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# ANSWERS TO CHAPTER REVIEW QUESTIONS

**CHAPTER ONE**

1. As a principles-oriented and rule-driven enterprise, that ought to communicate high quality financial information to stakeholders, accounting practice calls for truth-telling and integrity in disclosure—in all accounting tasks. Business scandals and public concerns about accounting/auditing failures call into question accountants’ motives and commitment to meet professional responsibilities. In light of the pressures and temptations that abound within the contemporary business environment, questions arise about accountants’ skills and character and a significant debate focuses on how best to encourage honesty and competence in financial reporting.
2. An accounting student must learn how to achieve the fundamental principle of producing and communicating high quality financial information. This includes learning principles and rules and gaining practical experience in accounting decision-making. Such education affirms the high ideals of the profession and supports the values of truth-telling and integrity as well as the importance of following the technical standards of accounting practice. Such training assumes that accountants face temptations to “bend the rules” and encounter obstacles to the fulfillment of their professional duties.
3. Technical proficiency has to do with learning the basic vocabulary and decision-making skills of accounting. It presupposes knowledge of accounting standards—the principles and rules that guide decision-making. This knowledge is brought to bear in particular situations as accounting tasks are performed and accounting problems are addressed. Ethical sensibility includes the recognition of moral issues and ethical dilemmas. The key features of a situation are identified and the accountant determines viable alternatives—options for choosing the ethical actions appropriate to the situation. Ethical sensibility also presumes a moral commitment to “follow through” with ethical behavior, once alternatives are chosen. Decisions lead to action; action-choices ought to “do the right thing.”
4. This question is an opportunity to summarize the key issues touched on in questions 2 and 3. To produce high quality financial information, the accountant uses technical knowledge of accounting standards and prescribed patterns of decision-making and is expected also to be alert for and capable of addressing moral issues in particular accounting situations. The professional accountant must resist temptations and pressures to break rules and ignore principles by demonstrating thoughtful, knowledge-based and ethically sensible commitments. These commitments should be demonstrated in particular situations and in the accountant’s pattern of conduct over the long-term of professional service.
5. Ethics is important because accounting discourse is intended to serve the needs of various stakeholders. This discourse should be intelligible and representative of business activities, so that it is useful to stakeholders. The accountant is responsible for clear communication and needs to be aware that the information influences members of the wide community and has the capacity to shape their decisions. This specialized communication should be guided by technical rules and professional principles, and it should be assumed to have high value for its stakeholder-users. The accountant is morally obligated to follow these guidelines and thereby serve the needs of the stakeholders and thus, the public interest.
6. The commitment to obey rules and adhere to principles—to follow the standards of accounting practice—is a voluntary choice by the individual accountant. This choice marks a professional duty, an ethical obligation to bring these rules and principles to bear whenever accounting decisions are made. The accountant’s judgment reveals character traits and skills and demonstrates the accountant’s willingness to affirm the standards and the fundamental purposes of the practice. The communication of high quality information guided by standards and expressive of the moral commitment of the individual accountant, is the best means to serve stakeholder needs. In effect, this behavior by “the virtuous accountant” benefits the wider community.
7. The providing of high quality financial information that results from technically proficient and ethically sensible accounting performance benefits “outside” stakeholders who used this financial information in their decision-making. Current and potential investors and creditors benefit. While poor-performing companies whose financial information is disclosed are likely harmed, the potential benefits to the market and the public outweigh this. Most certainly, it makes no sense to advocate the disclosure of lower quality information simply to “hide” the poor performance of a company.
8. The destructive accountant lacks (or does not demonstrate) both technical knowledge and ethical aspects of insight in decision-making or in behavior. The good-hearted accountant many show ethical awareness and an intention to behave in a moral fashion, but technical knowledge and the ability to apply this in the situation are not demonstrated. The opportunistic accountant likely has adequate technical knowledge and the skill to apply it, but chooses not to adhere to accounting standards. In some cases, this type of accountant “bends the rules” or “flaunts the principles” or finds “loopholes” to serve the interests of particular stakeholders at the expense of others. The ideal “virtuous accountant” uses technical awareness and ethical insight to fulfill professional responsibilities by adhering to accounting standards (in their letter and spirit) to provide useful information to all stakeholders and thus the virtuous accountant serves the needs of the market and public expectations.
9. (a) If this accountant is technically competent but decides to ignore the standards, the decision represents an “opportunistic” one. If the accountant is unaware of the rules or how to apply them in the situation, this is a destructive accountant. (b) Clearly, Dominyka is acting as an “opportunistic accountant,” who knows the rules but chooses to defy them for her own selfish interests. (c) Fumika is technically incompetent with regard to the accounting standards about lease arrangements. She may be good-hearted.

These accountants need encouragement to bring their technical knowledge of accounting standards up to date and to demonstrate their own good character (express their personal virtues) as they commit themselves to ethical decision-making and the appropriate ethical behavior.

1. The destructive accountant fails to demonstrate technical knowledge and does not show a commitment to the ethical performance of professional duties. The opportunistic accountant fails to express ethical commitment and does not express character virtues in his/her practice. The good-hearted accountant is technically incompetent, failing to understand how to apply the appropriate technical standards in the situation. These accountants all need to study and be supported by mentored instruction, so that they can become acquainted with the rich resources of accounting decision-making—current accounting standards, the traditions of moral philosophy and the ethical expectations of accounting discourse. They need support, from external sources and the internal aspects of their own character, so they can bring technical and ethical resources into play with the context of organizations and amidst the complexities of modern business. They need a learning experience in accounting ethics, one which supports the development of both technical competence and ethical capability. (They need this book!).
2. In societies where financial decision-making plays a vital role, all stakeholders need reliable, useful financial information. The fundamental purpose of accounting is to provide high quality information. Accounting standards and the accountant’s commitment to adhere to these standards work together so that accountants can effectively serve the needs of society (the market and numerous stakeholders) and thereby demonstrate the public trust presupposed by the granting of professional status to accountants and their discourse.