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Ethics in Accounting

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ABSTRACT

In recent years, a large number of continuous scandals have necessitated the discussion on ethics in accounting and demanded to redefine the role of accounting professionals. Only to follow rules by taking the advantages of loopholes of law and other guidelines is not sufficient to create faith in general but it also must reflect that accounting professionals are true and the best safeguard of various stakeholders. An action of organisation may be legal but unethical. Ethics is a description of 'observed' as well as 'desirable behavior' and 'conduct' that attempts to articulate moral values. Accuracy and interpretation are two important pillars of accounting. It has been observed in many cases that accounting professionals are indulged themselves in fraudulent and manipulative activities therefore, it results into scandals. Cash receipts and payments, and goods are some areas where ethical behavior is required. Suppressing real incomes and expenses, deliberately passing false entries and altering entries are some examples of unethical practices in accounting. Profit may be inflated or deflated to get benefit by cheating to stakeholders. It is suggested that unethical practices should be condemned and rules should be simplified. Unethical accounting practices should be identified and individuals as well as organisation who are indulged in unethical activities should be punished.

KEYWORDS Ethics, Fraudulent and manipulative activities, Cash Receipts, Suppressing real incomes and expenses.

Ethics in Accounting

In recent years, a large number of continuous scandals have necessitated the discussion on ethics in accounting and demanded to redefine the role of accounting professionals. Only to follow rules by taking the advantages of loopholes of law and other guidelines is not sufficient to create faith in general but it also must reflect that accounting professionals are true and the best safeguard of various stakeholders. An action of organisation may be legal but unethical. People use the information provided by accounting professionals for decision making about future with this expectation that they might have followed the guidelines as well as moral values therefore it is pious duty of accounting professionals to comply fundamental principles ethically in the interest of organisation and all stakeholders as well. Ethics is a description of 'observed' as well as 'desirable behavior' and 'conduct' that attempts to articulate moral values. Accuracy and interpretation are two important pillars of accounting.

Accounting influences a lot of public interest. Hence, ethics in accounting has been ranked very high in various surveys conducted globally. Accountants should present a 'true and fair view'. It has been observed that accounting professionals indulged themselves in fraudulent and manipulative activities. Even within the law, various man oeuvres can be carried out by accountants who are often regarded as being in ethically gray areas. This is associated with 'Cooking the books' in a way which is legal although morally dubious. Sometimes they adopt such practices for their own benefits or sometimes due to pressure of top management of the organization. In recent past, companies like Enron, Global Crossing, Tyco, Quest and most of the late dotcoms furnished false and manipulative accounting information to bring out good image among the stakeholders. This propelled us to make a comprehensive study on unethical practices in the field of accounting.

Unethical Accounting Practices:-

Recording of transactions into general journal and special journals, posting the entries into respective ledgers along with totaling and balancing of these accounts are assumed under the net of bookkeeping. An accountant who possesses special knowledge and skill checks the work done by book-keepers, rectifies the errors through entries, prepares trial balance and final accounts to present financial results and financial position of a business concern. Deliberately passing false entries, altering and erasing entries, suppressing real income and expenses are some examples of unethical practices in accounting. A brief study with some examples regarding misappropriation of cash, goods and manipulation of accounts in being given here :

Misappropriation of Cash Transactions: It may be well understood in two parts viz., cash receipts and case payments.

Misappropriation of Cash Receipts :

1. Not to record the entire/partly cash sales or credit sales and pocketing the money received from debtors.
2. Not to record cash received from unusual sources like gifts, donation and from unusual sales like sale of substandard goods, old furniture etc.
3. Not to record money from sale of goods sent on sale of return basis.
4. Adopting the practice of teaming and leading under which the money received from the first customer is used for personal use and the money received from the second customer is credited to the first customer and so on.

Misappropriation of Cash Payments :-

1. Recording a cash purchase at a higher figure or fictitious cash purchases and pocketing the amount.
2. Showing payments at a higher figure instead of showing payment of actual amount or showing the payment of cash which has not been really made.
3. Entering the fictions names of workers in worksheet and recording the money as payment to workers.
4. Producing vouchers for fictitious purchases etc.

Misappropriation of Goods: - In many cases goods are more important than cash because of its high value. The people who are concerned with handling the goods may misappropriate goods. They may record sales/purchase at larger quantity than the actual quantities. The balance quantity may be used for their personal use. Goods may be declared as defective and may be sold privately at lower price.

Manipulation of Accounts :- Some corporate take advantages of flexibility permitted by Income Tax Act, Companies and Other Acts. Top management advices to inflate or deflate the amount of profit and to show window dressing. The main objectives of showing more profit than actual may be to attract shareholders or public to subscribe shares, selling shares at higher prices by declaring dividends, to create faith among shareholders in relation to efficiency of board of management and officials, to get more commission if based on profit and to obtain credit and other facilities from financial and other institutions.

Profit in some cases may be shown less than the actual figure. This will help the company to not declare dividend or to declare dividend at a lower rate. The company may not increase wages and salaries of workers and employees. It will also reduce tax liability and mislead to their competitors. Top officials may purchase shares at a lower price. There are many ways to inflate or deflate profit. Some of them are as under :

1. Over valuation or under valuation of opening and closing stock.
2. Selling goods on the 31^{st} March of a financial year and recording for the profit in that financial year and showing as sales return on 1^{st} April.
3. Treating inter-divisional transfer as sales or treating letter of intent as sales to book profits.
4. Recording fictitious purchases, sales, purchases returns or sales returns.
5. Treating capital expenditure as revenue expenditure or vice-versa.
6. Charging different rates of depreciation, charging more or less depreciation.
7. Non recording of expenses and/or incomes or recording fictitious expenses or incomes and considering expenses and/or incomes in current financial year which are related to future.
8. Changing the valuation methods of inventory.
9. Under valuation and over valuation of assets and/or liabilities.
10. Showing unusual losses in Profit & Loss Appropriation account or as footnotes in the balance sheet but showing unusual profits in the Profit & Loss Account.

Conclusion :-

It is the duty of top management to ensure the ethical environment in the organization at all levels. They must provide such a communication system between management any employees so that and one may report about any wrong practice in the organization. Employees should aware of their legal and ethical responsibilities. Accounting and other rules which are complex and may promote unethical practices should be identified and simplified to ensure ethical behavior. It is also suggested that government and other institutions should take actions against unethical behavior.

The treatise is concluded with a stanza of Mahabharat which highlights the importance of ethical behavior.

षीलं प्रधानं पुरूशे तद्यस्सेह प्रणस्यती।
न तस्य जीवितानर्थे, न धनेन न बंधुभिः।।

(Ethical behavior is important for man. When a man goes down in ethical values, he will have no use of his money or his relatives and he has no reason to live.)

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