

4.6: Accounting ethics

Learning Objectives

At the end of this section, students should be able to meet the following objectives

- Identify the basis on which accounting ethics are built
- Explain the principles guiding the AICPA Code of Professional Conduct
- Analyze business situations in light of ethical principles

Question: Doesn't trusting the accounting information come down to trusting accountants? Can we count on the external auditors and internal accountants to be professional and thorough with the information they report?

While no group or profession is without flaw, the accounting profession has worked to establish the expectations for those in this important role. Ethics is usually defined as the moral principles that guide a person's behavior – how they decide what is right and what is wrong. So accounting ethics would be those principles that guide accountants in their role in communicating financial information. In the video link below, the Markkula Center for Applied Ethics at Santa Clara University outlines a straight forward framework for making ethical decisions.



As reviewed in the video, there are five questions you could ask when evaluating accounting decisions that reflect different ethical approaches. They are:

- Which option will produce the most good and do the least harm? (The Utilitarian Approach)
- Which option best respects the rights of all who have a stake? (The Rights Approach)
- Which option treats people equally or proportionately? (The Justice Approach)
- Which option best serves the community as a whole, not just some members? (The Common Good Approach)
- Which option leads me to act as the sort of person I want to be? (The Virtue Approach)

The accounting profession has for the most part adopted the Virtue Approach. Virtue ethics is a philosophy developed by Aristotle and other ancient Greeks. It is the quest to understand and live a life of moral character.

This character-based approach to morality assumes that we acquire virtue through practice. By practicing being honest, brave, just, generous, and so on, a person develops an honorable and moral character. According to Aristotle, by honing virtuous habits, people will likely make the right choice when faced with ethical challenges. As you will see below in the AICPA Code of Professional Conduct, the accounting profession has committed to principles that build the virtue of trust in the financial information – fundamentally can you be a professional that can be trusted.

The AICPA Code of Professional Conduct can be found here. <https://pub.aicpa.org/codeofconduct/Ethics.aspx#>



A quick review of the principles of the AICPA Code of Professional Conduct can be seen <https://youtu.be/UMmNwH25peM>



Question: But is knowing what is right in your mind or based on who you want to be enough? Why do some accountants do things they know are wrong?

Inevitably, all of us are human and make mistakes – even accounting professionals. This means we act contrary to what we believe is right under the code of ethical principles we have adopted. Note that in the framework for making ethical decisions above, an important step is to reflect on our decisions including where we may have not lived up to our ethical values so that we can improve. Learning from our mistakes is a critical part of being an ethical professional. But maybe there is reflection that we can use to anticipate ethical decisions and plan our response that will make it more likely to act according to what we believe is true. This is referred to as Giving Voice to Values by Mary Gentile currently at the University of Virginia. An introduction to this practice is linked to below:



<https://ethicsunwrapped.utexas.edu/video/introduction-to-giving-voice-to-values>

Key Takeaways

The financial system relies on information provided by businesses to investors that can be trusted. This information is prepared, reported and audited by accounting professionals and thus the integrity of those accounting professionals is key to building that trust. Accountants have agreed on some ethical principles that help them discern what is right and what is wrong but individually they each need to stand up for those principles in a practical way even when pressure or human nature may lead them to do otherwise.

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