



ETHICAL ISSUES IN ACCOUNTING AND FINANCE

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ABSTRACT

As we know that Ethics are the rules, regulations, policies and plan to operate the companies working operation in better way but some time corporate world faces scandals for dealing transactions with their subordinate companies; therefore it becomes necessary for each and every firm to follow their made principles to achieve the target or goals. These scandals occur because of negligence of employees in business activities and they damage the entire economy of a country, this results into lose of hire profit gain by firm and dissatisfaction among customers. According to present accounting ethics, it is an improvement of ethical standards, adequacy of financial management, reporting mechanism, audit quality and strengthening of governance regimes. The accounting profession has a responsibility for these areas, whose deficiencies have led to corporate scandals and collapse. In last, this research paper focuses on the following aspects the concept of ethics, various ethical issues in accounting and finance, and steps to prevent those issues.

Key-words- Ethics, Corporate, Ethical Scandals and Ethical Issues.

INTRODUCTION

Ethics explain rules, regulation and policies apply in any organization to control and regulate the operational activities. In account, the nature of the accountants for their employees, clients and general public have special position for their business transactions; they have to apply thoroughly the principles of ethics to make it successful. Thus, the professional and ethical conduct is required to build good confidence among employees.

The highest ethical standard is important for both kinds of accountants like Public as well as business accountant. Public accountant gives assurance and taxation service to their clients and while business accountant deals in business transactions only. They have the responsibility to ensure their duties are performed in conformity with the ethical values of honesty, integrity, objectivity, due care, confidentiality, and the commitment to the public interest. Thus, accountants, as professional, are expected to maintain a level of ethical conduct that goes beyond Society Laws.

As we understand as per the above written statement that accountants require high level of ethics for their shareholders, potential shareholders, and other users of the financial statements and they use ethics to make financial statement helps him in taking investment decision.

Role of ethics

Ethics plays an important role in finance and sources of ethical behavior in finance and accounting can be from the following :-

- Code of Conduct for Accountants and Auditors
- Code of Conduct for Merchant Bankers
- Code of Conduct for Insurance Agent
- Code of Conduct for Bankers
- Code of Conduct for Brokers and Members
- Code of Conduct for CFO

ETHICS IN ACCOUNTING

Accounting ethics is primarily a field of applied ethics, the study of moral values and judgments as they apply to accountancy. Ethics are taught in accounting courses at higher education institutions as well as by companies training accountants and auditors.

CODE OF ETHICS FOR ACCOUNTANT:

- Integrity- A professional accountant should be honest and straightforward in professional and business relationships.
- Objectively – A professional accountant should not allow bias, conflict of interest or undue influence of others to override professional or business judgments.
- Due Care – Continuing duty to maintain professional knowledge and skills to ensure receipt of competent professional service – act diligently and in accordance with technical and professional standards when providing professional services.
- Confidentially – A professional accountant needs to respect the confidentiality of information acquired and should not disclose any information to third parties without authority.
- Professional Behavior – A professional accountant should comply with relevant laws and regulations and should avoid actions that discredit their profession.

IMPORTANCE OF ETHICS IN ACCOUNTING

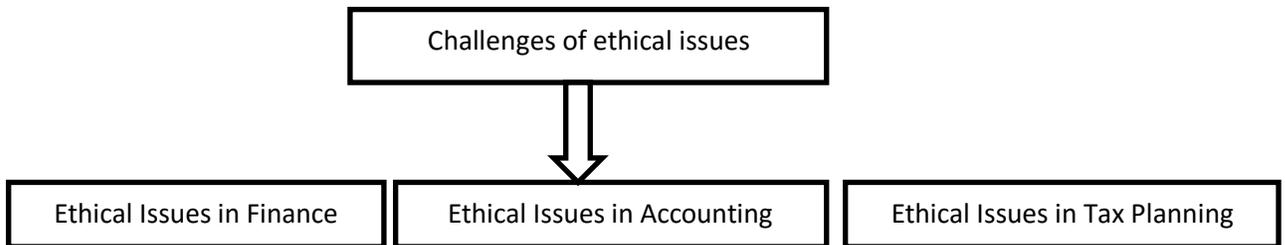
Ethics are important throughout the business world, but they are especially important for accountants and all accounting practices. In general, this is because accounting deals more with facts, figures and hard data than any other business area. This means that there is less room for perspective, and the results of unethical behavior are much more widespread.

ETHICAL ISSUES IN ACCOUNTING

Accounting is the practice helps businessmen to maintain books of account transaction wise. It ensures businessmen about the debit and credit balance of firm. Basically it is a system to present the company's financial and liquidity positions, the cash flows and the requirement of cash. Accountants should know the accounting ethics to apply and prevent business from scandals and losses.

A. Underreporting income- The practice to generate underreporting income is an illegal because countries government losses tax revenues that go towards social security, Medicare and other federal projects. In Multinational Companies auditors check carefully because of the large tax bills. If they caught under reporting, individuals and companies can be subject to penalties and, in extreme cases, criminal charges. Sometimes applies to public companies reporting lower revenues in a fiscal quarter than were actually recorded. If the company has already been reporting bad news and the stock in down, executives may try to take some revenues from the current quarter and push it into the next quarter.

B. Falsifying documents-These documents are used to change the details of the original documents. It involves altering, changing, or modifying a document for the purpose of deceiving another person.



S.No	Ethical Issues In Finance	Ethical Issues In Accounting	Professional Approach	Value's Approach
1	Insider trading	Fraudulent Financial Reporting	Accounting Codes of Conduct	Moral values
2	unethical decisions	Misappropriation of Assets	Professional code of conduct	Religious values
3		Disclosure	Business ethics	Culture values
4		Penalties	GAAP	
5		Underreporting Income	CSR	Social values
6		Falsifying Document:		Nation values
7		Creative accounting		

Some types of documents that are commonly falsified can includes

- Tax returns and income statements.
- Personal checks.
- Bank account records.
- Business record keeping books.
- Immigration documents (such as visas, passports, etc.).
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Many different types of acts can be considered as falsifying a document, including:

- Altering or misrepresenting factual information such as prices or monetary amounts.
- Stating false information when requested to provide truthful statements.
- Forging a signature.
- Using official letterheads without authorization.
- Concealing assets or property (especially in bankruptcy proceedings).
- Knowingly using or distributing a fake document.

C. Creative Accounting- The follow of creative accounting requires laws and regulations to implement in his transactions. This accounting capitalizes on loopholes in the accounting standards to falsely portray a better image of the company. Although creative accounting practices are legal, the loopholes they exploit are after reformed to prevent such behaviors. This can be used to manage earnings and to keep debt off the balance sheet.

ETHICS IN FINANCE

Ethics in finance is one of the main things which everyone has to follow from the small, medium, big level company as most of the country depends on the financial background because financial component is an important part of business to run for long time.

- **CODE OF ETHICS IN FINANCE**

- Act with honesty and integrity, avoiding actual or apparent conflicts of interest in personal and professional relationships.
- Provide constituents with information that is accurate, complete, objective, relevant, timely and understandable.
- Comply with rules and regulations of federal, state, provincial and local governments, and other appropriate private and public regulatory agencies.
- Act in good faith, responsibly, with due care, competence and diligence, without misrepresenting material facts.
- Respect the confidentiality of information acquired in the course of one's work except when authorized or otherwise legally obligated to disclose. Confidential information acquired in the course of one's work will not be used for personal advantage.
- Share knowledge and maintain skills important and relevant to constituent's needs.
- Proactively promote ethical behavior as a responsible partner among peers, in the work environment and the community.
- Achieve responsible use of and control over all assets and resources employed or entrusted.
- Report known or suspected violations of Code in accordance with procedures in respect of concerns regarding accounting or auditing matters.
- Review and understand internal controls, including roles and responsibilities. Will perform all controls where identified as a control performer or ensure controls are properly designed and effective where identified as a control owner.

- **ETHICAL ISSUES IN FINANCE :**

- 1. Insider trading**

Insider trading is the trading of a corporation's stock or other securities (e.g. bonds or stock options) by individuals with potential access to non-public information (information not yet made public) about the company. Such a trade is motivated by possibility of generating extraordinary gain with the help of non-public information. It gives the trader an unfair advantage over other traders in the same security.

- 2. Stakeholder interest v/s stockholder interest**

Stockholder or Shareholders hold shares in the company-that is they own part of it whereas stakeholder have an interest in the company but do not own it. Often the aims and objectives of the stakeholders are not the same as the shareholders and they come into conflict. The conflicts often arises because while shareholders want short term profits whereas stakeholders desires tent to cost money and reduce profits. The owners often have to balance their own wishes against those of the other stakeholders or risk losing their ability to generate future profits -example the workers may go on strikes or the customer refuses to buy the company product.

CONCLUSION

Above the study in the area of unethical challenges in accounting and finance like scams which go into crores of rupees are just a symptom of a problem that runs deep into the very subject of ethics. This poses a biggest challenge to the financial industry. An individual is not born ethical or unethical. It is his surrounding environment that has a larger bearing on a human's ethics. It directly points out to the overall process of growth and development through which a human being undergoes in his lifetime. It is the compounded effort of all the elements of a person's environment this parents, teachers, friends and colleagues that has an impact on a person's ethical behavior. Developing and adopting ethical behavior is a long term process.

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