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A Conceptual Analysis on "Ethical Dilemma" in Accounting Application

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Abstract

The article deals with critics in application of Accounting Concepts and Standards in business organisations concerned with ethical issues like honesty, accuracy, transparency etc. In practice, the accounting profession is directly connected with ethics, policy breakdown, misstatement in annual reports and no proper code of conduct which tells an accountant how to act in an ethical manner. Ethical dilemmas are extemporaneous, and to draw a conclusion, guidance and support of professional associations combined with thoughtful analysis is required. This paper emphasizes on ethical dilemma or better says a manipulation in business management practices in respect of accounting malpractices or financial adjustments.

Keywords: *Standards; Ethical Dilemma; Extemporaneous; Malpractices*

1. Introduction

"Ethical Dilemma", the term comprises of two terms i.e., Ethics which means what is right and what is wrong for a conduct or behaviour and the other is Dilemma, which refers to the situation where one has to make a choice among different options. An ethical dilemma is a difficult circumstance which stimulates an intellectual conflict between moral imperatives, where to follow one would result in transgressing another. Many a times popularly called ethical paradoxes in human philosophy, ethical dilemmas are mostly provoked in a chance to refute an ethical organisation or moral code of conduct, or to enhance it so as to simplify the paradox. A dilemma is a crisis covering two possibilities, neither of which has a preferential right. This situation has been fundamentally highlighted as "being on the horns of a dilemma", none of them being comfortable. Sometimes more brightly, this is described as "Finding oneself impaled upon the horns of a dilemma", referring to the sharp points of a bull's horns, equally uncomfortable (and dangerous) [1-3].

The usefulness of Dilemma is treated as a rhetorical device, in the way where "one must accept either P, or Q"; here P and Q would be hypothesis each following to some further interpretation. When implemented in a wrong way, it comprises a false dichotomy.

Accounting ethics is primarily a field of applied ethics. Accounting ethics is a part and parcel of business ethics and human ethics is the study of moral values and judgments as they apply to accountancy.

"Accountants and the accountancy profession is itself a public service; the differentiation of which bifurcate a profession from a mere source of livelihood is that the profession is to be justified on the grounds of the public interest, and deliver more than the compensation received from the clients" [4-8]. Due to the varied range of accounting functions and recent corporate malfunctioning, attention has been drawn to ethical standards adopted within the internal control system. These collapses have resulted in a widespread disregard for the reputation of the accounting profession. To cover up the criticism and safeguard from frauds in accounting, various regulations and remedies have developed by the accounting organizations and governments for improvement in ethical norms among the accounting profession.

2. Significance of Ethics

The functions and behaviour carried out by accountants and auditors requires a high level of ethics. All the stakeholders and other users of the financial statements depend on the annual financial statements of the company. They manage to utilize this information for their decision making about the investment. They rely on the opinion of the accountants who prepared the statements, as well as the auditors who 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 [9-13].

3. Accounting Scandals

It is difficult to control the mechanism of accounting ethics as auditors and accountants must give privilege to the interest of the public while ensuring that they remained employed by the company in which they are appointed as auditor. They should know, what is the best way to apply accounting standards even in the situation of crisis that could cause a company to face a significant loss or even be discontinued looking at the various 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?" [14-16]. This perception along with other loopholes of the profession's issues with dilemma of interest, have provoked to various improved ethical norms of professionalism while emphasizing on the ethics in the work environment.

The role of accountants is very important for the social and national dignity. The Auditors and Accountants act as financial intermediaries in the stock markets and have their primary accountability 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. After a good research only people choose a doctor, or a lawyer, or a certified public accountant, on which they can trust to do a good job.

4. Causes

Accounting scandals can arise from a variety of reasons. The unethical accounting matters usually come to light eventually and could harm the company as well as the auditors for not discovering or revealing the false statements. Many of the researchers and studies have suggested that a company's corporate culture, as well as the values it follows, may negatively affect an accountant's behaviour. In this type of working environment, the ethical values degrade that were learned by the accountants and auditors from universities. Accounting firms became less interested in the lower-paying audits due to more focus on higher learning services such as consulting, problems arose. This disregard that very few time spent on verification of invoices and auditing led to lack of attention to discover fraudulent accounting.

A 2007 article in Managerial Auditing Journal determined the top nine factors that contributed to ethical failures for accountants based on a survey of 66 members of the International Federation of Accountants. The factors include (in order of most significant): “self-interest, failure to maintain objectivity and independence, inappropriate professional judgment, lack of ethical sensitivity, improper leadership and ill-culture, failure to withstand advocacy threats, lack of competence, lack of organizational and peer support, and lack of professional body support.” For example, if an auditor has an issue with an account he/she is auditing but is receiving financial incentives to ignore these issues, the auditor may act unethically [17-21].

5. Principles and rules

The International Financial Reporting Standards (IFRS) are standards and interpretations developed by the International Accounting Standards Board, which is principle-based. IFRS are used by over 115 countries or areas including the European Union, Australia, and Hong Kong. The United States Generally Accepted Accounting Principles (GAAP), the standard framework of guidelines for financial accounting, is largely rule-based. As per the critics, United States has suffered the number of scandals due to the loopholes in the rules-based GAAP. The principles-based approach to monitoring requires more professional judgment than the rules-based approach [22].

Many of the stakeholders in developed and developing countries such as the USA, who claims several issues in the usage of rules-based accounting. As per recent studies, many believe that the principles-based approach in financial reporting would enhance and support an auditor in dealing with his accountability, so that the annual reports could be justified with fairness and transparency. When U.S. switched to International accounting standards, they are composed that this would positively alter the scenario. Also, as a new chairperson of the SEC takes over the system, the transition brings a stronger review about the pros and cons of rule-based accounting [23-26]. While the moving towards international standards progresses, there are small amount of research that examines the effect of principle-based standards in an auditor’s decision-making process. According to 114 auditing experts, most are willing to allow clients to manage their net income based on rules-based standards. These results offer insight to the SEC, IASB, and FASB in weighing the arguments in the debate of principles vs. rules based accounting. IFRS is based on "understandability, relevance, materiality, reliability, and comparability”. Since IFRS has not been adopted by all countries, these practices do not make the international standards viable in the world domain. In particular, the United States has not yet and still uses GAAP which makes comparing principles and rules difficult. In August 2008, the Securities and

Exchange Commission (SEC) proposed that the United States switch from GAAP to IFRS, starting in 2014.

6. Responses to scandals

To overcome and to get a lead on big accounting scandals advanced standards, reforms and regulations. Demand for increased higher education has been introduced in the field of accounting ethics to prevent the dangers of unethical behavior. The conceptual training to accountants on ethics before entering the workforce, such as through higher education or initial training at companies, it is believed that it will improve the credibility and worth of this profession. Companies and accounting organizations have developed proposals and contracts with academicians for providing study materials to assist professors in educating students.

Advanced and updated legal response to the scandals includes the Corporate Law Economic Reform Program Act 2004 in Australia as well as the Sarbanes-Oxley Act of 2002, developed by the United States. Sarbanes-Oxley limits the level of work which can be carried out by accounting firms. In addition, the Act put a limit on the fee which a firm can receive from one client as a percentage of their total fees. This ensures that companies are not wholly reliant on one firm for its income, in the hope that they do not need to act unethically to keep a steady income. The Act also protects whistleblowers and requires senior management in public companies to sign off on the accuracy of its company's accounting records. In 2002, the five members of the Public Oversight Board (POB), who went through the ethics within the accounting profession, resigned after critics stated the board ineffective and the SEC proposed developing a new panel, the Public Company Accounting Oversight Board (PCAOB). The PCAOB thus substituted the POB [27-31].

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