

# Controversial Ethical Issues in Accounting

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## ABSTRACT

*The ethics of a business is currently a most important issue owing to sensational corporate scandals that had taken place in many countries which are damaging to the economy and society. These corporate scandals question the morality of businessmen in general and accountants in particular. The accountants are the main contributors in ethical standards of a business. The financial scandals raised in the recent times were characteristics of deeper problems and identified that improvement of ethical standards, adequacy of financial management, reporting mechanisms, audit quality and strengthening of governance regimes as means to improve public confidence in financial reporting. The accounting profession has a responsibility towards these areas, whose deficiencies have led to corporate scandals and collapses. Hence, today, ethical conduct of accounting has become a contemporary and debatable issue. In this context, this paper focuses on the following aspects: the concept of ethics, various ethical issues in accounting and steps to prevent those issues.*

**Key Words:** Ethics, Ethical behavior, Ethical Issues, Accounting, Accounting Offence

## INTRODUCTION

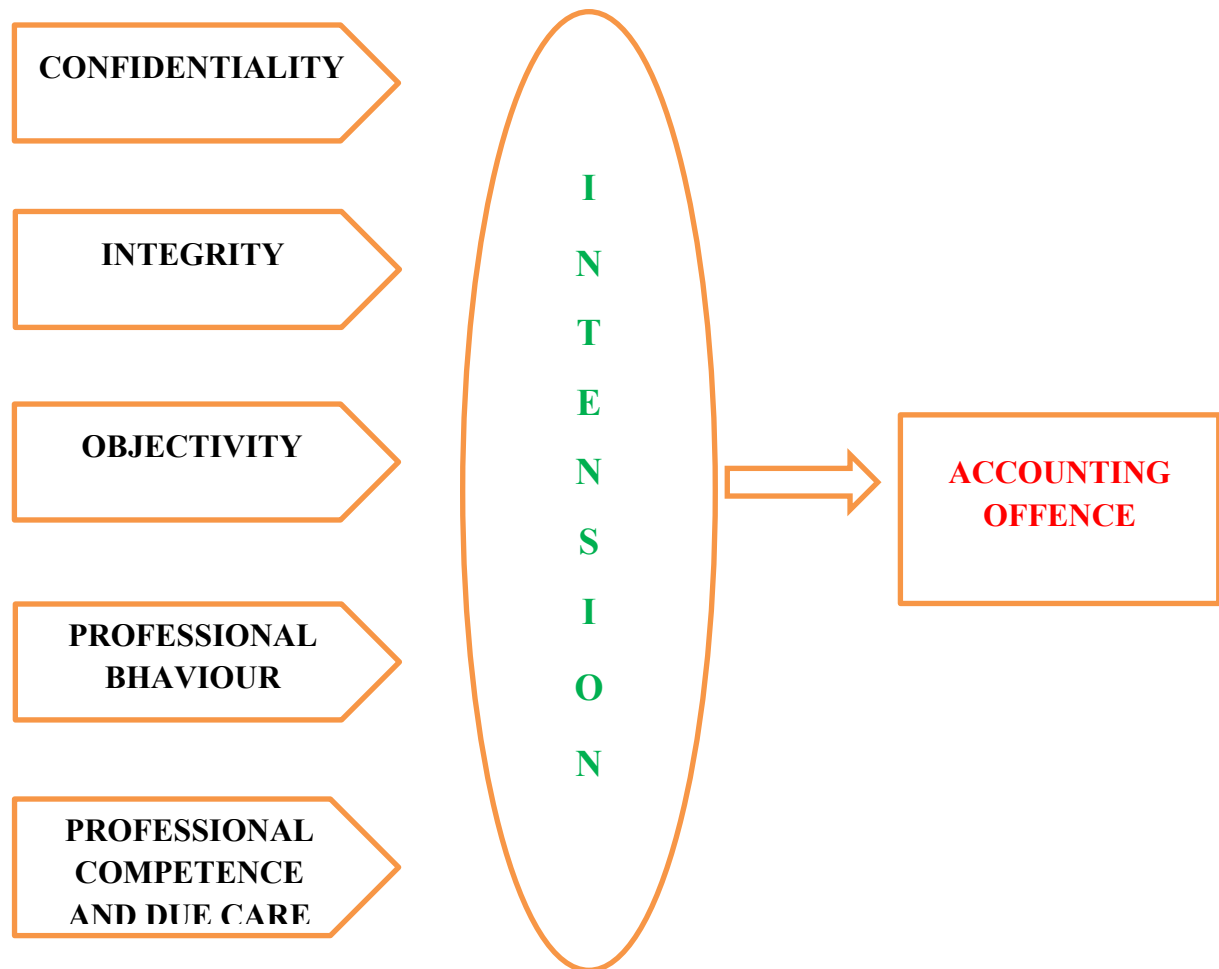
### THE CONCEPT OF ETHICS:

The word ethics is derived from the Greek word ethos which stands for character and Latin word moras which means customs. These two words define how individuals choose to interact with one another. Thus, ethics is about choices. It signifies how people act in order to make the right choice and produce good behavior. It encompasses the examination of principles, values and norms, the consideration of available choices to make the right decision and the strength of character to act in accordance with the decision. Hence, ethics, as a practical discipline, demands the acquisition of moral knowledge and the skills to properly apply such knowledge to the problems of daily life. Ethics refers to a system of moral principles-a sense of right and wrong and goodness and badness of actions and their motives and consequences. The definition of ethics is shaped by personal, societal and professional values, all of which are difficult to specify. Some stress the importance of society's interests and others stress the interests of the individual. These conflicting viewpoints have dominated the discussion of ethics for a long time. Decision making based on intuition or personal

feeling does not always lead to the right course of action. Therefore, ethical decision making requires a criterion to ensure good judgment.

### **ETHICS IN ACCOUNTING:**

For accounting professionals, it is extremely important to be ethical in their practices due to the very nature of their profession. The nature of accountants work puts them in a special position of trust in relation to their clients, employers and general public, who rely on their professional judgment and guidance in making decisions. These decisions in turn affect the resource allocation process of an economy. The accountants are relied upon because of their professional statues and ethical standards. Thus, the professional and ethical conduct is a key to maintaining confidence of clients and the public is professional and ethical conduct. Ensuring highest ethical standards is important to a public accountant (one who renders professional services such as assurance and taxation service to clients for a fee) as well as to an accountant in business (one who is employed in a private or public sector organization for a salary). Both public accountants and accountants in business are in a fiduciary relationship, former with the client and latter with the employer. In such a relationship, they have the responsibility to ensure that their duties are performed in conformity with the ethical values of honesty, integrity, objectivity, due care, confidentiality, and the commitment to the public interest before one's own. Thus, accountants, as professionals, are expected to maintain a level of ethical conduct that goes beyond society's laws. This has made the professional accounting bodies to develop a code of professional conduct, which sets rules or standards that define right from wrong to ensure that member's behavior complies with perceived public expectations of ethical standards. These rules have been developed based on the principles of professional conduct, which form the basis for professional ethics. However, in recent times accountants involved with large corporate scandals shows that they have not complied with the expected ethical standards. It is argued that accountants focus too much on technical issues and lack ethical sensitivity to recognize ethical dilemmas involved with their work, which would ultimately lead to making wrong decisions. Thus, accountants should be trained to be sensitive to identify the moral dimension of seemingly technical issues.



### IMPORTANCE OF ETHICS IN ACCOUNTING:

The nature of the work carried out by accountants requires a high level of ethics. Shareholders, potential shareholders, and other users of the financial statements rely heavily on the yearly financial statements of a company as they can use this information to make an informed decision about investment. They rely on the opinion of the accountants who prepared the statements, as well as the auditors that verified it, to present a true and fair view of the company. Knowledge of ethics can help accountants and auditors to overcome ethical issues, allowing for the right choice that, although it may not benefit the company, will benefit the public who relies on the accountant/auditor's reporting.

### RESEARCH METHODOLOGY:

The study was taken up to know the ethical behavior in Accounting and accountants. The study has used only on secondary sources. The sources of Secondary data have been collected from published sources like textbooks, journals, articles and various relevant websites.

### OBJECTIVES OF THE STUDY:

- To know the various ethical issues which are in Accounting.
- To give suggestions to prevent those ethical issues in accounting.

## ETHICAL ISSUES IN ACCOUNTING:

Accounting is the process through which any business keeps track of its financial activities by recording its Debits and Credits and balancing its accounts. Accounting is a system to present the financial position of a business and the results of its operations and cash flow. Accounting ethics has been deemed difficult to control as accountants and auditors must consider the interest of the public (which relies on the information gathered in audits) while ensuring that they remained employed by the company they are auditing. They must consider how to best apply Accounting Standards even when faced with issues that could cause a company to face a significant loss or even be discontinued. Due to several accounting scandals within the profession, critics of accountants have stated that when asked by a client “what does two plus two equal?” the accountant would be likely to respond “what would you like it to be?” This thought process along with other criticisms of the profession’s issues with conflict of interest, have led to various increased standards of professionalism while stressing ethics in the work environment. The role of accountants is critical to society. Accountants serve as financial reporters and intermediaries in the capital markets and owe their primary obligation to the public interest. The information they provide is crucial in aiding managers, investors and others in making critical economic decisions. Accordingly, ethical improprieties by accountants can be detrimental to society, resulting in distrust by the public and disruption of efficient capital market operations. “Every company in the country is fiddling its profits. Every set of published accounts is based on books which have been gently cooked or completely roasted. The figures which are fed twice a year to the investing public have all been changed in order to protect the guilty.” Ethical Issues in Accounting Underreporting Income: Under-reporting income in order to avoid taxes is an illegal practice. When people under report their incomes, the federal government loses tax revenue that could go towards social security, Medicare and other federal projects. Corporations are especially watched by auditors because of the large tax bills at stake each tax year. If caught under reporting, individuals and companies will be subject to penalties and, in extreme cases, criminal charges. Sometimes applies to public companies reporting lower revenues in a fiscal quarter than were actually recorded. If the company has already been reporting bad news and the stock is down, executives may try to take some revenue from the current quarter and push it into the next quarter. This way, the bad news can be “flushed out”, and the company can report an upside surprise in the coming quarter, potentially boosting the stock price. This practice is also illegal! The burden for public companies to succeed at high levels may place undue stress and pressure on accountants creating balance sheets and financial statements. The ethical issue for these accountants becomes maintaining true reporting of company assets, liabilities and profits without giving in to the pressure placed on them by management or corporate officers. Unethical accountants could easily alter company financial records and maneuver numbers to paint false pictures of company successes. This may lead to short-term prosperity, but altered financial records will ultimately spell the downfall of companies when the Securities and Exchange Commission discovers the fraud.

## **Falsifying Document:**

Falsification of Documents is to change details on the original document and try to pass them off as real. —Falsifying Document is a type of white collar crime. It involves altering, changing, or modifying a document for the purpose of deceiving another person. It can also involve the passing along of copies of documents that are known to be false. Some types of documents that are commonly falsified may include:

- Tax returns and income statements
- Personal checks
- Bank account records
- Business record keeping books

Many different types of acts can be considered as falsifying a document, including:

- Altering or misrepresenting factual information such as prices or monetary amounts
- Stating false information when requested to provide truthful statements
- Forging a signature
- Using official letterheads without authorization
- Concealing assets or property (especially in bankruptcy proceedings)

Creative accounting capitalizes on loopholes in the accounting standards to falsely portray a better image of the company. Although creative accounting practices are legal, the loopholes they exploit are often reformed to prevent such behaviors. A primary benefit of public accounting statements is that they allow investors to compare the financial health of competing companies. However, when firms indulge in creative accounting, they often distort the value of the information that their financials provide. Creative accounting can be used to manage earnings and to keep debt off the balance sheet.

## **PREVENTION:**

GAAP (generally accepted accounting principles) are the accounting rules used to prepare and standardize the reporting of financial statements, such as Balance sheets, Income statements and Cash Flow Statements, for publicly traded companies and many private companies in the United States. GAAP based income is measured so that the information provided on financial statements is useful to those making economic decisions about a company, such as potential investors and creditors and other stakeholders. Financial statements prepared under GAAP are intended to reflect an economic reality; GAAP makes a company's financials comparable and understandable so that investors, creditors and others can make rational investment, credit and other financial decisions. In order to be useful and helpful to users, GAAP requires information on financial statements to be relevant, reliable, comparable and consistent. GAAP is implemented through measurement principles and disclosure principles. Measurement principles recognize and determine the timing

and basis of items that enter the accounting cycle and impact the financial statements, such as the period in which transactions will be recorded. Disclosure principles determine what specific numbers and other information are essential to be presented in financial statements. As Per – Lele and Jawahar Lal in accounting theory, ethical issues can be prevented through the implementation of Accounting Standards. The accounting standards are originally framed for informality in the presentation of accounting statements. Through accounting standard the account are become uniform and comparable. The accounting standards provides the guidance for making the financial statements in the true and fair manner, it helps the accounting professionals to increase the credibility of financial statements as well as useful in determining the necessary Steps to be taken by the management for true, fair and reliable in the financial statement.

## **CONCLUSION:**

Ethics has become a most topical issue of concern in accounting at present owing to the series of corporate scandals that had taken place in the world affecting the credibility of the accounting profession. These scandals have placed in doubt the effectiveness of contemporary accounting, auditing and corporate governance practices, for which accountants are responsible. Thus, the ethical code of conduct is closely linked with the accounting profession. Hence, we can say that the ethics has become an essential part for accounting professionals.

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