

**CAL POLY SAN LUIS OBISPO  
ORFALEA COLLEGE OF BUSINESS**

**BUSINESS 424  
ETHICS IN ACCOUNTING  
Fall 2015  
COURSE SYLLABUS**

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**Catalogue Description                      BUS 424 Ethics in Accounting (4)**

Ethical standards of the accounting profession with emphasis on contemporary issues confronting accountants and auditors including their social and ethical responsibilities.

**Learning Objectives:**

*Recognize and apply ethical and fraud-related concepts in accounting and financial reporting.*

**Caveat**

The accounting profession has a strong code of conduct and specific ethical expectations for those who work in the field. Whether you work for a CPA firm or as an internal accountant or auditor you will be expected to adhere to a set of ethical principles embodied in a professional code of conduct. One goal of this course is to help you understand your ethical responsibilities under the accounting codes and obligation to protect the public interest through philosophical and cognitive processes that encourages you to examine your own ethical intentions and reflect on your decisions.

This course is different from any other you have taken in accounting. Our discussions are based on ethics principles including methods of philosophical reasoning as applied to classroom discussions, case assignments, case presentations, and written exams. Unlike accounting courses such as Intermediate Accounting, there isn't one right answer in discussions. The best response depends on your ability to reason critically from an ethical perspective and express yourself in an understandable and concise manner.

**Course Text**

Mintz & Morris, *Ethical Obligations and Decision Making in Accounting: Text and Cases*, **Third Edition**, McGraw-Hill Irwin, **2014**.

Please note you **MUST use the third edition** because it is significantly different than the second edition in text material, discussion questions, and cases, all of which you will be responsible for on examinations.

**ACADEMIC INTEGRITY:** The College of Business expects all its students to learn, respect, and practice integrity. All acts of dishonesty are unacceptable, including cheating, plagiarism, forgery, misrepresentation, falsification, prohibited collaboration, and prohibited use of files. The college's policy on academic integrity will be adhered to the Campus Administrative Manual (CAM) (Section 684). Violations may result in a failing grade for the assignment and/or for the class or other appropriate action.

**DISABILITY ACCOMMODATIONS:** For students with physical and/or learning disabilities who require accommodations, please contact the Disability Resource Center (Student Services Bldg 124, phone 756-1395).

## **Objectives of the Course**

*The successful student will learn the following key topics in each chapter, be prepared to discuss them in class, analyze cases, and earn good grades on the examinations:*

### **Chapters 1 and 2**

- Be familiar with the theoretical foundations of ethics and professionalism including the major philosophical ethical theories and ethical reasoning methods, theories of moral development, cognitive development processes, and virtue ethics.
- Understand the ethical principles underlying official sources of professional guidance for accountants and auditors including provisions of the AICPA and IMA codes of conduct.

### **Chapter 3**

- Know how corporate governance systems influence the ethics of an organization including the creation of an ethical organization environment, effective internal control systems, and processes to deal with whistleblowing.

### **Chapter 4**

- Understand how the rules of professional conduct set standards of behavior for CPAs and CMAs including the rules that govern behavior, especially the conceptual framework for independence and impairments of independence that pertain to audits conducted by CPAs, and the rules on integrity, objectivity, and due care that pertain to all professional services; confidentiality of client information and whistleblowing obligations, other responsibilities to clients and the public interest, ethics in tax service, and rules of the PCAOB.

## Chapter 5

- Understand fraud risk assessment techniques that help to prevent and detect fraud and the role of the fraud triangle in analyzing fraud as it pertains to the misappropriation of assets, fraudulent financial reporting, and disclosure; be able to distinguish between errors, fraud and illegal acts and accountant's ethical responsibilities to detect and report such events; discuss fraud cases in accounting
- Review the contents of the audit report under the AICPA Clarity Project that reorganized generally accepted auditing standards; understand when unmodified and modified opinions should be issued and reporting requirements; critically analyze the language of the audit report from the perspective of the users of the financial statements and the public interest; review selected audit standards of the AICPA and PCAOB.

## Chapter 6

- Understand the legal, regulatory, and professional obligations of auditors under common law and statutory law; identify differences between legal and illegal insider trading and how it affects confidentiality requirements using actual illegal trading cases against auditors; know the provisions of the PSLRA including proportionate liability and reporting illegal acts and fraud to management and the audit committee; understand the provisions of Sarbanes-Oxley.

## Chapter 7

- Understand different definitions of earnings management that pertain to its reporting effects and ethical implications (i.e., choice of alternative accounting techniques, smoothing net income), and the effects of earnings management on earnings quality; understand the rationale/justification of earnings management techniques used to affect earnings including the acceleration of revenue, delaying of expenses, impairment of assets, recording of liabilities, and the use of income smoothing techniques such as cookie jar reserves, channel stuffing, round-trip transactions, use of multiple elements to disguise revenues and the period of reporting, using accruals to manage/smooth earnings, the big bath theory; and examine actual fraud cases including Enron and WorldCom.

## Chapter 8

- Know the role of international financial reporting through IFRS and U.S. GAAP and evaluate the SEC's position on adopting IFRS in the U.S. (condorsement); understand the need for global ethics standards; know how global accounting and auditing standards relate to ethical principles and the Global Code of Ethics of IFAC that are designed to meet the needs of the global investor and the public for understandable, accurate and reliable financial information; global bribery issues; responding to suspected illegal acts; cultural factors and its relation to ethical behavior; and international corporate governance systems.

## Final Project

- Participate effectively in a group setting to discuss, analyze, and critically evaluate ethical decision making and be able to communicate through individual presentations the ability to explain whether the decisions made in a case study meet the ethical standards that were discussed throughout the course.

### *California Board of Accountancy Ethics Education Guidelines*

The California Board of Accountancy has developed guidelines for ethics education that should be taught to accounting students. A required course in accounting is part of the regulations that affect student education to become a CPA in the state. While the accounting ethics requirement doesn't take full effect until January of 2017, new ethics education guidelines do go into effect on January 1, 2014.

The content of *BUS 424* is designed to meet these requirements. Specifically, the course

*“provides students with a framework of ethical reasoning, professional values, and attitudes for exercising professional skepticism and other behavior that is in the best interest of the investing and consuming public and the profession.” This includes “a foundation for ethical reasoning and the core values of integrity, objectivity, and independence consistent with the International Education Standards-4 of the International Accountants Education Standards Board, the International Federation of Accountants Code of Ethics, and the American Institute of Certified Public Accountants Code of Professional Conduct.”*

## Course Pedagogy/Grading

This course is based on handing in an assigned case study (Major Case 4: Cendant Corporation), a midterm examination, a response to a blog topic chosen by you, and a final examination.

### *Class Attendance*

Attendance will be taken at each class meeting and may affect your final course grade.

### *Class Discussions/Discussion Questions/Cases*

Your participation is important to the success of the course. I want to hear your opinions and share my views with you. Discussion questions that are assigned in each chapter will be discussed in class. Students will be called on to lead the discussion. Be prepared to answer these questions.

## ASSIGNMENTS

### *Blog Assignment (20%)*

You are required to write a blog about a topic of your choice NOT related to accounting ethics and express your viewpoint on the subject matter. A blog is a critical analysis of a topic – why you support

the position you have taken. Be sure to use ethical reasoning in making the analysis. If you want to see some blogs that might be interest to you, access my websites: [www.ethicssage.com](http://www.ethicssage.com) and [www.workplaceethicsadvice.com](http://www.workplaceethicsadvice.com). Here are just a few of my thoughts:

- Are Millennials ethical people?
- Should college student-athletes be paid?
- Should student loans be underwritten by the US government?
- Do rich people pay their “fair share” of taxes?
- Should corporate tax inversions be restricted by the US government or outlawed?

### **In-class assignment (10%)**

This is a case study to be distributed as indicated on the schedule. The cases will be graded and count for 10% of your course grade

### **Examinations (50%)**

The midterm (20%) and final exam (30%) must be taken on the date indicated in the course syllabus. Absences are unacceptable unless cleared by me *before* the scheduled date of the exam. The point is if you had a cold and felt bad, you wouldn't (shouldn't) necessarily call in sick to work so doing so for a class exam is equally inappropriate. Also, not being prepared is not an excuse for missing an exam. In extreme cases, make-up exams will be administered at a time of mutual convenience.

The midterm will cover chapters (1-4) only. The final is comprehensive. The exams will include multiple choice questions, short discussion questions and/or short case studies. The best way to prepare for exams is to be prepared for each class session in advance, attend class, and focus your studying on the material discussed in class. I will provide you with a list of discussion questions at the end of each chapter to review for the midterm and final. These will include some questions **not** assigned for homework.

Non-multiple choice questions on exams are graded based on your ability to *define/describe concepts in the book, analyze ethical and accounting issues, and to use ethical reasoning in responding to questions*. You must demonstrate your knowledge of ethics. Giving your opinion is not sufficient to get a good grade on exams. Show what you learned from class discussions. Demonstrate your ability to apply the concepts explained under the course learning objectives. Most important, you must mention the name of the concepts as part of your explanation. For example, if you are discussing utilitarianism, you should mention “Act Utilitarianism” and then explain how it works and “Rule Utilitarianism” and explain how it works. The names of the reasoning methods and the name of relevant concepts discussed are important.

### **Group Case Presentation (20%)**

The class will be divided into groups and given a case study to review, discuss, analyze and present in class. Additional details will follow.

<i>-----Course Evaluation-----</i>	<i>Grading %s</i>	<i>Letter Grades</i>
In-class assignment	.10	
Midterm Exam	.20	A = 93-100 A- = 90-92
Final exam	.30	B+ = 87-89 B = 83-86
Blog	.20	B- = 80-82 C+ = 77-79
Group Presentation	<u>.20</u>	C = 73-76 C- = 70-72
	1.00 (100%)	D = 60-69 F = 0-59

### **Classroom Code of Responsibilities**

#### ***Student Responsibilities***

1. Turn off your cell phones during class or, if necessary, put it on vibrate.
2. **Stop talking as soon as I begin the lecture each day. It is rude to continue to talk once the class has started.**
3. Don't read a newspaper or other document; don't sleep during class; **don't hold side conversations with your neighbor(s);** and don't check your e-mail, update your Facebook page,



- or use your laptops or tablets for other than classroom purposes.
4. Attend all classes unless an emergency arises. If that occurs, please let me know by e-mail or in person. Unexcused absences from the midterm and/or final exam may lead to a grade of zero for that assignment.
  5. If you have to use the restroom before the 10 minute break, please do so quietly and quickly.
  6. Do your own work. Cheating will not be tolerated.
  7. **You cannot use cell phones on exams.**

#### ***My Obligations***

1. Model ethical behavior in and outside class.
  2. Be respectful towards all students; not talk down to you.
  3. Provide interesting and informative lectures and discussions that challenge your intellectual curiosity.
  4. Be available during office hours and, when necessary, at other times during the course.
  5. Assist you in any way that I can to help you learn the course material.
  6. Be fair in the grading process.
  7. Be diligent in returning graded work and an explanation of why points were deducted.
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**COURSE ASSIGNMENTS** (You do not have to hand in homework. However, be prepared to discuss the assigned discussion questions if called upon)

<b><u>Dates</u></b>	<b><u>Chapter</u></b>	<b><u>DQ/Cases</u></b>
Tues., Sept., 22	Introduction to the course	What is Ethics? (see pages 8- 9)
Thurs., Sept. 24	CH 1: Ethical Reasoning: Implications for Accounting	Cases 1-2, 1-3, 1-8
Tues., Sept. 29	CH 1	DQ/ch. 1: 1, 4, 5, 7, 8, 9, 11, 14, 17, 18, 20
	CH 2: Cognitive Processes and Ethical Decision Making in Accounting	Cases 2-1, 2-7
Thurs., Oct. 1	CH 2	DQ/ch. 2: 4, 5, 6, 8, 11, 12, 14, 19, 20
Tues., Oct. 6	CH 3: Creating an Ethical Environment & Effective Corp Governance Systems	_____
Thurs., Oct. 8	IN-CLASS ASSIGNMENT	
Tues., Oct. 13	CH 3	DQ/ch. 3: 1, 3, 5, 10, 11, 13, 14, 16, 18; Cases 3-1, 3-3
	CH. 4: AICPA Code of Professional Conduct	
Thurs., Oct. 15	CH 4	DQ/ch. 4: 1, 2, 3, 4, 8, 11, 12, 16, 18, 19; Case 4-8
Tues., Oct. 20	MIDTERM EXAM (chapters 1-4)	
Thurs., Oct. 22	CH 5: Fraud in Financial Statements and Auditor Responsibilities	
Tues, Oct. 27	CH 5	DQ/ch. 5: 1, 2, 3, 4, 5, 7, 10, 12, 16, 17, 18, 19
Thurs., Oct 29	CH 5	Cases 5-2 5-5

<b>Tues., Nov. 3</b>	<b>CH 6: Legal, Regulatory, and Professional Obligations of Auditors</b>	<b>BLOGS DUE</b>
<b>Thurs., Nov. 5</b>	<b>CH 6 CH 7: Earnings Management &amp; the Quality of Financial Reporting</b>	<b>DQ/ch. 6:</b> 1, 4, 6, 8, 10, 13, 15, 16, 17 -----
<b>Tues., Nov. 10</b>	<b>CH 7: Earnings Management &amp; the Quality of Financial Reporting</b>	<b>DQ/ch. 7:</b> 2, 3, 4, 6, 9, 12, 13, 14, 15, 18 <b>Cases</b> 7-5, 7-7
<b>Thurs., Nov. 12</b>	<b>NO CLASS MEETING</b>	-----
<b>Tues., Nov. 17</b>	<b>CH 8: International Financial Reporting: Ethics &amp; Corp Governance Considerations</b>	-----
<b>Thurs., Nov. 19</b>	<b>CH 8</b>	<b>DQ/ch. 8:</b> 2, 3, 6, 7, 10, 11, 12, 13, 14, 16, 18, 19
<b>Tues., Nov. 24</b>	<b>Discussion Group Presentations</b>	
<b>Thurs., Nov. 26</b>	<b>No Class meeting: Thanksgiving Break</b>	
<b>Tues., Dec. 1</b>	<b>GROUP PRESENTATIONS</b>	
<b>Thurs., Dec. 3</b>	<b>GROUP PRESENTATIONS</b>	
<b>Tues., Dec. 8</b>	<b>FINAL EXAM: 1:10am-4:00pm</b>	<b>All Chapters</b>

### **What is Ethics?**

**Developed by Manuel Velasquez, Claire Andre, Thomas Shanks, S.J., and Michael J. Meyer**

Some years ago, sociologist Raymond Baumhart asked business people, "What does ethics mean to you?" Among their replies were the following:

"Ethics has to do with what my feelings tell me is right or wrong."

"Ethics has to do with my religious beliefs."

"Being ethical is doing what the law requires."

"Ethics consists of the standards of behavior our society accepts."

"I don't know what the word means."

These replies might be typical of our own. The meaning of "ethics" is hard to pin down, and the views many people have about ethics are shaky.



Like Baumhart's first respondent, many people tend to equate ethics with their feelings. But being ethical is clearly not a matter of following one's feelings. A person following his or her feelings may recoil from doing what is right. In fact, feelings frequently deviate from what is ethical.

Nor should one identify ethics with religion. Most religions, of course, advocate high ethical standards. Yet if ethics were confined to religion, then ethics would apply only to religious people. But ethics applies as much to the behavior of the atheist as to that of the devout religious person. Religion can set high ethical standards and can provide intense motivations for ethical behavior. Ethics, however, cannot be confined to religion nor is it the same as religion.

Being ethical is also not the same as following the law. The law often incorporates ethical standards to which most citizens subscribe. But laws, like feelings, can deviate from what is ethical. Our own pre-Civil War slavery laws and the old apartheid laws of present-day South Africa are grotesquely obvious examples of laws that deviate from what is ethical.

Finally, being ethical is not the same as doing "whatever society accepts." In any society, most people accept standards that are, in fact, ethical. But standards of behavior in society can deviate from what is ethical. An entire society can become ethically corrupt. Nazi Germany is a good example of a morally corrupt society.

Moreover, if being ethical were doing "whatever society accepts," then to find out what is ethical, one would have to find out what society accepts. To decide what I should think about abortion, for example, I would have to take a survey of American society and then conform my beliefs to whatever society accepts. But no one ever tries to decide an ethical issue by doing a survey. Further, the lack of social consensus on many issues makes it impossible to equate ethics with whatever society accepts. Some people accept abortion but many others do not. If being ethical were doing whatever society accepts, one would have to find an agreement on issues which does not, in fact, exist.

What, then, is ethics? Ethics is two things. First, ethics refers to well-founded standards of right and wrong that prescribe what humans ought to do, usually in terms of rights, obligations, benefits to society, fairness, or specific virtues. Ethics, for example, refers to those standards that impose the reasonable obligations to refrain from rape, stealing, murder, assault, slander, and fraud. Ethical standards also include those that enjoin virtues of honesty, compassion, and loyalty. And, ethical standards include standards relating to rights, such as the right to life, the right to freedom from injury, and the right to privacy. Such standards are adequate standards of ethics because they are supported by consistent and well-founded reasons.

Secondly, ethics refers to the study and development of one's ethical standards. As mentioned above, feelings, laws, and social norms can deviate from what is ethical. So it is necessary to constantly examine one's standards to ensure that they are reasonable and well-founded. Ethics also means, then, the continuous effort of studying our own moral beliefs and our moral conduct, and striving to ensure that we, and the institutions we help to shape, live up to standards that are reasonable and solidly-based.

This article appeared originally in *Issues in Ethics* IIE V1 N1 (Fall 1987)

The posting appears on the website of the Markkula Center for Applied Ethics at Santa Clara University: <https://www.scu.edu/ethics/practicing/decision/whatisethics.html>

## Analyzing Ethics Cases

The recommended procedure for analyzing ethical cases is to apply a variant of the ethical decision making model presented in Chapter 3. In the process one attempts to reason systematically to a rationally defensible ethical judgment using ethical principles. The basic steps in the procedure are as follows:

1. Identify the Issues
2. Outline the Options
3. Construct Ethical Arguments
4. Evaluate the Arguments
5. Make a Decision

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### Step 1: Identify the Issues

1. What are the major factual issues raised by this case?
2. What are the major ethical issues raised by this case?
3. What are the major accounting issues raised by this case?
4. Who are the major stakeholders in this case? (Stakeholders refer to all individuals whose interest could be affected by the decision made in the case).

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### Step 2: Outline the Options

1. What are the main alternative actions or policies that might be followed in responding to the ethical issues in this case?
2. What are the major views on the ethical issues raised by this case?
3. What facts are unknown or controverted that might be relevant to deciding this case (may require research to determine some facts).

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### Step 3: Construct Ethical Arguments

1. Determine which of the ethical principles/standards apply to this case (i.e., moral development; egoism; virtue; deontology; teleology; justice)
  2. Identify the accounting principles (i.e., ethics codes of conduct and GAAP) that can be invoked to support a conclusion as to what ought to be done ethically in this case or similar cases?
  3. Determine whether the different ethical standards/accounting principles yield converging or diverging judgments about what ought to be done?
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#### **Step 4: Evaluate the Arguments for each Option**

1. Weigh the ethical reasons and arguments for each option in terms of their relative importance.
  2. Determine whether there are any unwarranted factual assumptions that need to be examined in each argument.
  3. Determine whether there are any unresolved conceptual issues in each argument.
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#### **Step 5: Make a Decision**

1. Decide which of the identified options you would recommend or judge to be the ethically best way to deal with the issue presented in this case based upon which option has the strongest ethical reasons behind it.
  2. Determine how a critic of your position might try to argue against it using other ethical reasons, and present a rebuttal or counter-argument in defense of your judgment.
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