

ETHICS

"Do the Right Thing"

#14

Takin' Care of Business



CPA... Imagine the possibilities!

AICPA

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.

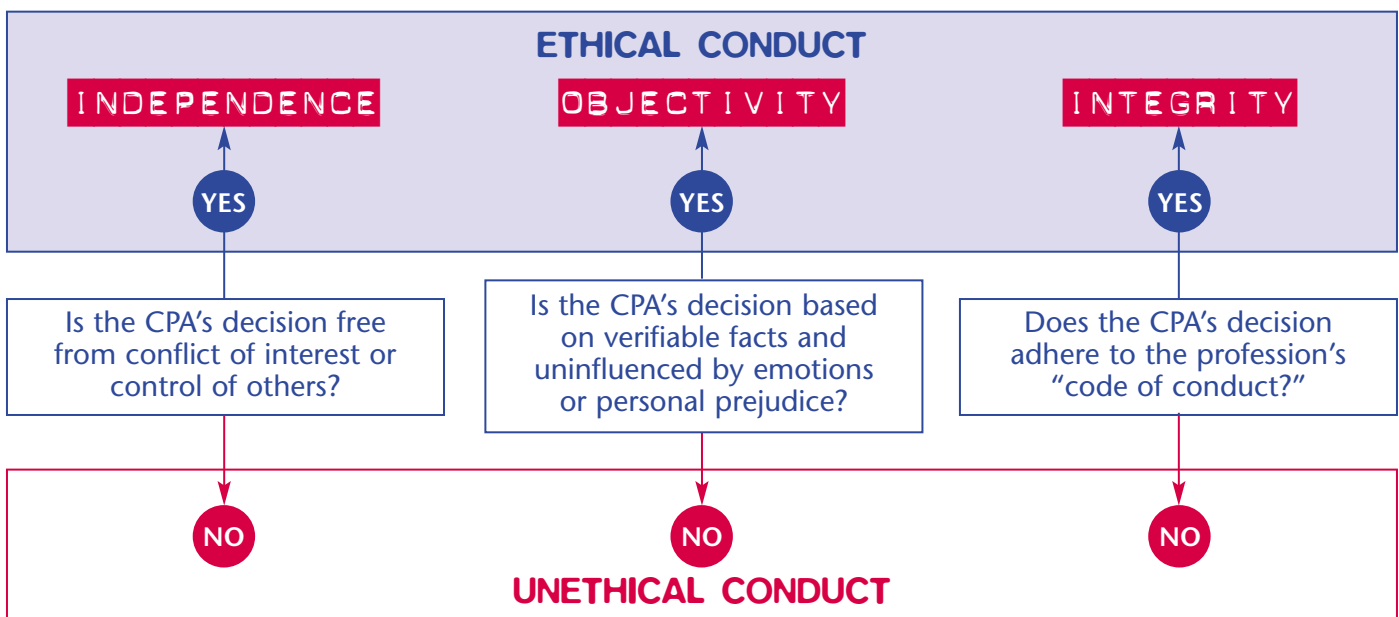
The principle source of information concerning the CPA’s professional ethical standards is the *AICPA’s Code of Professional Conduct (Principles and Rules)*, which has been in existence for more than 100 years. Additionally, each state has its own regulatory body that sets professional and ethical standards 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 micro-computers. 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 <i>Ethical or Unethical</i>	Characteristic(s) Conflict <i>Objectivity • Integrity • Independence</i>	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	<i>A real, no-good *&%#@!!</i>