

AN EMPIRICAL STUDY OF TEACHING ETHICS ON ACCOUNTANCY STUDENTS

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Abstract

Academic institutions employ varying methods and place varying levels of emphasis on ethics teaching during a business/accounting degree. This paper starts with introducing accounting ethics in education along with the meaning of ethics. It then signifies the importance of accounting ethics in education as well as business situation. Brief history about the ethics is mentioned as per various authors. Whether teaching ethics in accounting is important or not is justified in the following paragraphs. If the answer is positive who is responsible for teaching this ethics and at what level is covered then. What are the strategies applied by various professionals as per the literature review is mentioned then. Thus the paper covers various aspects related to teaching ethics in education, who will teach it and in what ways.

Key-Words – Ethics, Accounting, Education.

Introduction

The accounting curriculum in higher education has historically focused on teaching students technical skills such as how to perform accounting calculations, explanations of accounting rules and standards, and accounting theory. The role of ethics, values, and integrity in accounting has largely been ignored or thrust aside in this curriculum to focus on the technical elements of the discipline. The increasing visibility of accounting scandals during the past decade and the regulatory compliance response to these scandals through the Sarbanes-Oxley Act of 2002 and Securities and Exchange Commission oversight has raised the importance of ethics, values, and integrity in the accounting profession. In light of this emphasis and the focus of the Jesuit tradition on values, ethics, and integrity, there is a need to teach students how to apply ethics, values, and integrity to accounting decisions. This includes incorporating values and ethical behavior into accounting courses to show that a business decision is not just about the numbers.

Meaning

Accounting ethics is primarily a field of applied ethics, the study of moral values and judgments as they apply to accountancy. It is an example of professional ethics. Accounting ethics were first introduced by Luca Pacioli, and later expanded by government groups, professional organizations, and independent companies. Ethics are taught in accounting courses at higher education institutions as well as by companies training accountants and auditors.

Due to the diverse range of accounting services and recent corporate collapses, attention has been drawn to ethical standards accepted within the accounting profession. These collapses have resulted in a widespread disregard for the reputation of the accounting profession. To combat the criticism and prevent fraudulent accounting, various accounting organizations and governments have developed regulations and remedies for improved ethics among the accounting profession.

Importance of ethics

The nature of the work carried out by accountants and auditors 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 dilemmas, 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. Most countries have differing focuses on enforcing accounting laws. In Germany, accounting legislation is governed by "tax law"; in Sweden, by "accounting law"; and in the United Kingdom, by the "company law". In addition, countries have their own organizations which regulate accounting. For example, Sweden has the Bokföringsnämnden (BFN - Accounting Standards Board), Spain the Instituto de Comptabilidad y Auditoria de Cuentas (ICAC), and the United States the Financial Accounting Standards Board (FASB).

History

Luca Pacioli, the "Father of Accounting", wrote on accounting ethics in his first book *Summa de arithmetica, geometria, proportioni, et proportionalita*, published in 1494. Ethical standards have since then been developed through government groups, professional organizations, and independent companies. These various groups have led accountants to follow several codes of ethics to perform their duties in a professional work environment. Accountants must follow the code of ethics set out by the professional body of which they are a member. United States accounting societies such as the Association of Government Accountants, Institute of Internal Auditors, and the National Association of Accountants all have codes of ethics, and many accountants are members of one or more of these societies.

In 1887, the American Association of Public Accountants (AAPA) was created; it was the first step in developing professionalism in the United States accounting industry. By 1905, the AAPA's first ethical codes were formulated to educate its members. During its twentieth anniversary meeting in October 1907, ethics was a major topic of the conference among its members. As a result of discussions, a list of professional ethics was incorporated into the organization's bylaws. However, because membership to the organization was voluntary, the association could not require individuals to conform to the suggested behaviors. Other accounting organizations, such as the Illinois Institute of Accountants, also pursued discussion on the importance of ethics for the field. The AAPA was renamed several times throughout its history, before becoming the American Institute of Certified Public Accountants (AICPA) as its named today. The AICPA developed five divisions of ethical principles that its members should follow: "independence, integrity, and objectivity"; "competence and technical standards"; "responsibilities to clients"; "responsibilities to colleagues"; as well as "other responsibilities and practices". Each of these divisions provided guidelines on how a Certified Public Accountant (CPA) should act as a professional. Failure to comply with the guidelines could have caused an accountant to be barred from practicing. When developing the ethical principles, the AICPA also considered how the profession would be viewed by those outside of the accounting industry.

Teaching ethics

Universities began teaching business ethics in the 1980s. Courses on this subject have grown significantly in the last couple of decades. Teaching accountants about ethics can involve role playing, lectures, case studies, guest lectures, as well as other mediums. Recent studies indicate that nearly all

accounting textbooks touch on ethics in some way. In 1993, the first United States center that focused on the study of ethics in the accounting profession opened at State University of New York at Binghamton. Starting in 1999, several U.S. states began requiring ethics classes prior to taking the CPA exam.

In 1988, Stephen E. Loeb proposed that accounting ethics education should include seven goals (adapted from a list by Daniel Callahan). Which are as follows:- Seven goals of accounting ethics education

- ✓ Relate accounting education to moral issues.
- ✓ Recognize issues in accounting that have ethical implications.
- ✓ Develop "a sense of moral obligation" or responsibility.
- ✓ Develop the abilities needed to deal with ethical conflicts or dilemmas.
- ✓ Learn to deal with the uncertainties of the accounting profession.
- ✓ "Set the stage for" a change in ethical behavior.
- ✓ Appreciate and understand the history and composition of all aspects of accounting ethics and their relationship to the general field of ethics. —Stephen E. Loeb

To implement these goals, he pointed out that accounting ethics could be taught throughout accounting curriculum or in an individual class tailored to the subject. Requiring it be taught throughout the curriculum would necessitate all accounting teachers to have knowledge on the subject (which may require training). A single course has issues as to where to include the course in a student's education (for example, before preliminary accounting classes or near the end of a student's degree requirements), whether there is enough material to cover in a semester class, and whether most universities have room in a four-year curriculum for a single class on the subject.

There has been debate on whether ethics should be taught in a university setting. Supporters point out that ethics are important to the profession, and should be taught to accountants entering the field. In addition, the education would help to reinforce students' ethical values and inspire them to prevent others from making unethical decisions. Critics argue that an individual is ethical or not, and that teaching an ethics course would serve no purpose. Despite opposition, instruction on accounting ethics by universities and conferences, has been encouraged by professional organizations and accounting firms. The Accounting Education Change Commission (AECC) has called for students to "know and understand the ethics of the profession and be able to make value-based judgments."

Phillip G. Cattel argued that in order to uphold strong ethics, an accountant "must have a strong sense of values, the ability to reflect on a situation to determine the ethical implications, and a commitment to the well-being of others." Iris Stuart recommends an ethics model consisting of four steps: the accountant must recognize that an ethical dilemma is occurring; identify the parties that would be interested in the outcome of the dilemma; determine alternatives and evaluate its effect on each alternative on the interested parties; and then select the best alternative.

Major professional accounting organizations such as the American Institute of Certified Public Accountants (AICPA), Institute of Management Accountants (IMA), Institute of Internal Auditors (IIA) and International Federation of Accountants (IFAC) include ethics and values in their professional examinations by holding their members accountable to a professional code of ethics, and requiring continuing professional education requirements for their member (AICPA, 2009; IMA, 2010; IIA, 2010; IFAC, 2010). Since accounting students are professionally motivated to earn professional credentials, many accounting curriculums focus on these professional codes of conduct (Jennings, 2004). There are several statutory requirements in the United States requiring ethical behavior. The Sarbanes-Oxley Act of 2002 requires a Code of Ethics for senior executives in Section 406 (SOX, 2002). The US Federal

Sentencing Guidelines includes a provision that will lesson sentencing in corporate fraud cases in a company has a corporate code of ethics (www.ussc.gov, 2004). The 2004 revision to the guidelines tightened this provision requiring that the corporate codes of ethics be designed to ensure that it is effective. It also stipulated that ethics program must be designed with the objective of preventing and detecting fraud.

Higher education accreditation bodies include ethics in their standards. The Gold standard of business accreditation, the AACSB, requires the inclusion of ethical reasoning skills in a business program's core learning goals. Accounting accreditation standards require its member to include learning outcomes that address ethics for accountants with a focus on the profession's ethical standards (AACSB, 2009).

However, there are there are several opposing views about including ethics in the accounting curriculum. Breaux, Chiasson, Mauldin, and Whitney (2009) studied corporate accounting recruiters who focus on entry level accountants. The recruiters suggested that a better method for teaching ethics to entry level accountants is not in the college classroom, but through on the job training and CPE courses. In 2005, the National Association of State Boards of Accountancy (NASBA) attempted to mandate requiring the inclusion of three ethics focus in the coursework requirements for the CPA exam (www.NASBA.org, 2005): an ethics philosophy course, an accounting ethics course, and a capstone ethics course. Accounting academics led the lobby to defeat this initiative arguing that the requirement would be a burden on accounting programs' resources (Bean & Bernardi, 2005).

Who Should Teach Ethics

The research also addresses who should teach ethics in accounting courses. Massey and Van Hise (2009) discussed the advantages of using trained ethicists, but acknowledged the problem of limited resources and recommended that accounting faculty train and prepare for the role. Blanthorne, Lovar, and Fisher's (2007) research concluded that the accounting faculty was most suited to teach ethics in accounting classes. Massey and Van Hise (2009) and Blanthorne et al. (2007) also noted that accounting faculty was intimidated by the prospect to teach ethics in accounting courses because they felt unqualified. The literature widely agrees that including values and ethics in accounting curriculums and courses. Blanthorne et al.'s(2007). Research concluded that accounting faculty overwhelmingly agreed with integrating ethics in courses.

Strategies for Teaching Ethics

The literature also addresses strategies for teaching ethics in accounting courses including discrete and integrated courses. Fisher, Swanson, and Schmidt (2007) criticized academia's narrow focus on teaching professional codes of conduct and recommend that accounting academia mobilize their resources to identify teaching strategies. They believe that a drawback to the integrated course approach is that without an academic basis in ethics, students lack the knowledge and critical thinking skills to address ethical issues. They recommend that accounting programs offer a standalone ethics course at the beginning of an accounting program to deliver the message that ethics is an important topic in an accounting program (Fisher and Swanson, 2005a). Dellaportas (2006) also believes that a discrete course in ethics and accounting should be included in accounting programs.

Several researchers recommend specific teaching strategies to teach student ethics, the "how-to" teach ethics to accounting students. Frank, Ofobike, and Gradisher (2010) propose using disciplinary actions levied against accountants to show students the consequences of illegal activity. Jennings (2004)

identifies key cases (i.e., Worldcom and Enron) and other works that represent ethical failures of the previous decade that can be used in accounting classrooms to explore ethical dilemmas and how to resolve them.

The International Federation of Accountants (IFAC, 2006) Education Standards Board released a framework for international accounting education standards that includes a focus on ethics and values. The framework addresses conflict of interest, ethical threats, earnings management, ethical decision-making skills, and whistle blowing (web.ifac.org, 2006). Jennings (2004) believes that ethics courses should focus on moral absolutes that teach students to deal with tough choices. She says “ethics should focus on absolutes and the need for fortitude when pressure comes with its demand for flexibility and compromise” (2004, p. 18). She recommends using six cases studies to examine accounting fraud: Sunbeam, Enron, Worldcom, Tyco, Health South, and a survey of earnings management cases. She believes that analyzing cases that presents the ethical dilemmas faced by these companies’ shows the students how to deal with the dilemmas. Jennings also believes that it is important for students to develop skills such as leadership, independence, and a willingness to learn about the dilemma’s facts, skills that that will help them stand up to ethical dilemmas.

Conclusion

The expansion of business and management studies that accommodates the highest percentage of undergraduates within the higher education would appear to provide an opportunity to educate future managers about ethical issues.

Whether or not ethics should be taught in accounting classes. It also considers whether discrete courses or those that are integrated with ethical material are better approaches to teaching accounting students ethics. Despite legislation to address corporate governance such as Sarbanes-Oxley, it is troubling that corporate scandals and frauds continue to occur. Consequently, accounting faculty are obligated to prepare their students to be able to cope with a business environment that faces ethical challenges and dilemmas. Ethics should be taught in accounting courses because of the scandals of the past decade and to prepare the students to be able to make ethical choices in business situations discrete accounting ethics courses or the integrated course approaches. Budget constraints and lack of trained ethicists are handicaps against creating discrete courses. Also, accounting professors’ apprehension toward teaching ethics are barriers to including ethics in accounting courses.

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