

# Ethical Issues in Accounting

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## ARTICLE DETAILS

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## ABSTRACT

The word 'ethics' is derived from the Latin word 'ethicus' and the Greek word 'ethiko' meaning character or manners. This meaning can also be extending to imply systematizing, defending and recommending concepts of right and wrong behavior. Ethics is thus said to be the science of moral, moral principle and recognized rules of conduct.

Most business encounters two types of ethical problems known as overt and covert with bribery, theft, collusion etc. They are clear (Transparent) and reprehensible. Where as covert ethical situations occur in corporate acquisitions, marketing and personnel policies, capital investment etc.

Ethics, also known as moral philosophy, is a branch of philosophy that involves systematizing, defending, and recommending concepts of right and wrong behavior. Corporate governance is concerned with the way in which corporate entities are governed. As distinct from the way in which businesses within those companies are managed.

## 1. Introduction

- Accounting provides a system of rules and principles in the system of an organization. Accounting can provide a position of a business. The ethical issues surrounding accounting practices are under reporting income, falsifying documents, allowing or taking questionable deductions, illegally evading income taxes and engaging in fraud. The limited liability company has increased the role of accountants during the industrial revolution.
- The large number of new investors who had no knowledge or influence on the day-to-day management of the companies in which they had

invested needed help from accountants. Accounting profession gradually built up a consensus on how business transactions were to be presented.

- This helped to avoid inconsistencies between the financial statements of different companies. There is a distinction between an accountant who works for a company and an independent certified public accountant who may be hired by a company as outside counsel.

## 2. Difference Between Corporate Governance Corporate Management:

Corporate Governance	Corporate Management
External focus.	Internal focus.
Governance assumes an open system	Management assumes a closed system
Strategy-oriented	Task-oriented
Concerned with where the company going	Concerned with getting the company there

## 3. Goal of a theory of ethics

- The goal of a theory of ethics is to determine what is good, both for the individual and for the society as a whole. Philosophers have taken different positions in defining what is good, on how to deal with conflicting priorities of individuals versus the whole, over the universality of ethical principles versus "situation ethics" in which what is right depends upon the circumstances rather than on some general law, and over whether goodness is determined by the results of the action or the means by which results are achieved.

## 4. Ethical issues relate to all functional areas

- Accounting
- Finance
- Management
- Marketing

## 5. Relationship between Business and Ethics

- The relationship between business and ethics is intrinsically entwined. A successful company is one which can effectively recognize and cultivate the relationship which exists between the two. Businesses that exhibit and promote strong corporate codes of ethics are more prosperous in the long run because

they show a commitment to an expectation of sound moral behavior. This demonstrates a dedication to society, customers, employees and the business itself. It also enhances a company's reputation if they become commonly known as an ethical company, and this brings more value to the organization.

## 6. Ethical Issues In Accountant

- Accounting is defined as "The process by which any business keeps track of its financial activities by recording its debits and credits and balancing its accounts"
- Accounting provides a system of rules and principle and practices in the system of an organization ,accounting can provide a position of a business .the ethical issues surrounding accounting practices are under reporting income ,Falsifying documents, allowing or taking questionable deductions, illegally evading income taxes and engaging in fraud.
- The limited liability company has increased the role of accountants during the industrial revolution .The large number of new investors who had no knowledge or influence on the day-to-day management of the companies in which they had invested needed help from accountants.
- Accounting profession gradually built up a consensus on how business transactions were to be presented. This helped to avoid inconsistencies between the financial statements of different companies .There is a distinction between an accountant who works for a employee to that company and an independent certified public accountant who may be hired by a company as outside counsel. The role of an out said counsel is to perform an audit for the public, the shareholders and the government .This audit is independent in nature and enjoys the confidence of the public.

## 7. Accountants employed by an organization

These are the accountants who take care of the internal management accounts. They look in to the operations of internal accounts of various department and make a record of the financial activities. They can be divided in to two broad categories.

- The Management Accountant
- The Financial Accountant

## 8. Accountant in professional practice

- Accountants have to present an accurate picture of the company's performance to the shareholders. Accounting services in professional practice can be dividend in two broad areas:
  - The Auditor
  - Related services.

## 9. Standards for ethical conduct

### Competence

- Maintain an appropriate level of professional competence by ongoing development of their knowledge and skills.

- Perform their professional duties in accordance with relevant laws, regulations, and technical standards. Prepare complete and clear reports and recommendations after appropriate analyses of relevant and reliable information.

### Confidentiality

- Refrain from disclosing confidential information acquired in the course of their works except when authorized, unless legally obligated to do so.
- Inform subordinates as appropriate regarding the confidentiality of information acquired in the course of their work and monitor their activities to assure the maintenance of that confidentiality.
- Refrain from using or appearing to use confidential information acquired in the course of their work for unethical or illegal advantage either personally or through third parties.

### Integrity:

- Avoid actual or apparent conflicts of interest and advise all appropriate parties of any potential conflict. Refrain from engaging in any activity that would prejudices their ability to carry out their duties ethically. Refuse any gift, favor or hospitality that would influence or would appear to influence their actions.
- Recognize and communicate professional limitations or other constraints that would preclude responsible judgment or successful performance of an activity.

## 10. Ethical issues in information technology:

- Identifying the ethical issues that grow out of the use of IT, facing them and providing ethical guideline is the major challenge for the businesses. The security of internet transactions, the delivery of goods ordered over them and return of goods with which the costumer are dissatisfied all raise ethical issues that need to be examined.
- The pirating of software, music, books and anything that can be put in digital form is symptomatic of a growing nest of problem.
- The need for safeguards against industrial and national information espionage and sabotage are profound and pressing. The rapid development information and communication technologies over the past decade have revolutionized business practices.

## 11. Conclusion:

- Most business encounter two types of ethical problems known as overt and covert with bribery, theft, collusion etc.
- They are clear (Transparent) and reprehensible.
- Whereas covert ethical situations occur in corporate acquisitions, marketing and personnel policies, capital investment etc.
- They are complex clear and have deft ethical solutions.

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