

1-1974

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Recommended Citation

Donovan, Brian (1974) "Two Determinants of Argentine Accounting," *Woman C.P.A.*: Vol. 36 : Iss. 1 , Article 3.

Available at: <https://egrove.olemiss.edu/wcpa/vol36/iss1/3>

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Two Determinants of Argentine Accounting

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The author argues that accounting in Argentina has been shaped by the country's economic development and by foreign accounting theory and practice.



This article is adapted from a paper Brian Donovan wrote in a Seminar on International Accounting at the University of Massachusetts at Amherst.

Mr. Donovan completed his undergraduate studies in accounting at Boston College and received his MBA from the University of Massachusetts at Amherst. He was in professional accounting for three years and is receiving his CPA certificate in January 1974.

The determinants of a given country's accounting system and profession span a wide range of factors. In the case of Argentina, this general rule is applicable. These forces include such factors as economics, tax policies (which are inter-related with economics), foreign accounting practices, academia, and the cultural biases of the population. This article will examine the economic and foreign accounting influences as they have affected the course and development of Argentine accounting. Initially a brief history of the economy of Argentina will be sketched and an indication of the important countries which have influenced accounting in Argentina will be given. Following this, inferences will be made and conclusions drawn concerning how current accounting in Argentina has been affected by these factors.

Economic Overview

One author has delineated four stages in the economic evolution of Argentina.¹ The first is categorized as "regional subsistence economies," characterized by regional socio-economic units supplying domestic consumption. The second stage is called the "transition stage" during which the livestock industry was introduced and national independence was achieved. The third and fourth stages are the two that concern the modern day course of accounting in Argentina. The third stage, "the primary export economy," which lasted from 1860 to 1930, witnessed the expanding agricultural and livestock industries, the immigration of Europeans, and the inflow of foreign capital which transformed the economy. The final stage, categorized as "a nonintegrated industrial economy," spanning the years 1930 to the present, is characterized by a diversifying economy in many ways simi-

lar to more advanced countries except for the lack of basic industry development.

The final stage can be further divided into the periods before, during, and after Peron.² Prior to Peron the government followed a course that improved the corporate area but without direct industry intervention. During the middle portion of the final stage, 1945-1955, the course followed by the government of Peron involved more direct and discriminatory policies. Peron's concept of government was that of dictator on behalf of the common people (workers); consequently the consumers and producers developed expectations that the government would protect them from the contrary forces of the free market. The country had amassed considerable excess reserves by the end of the second world war (Argentina was neutral). But the government spent these reserves, not in an attempt to shore up the in-

creasingly inflated peso, nor to aid in basic industry development, but rather to buy the railroad system and partially purchase the telephone and electric utilities companies. These state-owned companies did not then and do not now contribute any return to the state and would appear to be models of inefficiency. For example, the railroad workers per mile of track is ten times that of the inefficient U. S. system, and the establishment of an auto industry set up ten separate units with the attendant capital requirements to produce by 1965 200,000 units.³ The effects of these policies can perhaps be shown even more explicitly by comparing the annual growth rates before and after government purchase of an oil company, these rates being respectively 8.2% and 3.7%.⁴ The final economic sub-division has been categorized by the rather limited duration of the various forms of government and the various governments themselves. The main economic policy of this era has been that of a case-by-case approach to the problems confronting the country rather than the existence of any well-defined overall goals.

The net effect of the final two stages in the economic development of Argentina has been an uncontrollable rate of inflation. The full extent of this inflation can best be perceived by observing that with 1960 as a base (100) the index has risen to 1738.6 in 1972, which translates into an annual rate of 64% in 1972.⁵

Foreign Accounting Influences

The exogenous forces, i.e. foreign accounting methods, that have shaped the course of Argentine accounting are the accounting practices and principles of the United States, France, and England. The remainder of this article will describe how these internal and external forces have combined to produce and influence accounting in Argentina. France will be considered first, followed by England and the United States. The final portion will indicate those areas that have been influenced by the economic conditions in Argentina.

French Accounting

The impact of French accounting on that of Argentina has been felt in both the economic and accounting areas. Perhaps the oldest influence on the country's accounting is that of the French Commercial Code and its legal requirements regarding the form of substance of the books of account and records. These include the daily journal record of all business transactions, the inventory book containing at least annual trial balance

listings, which must be rubricated, and the press-copy book. The code also provides for the office of a "Sindico," a position which is analogous to the French office of "Commissaire." The Sindico is the statutory auditor whose office is required as a form of additional security for the shareholders. The office, as in France, provides for no formal requirements. Also, as in France, the position has become one that is ordinarily filled by a Contador Publico Nacional (National Public Accountant) who is similar to a C.P.A.

Another area where French influence might be suspected is in the realm of the required or model form for financial statement presentation. However, this inference is not totally correct. While it is true that the French "Plan Comptable" does prescribe a format for presentation, this was not accomplished until 1957. Argentine Law Number 9.795, passed in 1954, established a required format prior to the French version of 1957. Lending even more credence to the supposition that the Argentine financial statement format developed apart from the French model is the fact that in 1938 a law decreed statements for insurance companies, and even prior to 1938 prescribed forms for banks were in existence.

Within the economic determinants of Argentine accounting the French influence is again noted. As a result of the severe inflation, mentioned previously, the government decreed by law number 15.272 that certain fixed assets could be revalued. The procedure to be followed was stipulated by the government and was set up as a one-time restatement. The government also supplied the coefficients used in arriving at the revalued amount of the assets. This asset revaluation law is very similar to the method used by the French after the Second World War when their inflation rate was also very high.⁶ The law in Argentina was reintroduced in 1968 as a result of the continued inflationary spiral with the statutory coefficients ranging from 147 for assets acquired in 1944 and prior up to 1.2 for those assets acquired in 1966.⁷ Unlike the process in Brazil where the revaluation is an ongoing procedure, the Argentine method encountered the same problem that was experienced by the French. The problem results from the fact that the government coefficients are on an aggregate basis. As a result the probability of misstatements after the revaluation process is rather high, since the effects of inflation obviously do not affect all sectors of an economy to the same degree over the same period of time. The procedure also does not stipu-

late separate accounting for the revaluation reserves as do the French and Brazilian models.

English Accounting

The effect of English accounting on that of Argentina has also been significant. The English influence is due to the early influx of capital from England and the presumed desire of the contributors to have an accounting of the capital in a manner with which they were familiar. This influence dates from the late 1800's with the initial capital invested in railroads and breweries. The English "Company Acts" were and are more concerned with disclosure and consistency than with indicating any desired method of accounting for specific transactions. This concept has been carried over into Argentine accounting through both the required financial statement presentation and the literature that has been published by the academic community in Argentina. The law in Argentina also required that these statements be audited by a C.P.N., and that they be made publicly available, which is accomplished through the Official Bulletin (the law previously maintained minimum size requirements for this public disclosure, but the consequences of inflation have made this provision relatively meaningless). The extent to which the concepts of disclosure and consistency outweigh those of particular methods of measurement is indicated by the fact that any method for valuing inventory and depreciation is permissible as long as it is consistent and is disclosed.

The area of taxation also exhibits the influence of the English accountant. The tax authorities require a tax return computation that commences with net income for the period, followed by a series of adjustments to arrive at taxable income for the period under report. The authorities in Argentina, as in England, require that an audited financial statement accompany the tax return. Thereby more reliance is placed upon the net income figure reported with the result that the area of concern lies in the adjustments and reclassifications between net income per books and ultimate taxable income.

Finally, the influence of English accounting can be seen in the accounting profession in Argentina. In 1892 the profession was reorganized with the twofold aim of regaining privileges lost to the legal profession and of upgrading the examination that was being administered to applicants. The basis for the revised examination was the one then used by the English and Scottish Institutes.⁸

American Accounting

United States influence on accounting in Argentina closely approximates that of England, due to their common point of view; however, there are facets where United States influence is inferable.

The Buenos Aires Stock Exchange (El Mercado de Valores de Buenos Aires) makes demands upon its listed companies comparable to those which the New York and American Exchanges make upon their firms. Annual and quarterly audited statements are required of all listed firms.

In addition, the statutory financial statement requirements of certification, disclosure, and public dissemination in the Official Bulletin are comparable to the requirements of the Securities and Exchange Commission.

The format of statement presentation in Argentina is very similar to that of the United States. The assets and liabilities are listed in order of most to least liquid in the case of assets and most to least current in terms of liabilities. Since few other countries adhere to this form of presentation, the inference can be drawn that the Argentine form of presentation has been influenced by that of the United States.

Auditing in Argentina also follows the procedures that are common in the United States and England, at least among the larger firms.⁹ Such procedures as inventory observation and confirmation of accounts receivable and payable are standard practice for these firms. However, the extent to which the small firms adhere to generally accepted auditing procedures appears to be a matter of some controversy, with the weight toward the position that they do not utilize these procedures.

Economic Influences

In addition to the inflation caused asset revaluations mentioned above, other economic influences on Argentine accounting are discernible.

Consolidated statements are rare, a fact which becomes understandable when it is remembered that extreme inflation seldom leaves excess funds for investment in other than operating needs for most firms.

Cash and accounts receivable balances tend to be small, and working capital is either a small positive or even a negative figure. It is obvious that in a time of rapid inflation every business strives to be in a net creditor position, so that it can pay off its liabilities with less valuable money in the future.

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Trend to Fuller Disclosure

Winnebago, indeed, may be setting a trend in the direction of fuller disclosure in annual reports. Usually the investor is able to obtain this kind of information only through a broker or analyst. The SEC, itself, is a powerful force encouraging the movement toward fuller disclosure. Although this movement may be almost unnoticeable at present, the inclusion of the 10-K report may occur more frequently in many annual reports.

Macmillan, Inc.

As a publisher of children's textbooks and related instructional materials, Macmillan, Inc. has certainly rendered a service in the field of education for children by publishing a special "Report on the Year for Young People." This annual report for children is written and beautifully color illustrated in language and pictures that an eleven year old can understand.

Raymond C. Hagel, Chairman of the Board of Directors and President, explains in everyday language that "We add up the money paid our employees, authors, artists, and composers, and the money spent on paper and other supplies. We deduct those amounts from the money earned to see how much we made. We compare the figures with what we did the year before, so our owners can see whether we are making progress".

Condensed comparative statements are described:

"We sold this much to
our customers
Our net expenses, mainly payroll,
royalties, supplies and rent
amounted to this much
This much is left
But then we pay taxes
And we end up with this profit."

The illustrations are very clever! A boy holding enough balloons to fill an entire page, says "This is what we do" and each balloon bears a label: books, encyclopedias, children's books, caps and

gowns, language courses, ant farms, etc. A stork carrying a textbook captions a section on "How is a textbook born?" A picture of books encircling the globe explains "We sell books and magazines all over the world."

Financial terminology is converted into simple language. Depreciation, for example, is defined as the "decrease in value of property because of wear and tear — if you have a bicycle, it depreciates." Consolidated means "combined into and counted as one." Accrued expenses are "the added up costs of things and services which have been bought but not yet paid for. These costs must be paid in the future." A dividend is "something of value, usually cash or stock, distributed to shareholders."

The Consolidated Balance Sheets and Statements of Consolidated Income are in the traditional form with accompanying notes defining assets, current assets, accounts receivable, inventories, current and noncurrent liabilities and shareholders' equity. A series of scales across the bottom of the page show each balance sheet classification added one at a time. The scales at first tipped heavily on the asset side gradually come into balance. The balance sheet is headed "What We Own" and "What We Owe"; the income statement is captioned "How We Spent Money To Make Money."

"Where it Came From and Where it Went" is the heading for the Statement of Consolidated Changes in Financial Position. The illustrations show a full barrel of current assets used to pay a half barrel of current liabilities, leaving what is called working capital. Another full barrel illustrates working capital from operations and sale of property. Beside it an empty barrel reads "Out for Debt Reduction, Investments and Dividends."

The accountant's opinion is omitted; however, an explanation is made that an independent firm of accountants renders a message which accompanies the statements and that this message is to inform the stockholders that the statements were prepared according to accepted accounting principles and present fairly the financial position of the Company.

Macmillan states their corporate goal is to provide the products and services required to fill the broadest possible range of educational needs throughout the world. Congratulations for being the first to publish an annual report that children can understand and for the superb quality of the report.

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Price level depreciation is used as an alternative to revaluation and attempts to give effect to inflation in the same manner as revaluation. Both of these methods of restatement are deductible for tax purposes.

Surprisingly enough, the one accepted American accounting method which is designed to counter the effects of inflation on financial statements is not found on Argentine statements, and that is LIFO inventory valuation.

Conclusion

This paper has attempted to identify the factors which have had the major impact on Argentine accounting and to indicate how these factors have influenced the country's accounting. It was shown that the economic determinant in the form of inflation has had its main impact on the revaluation of assets. With regard to the influence of foreign accounting, France was identified as having had its major impact on the statutory area of accounting in Argentina. The effects of English accounting on Argentina were seen in the areas of tax return procedures and in the consistency and disclosure requirements of financial reporting. The United States influence on Argentine accounting has also been in the area of reporting with the implementation of disclosure laws comparable to those imposed by the S.E.C. as well as in the area of stock exchange requirements.

Footnotes

¹Aldo Ferrer, *The Argentina Economy* (University of California Press, 1967), pp. 1-3.

²Carlos F. Diaz Alejandro, *Essays on the Economic History of the Argentine Republic* (Yale University Press, 1970), p. 91.

³*Ibid.*, p. 236.

⁴*Ibid.*, p. 53.

⁵The First National Bank of Boston, *The Situation in Argentina* (Boston: The First National Bank of Boston, Spring 1973).

⁶Gerhard G. Mueller, *Accounting Practices in Argentina* (Seattle: University of Washington, 1963), p. 6.

⁷Arthur Andersen & Co., *Tax and Trade Guide - Argentina*, supplement #1 (Arthur Andersen & Co., January 1971), p. 14.

⁸Richard Brown, *History of Accounting and Accountants* (London: Frank Cass & Co., Ltd., 1968), p. 303.

⁹Touche Ross & Co., *Executive Digest - Argentina* (Touche Ross & Co., 1968), p. 10.