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NEED/IMPORTANCE OF THE STUDY
STATEMENT OF THE PROBLEM
OBJECTIVES
HYPOTHESIS (ES)
RESEARCH METHODOLOGY
RESULTS & DISCUSSION
FINDINGS
RECOMMENDATIONS/SUGGESTIONS
CONCLUSIONS
LIMITATIONS
SCOPE FOR FURTHER RESEARCH
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APPENDIX/ANNEXURE

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BOOKS

- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
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- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

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ACCOUNTING AND ETHICS A TOOL OF FORESIGHTEDNESS

M. C. SHARMA
HEAD
DEPARTMENT OF ABST
UNIVERSITY OF RAJASTHAN
JAIPUR

TAJINDER KAUR
ASST. PROFESSOR
POST GRADUATE GOVERNMENT COLLEGE
SECTOR - 11, CHANDIGARH

ABSTRACT

The paper aims to study the issues related to ethics and role of accountant. When an accountant audits the firm it becomes his duty to take every care to present the true picture of business to the public. In this context, this paper focuses on the following aspects: the concept of ethics, accounting associations to frame guidelines related to ethics, various scandals in the field of accounting and finance, and steps to prevent those issues. Although code of conduct is framed for almost every kind of profession e.g. in the field of medicine, law, police, teaching, administrative services etc. but so far business is concerned it is nevertheless less important reason being in such places public money is involved and accountant is assigned the task of showing the truth and fairness of the business. The paper presents a theoretical framework as well as some empirical research and recent developments in the field of ethical accounting. The paper has presented in detail the developments in the field ethical accounting. Formation of different accounting associations to regulate the work of accountants at global level shows the need of such issues as the financial and accounting scandals are increasing. Although the development in the field of accounting and ethics are going hand in hand prominently because every development brings different problems specially when cross border trade takes place and there is change in accounting methods from one country to another. The point which is to be noted for the accountant is to act in most genuine way for the welfare of the large group without thinking that someone is watching.

KEYWORDS

accounting ethics; accounting ethical associations; accounting scandals.

INTRODUCTION

Ethics is knowing the difference between what you have a right to do and what is right to do.

Stakeholders are of great importance as they are always interested in knowing the correct financial position of the company in which they are attached, because it is the only tool which is available to them to know the functioning of the company. Hence it becomes the duty of the people preparing financial statements to provide true and fair position of the company.

Ethics plays an important role in all the professions otherwise the wave of commercialization and easy making of money could have destroyed the very spirit of the genuine work where trust plays very important role. The word ethics itself means individual behavior and community culture. Various individuals would be having different opinion on the same subject because of which what is perceived as right by one may be considered wrong by the other. Hence doing what one thinks right may not always be the right thing to do. This is the essence of the term Ethics which may be defined as "those moral principles which guide the conduct of the individuals irrespective of the difference of the opinions among individuals.

This may be one of the main causes of making code of conduct of different professions, had it been medicine, teaching, accounting or business. When we talk of business it seems that this is the place where there is no role of ethics, but it is totally wrong so far this perception is concerned reason being business is run for the society and the money invested in big companies relates to the public, so it becomes the moral responsibility of the business to work in public interest. At present it is the need of the hour because the number of business scandals worldwide is shooting up.

RELEVANCE

A public company uses large amount of capital of its investors who actually do not directly controls the business. How will they be communicated about the functioning of the company, it is only the financial statements prepared by the accountants which will convey them regarding the financial position of the company but if we look at the frauds committed by companies we find that it is utmost important to not only know but to make companies aware about the ethical aspect of accounting.

METHODOLOGY

This is an empirical study which throws light on recent developments in the field of accounting and ethics.

CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS

Doing right thing does not automatically bring success, but compromising ethics almost always leads to failure.

IESBA

International ethics standard board for accountants develops an internationally appropriate code of ethics for professional accountants. It is an independent standard setting body. The objective of ISEBA is to serve is the public interest by setting high quality ethics standard for professional accountants. Its long term objective is convergence of code's ethical standard for professional accountants, including auditor independent standards, with those issued by regulators and national standard setters. Convergence to a single set of standards can enhance the quality and consistency of services provided by professional accountants throughout the world and can improve the efficiency of the global capital markets.

IESBA consists of 18 board members from around the world of whom no more than 9 are practitioners and no less than 3 are public members.

IFAC

International federation of accountants has established the ethics standard board for accountants to develop and issue ethical standards for professional accountants for use around the world. The code of ethics for professional accountants establishes ethical requirements for professional accountants. The approach of accountant shall be to act in public interest. It was founded in 1977, and currently comprised of more than 175 members and associates in more than 130 countries and jurisdictions representing almost 3 million accountants in public practice, education, government service, industry and commerce.

As part of its public interest, IFAC contributes to the development, adoption and implementation of high quality international ethics standards for accountants, primarily through its support of IESBA.

PART A OF THE ACT

As per this part the accountants are required to abide by the guidelines given on the fundamental ethical principles.

PART B AND C

Part B applies to professional accountants in public practice and part C applies to professional accountants in business.

FUNDAMENTAL PRINCIPLES OF IFAC

- INTEGRITY

An accountant should be straightforward while dealing with the client. This will bring in order various things required by the accountant. In addition to it he should be honest in professional and business relationship.

- OBJECTIVITY

While carrying out the work of accounting and auditing he should not allow bias, conflict of interest or undue influence on professional/ business judgments.

- PROFESSIONAL COMPETENCE WITH DUE CARE

An accountant should not only be professionally qualified rather he should be aware of the current developments in practice, legislation and techniques.

- CONFIDENTIALITY

Without any specific authority it is ethical to maintain confidentiality. It should not be used by the accountant to benefit any third party.

- PROFESSIONAL BEHAVIOUR

It means comply with relevant laws and regulations and avoid actions that is not allowed by the profession.

WORST ACCOUNTING SCANDALS AT A GLIMPSE

1. WASTE MANAGEMENT SCANDALS (1998)

It reported $1.7 billion in fake earnings.

WHAT THEY DID

The company falsely increased the depreciation time length for their property, plant and equipment on the balance sheet.

2. ENRON SCANDAL (2001)

Shareholders lost $74 billion

WHAT THEY DID

It kept huge fund off the balance sheet.

3. WORLD COM SCANDAL

It inflated assets by as much as $11 billion.

WHAT THEY DID

Underreported cost by capitalizing it rather than expensing it and inflated revenues with fake accounting entries.

4. TYSCO SCANDAL

CEO and CFO stole $150 million and inflated company income by $500 million.

WHAT THEY DID

Money was taken via approved loans fraudulent stock sales. Money of company was given to executives as bonus and benefits.

5. HEALTH SOUTH SCANDAL (2003)

Earnings were inflated to $1.4 billion to meet stockholder's expectations.

6. FREDDIE MAC (2003)

$5 billion in earnings were misstated.

WHAT THEY DID

It intentionally misstated and understated earnings on the books.

7. AMERICAN INTERNATIONAL GROUP SCANDAL (2005)

Its accounting fraud was to the extent of $3.9 billion.

8. LEHMAN BROTHERS SCANDAL (2008)

Its accounting scandal was to the extent of $50 billion.

9. BERNIE MADOFF SCANDAL (2008)

Investors in this company was paid out of their own money rather than from profit.

10. **SATYAM SCANDAL (2009)**

It falsely boosted revenue by $1.5 billion.

FRAUDULENT FINANCIAL REPORTING

When there is misstatement in financial statement which is intentional is called fraudulent financial reporting. This presents incorrect information to the stake-holders. Fraudulent financial reporting can be:

1. MANIPULATION

It can be false representation or alteration of accounting reports or supporting documents from which financial statements are prepared.

2. MISREPRESENTATION

It means intentional omission from the financial statements of events, transactions or other significant information.

3. **WRONG ACCOUNTING**

It means intentional misapplication of accounting principles relating to amounts, classification and manner of presentation or disclosure.

4. FALSIFIED DOCUMENTATION

It means changing the information by providing false records e.g. fictitious invoices

5. COLLECTIVE FRAUD

Fraud can also be committed by collective planning of employee and management.

CONCLUSION

To conclude it can be said that although the frauds are mounting up but this is not the sole responsibility of the auditor. After all he is not directly related with the preparation of the records. The emphasis requires to be given to the internal control where the role of management accountant is of great significance. The management accountant needs to develop a good internal control system and clarity of accounting assumptions and principles which are going to be incorporated in the books of accounts. Once the books are maintained properly the work of the auditor will be reduced, as he is just the outsider whose work is to give his opinion only on financial transactions. The rules made by various law making bodies that is International ethics standard board for accountants and International federation of accountants along with the introduction of corporate social responsibility which itself includes true and correct preparation of books of accounts will improve the reliability of financial information. More the reliability of financial statement more will be the confidence of the stakeholders. It will certainly give advantage to the company to compete in the business. So far human mind is concerned when superseding the laws fraud is committed new laws are enacted.

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I am sure that your feedback and deliberations would make future issues better – a result of our joint effort.

Looking forward to an appropriate consideration.

With sincere regards

Thanking you profoundly

Academically yours

Sd/-
Co-ordinator

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