Accounting in Peru: Challenges, Issues and Proposals

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The main purpose of this thesis is to analyze a number of topics regarding the Accounting system in Peru. This thesis is divided into eleven chapters (plus Introduction and Conclusions, Implications and Proposals). The topics covered in this thesis can be classified into four primary groups: Financial Accounting (chapters 1 to 6), Management Accounting (chapters 7 and 8), Environmental Accounting and Sustainability Reporting (chapters 9 and 10) and Accounting Education. In the following paragraphs brief reviews of the chapters are presented.

Introduction
Chapter 1: The Influence of Cultural, Legal and Political Factors, as well as Economic and Financial Variables on the Accounting System: the Peruvian Case
Chapter 2 The Need for International Accountings Standards
Chapter 3 The Movement toward the Convergence of Accounting Standards in Peru
Chapter 4 IFRS for SMEs: Are These Standards Really Being Applied by SMEs? : the Peruvian Case
Chapter 5 The Value Relevance of International Financial Reporting Standards (IFRS): Evidence from Peruvian Companies
Chapter 6 Earnings Quality in Peru: IFRS Effect on Earnings Management in Peruvian Corporations
Chapter 7 Earnings Management and Corporate Governance in Peruvian Corporations
Chapter 8 Corporate Governance in Peru: the Link between Corporate Governance and Financial Performance
Chapter 9 Corporate Social Responsibility (CSR) in Peru: the Financial Performance of Social Responsible Companies
Chapter 10 Environmental Accounting in Peru: A Proposal Based on the Sustainability Reporting in the Mining, Oil and Gas Industries
Chapter 11 Accounting Education and Profession in Peru: Analysis and Proposals

In the introduction the most important issues of this thesis are presented. Cultural, legal, political, economic and financial variables can help explain the diversity in accounting systems around the world. Chapter 1 analyzes the factors that shaped the Peruvian accounting system and concludes that some cultural, legal, political, financial, historical and
economic reasons do provide evidence as to why: (a) Peru has adopted IFRS (for public companies), (b) there was a smooth adoption of the IFRS in the Peruvian accounting system, and (c) Diversity in accounting rules (according to the type of company) do exist in Peru.

A number of accounting standards exist in this global world (US GAAP, Japanese GAAP, IFRS, etc.). Chapter 2 addresses those important consideration by reviewing the following topics: the accounting differences among different countries’ accounting systems, the reason why a uniform set of international accounting standards is needed, a comparison between IFRS and US GAAP, the historical process IFRS followed in order to be implemented, the process in the accounting harmonization (full adoption, endorsement, convergence, etc.) and the countries’ reaction to IFRS. Finally, some issues regarding the actual compliance with the IFRS are addressed.

Chapter 3 discusses financial accounting in Peru. Peruvian companies follow accounting standards according to their industry and size characteristics: non-financial listed companies fully apply IFRS, large private companies comply with the IFRS as approved by the Peruvian Accounting Standard Board, and small and medium-sized enterprises must comply with the IFRS for SMEs. Financial companies implement standards approved by the Superintendence of Banking, Insurance, and Private Pension Fund Administrators. Despite these facts, it is a gross overstatement, or at least misleading, to say that Peru complies with IFRS.

Chapter 4 discusses IFRS for SMEs in Peru. The Peruvian Accounting Standards Board adopted IFRS for SMEs beginning January 1st, 2011. This research aims at proving that the compliance with IFRS among Peruvian SMEs continues to be largely incomplete. In reality, most Peruvian SMEs use accounting for tax purposes without complying with the mandatory accounting standards (IFRS for SMEs).

Chapter 5 discusses value relevance of IFRS in Peru. The main purpose of this paper is to investigate the value relevance of accounting information for the firms listed on the Lima Stock Exchange for the period of 1994-2012. The market value relevance was tested using the Ohlson (1995) model. According to previous studies the combined value relevance of both book value and earnings per share was very high in the early years of IFRS adoption, but sharply decreased in the following period. On the contrary, in this research the empirical results generally indicate that the value relevance of the companies listed in the Peruvian stock market continues to be strong after the early adoption period of IFRS.

Chapter 6 discusses earnings quality in Peru. The purpose of this paper is twofold: First it aims at analyzing whether or not listed Peruvian corporations engage in earnings management and if so, to what degree. The second purpose of this paper is to analyze whether the adoption of IFRS in the Peruvian accounting system has had any effect on earnings management. The main conclusions of this chapter are: (a) Peruvian corporations engage in some degree of earnings management. (b) The mandatory compliance of IFRS has had a positive effect on accounting quality, more specifically on earnings management (measured by the level of discretionary accruals).

Chapter 7 aims at analyzing the relation between Corporate Governance (CG) performance and Earnings Management (EM) in corporations listed on the Peruvian stock market (Lima Stock Exchange) for the period 2010-2012. It is concluded that there is a negative relation between CG and EM (the better the CG practices, the lower the earnings management in Peruvian corporations). Consequently, Peruvian regulatory institutions like the SMV (Superintendence of the Securities Market) should continue to improve the regulatory CG framework in order to enhance the Earnings Quality in the Peruvian Capital Market.

Chapter 8 discusses corporate governance in Peru. The chapter is divided into two parts. In the first part a comprehensive analysis of Corporate Governance in Latin America (focusing on Peru) is presented. It is concluded that Peru has been developing regulations regarding corporate governance at a good pace and Peruvian corporations
have improved their compliance to these rules consistently. In the second part the financial performance of Peruvian companies is analyzed. According to the results it can be concluded that good corporate governance is correlated with good financial performance.

Chapter 9 discusses Corporate Social Responsibility (CSR) in Peru and Financial Performance of Socially Responsible Companies. This chapter is divided into two parts. In the first part a comprehensive analysis of CSR in Peru is presented, based on a review of the existing literature. In the second part an analysis of the financial performance of socially responsible Peruvian companies is presented, based on two studies that were conducted for this research. From the first study, it is concluded that ‘socially responsible companies’ have better financial performance than ‘socially irresponsible companies.’ In the second study, the event study methodology was used to measure the effects of CSR award announcements on stock prices of CSR companies. Over a three-year period of analysis, it was observed that on average the market reacts in a positive way when it learns that a company was granted with a CSR award.

Chapter 10 proposes an environmental accounting and sustainability reporting system in Peru that could have a positive impact on relevant stakeholders (communities, stockholders, government, NGOs, etc.). This new environmental accounting system will allow companies to properly quantify and report environmental issues as well as provide a more integral assessment and analysis of all the variables which affect their triple bottom line. On the other hand, from the country perspective, environmental and social issues in Peru may be partially resolved when companies implement and comply with this newly proposed system.

Chapter 11 discusses accounting education and the accounting profession in Peru. The purpose of this chapter is twofold: first it aims to review the current situation of accounting schools in Peru, and second, it attempts to analyze the Accounting profession in Peru relative to international standards. The chapter identifies salient issues in accounting education as well as the accounting profession in Peru and proposes solutions to address them.

Finally, the conclusions and proposals of the dissertation are presented.

論文審査結果の要旨

1. Overall Thesis

As stated above, the main purpose of this thesis is to review the Accounting system in Peru with special emphasis on four parts: Financial Accounting, Management Accounting, Environmental Accounting and Sustainability Reporting and Accounting Education. The first part can be classified into two groups: Chapters 1 to 4, which analyze the current financial accounting system in Peru and the variables that affected its evolution, are presented. In the second group: Chapters 5 to 6, an analysis of the effect of the IFRS on Accounting Quality (Value Relevance and Earnings Management) is presented. The second part focuses on Management Accounting in Peru, with special emphasis on Corporate Governance. Here the relation between CG and EM as well as the financial performance of corporations with good CG practices is presented. The third part focuses on Environmental Accounting and Sustainability Reporting while the last part is oriented to analyze the Accounting Education and Profession system in Peru.

2. Evaluation of Thesis Structure

The structure of the thesis consists of four parts: Financial Accounting, Management Accounting, Environmental Accounting and Sustainability Reporting and Accounting Education. In the first part (Financial Accounting), six papers are presented: (1) the influence of the cultural, legal and political factors, as well as economic and financial
variables on the accounting systems; (2) the need for International Accountings Standards; (3) the movements toward
the convergence of accounting standards in Peru; (4) the actual application of IFRS for SMEs Peru; (5) value relevance
change under International Accounting Standards: evidence from Peruvian companies and (6) IFRS Effect on
Earnings Management in Peruvian Corporations. The second part focuses on Management Accounting in Peru, with
special emphasis on Corporate Governance. Two papers – (7) Earnings Management and Corporate Governance in
Peruvian Corporations and (8) Corporate Governance in Peru: The Link between Corporate Governance and Financial
Performance are included. The third part focuses on Environmental Accounting and Sustainability Reporting and it
includes two papers: (9) Corporate Social Responsibility (CSR) in Peru: Financial Performance of Socially Responsible
Companies and (10) Environmental Accounting in Peru: A proposal based on the sustainability reporting in the mining,
oil and gas industries. Finally the last part (Accounting Education) has one paper (11) Accounting Education and
Profession in Peru: Analysis and Proposals.

3. Evaluation of each chapter

The structure of this thesis adequately utilizes a multidimensional approach to analyze a number of topics
regarding the Accounting system in Peru. Chapter 1 provides the cultural, legal, political, economic and financial
variables that have influenced the Peruvian accounting system. Chapter 2 describes the factors and issues that motivate
the need for a single set of global financial accounting standards. Chapter 3 examines four main goals. The first is to
enhance the body of research on accounting in Peru. The second is to explain the reasons behind the adoption of IFRS
in Peru and other Latin American countries. The third is to explain why there is such diversity in accounting rules
within the Peruvian accounting system. The final goal is to prove that it is only partially true that in Peru, IFRS are
being successful implemented. Chapter 4 clarifies that the compliance with IFRS among Peruvian SMEs continues to
be largely incomplete. In reality, most Peruvian SMEs use accounting for tax purposes. The research was conducted
through surveys sent to SMEs, interviews with relevant parties, and qualitative and quantitative analysis of available
data. Chapter 5 investigates the value relevance of accounting information of the firms listed on the Lima Stock
Exchange (BVL) for the period of 1994-2012. The market value relevance was tested using the Ohlson (1995) model.
The main conclusion of this research is that the empirical results generally indicate that the value relevance of the
companies listed on the Peruvian stock market continues to be strong (even lower) after the early adoption period of
IFRS in Peru. Chapter 6 examines the effect of IFRS on the Earnings Management of Peruvian Corporations. The
earnings management was tested using the Modified Jones (1995) model. The main contribution of this paper is its
originality since little research has been done on accounting in Peru (more specifically on EM). However, the main
limitation is the time period. A longer period of analysis would have been preferred for a stronger conclusion. Chapter
7 aims at analyzing the relation between Corporate Governance (CG) performance and Earnings Management (EM)
in corporations listed on the Lima Stock Exchange for the period 2010-2012. This chapter also provides a limitation
on the research. The first is the number of years of the research. It was conducted using data from 2010 to 2012. But
this research would be more beneficial if more recent data was available for use. Chapter 8 analyzes the link between
Corporate Governance and Financial Performance in Peruvian listed companies. The most important contribution of
this paper is its originality. Because of data availability and the size of their capital markets, most corporate governance
research to date has focused on the U.S., Germany and Japan. Not much research has been done regarding the relation
between Corporate Governance and Earnings Management in Latin America, and specifically in the Peruvian context,
this is the first research done in the field. The main limitation of this chapter is the number of years that the research
covers. It was conducted using data from 2010 to 2012. But this research should be conducted using more recent data
if it is available. Chapter 9 describes Corporate Social Responsibility (CSR) in Peru and is divided into two parts. The main contribution of this research is its originality since no research regarding Corporate Social Performance (CSP) and CSP has been done in Peru. However, this study also has some limitations. First, the time frame of the research is only three years. A longer period would be preferred to reach a stronger conclusion. Second, it would be preferable to have data from a larger sample of companies. The main hypothesis of Chapter 10 states that the current accounting system in Peru is inadequate for ensuring that companies report environmental issues. This chapter proposes a new accounting system in Peru that incorporates environmental issues adequately. The system will have a positive impact on all stakeholders. Chapter 11 delivers a review of the accounting profession and its instruction in Peru. Although accountants are currently in high demand in Peru, some issues in accounting education as well as the accounting profession were identified. A number of issues were identified in this thesis as well as possibilities for further research.

4. Future Research Issues

In general, the two main issues were identified by this thesis: (1) very little research has been performed in regards to accounting in Peru, and (2) the Peruvian market has a severe lack of historical financial data and has only recently, in some cases as recent as the early 90’s, started to develop. When the four main parts are analyzed, several important research issues are uncovered: Regarding Financial Accounting, especially due to the recent mandatory IFRS implementation which took effect as of January 1, 2012, a longer period of historical data will be necessary to validate the conclusions concerning accounting quality (value relevance and earnings management). Regarding Management accounting, specifically with respect to Corporate Governance since the SMV (Peruvian regulator of the listed companies) enacted a new set of Corporate Governance Principles in 2014, it is suggested this research be revisited once new data becomes available on the SMV and BVL websites. Regarding environmental accounting and sustainability reporting, there is considerable ground for additional research since this field is still in the early stages of development. Finally, regarding accounting education and the profession, it is strongly suggested that research be undertaken to identify how best to improve the quality of accounting graduates.

5. Overall Evaluation

On July 22, 2015 a formal thesis defense was held. From the thesis and from the defense we determined that this study adequately provided explanations for a number of topics regarding the accounting system in Peru. We further concluded that this thesis has provided rigorous discussion of the subject matter, performed in depth analysis and has found support for the proposed ideas. As such we determine that the thesis and the doctoral candidate, Mr. Tanaka, have met the requirements necessary for the PhD and we recommend that Mr. Tanaka be granted his PhD.