.44

[1] The charge to income is included in Marketing Expenses.
[2] The charge to income is included in the cost of goods and products sold.
[3] Corresponds to raw materials written off during the period.

A.B.C. SOCIEDAD ANÓNIMA
BALANCE SHEETS
December 31, 19XY and 19XX
Cost of Goods and Products Sold
(stated in Argentine australs)
Schedule F

	12.31.XY	*12.31.XX*
1. Inventory at commencement of financial year		
Goods in process and finished goods	A 50,564,142.14	A 41,009,366.17
Raw materials and materials	143,871,153.77	131,705,813.42
Materials and raw materials in transit	877,887.24	3,237,192.88
	195,313,183.15	175,952,372.47
2. Purchases and production costs during the period		
• Purchases	1,924,124,717.22	1,563,087,437.69
• Production costs according to Schedule H	144,442,711.06	131,068,671.13
	2,068,567,428.28	1,694,156,108.82
3. Adjustment of prepaid stamp taxes and FAM included in products sold	(46,789,887.21)	(26,823,148.31)
	2,217,090,724.22	1,843,285,332.98
4. Holding loss	(7,240,795.56)	(11,555,684.01)
	2,209,849,928.66	1,831,729,648.97
5. Inventory at year end		
Goods in process and finished goods	100,350,411.09	50,564,142.14
Raw materials and materials	169,701,722.98	143,871,153.77
Materials and raw materials in transit	4,123,386.41	877,887.24
	274,175,520.48	195,313,183.15
Cost of goods and products sold	A1,935,674,408.18	A1,636,416,465.82

A.B.C. SOCIEDAD ANÓNIMA
BALANCE SHEETS
December 31, 19XY and 19XX
Foreign Currency Assets and Liabilities
(stated in Argentine australs)
Schedule G

	Amount and Type of Foreign Currency[1]		*Exchange Rate*	*Amount in Argentine Currency*
Assets				
Current Assets				
Cash and Banks				
Cash	BO	447.99	A0.139000	A 62.27
	CH	15,850.00	0.021400	339.19
	CR	11,220.35	0.057000	639.56
	DM	333.00	3.214800	1,070.52
	FS	40.00	3.962900	158.51
	PA	7,649.90	0.048100	367.96
	PO	35.00	5.120000	179.20
	UR	137,282.26	0.018600	2,553.45
	US$[2]	34,355.93	5.120000	175,902.36
Banks	US$[2]	2,080.56	5.120000	10,652.47
Sundry Collections	US$[2]	7,438.41	5.120000	38,084.65
Investments				
Argentine Republic External Bonds (BONEX), Series 1982	US$	3,827,500.00	3.807056	14,571,507.19
External Bonds, Series 1982, given in guarantee	US$	56,250.00	3.807056	214,146.91
Other short-term placements of funds	US$[2]	4,410,343.88	5.120000	22,580,958.10
Receivables				
Trade—unsecured ordinary	US$	251,427.09	3.760000	945,365.85
Other				
Related companies	DM	45,061.90	3.214800	144,865.00
	US$[2]	194,912.84	5.120000	997,953.72
Interest receivable	US$[2]	119,368.46	5.120000	611,166.49
Sundry	CR	16,030.35	0.057000	913.73
	US$[2]	488,760.19	5.120000	2,502,452.17
Total Current Assets				42,799,339.30
Noncurrent Assets				
Receivables				
Other	US$[2]	115,500.00	5.120000	591.360.00
Total Noncurrent Assets				591,360.00
TOTAL AT DEC. 31. XY				A43,390,699.30
TOTAL AT DEC. 31. XX				A27,403,281.64

	Amount and Type of Foreign Currency[1]		Exchange Rate	Amount in Argentine Currency
Liabilities				
Current Liabilities				
Payables				
Trade Suppliers				
Unsecured	US$[2]	8,068.68	A5.120000	A 41,311.64
	US$	3,362,573.56	3.760000	12,643,276.58
	US$	46,658.00	4.000000	186,632.00
	DM	473,961.16	2.352205	1,114,853.80
	PA	452,716.01	0.048100	21,775.64
Related companies				
Unsecured	US$[2]	1,596,543.60	5.120000	8,174,303.21
	US$	23,954.13	3.760000	90,067.53
	DM	144,274.02	3.214800	463,812.11
Banks				
Secured	US$	1,504,699.44	5.120000	7,704,061.13
	US$	22,942,794.98	3.760000	86,264,909.12
Others				
Sundry	US$	40,354.07	5.120000	206,612.86
Total Current Liabilities				116,911,615.62
Noncurrent Liabilities				
Payables				
Banks				
Secured	US$	471,126.64	3.760000	1,771,436.17
Total Noncurrent Liabilities				1,771,436.17
TOTALS AT DEC. 31, XY				A118,683,051.79
TOTALS AT DEC. 31, XX				A124,169,324.83

[1] BO = Bolivares
CH = Chilean Pesos
CR = Cruzeiros
DM = German Marks
PA = Pesetas
PO = Dominican Gold Pesos
UR = Uruguayan Pesos
US$ = U.S. Dollars (Commercial Rate)
FS = Swiss Francs
[2] US$ = U.S. Dollars (Financial Rate)

A.B.C. SOCIEDAD ANÓNIMA
INFORMATION REQUIRED BY ARTICLE 64 PARAGRAPH b) OF LAW 19550
December 31, 19XY and 19XX
Balance Sheets
(stated in Argentine australs)
Schedule H

			Expenses		
Caption	*Total*	*Production Costs*	*Administration*	*Marketing*	*Financial*
Payments to managers and directors	A 935,486.36	—	A 935,486.36	—	—
Fees and payments for services	9,087,086.47	A 2,082,420.58	6,776,574.16	A 228,091.73	—
Salaries and wages	74,179,771.07	51,594,596.11	13,608,130.77	8,977,044.19	—
Social Security contributions	38,017,092.72	27,559,670.37	6,212,498.00	4,244,924.35	—
Expenses relating to staff	10,818,754.12	2,904,335.54	7,761,726.74	152,691.84	—
Publicity and advertising	33,575,172.30	—	—	33,575,172.30	—
Taxes, rates and contributions	17,592,913.49	441,317.36	7,923,459.25	5,940,890.63	A3,287,246.25

Interest paid to staff	307,140.08	—	—	—	307,140.08
Interest paid to suppliers	482,420.08	—	—	—	482,420.08
Depreciation	24,934,572.89	21,120,283.23	2,475,404.82	1,338,884.84	—
Dismissal indemnities	647,373.11	468,368.52	84,439.36	94,565.23	—
Insurance premiums	2,764,750.64	687,920.28	2,009,949.97	66,880.39	—
Fuel and lubricants	1,273,713.17	1,273,387.40	325.77	—	—
Maintenance of machinery and other assets	5,669,338.18	3,494,188.40	919,679.58	1,255,470.20	—
Electric power	4,773,339.01	4,703,069.15	70,269.86	—	—
Royalties	24,321,781.02	—	—	24,321,781.02	—
Devaluation of raw materials and materials	2,086,068.79	2,086,068.79	—	—	—
Bad debts	6,011,895.43	—	—	6,011,895.43	—
Sundry	59,507,851.94	26,027,085.33	10,913,455.54	19,560,827.79	3,006,483.28
TOTALS AT DEC. 31, 19XY	A316,986,520.87	A144,442,711.06	A59,691,400.18	A105,769,119.94	A 7,083,289.69
TOTALS AT DEC. 31, 19XX	A276,498,332.11	A131,068,671.13	A46,404,817.87	A 76,693,042.30	A22,331,800.81

AUDITORS' OPINION

To the Members of the
Board of Directors of
A.B.C. Sociedad Anónima

1. Consolidated Financial Statements Audited

We have examined the consolidated balance sheet of A.B.C. Sociedad Anónima, RST Sociedad Anónima and UVW Sociedad Anónima, at December 31, 19XY and 19XX, and the consolidated statements of income (loss), changes in shareholders' equity and funds for the financial years then ended, as well as the note which forms an integral part of these consolidated financial statements.

2. Scope of the Audit Work

Our examination was conducted in accordance with prevailing auditing standards and, therefore, included such tests of the accounting records and documents and other auditing procedures as we considered necessary in the circumstances.

3. Opinion

In our opinion, the attached consolidated financial statements referred to in paragraph 1 present fairly the net worth and financial position of A.B.C. Sociedad Anónima, RST Sociedad Anónima and UVW Sociedad Anónima at December 31, 19XY and 19XX, and the results of their operations, changes in shareholders' equity and sources and use of funds for the financial years then ended, in accordance with professional accounting standards.

4. Special Information Called for by Argentine Regulations

In order to fulfil the requirements of the National Securities Commission and the Buenos Aires Stock Exchange, we report that:

a. The accompanying financial statements have been prepared in accordance with the requirements of Laws 19550 and 22903 and the National Securities Commission's Resolution 110, and stem from accounting records maintained in accordance with legal requirements.

b. All the facts and circumstances that came to our notice as a result of the work done have been considered in relation to the documents examined, which have been prepared in the technically correct manner called for by Laws 19550 and 22903 and the National Securities Commission's Resolution No. 110, on a basis consistent with that of the previous financial year.

As required by the provisions of article 10 of Law 17250 we report that at December 31, 19XY the liabilities accrued in favor of the National Social Security Department in respect of employer contributions and employee withholdings due to the National Pension Funds amounted to A2,381,584.89 according to the Company's accounting records, no part of which was overdue at that date.

Buenos Aires
March 21, 19XZ

[Name of Accounting Firm]
[Partner]

[Name]
Public Accountant (U.B.A.)
C.P.C.E. CAP. FED. To. Fo.

A.B.C. SOCIEDAD ANÓNIMA
SUPPLEMENTARY ACCOUNTING INFORMATION
Consolidated Balance Sheets Corresponding to the Financial Years Ended December 31, 19XY and 19XX (stated in Argentine australs) (Note 1)

	19XY	*19XX*
Assets		
Current Assets		
Cash and Banks	A 23,561,733.60	A 22,249,126.06
Investments		
Nontransferable certificates of deposit	31,418,477.52	38,629,935.09
Government Bonds	70,873,689.48	5,966,041.70
Other temporary investments	90,595,834.88	48,532,279.78
	192,888,001.88	93,128,256.57
Receivables		
For sales (Net of allowances of A3,204,128.70 and A302,334.37 at December 31, 19XY and 19XX, respectively)	37,141,379.24	33,621,995.32
Others	19,048,749.33	35,210,449.82
	56,190,128.57	68,832,445.14
Inventories		
Finished goods	92,004,754.40	46,247,975.93
Goods in process	8,345,656.69	4,316,166.21
Raw materials and materials	169,701,722.98	143,871,153.76
Materials and raw materials in transit	4,123,386.41	877,887.25
	274,175,520.48	195,313,183.15
Less: Allowance for devaluation of inventories	1,538,804.19	197,924.18
Allowance for inventory differences	1,184,656.89	1,184,656.89
	271,452,059.40	193,930,602.08
Total Current Assets	A544,091,923.45	A378,140,429.85

	19XY	19XX
Noncurrent Assets		
Receivables		
Others	A 1,208,358.28	A 4,952,785.94
	1,208,358.28	4,952,785.94
Investments		
Related companies	1,181,550.47	1,331,778.10
Others	18,754,423.33	19,474,711.65
	19,935,973.80	20,806,489.75
Fixed Assets		
Gross values	364,139,480.71	405,214,786.16
Less: Accumulated depreciation	186,412,055.00	187,186,078.94
	177,727,425.71	218,028,707.22
Total Noncurrent Assets	198,871,757.79	243,787,982.91
Total	A742,963,681.24	A621,928,412.76
Liabilities		
Current Liabilities		
Payables		
Trade	A 41,823,695.19	A 32,488,253.62
Banks	99,372,796.31	76,928,509.13
Others	231,793,924.30	178,459,678.48
	372,990,415.80	287,876,441.23
Total Current Liabilities	372,990,415.80	287,876,441.23

(cont.)

A.B.C. SOCIEDAD ANÓNIMA
SUPPLEMENTARY ACCOUNTING INFORMATION
Consolidated Balance Sheets Corresponding to the Financial Years Ended December 31, 19XY and 19XX (Continued)
(stated in Argentine australs)
(Note 1)

	19XY	*19XX*
Noncurrent Liabilities		
Payables		
Banks	A 1,771,436.17	A 74,287,106.20
Total Noncurrent Liabilities	1,771,436.17	74,287,106.20
Subtotal	374,761,851.97	362,163,547.43
Third Party Equity in Controlled Companies	9,111.80	8,026.10
Shareholders' Equity		
Capital Stock		
Outstanding shares	6,777,015.00	713,370.00
Special Reinvestment of Retained Earnings Per Resolution 61/83 of the Subsecretariat of Economy	464,145.23	464,145.23
Capital Adjustments	210,094,352.75	200,995,960.61
Irrevocable Capital Contributions	35,440,195.74	26,500,376.64
Reserves	25,784,605.18	25,505,734.70
Retained Earnings	89,632,403.57	5,577,252.05
Total Shareholders' Equity	368,192,717.47	259,756,839.23
Total	A742,963,681.24	A621,928,412.76

A.B.C. SOCIEDAD ANÓNIMA
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
Corresponding to the Financial Years Ended
December 31, 19XY and 19XX
(stated in Argentine australs)
(Note 1)

	19XY		*19XX*	
Net sales revenue		A2,113,638,543.18		A1,733,233,504.91
Less:				
Cost of goods sold		1,936,661,368.24		1,637,217,263.25
Gross profit		176,977,174.94		96,016,241.66
Loss arising from holding of nonfinancial assets		7,240,795.56		11,555,684.01
Administrative expenses	A 60,077,294.42		A46,753,896.19	
Marketing expenses	104,460,813.94	164,538,108.36	75,655,717.42	122,409,613.61
Operating profit—(Loss)		5,198,271.02		(37,949,055.96)
Effects of financing:				
Financial income (expense) generated by assets				
Interest income	34,609,459.17		10,085,015.66	
Gain (loss) on exposure to inflation	(147,443,172.04)		(53,756,033.72)	
Exchange gain (loss)	6,830,495.28		464,349.22	
Income from government bonds	18,628,691.82	(87,374,525.77)	3,494,885.99	(39,711,782.85)
Financial income (expense) generated by liabilities				
Interest	(6,256,077.19)		(22,339,364.46)	
Gain (loss) on exposure to inflation	241,347,446.40		89,946,337.10	
Exchange gain (loss)	(24,916,463.35)	210,174,905.86	(2,915,140.83)	64,691,831.81
Other income		7,796,511.68		3,623,634.61
Other expenditure		(39,918,368.03)		(7,187,689.71)

(cont.)

A.B.C. SOCIEDAD ANÓNIMA
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
Corresponding to the Financial Years Ended December 31, 19XY and 19XX (Continued)
(stated in Argentine australs)
(Note 1)

	19XY	*19XX*
Income (loss) for the year before income tax and extraordinary item	A 95,876,794.76	A(16,533,062.10)
Income tax	(27,778,207.53)	(2,724,409.38)
Minority interest in controlled companies	(1,085.70)	(2,045.40)
Income (loss) for the year before extraordinary item	68,097,501.53	(19,259,516.88)
Extraordinary item—Utilization of loss carry-forward for income tax purposes	27,777,645.00	2,684,851.20
Minority interest in controlled companies	—	(573.82)
Final Net Income (Loss)	A 95,875,146.53	A(16,575,239.50)

A.B.C. SOCIEDAD ANÓNIMA
CONSOLIDATED STATEMENT OF FUNDS
For the Financial Years Ended December 31, 19XY and 19XX
(stated in Argentine australs)

	19XY	*19XX*
SOURCES OF FUNDS		
Profit (Loss) from ordinary operations	A 68,097,501.53	A (19,259,516.88)
Less:		
Charges not involving outlays of funds:		
Depreciation of fixed assets and investments	25,507,037.64	25,226,330.97
Equity value of permanent investments	150,201.50	52,976.07
Net book value of fixed assets and investments deleted	32,106,372.66	14,197,236.86
Minority interest in controlled companies	1,085.70	2,619.22
Sub-total	125,862,199.03	20,219,646.24
Extraordinary income for the year	27,777,645.00	2,684,277.38
Total funds generated by operations	153,639,844.03	22,903,923.62
Irrevocable contributions for future share subscriptions	8,709,219.35	26,500,376.64
Capital contributions	3,851,512.36	—
Decrease in long-term receivables	3,744,427.66	—
Increase in long-term debt	—	55,967,797.90
Total Sources of Funds	A169,945,003.40	A105,372,098.16
FUNDS USED		
Purchase of noncurrent investments	—	A 57,925.18
Purchase of fixed assets	A 16,591,814.34	5,152,103.70
Decrease in long-term debt	72,515,670.03	4,310,800.83
Total Funds Used	89,107,484.37	9,520,829.71
Increase in working capital	80,837,519.02	95,851,268.45
TOTAL	A169,945,003.40	A105,372,098.16
The increase in working capital consists of the following:		
Increase (Decrease)		
Cash and banks	A 1,312,607.54	A 1,046,666.84
Temporary investments	99,759,745.31	82,107,023.91
Short-term receivables	(12,642,316.57)	32,815,534.30
Inventories	77,521,457.32	19,600,232.32
Short-term debt	(85,113,974.57)	(39,718,188.92)
TOTAL	A 80,837,519.03	A 95,851,268.45

APPENDIX D

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

General Information	Answer	Comments
1. Is a primary purpose of an audit:		
a. to attest to information used by investors, creditors, etc. . . . ?	Yes	1*a.* The purpose of an audit is to issue a professional opinion as to whether the financial statements present fairly the financial position of an entity and the changes therein during the period they span. The audit report is addressed to whomever engaged the audit services and provides users with assurance about the fairness of the information included in the financial statements.
b. to satisfy statutory requirements (for example, the Companies Act)?	Yes	
c. for tax purposes?	Yes	1*c.* In cases covered by the National Tax Department's General Resolution 1024 and 2710.

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 accepted auditing standards which have been published in *Codification of Statements on Auditing Standards*. Do generally accepted auditing standards exist in Argentina?	Yes	2A. Argentine generally accepted auditing standards are contained in *FACPCE*'s Technical Resolution No. 7.
B. If so, are they published?	Yes	2B. In *FACPCE*'s Technical Resolution No. 7.
C. If auditing standards exist in Argentina, 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.)?		3. See paragraphs 35 through 36 of the text.

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.
This checklist does not include the latest GAAS pronouncements issued in the United States.

RT = Technical Resolution issued by the *FACPCE*.

ITCP = Technical Institute of Public Accountants [*trans.*].

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. RT 7 par. III.B 2.5.5	✓			
5. Do auditors observe inventory counts? (AU 331)	Yes. RT 7 par. III.B 2.5.4	✓			
6. Do auditors receive written representations from management? (AU 333)	Yes. RT 7 par. III.B 2.5.12	✓			
7. Do auditors receive written representations from management's legal counsel? (AU 337)	Yes. RT 7 par. III.B 2.5.5	✓			
8. A. Do auditors prepare and maintain working papers? (AU 339)	Yes. RT 7 par. III.B 6, 7, and 8 and II.B 2 and 3	✓			8A. Par. III.B 7 of RT 7 provides that the working papers should contain: 7.1 A description of the work done. 7.2 Information on the background data gathered during the conduct of the assignment. 7.3 The conclusions stemming from the examination of each caption or area and the final overall conclusions for the assignment.
B. If so, do they include a written audit program outlining procedures to be performed? (AU 339)	No. RT 7 par. III.B 6 and par. III.B 3.4 and III.B 2.4	✓			8B. Par. III.B 3.4 of RT 7 provides that it is preferable to document the audit planning in writing, and that if the importance of the entity warrants it, this should include detailed work programs.

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. RT 7 par. III.B 2.5.1	✓	9. Par. III.B 2.5.1 of RT 7 calls for an assessment of the system controls pertinent to the review whenever the auditor decides to place reliance on the systems and recommends carrying out the assessment in the initial stage of the audit because it serves as a basis for improved planning regarding the nature, extent, and timing of the audit tests to be performed.
10. A. Do auditors communicate material weaknesses in internal accounting control to senior management or the client's board of directors? (AU 323)	Yes. RT 7 par. III.B 2.5.1.5	✓	10A. The professional pronouncement mentions that, if apppropriate, a report on the findings of the audit work and suggestions for improving the controls relating to the system examined may be issued.
B. If so, is the communication documented? (AU 323)	Yes. RT 7 par. III.B 2.5.1.5 and par. II.C.2	✓	10B. Par. II.C.2 states that the reports should be in writing, but, if justified by the circumstances, they may be oral, in which case they should later be confirmed in writing.
11. In obtaining evidential matter, does the auditor apply either statistical or nonstatistical procedures? (AU 350)	Yes. RT 7 par. III.B 2.5 and II.B 5	✓	11. Par. III.B 2.5 states that when applying audit procedures, the auditor should bear in mind that he or she can do so on a selective basis, determined solely according to his or her own judgement or with the support of statistical methods.
12. Is the auditor responsible for planning the examination to	Yes. RT 7 par. III.B 2.3 and III.B 2.7	✓	12. Par. III.B 2.3 requires the auditor to evaluate the signifi-

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
search for errors or irregularities that would have a material effect on the financial statements? (AU 327)					cance of what must be examined, considering its nature, the significance of possible errors or irregularities, and the risk involved.
13. A. Does the auditor perform procedures to identify related party transactions and their effect on the financial statements? (AU 334)	Yes. Law 19550 (art. 65, point g)	✓			
B. If so, list the procedures.					13B. See paragraph 37 of text.
14. Does the auditor consider the adequacy of cut-off procedures to insure that movements into and out of inventories are properly identified in the accounting records? (AU 313)	Yes. RT 7 par. III.B 2.5.4 and *ITCP* Report 18	✓			
15. A. Are specific auditing procedures applied to transactions occurring after the balance sheet date? (AU 560)	Yes. RT 7 par. III.B 2.5 and *ITCP* Opinion 15	✓			15A. Par. III.B 2.5 provides that, to the extent applicable, the audit procedures should also be applied to the review of events subsequent to the closing date for the financial statements audited, to vertify the extent to which these might be affected.
B. Are other auditing procedures applied to ascertain the occurrence of subsequent events that require adjustment to or disclo-	No	✓			

sure in the financial statements? (AU 560)				
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 Argentina?	Yes. Code of Ethics art. 22 and *ITCP* Report 30	✓		16. Article 22 of the Code of Ethics bars accountants from accepting any share or commission regarding professional matters entrusted to a colleague, except for such share as may arise from the joint conduct of an assignment.
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?	Yes. Code of Ethics (art. 5) and *ITCP* Report 30		✓	
B. May the principal auditor decide not to assume that responsibility by making reference to the other auditor and indicating the division of responsibility?	No. *ITCP* Report 30		✓	
18. A. Is there a standard form of auditor's report? (AU 509)	Yes. RT 7 par. II.C 1,2 and 3; III.B 2.9 and III. C 1 to 36	✓		18A. There are standard audit report formats that have been issued by the City of Buenos Aires *CPCE*. Although their use is not mandatory, it is generalized. Furthermore, *FACPCE* Technical Resolution 7 sets the minimum data that must be included in an audit report.

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
B. List the circumstances that require a departure from the standard report and indicate the type of report required. (AU 509)	RT 7 par. III.C 37 to 44	✓			18B. See paragraph 44 of text.
19. A. Does the auditor's report express an opinion on the consistency of application of accounting principles? (AU 420)	No. RT 7 par. III.C 22	✓			19A,B. The pronouncement states it is not necessary for the auditor to state that the accounting information is consistent with that of prior years, because the absence of a statement to the contrary implies consistency has been observed. When it has not been observed, the exception must be described, in relation to the accounting guidelines or criteria followed in the previous period, mentioning the underlying reasons and quantitative effect. Moreover, the auditor must state whether he or she agrees with the change.
B. If not, does it imply that either consistency exists or the financial statements disclose the inconsistency?	Yes	✓			
20. A. Is the auditor's report dated as of the last day of field work? (AU 530)	Yes. RT 7 par. III.C 33	✓			
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. RT 7 par. II.A. 1 and III.A 1 to 5, Code of Ethics art. 3	✓	21. Par. III. A 1 of RT 7 states that the auditor must be independent with regard to the entity to which the financial data relates. There are rules, however, specifying when independence is lacking, namely: • When the auditor is an employee of the entity whose accounting data are audited • When the auditor is a spouse or close blood-relative of any of the directors or managers of the entity audited • When the auditor is a partner, associate, director, or manager of the entity whose accounting data are audited • When the auditor has significant interests in the entity audited • When the audit fees agreed upon are contingent or dependent on the findings or results of the audit work • When the audit fees agreed upon are on the basis of the results reported for the period covered by the financial statements.
22. Please describe any standards in Argentina for which there are no corresponding U.S. standards.			22. None

APPENDIX E

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

General Information	Answer	Comments
1. Are there generally accepted accounting principles in Argentina? If so, are they codified?	No	1. Generally accepted accounting principles do exist in Argentina. However, they have not been codified; rather, they consist of a collection of pronouncements and technical resolutions issued by the professional bodies.
2. Who is responsible for promulgating accounting principles (for example, the profession, a governmental body, etc.)?		2. See paragraphs 48 through 50 of text.

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			✓	3. Law 19550, art. 62 and *FACPCE* Technical Resolution No. 6 (RT6) require financial statements to be prepared in constant currency, which gives

				recognition to the effects of inflation in the financial statements.
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. (Resolution 148/81 and RT 6 item 12)	✓		4. Resolution 148/81 and RT 6 item 12 provide that expenses relating to indebtedness incurred to finance construction, production, or completion of an asset spanning a period of time should be deemed cost elements until the asset is ready to be marketed or started up, as applicable.
5. A. Is a general revaluation (either upward or downward) of assets permitted? (D40)	Yes. (Resolution 148/81, RT 6 and *CNV* Resolution 110)		✓	
B. If so, define the basis.				5B. Under existing accounting standards, certain assets (such as inventories and fixed assets) may be restated at current values through the use of specific indices pertaining to the revalued items. When "technical revaluations" are recognized (for fixed assets and inventories), they must be determined and supported by a report made by experts.

Notes:

References to the U.S. Generally Accepted Accounting Principles column are to sections in the *FASB Current Text,* unless otherwise noted.
This checklist does not include the latest GAAP pronouncements issued in the United States.

CNV = National Securities Commission [*trans.*].

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
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)	No	✔			
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. (Pronouncement of VII National Assembly of Graduates in Economic Sciences)	✔			
8. Are costs recorded when incurred rather than when money is paid? (Statement of Financial Accounting Concepts No. 5)	Yes. (Pronouncement of VII National Assembly of Graduates in Economic Sciences)	✔			
9. A. Are consolidated financial statements required when one company has control over another company? (C51)	Yes. By Law 19550 (art. 62) and *FACPCE* Technical Resolution 4	✔			9A. See paragaph 84 of text.
B. Is control usually indicated by ownership of over fifty percent of the outstanding voting shares? If not, how is control indicated?	Yes. By Law 19550 (art. 33 clause 1) and *FACPCE* Technical Resolution 4	✔			9B. Technical Resolution 4 and the Company Law both require consolidation when one entity holds sufficient votes to make decisions at board or shareholders' meetings. In this connection, it is deemed that such control exists when 50 percent of the voting rights are held direct-

			ly or indirectly at the controlling entity's annual closing date.
10. A. Are there instances when an entity would not be consolidated even though control is present? (C51) B. If so, list them.	Yes. Covered by *FACPCE* Technical Resolution 4	✓	10B. As a rule, the financial statements of all the companies forming the economic group should be consolidated; however, if any has a very different line of business, the advisability of including its investment on a single line, particularly if this would provide clearer information to users of the consolidated financial statements, should be considered. In such cases, the investment should be valued on an equity basis and supplementary data should be furnished on: *a.* The reasons justifying the treatment followed. *b.* A summary of asset and liability position, financial condition and profit or loss.
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 exercise significant influence over the investees' operating and financial policies? (I82)	Yes. Covered by *FACPCE* Technical Resolutions 4 (item II. A 4.b) and 5	✓	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
12. Are there two methods of accounting for business combinations—the pooling-of-interest method and the purchase method? (B50)	No			✓	12. The pooling-of-interest method is not recognized.
13. Is the method used to account for a business combination disclosed? (B50)	No			✓	
14. A. Do criteria exist for treatment of business combinations as a pooling of interest? (B50)	No			✓	14A. The pooling-of-interest method is not recognized.
B. If so, list the criteria.					
15. A. Is goodwill arising from a business combination accounted for as an asset? (I60)	Yes. Covered by a Recommendation of the VII National Assembly of Graduates in Economic Sciences, and *FACPCE* Technical Resolution 5 (item II.C 4.1)	✓			15A. The recommendation states that the goodwill value should be capitalized at cost when the acquisition of the other business arises, or in cases involving transformations, mergers, or reorganizations of companies.
B. If so, is it amortized as a charge to income over the period estimated to be benefited?	Yes. Covered by a Recommendation of the VII National Assembly of Graduates in Economic Sciences and *FACPCE* Technical Resolution 5 (item II.C 5.b)	✓			

16. Are the following disclosures made for related party transactions: (R36)			
a. the nature of the relationship?	Yes. Required by Law 19550 (art. 65 clause 1 item g) and *ITCP* Opinion No. 8	✓	16*a-d.* Opinion 8 calls for a description of the assets, liabilities, and transactions with controlling, controlled, and related companies. Moreover, art. 65, clause 1 item g of Law 19550 calls for footnote disclosure of the profit or loss on transactions with controlling, controlled, and related companies, segregated by company.
b. a description of the transactions for the periods presented?	Yes. Required by Law 19550 (art. 65 clause 1 item g) and *ITCP* Opinion No. 8	✓	
c. the amounts of the transactions for the periods presented?	Yes. Required by Law 19550 (art. 65 clause 1 item g) and *ITCP* Opinion No. 8	✓	
d. the amounts due to or from related parties at the balance sheet date?	Yes. Required by Law 19550 (art. 65 clause 1 item g) and *ITCP* Opinion No. 8	✓	
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)	No	✓	17. There is no legal or professional pronouncement calling for such treatment, but it is referred to in *ITCP* Recommendation No. 18, which is a guideline for the practice of accounting and it is implicit in the objectivity and prudence principles enunciated in the Recommendations of the VII National Assembly of Graduates in Economic Sciences.
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	No	✓	18. *ITCP* Recommendation No. 18 calls for footnote disclosure of the contingency when there is a reasonable possibility that a loss may have been incurred.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
is at least a reasonable possibility that a loss may have been incurred? (C59)					
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. Required by Law 19550 (art. 65 clause 1 item i)	✓			19. This legal provision calls for footnote disclosure of the amount of surety bonds and guarantees granted in favor of third parties, discounted notes and other contingencies, with an explanation, if appropriate.
20. Are the following items disclosed in an enterprise's financial statements for each industry segment: (S20)					
a. sales to outsiders and intersegment sales?	Yes. Required by Law 19550 (art. 64 clause 1 item a)	✓			20*a-f.* It is generally the practice to provide segment information only for revenue and costs entering into the entity's gross profit.
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 principles?	No		✓		

21. A. Are there any requirements to disclose the effects of inflation? (C27)	Yes. Required by Law 19550 (art. 62) and *FACPCE* Technical Resolution No. 6	✓	
B. If so, list the disclosures required.			21B. Financial statements are required to be presented in constant-currency only. Accordingly, all financial statement components are shown restated in the currency values prevailing at the closing date, with the following features: • The restated constant-currency capital is shown as a subtotal comprising the face value of the capital and the capital adjustment account. • Technical Resolution 6 calls for footnote disclosure of the alternative criteria elected. • Footnote disclosure is required concerning the changes in the capital adjustment account for the last five years.
22. Are assets segregated into current and noncurrent classifications with a total for current assets presented? (B05)	Yes. Required by Law 19550 (art. 63 clause 4 item a) and *ITCP* Opinion No. 8	✓	
23. A. Are noncurrent assets those not expected to be realized within one year or the current operating cycle? (B05)	Yes. Required by Law 19550 (art. 63) and *ITCP* Opinion No. 8	✓	
B. If not, how are noncurrent assets defined?			

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
24. A. Is an allowance established for uncollectible receivables? (C59)	Yes. Covered by a Recommendation of the VII National Assembly of Graduates in Economic Sciences	✓			
B. If so, what is the basis (e.g., percentage of sales, aging of receivables, etc.) for calculating the allowance?					24B. The Recommendation states that the bad debt allowance should be determined based on prior years' experience and future collection prospects. In practice, however, the allowance for bad debts is generally based on aging of 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)	Yes. Required by a Recommendation of the VII National Assembly of Graduates in Economic Sciences and by *FACPCE* Technical Resolution No. 6	✓			
26. A. Is inventory stated at the lower of cost or market (or net realizable value)? (I78)	Yes. Required by *FACPCE* Technical Resolution No. 6	✓			
B. If not, how is inventory stated?					

C. Is the basis disclosed?	Yes. Required by Law 19550 (art. 65 clause 1 item c) and *ITCP* Opinion No. 8	✓		
27. Does cost for inventory purposes include: (I78)				
a. materials?	Yes. All the items are required to be included in inventory costs under the Recommendations of the VII National Assembly of Graduates in Economic Sciences	✓		
b. direct labor?		✓		
c. factory overhead?		✓		
d. if the answer to *c.* is yes, is an allocable share of all factory overhead included?		✓		
28. A. Are the following cost methods permitted for reporting purposes: (I78)				
a. first-in, first-out (FIFO)?	Yes. All are permitted by the Recommendations of the VII National Assembly of Graduates in Economic Sciences	✓		
b. last-in, first-out (LIFO)?			✓	
c. average cost?		✓		
B. Are the same methods permitted for tax purposes?	No		✓	28B. The following methods are available for tax purposes (in some cases the option is dependent on the type of inventory): • Resale merchandise, raw materials, and supplies: cost of

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
					most recent purchase (which must be within the last two months of the fiscal year end or price-level-adjusted cost, if earlier) • Finished products: price of most recent sale, less selling expenses and profit margin • Goods whose price is known: market price less selling expenses Consequently, FIFO is allowed for tax purposes (Law 23260).
29. Is the inventory costing method used disclosed? (I78)	Yes. Required by Law 19550 (art. 65 clause 1 item c) and Recommendations of the VII National Assembly of Graduates in Economic Sciences	✓			
30. A. Are fixed assets depreciated over their estimated useful lives by systematic charges to income? (D40)	Yes. Required by Law 19550 (art. 65 clause 2 item a) and by Recommendations of the VII National Assembly of Graduates in Economic Sciences	✓			
B. If so, is an accumulated depreciation account used?	Yes. Required by Recommendations of the VII National	✓			

	Assembly of Graduates in Economic Sciences		
31. Are disclosures made of (D40):			
a. depreciation expense for the period?	Yes. Law 19550 (arts. 64 and 65) and *ITCP* Opinion No. 8	✓	31*a.* Asset depreciation charges are shown in an expense schedule that also discloses allocation to cost centers (administration, marketing, manufacturing) in line with the requirements of Law 19550 (art. 64).
b. balances of major classes of depreciable assets?	Yes. Law 19550 (arts. 64 and 65) and *ITCP* Opinion No. 8	✓	31*b.* Opinion No. 8 calls for presentation of a financial statement schedule showing major fixed asset classes with related original cost, activity, accumulated depreciation, and current depreciation data.
c. the methods used to compute depreciation for the major asset classes?	Yes. Law 19550 (arts. 64 and 65) and *ITCP* Opinion No. 8	✓	31*c.* The depreciation method used is disclosed in a footnote that describes fixed asset valuation criteria.
d. accumulated depreciation, either by major class of assets or in total?	Yes. Law 19550 (arts. 64 and 65) and *ITCP* Opinion No. 8	✓	
32. A. Do criteria exist for classifying leases as operating leases? (L10)	No	✓	32A. There is no legal or professional standard setting guidelines for classifying leases as operating or nonoperating. The usual practice is to account for all leases as operating leases.

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
B. If so, list the criteria and disclosure requirements.					
33. A. Do criteria exist for classifying leases as other than operating leases for the lessor and lessee? (L10)	No		✓		33A. There are no accounting standards for defining any specific treatment for nonoperating leases (either for the lessor or the lessee), except in the case of financial entities subject to Law 21526 (finance companies), which sets accounting standards for financial leasing when a financial entity is the lessor.
B. If so, list the criteria, type of lease, and disclosure requirements.					
34. Are liabilities segregated into current and noncurrent classifications with a total for current liabilities presented? (B05)	Yes. Required by Law 19550 (art. 63 clause 4 item a) and *ITCP* Opinion No. 8	✓			
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. Required by Law 19550 (art. 63 clause 4 item a) and *ITCP* Opinion No. 8	✓			
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?	No			✓	
b. maturities?	No			✓	
c. assets pledged as collateral?	Yes. Required by Law 19550 (art. 65 clause 1 items a and b) and *ITCP* Opinion No. 8 (VI. point 6.6)	✓			
d. covenants to reduce debt?	No			✓	
e. minimum working capital requirements?	No			✓	
f. dividend restrictions?	Yes. Required by Law 19550 (art. 65 clause 1 item h) and *ITCP* Opinion No. 8 (VI. point 6.6.)	✓			
37. A. For long-term construction-type contracts, are the percentage-of-completion and completed contract methods used? (C04)	No	✓			37A. There is no accounting pronouncement that defines the method of accounting for long-term construction contracts. The common practice is to recognize income based on the costs incurred and completed work certificates issued. Even though it is not a generalized practice; however, in some cases, the completed contract method is used.
B. If so, what are the criteria for determining the method to be used?					
38. A. Are research costs charged to expense when incurred? (R50)	No. Deferral is allowed by Recommendations of the		✓		38A. Prevailing accounting principles permit research and development expenses to be

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
	VII National Assembly of Graduates in Economic Sciences				capitalized in a deferred asset account when it is likely they will lead to future income. They are then amortized over a period of time to provide a better matching of income with expenditure.
B. Are such costs disclosed?	Yes. Required by Law 19550 (art. 63 clause 2 item d) and *ITCP* Opinion No. 8	✓			
39. A. Are development costs charged to expense when incurred? (R50)	No. Deferral is allowed by Recommendations of the VII National Assembly of Graduates in Economic Sciences		✓		39A. Same as for research expenses.
B. Are such costs disclosed?	Yes. Required by Law 19550 (art. 63 clause 2 item d) and *ITCP* Opinion No. 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 extraor-	Yes. Required by Law 19550 (art. 64 clause 1 item c) and *ITCP* Opinion No. 8	✓			

dinary items exist in Argentina? (I17)				
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. Required by Law 19550 (art. 64) and *ITCP* Opinion No. 8	✓		
42. A. Are disclosures required for:				
a. extraordinary items? (I17)	Yes. Required by Law 19550 (art. 64) and *ITCP* Opinion No. 8	✓		
b. material events or transactions not classified as extraordinary items? (I22)	Yes. Required by Law 19550 (art. 64) and *ITCP* Opinion No. 8	✓		
c. disposal of a segment of a business? (I13)	No		✓	
B. Indicate the financial statement presentation of these items.				42B. They are included in the statement of income.
43. A. Are pension costs provided for covered employees over the term of employment? (P15)	Yes. Based on contributions to the State Pension Fund instituted by Law 18037	✓		43A. In Argentina, there is a national pension system governed by special laws setting mandatory employee withholdings from all remunerations and employer contributions thereon for the pension fund, which is responsible for paying retirement pensions when the employees become eligible.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
B. If so, do they include charges for costs assigned under the actuarial method used to years prior to the plan's inception?	No			✓	43B. The responsibility attached to employers is limited to withholding the employee contributions and paying them to the pension fund together with employee contributions within the legally set time limit. The contribution then constitutes a charge to income, and the liability must be reflected as such until the required deposit in the fund's account has been made.
44. A. Are specific disclosures required relating to pension plans? (P15)	No			✓	
B. If so, list them.					
45. A. When accounting income and taxable income differ, are deferred income taxes recorded for temporary differences (as opposed to permanent differences)? (I24)	No		✓		45A-C. See paragraphs 72 through 73 of text.
B. If so, are deferred taxes provided for all temporary differences (as opposed to only those meeting certain criteria)?	No		✓		
C. If deferred taxes are provided only for those timing differences meeting certain criteria, what are the criteria?	See Comment				

46. A. Are deferred taxes determined on the basis of tax rates in effect at the time the difference originated? (I24) B. If not, on what basis?	No		✓	46A,B. The deferred income tax account balance is arrived at by extending the net amount of timing differences by the applicable tax rate. When there is a change in the standard tax rate, the balance of the deferred tax account is adjusted, and the effect is recognized currently when the change becomes known.
47. A. Is specific information related to income taxes required to be disclosed? (I28) B. If so, list the requirements.	Yes. Technical Institute Opinion No. 8 and Resolution 12/86 of the Corporation Control Authority	✓		47A,B. Professional pronouncements (*ITCP* Opinion No. 8, point III 6) provide that the income tax effect of ordinary and extraordinary income or losses must be disclosed separately. The tax effect of prior period adjustments must be disclosed in the statement of income, together with the underlying adjustment. Under general disclosure rules, tax commitments are shown under current liabilities, captioned Accrued Taxes or Tax Liabilities. When the deferred tax allocation method is applied, *ITCP* Recommendation No. 7 provides that the balance of the deferred tax account should be shown in the balance sheet, suitably captioned, as a deferred charge or an accrual, depending on whether it has a debit or a credit balance. Utilization of loss carryforwards, at the

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
					current rate, should be disclosed as extraordinary income.
48. A. Are operating losses reported on the income tax return allowed to be carried backward to earlier periods? (I37)	Not allowed by Income Tax Law (No. 23260)			✓	
B. If so, are the tax effects of a loss carryback 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. Income Tax Law (No. 23260)	✓			49A. See paragraph 74 of text.
B. If so, are the tax effects of a loss carryforward included in the income in the period realized?	No	✓			49B. Recommendation No. 7 provides that when there is a loss carryforward from prior years, in general, the accounting recognition of the income arising from its use should take place in the fiscal year(s) when the absorption occurs. The gain arising from utilization of the loss carryforward may only be accounted for when it is reasonably certain that it will be utilized through offsetting either in the fiscal year in which the loss has arisen or the subsequent year in which this conclusion is reached. Such assurance may reasonably be held to exist when all the following conditions are met:

				• The entity is normally profitable to a reasonable extent: • The loss carryforward has arisen from isolated, identifiable, and nonrecurring events, and sufficient future taxable income is anticipated to absorb the available loss carryforward before it becomes barred under the statute of limitations.
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)	No		✓	
51. Are all elements of financial statements translated at current exchange rates? (F60)	No		✓	
52. A. Are translation adjustments reported separately? (F60)	No		✓	
B. Are they accumulated in a separate component of stockholders' equity until ultimately realized?	No		✓	
C. Is there an analysis of the changes during the period in the component of stockholders' equity relating to translation adjustments?	No		✓	
53. A. Are gains and losses resulting from transactions, denominated in a currency other than that of the environment in	Yes. Under *FACPCE* Technical Resolution No. 6 and Recommendation VII of	✓		

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncement	Predominant Practice	Minority Practice	Not Done	Comments
which the entity operates, included in determining net income for the period in which the exchange rate changes? (F60)	the VII National Assembly of Graduates in Economic Sciences				
B. Is the aggregate transaction gain or loss included in determining net income for the period disclosed in the financial statements or notes?	Yes. *ITCP* Opinion No. 8	✓			53B. It is shown in a separate caption within the statement of income.
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			✓	
55. What information is disclosed about foreign currency restrictions?	See Comment		✓		55. Footnote disclosure is required about exchange restrictions when such information contributes to a better understanding of the financial statements. This information would include restricted amounts and the reasons therefor.
56. Are significant events arising subsequent to the balance sheet date reflected in the financial statements or notes thereto?	Yes. Law 19550 (art. 65 clause 1 item f) and *ITCP* Opinion No. 8	✓			56. Point 6.8 of Opinion No. 8 calls for footnote disclosure of events occurring between the financial closing date and the date on which the entity's management approves the financial statements when, although not requiring adjustment to the financial statements, they affect or could affect the entity's net

57. Please list any standards for Argentina for which there are no corresponding U.S. standards.

worth or profitability significantly.

57. The standards (*trans.*) are as follows:

(1) Legal Reserve (art. 70 of the Commercial Company No. 19550)—*SAs* and *SRLs* must appropriate 5 percent of their net profits each year to create a legal reserve, until such reserve equals 20 percent of the subscribed capital. In the case of banks and other finance companies, a special regulation requires the appropriation of 20 percent of their net profits (before income tax) to the legal reserve, without any limitation whatever in relation to their capital.

(2) Adjustment to Constant Currency (Law 22903, Technical Resolution No. 6 and *CNV* Resolution No. 110). The purpose of constant-currency adjustments consists of stating all the financial statement captions in terms of currency with the purchasing power prevailing at the end of the reporting period, thus recognizing the effects on the entity's net worth and operating results of increases in general price levels.

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