

## ROLE OF ETHICAL ISSUES IN ACCOUNTING

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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 this said to be the science of moral, moral principle and recognized rules of conduct. 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. 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.

### INTRODUCTION:

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 this said to be the science of moral, moral principle and recognized rules of conduct.

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.

An ideal ethical decision comprises of following virtues.

- Right – Morally correct
- Equitable - Just and equal
- Good - Highest good for concerned
- Fair – Honesty
- Just – Action

The question arises what is the basic relationship between business and ethics. As people are under the notion that business and ethics are incompatible, it is not easy to establish a relationship.

Classical thinkers like “Adam Smith” were of the opinion that the objective of any business was to generate profit only, ethics while other thinkers expressed that neither the business was an extension of morality and ethics, nor can business keep it self-faraway from practices of the society where it exists and operator.

### OVERVIEW

Business ethics reflects the philosophy of business, one of whose aims is to determine the fundamental purposes of a company. If a company's purpose is to maximize shareholder returns, then sacrificing profits to other concerns is a violation of its fiduciary responsibility. Corporate entities are legally considered as persons in USA and in most nations. The 'corporate persons' are legally entitled to the rights and liabilities due to citizens as persons.

Economist Milton Friedman writes that corporate executives' "responsibility... generally will be to make as much money as possible while conforming to their basic rules of the society, both those embodied in law and those embodied in ethical custom". Friedman also said, "the only entities who can have responsibilities are individuals ... A business cannot have responsibilities. So the question is, do corporate executives, provided they stay within the law, have responsibilities in their business activities other than to make as much money for their stockholders as possible? And my answer to that is, no, they do not. A multi-country 2011 survey found support for this view among the "informed public" ranging from 30-80%. Duska views Friedman's argument as consequentiality rather than pragmatic, implying that unrestrained corporate freedom would benefit the most in long term. Similarly, author business consultant Peter Drucker observed, "There is neither a separate ethics of business nor is one needed", implying that standards of personal ethics cover all business situations. However, Peter Ducker in another instance observed that the ultimate responsibility of company directors is not to harm. Another view of business is that it must exhibit corporate social responsibility (CSR): an umbrella term indicating that an ethical business must.

#### **Corporate Governance Issues:**

- The growth of private companies
- The magnitude and complexity of corporate groups.
- The importance of institutional investors.
- Rise in hostile activities of predator
- Insider trading.
- Litigations against directors.
- Need for restructuring of boards.
- Changes in auditing practices.

#### **Types of Business Ethics:**

1. Transactional ethics
2. Participatory ethics
3. Recognition ethics

#### **Ethical Issues in Accountant:**

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.

**Difference between Corporate Governance Corporate Management:**

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

**Objective of Corporate Governance:**

- The board of a company should have an optimum combination of executive and non-executive directors, with half of the board comprising the non – executive director.
- The chairman’s rules in principle should be different from that of the CEO.
- The board should set up a qualified and independent audit committee.
- The board should set up a remuneration committee to determine the policy specific remuneration-packages for executive directors.

**WHAT IS ETHICS?**

Ethics, also known as moral philosophy, is a branch of philosophy that involves systematizing, defending, and recommending concepts of right and wrong behavior

Meaning of Ethics: - Ethics is the branch of philosophy that focuses on morality and the way in which moral principles are applied to everyday life. Ethics has to do with fundamental questions such as “What is fair?” “What is just?” “What is the right thing to do in this situation?” Ethics involves an active process of applying values, which may range from religious principles to customs and traditions.

**WHAT IS BUSINESS ETHICS?**

Business ethics (also corporate ethics) is a form of applied ethics or professional ethics that examines ethical principles and moral or ethical problems that arise in a business environment. It applies to all aspects of business conduct and is relevant to the conduct of individuals and entire organizations

## DEFINITION OF BUSINESS ETHICS

Business Ethics refers to carrying business as per self- acknowledged moral standards. It is actually a structure of moral principles and code of conduct applicable to a business. Business ethics are applicable not only to the manner the business relates to a customer but also to the society at large. It is the worth of right and wrong things from business point of view.

Business ethics not only talk about the code of conduct at workplace but also with the clients and associates. Companies which present factual information respect everyone and thoroughly adhere to the rules and regulations are renowned for high ethical standards. Business ethics implies conducting business in a manner beneficial to the societal as well as business interests.

## MEANING OF BUSINESS ETHICS?

Business ethical norms reflect the norms of each historical period. As time passes norms evolve, causing accepted behaviors to become objectionable. Business ethics and the resulting behavior evolved as well. Business was involved in slavery, colonialism, and the coldwar.

The term 'business ethics came into common use in the United States in the early 1970s. By the mid-1980s at least 500 courses in business ethics reached 40,000 students, using some twenty textbooks and at least ten casebooks along supported by professional societies, centers and journals of business ethics.

## TYPES OF BUSINESS ETHICS

1. Transactionalethics
2. Participatoryethics
3. Recongnitionalethics

## 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 resultsarea Achieved.

Ethical Issues Relate to all Functional Areas

- Accounting
- Finance
- Management
- Marketing

## 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

### **Ethical Issues in Accountant:**

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### **ROLE OF ACCOUNTANT:**

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. The role of an outside 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.

### **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

### **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 divided in two broad areas:

- 1) The Auditor
- 2) Related services

### **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 prejudice 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.

### **Objectivity:**

Communicate information fairly and objectively.

Disclose fully all –relevant information that could reasonably be expected to influence an intended user’s understanding of the reports, comments and recommendations presented.

### **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 customer 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.

### **LEGAL FRAMEWORK FOR THE AUTHENTICATION OF ELECTRONIC RECORDS/COMMUNICATIONS:**

- From the perspective of e-commerce in Indian, the IT ACT-2000 and its provisions contain many positive aspects. First the implications of these provisions for the e-businesses would be that email would now be a valid and legal form of communications in our country that can be duly produced and approved in a court of law.
- Companies shall now be able to carry out electronic commerce using the legal infrastructure provided by the Act.
- Digital signatures have been given legal validity and sanction in the Act.
- The Act throws open the door for the entry of corporate companies in the business of being certifying authorities for issuing digital signature certificates.
- The Act now allows government to issue notification on the web thus heralding e-governance.

### **CORPORATE GOVERNANCE:**

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.

### **ISSUES IN CORPORATE GOVERNANCE:**

Corporate governance practices are a set of structural arrangements that are emerging in free-market economics to align the management of companies with the interest of their shareholders and other stakeholders and society at large.

- Ethical issues
- Efficiency issues
- Accountability issues

The growing scale of corporations and their style of functioning have raised many new issues that must be addressed by corporate governance some of these issues are.

- The growth of private companies
- The magnitude and complexity of corporate groups.
- The importance of institutional investors.
- Rise in hostile activities of predator
- Insider trading.
- Litigations against directors.
- Need for restructuring of boards.
- Changes in auditing practices.

### **DEFINITION OF CORPORATE GOVERNANCE:**

“Corporate governance is the system by which business corporations are directed and controlled the business corporate governance structure specifies among different participants I the corporation, such as the board managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate afire. By doing that is also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance, OECDAPRIL1999

**DIFFERENCE:**

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**THE FUNDAMENTAL OBJECTIVE OF CORPORATE GOVERNANCE:**

- The fundamental objective of corporate governance is the “Enhancement of long –term shareholders value while at the same time, protecting the interests of other stakeholder.”
- The board of a company should have an optimum combination of executive and non-executive directors, with half of the board comprising the non –executive director.
- The chairman’s rules in principle should be different from that of the CEO.
- The board should set up a qualified and independent audit committee.
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**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.

Ethical Issues Relate to all Functional Areas:

- Accounting
- Finance
- Management
- Marketing

Standard for ethical conduct:

- Competence
- Confidentiality
- Integrity
- objectivity

Corporate governance some of these issues are:

- The growth of private companies



- The magnitude and complexity of corporate groups.
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