Certified Public Accountants: Ethical Perception Skills and Attitudes on Ethics Education

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ABSTRACT. This study investigated the proficiency of CPAs in recognizing and evaluating ethical and unethical situations. In addition, CPAs provided attitudes on ethics education. Respondents were asked to evaluate the ethical acceptability of CPA behavior as presented in six vignettes involving a variety of ethical dilemmas from questions of conflict of interest to questions of personal honor. The results tend to signify that CPAs can, to a degree, distinguish ethical and unethical behaviors. It appears that ethical behaviors and very specific unethical behaviors were more easily identified by practitioners. This may reveal uncertainty and apprehension as to exactly what constitutes unethical behavior since, in many circumstances, this resolution is made on a case-specific basis rather that via a universal rule. In addition, it is interesting to note that CPAs tend to picture themselves as more ethically-oriented than their peers.

With respect to ethics education, the CPAs indicated that instruction in ethical concepts and literacy was important and should definitely be embodied in the accounting curriculum as well as at all educational levels. However, the CPAs were remarkably uncertain and ambivalent as to the qualifications of university faculty to provide this instruction and guidance.

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In today's increasingly complex and competitive environment, ethical behavior has become the topic of intense debate and scrutiny. Numerous scandals and revelations involving political, religious, and business leaders have combined to produce an unprecedented erosion of public confidence and trust. The integrity and ethical commitment of our leaders and professionals have never been more in question. The profession of accounting has not gone unscathed in this era of "do rightness", having often been the focus of society's mandates of integrity, morality, conscience, and service in the public interest (e.g., the savings and loan debacle).

Ethics and accounting

Ethics. The common perception of ethics as a state of right vs. wrong, or good vs. evil, is much too simplistic. Ethics involve a complex process of determining what one should do in a given situation; a balancing of both inner and outer considerations tempered by each individual's unique combination of experiences and learning. Ethical conduct is a product of human reasoning involving both knowledge and practice (Bryon, 1977). Such conduct is a basic tenet of a profession's commitment to service and integrity.

The profession of accounting has traditionally commanded an exceedingly high level of respect and admiration, receiving superior marks for ethical standards ("CPAs are More Ethical . . ." 1987; Williams, 1990). However, recent developments in the

Journal of Business Ethics **12**: 601–610, 1993.

profession (e.g., increased competition, broadened scope of services, frequent litigation) as well as rapidly occurring legal, political, social, and economic phenomena have escalated and intensified demands for an increased ethical awareness among accountants. Each new social and professional development poses uncertainties and, all too frequently, ethical dilemmas for accountants (Loeb, 1988). As such, the profession is keenly aware of the need for a heightened appreciation of ethical behavior and, as required, ethical reform within its own ranks (e.g., the revised AICPA Code of Professional Conduct, the Arthur Andersen Conferences on Teaching Business Ethics).

Codes of ethics

Common to all professions is the development of and adherence to a standard of professional ethics and conduct. While the standard may vary in both breadth and detail among professions, an accepted criterion of professionalism is adherence to a code of conduct more rigorous than that required by law. In essence, a code is a vehicle to assure the public, clients, and colleagues that members of the profession are competent; that they have integrity; and that the profession intends to maintain and enforce high standards. The profession of accounting has maintained some degree of ethical standards since the early 1900s (Casler, 1964).

The majority of professional associations also have codes of ethics which are to be adhered to by their members. The American Institute of Certified Public Accountants (AICPA), the Institute of Management Accountants (IMA), the Institute of Internal Auditors (IIA), and the Financial Executives Institute (FEI), among others, have codes which describe the behavior expected of their respective constituents. Business firms are also developing and implementing codes of conduct for employees. A common characteristic of these codes is that each contains provisions for prescribed, or positive, behavior as well as for detailing the penalties for noncompliance.

Codes of ethics, however, are only partial solutions to the problem of ethical behavior (O'Malley, 1991). An individual makes the ultimate decision of how he or she will act in a given situation. Codes can only provide emphasis and guidance to the individual in the fulfillment of his/her professional responsibilities (Copeland, 1988). However, knowledge of the applicable codes should better enable an individual to adapt to the changing environments within which he/she operates, to more effectively recognize ethical dilemmas, and to respond to these dilemmas in a professional and conscientious manner.

Current study

The primary purpose of the current study was to investigate the ability of Certified Public Accountants (CPAs) to recognize and evaluate ethical and unethical situations. A secondary objective was to examine the attitudes of CPAs concerning ethics education. The data for this study was collected via a survey of 733 Certified Public Accountants who are in public practice in the United States. The subjects were randomly selected from the 1989 membership of the AICPA. Responses were received from 197 subjects resulting in a 26.9 percent response rate.

In the first section of the survey instrument, respondents were requested to evaluate the ethical acceptability of CPA behavior as presented in six vignettes. Utilizing a Likert scale of 1 to 5 with 1 being totally acceptable and 5 totally unacceptable, respondents were questioned as to their own individual assessment of the described behavior as well as their personal assessment of how CPAs in general would respond. Responses to the second assessment incorporate the attitudes and ideas to which respondents have been exposed through contact with accounting peers, accounting media exposure, and numerous other personal and professional influences. Thus, these responses reflect judged perceptions concerning the ethical acceptability of the behaviors to the profession as a whole.

For the purposes of this study, ethical behavior is defined as behavior in accordance with the AICPA Code of Professional Conduct. Since all of the subjects are members of the AICPA, each should be familiar with the Code. The analysis utilized the Kolmogorov-Smirnov one-sample test and the paired t-test procedure (as appropriate). In addition to gender, the effect of other selected demographics (e.g., age, income, position, firm size, firm ethics policy statement, firm CPE provisions) were analyzed via t-test and one-way ANOVA procedures (as appropriate). A significance level of 0.05 was used in the analysis.

In the second section of the instrument, respondents were invited to indicate the extent of their agreement with statements relating to the current status of ethics education and accounting educators. Frequency distributions, by gender, were developed for the responses.

Data analysis

Subjects in this study were male and female CPAs in public practice in the United States. Demographic data for the respondents is presented in Table I. The composite female respondent is a manager in a local CPA firm which does not have a written firm ethics policy statement. In her thirties, she has been a CPA for 6.3 years and has an annual income between $40 000 and $49 999. The composite male respondent is a partner (or sole proprietor) of a local CPA firm with no formal written firm ethics policy statement. In his thirties, he has been a CPA for 11.8 years and has an annual income of $50 000–59 999.

TABLE I
Characteristic of respondents

Characteristic (*N*)	*Female* (59)	*Male* (136)
Firm Type:		
International	28.8%	17.9%
National	00.0	01.5
Regional	10.2	14.2
Local	61.0	66.4
Position:		
Partner/sole proprietor	23.8%	69.1%
Manager	52.5	20.1
Senior	16.9	07.2
Staff	05.1	03.1
Other	01.7	00.5
Years as a CPA	06.3	11.8
Age	30–39	30–39
Income	$40 000–$49 999	$50 000–$59 999
Firm Ethics Policy:		
Firm policy	43.9%	42.7%
No firm policy	56.1	57.3

Discussion of results

The six vignettes include a variety of ethical dilemmas from questions of conflict of interest to questions of personal honor. The specific issue involved in and a brief description of each vignette are presented in Table II.

Vignette 1 – tax referral compensation (ethical)

Vignette One required an ethical assessment of a CPA paying a small compensation to a client for a tax referral (Loeb, 1971: p. 300). Referral fees are now acceptable in non-attestation engagements as a result of a settlement between the AICPA and the Federal Trade Commission (AICPA, 1988; 1991: Rule 503).

Analysis indicates that most practicing female CPAs (62.5%) as well as most male CPAs (57.4%) identified this behavior as unacceptable (see Figure 1). When queried about CPA judgments in general, 19.3 percent of the female CPAs indicated that CPAs would consider the behavior unethical while 33.1 percent of the male CPAs held this opinion.

The demographic of firm hierarchy ($p = 0.0466$) significantly affected the overall CPA's own judgments of the behavior. CPAs in lower level positions (staff mean, 4.33; senior, 3.95) assessed the conduct to be more unacceptable than those in higher positions (partner mean, 3.40; manager, 3.25; sole practitioner, 2.56). In addition, gender had a significant effect on the assessment of expected peer behaviors ($p = 0.032$). Female CPAs (mean 2.07) judged that other CPAs would view the actions as more acceptable than did male CPAs (mean 3.04). For female CPAs, the peer assessments of those whose ethics education was provided in CPE courses (mean 2.41) was significantly different ($p = 0.011$) from the peer assessments of the non-CPE course female CPAs (mean 3.15). CPE-educated female CPAs thought most CPAs would find the

TABLE II
Vignette issues and descriptions

Vignette	Issue	Description
1	Tax referral compensation	A CPA compensates a client with a small gift, dinner, and a reduced fee for the current year in exchange for a tax referral (Loeb, 1971: p. 300).
2	Audit disagreement	The auditor-in-charge of an audit fails to document an audit disagreement in the workpapers (Meigs *et al.*, 1988: pp. 331–332).
3	Failure to inform client	A CPA recommends a software package to a non-audit MAS client. The client was not informed that the software company had a potential going concern problem (Mintz, 1990: pp. 29–32).
4	Client transaction	A partner in an international CPA firm becomes aware of his audit client's proposed transaction with an audit client of a different office of his firm. The transaction involves out of line cost and appraisal values. The partner takes no action (Meigs *et al.*, 1988: pp. 138–139).
5	SGA opinion	A professor is retained to audit his university's SGA's financial statements. An unqualified opinion is issued (Delaney and Gleim, 1989: p. 83).
6	Investment in audit client	A partner in a CPA firm shares a condominium with her fiance. The fiance, a stockbroker, acquires stock in one of the partner's audit clients. The shares are not material to the fiance's net worth (Meigs *et al.*, 1988: p. 107).

behavior more acceptable than did non-CPE educated female CPAs.

The preceding may be influenced by the fact that most CPAs were educated when referrals were unacceptable for all engagements. This should, however, not deter from the finding that a majority of the practitioners incorrectly assessed the ethical status of an increasingly common phenomenon.

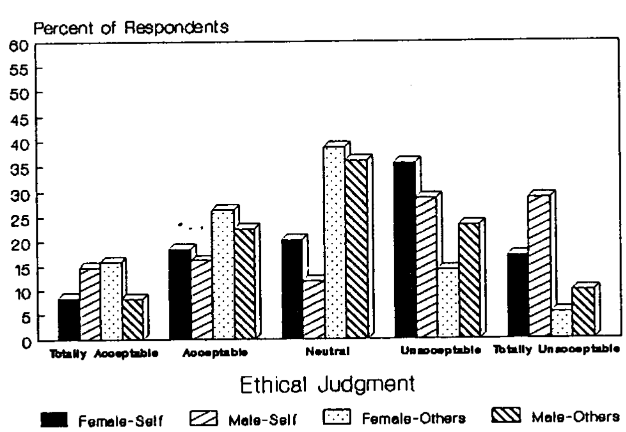

Fig. 1. Tax referral compensation.

Vignette 2 – audit disagreement (unethical)

In the second vignette, subjects assessed the impact of the failure of the auditor-in-charge to document an audit disagreement in the engagement workpapers (Meigs *et al.*, 1988: pp. 331–332). While the described behavior is not specifically addressed, the Code does require auditors to comply with the standards issued by the appropriate bodies (AICPA, 1991, Rule 202); in this case, the Statements on Auditing Standards as issued by the Auditing Standards Board. According to AU Section 311.14 (ASB, 1992), such disagreements should be documented in accordance with procedure. The Code also requires the exercise of due professional care in the course of an engagement (AICPA, 1991, Rule 201). Per AU Section 9311.35-7 (ASB, 1992), a professional responsibility exists to bring such disagreements to the attention of appropriate personnel. Thus, the described behavior violates the Code.

As exhibited in Figure 2, both females (79.7%; mean 4.10) and males (67.7%; mean 3.80) overwhelmingly agreed that this behavior was unacceptable. While both male and female practitioners did not believe that their colleagues would object to the behavior as emphatically as they themselves did, their responses showed that they felt CPAs in general would also regard the behavior as unacceptable (female CPAs — mean 3.55, unacceptable assessment 55.2%; male CPAs — mean 3.39, unacceptable assessment 51.9%). Again, the two assessments of the behavior were significantly different ($p = 0.000$).

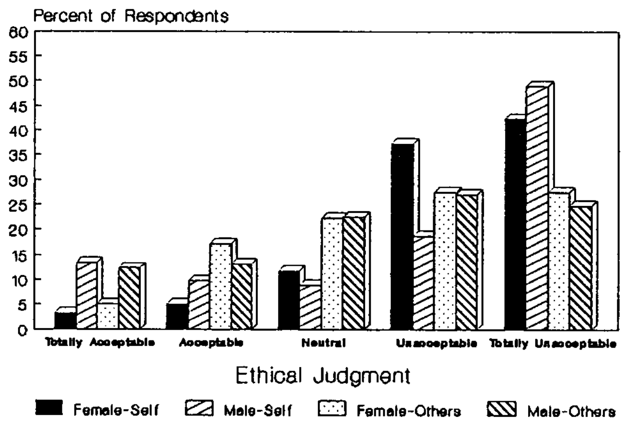

Fig. 2. Audit disagreement.

Of the demographic factors, only age had a significant effect on male CPAs' own judgments ($p = 0.0192$) and on their assessment of CPA judgments ($p = 0.0334$). In both cases, older male CPAs tended to assess the behavior as more acceptable than their younger counterparts.

Vignette 3 — failure to inform client (unethical)

The third vignette involved a CPA's recommendation of a software package to a Management Advisory Services (MAS) client while failing to inform the client that the software company had a potential going concern problem (Mintz, 1990: pp. 29—32). By not revealing all of the facts to the client, the CPA has knowingly misrepresented the situation and, thus, violated the Code's requirement of objectivity and integrity (AICPA, 1991: Rule 102).

The majority of female CPAs (69.5%) as well as the majority of male CPAs (80.8%) perceived the action to be unacceptable, as presented in Figure 3. Furthermore, both female (mean 3.48; 50.0%) and male (mean 3.92; 68.7%) CPAs thought that CPAs in general would also consider this unacceptable behavior. Again, in each case, the Own Judgment mean was significantly larger than the Judgment of CPAs mean ($p = 0.000$).

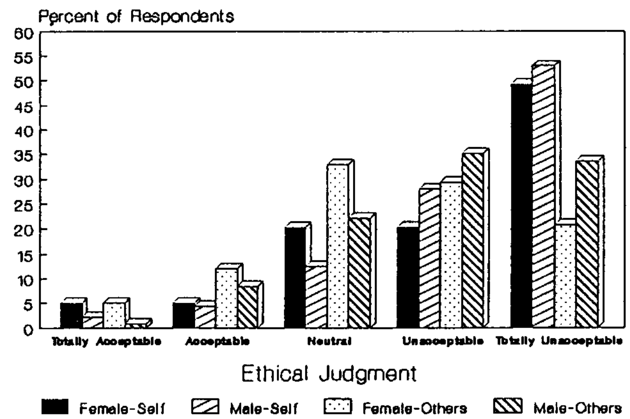

Fig. 3. Failure to inform client.

Gender significantly affected the peer assessments for Vignette 3 ($p = 0.007$). Male CPAs perceived the behavior as more unacceptable than did their female counterparts. Position had a significant effect ($p = 0.0015$) on the male CPAs' own judgments. Male staff members were much more accepting of this behavior than male CPAs at the senior level and above.

Vignette 4 — client transaction (ethical)

In the fourth vignette, the auditor became aware of a client's business transaction whose basis was out of line with both cost and appraisal values. The CPA did not notify either the other company or its auditor who was a member of the CPA's own firm (Meigs *et al.*, 1988: pp. 138—139) CPAs are obligated to hold confidential all client information obtained in the course of an engagement (AICPA, 1991: Rule 301). Thus, the auditor's behavior was in accordance with the Code.

As can be seen in Figure 4, the responses of both male and female CPAs reflect agreement with the behavior. Approximately 56 percent of the female CPAs and 77 percent of the male CPAs perceived the actions as acceptable. Additionally, the majority (female, 62.1%; male, 69.2%) of the practitioners also felt that other CPAs would accept such behavior. No significant differences were observed between the two assessments for the entire respondent group.

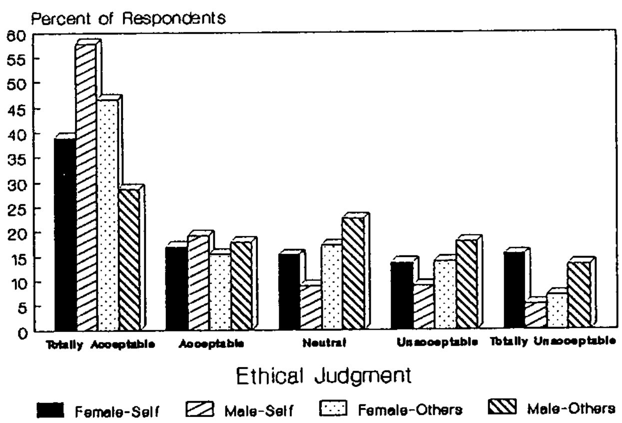

Fig. 4. Client transaction.

Gender was determined to significantly ($p = 0.004$) affect the CPAs' own assessment. Male CPAs (mean 1.84) perceived the actions as more ethical than did female CPAs (mean 2.49). For male CPAs, the firm's lack of provisions for ethics education significantly affected both their own judgments ($p = 0.047$) and their peer behavior judgments ($p = 0.028$). Male CPAs in firms with no ethics education provision perceived the behavior as more unacceptable for themselves and for their peers than their other male counterparts.

Vignette 5 — SGA opinion (unethical)

This vignette involved a CPA-professor issuing an unqualified opinion after auditing his university's Student Government Association (SGA) financial statements (Delaney and Gleim, 1989, p. 83). As an employee of the same university of which the SGA is a part, the CPA-professor is not independent under the Code and, thus, cannot issue an opinion (AICPA, 1991, Rule 101).

Significant differences were reported between the responses of CPAs' own judgments and their assessments of general CPA judgments (2.97 vs. 2.80) with both response sets indicating the action to be moderately ethical (which is not the case). Of the male respondents, 45.4 percent felt that in their opinion the behavior was ethical while 40.1 percent indicated that the behavior was totally or partially unacceptable. Interestingly, only 35.7 percent of the female respondents agreed with the behavior while 48.2 per cent assessed it as unacceptable. However, as presented in Figure 5, a greater number of respondents (female, 37.0%; male, 47.2%) indicated that CPAs in general would accept this as ethical behavior.

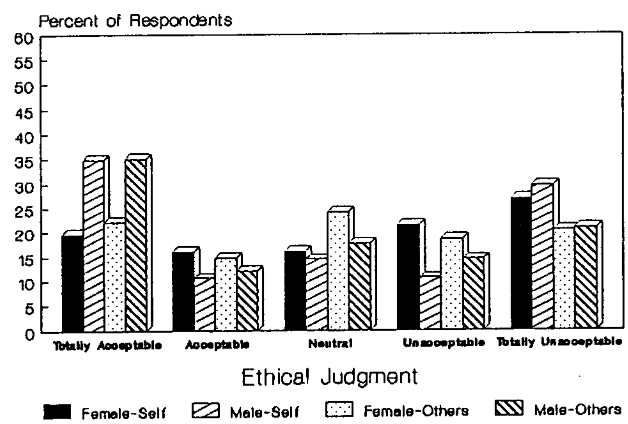

Fig. 5. SGA opinion.

The two demographic variables to significantly affect the responses were income and position in firm. CPAs with incomes over \$40 000 tended to more readily accept the behavior for themselves ($p = 0.021$) and for the actions of CPAs in general ($p = 0.018$). Furthermore, CPAs occupying staff and senior level positions viewed this behavior as more unethical for both assessments than did their higher positioned colleagues. For female CPAs, income significantly affected both the female's own behavior assessments ($p = 0.042$) and peer behavior assessments ($p = 0.010$). In addition, ethics education through CPE courses significantly affected the female CPA's judgments regarding the behavior of fellow CPAs ($p = 0.044$) with those having had such a course indicating that more CPAs would find the behavior acceptable.

The fact that, in their own estimation and in their perception of general CPA judgment, CPAs found this behavior acceptable is a cause of concern. Perhaps, this assessment indicates that CPAs do not discern this as being an occurrence with material financial or legal implications and, accordingly, of relatively minor importance.

Vignette 6 — investment in audit client (ethical)

In the concluding vignette, the CPA's fiance, with whom she shares her condo, began acquiring shares of stock in her audit clients (Meigs *et al.*, 1988: p. 107). Technically this does not violate the Code since the two individuals are legally unrelated. Thus the CPA does not have a direct or a material indirect financial interest in an audit client (AICPA, 1991; Rule 101).

As presented in Figure 6, the responses for both female and male CPAs reflect acceptance of the behavior as ethical for themselves (female, 58.6%; male, 49.3%). This also holds true for their assessments of peer behavior (female, 56.3%; male, 46.5%). However, 29.3 percent of the female practitioners and 35.9 percent of the male CPAs perceived the action as unacceptable for themselves with 27.2% and 31.0%, respectively, feeling that most CPAs would not embrace this behavior.

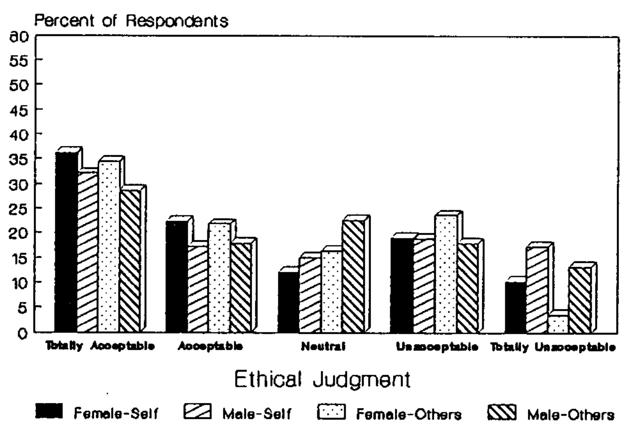

Fig. 6. Investment in audit client.

Firm type significantly affected perceptions for the CPAs' own appraisals ($p = 0.003$). Practitioners in local firms felt the action to be more acceptable for themselves (mean 2.35) than did those in regional (mean 3.00), national (mean 3.50), and international (mean 3.21) firms. Income had a significant effect on the female respondents' own assessments with those earning between \$40 000 and \$50 000 much more accepting of the behavior (mean 1.65) than those in other income categories. Additionally, the lack of firm provision for ethics education significantly affected the female CPA's assessment of peer behavior ($p = 0.016$). Female practitioners whose firm did not have any ethics education provisions judged the behavior as less acceptable (mean 3.33) than those whose firm did have such provisions (mean 2.22).

For male CPAs, four demographic variables (firm type, position, in-house ethics education, and firm ethics policy statement) had a significant impact on their own behavior judgments with only one demographic variable (age) affecting the male CPAs' assessments of peer behavior. Male CPAs in local firms viewed the behavior as more acceptable (mean 2.43) as did sole proprietors (mean 1.67) and staff (mean 1.67). Male CPAs employed in firms with ethics policy statements were also more accepting of the behavior (mean 2.42). However, where in-house ethics training is provided, male CPAs tended to view the behavior as unacceptable for themselves (mean 4.47). Regarding peer behavior, older male CPAs (over 60) felt that other CPAs would accept the described behavior as ethical (mean 1.2).

Perceptions of ethics education

Many professions (e.g., law, medicine) include ethics courses as part of a member's professional education. Currently, the majority of formal ethics education for accountants is obtained in the Auditing course (Cohen and Pant, 1989). The profession recognizes that more emphasis must be placed on the instruction of ethics in the accounting curriculum. The Treadway Commission (1987) recommends that ethics be included in all accounting courses not just the Auditing course. The Federation of Schools of Accounting (FSA), the American Accounting Association (AAA), and the Institute of Management Accountants (IMA) are each involved in and committed to an increasing level of ethics awareness and education. Many accountants feel that classroom exposure to accounting ethics may better enable individuals to handle the ethical dilemmas encountered in practice (Loeb, 1988).

To appraise CPA perceptions pertaining to formal instruction in ethical behavior, five statements regarding ethics education and accounting educators were presented for evaluation. The responses, displayed in Table III, reveal the CPAs' own attitudes and assessments resulting from their individual personal, professional, and educational experiences.

The preponderance of both female (94.9%) and male (87.5%) CPAs indicated their conviction that ethical behavior/professionalism can and should be a part of all levels of the education process. Moreover, 69.0 percent of female CPAs and 61.8 percent of male CPAs concurred that ethics/professionalism can be learned in the classroom environment. Most of these accounting practitioners (female, 74.6%; male, 68.9%) expressed a desire to have such instruction as an integral part of all accounting courses. Nevertheless, they were unsure as to the qualifications of accounting academicians to teach ethics. Female respondents expressed more concern than male respondents in this area. In his examination of accounting ethics instruction, Loeb contended "... that in absence of primary training in both areas, classroom education in accounting ethics would be more effectively conducted by an individual with primary training in accounting who has had sufficient training in ethics so that he or she can effectively address goals [of accounting ethics education]" (1988, p. 325).

Of the female respondents, 31.0 percent felt that accounting faculty were not qualified to teach ethics, 27.6 percent indicated positive assessment of faculty abilities, and 41.4 percent were neutral. Nearly 19 percent of male CPAs indicated a lack of qualifica-

TABLE III
Respondent perceptions of ethics education and accounting educators

Statement	Male			Female			Combined		
	Agree % (*N*)*	*Neutral* % (*N*)	*Disagree* % (*N*)	*Agree* % (*N*)	*Neutral* % (*N*)	*Disagree* % (*N*)	*Agree* % (*N*)	*Neutral* % (*N*)	*Disagree* % (*N*)
A	61.8 (84)	14.7 (20)	23.5 (32)	69.0 (40)	19.0 (11)	12.0 (7)	64.1 (124)	15.9 (31)	20.0 (39)
B	87.5 (119)	08.1 (11)	04.4 (6)	94.9 (56)	05.1 (3)	00.0 (0)	89.2 (175)	07.7 (14)	03.1 (6)
C	68.9 (93)	16.3 (22)	14.8 (20)	74.6 (44)	18.6 (11)	06.8 (4)	70.8 (137)	16.9 (33)	12.3 (24)
D	34.7 (47)	46.7 (63)	18.6 (25)	27.6 (16)	41.4 (24)	31.0 (18)	32.5 (63)	45.4 (87)	22.1 (43)
E	24.4 (33)	43.0 (58)	32.6 (44)	08.4 (5)	48.2 (29)	42.4 (25)	19.5 (38)	45.2 (87)	35.3 (69)

* *N* = Frequency of respondents

Statement

A An individual can learn ethical behavior and professionalism in a classroom setting.
B Ethical behavior and professionalism should be taught at all levels of education.
C Ethical behavior and professionalism should be an important part of the majority of courses in the accounting curriculum.
D The accounting faculty at most universities are qualified to teach ethics and professionalism.
E Accounting educators have helped the profession to confront and solve moral and ethical dilemmas.

tions on the part of accounting faculty with nearly 35 percent responding favorably. However, 46.7 percent of the male respondents were neutral in their estimation of faculty credentials and qualifications. The reported skepticism is further reflected in perceptions pertaining to the role of accounting educators in aiding the profession with moral/ethical enigmas. Approximately 49 percent of the female respondents and 43 percent of the male respondents had no opinion as to the educator's role in resolving the profession's ethical dilemmas.

Overall, the results signify that CPAs surmise that some degree of ethical behavior can be taught in an educational environment and that ethics/professionalism should be a prominent part of the education process. Notwithstanding, CPAs appear to be undecided as to the identity and source of the persons best qualified to provide this instruction.

Summary and conclusion

This study investigated the proficiency of CPAs in recognizing and evaluating ethical and unethical situations. The results tend to signify that CPAs can, to a degree, distinguish ethical and unethical behaviors. In three vignettes, the plurality correctly assessed the acceptability of the characterized behavior with a fourth vignette reflecting a near majority correct evaluation. It further appears that ethical behaviors and very specific unethical behaviors were more easily identified by practitioners. This may reveal uncertainty and apprehension as to exactly what constitutes unethical behavior since, in many circumstances, this resolution is made on a case-specific basis rather than via a universal rule. The preceding may change as the AICPA continues to amend the Code of Professional Conduct and as other interested parties (e.g., the Accounting Education Change Commission) encourage ethics education. In addition, it is interesting to note that CPAs tend to view themselves as more ethically-oriented than their peers.

The findings in this study indicate that many CPAs found the technically acceptable behaviors to be personally unacceptable. This is a good sign in that it may signify that CPAs hold themselves to a higher standard than the Code of Professional Conduct, which defines minimum acceptable behavior. However, it is still disquieting to note the large minority of CPAs who found unethical behavior acceptable.

With respect to ethics education, the CPAs indicated that instruction in ethical concepts and literacy was important and should definitely be embodied in the accounting curriculum as well as at all educational levels. However, the CPAs were remarkably uncertain and ambivalent as to the qualifications of university faculty to provide this instruction and guidance. While raising questions as to who should dispense the instruction and why CPAs may perceive that accounting educators are not qualified, these uncertainties do not obscure, nor diminish, the fact that CPAs appear to be in accord with the AACSB, FSA, AAA, IMA, and others, in feeling that the coverage of ethics/professionalism is important.

In summary, the findings strengthen and sustain the relevance and importance of ethics instruction. Additionally, the findings raise pivotal questions as to the perceived qualifications of accounting faculty to provide appropriate instruction in ethical/professional conduct and leadership in facilitating the ability of the profession to confront and solve moral and ethical dilemmas.

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