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Accounting Profession in Mexico, Second Edition Revised; Professional Accounting in Foreign Country Series

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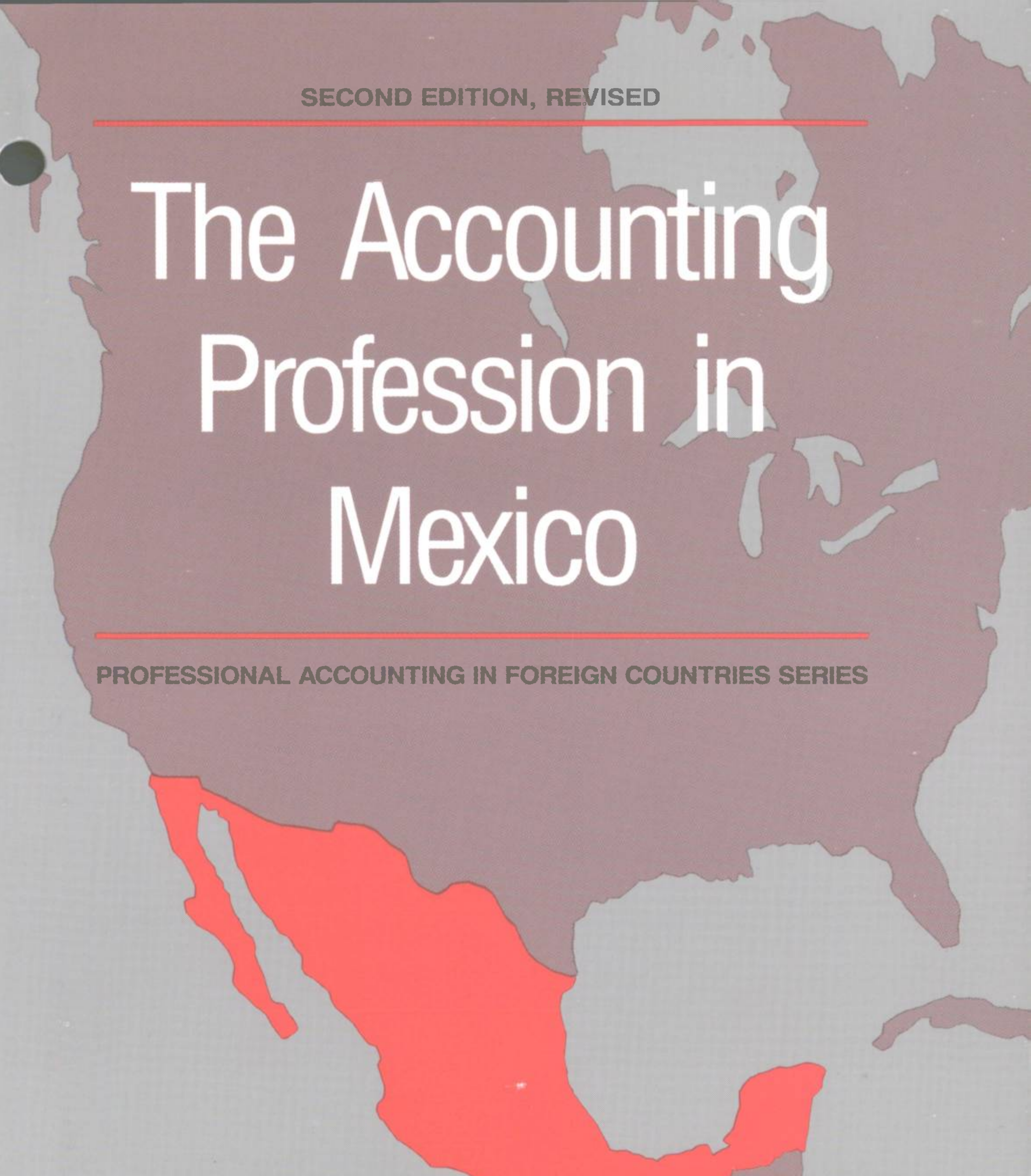
SECOND EDITION, REVISED

The Accounting Profession in Mexico

PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES



AICPA
American Institute of Certified Public Accountants

The Accounting Profession in Mexico Second Edition, Revised
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.

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The Accounting Profession in Mexico

PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES

Prepared by

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Preface

This booklet is one of a series on professional accounting in foreign countries. The material is current as of November 1991. Changes after this date in the standards of either the United States or Mexico may alter the comparisons and references detailed in this publication.

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

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

John F. Hudson
Vice President
Technical Standards and Services

Contents

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The Accounting Profession

REQUIREMENTS FOR ENTRY INTO THE PROFESSION

Domestic Functions and Licensing Requirements

1. Although technical competence is required for an individual to perform accounting, consulting, and tax services in Mexico, it is not necessary to be licensed or certified. The audit and reporting function regarding financial statements and tax reports, however, is restricted to the *Contador Publico* (C.P.), or public accountant. Article 5 of the Regulatory Law of the Constitution of Mexico requires the licensing of certain professions, including that of the *Contador Publico*. The license is granted by the Secretary of Public Education after the applicant has completed the academic requirements set forth by law. Professional accounting organizations are the Societies of Public Accountants, located throughout Mexico and presently numbering fifty. The Federation of Societies of Public Accountants makes up the Mexican Institute of Public Accountants. The societies control the admission and professional conduct of their members. Admittance into a society automatically entitles an individual to membership in the Institute.

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

3. Companies with revenues in the previous year of more than 5 billion pesos, with assets of more than ten billion pesos, or with more than 300 employees during each month of that year, must submit a dictamen fiscal or tax report including financial statements

and auditors' report. This also applies to companies integrated as economic groups, such as holding companies and affiliates, when the aggregate of their operations exceed any of the above mentioned parameters. The auditors' report based on review of the tax situation and supplemental schedules of the financial statements is specified by the tax authorities. The information is extensive and reduces the likelihood of an examination by the tax authorities. All companies filing a consolidated tax return must present consolidated financial statements that have been audited by a public accountant.

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

5. Mexican corporate law requires all corporations to appoint at least one *comisario,* or statutory auditor. The statutory auditor is appointed by the shareholders of the corporation to oversee its operation. He or she must report at least once a year to the shareholders at an official meeting. This responsibility is often assigned to a public accountant.

Foreign Reciprocity

6. Naturalized Mexicans who have completed all the required advanced studies in Mexican accredited institutions may practice with the same rights as native-born Mexicans. No foreigner may practice as a public accountant, except in rare instances in which the individual meets all the requirements of the law and can prove that he or she would be a victim of political persecution in his or her own country. In such cases the permission to practice is temporary.

ROLES AND RESPONSIBILITIES OF STANDARD-SETTING BODIES

Professional Standards Promulgated by Each Body

7. The Mexican Institute of Public Accountants is the standard-setting body for the profession in Mexico. It can be reached at the

following address:

Instituto Mexicano de Contadores Publicos
Tabachines 44
Bosques de las Lomas
Mexico 11700, D.F.

Obligatory standards for the profession are divided into four major categories: generally accepted accounting principles, generally accepted auditing standards, code of ethics, and continuing professional education. To facilitate preparation and review of professional standards, the Institute has specific commissions for each major category. The *Comision de Normas y Procedimientos de Auditoria* (Auditing Standards and Procedures Commission) of the Mexican Institute of Public Accountants is responsible for setting auditing standards for the profession.

8. Although procedures are recommended by the commission, application is left to the judgment of the auditor, based on the circumstances involved. The commission also issues definitions, concepts, and interpretations that explain the terminology used in public accounting. For certain items, the income tax law may require accounting treatment different from generally accepted accounting principles. Regulated industries, such as banks, insurance companies, and companies owned by the government, may also, in certain areas, require accounting treatment different from generally accepted accounting principles.

Ethics Requirements

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

10. The code of ethics prohibits media advertising or other forms of communication that detract from the dignity of the public accountant or the profession. Technical bulletins and pamphlets,

written in a plain and businesslike manner, may be circulated exclusively to firm personnel, clients, and others who make specific requests.

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

PROFESSIONAL PUBLIC ACCOUNTING ORGANIZATIONS

Requirements for Membership

12. To become a member of one of the Societies of Public Accountants, the applicant must (*a*) hold the professional title of public accountant, (*b*) submit a copy of his or her professional thesis, (*c*) be recommended by two members of a society, and (*d*) be approved by the membership committee.

Rights of Membership

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

Number of Members

14. The number of members of the Mexican Institute of Public Accountants as of April 1, 1991, was 12,191.

CPE Requirements

15. Continuing professional education is obligatory for all members of the Societies of Public Accountants. Each member is required to accumulate a minimum of thirty points every year. A table of options is published each year by the Commission of Continuing Professional Education of the Institute, after authorization by the National Executive Committee. Members may propose

directly or through their societies other options applicable to public accounting. The points earned for optional studies are determined by the Commission of Continuing Professional Education. A society is required to inform its members of the requirements, maintain a record of the points accumulated by each member, prepare an annual list with the name and the accumulated points of each member who complied or did not comply, and submit the list to the board of the society for its authorization. Each member is responsible for maintaining the substantiating documentation for completion of the program. Societies must sponsor continuing education programs so that members can meet the standards. They also sanction the training institutions acceptable to offer accredited courses.

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Auditing Requirements

STATUTORY AUDITING AND REPORTING REQUIREMENTS

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

Purpose of the Statutory Audit

17. The primary purpose of an audit of a small company is financing. The primary reasons for an audit of a medium- or large-sized company include the need to meet corporate, financing, tax report, social security report, and National Securities Commission requirements.

Entities Required to Be Audited

18. Every company that is registered with the National Securities Commission and that presents a tax report is required to have an annual audit. In addition, all companies filing a consolidated tax return must present audited financial statements to the Federal Audit Division. The financial statements must include a balance sheet, statements of income, changes in shareholders' equity, changes

in financial position, and notes. Auditing standards require the audit report to identify the statements that have been audited. All financial statements must be adjusted for inflation in accordance with Bulletin B-10, *Accounting for the Effects of Inflation in the Financial Information*, and its amendments, issued by the Mexican Institute of Public Accountants (see appendix B).

Appointment and Qualifications of Auditors

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

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

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

Auditing and Reporting Responsibilities

22. The directors of a company are responsible for ensuring that the company has an adequate system of internal control, that proper accounting records are maintained, and that the financial statements present fairly the financial position of the company, its results of operations, and changes in its financial position. The auditor has the right of access at all times to the books, records, and documentation of the company needed to carry out the auditing procedures considered necessary to form an opinion on the financial information being examined.

23. A company's annual report to shareholders may include other financial information, such as summaries and statistical

information, but such information is not covered by the audit report and is the sole responsibility of the directors. The auditor is required to ensure that other financial information included in the annual report is consistent with the basic financial statements.

Filing of Reports

24. The auditors' report is usually addressed to the shareholders, the company, or the board of directors and is attached to the financial statements. Required and voluntary reports are submitted by the company to various regulatory agencies such as the National Securities Commission, the Department of Social Security, and the Ministry of Finance.

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

Standards Issued

25. Auditing standards are set forth in technical bulletins issued by the Auditing Standards and Procedures Commission of the Mexican Institute of Public Accountants, and are summarized and classified in the publication *Auditing Standards and Procedures*, issued by the Mexican Institute of Public Accountants. Standards and pronouncements in series A, B, C, D, E, and H are obligatory; F and G include recommendations of the commission in regard to auditing procedures. These recommendations should be applied according to the auditor's judgment, and the auditor is responsible for deviations therefrom without just reason. Standards J-01 through J-06 are opinions of the commission on policies, programs, studies, interpretations, cases, and guides and do not have the character of standards. While there are certain minor differences between Mexican and U.S. auditing standards and procedures, the substance of the standards in both countries is very similar.

26. Although rare, the practice of joint auditing does exist. (Two firms jointly audit the financial statements of an entity and issue a single report signed by both.) This practice may occur when divisions of a governmental unit are audited by two separate firms and the government requests both firms to sign a single report.

General Standards

27. Mexican general standards, as set forth in Bulletin C (see appendix A), are very similar to U.S. standards. Article 108 of the Code of Professional Ethics prohibits a member of the profession from accepting engagements that he or she is not qualified to perform.

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

Standards of Fieldwork

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

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

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

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

32. The standards of fieldwork, with the exception of those related to inflation accounting, are very similar to the U.S. standards of fieldwork.

Standards of Reporting

33. The standards of reporting in Mexico are very similar to U.S. standards of reporting. In all cases in which the name of a public accountant is associated with financial statements, he or she should express in a clear and unmistakable manner—

a. The nature of his or her relation to such information.

b. His or her opinion on the same.

c. The important limitations, when applicable, that were imposed on the examination; the qualifications that are derived from them or all the important reasons why an adverse opinion is expressed; or why, after an examination is performed in accordance with auditing standards, a professional opinion cannot be expressed.

The auditor, upon rendering an opinion on the financial statements, should observe that—

a. They were prepared in accordance with generally accepted accounting principles.

b. Such principles were applied on a consistent basis.

c. The information presented therein and in the related notes is adequate and sufficient.

34. The trend is to issue comparative financial statements in which the auditors' report covers both years, except in the tax report when the report is comparative and the auditors' report only covers the current year as required by the tax authorities.

35. The third document of amendments to Bulletin B-10 issued by the Auditing Standards and Procedures Commission requires that all financial statements be presented at the same peso purchasing power. When comparative financial statements are presented, they should be stated at the peso purchasing power in effect at the

close of the last year reported. In the statement of income, items are restated by comparing the general consumer price index at the end of the period pertaining to the statement with the general consumer price index at the close of the month at which the income subject to restatement was stated. Such re-expression is for comparability presentation purposes only and does not require any changes in the accounting records.

36. As the re-expression relates to the third document of amendments, the following at a minimum should be stated in a footnote to the financial statements:

- The statements of operations and the changes in financial position are expressed in peso purchasing power at the balance-sheet date of the latest year presented. Thus, the statement of changes in financial position is prepared giving consideration to the change in constant pesos of the different items of the balance sheet.
- The financial statements of the prior year(s) are restated in accordance with the third document of amendments and are stated in peso purchasing power at the latest balance-sheet date. This change in the financial statements results in the presentation of condensed statement of operations, statement of changes, and balance sheet comparing balances reported with balances previously reported.

37. Although the standard audit report does not make reference to consistency, it is implied.

Standard Form of Report

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

Qualification in Audit Reports

39. Bulletin H-01 sets forth the circumstances under which a qualified report is to be issued and explains the form of qualification required. The reasons for a qualification should be disclosed in the auditor's report following the phrase "except for," making

reference to the paragraphs within the auditor's report that set forth the reason for such qualification.

40. The foregoing assumes a disclaimer or adverse opinion is not required. Bulletin H-03, *Repercussion in the Auditors' Report of the Recognition of the Effects of Inflation in the Financial Information*, follows the above.

41. The classifications, account systems, and accounting rules prescribed by certain regulatory agencies often differ from generally accepted accounting principles. The custom has been for the auditors' report to note that the accounting rules prescribed by the regulatory authorities have been consistently applied and are adequately disclosed.

Dating of the Audit Report

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

43. Subsequent events can be handled by dual dating of the report or by applying adequate procedures to permit the original date to be changed to the date of the subsequent event.

Other Auditors

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

Signing of the Audit Report

45. The audit report must be signed by an authorized public accountant, who is individually responsible for the report.

46. Mexican auditing standards differ significantly in the reporting area from those in the United States in that the standard report makes no reference to the financial statements being free of material misstatement; it also uses two paragraphs (scope and opinion) and differs somewhat in terminology (see appendix C).

3 Accounting Principles and Practices

SOURCE OF ACCOUNTING PRINCIPLES

47. Accounting principles are developed by the Commission of Accounting Principles of the Mexican Institute of Public Accountants. (See appendix B for a list of the bulletins that have been issued through November 1991.) Principles specifically referred to by the commission are the reporting entity, realization, accounting period, original historical value, going concern, double entry, sufficient disclosure, materiality, consistency, and, most recently, inflation accounting.

FORM AND CONTENT OF FINANCIAL STATEMENTS

Presentation of Statements

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

Types of Statements Prepared

49. The basic financial statements include the balance sheet, statement of income, changes in shareholders' equity and changes in

financial position based on cash flow, and notes to the financial statements; all are prepared in comparative form. There are similarities in format between Mexican and U.S. financial statements. Current assets and liabilities are the first categories (on their respective sides of the balance sheet) and are separately subtotaled. In addition to the usual stockholders' equity accounts, an additional account generally appears, namely, excess (insufficiency) in the updating of shareholders' position. This account is the difference between holding gains on inventory and fixed assets based on current cost and holding gains computed using the national consumer price index (NCPI). The income statement follows the format used in the United States. Before arriving at net income, provisions for net asset tax, for current and deferred income tax, and for employee profit sharing are shown.

50. The accounting records and financial statements are required to be adjusted for inflation in accordance with Bulletin B-10 and its amendments. The statement of changes in shareholders' equity has taken on new significance because of inflation accounting. To prepare the statement of changes in shareholders' equity, initial balances must first be translated into Mexican peso purchasing power at the date of the latest balance sheet, based on the factor resulting from comparison of the NCPI at the date of the final balance with the NCPI at the date of the initial balance. The difference between the results of the two restated balances at closing pesos of the final balance is analyzed pursuant to shareholders' equity items that reflect changes during the year.

51. The statement of changes in financial position is prepared giving consideration to the change in constant pesos of the different items of the balance sheet. The format is similar to the statement of cash flows.

52. The report submitted to the Mexican Institute of Social Security is a voluntary special report and lessens the likelihood of review by the Department of Social Security. The report is accompanied by specific information requested by the Department of Social Security related to the contribution responsibilities of the employer and the employees.

53. Consolidated financial statements are required when the conditions stated in Mexican accounting principles exist. The

conditions are essentially the same as those in the United States. However, consolidation may be required when there is ownership of 50 percent or less if the other shareholders have ceded power to govern the company. Consolidated financial statements must be audited by a public accountant and be submitted to the Federal Division of Auditing when a consolidated tax return is filed.

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

Inflation Accounting

54. Bulletin B-10 and its amendments issued by the Commission of Accounting Principles requires the use of inflation accounting. Although historical cost amounts serve as the basis for determining restated amounts and also must be maintained for tax purposes, the financial statements and general accounting records must be adjusted for inflation. All financial statements are to be presented at the same Mexican peso purchasing power.

55. The accounts to be restated are all nonmonetary items in the balance sheet, including all items of shareholders' equity; in the income statement, the costs and expenses associated with the nonmonetary assets; and, if appropriate, the income associated with nonmonetary liabilities. The income statement must be restated at the Mexican peso purchasing power as of the latest year end. Following are the methods for updating:

a. Adjustment for changes in the general level of prices, using the national consumer price index (NCPI) published by the Bank of Mexico

b. Specific cost (net replacement value)

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

57. Regardless of the updating method used, nonconsolidated subsidiaries and associates that are not less than 10 percent or more

than 50 percent owned should be accounted for by the equity method and determined based on the updated financial statements of the subsidiary or affiliate, with the same methodology used by the owning entity. Ownership of less than 10 percent could also require the application of the equity method if certain conditions regarding influence exist, such as participation in defining operating or financial policies. The date of the financial statements of the nonconsolidated subsidiaries may not differ by more than three months from those of the owning entity and must be restated at the Mexican peso purchasing power as of the date of the financial statements of the owning entity. Subsidiaries in foreign countries with currency control, dividend restrictions, and uncertainty regarding monetary stability must be valued at the lower of equity value or realization value.

Inventories

58. Inventories may not be stated at greater than their realization value. Valuation methods permitted when the specific cost method is used are first-in, first-out; last purchase price effected in the period; standard cost when representative; use of specific indexes issued by a recognized institution or developed by the company based on technical studies; or replacement costs when these are substantially different from the last purchase price effected in the period. When the national consumer price index is used, the historical costs of the inventories are expressed in purchasing power of the peso at the date of the balance sheet using a factor derived from the national consumer price index.

59. A general provision for obsolescence is not deductible for tax purposes.

Fixed Assets and Depreciation

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

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

depreciation of the cost and its complement for updating should conclude in the same year.

62. Pertinent information that will permit the user of the financial statements to understand the significant implications of the determined fixed asset and depreciation amounts shown should be disclosed. Such information includes the method of restating (adjustment) used by the company, its accumulated depreciation, the methods of depreciation used, the amount of assets not revalued, and the reasons for not doing so. If there is a change in the estimated life of an asset subject to depreciation, the change and its effect on the financial information should be specifically indicated.

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

Shareholders' Equity

64. A revaluation surplus (including amounts in capital stock) that may exist when the initial balances are updated in the first year of application would not be updated. When preferred capital is to be paid in cash at a fixed predetermined price, it is considered a monetary liability.

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

66. The results of updating these accounts are included in the respective accounts. As a result of applying inflation accounting, the following account could be generated in the shareholders' equity section.

67. *Excess or deficiency from updating of shareholders' equity.* This account is the total updated result from the holding of nonmonetary assets. It represents the degree to which the company has been able to maintain or not maintain (as, respectively, an excess or a deficiency) the purchasing power of the shareholders' contribution and accumulated

results in relation to accumulated inflation (measured on the basis of the NCPI) by maintaining a predominantly excess or deficient monetary position during it's existence.

Monetary Effect

68. The monetary effect of the period should be presented in the income statement as part of the integral financing cost/income, which consists of interest, exchange fluctuations, and, in general, all items grouped within the account of finance charges and expense. The monetary effect for the period is the total of the monthly monetary effects, determined by applying the corresponding monthly rate of inflation (based on the NCPI) to the monetary position at the beginning of each month.

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

Consolidated Financial Statements

70. The monetary effect of shareholders' equity is determined on the basis of the consolidated monetary position.

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

Disclosure

72. Disclosure of the effects of revising the financial statements for the period should include the following items and amounts:

a. Nonmonetary assets and liabilities updated concurrent with associated expenses, costs, and income
b. Updated shareholders' equity
c. Monetary effect
d. Results from the holding of nonmonetary assets
e. Results of operations updated to the peso purchasing power of the latest balance sheet

73. The notes should disclose by line item the updated shareholders' equity and the accumulated results in such a manner that the amount of each item is stated at the peso purchasing power in effect at the latest balance-sheet date.

Short-term Investments

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

Receivables

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

Goodwill

76. The rules pertaining to the creation of goodwill are similar to those in the United States. The amortization period for the write-off of goodwill should not exceed twenty years. Goodwill or its amortization is not deductible for income tax purposes. Negative goodwill is used first to reduce the value of the assets acquired to their value as determined by an independent appraiser. If the appraised value is greater than that shown in the financial statements, the excess should be recorded as "excess of the net adjusted book value over the cost of the shares of subsidiaries." This amount should be amortized by a credit to results of operations over a period not to exceed five years. Such negative goodwill should be presented in the liability section of the balance sheet after long-term debt. Goodwill and negative goodwill should not be offset.

Leases

77. Bulletin D-5, *Leasing*, discusses the criteria for classifying leases as either operating or financing by the lessee and lessor. The criteria are similar to those used in the United States.

Deferred Income Taxes and Employee Profit Sharing

78. Bulletin D-4, *Accounting Treatment of Income Tax and Employee Profit Sharing*, issued by the Accounting Principles Commission, was effective for years ended December 31, 1987. The method selected by the commission for the recognition of deferred taxes is the liability method. At the end of each period, the company should review its deferred tax situation to determine the appropriate deferred income tax balances. Bulletin D-4 calls for a partial basis in the recognition of deferred taxes. Accordingly, deferred taxes are provided for short-term timing differences and for those of a long-term nature for which realization has been ascertained. No deferred income taxes are required for timing differences considered to be of a recurring nature. Loss carry-forward benefits are not recognized until their realization, unless deferred credits exist that will reverse in the carry-forward period. Differences between financial accounting and taxable income are disclosed in footnotes, as is the difference between the statutory and effective tax rates. Timing differences for which no deferred taxes were recorded because such differences originated in a loss period must also be disclosed. Employee profit sharing is a percentage (currently 10 percent) of taxable income with certain adjustments. These adjustments are made principally to eliminate the recognition of inflation effects when determining taxable income. Furthermore, prior years' tax losses may not be carried forward for purposes of determining employee statutory profit sharing. Exempt from this requirement are newly formed companies in their first year of operation, or in their first two years if they are engaged in the production of a new product.

Construction-type Contracts

79. No specific audit bulletin or tax guide has been issued on construction accounting. In the majority of cases, the percentage of completion is used; it is the only method acceptable for income tax purposes.

Segment Information

80. No pronouncement has been issued on segment accounting. The general practice is to issue reports without segment information.

Translation of Foreign Currency Financial Statements

81. No specific bulletin has been issued on foreign currency translation that is comparable to the U.S. Statement of Financial Accounting Standards No. 52, *Foreign Currency Translation.* When consolidated financial statements are prepared, the practice has been to translate the financial statements of subsidiaries at the current rate.

Forward Exchange Contract

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

Statutory Reserves

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

Business Combinations

84. There are two methods for recording business combinations: vertical and horizontal. The vertical method is similar to the purchase method used in the United States. The horizontal method is similar to the pooling of interest method, except that it does not

require the results of operations to be treated as if the enterprises had been combined as of the beginning of the period, and prior periods are not required to be restated on a combined basis.

Preoperating Costs

85. Preoperating costs are deferred until the enterprise enters the operating stage. This differs from U.S. accounting standards, which require that the same standards that apply to established operating enterprises also govern the recognition of revenues and expense for enterprises in the development stage.

Pension Plan

86. The annual pension plan charge should be based on a logical, systematic, and consistent actuarial method that ensures a reasonable cost from year to year. Past service costs should be amortized in a systematic and rational manner in the results of future years.

4

Business Environment

FORMS OF BUSINESS ORGANIZATION

87. The procedures for establishing or acquiring a business entity in Mexico are basically the same whether the investor is foreign or Mexican. Limits apply, however, to the amount of foreign participation in numerous sectors of the economy, and authorization from the National Foreign Investment Commission may be required in certain cases involving foreign investors. The various forms of business organization recognized in Mexico and regulated by the Civil Code or the General Law of Mercantile Organizations, as amended, are described below.

Entities With Corporate Attributes

88. The legal entities most used by foreign and local investors are the *sociedad anonima* (S.A.), or corporation, and the *sociedad anonima de capital variable* (S.A. de C.V.), or corporation with variable capital. The minimum paid-in capital is 25,000 pesos and at least five founder-shareholders are required, four of whom may own a nominal number of shares. This minimum number of shareholders must always be maintained. In order to change its capital, a corporation must amend its articles of incorporation and authorization must be obtained from the Ministry of Foreign Relations, unless, in the case of corporations with variable capital, the change affects only the variable portion of the stock. Corporations may have restrictions on the ownership percentage by foreign shareholders. The corporation may issue common and preferred shares. A corporation may not acquire its own shares as an investment, except through a court judgment, in which case they must be sold within three months after

acquisition. Treasury shares are not allowed. Company shares may be reacquired and retired.

89. A *sociedad de responsabilidad limitada*, or limited-liability company, has features of both a partnership and a corporation. No shares are issued and investors vote and participate in profits in proportion to their capital accounts. Unanimous agreement is required to transfer or increase capital accounts. Investors are liable for the amount of their contribution and personal assets cannot be reached by the creditors of the company. This form of organization is convenient for small and medium-size enterprises.

Shareholders' Meetings

90. The corporation must hold a shareholders' meeting at least once annually, within four months after the close of the fiscal year. All corporations must have a December 31 year end. The minority shareholder usually has no recourse against decisions taken by the majority. Companies with large minority shareholders therefore have special clauses in their charters requiring approval of greater than 52 percent on certain matters.

Liabilities of Incorporators, Shareholders, and Board Members

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

Branch of a Foreign Company

92. A branch of a foreign corporation is not frequently used.

Partnership Entities and Joint Ventures

93. A general partnership is rarely used by foreign investors, but it is very similar to the general partnership found in the United

States. Each partner is jointly and severally liable for the debts of the partnership to the full extent of his or her personal and business assets.

94. A civil association is most commonly used by professional practitioners. A partnership has its own legal personality distinct from that of the partners and for tax purposes is treated in the same way as a corporation. The individual partners' liability is unlimited.

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

96. A limited partnership closely resembles the U.S. limited partnership. The liability of the general partners is unlimited, and the limited partners' liability is limited to their capital contributions.

Other Forms of Business Organization—Sole Proprietor

97. The *persona fisica con actividades empresariales* or sole proprietorship is the most popular form of organization for a small business. A proprietor has sole responsibility for the business in which he or she is engaged and all personal and business assets are subject to the debts of the business.

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

Registration Requirements for Public Sale

98. Before being sold to the general public, securities must be approved by the National Securities Commission, an agency of the Ministry of Finance and Public Credit. Only securities approved by the commission and included in its National Register of Securities may be listed on the stock exchange and offered to the public. Pension funds, banks, and insurance companies may only invest in

securities approved by the commission. To register with the National Securities Commission, a company must file legal, financial, and economic information. This includes specified details and documentation of the company's organization, information on its officers, and a description of its business. Additional information is required for the past five years.

Requirements for Listing Securities on the Stock Exchange

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

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

100. Listed companies must present annual audited financial statements, audited by a Mexican public accountant, to the commission. Interim quarterly reports, which need not be audited, must also be submitted.

SELECTED ECONOMIC DATA

101. Key demographic and social factors, based on 1990 Mexican census data, follow.

Area (millions of square miles)	.76
Population (in millions)	81.1
Annual population increase	2.5%
Percentage of population under age 19	38
Labor force (in millions)	31.5
Life expectancy (years of age):	
Males	67
Females	73
Literacy rate	88%
Foreign debt ($ billions)	94
Gross domestic product ($ billions)	227
Inflation rate	30%

102. The major Mexican trading partners, as of 1990, are as follows:

	Exports ($ millions)	*Imports ($ millions)*
United States	18,748	19,253
Canada	231	456
Spain	1,456	520
France	552	712
West Germany	339	1,724
Other EEC countries	1,044	1,695
Japan	1,448	1,414
Central American Common Market	424	102
Latin American Integration Association	917	509
Other countries	1,620	3,390
Total	26,779	29,775

103. Mexican primary export and import products, as of 1990, are as follows:

	Exports ($ millions)	*Imports ($ millions)*
Manufacturing	14,798	27,050
Extractive industry	9,538	388
Agriculture and forestry	2,163	2,071
Other	280	266
Total	26,779	29,775

TAXES

Principal Taxes

104. The principal taxes in Mexico are income tax, tax on assets, value-added tax, payroll taxes, local taxes on real property, and property acquisition tax.

Corporation Tax

105. Corporations are classified as resident or nonresident. A nonresident corporation is a foreign corporation with a permanent

establishment in Mexico. Resident corporations are required to include their income from all sources in an annual return and are taxed at 35 percent. Special treatment exists for certain capital gains, and the effects for inflation for tax purposes are included, as discussed below.

106. The tax calculation includes an inflationary component that, if monetary assets or liabilities (as defined in the income tax law) are held, results either in a deduction or in income, respectively. Historical cost depreciation may be indexed to arrive at the annual deductible expense. This restatement is also taken into consideration in the determination of the capital gain or loss on the sale of such assets. The tax law also provides an option to depreciate new fixed assets entirely in the year of acquisition at their present value. The tax law provides for the substitution of the deduction of cost of sales for the immediate deduction of purchases of inventories, labor, and overhead related to production. With this method, the pricing method of inventory ceases to be relevant for tax purposes.

107. Operating loss carry forwards may also be indexed, as set forth in the tax law, and in certain circumstances may be carried forward up to ten years. Depreciation, maintenance, and operating costs of automobiles with an acquisition cost of up to 100 million pesos are limited to 80 percent of the expenses incurred. For automobiles costing more than 100 million pesos, the related expenses are not deductible. This limitation does not apply to companies whose primary activity is automobile leasing.

108. Generally, reserves for doubtful accounts and seniority premiums are not allowable deductions. Reserves for obsolete inventory are also not allowable deductions. The federal labor law requires the payment of a seniority premium to employees who have completed fifteen years of service upon their dismissal or retirement. Such a payment is also required in certain other circumstances, such as upon the death of the employee. Bulletin D-4, *Accounting Treatment of Income Tax and Employee Profit Sharing*, requires that a provision be established for this eventuality.

109. Nonresident corporations are taxed only on their Mexican source income at flat rates, without deductions, based on the type of income.

110. Every corporation must determine its net tax earnings account. This account represents the portion of retained earnings that was previously taxed. Dividends not paid from the net tax earnings account will subject the company to a tax at 35 percent and are not taxable to the shareholder. Dividends will not represent accruable income for individuals or corporate shareholders.

Estimated Income Taxes

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

Tax on Assets

112. A 2 percent tax on assets, as defined in federal law, became effective January 1, 1989. This tax is not a minimum income tax, although its objectives are similar since the income tax paid may be credited against it. If the tax on assets is greater than the income tax in a given year, it may be refunded in the following five years as long as the income tax in any of those years is greater than the tax on assets for the original year.

Tax on Acquisition of Real Estate

113. A tax is imposed on the transfer of real estate by the acquirer. The tax rate is progressively being reduced from 10 percent in 1990, to 2 percent in 1994, to an annual rate of 2 percent thereafter.

Value-Added Tax

114. Value-added tax is levied at a standard rate of 15 percent on the consumer for most types of products and services. Food items and medicine have a zero rate. Value-added tax, for which a monthly return must be filed, generally does not represent an additional cost

to business, because the amounts paid may be taken as credits on the liability of the business enterprise for the tax on their billings to customers. Excess value-added taxes paid may be refunded. The rate varies between 6 percent and 20 percent in certain specified areas. The 6 percent rate applies to activities carried out in border areas and free zones. The 20 percent rate applies to items considered to be luxury items.

Capital Gains Tax

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

Individual Income Tax

116. Resident individuals are taxed on their worldwide income and must file an annual income tax return with special treatment for capital gains. The highest tax rate on individuals is 35 percent. Nonresident individuals are taxed only on their Mexican source income at flat rates applied to different types of gross income.

Other Taxes

117. Social security contributions are based on daily wages and are imposed on both the employee and employer. The amount is withheld by the employer and remitted to the government monthly. An advance payment is made estimating the first month, and a return is filed after the second month, which includes the two-month period.

118. Property taxes are levied annually by each state at widely varying rates. The tax is based on the value shown by the tax payrolls.

Tax Returns

119. Resident corporations are required to file an annual income tax return within three months of the year end. All companies must have a December 31 year end. Any remaining tax due must be paid at this time. The tax return may not cover a period in excess of twelve months and generally is for a one-year period.

120. Most resident individuals are required to file an annual income tax return before April 30 of the succeeding year. Any tax due is payable when the return is filed. Overpayments can be applied against the following year's taxes or a refund may be requested. However, these amounts may not be used to reduce taxes withheld from future salaries.

Employee Profit Sharing

121. All companies, with a few exceptions (primarily companies in their first year of operations), are required to participate in an employee profit-sharing plan. The amount of participation is equivalent to 10 percent of taxable income with certain adjustments, primarily inflationary component effects and the additional depreciation for indexing. Net operating loss carry forwards are not considered. All employees participate, with the exception of the general manager and part-time employees who worked fewer than 60 days during the year. The amounts must be paid within 60 days of the date that the annual income tax is paid.

APPENDIX A

Outstanding Auditing Pronouncements

The translated outstanding auditing pronouncements as of November 1991 are as follows.

Series and Number	Title
A	*Character and Obligatory Nature of the Bulletins of the Commission*
B	*Standard Pronouncements of a General Character on the Objective and Nature of the Audit of Financial Statements*
B-01	*Documentation of the Audit*
B-02	*Quality Control of the Audit Work of Financial Statements*
B-03	*Materiality and Audit Risk*
C	*Auditing Standards*
D	*Personal Standards Pronouncements*
E-01	*Audit Planning and Supervision*
E-02	*Study and Evaluation of the Internal Control*
E-03	*Sufficient and Competent Evidence*
E-04	*The Responsibility of the Auditor in the Discovery of Errors and Irregularities*
E-05	*Client Representations*
F-01	*Auditing Procedures of General Application*
F-02	*Audit Sampling*
F-03	*Initial Audits*
F-04	*Conclusion of the Audit*
F-05	*Study and Evaluation of the Internal Control by Cycles*
F-06	*Effects of Electronic Data Processing (EDP) in the Examination of Internal Control*
F-07	*Auditing Procedures for the Study and Evaluation of the Function of Internal Auditor*
F-08	*Using the Work of a Specialist*
F-09	*Related Parties*
F-10	*Communication Between the Successor and Preceding Auditors*

Series and Number	Title
F-11	*Analytical Review Procedures*
G-01	*Examination of Cash*
G-02	*Temporary Investments in Securities*
G-04	*Inventories and Cost of Sales*
G-05	*Prepaid Expenses*
G-06	*Property, Plant, and Equipment*
G-08	*Intangibles*
G-09	*Liabilities*
G-10	*Shareholders' Equity*
G-11	*Sales and Accounts Receivable*
G-12	*Operating Expenses*
G-13	*Examination of Contingencies and Commitments*
G-14	*Subsequent Events*
G-15	*Examination of Personnel Remunerations*
G-16	*Audit Procedures Applicable to the Limited Review of Interim Financial Statements*
G-17	*Permanent Investment in Shares and Preparation of Consolidated or Combined Financial Statements*
G-20	*Auditing Procedures Applicable to the Examination of Financial Statement Items Modified to Reflect the Effects of Inflation*
H-01	*Auditor's Report*
H-02	*Opinion on Financial Statements Prepared on a Basis Different From Accounting Principles*
H-03	*Repercussion in the Auditors' Report of the Recognition of the Effects of Inflation in the Financial Information*
H-04	*Effects in the Report of the Auditor When the Work of Other Auditors is Used*
H-11	*Professional Opinions of the Public Accountant Issued for Special Purposes*
H-12	*Report of the Public Accountant in the Performance of the Function of Statutory Auditor*
H-13	*Report on Internal Control*
H-14	*Report on the Limited Review of Interim Financial Statements*
H-15	*Opinion on Complementary Information That Accompanies the Basic Financial Statements Reported Upon*
H-16	*Opinion of the Public Accountant on the Incorporation of Subsequent Events in Pro Forma Financial Statements*
H-31	*Association of the Name of the Public Accountant With Financial Statements*

Series and Number	Title
H-32	*Effects of the Work of a Specialist in the Report of the Auditor*
J-01	*Guide for the Study of Internal Control of the Revenue Cycle*
J-02	*Guide for the Study of Internal Control of the Purchase Cycle*
J-03	*Guide for the Study of Internal Control of the Production Cycle*
J-04	*Guide for the Study of Internal Control of the Payroll Cycle*
J-05	*Guide for the Study of Internal Control of the Treasury Cycle*
J-06	*Guide for the Study of Statistical Sampling in Auditing*

APPENDIX B

Outstanding Accounting Pronouncements

The translated outstanding accounting pronouncements as of November 1991 are as follows.

No.		Effective Date
Series A—Basic Accounting Principles		
1.	*Outline of the Basic Theory of Financial Accounting*	Jan. 1974
2.	*Entity*	Oct. 1975
3.	*Realization and Accounting Period*	Sept. 1975
5.	*Adequate Disclosure*	July 1974
6.	*Materiality*	Oct. 1981
7.	*Consistency*	July 1974
11.	*Definition of the Integral Basic Concepts of the Financial Statements*	Oct. 1987
Series B—Principles Relative to Financial Statements in General		
1.	*Objectives of the Financial Statements*	Oct. 1981
8.	*Consolidated and Combined Financial Statements and Valuation of Permanent Investments*	Aug. 1991
9.	*Interim Financial Information*	Jan. 1983
10.	*Accounting for the Effects of Inflation in the Financial Information*	Dec. 1984
	First document of amendments to Bulletin B-10	Dec. 1985
	Second document of amendments to Bulletin B-10	Jan. 1988
	Third document of amendments to Bulletin B-10	Jan. 1990
12.	*Statement of Changes in Financial Position*	Jan. 1990
Series C—Principles Applicable to Specific Items and Concepts		
1.	*Cash and Investments*	Jan. 1974
2.	*Temporary Investments*	April 1982
3.	*Accounts Receivable*	July 1974
4.	*Inventories*	Jan. 1974

No.		Effective Date
5.	*Prepaid Expenses*	Oct. 1981
6.	*Property, Machinery, and Equipment*	July 1974
8.	*Intangibles*	April 1976
9.	*Liabilities*	Jan. 1974
11.	*Shareholders' Equity (revised)*	April 1976
12.	*Contingencies and Commitments*	Jan. 1974
13.	*Related Parties*	April 1989
Series D—Special Problems in the Determination of Results of Operations		
3.	*Accounting Treatment of Personnel Remunerations*	July 1974
4.	*Accounting Treatment of Income Tax and Employee Profit Sharing*	Dec. 1987
5.	*Leasing*	Jan. 1991

Note:

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

APPENDIX C

Illustrative Auditor's Report and Financial Statements

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

Company de Mexico, S.A. de C.V.

We have examined the consolidated balance sheets of Company de Mexico, S.A. de C.V., and its subsidiaries as of December 31, 1990, and the related consolidated statements of income, changes in stockholders' equity, and changes in financial position for the years then ended (all expressed in millions of Mexican pesos in purchasing power at December 31, 1990). Such financial statements are the responsibility of the administration of the Company. Our examinations were made in accordance with auditing standards generally accepted in Mexico and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The provisions contained in the Third Document of Amendments to Bulletin B-10, issued by the Mexican Institute of Public Accountants, are mandatory starting on January 1, 1990; accordingly, such provisions were adopted by the Company. Consequently, both 1990 and 1989 financial statements are expressed in peso purchasing power as of December 31, 1990 (see note 2).

In our opinion, such consolidated financial statements present fairly the financial position of Company de Mexico, S.A. de C.V., and its subsidiaries at December 31, 1990 and 1989, and the results of their operations and the changes in their financial position for the years then ended, in conformity with accounting principles generally accepted in Mexico.

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

January 28, 1991

COMPANY DE MEXICO, S.A. DE C.V.
CONSOLIDATED BALANCE SHEETS
December 31, 1990 and 1989
(in millions of Mexican pesos in purchasing power at December 31, 1990)

Assets	*1990*	*1989*
Current Assets		
Cash and temporary cash investments	356,111	405,926
Notes and accounts receivable:		
Trade (note 7)	278,046	321,413
Other	45,230	69,074
Total	323,276	390,487
Inventories (note 1)	199,318	216,351
Total current assets	878,705	1,012,764
Property, Plant and Equipment—Net (notes 1, 3, 7)	1,447,542	1,456,781
Total	2,326,247	2,469,545
Liabilities and Stockholders' Equity		
Current Liabilities		
Long-term debt—current portion	2,368	8,661
Bank loans	61,286	83,112
Notes and accounts payable	123,309	117,130
Accrued liabilities	70,809	82,629
Income tax	40,019	55,753
Employee profit sharing	52,474	55,894
Total current liabilities	350,265	403,179
Long-Term Debt—less current portion	7,105	11,046
Deferred Taxes	17,261	23,051
Total liabilities	374,631	437,276
Stockholders' Equity (notes 1, 5)		
Capital stock	843,683	843,683
Retained earnings:		
Prior years	1,632,527	1,590,643
Current year	303,638	296,384
Insufficiency from the updating of stockholders' equity	(828,232)	(698,441)
Stockholders' equity	1,951,616	2,032,269
Total	2,326,247	2,469,545

See notes to consolidated financial statements.

COMPANY DE MEXICO, S.A. DE C.V.
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 1990 and 1989
(in millions of Mexican pesos in purchasing power at December 31, 1990)

	1990	*1989*
Net Sales	2,289,099	2,360,849
Cost of Sales	1,368,309	1,454,829
Gross Profit	920,790	906,020
Operating Expenses	342,046	333,438
Operating Profit	578,744	572,582
Integral Financing Cost (note 1)	38,667	54,043
Income Before Provisions for Income Tax and Employee Profit Sharing	540,077	518,539
Provisions for Income Tax and Employee Profit Sharing (note 4)	236,439	222,155
Net Income	303,638	296,384

See notes to consolidated financial statements.

COMPANY DE MEXICO, S.A. DE C.V.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Years Ended December 31, 1990 and 1989
(in millions of Mexican pesos in purchasing power at December 31, 1990)

	Capital Stock	*Retained Earnings*	*Insufficiency From the Updating of Stockholders' Equity*	*Stockholders' Equity (notes 1 and 5)*
Balances at January 1, 1989	843,683	1,911,686	(723,384)	2,031,985
Changes				
Cash dividends—3,209 per share		(321,043)		(321,043)
Net income for the year		296,384		296,384
Recognition of the effects of inflation on the financial information			24,943	24,943
Balances at December 31, 1989	843,683	1,887,027	(698,441)	2,032,269
Changes				
Cash dividends—2,544 per share		(254,500)		(254,500)
Net income for the year		303,638		303,638
Recognition of the effects of inflation on the financial information			(129,791)	(129,791)
Balances at December 31, 1990	843,683	1,936,165	(828,232)	1,951,616

See notes to consolidated financial statements.

COMPANY DE MEXICO, S.A. DE C.V.
CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
For the Years Ended December 31, 1990 and 1989
(in millions of Mexican pesos in purchasing power at December 31, 1990)

	1990	*1989*
Funds Generated by Operations		
Net income	303,638	296,384
Add items not requiring the use of funds:		
Depreciation	75,732	71,816
	379,370	368,200
Changes in operating working capital:		
Notes and accounts receivable	67,211	(22,839)
Inventories	(26,961)	6,882
Notes and accounts payable	6,179	26,195
Accrued liabilities	(11,820)	23,252
Other	(35,973)	(13,610)
Funds generated by operations	378,006	388,080
Investment Program in Property, Plant and Equipment	141,261	87,611
Dividends Distributed to Stockholders	254,500	321,043
Financing Activities		
Bank loans	21,826	96,662
Long-term debt	10,234	15,346
Funds applied to financing activities	32,060	112,008
Total uses of funds	427,821	520,662
Net Decrease in Cash and Temporary Cash Investments	49,815	132,582
Cash and Temporary Cash Investments		
At beginning of year	405,926	538,508
At end of year	356,111	405,926

See notes to consolidated financial statements.

COMPANY DE MEXICO, S.A. DE C.V.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 1990 and 1989

1. Operations and Summary of Significant Accounting Policies

Operations

The Company is engaged in the manufacturing, marketing and sale of special products.

Summary of Significant Accounting Policies

Financial Statements Presentation

The consolidated financial statements include the amounts of Company de Mexico, S.A. de C.V., and its subsidiaries, Special Products Finance Corporation, Special Products Trade Corporation, and Services of Mexico, S.A. de C.V.

- Special Products Finance Corporation and Special Products Trade Corporation are commercial enterprises established outside of Mexico to promote exports of the Company's products.
- Services of Mexico, S.A. de C.V., provides, through its subsidiaries, storage, distribution, and other services to Company de Mexico, S.A. de C.V.

The subsidiaries are wholly owned by the Company.

Recognition of the Effects of Inflation on the Financial Information

The 1990 and 1989 financial statements are presented in Mexican peso purchasing power at December 31, 1990 (see note 2).

The methods for determining the effects of inflation in the financial information are summarized below:

- Inventories—At replacement value, which does not exceed market value
- Cost of sales—Last-in, first-out (LIFO) method
- Property, plant, and equipment—At net replacement value, based on appraisals made by independent experts
- Depreciation—Depreciation of property, plant, and equipment is computed using the straight-line method, based on the estimated useful lives of the assets
- Stockholders' equity—The items included in this section are updated using the National Consumer Price Index published by the Central Bank

- Insufficiency from the updating of stockholders' equity—Primarily due to the fact that the increase in the net replacement value of machinery and imported equipment was lower than inflation
- Monetary effect—Determined by applying the National Consumer Price Index to the net monetary monthly position

Income Tax and Employee Profit Sharing

Provisions for income tax and employee profit sharing are recognized in the statement of income for the year in which they are incurred and are adjusted, in such cases, for the effects of certain temporary items.

Employee Severance Payments

The annual cost for legal seniority premium, retirement and pension plan for qualifying personnel is calculated actuarially.

The Company makes contributions to a trust fund to meet these obligations.

2. Third Document of Amendments to Bulletin B-10

The provisions contained in the Third Document of Amendments to Bulletin B-10, issued by the Mexican Institute of Public Accountants, are mandatory starting on January 1, 1990; accordingly, such provisions were adopted by the Company.

These provisions modify certain issues regarding recognition of the effects of inflation in the financial information. Such modifications are summarized below.

a. All financial statements for the year are presented in pesos of the same purchasing power.

b. Updating of stockholders' equity was distributed among the accounts included therein.

c. The statement of changes in financial position was prepared by considering the change in constant Mexican pesos of balance sheet items as generated or applied resources.

d. The 1989 financial statements presented for purposes of comparability were restructured to be expressed in peso purchasing power at December 31, 1990. The condensed effects of this change are shown below:

	December 31, 1989	
	As Currently Reported	*As Formerly Reported*
Balance sheet		
Total assets	P2,469,545	P1,901,076
Total liabilities	437,276	336,619
Stockholders' equity	2,032,269	1,564,457
Statement of income		
Net sales	2,360,849	1,670,953
Operating profit	572,582	406,135
Net income	296,384	210,124
Statement of changes in financial position		
Funds generated by operations	388,080	305,184
Investment program in property, plant, and equipment	87,611	63,522
Dividends distributed to stockholders	321,043	214,027
Funds applied to financing activities	112,008	60,940
Net decrease in cash and temporary cash investments	P 132,582	P 33,305

3. Property, Plant, and Equipment

At December 31, property, plant, and equipment are summarized as follows:

	1990	1989
Land	P 46,546	P 48,215
Buildings	378,688	391,740
Machinery and equipment	1,801,959	1,828,182
Transportation equipment	47,230	48,795
Total	2,274,423	2,316,932
Less accumulated depreciation	926,937	910,791
Net	1,347,486	1,406,141
Construction in progress	100,056	50,640
Total	P1,447,542	P1,456,781

4. Provisions for Income Tax and Employee Profit Sharing

At December 31, 1990 and 1989, statutory rates for income tax and employee profit sharing differ from the effective rate, mainly because of deductible items arising from the inflationary component, in accordance with the Income Tax Law, and the excess of tax depreciation over accounting depreciation.

These provisions are analyzed as follows:

	1990	*1989*
Income tax	P172,869	P156,158
Employee profit sharing	63,570	65,997
Total	P236,439	P222,155

5. Stockholders' Equity

At December 31, 1990 and 1989, capital stock of the Company was represented by nominative common shares with no par value, as follows:

	Number of Shares	*Percentage*
Series A	55,227,978	55%
Series B	44,801,028	45%
Total	100,029,006	100%

In accordance with the Company's bylaws, a minimum 52 percent of shares must be acquired by Mexican investors.

In compliance with the commercial code, retained earnings of P387,233 have been appropriated to the legal statutory reserve account as of December 31, 1990.

At December 31, 1990, total stockholders' equity, except for stockholders' contributions and its related tax updating, as well as retained earnings determined in accordance with the Income Tax Law, are subject to dividend tax as provided for in such law.

6. Exposed Position in Foreign Currency

At December 31, 1990 and 1989, the Company has a net asset position of P109,616 and P177,374, respectively, denominated principally in U.S. dollars.

Exchange controls in force establish two exchange markets: controlled and free. The controlled market includes, among other items, principal, interest, and other charges related to credits denominated in foreign currency and due to Mexican or foreign credit institutions (registered with federal income tax authorities), as well as debt resulting from imports of certain products. All transactions that do not qualify for the controlled market are included in the free market.

Acquisition of foreign currency at the controlled rate is subject to its availability at the Central Bank.

At December 31, historical Mexican peso exchange rates per U.S. $1.00 were as follows:

	1990	*1989*
Controlled	P2,949	P2,647
Free	P2,929	P2,672

7. Commitments

At December 31, 1990, commitments are as follows:

- Acquisition of machinery, equipment, and construction in progress for approximately P81,000
- Sales of accounts receivable without guarantee, for approximately P46,000

APPENDIX D

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

General Information	Answer	Comments
1. Is a primary purpose of an audit—		
a. To attest to information used by investors, creditors, etc.?	Yes	
b. To satisfy statutory requirements (for example, the Companies Act)?	Yes	
c. For tax purposes?	Yes	
2. A. The United States has ten generally accepted auditing standards including general standards, standards of field work, and standards of reporting.	Yes	

Notes:

Checklist was 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.
Mexican references refer to sections in the publication, *Auditing Standards and Procedures*, published by the Mexican Institute of Public Accountants.

General Information	Answer	Comments
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 Mexico?		
B. If so, are they published?	Yes	2B. *Auditing Standards and Procedures,* 1991 edition, volumes I and II
C. If auditing standards exist in Mexico, are they similar to U.S. standards?	Yes	
D. If not, what are they?		
3. Who is responsible for promulgating auditing standards (for example, the profession, a governmental body, etc.)?	The profession	3. The Mexican Institute of Public Accountants

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
4. Do auditors confirm receivables? (AU 330)	Yes. Bulletin G-11	✓			
5. Do auditors observe inventory counts? (AU 331)	Yes. Bulletin G-04	✓			
6. Do auditors receive written representations from management? (AU 333)	Yes. Bulletin F-04	✓			6. Predominant practice is to obtain a letter containing similar representations as required by AU 333.
7. Do auditors receive written representations from management's legal counsel? (AU 337)	Yes. Bulletin G-09	✓			

8. A. Do auditors prepare and maintain working papers? (AU 339)	Yes. Bulletin E-03	✓	8A. Bulletin E-03 specifies that sufficient and competent evidence should be recorded in the working papers.
B. If so, do they include a written program outlining procedures to be performed? (AU 339)	Yes. Bulletin E-01	✓	
9. Do auditors obtain a sufficient understanding of the internal control structure to plan the audit and to determine the nature, timing, and extent of tests to be performed? (AU 319)	Yes. Bulletins E-02 and F-05	✓	
10. A. Do auditors communicate reportable conditions in the internal control structure to the audit committee? (AU 325)	Yes. Bulletin E-02	✓	
B. If so, is the communication documented? (AU 325)	Yes. Bulletin E-02	✓	
11. In obtaining evidential matter, does the auditor apply either statistical or non-statistical procedures? (AU 350)	Yes. Bulletin F-02	✓	
12. Is the auditor responsible for designing the audit to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements? (AU 316)	Yes. Bulletin B and E-04	✓	12. The objective of the audit of financial statements is to permit the auditor to express an opinion on them. The procedures should provide the auditor with a reasonable certainty that no error or irregularity having a material effect on the financial statements exists.

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
13. A. Does the auditor perform procedures to identify related party transactions and their effect on the financial statements? (AU 334)	Yes. Bulletin F-09	✓			
B. If so, list the procedures.					13B. Identification of related parties and transactions with such parties: • Review of transactions with related parties • Verification of the disclosures in the financial statements • Inclusion in the client representation letter
14. Does the auditor consider the adequacy of cutoff procedures to ensure that movements into and out of inventories are properly identified in the accounting records? (AU 313)	Yes. Bulletin G-04	✓			
15. A. Are specific auditing procedures applied to transactions occurring after the balance sheet date? (AU 560)	Yes. Bulletin G-14	✓			
B. Are other auditing procedures applied to ascertain the occurrence of subsequent events that require adjustment to or disclosure in the financial statements? (AU 560)	Yes. Bulletin G-14	✓			

16. The concept of "joint auditors" in certain countries (e.g., U.K., Canada, and Australia) is that two auditors or audit firms jointly audit the financial statements of a company and issue a single report signed by the two firms. This practice is not generally followed in the United States. Does the concept of "joint auditors" exist in Mexico?	No		✓	16. Participation of joint auditors may occur on large engagements. The occasions when this has occurred are very limited.
17. When a principal auditor is reporting on financial statements that include one or more subsidiaries, divisions, branches, or investees (AU 543):				
A. Must the principal auditor assume responsibility for the work of the other auditor as it relates to the principal auditor's opinion?	No. Bulletin H-04	✓		
B. May the principal auditor decide not to assume that responsibility by making reference to the other auditor and indicating the division of responsibility?	Yes. Bulletin H-04	✓		
18. A. Is there a standard form of auditor's report? (AU 508)	Yes. Bulletin H-01	✓		18A. Standard two-paragraph report is generally used (scope paragraph followed by an opinion paragraph).
B. List the circumstances that require a departure from the standard report and indicate the type of report required. (AU 508)				18B. See paragraphs 39 and 40 of the text.

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
19. A. Does the auditor's report require an explanatory paragraph for a change in accounting principles or in the method of their application? (AU 508)	Yes. Bulletin H-01	✓			
B. If not, does it imply that either consistency exists or the financial statements disclose the inconsistency?					
20. A. Is the auditor's report dated as of the last day of field work? (AU 530)	Yes. Bulletin H-01	✓			
B. If not, what date is used?					
21. To express an opinion, must the auditor be independent? For the purpose of this checklist, independence is defined as not having a financial interest in or connection with the client. (Code of Professional Conduct, Rule 101 and its interpretations)	Yes. Bulletin D	✓			21. Mexican Institute of Public Accountants Code of Professional Conduct, page 7, postulate 11.
22. Please describe any standards for Mexico for which there are no corresponding U.S. Standards.					22. The standards are as follows: Bulletin G20—*Auditing Procedures Applicable to the Examination of Financial Statement Items, Modified to Reflect the Effects of Inflation* Bulletin H03—*Repercussion in the Auditors' Report of the Recognition of the Effects of Inflation in the Financial Information*

APPENDIX E

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

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

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
3. Are assets and liabilities recorded on the historical cost basis?	No. Bulletin B-10	✓			3. Financial statements must be adjusted for the effects of inflation.

Notes:

References 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.
References in the "Required by Government or Professional Pronouncements" and "Comments" columns are to sections in Generally Accepted Accounting Principles published by the Mexican Institute of Public Accountants, unless otherwise noted.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
4. Are interest costs, incurred while activities that are necessary to get an asset ready for its intended use are in progress, capitalized as part of the historical cost of an asset? (I67)	Yes. Bulletin C-6	✓			4. Interest accrued during the period of construction and installation of the asset as well as its related other integral costs of financing (monetary effect and exchange fluctuations) may be capitalized, charging it to the cost of the asset or may be charged to operations. If the integral cost of financing is in a credit position, before considering the interest capitalized, the interest capitalized in the current period must be applied to reducing such a credit until the amount is zero. The remainder, if any, may be capitalized.
5. A. Is a general revaluation (either upward or downward) of assets permitted? (D40)	Yes. Bulletin B-10	✓			
B. If so, define the basis.					5B. Defined in Bulletin B-10.
6. Are nonmonetary transactions that culminate an earnings process accounted for on the basis of the fair market value of the assets involved when that value is determined within reasonable limits? (N35)	Yes. Bulletin C-6	✓			
7. Is revenue recognized when it is earned and its realization is reasonably assured (rather than	Yes. Bulletin A-3	✓			

when money is received)? (Statement of Financial Accounting Concepts No. 5)			
8. Are costs recorded when incurred rather than when money is paid? (Statement of Financial Accounting Concepts No. 5)	Yes. Bulletin A-3	✓	
9. A. Are consolidated financial statements required when one company has control over another company? (C51)	Yes. Bulletin B-8	✓	
B. Is control usually indicated by ownership of over fifty percent of the outstanding voting shares? If not, how is control indicated?	Yes. Bulletin B-8	✓	
10. A. Are there instances when an entity would not be consolidated even though control is present? (C51)	Yes. Bulletin B-8	✓	
B. If so, list them.			10B. Following are instances when an entity would not be consolidated even though control is present: • Subsidiaries in foreign countries in which there is currency control, restrictions on the distribution of income, or uncertain monetary stability • Subsidiaries whose activities are distinct in nature from those of the rest of the group • Subsidiaries in which control is temporary

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
					• Subsidiaries in situations of suspended payments, dissolution, or bankruptcy
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. Bulletin B-8	✓			
12. Are there two methods of accounting for business combinations—the pooling-of-interests method and the purchase method? (B50)	Yes. Bulletin B-8	✓			
13. Is the method used to account for a business combination disclosed? (B50)	Yes. Bulletin A-5	✓			
14. A. Do criteria exist for treatment of business combinations as a pooling of interests? (B50)	Yes. Bulletin B-8	✓			
B. If so, list the criteria.					14B. Horizontal combination (pooling of interest) can be utilized when the shareholders of the surviving company are substantially the same as those who possessed the majority of the shares of the combined companies before the pooling was consummated.

15. A. Is goodwill arising from a business combination accounted for as an asset? (I60)	Yes. Bulletin B-8	✓
B. If so, is it amortized as a charge to income over the period estimated to be benefited?	Yes. Bulletin B-8	✓
16. Are the following disclosures made for related-party transactions: (R36)		
a. The nature of the relationship?	Yes. Bulletin C-13	✓
b. A description of the transactions for the periods presented?	Yes. Bulletin C-13	✓
c. The amounts of the transactions for the periods presented?	Yes. Bulletin C-13	✓
d. The amounts due to or from related parties at the balance-sheet date?	Yes. Bulletin C-13	✓
17. Is an estimated loss from a loss contingency accrued only if it is probable that an asset has been impaired or a liability incurred and the amount of loss can be reasonably estimated? (C59)	Yes. Bulletin C-12	✓
18. If a loss contingency is not accrued because both conditions for accrual listed in question 17 are not met, is disclosure of the contingency required when there is at least a reasonable possibility that a loss may have been incurred? (C59)	Yes. Bulletin C-12	✓

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
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 United States, guarantees are usually disclosed as loss contingencies even if the possibility of loss is remote.] (C59)	Yes. Bulletin C-12	✓			
20. Are the following items disclosed in a public enterprise's financial statements for each industry segment: (S20)					20*a–f*. There are no requirements to present industry segment information.
a. Sales to outsiders and intersegment sales?	No			✓	
b. Operating profit or loss?	No			✓	
c. Identifiable assets and related depreciation, depletion, and amortization expense?	No			✓	
d. Capital expenditures?	No			✓	
e. Equity in net income and net assets of unconsolidated subsidiaries and other investees?	No			✓	
f. Effect of a change in accounting principle?	No			✓	
21. A. Are there any requirements or recommendations to disclose the effects of inflation? (C28)	Yes. Bulletin B-10	✓			
B. If so, list the disclosures required.					21B. Disclosure regarding the updating of the financial statements for the period should

include, at a minimum, the following items and amounts:

- Updating of nonmonetary assets and liabilities
- Updating of results of operations
- Updating of shareholders' equity
- Monetary effects (indicating the portion charged or credited to operations)
- Results from the holding of nonmonetary assets

Restatement of stockholders' equity is to be allocated among the captions that comprise it. Accordingly, each item in stockholders' equity is to include the sum of its par value and related restatement.

All items in the financial statements must be restated at peso purchasing power in effect at the closing of the last year reported.

22. Are assets segregated into current and noncurrent classifications with a total for current assets presented? (B05)	Yes. Bulletin A-3	✓
23. A. Are noncurrent assets those not expected to be realized within one year or the current operating cycle? (B05)	Yes. Bulletin A-3	✓
B. If not, how are noncurrent assets defined?		

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
24. A. Is an allowance established for uncollectible receivables? (C59)	Yes. Bulletin C-3	✓			
B. If so, what is the basis (e.g., percentage of sales, aging of receivables, etc.) for calculating the allowance?	See Comment				24B. The allowance is based on an analysis of the receivables' recoverability. This analysis may include aging of receivables and prior collections.
25. Are receivables and payables, not arising in the normal course of business or subject to normal trade terms, recorded at an amount that takes imputed interest into account? (I69)	No			✓	25. There is no requirement for the imputing of interest.
26. A. Is inventory stated at the lower of cost or market (or net realizable value)? (I78)	No			✓	
B. If not, how is inventory stated?					26B. Replacement value
C. Is the basis disclosed?	Yes. Bulletin B-10	✓			
27. Does cost for inventory purposes include— (I78)					
a. Materials?	Yes. Bulletin C-4	✓			
b. Direct labor?	Yes. Bulletin C-4	✓			
c. Factory overhead?	Yes. Bulletin C-4	✓			
d. If the answer to *c* is yes, is an allocable share of all factory overhead included?	Yes. Bulletin C-4	✓			
28. A. Are the following cost methods permitted for reporting purposes: (I78)					28A. Inventory must be adjusted for inflation. Cost of sales is determined by various permissible methods that are comparable to

a. First-in, first-out (FIFO)?	Yes. Bulletin B-10	✓		LIFO. The procedures used must be the same as those used in the valuation of inventory.
b. Last-in, first-out (LIFO)?	Yes. Bulletin B-10		✓	
c. Average cost?	Yes. Bulletin B-10		✓	
B. Are the same methods permitted for tax purposes?	No	✓		28B. For tax purposes, no inventories are maintained. Purchases of inventory are deductible when acquired, and related direct and indirect costs are deducted when incurred.
29. Is the inventory costing method used disclosed? (I78)	Yes. Bulletin B-10	✓		
30. A. Are fixed assets depreciated over their estimated useful lives by systematic charges to income? (D40)	Yes. Bulletins B-10 and C-6	✓		
B. If so, is an accumulated depreciation account used?	Yes. Bulletins B-10 and C-6	✓		
31. Are disclosures made of— (D40)				
a. Depreciation expense for the period?	Yes. Bulletins B-10 and C-6	✓		
b. Balances of major classes of depreciable assets?	Yes. Bulletins B-10 and C-6	✓		
c. The methods used to compute depreciation for the major asset classes?	Yes. Bulletins B-10 and C-6	✓		
d. Accumulated depreciation, either by major class of assets or in total?	Yes. Bulletins B-10 and C-6	✓		
32. A. Do criteria exist for classifying leases as operating leases? (L10)	Yes. Bulletin D-5	✓		

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
B. If so, list the criteria and disclosure requirements.					32B. The financial statements of the lessee should contain the information necessary to permit the reader to determine the effect the lease commitment could have on the financial position and results of operations in the current year and in the future. Consequently, in the notes to the financial statements, the annual amount of rents, the types or classes of fixed assets, the period of the lease, any other obligation or guaranty, and any other additional information considered important should be disclosed.
33. A. Do criteria exist for classifying leases as other than operating leases for the lessor and lessee? (L10)	Yes. Bulletin D-5	✓			
B. If so, list the criteria, type of lease, and disclosure requirements.					33B. • The initial period of the lease is considerably less than the useful life of the asset, and the lessee has the option to renew the contract for the remaining period of the life of the asset at rents considerably lower than the original agreement. • The lessee has the right during the period of the contract or

			at the end of the contract to acquire ownership of the asset by a disbursement, which at the date of the signing of the contract appears substantially lower than the value the asset will have when the purchase option can be exercised. • The asset was acquired by the lessor to satisfy the specific needs of the lessee and very probably is of use only for that specific purpose and for that lessee. • The lease period corresponds to the useful life of the asset and the lessee is obligated to pay such costs as taxes, insurance, maintenance, etc., which generally are attributable to the owner of the asset. • The lessee guarantees the obligations of the lessor with respect to the leased assets. • The amount of the agreed upon rents is equal to or greater than the market value of the asset at the date of the operation, plus the financing and expenses (taxes, line of credit, etc.) charged to the lessee.
34. Are liabilities segregated into current and noncurrent classifications with a total for current liabilities presented? (B05)	Yes. Bulletin C-9	✓	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
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. Bulletin C-9	✓			
B. If not, how are noncurrent liabilities defined?					
36. For notes payable, is disclosure made of— (C32)					
a. Interest rates?	Yes. Bulletin C-9	✓			
b. Maturities?	Yes. Bulletin C-9	✓			
c. Assets pledged as collateral?	Yes. Bulletin C-9	✓			
d. Covenants to reduce debt and other restrictive covenants?	Yes. Bulletin C-9	✓			
e. Minimum working capital requirements?	Yes. Bulletin C-9	✓			
f. Dividend restrictions?	Yes. Bulletin C-9	✓			
37. A. For long-term construction-type contracts, are the percentage-of-completion and completed contract methods used? (C04)	No	✓			
B. If so, what are the criteria for determining the method to be used?					37B. No specific audit bulletin or tax guide has been issued on construction accounting. The method used in most situations is the percentage-of-completion, which is the only method acceptable for income tax purposes.

38. A. Are research costs charged to expense when incurred? (R50)	Yes. Bulletin C-8	✓
B. Are such costs disclosed?	Yes. Bulletin C-8	✓
39. A. Are development costs charged to expense when incurred? (R50)	Yes. Bulletin C-8	✓
B. Are such costs disclosed?	Yes. Bulletin C-8	✓
40. A. In the United States, events and transactions are presented in the income statement as extraordinary items when they are unusual in nature and are of the type that would not reasonably be expected to recur in the foreseeable future. Do similar criteria for identifying extraordinary items exist in Mexico? (I17)	Yes. Bulletin A-3	✓
B. If not, what are the criteria?		
41. Are material events or transactions that are unusual in nature or expected to occur infrequently, but not both (and thus do not meet the criteria for classification as extraordinary), shown as a separate component of income or expense? (I22)	Yes. Bulletin A-6	✓
42. A. Are disclosures required for—		
a. Extraordinary items? (I17)	Yes. Bulletin A-6	✓
b. Material events or transactions not classified as extraordinary items? (I22)	Yes. Bulletin A-6	✓
c. Disposal of a segment of a business? (I13)	Yes. Bulletin A-6	✓

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
B. Indicate the financial statement presentation of these items.					42B. Material events or transactions not classified as extraordinary items are reflected in the income statement as a separate line item before provision for income tax and employee profit sharing. Extraordinary items would be similarly treated before arriving at net income.
43. A. Are pension costs provided for covered employees over the term of employment? (P16)	Yes. Bulletin D-3	✓			
B. If so, do they include charges for costs assigned under the actuarial method used to years prior to the plan's inception?	Yes. Bulletin D-3	✓			
44. A. Are specific disclosures required relating to pension plans? (P16)	Yes. Bulletin D-3	✓			
B. If so, list them.					44B. The following should be disclosed in a note to the financial statements: • A brief explanation of the existence and characteristics of the plan • Existence or nonexistence of a fund • Reference, if applicable, to deferred charges representing the acquired benefits to be charged to operations and the

			systematic method of their amortization to future periods • Description and effects of facts that have affected the comparability of the financial statements, such as accounting changes, changes in the circumstances that affect the actuarial calculation and other factors, adoption of a new plan, or modification of the existing plan
45. A. When accounting income and taxable income differ, are deferred income taxes recorded for temporary differences (as opposed to permanent differences)? (I25)	Yes. Bulletin D-4	✓	
B. If so, are deferred taxes provided for all timing differences (as opposed to only those meeting certain criteria)?	No. Bulletin D-4	✓	
C. If deferred taxes are provided only for those timing differences meeting certain criteria, what are the criteria?	See Comment		45C. Deferred income tax should be recognized for all significant timing differences that it can reasonably be assumed will cause, in a definite period of time, a liability or tax benefit when there is no indication that this will change in such a manner that the liabilities or tax benefits will not materialize. Deferred income tax treatment should not be given to those timing differences whose origin is not specifically identified or whose materialization cannot be identified in time

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
					because, at the time of its reversal they will be substituted by others of the same nature and similar amounts.
46. A. Are deferred taxes determined on the basis of current tax rates? (I25)	Yes. Bulletin D-4	✓			
B. If not, on what basis?					
47. A. Is specific information related to income taxes required to be disclosed? (I25)	Yes. Bulletin D-4	✓			
B. If so, list the requirements.					47B. The liability for income tax should be shown as a separate line item. The liability for income tax that appears in the balance sheet should represent the net of the total provision charged in the statement of operation less estimates paid. If the prepayments are greater than the provision, the excess should be presented as a receivable. Practice is also to present differences between actual and statutory rates. The effect of deferred income taxes presented on the balance sheet should not be combined with income tax and employee profit sharing payable. The components of income tax

and employee profit sharing in the results of operations should be disclosed, that is, the amounts currently payable, the deferred amounts, and the net expense, should be presented individually.

The timing differences that caused deferred taxes and any permanent differences between the accounting and tax results of the period should be disclosed. Additionally, disclosure should be made of the nature and accumulated amount of the income tax and the employee profit sharing on timing differences for which, for some reason (such as having originated in a period of loss or being of a recurring nature) the corresponding accounts receivable or accounts payable were not created.

Deferred taxes should be classified in the balance sheet according to their current and noncurrent portions.

Available loss carry forwards and their expiration dates should be disclosed, as well as a change in tax rate and its effect on the financial statements for deferred income taxes.

48. A. Are operating losses reported on the income tax return allowed to be carried backward to earlier periods? (I25) — No

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
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? (I25)	Yes	✓			
B. If so, are the tax effects of a loss carry forward included in the income in the period realized?	Yes. Bulletin D-4	✓			
50. Are financial statements of a foreign entity prepared for consolidation purposes measured in the currency of the primary economic environment in which the entity operates? (F60)	Yes. IAS No. 21	✓			
51. Are all elements of financial statements translated at a current exchange rate? (F60)	No. IAS No. 21	✓			
52. A. Are translation adjustments reported separately? (F60)	Yes	✓			
B. Are they accumulated in a separate component of stockholders' equity until ultimately realized?	Yes. IAS No. 21	✓			
C. Is there an analysis of the changes during the period in the component of stockholders' equity relating to translation adjustments?	No. IAS No. 21	✓			

53. A. Are gains and losses resulting from transactions denominated in a currency other than that of the environment in which the entity operates included in determining net income for the period in which the exchange rate changes? (F60)	Yes. Bulletin B-10	✓		
B. Is the aggregate transaction gain or loss included in determining net income for the period disclosed in the financial statements or notes?	Yes. Bulletin B-10	✓		
54. Are gains or losses on foreign currency transactions that are intended to hedge a foreign currency commitment deferred and included in the related transactions? (F60)	No. IAS No. 21		✓	
55. What information is disclosed about foreign currency restrictions? (F60)	See Comment			55. All exchange or other restrictions related to any foreign currencies involved in the financial statements. The type of currency and the translation should be disclosed if significant.
56. Are significant events arising subsequent to the balance-sheet date reflected in the financial statements or notes thereto? (C59)	Yes. Bulletin A-5	✓		
57. Please list any standards for Mexico for which there are no corresponding U.S. standards.				57. The standard is Bulletin B-10, *Accounting for the Effects of Inflation in the Financial Information.*

Bibliography

The information in this booklet was compiled from many sources in Mexico. Significant references follow.

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