

**ACCOUNTING EDUCATION BASED ETHICS: CHALLENGES
AND OPPORTUNITIES**

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ABSTRACT

Professional accountants are the person who play very important role in every industrial organization. Investors and other decision makers rely heavily on professional accountants related to the use of financial accounting and reporting, effective financial management and competent advice on a variety of business and taxation matters. Since the accuracy of decisions depends on the reliability of accounting information, the ethical dimension of the profession has gained considerable attention. The recent of accounting scandals such as Enron and World Com, have defame the reputation of accounting professions. This incident brought attention to the importance of accounting ethics education.

Keywords: Accounting, Ethics Education, and Business Ethics

INTRODUCTION

Accountants have a responsibility to the society to clearly communicate accounting information for decision making. There is growing concern that accountants, on many occasions, fail to provide the required information demanded by the society. The famous accounting scandals like World Com, Tyco International, Enron reiterated the lack of ethics among accountants. WorldCom is now known as MCI, Inc. and is part of the Verizon Communications group. The company emerged from bankruptcy in 2003. The company was inflating total assets through capitalization of operating costs. The amount estimated to be around \$11 billion. Tyco International is an international manufacturing company with diversified product lines (safety products, fire protection, electrical products, to name a few). The fraud actually involved misuse of the company's funds by its former CEO and CFO. They utilized improper accounting practices to cover up the misuse of these funds. Enron is the most popular

of the them all and is still being referred to even after 8 years. This scandal involved hiding debts, inflating revenues and corruption. It resulted to the displacement of more than 20,000 people, the death of Enron Company and the dissolution of one of the Big 5 global accounting firms (Arthur Andersen). Based on the scandals, we can conclude that accounting is not perceived simply as a systematic process of recording, classifying, summarizing and reporting transactions, but rather a complex cycle of data processing with potential manipulation of information received and to be released.

The scandals fairly or not, have damaged the reputation of professional accountants and have also damaged the diminishing public confidence in accounting profession. The General Social Survey done by Davis, Smith, & Marsden (in Miller and Becker, 2011) asks its respondents to report how much confidence they have in the people running major companies. Recent results show that confidence decreased sharply following the Enron

scandal. Responses of "A Great Deal" fell from an average of 25.6% in 1994-2000 to 17.3% in 2002; "Only Some" went from 58.4% to 62.7%; and "Hardly Any" rose from 11.7% to 17.9%. Similarly, A recent research done by Price Waterhouse Coopers survey of 3,000 senior executives from 54 countries found that global corporate accounting fraud is on the rise again, and accounting fraud was 38% of the economic crimes in 2009.

Furthermore, the scandals also have made ethical issues a paramount concern to those working in business and accounting. Most managers agree that being ethical is good for business and do not believe that it is necessary to compromise one's ethics in order to be competitive (Thompson, 2006). This opinion leads us to the importance of accounting ethics education. Price Waterhouse Coopers (2003), rebukes accounting educators for failure to coherently include ethics as part of the curriculum. Many accounting scholars suggested that the education system should bear some of the blame. Institutions of higher education are in many ways responsible for the education of our future leaders and they have a crucial role in this process. Accounting programs should ensure that students have the rudimentary tools they need to succeed in the accounting profession. Accounting curricula, however, are being criticized for not focusing enough on values, ethics and integrity (Albrecht & Sack, 2000).

In order to prevent a repeat of corporate and accounting scandals in the future, it is important to look at how today's business schools are teaching tomorrow's leaders. If business schools do not teach future managers and accountants about the integral relationships that exist between corporations and societies, future top CEOs cannot be expected to understand these relationships. Accounting education must not only emphasize the needed skills and knowledge, it must also instill the ethical standards and the commitment of a professional.

THE IMPORTANCE OF ETHICS IN ACCOUNTING EDUCATION

Ethics is derived from the greek term "*ethics*" meaning "*characters*" or "*custom*". It is concerned with rules of right and wrong and expected behavior. As defined in 'Merriam Webster Dictionary', "ethics are the discipline dealing with what is good and bad and with moral duty and obligations principles of conduct governing an individual or a group". Ethics or ethical values are the foundations on which a civilized society is based on. In business the purpose of ethics is to direct businessman to abide by a code of conduct that facilitates public confidence in their product and services. In the accounting field, professional accounting organization recognize the accounting profession's responsibility to provide ethical guidelines to its member. Ethics education however is more than studying the code of professional conduct, but rather a process whereby individuals become more consciously involved in making ethical decisions.

The nature of the work carried out by accountants and auditors requires a high level of ethics. Shareholders, potential shareholders, and other users of the financial statements rely heavily on the yearly financial statements of a company as they can use this information to make an informed decision about investment. They rely on the opinion of the accountants who prepared the statements, as well as the auditors that verified it, to present a true and fair view of the company. Knowledge of ethics can help accountants and auditors to overcome ethical dilemmas, allowing for the right choice that, although it may not benefit the company, will benefit the public who relies on the accountant/auditor's reporting. Accountants, whose first priority is ethics, can easily deal with ethical dilemmas, areas that are not black and white. They feel comfortable dealing with grey areas. They never under represent their time for completing a job. They can easily go along with the crowd or do what their

managers tell them to do, by never compromising with ethical factors.

With regard to whether ethics can be taught in the classroom, there are two basics opposing viewpoints are: (1) ethics can and should be taught in the classroom, (2) ethics cannot be taught. Most of the researchers have been trying to figure out whether behaving ethically is teachable (Bampton and Maclagan, 2005; Fisher et al., 2005; Caliyurt, 2007; Amernic and Craig, 2004; Baetz and Sharp, 2004; Bernardi and Bean, 2006). Most of them conclude that ethical behavior is teachable and therefore favors integration of ethics into the accounting curriculum. The proponents "*ethics cannot be taught*" argue that ethics can never be taught, it is something "*inherent*" (Rothenburg, 2003; Bernardi and Bean, 2006; Grusd, 2007).

In addition to theoretical and conceptual studies concerning ethics in accounting, ethics education, which is based on the premise that moral development can be enhanced through the education process (Huss and Patterson, 1993). Some ethics education programs have reported measurable success. Gautschi III and Jones (1998), found substantial improvement in students' abilities to recognize ethical issues after taking a business ethics course. Wu (2003), found that Taiwanese students' ethical values, ability to recognize ethical issues, and ethical decision-making skills were improved following a business ethics course, though ethical behavior was still not optimal. Desplaces et al. (2007), found that discussions of ethics in business courses are significantly associated with moral competence among students. Shaub (1994) and Eynon et al. (1997), found that accounting professionals who completed an ethics course in college had a higher level of moral reasoning abilities.

Mathew and Murphy (2008), examine the impact of an ethics education program on reporting behavior using two groups of students: 4th year Masters of Accounting students who just completed a newly-

instituted ethics education program, and 5th year students in the same program who did not receive the ethics program. The study find that when participants are anonymous, misreporting rates are nearly the same regardless of ethics program participation. However, when their reporting behavior is made public to the cohort, participants who completed the ethics program misreported at significantly lower rates than those who did not receive the ethics program. The results suggest that ethics education does not necessarily result in internalized ethical values, but it can impact ethical behavior.

We strongly support the notion that there is a need for ethics education for all students enrolled in institutions of higher education. There are three reasons behind the notion. First, a discipline-specific ethics course is an essential component in the education of accounting students. Institutions of higher education are in many ways responsible for the education of our future leaders and they have a crucial role in this process. Second, accounting has long been designated as a profession, and behaving ethically is the essence of meaningful professional lives. Ethics help the professional accountants to build personal fortitude to make a right decision. By keeping in mind ethical factors, accountants can easily manifest peer pressure. Third, the rash of recent scandals has placed enormous pressure on the profession to demonstrate its ethics. Accounting students must understand that "ethics are not optional" because they equip them with behavioral patterns of good moral decisions. This helps them in making reasoned sound decisions in their future. This argument is consistent with my favorite quotes which says "*An accountant without ethics is a wild beast loosed upon this world*".

CHALLENGES IN DEVELOPING ACCOUNTING EDUCATION BASED ETHICS

Despite widespread agreement that ethics should be an integral part of accounting education, implementation has not been successful. Several surveys conducted in the late 1980s found little integration of ethics into the accounting curriculum. A 2003 survey by the American Accounting Association (AAA), found that only 46% of schools offered a separate course in ethics. The majority of those courses did not provide adequate coverage of ethics, values, and appropriate professional conduct, as reported in the January 2005 *CPA Journal*. Prior research on ethics education for accounting students addresses many topics including whether or not ethics can be taught (Geary and Sims, 1994), how best to teach it in terms of methodology and approach (e.g. Massey and Van Hise, 2009) and the level of which ethics is being integrated into accounting curriculum (e.g. Mc Nair and Milan, 1993; Fisher, Blanthorne and Kovar, 2007; Ghaffari, Kyriacou and Brennan, 2008). The accounting profession believes that ethics should be taught in accounting curricula, however the challenge is being to integrate ethics into the accounting curriculum. This paper addresses two important challenges faced by accounting educators: (1) Should ethics be taught as a single course or integrated across curriculum? (2) What is the course content?

Should ethics be taught as a single course or integrated across curriculum? There is a controversy among accounting academics in their opinion whether the ethics should be taught as a single course or integrated across curriculum (Swanson 2005; Madison and Schmidt, 2006; Ghaffari et al., 2008; Massey and Hise, 2009; William and Elson, 2010). The accounting academics who favor stand alone course argue that stand alone will allow the student to dig deeply into the individual case studies from which many ethical lessons can be learned,

rather than segmented readings that would encourage surface learning. Furthermore, Swansom (2005), as one of the proponents single course states that the student need a holistic exposure to ethics prior to graduating, otherwise topics get scattered across the curriculum and the message on ethics become incoherent. This argument is consistent with the finding of Klimek and Wenell (2011). They examine the ethical reasoning abilities of accounting students in an ethics in Accounting course were compared to the ethical reasoning abilities of accounting students who had ethics discussions integrated into their accounting courses instead of a required course. Ethical reasoning abilities were tested using an instrument called the Defining Issues Test-2. The students who took an ethics in accounting course before graduation did seem to have higher ethical reasoning abilities than those students who had ethics integrated into their accounting courses.

On the contrary, accounting academics who prefer to integrate courses argue that ethics is important in all areas of accountancy, they believe that their approach is a very practical one. A survey by Madison and Schmidt (2006) of 122 of accounting administrators (chairs) department chairpersons at the largest North American accountancy programs reveals that most chairs preferred to the integration approach to teaching ethics rather than offering stand alone classes, 69,5 percent of the chairs felt that ethics should be integrated throughout the curriculum for accountancy majors. Similarly, Ghaffari et al. (2008), found that 75,9 percent of the institutions have ethics integrated across the curriculum and 20,7 percent had ethics integrated across the curriculum and offered as a standalone course, only one respondent reported that ethics was delivered entirely as a stand alone course.

The ideal solution might be use "*third approach*" that is to offer both a stand alone ethics course and integrate across the curriculum. This will provide a more comprehensive approach that

enable the accounting students to to build an inner strength which forces them to make an ethical decision. Armstrong (1993) poposes a more comprehensive “*sandwich approach*” to ethics coverage in the accounting curriculum. There are three “layers” in Armstrong’s (1993) “*sandwich.*” First, students are provided with an in-depth course introducing them to general ethical theory (e.g., a business ethics course). Second, students’ ethical reasoning is reinforced through integration of ethics into existing courses in the accounting curriculum (via, e.g., case studies). Third, students take an ethics and professionalism accounting course. Swanson (2005), recommends a similiar three-pronged approach to accounting ethics instruction. The use of third approach – both single course and integrated into the curriculum, can be expected to assist the student in the development of an ethical consciousness in matters of business

What is the course content?.

Course content refers to the choice of topics and sequencing of course content, the choice of topics should always support the learning objectives for the ethics course. It is important to determine a reasonable scope for ethics course, that includes essential content but which also provides opportunities for students to engage actively with this content so that deeper learning occurs. Bean and Bernardi (2007), identify 7 topics that should be considered for inclusion in an accounting ethics course include: (1) rules versus principles based accounting standards; (2) AICPA/IMA codes of ethics; (3) tone at the top; (4) selected studies/papers in journals; (5) topical current accounting events; (6) ethical dimensions of current proposals in progress at the Financial Accounting Standards Board; and, (7) case studies.

Association to Advance Collegiate Schools of Business/AACSB (in Miller and Becker, 2011) propose the content of ethics course: responsibility of business in society, ethical leadership and ethical decision making. Responsibility of business in society

addresses the need for students to understand the interdependence between business and society and more specifically the role of professions in society. This category addresses the need for students to understand the power that businesses yield and how their actions (and the decisions they make) can positively or negatively impact stakeholders, including society at large. The accounting profession plays an important role in not only the operation of a business, but with public accounting as the watchdog of the public trust. Ethical leadership addresses the need for students to become ethical managers within organizations. Relevant topics should provide students with a framework upon which knowledge of ethical decisions can be built: what ethics is, the theories surrounding it, and decision making models/frameworks. Ethical decision making addresses the needs for students to be able to identify, evaluate and resolve ethical issues. It includes the complex problems and uses their own judgment to choose a course of action. We asked about these topics related to ethical decision making: indentifying ethical issues, evaluating ethical issues, resolving ethical issues and using critical thought, analysis and judgment as a part of the coverage of ethics in the accounting courses they teach.

Masey and Hise (2009), one of the proponent of “*third approach*” propose two important course contents: classical ethical theories and raising ethical perception within and outside the practice of public accounting. Classical ethical theories intended to increase the ability of students to recognize issues that have ethical implications. A Business Ethics course should be mandatory for all students seeking an undergraduate degree in Business, so they should be at least somewhat familiar with classical philosophical approaches to ethics. Raising ethical perception requires students to consider issues of what it means to be professional, as well as how accounting professionals manage their business (Price Waterhouse Coopers, 2003). The

objective of raising ethical perception within and outside the practice of public accounting is basically to encourage students to reflect on the kind of ethical issues that they might encounter, so that they will be sensitive to situations that include an ethical component. If professionals are sensitive to ethical issues, then the decision-maker is likely to use moral dimensions in resolving the dilemma, rather than take a heuristic approach such as profit maximisation (Hooks and Tyson, 1995).

Consistent with "third approach", Masey and Hise (2009), approach is more suitable than the others. The students should take a business ethics first then discuss ethical dilemmas and consequences of unethical behaviour to the individual through the major accounting courses. Students need to be exposed to critical debates and discussions on the code professional conduct.

OPPORTUNITIES IN DEVELOPING ACCOUNTING EDUCATION BASED ETHICS

The main opportunity in education based ethics is that accounting curriculum must be restructured in order to meet the needs of the profession. Accounting educators called for increased instructional materials in accounting ethics. Accountants works in accounting firms also have an opportunity to participate in the development and improvement of college curriculum, assist educators in classroom delivery (providing case materials and other resources), revise training to address more broad ethical issues. Use of real client situations for training is advised. Accounting educators should continue to upgrade their knowledge base and adapt their curriculum to include more and more technical topics, they also should adapt the accounting curriculum to include recent advances in ethical research. Many authors have identified several challenge relate with ethics course including: what material to include in

the course (course content), how to best cover the course material (course delivery) (Massey and Van Hise, 2003), and how they will evaluate the efficacy of such courses (course assessment) (Lavoie and Rosman, 2007). The Accounting Association should establish forums to enhance instructors' teaching skills and course materials. The current CPA exam and/or state ethics exams should force schools to recognize the significance of ethics.

CONCLUSION

This paper emphasizes a need an educational reform in accounting. Ongoing accounting scandals serve as the catalyst for change in teaching of ethics in the accounting education. With regard to whether ethics can be taught in the classroom, there are two basics opposing viewpoints are: ethics cannot be taught and ethics can and should be taught in the classroom. The author argues that ethics education can be enhanced through the education process, enforcing ethics upon accounting students is crucial to the values they develop while completing their education. Ethical education should never be compromised in accounting profession for being a successful professional accountant.

Two opportunities are available by accounting educators: (1) Should ethics be taught as a single course or integrated across curriculum? (2) What is the course content? . There are two schools of thought on the issue of how students should learn about ethics. One side proposes that we should integrate ethics across accounting curriculum. The other side states that single course are needed for a more in-depth review. The article argues for Ethics should be covered in every accounting course. Educational tools should be developed to assist accounting educators in developing the course content for stand alone ethics courses. The accounting firms have developed ethics cases and other resources for use by faculty interested in expanding the teaching of ethics to accounting majors. The main

opportunity in education based ethics is that accounting curriculum must be restructured in order to meet the needs of the profession.

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