#14

ETHICS

Do the Right Thing

AICPA

CPA... Imagine the possibilities!

Intro

Learning Activity

Ethical Behavior: *Students apply professional standards of ethics to determine whether a proposed business action is ethical or unethical.*

Learning Objectives

1. Understand how ethics enters into the decision-making process of professionals.
2. Understand the characteristics embodied in actions that are deemed ethical actions.
3. Use the characteristics of ethical decision-making to determine whether business actions are ethical or unethical.

Assessment

Students will: (1) identify the characteristics embodied in ethical actions, (2) identify business actions as ethical or unethical using an ethical decision-making model, (3) identify the characteristic(s) that is violated, thus rendering an action unethical.

Academic Standard

"Describe how ethics affect business." (NBEA)

"Describe the factors that define what is considered ethical business behavior." (NBEA)

"Define a code of ethics, develop a code of ethics, and apply a code of ethics to various issues confronted by businesses." (NBEA)

Business Skill

Professional Development and Civic Responsibility: CPAs must deal with confidential information free of personal bias and conflicts of interest. CPAs must act with integrity, independence, and objectivity in order to provide assurance to investors, the government, and the public at-large that the information they use to make business decisions can be relied upon with confidence.

Procedure

Distribute a copy of the Topic Overview to your students.

Discuss the concept of what constitutes an ethical versus unethical action. Compare and contrast the issue of legal and illegal behavior to ethical and unethical behavior.

Introduce and define the three characteristics—independence, objectivity, integrity—that define ethical behavior for CPAs and the importance of CPAs acting in the highest ethical manner.

Emphasize the importance of proper ethical behavior in business and as a CPA as it relates to public perception, which may ultimately affect the career advancement of individuals and the financial performance of businesses.

Divide your class into teams to identify the business action as ethical or unethical and assign points for correct answers accordingly.

Total each team's score and assess their character using the "Character Assessment Guide."

Overview

Ethics are principles of good conduct that help people decide whether an action or decision is morally right or morally wrong. The most fundamental ethical principle is: "Do unto others as you would have them do unto you." Known as the "Golden Rule," this rule implies that an ethical person is concerned not only with themselves, but also with the well-being of others.

Despite the notion that the sole consideration is the "bottom line," businesses are concerned with ethics. At a minimum level, businesses are concerned with acting in an ethical manner in order to protect themselves, avoid scandals, and stay free of government intervention which, in turn, can avoid the levying of fines and the assessment of penalties, if not imprisonment. At a higher level, however, businesses pay heed to the notion of proper ethical conduct since such conduct often defines another "bottom line," which is not what you earn financially, but who you are. In light of today's image conscious public, proper ethical conduct may add more to the bottom line than price hikes and cost-cutting measures.

Another common misconception is that laws and ethics are the same: "If it's legal, it's ethical." Quite the contrary. In fact, an individual can be dishonest, untrustworthy, unfair and uncaring without ever breaking the law. Laws—rules of society—only outline minimal standards of what is proper. Laws do not always define or address proper ethical actions or behavior.

Proper ethical behavior is founded in the belief that it is imperative to distinguish between right and wrong. A **Certified Public Accountant (CPA)** abides by a code of ethics that all members of the profession must observe.

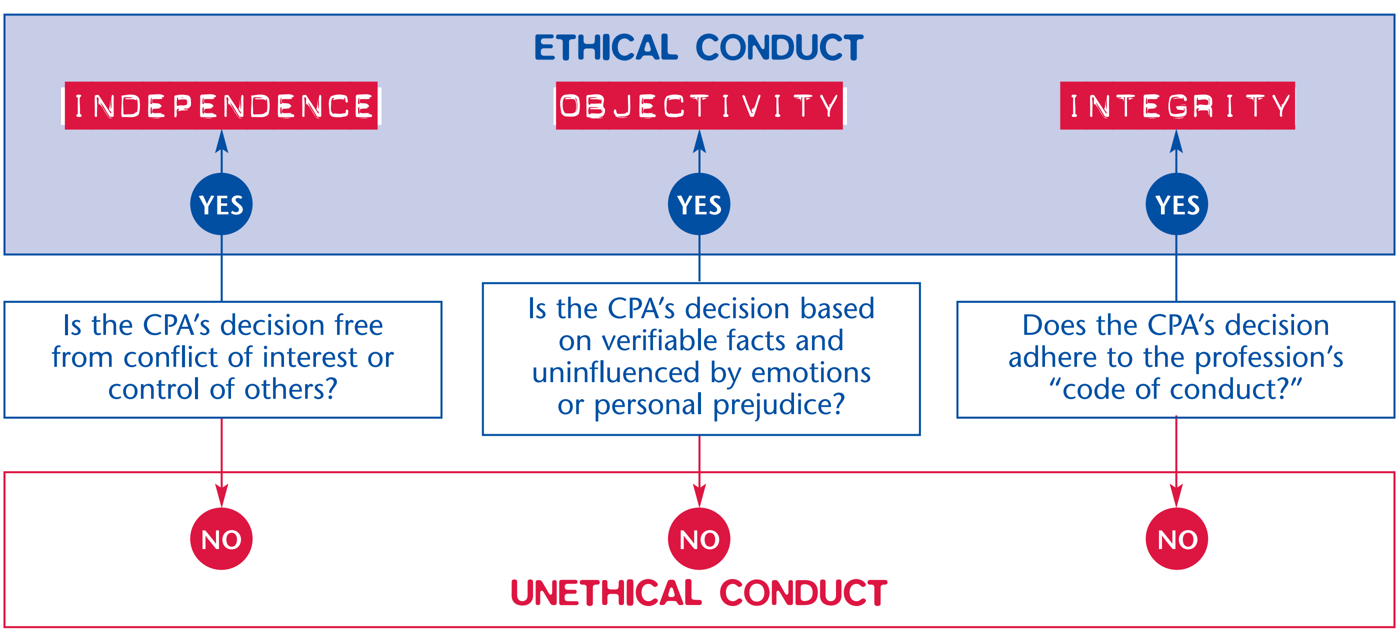
The principle source of information concerning the CPA's professional ethical standards is the *AICPA's Code of Professional Conduct (Principles and Rules)*, which has been in existence for more than 100 years. Additionally, each state has its own regulatory body that sets professional and ethical standards that govern CPAs licensed to practice in that state.

Proper ethical behavior can be defined according to three basic characteristics: **independence, objectivity,** and **integrity**.

With regard to **independence and objectivity**, CPAs must be free of conflicts of interest both in appearance and in fact when providing public accounting services to clients. CPAs provide multiple services—auditing, financial planning, consulting, international, and technology services—to a variety of clients in a multitude of industries. Therefore, it is imperative that CPAs continuously assess their client relationships and public responsibilities.

Maintaining the highest degree of **integrity** is necessary to sustain and broaden the public's confidence in CPAs and the accounting profession. Integrity requires CPAs to be honest and candid in their work and to maintain client confidentiality without seeking personal gain. Measured in terms of what is right and what is wrong, integrity is the benchmark against which all decisions and actions by a CPA must be assessed.

In order to act ethically, a CPA must be independent, objective and act with the highest degree of integrity. If a CPA ***violates any one*** of these characteristics, the action is deemed to be ***unethical***.



Activities

Ethics and Professional Behavior

1. Jon Watson, CPA, accepts two round-trip tickets to Florida from a client of the firm he is employed with.
2. Julie McVoy, CPA, is seeking employment as a top-level accounting manager with a client for whom she is currently conducting an independent audit.
3. Jack is a partner with Morgan & Co., CPAs. The Moxie Company has asked Jack to perform an audit of the company. Jack's partner, Jake, and Susan, a staff accountant, own stock in Moxie Company. Jack does not own stock in Moxie Company.
4. Andrew & Co., CPAs, performed auditing services for McMahon Financial Services Inc. last year. McMahon has yet to pay the fees for those services. McMahon has engaged Andrew & Co. to perform an audit of their financial statements for this year.
5. Joe has earned his CPA designation by passing the CPA Exam and meeting the education, experience and licensing requirements in his state. He has decided to pursue a career as a high school and college accounting instructor. In his search for a teaching position, Joe presents himself as a CPA by placing the "CPA" letters on personal business cards and stationery. In addition, as a part-time job, Joe continues to audit financial statements and prepare tax returns for clients that have engaged Joe based on the fact that he has informed the clients that he is a CPA.
6. The KML Company has engaged the firm of J. Ditkan, CPAs, to audit its financial statements and prepare its tax return. KML stated to Jodi, a partner with J. Ditkan, that they would pay Ditkan $250,000 if she would issue a favorable audit opinion of the financial statements and prepare the tax return so that they would receive a refund. In fact, if the tax refund is more than $100,000, KML has agreed to buy Jodi a convertible Mercedes-Benz. Otherwise, without a favorable audit opinion and tax refund, KML will only pay Ditkan $45,000.
7. Thomas, a CPA, was recently hired by a large Wall Street firm to assess the advantages and disadvantages of proposed mergers among Fortune 500 companies. As part of the terms of employment, Thomas has agreed not to invest in any of the companies he is researching, because to do so would be considered insider trading, which is illegal. Thomas has never acquired the stock of companies he is analyzing, but has on occasion strongly suggested to his brother-in-law, Richard, that he (Richard) might want to do so. In fact, Richard has taken Thomas' "advice" and made $1 million in the New York Stock Exchange by buying and selling Thomas' "suggested" stocks.
8. Jocelin, who is an accountant but not a CPA, has agreed to prepare a financial forecast and projection for the Dube Group. Jocelin has approached Nikki, a CPA, and offered her half of the fee—$50,000—from the Dube Group if she signs the financial report. Since Nikki is a CPA and Jocelin is not, Nikki's signature, as opposed to Jocelin's, would give the report more credibility.
9. Francis, a CPA with the accounting firm Norris & Co., attended a party and fundraiser at the Downtown Metropolitan Center. Francis, in his conversations with other guests, revealed that he is auditing Bendas, Inc., a prominent distributor of computer software.
10. J. Tater & Company, a manufacturer of high-tech computer equipment, is one of eight companies preparing contract proposals to supply foreign countries with the latest microcomputers. Each company will present their proposal to the United States Foreign Affairs Committee. In conversations with members of the committee, J. Tater's chief financial officer, Melanie—a CPA—has mentioned the possibility of giving each member of the committee $25,000 if J. Tater is awarded the contract, which is worth $10 million.

Do the Right Thing

FIRST, for each of the business scenarios described, indicate whether the CPA's action is ethical or unethical.

- **IF you answer "ethical" and that is the correct answer,** award your team **15 points.**
- **IF you answer "unethical" and that is the correct answer,** award your team **5 points. THEN** indicate the characteristic(s) of ethical conduct—objectivity, integrity, independence—that the CPA has violated. If you answer correctly, award your team an additional **10 points.** Incorrect answers receive zero additional points.
- **IF you answer incorrectly, zero points** are awarded.

THEN, total your team's points to assess the character of your team members using the "Character Assessment Guide."

Remember that CPAs must act with objectivity, integrity AND independence. If a CPA violates any one of the characteristics, his or her action is deemed to be unethical.

CPA Scenario	CPA's Action *Ethical or Unethical*	Characteristic(s) Conflict *Objectivity • Integrity • Independence*	Points
#1			
#2			
#3			
#4			
#5			
#6			
#7			
#8			
#9			
#10			
		TOTAL POINTS	

Character Assessment Guide

Points	Assessment
135 or more	A model professional!
120 to 134	Somebody you can definitely trust
105 to 119	A decent person
90 to 104	A shady character
75 to 89	Somebody you can never trust!
74 or less	***A real, no-good *&%#@!!***

Answers

CPA Scenario	CPA's Action *Ethical or Unethical*	Characteristic(s) Conflict *Objectivity • Integrity • Independence*
#1	Unethical	**Independence:** Acceptance of a gift that is considered more than a token gift is unethical. If Jon, a CPA, accepts more than a token gift from a client, the appearance of independence may be lacking.
#2	Unethical	**ALL:** Solicitation of employment from a client while performing a service for that client is unethical. If Julie, a CPA, solicits employment from a client while performing an audit service for that client, she may appear to lack the independence, integrity or objectivity necessary to perform the job.
#3	Unethical	**Independence:** A CPA firm that holds a financial interest in a client violates the Code of Conduct. The firm's independence is considered impaired and may not perform the job it was hired to do. Therefore, it would be unethical for Morgan & Co., CPAs to audit Moxie Company since Jake, a partner in the firm, has a financial interest in Moxie. The fact that Jake is a partner and Susan is a staff accountant does make a difference. If Susan were the only member of the firm to hold a financial interest in Moxie, it would remain unethical of Morgan & Co. to audit Moxie Co. only if Susan participated in the audit engagement.
#4	Unethical	**Independence:** CPAs must remain independent in performing professional services. The independence of a CPA or CPA firm is considered impaired if fees from services rendered more than one year earlier remain unpaid. The rationale for this standard is that McMahon's outstanding fees, until paid, create a loan situation from Andrew & Co. to McMahon. Therefore, Andrew & Co. cannot accept the engagement until McMahon pays the fees owed to them.
#5	Ethical	CPAs who are no longer practicing public accounting may elect to use their CPA designation on personal business cards and stationery with no stipulations attached. However, in order to audit financial statements of public companies, CPAs must be licensed and satisfactorily complete education and training courses annually in order to comply with the continuing education requirements of the profession. There are no requirements that CPAs need to satisfy to continue preparing tax returns. However, in order to stay informed of new tax laws and provide competent service to clients, it is strongly recommended that CPAs enroll in continuing education courses and training seminars in order to stay informed of new tax laws.
#6	Unethical	**Objectivity & Integrity:** CPAs may not perform any audit, attestation or tax service for a contingent fee. To do so would undermine the CPA's and the profession's integrity and professionalism.
#7	Unethical	**Integrity:** Thomas' actions violate the letter and spirit of his employment contract with the Wall Street firm, which is evidence of a lack of integrity. The communication of "inside information" is in fact illegal, as well as unethical.
#8	Unethical	**Integrity:** Nikki should not accept Jocelin's offer. To accept the offer and sign the report would be unethical and illegal.
#9	Ethical	CPAs are permitted to reveal names of clients without the client's consent, unless to do so would constitute the disclosure of confidential information.
#10	Unethical	**Integrity:** Melanie's actions constitute bribery under the Foreign Corrupt Practices Act. To offer such a proposal is evidence of a lack of integrity and is therefore unethical. In fact, in this case, Melanie's actions are also illegal.