The Influence of the Cultural, Legal, Economic and Financial, Historical and Political Factors on the Accounting System: Peruvian Case

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I　Introduction

Accounting, the language of business, is used for many decision makers around the planet. In a globalized business environment, it is expected the existence of a uniform, single accounting system, however this does not occur. "Accounting system" is the set of financial reporting practices used by a particular company for an annual report (Nobes, 2012). Different companies in the same country may use different accounting systems. For example, some Japanese companies follow Japanese GAAPs while others IFRS or US-GAAP. Moreover, some European countries prepare consolidated financial statements using IFRS whereas parent-only financial statements are issued using national rules. Countries have different sets of accounting standards and a diversity of cultural, legal, economic and financial, historical and political factors may influence in the type of accounting system a country has.

In the Peruvian case, accounting standards would depend on the type of company. Table 1 shows the accounting standards followed by companies in Peru.

Table 1　Accounting standards followed by companies in Peru

Type of Companies	Institution which sets the Accounting Standards	Accounting Standards
Financial companies	SBS	SBS specific accounting rules
Non-financial listed companies	IASB	IFRS
Some big private companies	CNC	IFRS approved by the CNC
Small and medium sized private companies	CNC	IFRS for SMEs

If the company is a financial one, accounting rules are determined by the Superintendent of Banking, Insurance and Private Fund Managers Pensions (SBS-Superintendencia de Banca, Seguros y AFP in Spanish). However, if there are no rules set by the SBS, companies must first apply IFRS. If there is no IFRS, US GAAPs must be used. It is important to mention that-in general-the rules set by SBS are more conservative than those from IFRS, which are reflected in a lower equity amount.

For non-financial companies there is another classification: non-listed (private) and listed (public) companies. Public companies (those which trade their securities in the stock market) are under the supervision of the SMV (Superintendencia del Mercado de Valores, in Spanish–Superintendence of the Exchange Market former CONASEV –National Supervisory Commission for Companies and Securities–) and must apply IFRS. Private companies, on the other hand, must implement the rules set by the Peruvian Accounting Standard Board (CNC–Consejo Normativo de Contabilidad in Spanish). The CNC decides which IFRS must be applied by private companies. Therefore, the difference between private and public companies is that for public companies all the IFRS are mandatory and for private companies only those approved by the CNC. If no IFRS exists, the CNC can decide to implement one US GAAP.

Finally, in the case of small and medium sized private companies the CNC has mandated the application of IFRS for SMEs.

However, it is very important to mention that according to several authors Tanaka (2013) and Diaz (2010), private companies in Peru do not fully apply the IFRS (even those approved by the CNC). According to his research Diaz (2010) states (in Spanish): "Even though the process of adoption of IFRS has its origins in the 1980's, the result of this research shows some evidences that the level of implementation of IFRS does not have a direct correlation with the time passed since the IFRSs were approved and only few companies actually implement the IFRS as they were ruled by the CNC."

After reviewing the above classifications the following questions arise: Why Peru has adopted different accounting standards based on the type of company? Does this happen in other countries or is it a unique situation in Peruvian accounting rules?

There are different explanations for this complexity in accounting rules and they will be reviewed in the next paragraphs. For a better understanding of those explanations, first of all, diverse classifications of international accounting systems are presented. Classification should sharpen description and analysis. It should reveal underlying structures and enable prediction of the properties of an element based on its place in a classification (Nobes, 2012). However, not all the classifications of the accounting systems will be reviewed. For example, Hatfield (1911) classification won't be reviewed since it focuses on France, Germany, England and the U.S. Hatfield's work in 1911 is arguably one of the oldest studies of accounting classifications (Nobes, 2011)

Consequently, in this paper the influence of the cultural, legal, economic and financial and political factors on the accounting systems in Peru are discussed.

Ⅱ Cultural Factors

There are three levels of influence of how cultural factors affect accounting systems: at the level of countries and at the level of groups inside countries. For the first level, Hofstede theory would be explained and for the second and third one, Gray theory (among others authors) would be taken into consideration.

As it is pointed by Hofstede (1980) the national culture of any country can be described according to four dimensions: (a) power distance, (b) individualism, (c) uncertainty avoidance and (d) masculinity.

(a) Power Distance

Power distance is the way the members of a society accept that power in institutions and organizations is distributed unequally. People in Large Power Distance societies accept a hierarchical order in which everybody has a place which needs no further justification.

(b) Individualism

In individualism people are supposed to take care of themselves and their immediate families only. Its opposite, collectivism is a preference for a tightly knit social framework in which individuals can expect their relatives, clan, or other in-group to look after them in exchange for unquestioning loyalty.

(c) Uncertainty Avoidance

Uncertainty avoidance is the degree to which the members of a society feel uncomfortable with uncertainty and ambiguity. This feeling leads them to beliefs promising certainty and to maintaining institutions protecting conformity.

(d) Masculinity

Masculinity stands for a preference in society for achievement, heroism, assertiveness, and material success. Its opposite, femininity stands for a preference for relationships, modesty, caring for the weak, and the quality of life.

In Hofstede's (1980) study, Peruvians have a high score in the power distance index (PDI), 64 actual, 69 predicted. These are relative high values compared to those of Japanese (54 and 57, and U.S.A. 40 and 42, respectively). In a more recent study, Sully de Luque and Matute (2000) came up with similar results. However, according to that study, power distance is more based on "who you are and not on what you know".

On the other hand, with respect to Individualism, Hofstede's (1980) study ranks Peruvians' individualism (16-actual-and 22-predicted-) at the bottom with other Latin American countries (Colombia and Venezuela).Those values are very low compared to Japan (46-60) and the USA (91-95, respectively) meaning that Peruvians prefer collectivism.

However, in Sully de Luque and Matute's (2000) study recently Peruvians have become more individualists. The reason probably is because of the economic and social development Peru has experienced the last decades (Hofstede's study was developed in 1980). Probably this individualism result has increased even more since Peru has experienced a high economic development the last couple of years (GDP was 8.78%, 6.92% in 2010 and 2011 respectively).

According to Hofstede (1980) and Triandis (1990), the higher the economic development of the country, the more individualist characteristics the population will have, so the Sully de Luque and Matute (2000) individualism results are consistent.

Regarding uncertainty avoidance, Hofstede's study ranks Peru at the top (87, 91 actual and predicted, respectively), just below Japan (92, 112). The result shows that both Peruvians and Japanese feel uncomfortable with uncertainty and ambiguity. On the other hand, the U.S.A. has a score of 46, 36.

However, Sully de Luque and Matute (2000) study shows that Peruvians have a moderate level of tolerance for ambiguity, findings relatively inconsistent with Hofstede study. The reason of this result is because Peruvians have become used to a tumultuous environment, for example, terrorism in the 80's and 90's. Another reason for the not low tolerance for ambiguity is the multiethnic (indigenous, Spanish African, Asians and many other minorities groups) Peruvian's population. Cultures characterized as loose are typically less homogeneous, which leads to greater tolerance to others opinions and beliefs and which in the end makes the population more tolerant for ambiguity.

In summary, Sully de Luque and Matute (2000) state that the new millennium Peruvians accept a hierarchical order in which everybody has a place which needs no further justification (large power distance). These findings mean that Peruvians are now more individualists and more tolerant to ambiguity than in the past.

These characteristics large power distance and moderate level of tolerance can partially –other causes will be mentioned further–explain why the implementation of IFRS didn't find any resistance in the case of public companies. Moreover, the individualist characteristic could illustrate in some degree a cause for a diversity of accounting rules (depending on the type of company) in Peru.

It is important to mention that Sully de Luque and Matute (2000) are not the only ones who have discrepancies with Hofstede results. Some antagonists claim that Hofstede's study is too dated to be of any use because of the globalization phenomenon (Burton, 2012). Moreover, other authors like Jones (2007) and McSweeney (2002) argue that cultures are not necessarily confined to country borders, so nations are not the proper unit of analysis.

On the other hand, Gray (1988) postulates the existence of an Accounting sub-culture and presents the following accounting values: (a) Conservatism versus Optimism, (b) Secrecy versus Transparency, (c) Professionalism versus Statutory Control and (d) Uniformity versus Flexibility.

(a) Conservatism versus Optimism

A preference for a cautious approach to deal with the uncertainty of future events as opposed to a more optimistic, laissez-faire, risk-taking approach.

(b) Secrecy versus Transparency

Confidentiality and the restriction of disclosure of information about the business only to those who are closely involved with its management and financing as opposed to a more transparent, open and publicly accountable approach.

(c) Professionalism versus Statutory Control

The exercise of individual professional judgment and the maintenance of professional self-regulation as opposed to compliance with prescriptive legal requirements and statutory control.

(d) Uniformity versus Flexibility

The enforcement of uniform accounting practices between companies and for the consistent use of such practices over time as opposed to flexibility in accordance with the perceived circumstances of individual companies.

Table 2 shows how Gray's accounting values relate to Hofstede's cultural dimensions

Table 2

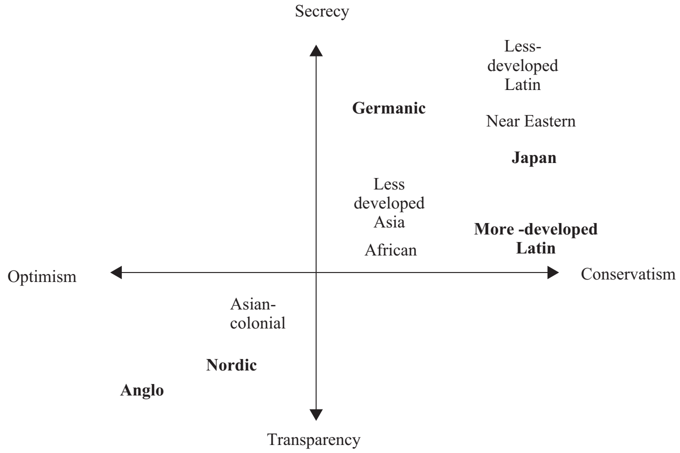
	Accounting Values			
	Professionalism	**Uniformity**	**Conservatism**	**Secrecy**
Power Distance	Negative	Positive	n/a	Positive
Uncertainty Avoidance	Negative	Positive	Positive	Positive
Individualism	Positive	Negative	Negative	Negative
Masculinity	Positive	n/a	Negative	Negative
Confusion Dynamism	Negative	n/a	Positive	Positive

Positive: Positive relationship hypothesized between cultural dimension and accounting value
Negative: Negative relationship hypothesized between cultural dimension and accounting value
n/a: No relationship hypothesized

Source: Radebaugh and Gray (2006), p. 495

After proposing four hypotheses, Gray (1988) came to the conclusion that after classifying the countries in different groups, Gray (1988) was able to categorize countries' accounting systems based on two pairs of characteristics: Professionalism versus Statutory Control and Uniformity versus Flexibility and Conservatism versus Optimism and Secrecy versus Transparency. As it is presented in Figure 1 (see below), Peru would be ranked (as a less developed Latin country) with high secrecy and high conservatism. This result is consistent with the origin of Peruvian accounting which has its roots in the Continental accounting system (notice that Japan-another Continental accounting country in its origins-is close in the classification) and both are in the opposite side from US accounting which comes from the Anglo-Saxon system (these concepts are explained further in the paper).

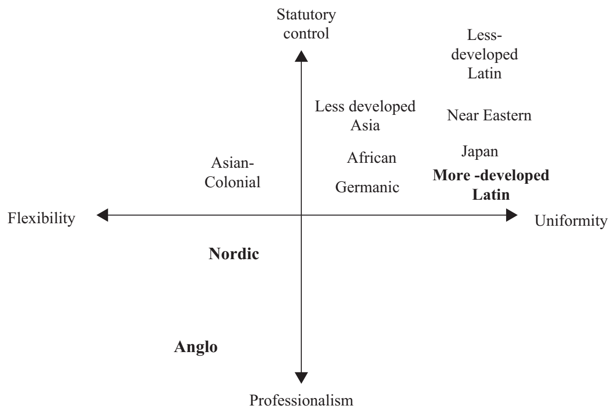
Figure 1 Accounting Systems: Measurement and Disclosure



Source: Gray (1988), p.13

According to Figure 2 (see below), Peru would be ranked (as a less developed Latin) with high statutory control and high uniformity. Again, relatively close to Japan and opposite to the US, result which confirms the origin of the Peruvian and Japanese accounting systems.

Figure 2 Accounting Systems: Authority and Enforcement



Source: Gray (1988), p.12

According to Gray (1988), Peru has a more regulated accounting system based on conservatism and high preference for confidentiality. Moreover, Peruvian accounting system focuses on complying with prescriptive standards and rules.

As discussed above, every country has its own national culture which explains the differences among people from different countries. There are accounting subcultures (which are influenced and determined by the national cultures), which explain the differences in accounting systems among countries. Some cultural reasons explain why Peru has adopted IFRS (for public companies), which has a direct relation with Continental accounting. However, other legal, political, financial and economic reasons also explain the IFRS adoption (this is explained further in the paper).

Additionally, some other factors and approaches should be taken into account for a better analysis of the influence of cultural factors in accounting systems. For example, in a study done based on the Malaysian accounting, Foo (2008) states that there is diversity within the accounting sub-culture. The Hofstede-Gray framework of the influence of culture on accounting practice has been argued to be conceptually inadequate to explain the depth, richness and complexity of culture (Gernon & Wallace, 1995; Chow, 1999; Harrison & McKinnon, 1999).

Moreover, Doupnik and Tsakumis (2004) suggest that the explicit identification of the motivational values of accountants is important to prove the existence of the accounting sub-culture and its influence on accounting practice. Studies have also shown that different sub-groupings of accountants within the accounting sub-culture may project different accounting behaviors. Diversity within the accounting sub-culture due to differences in ethnicity (Tsui, 2001; Haniffa & Cooke, 2002), religion (Hamid, 1993), language (Belkaoui, 1980; Doupnik & Richter, 2003), gender (Hofstede, 2001) and age (Matsumoto & Juang, 2004) has been argued to result in differences in accounting behavior.

As Foo (2008) points out, the Malaysian accountants' membership of different sub-groups within the accounting sub-culture in Malaysia has exhibited variances in their motivational values. These differences in motivational values have affected their mental processes and cognitive abilities and have resulted in differences in the accountants' interpretation and judgment in financial reporting. Foo's study provides further empirical evidence of the cultural relativism of accounting.

Therefore, can it be stated that the diversity in sub-cultural groups-because basically of the multi-ethnicity in the Peruvian population-is the main cause of the difference in accounting rules in the Peruvian Accounting system, especially in the case of Peruvian financial institutions? It is said that this explains just partially. Some other reasons (mainly financial and economic-but even historical and political factors-) can explain this fact and are mentioned further in the paper.

Let's just introduce very briefly these other factors:

(a) Historical factors

Some other important reasons for the smooth adoption of IFRS can be mentioned. As part of the Hispanic empire since XVI century Peru adopted the Spanish accounting system which is based on the Continental Accounting system. The natural step followed by most of the countries which applied the continental accounting system is the adoption of IFRS.

(b) Financial and economic factors

In a global economic world a developing country (with a weak equity market –see further Classification based on corporate financing–), which has its own accounting rules (different from the international standards) could not be considered in the securities selection and portfolio analysis of for example, some institutional investors.

(c) Political factors

Peru–as many other developing countries–follows the US and other developing countries or regions (like Europe) in the adoption of norms and principles, in this case accounting rules. Peruvian accounting authorities started considering the adoption of international accounting rules since the explicit interest of developing countries of applying standardize international accounting rules.

Our previous statement is consistent with Nobes and Parker (2012): some other causes (different from culture) can explain the diversity in accounting systems around the world. These factors are explained in the following paragraphs.

On the other hand, it can be stated that stringent standards/rules are required to have an organized financial system just because of the cultural diversity in Peru. Since Peruvians accept a hierarchical order (Sully de Luque and Matute (2000)), the adoption of standards was not difficult.

Ⅲ Legal factors

Several times in this paper two different types of accounting system in the world (Continental and Anglo–Saxon systems) were mentioned. Both are explained in the following paragraphs. Some countries have a legal system that relies upon a limited amount of statute law, which is then interpreted by courts, which build up large amounts of case law to supplement the statutes. Such a 'common law' system was formed in the United Kingdom and some other Anglo–Saxon countries like the United States or Canada do apply it. On the other hand, other countries have a system of law that is based on the Roman ius civile (civil law). Here, the nature of accounting regulation in a country (as opposed to the content of the accounting rules) is affected by its general system of laws.

Below see (Table 3) a brief of classification of countries which apply each of the systems mentioned above.

Table 3

Legal systems	
Common law	**Codified Roman law**
England and Wales	France
Ireland	Italy
United States	Germany
Canada	Spain
Australia	Netherlands
New Zealand	Portugal
	Japan (commercial)

Source: Nobes and Parker (2012), p.32

The Continental Accounting focuses on how to split the income in taxes, salaries, dividends, etc.), and is applied in countries like Germany or Japan. On the other hand, countries like the United States base its Accounting system in the Anglo-Saxon school (focus on informing the users of the accounting information about the situation of the company).

Thus, on the one hand, code law countries generally have corporation law (commercial code or companies act), which establishes the basic rules for companies. For example, the law normally stipulates which financial statements must be published and their format (Doupnik and Perera, 2012). In code law countries, the accounting rules are general (without much details or guidance). Germany is a good example of a code law country. The German accounting law passed in 1985 is only 47 pages long and is silent with regard to issues such as leases, foreign currency translation, and cash flow statements. (Brooks and Mertin, 1986)

On the other hand, common law countries rely on a limited amount of statute law, which is then interpreted by the courts. Court decisions establish precedents, thereby developing case law that supplements the statutes. A system of code law, followed in most non-English-speaking countries was originated in the Roman jus civile and developed further in European universities during the Middle Ages. In common law countries, where there is likely to be a non-legislative organization developing accounting standards, like the Financial Accounting Standards Board (FASB) in the United States sometimes there are standards overload. (Doupnik and Perera, 2012).

As mentioned above, the Peruvian Accounting system is based on the Continental system which means its main interest is how to distribute the profits a company has among all its stakeholders. Nobes (2012) refers also to some classifications based on 'zones of influence'. Seidler (1967) suggested three groups: British, American and continental European. Also, the AAA's committee produced a subjective classification of five 'zones of influence' on accounting systems (AAA, 1977) -see Table 4-. These are as follows:

Table 4
Classifications based on zones of influence

Group	Country
1	British;
2	French-Spanish-Portuguese;
3	German-Dutch;
4	US;
5	Communist.

Source: AAA (1977), p. 105

According to this classification, Peruvian accounting system is under the influence of Group 2, more specifically, Spain (Radebaugh, Gray and Black, 2006) since Peru was part of the Spanish Empire until 1821 and adopted the legal and tax system from the Iberian country.

Another very important classification is the one of Mueller, Gernon and Meek (1997). Although the economic and social environment has changed substantially the last decades this is still a valid classification nowadays. Mueller, Gernon and Meek (1997) improve the classical model divide the countries' accounting systems in four clusters: (a) British-American Model, (b) Continental Model, (c) South-American Model and (d) Mixed Economy Model.

(a) Anglo-American-Model

An orientation towards decision needs of investors is emphasized in the countries of this Model (creditors are of subordinated importance) therefore, the financial statement shall be used in order to give information about the future development of the company. In these countries capital markets are more developed. Extensive disclosure and an attenuation of the conservative/prudence principle in favor of the accrual accounting are characteristic for Accounting Practices. See below (Table 5) a list of countries in this group:

Table 5 Members of the Anglo-American Model

Australia	Hong Kong	Panama
Bahamas	India	Papua New Guinea
Barbados	Indonesia	Philippines
Benin	Ireland	Puerto Rico
Bermuda	Israel	Singapore
Botswana	Jamaica	South Africa
Canada	Kenya	Tanzania
Cayman Islands	Liberia	Trinidad & Tobago
Central America	Malawi	Uganda
Colombia	Malysia	United Kingdom
Costa Rica	Mexico	United States
Cyprus	Netherlands	Venezuela
Dominican Republic	New Zealand	Zambia
Fiji	Nigeria	Zimbabwe
Ghana	Pakistan	

Source: Fritz and Lammle (2003), p. 77

(b) Continental-European Model

In contrast to the Anglo-American-Model, countries of this cluster rely on banks as capital providers and have therefore, a close relationship with them. Countries like Germany, France, Spain, or Japan (classified in the Continental-European Model) rely less on public equity market than countries of the Anglo-American-Model (Epstein and Mirza, 2001). Consequently, the task of financial statements is not in first line to provide information (to capital providers) but to meet government imposed requirements (e. g. tax collection and to protect creditors). Accounting Practices can be characterized as legalistic and as highly conservative. (Mueller, 1991, Wolk, 2001). The main tasks of Accounting according to that model are therefore, the security of creditor as well as the long-term stability of the enterprise. The conservative/prudence principle is the dominating accounting principle under this model. Below (Table 6) see a list of countries in this group:

Table 6 Members of the Continental-European Model

Algeria	France	Norway
Angola	Germany	Portugal
Austria	Greece	Senegal
Belgium	Guinea	Sierra Leone
Burkina	Italy	Spain
Cambodia	Ivory Coast	Sweden
Cameroon	Japan	Switzerland
Denmark	Luxembourg	Togo
Egypt	Mali	Turkey
Finland	Morocco	Zaire

Source: Fritz and Lammle (2003), p. 77

(c) South American Model

In this model the Spanish-speaking South American countries are included. They share not only the same language but also a common heritage (Mueller, 1991). The South American model differs from other models because of their continuously adaptation for inflation (at the time of his research some Latin American countries had inflation rates of up to four digits). Financial statements in these countries have to be restated because of permanent changes in the price level (Epstein and Mirza (2001)). Furthermore, these Accounting Practices are oriented towards the needs of government planners, uniformed and tax-based Accounting is applied (Mueller, 1991). It is important to mention, (1) just for strict geographic reasons, this should be called Central and South American Model and (2) although the rate of inflation has decreased considerably in the last decades in Central and South America, this classification is still valid for analysis purposes since the Latin American countries share many characteristics in common because of historical, cultural, politic and economic reasons.

Below (Table 7) see a list of countries in this group:

Table 7 Members of the South American Model

Argentina	El Salvador	Paraguay
Bolivia	Guatemala	Peru
Brazil	Guayana	Uruguay
Chile	Honduras	
Ecuador	Nicaragua	

Source: Fritz and Lammle (2003), p. 77

(d) Mixed-Economy Model

In this model, enterprises typically operate dual accounting systems. One track produces information for managers used to the former system oriented toward a command economy and relying heavily on uniform charts of accounts and budgeted rather than actual financial information. The other track produces information according to the British-American model. Below (Table 8) see a list of countries in this group:

Table 8 Members of the Mixed Economy Model

Albania	Georgia	Russia
Armenia	Hungary	Serbia
Azerbaijan	Kazakhstan	Slovak Republic
Belorussia	Kirgizia	Slovenia
Bosnia-Herzegovina	Latvia	Tadzhikistan
Bulgaria	Lithuania	Turkmenistan
Croatia	Moldavia	Ukraine
Czech Republic	Poland	Uzbekistan
Estonia	Romania	Vietnam

Source: Fritz and Lammle (2003), p. 78

Ⅳ Economic and Financial Factors

Mueller (1967, 1968) classifies countries' accounting systems in four patterns: (a) Macroeconomic pattern, (b) Microeconomic pattern, (c) Independent discipline pattern and (d) Uniform accounting pattern.

(a) Macroeconomic pattern

Business accounting is tied to national economic policies, for example Sweden, France, Germany. Goals of Corporation follow rather than lead national economic policies (e. g., might smooth earnings to promote economic stability).

(b) Microeconomic pattern

Accounting is a branch of business economics, for example replacement-value accounting in Holland. Maintenance in real terms of monetary capital invested in entities.

(c) Independent discipline pattern

Accounting is a service function derived from business practice, for example U.S. and U.K. Accounting is considered to be capable of developing its own conceptual framework from business practice–self–regulating like other professions

(d) Uniform accounting pattern

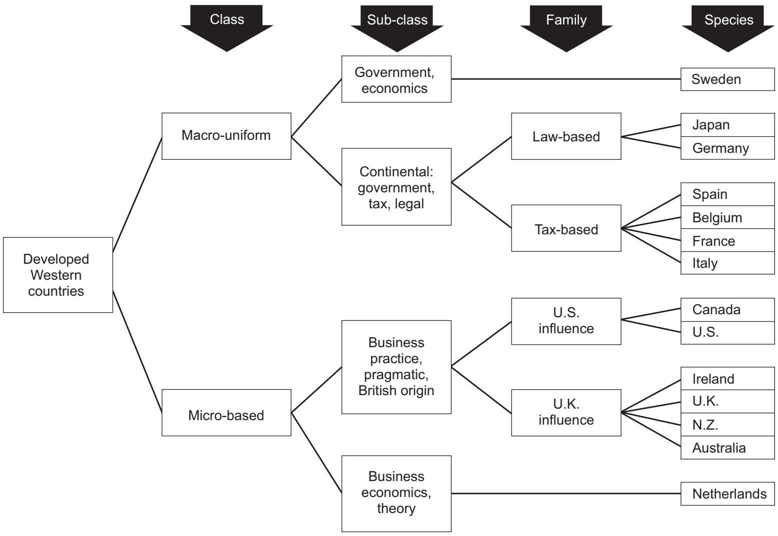
Accounting is an efficient means of administration and control, for example France, Germany, Sweden, and Switzerland

Nobes (1983) then tested this classification system in 14 developed countries. He used a structural approach to accounting practices whereby he assessed major features such as the importance of tax rules, the use of prudent/conservative valuation procedures, and the making of replacement cost adjustments (see Figure 3). Nine factors were identified as those likely to predict which countries would be grouped together, and Nobes then scored these factors based on questionnaires and personal judgment.

Peruvian accounting system is not included in this classification. However, it would be most likely be included in the Macro–uniform Class, Continental (government, tax, legal) Sub–class, Tax–based (family) since Peruvian (and in general, Latin American) accounting is based on the Spanish accounting system because of historical reasons.

Radebaugh, Gray and Black (2006) have a similar way to classify accounting systems. For that purpose they explain two different approaches: (a) Deductive or judgmental approach and (b) Inductive or empirical approach

Figure 3



Source: Nobes (1983), p.7.

(a) Deductive or judgmental approach

First, environmental factors are identified and linked to national accounting practices and then international groupings or development patterns are proposed

(b) Inductive or empirical approach

First, individual practices are analyzed, then development patterns or groupings are identified, and finally, explanations based on economic, social, political, and cultural factors proposed

Moreover, Price Waterhouse (1973, 1975) conducted a study which allowed them to classify countries' accounting systems in different groups (Table 9). What is relevant of this study is that there is a Latin American accounting model and the Peruvian accounting system is part of this model. This finding is consistent with Gray's theory, which categorizes Latin American accounting in "Less developed Latin" group. An important fact to be emphasized is that Latin American countries do have a similar accounting system. Reasons behind this fact could be categorized as political, economic, cultural and historical.

Table 9

Ⅰ. British Commonwealth Model	Ⅱ. Latin American/ South European Model	Ⅲ. Northern and Central European Model	Ⅳ. United States Model	V
Australia	Argentina	Belgium	Bermuda	Chile
Bahamas	Bolivia	Denmark	Canada	
Fiji	Brazil	France	Japan	
Iran	Colombia	Germany	Mexico	
Ireland	Ethiopia	Norway	Philippines	
Jamaica	Greece	Sweden	United States	
Malaysia	India	Switzerland	Venezuela	
Netherlands	Italy	Zaire		
New Zealand	Pakistan			
Nicaragua	Panama			
Rhodesia	Paraguay			
Singapore	Peru			
South Africa	Spain			
Trinidad	Uruguay			
United Kingdom				

Source: R. D. Nair and W. G. Frank, "The Impact of Disclosure and Measurement Practices on International Accounting Classifications," *Accounting Review* (July 1980): 433.

Nobes (2012) has another classification based on corporate financing. Nobes (2012) argues that in countries with a widespread ownership of companies by shareholders which do not have access to internal information, there will be a pressure for disclosure, audit and fair information. In countries such as the United Kingdom, the United States and the Netherlands, this can, over many decades, result in a tendency for accountants to work out their own technical rules. Thus there are generally accepted accounting principles which control accounting and these are set by committees dominated by accountants and in the private sector.

On the other hand, in most continental European countries and in Japan, the comparative lack of outsider shareholders has meant that external financial reporting has been largely invented for the purposes of protecting creditors and for governments, as tax collectors or controllers of the economy. Nobes (2012) suggests that this differentiation between credit/insiders and equity/outsiders is the key cause of international differences in financial reporting.

Below in Table 10, a classification based on corporate financing (if the company finances its operations from creditors and suppliers or if it gets the funds from stockholders) is presented.

Table 10 Classification based on corporate financing

Features	
Group A	**Group B**
Strong equity market	Weaker equity market
Many outside shareholders	Core inside shareholders
Large auditing profession	Small auditing profession
Separate accounting and tax rules	Tax dominates accounting rules
Examples of countries	
Group A	**Group B**
Australia	France
United Kingdom	Germany
United States	Italy

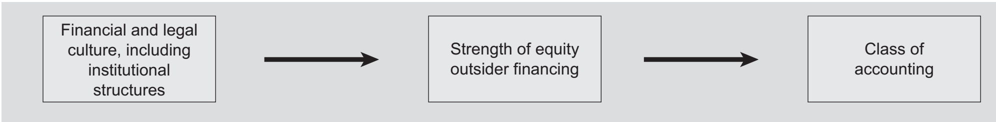
Source: Nobes and Parker (2012), p. 36

Although Peru is not considered explicitly in the Figure above, it should be included in Group B because it has a relatively weak equity market with core inside shareholders–even considering the fact that currently there is an integration of the stock markets of Colombia, Chile and Peru since this Latin American market is still small compared to the US, Japanese or UK markets–. Moreover, there is a small auditing profession in Peru and tax dominates accounting rules.

In this paper the most important accounting systems classifications related to the Peruvian case have been presented. All these classifications have their pros and cons. However, the more factors are included in the analysis, the more difficult it is to understand for the average reader. To solve this issue another most recent classification of accounting systems is presented.

Nobes (2011) classifies accounting systems using the following model (see Figure 4):

Figure 4



Source: Nobes (2011), p. 12

In this model, Nobes (2011) marshals the most important factors introduced in the previous paragraphs. Three main variables are taken into consideration. The first one is the country type of legal and institutional culture, the second is the strength of its equity–outsider financing and the third is the class of accounting (Nobes classifies in two groups, Class A, Accounting for outside shareholders and Class B, Accounting for tax purposes and creditors). It can be assumed that some cultures develop strong equity–outsider markets and others do not.

The first variable, the country type of legal and institutional culture has been broadly explained in the previous paragraphs.

The second variable, the strength of equity/outsider financing refers to the number of owners. Nobes (2011) defines insider companies, as those controlled by a small number of owners and outsider companies as those owned by many stockholders. Therefore, countries with strong equity–outsider systems generally have a large number of outsider companies which may generate most of a country's GNP, but some such companies may also exist in other countries with different systems.

The third variable is the type of financial reporting system (accounting system), introduced earlier as Class A or Class B. This is the key driver of the type of accounting that will be needed.

For instance, strong equity–outsider systems will lead to Class A accounting.

V Historical Reasons

Nobes (2011) postulates that colonial inheritance is probably the major explanatory factor for the general system of financial reporting in many countries outside Europe. For example, it is easy to predict how accounting will work in Gambia (a former British colony) compared with neighboring Senegal (a former French colony). Substantial capital investment from another country may also lead to accountants and accounting migrating with the capital. Another related influence on accounting is invasions, which may have major effects, as is the case with Japanese, French, and German accounting.

Moreover Nobes (2011) also states that Japanese and South American accounting systems have mostly French or German roots (despite Iberian colonial influence in South

America). Briston (1978) and Rousse (1989) state that Peru instituted the French accounting plan in 1975 (revised in 1985 by the General Accounting Plan and then replaced for the General Accounting Business Plan in 2011 because of the implementation of IFRS) (Lam, 2011). Moreover, according to Radebaugh's (1975) the Peruvian chart of accounts was very similar to the French one at that time. Ozu (2000) postulates that there were, however, two major differences: the Peruvian system gives more consideration to the distinction between current assets and noncurrent assets, and the Peruvian system enables the collection of information about the foreign sector at the level of the chart of accounts. The latter helps the government to keep track of the import and export of goods, services and capital. This idea was not provided in the original French plan.

According to Radebaugh (1975), Peru's strong need for a uniform terminology and unified data to assist national planning promoted the acceptance of the French type of accounting plan.

Thus, so far the influence of countries like Spain (invader, conqueror) and France (model for the adoption of the accounting plan) has been mentioned. However, countries like Germany (Codified Roman Law –based of the Peruvian legal system and birthplace of the pioneer of accounting in Peru–Michael Max Bromberg Gumpertz–) and the United States (because of its political influence) have played an important role in the Peruvian accounting system.

Ⅵ Political Reasons

According to the power theory more powerful countries are less likely to adopt IFRS (Ramanna and Sletten, 2010), due to powerful countries' unwillingness to forgo their standards setting to IASB. The previous statement can be tested using different measures like the National Power scores or the comprehensive national power (CNP) –a general power measure of a nation–state, important in the contemporary political thought of countries like China–. As it can be seen in Table 11, only some of the most powerful countries have adopted (mandatory or optional) or are in the process to adopt IFRS. However, notice that the two biggest economies (the United States and China) have not fully adopted IFRS and Japan has adopted it only optionally.

Table 11 Most powerful countries and IFRS

Country (1)	IFRS required or permitted for listed companies? (2)
United States	No
United Kingdom	Required for consolidated financial statements. Permitted for standalone/separate financial statements.
Russia	IFRS is permitted for consolidated financial statements.
France	Required for consolidated financial statements
Germany	Required for consolidated financial statements
China	No, however, CAS (Chinese Accounting Standards) have somewhat converged with IFRS.
Japan	Listed companies which meet certain requirements ("Specified Companies") are pernitted to use IFRS for their consolidated financial statements ending on or after March 31, 2010, as per Regulations for Consolidated Financial Statements revised by the Financial Services Agency (FSA) of Japan in December
Canada	Required for interim and annual financial statements relating to annual periods beginning on or after January 1, 2011 with some exceptios
South Korea	Adoption of IFRS is required for all listed companies and certain unlisted financial institutions from 2011.
India	Listed companies having subsidiaries have a choice of presenting their consolidated financial results either in accordance with Indian GAAP or in accordance with IFRS. however companies seem to prepare their financial statements in Indian GAAP.

(1) National Power scores are the product of an index combining the weighted factors of GDP, defense spending, population, and technology. Scores are calculated by the International Futures computer model and are expressed as a state's relative share (percentage) of all global power.
The forecast of these values is hosted by the Google Public Data Explorer.

(2) Pricewaterhouse Coopers LLP: IFRS adoption by country

Source: own elaboration based on data from PriceWaterhouse Coopers "IFRS adoption by Country" (2012)

Being a developing country, Peru is more prone to follow the new policies and standards adopted by other countries in order not to be excluded in foreign trade and access of capital subsequently. As it was mentioned above, Peruvian accounting authorities started to consider the adoption of international standard rules when developing countries decided so.

Ⅶ Conclusions

A number of factors can explain the diversity in accounting systems around the world. Among these factors cultural, legal and political, and economic and financial variables can be named. The main reason an analysis of different theories of classification of countries' accounting systems was presented is because every classification allows sharpening description and analysis; a classification reveals underlying structures and enable prediction of the properties of an element based on its place in a classification.

Multiple studies exist regarding the effect on cultural factors on the accounting systems. Based on these studies a hierarchy of three levels which affects accounting systems can be presented. In the first level there is a national culture, in the second one exists an accounting culture depending on the country and in the third level there are accounting subcultures inside a country accounting system.

Based on cultural variables, Peru accounting system is part of the Latin American –less developed Latin, according to Gray (1988) – accounting system and applying legal and political factors Peruvian standards are included in the South American model.

Because of historical reasons–part of the Spanish Empire which started in the XVI century–Peru mainly adopted the Continental accounting approach, which means its main interest is how to distribute the profits a company has among all its stakeholders. However, as in the case of Argentina's accounting (Wirth and Mattessich, 2006), Peru has the influence from mainly Spain and other European countries like France and Germany (Nobes, 2011) as well as from the United Sates.

Political reasons (developing country which follows standards and policies adopted by developing countries) also had an impact of the Peruvian accounting system.

Some cultural, legal, political, financial, historical and economic reasons do explain 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) does exist in Peru.

Although Peru legally has adopted IFRS (completely for listed companies; OR partially–for a) financial companies and b) non-listed companies –IFRS adopted by the CNC–) and IFRS for SMEs, in reality, especially in the case of small and medium sized companies, many enterprises apply the tax rules –instead of the accounting rules– when recording the transactions in the accounting books.

In this paper only the relevant classifications, in which Peruvian accounting system is considered, are included. For example, Nobes' 1980 classification is not explained since that is for developed western countries and Peru is not part of that category. Moreover, religion as another factor for accounting system classification (Zarb, B. and Pagiavlas, N, 2003) was not explained since it was not relevant for the Peruvian case.

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