

## Ethics in Accounting

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### Abstract

Accounting is the main index for the economy of many countries in a way that no economic activity is possible without reliance on it. Distinct feature of accounting is accepting responsibility towards people. Society has many expectations from accountants and people should trust the quality of offered services by them. Thus, their information should be real, reliable, honest, and unbiased. This study uses library method for gathering information about professional ethos and ethics of accounting. The results show that not only accountants should be qualified vocationally but also they should have high degree of honesty and rectitude in their jobs. Thus, professional future of accounting depends on ethical leadership of professional accountants.

**Keywords:** Professional ethos, professional ethics, accounting ethics

## 1. Introduction

Accounting is a valuable knowledge and an index for countries' economy. No economic activity is possible without reliance on accounting. Accounting deals with the information about financial status, performance and profitability of economic enterprises. This knowledge is the basis of financial and monetary systems, playing a key role in creating responsiveness and clarification in economics. High amounts of frauds in which accountants and auditors have been involved lead to ambiguities and questions about honesty and rectitude of professional accountants [1].

Job owners drive economic cycles. Thus, gaining their trust in using accounting is the duty of all accountants to guaranty future of accounting. In the conditions that accounting profession has not gained a position in Iran and among government officials, distrust increase towards accountants for any reason plays a destructive role in constant development of this profession [5].

## 2. Research significance

Distinct feature of accounting is accepting responsibility towards people. Society expects many things from this profession. Users should trust in offered services' quality by accountants. But this trust continues till professional accountants offer their services at a level which deserves public trust. Thus, accounting services should be offered at the highest levels, considering the rules that warranty consistency of these services with proper quality [7]. Users expect offered information in financial statements to be considerably efficient, real, and honest. Thus, not only accountants should be qualified vocationally but also they should have high degree of honesty and rectitude in their jobs [7].

## 3. Research goals

This study aims to follow these goals:

- 1- Investigating primary concepts of ethics
- 2- Investigating necessity of considering ethics in accounting

## 4. Accounting profession

Accounting is a science that collects, classifies, summarizes, and represents financial and economic information of a business unit and gives them to the users for decision-making. Every profession has features as follows: - Existence of minimum predetermined conditions for entering a job such as necessary technical skills that are achieved through education and experience - Commitment of members to a set of principals, rules, and values Since accounting has the above features, it is considered a profession and for being professional, an accountant should be loyal to meet needs and interests of customers [4].

## 5. Definition of ethics

Ethics can be defined as a branch of philosophy, regarding values according to human behavior in relation with goodness or badness, wills, or consequences of actions. In a wide definition, ethics is a set of principles or moral values.

Every human has a set of values that considers them as correct in some cases or ignores them in other occasions [6].

Ethics in accounting was posed after collapse of Enron in 2001. It was one of the biggest scandals of the recent century that became the origin of big reformations in corporate governorship across the world, affecting accounting and auditing deeply. Examining collapse of Enron reveals important points one of which was weakness of internal controls and financial reporting as a result of inter-organizational moral descension in accountants and auditors [2]. Inter-organizational moral problems of Enron refer to corporate officials promulgating a specific cultural and moral atmosphere with their weak personalities and improper ethic standards in a way that hiding, law breaking, and fraud became common there. In some cases, top managers created motivations based on which the company searched for its own interests at the expense of violating moral standards and strategic goals of the company [2].

## **6. Principals of ethics in accounting**

Necessity of reaching accounting goals by accountants requires commitment to a set of principles. All auditing organizations in Iran or other places have defined the following principals.

### **6.1 Honesty**

Accountant should be honest at his job. Only in that way, he can help his profession. Simply put, if this principle doesn't hold, the other principles will not exist. Necessity of fulfilling other principles is honesty. It means that the man believes that God sees him all the time and he should do well in every situation.

### **6.2 Objectivity**

A registered accountant should be objective. He should not allow prejudgment, bias, interest conflict, or others' penetration hurt his objectivity in offering professional service [4].

### **6.3 Professional qualification and care**

A professional accountant should accept services that can afford and use cooperation or consultation of others. A professional accountant needs to promote his professional knowledge and skills for revolving new techniques and methods or adaptation of rules in a way that his employer makes sure of getting efficient professional services [4].

### **6.4 Secrecy**

A professional accountant should pay attention to information confidentiality he gets during offering professional services. He should not disclose or use that information without permission of his employer; unless there are legal or professional rights or requirements for that [4].

### **6.5 Professional behavior**

A professional accountant should behave in a way that it consists with his reputation; he also

should avoid actions which stigmatize his name or professional credit [4].

## **6.6 Professional standards**

A professional accountant should offer professional services based on professional standards. Service offer must meet the requirements of employer skillfully and precisely and simultaneously accords with necessities of honesty, objectivity, and professional independence [4].

## **7. Ethical accounting problems**

Focus of business units on maximizing profit, confronting with competitive challenges and emphasis on short-term results have all put accountants in an environment full of contrasts and pressures, leading to unethical consequences for them. Huge companies invoke to accounting frauds for reporting more profits or deceiving investors. Firms such as Enron, Taiko, and Word Com are good examples of ethical accounting problems. In these companies, ethics was ignored. Their justification was that the goal is wealth maximization for stockholders even at the expense of victimizing ethics. In their ideas, greed in business was a desirable thing and they recognized it as a cause of more activity or profit gain in people [4].

## **8. Government role**

Government interfere, using powerful punishment tools is an effective solution for the people who act against ethical standards. For example, in 2001, when accounting profession was attacked by financial scandal of Enron, American government took some corrective measures for punishing unethical behavior of them [4].

## **9. Professional committees**

Government's duty is general formulation of laws and law-breakers' punishment. But, professional committees are the ones who play more important roles in gaining and keeping good professional reputation by providing professional ethos and predicting executive warranties for these standards in directories of professional foundations. Default in considering professional ethos and inability of professional accountants in justifying any diversion from these standards may be regarded professional trespass, accompanying legal repercussions by vocational committees for disobeyers.

## **10. Conclusion**

Based on Koran's concepts, man is God's surrogate on the earth who holds God's trust. God offered this trust to heavens, land, and mountains; but, they feared and rejected it. Responsibility of it was so heavy that they refused. Now, humans should know that they have important responsibilities not only for spiritual issues but also for social, business, and contractual matters. This responsiveness is the main goal of accounting. How can it be fulfilled? The answer is clear: By ethics. We need to make newcomers acquainted with ethics of accounting first and then, train them professionally. If we train them with the best formulas or books, all will be useless without producing an ethical person. Teachers should mention that real character of each person lies in his ethics and a top accountant is the one who has

professional ethics. Many scholars believe that growth of human society does not depend only on material or scientific progresses but it relies heavily on ethical improvements. We witnessed what happened when being unethical for Enron.

We conclude with a statement of Martin Looter, a German scholar: "Happiness of the countries doesn't depend on their income or castles' resistance; and not on the glory of their buildings; instead, it rests on the number of educated, virtuous, and scholar men they train."

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