

IMPROVING ETHICAL EDUCATION IN THE ACCOUNTING PROGRAM: A CONCEPTUAL COURSE

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ABSTRACT

The call for increased coverage of ethics in the accounting curriculum remains a topic of discussion and debate. While there is agreement among students, educators and administrators that ethics is important and needed in the accounting curriculum, actions to increase such coverage remain dubious. The adoption of 150- hour requirement by most states to sit for the CPA exam provides the necessary space to incorporate a stand-alone accounting ethics course in the accounting curriculum. Some scholars believe that if students are not taking a stand alone accounting ethics class they are not adequately prepared for the demands and expectations of the workplace, or of society. This paper provides a framework that educators can use in developing a stand-alone ethics course to address the demand for more ethical coverage in the accounting curriculum. We discuss the rationale for an accounting ethics course, its placement in the accounting curriculum, and topics to be included in this course.

INTRODUCTION

The role of accountants is critical to society. Accountants serve as financial reporters and intermediaries in the capital markets and owe their primary obligation to the public interest. The information they provide is crucial in aiding managers, investors and others in making critical economic decisions. Accordingly, ethical improprieties by accountants can be detrimental to society, resulting in distrust by the public and disruption of efficient capital market operations.

The numerous incidents of unethical behavior in the accounting profession stress the need for increased ethics in accounting education. Students are graduating with accounting degrees who are not familiar with professional codes of ethics, and who do not have the ability to detect nor address ethical accounting dilemmas. Lam & Samson (2005) noted that cleverness and creativity have replaced the traditional honesty and integrity which have characterized accountants of the past. Employers are no longer satisfied with just hiring competent accountants, but are looking for those who know the importance of, and are equipped with skills necessary to make ethical decisions. Therefore, in order for professional accountants to fulfill their role in society, they must not only have intellectual and technical expertise but also moral expertise (Mintz, 1995). This, however, may be a challenge since accounting curricula may be focusing mostly on the technical aspect of the profession and pushing instruction in ethical behavior by the wayside (Madison, 2002).

In the past, a common argument for not including an accounting ethics course involved not having room in an already crammed accounting curriculum. This, however, is no longer a valid argument with the adoption of the 150-hour rule by all but four states. The 150-hour rule provides an opportunity to improve weaknesses in accounting education and better prepare students for

careers in the accounting profession. As such, and in an attempt to restore the reputation of the accounting profession, the National Association of State Boards of Accountancy (“NASBA”) proposed that CPA candidates be required to not only take a business ethics course but also an accounting ethics course. However, as a result of numerous responses against mandating a separate ethics accounting course, this proposal was not adopted.

While the AACSB only requires that ethics be incorporated into accounting courses, students and administrators agree that there should be more ethics in the accounting curriculum. Kerr & Smith (1995) reported that accounting students are seeking ethical and moral direction and that a lack of ethics can be damaging to the accounting profession and society. The numerous accounting scandals in the early 2000s are evidence of this prophecy and the need for increased ethics in the accounting curriculum. The current mortgage and financial meltdown may eventually also be attributed to accounting and ethical failures.

Bernardi & Bean’s (2006) survey of advanced accounting students reported that the accounting students were in favor of NASBA’s proposal for a separate accounting ethics course by a two-to-one ratio. Furthermore, a survey of 122 accounting administrators from the largest accounting programs in North America reveals that while ethics education has increased substantially in the accounting curriculum over the last twenty years, department chairs would like to see more time allotted to ethics (Madison & Schmidt, 2006).

The state of Texas has taken the lead in recognizing the importance and necessity of ethics in the accounting profession. Effective July 1, 2005, those applying to take the CPA exam in Texas must have completed a pre-approved 3-hour accounting or business ethics course. The state of Maryland has also more recently adopted an ethics requirement. Effective, January 1, 2008, those applying to take the CPA exam in Maryland must have completed a 3-hour course in business or accounting ethics, the philosophy of ethics, or a course that examines the framework of ethical decision-making. Although these are positive steps, they only relate to two states. The majority of other states mandate a stated number of continuing professional education hours to qualify for license renewal. Fisher et al. (2007) noted that the effectiveness of such CPE courses, however, are limited when accounting graduates do not have a foundation in ethics, and accounting educators are not providing the leadership to address the lag.

This paper provides a framework that educators can use in developing a stand-alone ethics course to address the demand of students and administrators who desire more ethical coverage in the accounting curriculum. It also seeks to address the lack of adequate materials for teaching ethics as noted in Blanthorne et al. (2007). We further discuss the rationale for an accounting ethics course, its placement in the accounting curriculum, and topics to be included in the course.

THE ACCOUNTING ETHICS COURSE

Course Rationale

Accounting curricula must prepare students for their professional careers in accounting. This includes the importance of ethics, especially since educating technically proficient but shallow graduates is a disservice to society (Low et al., 2008). Jackling et al. (2007) support this view by

noting that members of professional accounting bodies worldwide acknowledged that ethics should be part of the accounting curriculum, just like any other technical accounting skills.

Furthermore, the Blanthorne et al. (2007) study of accounting professors and their teaching of ethics reported that 98.1% favor its inclusion in at least some accounting courses. Although the favored approach was integration into other accounting courses, the time spent covering ethics was not optimal since it equated to less than one three-credit hour course (48 hours).

The only way to address these deficiencies is the introduction of an accounting ethics course into the curriculum. If students are not taking a stand alone accounting ethics class they are not adequately prepared for the demands and expectations of the workplace (Jackling et al., 2007), or of society (Low et al., 2008). Integrating ethics in accounting courses, at the very best, only exposes students to the fact that ethical issues occur in the accounting profession. It does not equip students with the skills necessary to handle such situations. Students need to be taught how to recognize issues in accounting that have ethical implications and how to perform ethical decision making when confronted with such issues.

Most accounting courses deal with the structured ethical problem where there is usually a single correct answer. In the work environment, however, students will be faced with unstructured problems and information overload. Some unethical behavior may be the actual result of one not being able to recognize the ethical dilemma in an unstructured environment (Bok, 1976). Therefore, if students are pre-exposed to ethical dilemmas that they may face in their careers and taught moral reasoning skills to help them address the dilemmas, they will be better prepared to handle these situations in their future careers. According to Grumet (2002), many ethics violations result from ignorance rather than deliberate action, which points to a great need for ethics education.

Ethics education should involve more than just exposing students to a series of ethical accounting cases (Armstrong, 1993). It should be organized, challenging and interdisciplinary (Holt et al., 1998). The objectives of ethics education should include teaching students to recognize issues in accounting that have ethical implications, developing the moral reasoning skills students need to address ethical dilemmas, and developing a sense of moral responsibility in accounting students (Armstrong, 1993; Callahan, 1980; Loeb, 1988). Ethics education should be effective in making better citizens and, therefore, a better profession and society.

In order to effectively meet the objectives of ethics education, students should be taught ethical theory (Armstrong, 1993; Loeb, 1988). This means substantial time should be allocated to teaching accounting ethics. It is not possible to meet the required ethics objectives by covering ethics in already existing courses. This requires more than just dedicating a class period to teaching ethics, or dedicating a week to teaching ethics. Students need to learn underlying ethical theory, professional codes of ethics, moral reasoning, and moral obligations. Monsour's (2007) ethical response model might also be used as a framework for teaching ethics to accounting majors. The model asks students to identify ethical issues and potential dilemmas in a situation, to create 2-3 feasible courses of actions, and to evaluate the choices using the ethical concepts of universalism, utilitarianism and social norms.

Time is not available in existing courses since educators are already under pressure to complete course content. Therefore, ethics is usually just touched on or left to be covered at the end of the semester, if time allows. The only way the objectives of ethics education can be met is by teaching ethics as a separate course.

Placement in the Curriculum

A course in accounting ethics would be most beneficial as a three credit hour senior-level undergraduate elective course. Educators could encourage students to enroll in the course through the advising process. An example of a syllabus for this course is shown in Appendix A.

While the 150-hour rule only applies to those students interested in becoming certified public accountants, ethical dilemmas are present in all areas of the accounting profession. Students who are interested in working in private industry, government, non-profit and academia will all face ethical dilemmas in their careers. Therefore, all accounting students should be prepared to detect and address ethical issues.

The placement of this course in the accounting curriculum would ensure that accounting students are familiar with the various areas of accounting that would be covered in this course. Also, any exposure to the accounting environment through internships or work experience would enhance the students' comprehension and discussion of issues. These experiences would also provide a basis for students to apply theory and ethical dilemmas to practical experiences.

The ideal curriculum for this accounting ethics course would provide a 'sandwich' approach (Armstrong, 1993). Students would continue to take an introduction to ethics course or business ethics course. Throughout the curriculum, ethics would continue to be covered in existing accounting courses in order to develop decision-making skills. Finally, this capstone course would serve as a comprehensive course that would include applying ethical theory and the professional codes of conduct and ethics to decision-making skills in order to develop and promote moral reasoning. Emphasis would also be placed on discussing current accounting ethics issues and sensitizing students to ethical issues that they may encounter in their professional lives.

Course Content and Instruction

We suggest that the course be taught using a team teaching approach which would involve a philosophy and an accounting professor. A philosophy professor would teach the first section of the course involving the ethical theories from the field of philosophy. An alternative approach is to use guest speakers with a philosophy background if a philosophy professor is not available. This section, as noted in Appendix A, is adopted from Armstrong's (1993) Ethics and Professionalism course. The researcher suggests that traditional ethical theories, theories of moral development and the sociology of professions should be the theoretical basis for a separate course in accounting ethics. These topics will establish the foundation necessary to help students understand the intricacies of moral reasoning and the application of them in all aspects of their lives (personal and professional).

The second section of the course would be taught by an accounting professor. This section involves discussion of the codes of ethics established by accounting governing bodies such as the AICPA, the Institute of Internal Auditors, the Institute of Management Accountants, and the Association of Government Accountants. Students entering a new profession should be knowledgeable of the codes of ethics in which they are subject. This section would expose students to the responsibilities that accountants have to the profession, public and clients. Emphasis would be placed on the importance and need for these codes.

The third section includes discussions on current ethical issues in accounting, such as independence, conflicts of interests, earnings management, whistle-blowing, insider trading, fraud, etc. Attention might be placed on codes that were disregarded, the impact of unethical actions and the accountants' responsibility even if specific codes do not exist. Sanctions and punishments for unethical actions would also be discussed.

The fourth and last section of the course involves exposing students to real-life situations that they may face in their accounting careers. Students could read and analyze case studies relating to ethical issues. Student analysis of these cases should involve detecting ethical issues, specifying ethical codes violated, and discussing moral reasoning and the decision-making process. In most instances, it would be beneficial for the philosophy professor and the accounting professor to be present for the students' discussions and presentations due to the multi-disciplinary issues involved in analyzing the cases.

Furthermore, since this section deals with all aspects of accounting, different accounting professors could be used to teach different accounting topics. For example, an auditing professor would be used to discuss the auditing cases, while an accounting information systems professor would be used to discuss the accounting information systems cases. This is consistent with Blanthorne et al. (2007) who reported that accounting professors prefer to focus on their own areas of technical expertise in teaching ethics, and employ content from practice as opposed to classical ethics theories in teaching ethics. Monetary incentives should be provided to professors who are willing to engage in team teaching or participate in the case analysis section of the course.

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