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BUSINESS ETHICS

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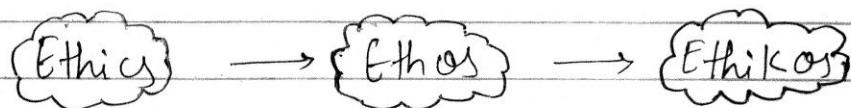
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Part - 'D'

Business Ethics

Meaning of Ethics :-

1. Ethics is derived from Latin Latin word 'Ethos' which means character.
2. Ethics is also derived from Greek word 'Ethikes' which means character.
3. Character belongs to an individual and not the group.
4. Ethics also belongs to an individual and not to the group.
5. Mo Ethics and morale looks like same but they are derived different because ^{Ethics} basic belongs to individual and moral belongs to society.
6. Moral is derived from Latin words Mos which means custom.
7. Custom belongs to society, so moral also belongs to society.



8. Ethics is a set of rules which define right & wrong conduct
9. Ethics is a social science which cannot be proved in a laboratory.
10. Ethics is related to moral philosophy because both talk about right and wrong behaviour.
11. Ethics is required in every walk of life.
12. Ethics is also called systematic study because whatever we follow are pre-determined principles.

Business Ethics [Dec - 2017] 5 Marks

1. When we apply ethical principles in business, it is called 'Business Ethics'.
2. It is also called applied ethics because it is being applied.
3. It is directly related with behaviour of individual in his business.
4. Product and services must be produced and sold keeping in mind all ethical principles.

5. Business ethics is beyond the adherence of law. It talks about all stakeholders who must be made satisfied with the organisation.

6. Following aspects can be taken as examples for Business Ethics:-

(a) Wages and working conditions for employees.

(b) Timely payment to supplier and service providers.

(c) Better quality at reasonable price for customers.

(d) On time payment of taxes off for government.

(e) Environment friendly practices for all.

(f) Development of loan to creditors etc.

EVOLUTION OF ETHICS [RTP - June 18 & RTP Dec 18]

1. Ethical conduct has evolved along with evolution of society.

2. Ethics conduct is also called social conduct.

3. Social conduct has developed in society over hundred of years.

4. Codes of Conduct have been passed down from generations to generations, and it has become pattern of behaviour.

5. Laws of any country are based on social codes accepted by society.

6. Penalties are prescribed for bad actions and bad actions are prescribed by society and then by law.

'TYPES OF ETHICS'

Broad

① Meta Ethics :- These are universal principles of moral judgement. They are found every where without distinction.

② Normative Ethics :- Norms means those principles which are not prescribed by anyone but they are followed because of general customs prevailing in society.

③ Applied Ethics :- Ethical principles, when applied in work place, is called applied ethics, professional ethics and business ethics. Applied Ethics is modified version of Ethics.

Importance of Ethics [Dec - 2017, 10 Marks]

[MTP June-17 Set - 1]

[MTP Dec - 17 Set - 2]

[MTP June - 18 Set - 1]

[MTP Dec - 18 Set - 2]

[RTP June 18]

[RTP June 18]

1. Ethics is a requirement of human life.
2. It is a tool to decide right course of action.
3. If we don't follow ethics, action will become random and aimless.
4. We can decide a definite goal if we look at the life from ethical angle.
5. Ethical conduct can take us to heights of success.
6. We must set values for our lives and attempt to abide all those values.
7. These values should be adopted for daily life as well as for emergency situations.
8. Ethics will make us ready for any situation, whatever whether for the growth and survival of life.

Nature and Relevance of Ethics to the Business

[RTP - Dec - 18]

1. Organisational success depends on many factors including both quantitative factors and qualitative factors.
2. Organisational culture, management philosophy and ethics determine level of success for us.
3. Whatever may be the size of business and industry, business ethics is most important aspect.
4. Ethics determine what should and what should not be done in the organisation to remain ethical.
5. If managers are ethical, employees will learn ethics from their behaviour.
6. Ethics can create long lasting positive impact on everyone.
7. Company can attract and retain highly talented individuals because they will find good working conditions.
8. Strong Employee base is a key to success for any organisation, so they should be trained for ethical behaviour.

9. If the company is ethical, reputation of company will go up in the surrounding environment.
10. All the stake holders will love to remain associated with the company.

Values and Attitude of Professional Accountants

[MTP Dec-17 Set - 1]

[MTP ~~20~~ Jun-18 Set - 2]

1. Professional accountant of both financial accounting and cost accounting have greater responsibilities towards ethics.
 2. Cost Management is the activity of managers related to planning and control of cost. It can be kept low only with honesty.
 3. Cost Management should be done in ~~of~~ ethical manners so that efficient operations can be performed.
 4. Management Accountant (cost Accountant) should have following values to be ethical :-
- Group
- (A) Problem Solving :- Management Accountant should have problem solving attitude. He must always have wisdom to solve problems and not to consider the problem

as big or crucial.

(B) Score keeping :- Management Accountant must maintain records for the results anticipated and results actually achieved. So that, we can take corrective actions.

(C) Attention Directing :- Management Accountant should give guidance about flow of operations for the company they must provide directions in accordance with gap they find in success.

Value Chain

1. Value chain is a visualisation of complete business as a sequence of activities.
2. Ranging from raw material supplier to customer, value addition is done at every step. This is why this is called value chain.
3. Value chain should be ethical and to be ethical following consideration should be done :-

(a) Customer focus → Every participant of value chain must do something to enhance customer satisfaction. If his action will satisfy customer, it is sufficient for ethics.

(b) Key success factors :- Cost, Quality, Time and Innovations are key success factors.

If these four factors are considered, output as well as operations will automatically be ethical.

(c) Continuous Improvement :-

KAIZEN is a Japanese word. Here,

KAI → Change

ZEN → Better.

so, Kaizen means change for the better, small change every day will create a complete positive overhauling. This improvement will automatically bring more profit.

(d) Value chain Analysis :- All activities are not profitable in nature, so we must find out associated cost and revenue for each operation if it is profit making, only then it should be continued.

These principles is for anyone who holds a public office and has less of private life.



Seven Principles of Public Life [June-17, 5 Marks]

[MTP - June - 17, Set - 1]

[MTP - Dec - 17, Set - 2]

[MTP - June - 18, Set - 1]

[MTP - Dec - 18, Set - 1]

Seven principles of public life were by LORD NOLAN for the first time in year 1995.

Generally, they are civil servants, local government, police, education, health, social care, court etc.

British Government appointed a committee called Committee on standards in Public life to advise Prime Minister on ethical standards. The committee was established in October, 1994, following were 2 major functions of this committee:-

- To examine current concerns about standards of public life.
- To make recommendations to make necessary changes.

Committee gave its report in the year 1995 which prescribed 7 principles. These principles were amended in 2015. This amended version is as follows:-

① Selflessness

They should not work for their own profit. They should work for common public interest.

② Integrity

They should not make compromise with values. They must not have any conflict of interest with public. Their decision should be taken on merit.

③ Objectivity

They should not be partial, they should be straight-forward, they should not be Biased.

④ Accountability (Answerability)

They must be ready to answer all question coming to them as it will make them more responsible towards their work.

⑤ Openness

They must take every decision in transparent manner. All their action should be communicated to general public. There must be no concealment.

⑥ Honesty

Honesty means being ~~the~~ Truthful.

They should be truthful in their operations.

They must not act against their duties.

⑨ Leadership

They should take responsibilities all actions and decisions whether they went right or wrong.

Areas in Business Ethics [June - 2018] 10 marks

1. Corporate social Responsibility.
2. Fiduciary responsibility towards stakeholders.
↓
Trustworthy
3. Industrial effectiveness.
4. Attracting customers through quality.
5. Making employees happy.
6. Attracting more employees to work with company.
7. Attracting investors by giving good returns.
8. Fulfill promises which company made.
9. Draw and follow ethical guidelines.
10. Follow law of land.

11. Show care for environment.

12. Show care for humanity.

[MTP Dec 17 Set-1] Consequences of Unethical Behaviour [MTP June -18, Set-2]
loss

I. If company is unethical, it creates lots of goodwill and reputation of goodwill.

II. It can have detrimental impact on the productivity of company because employees' morale came down.

III. It will be very difficult to retain employees and at the same time it will be equally difficult to hire good employees.

Issues In Business Ethics

1. Issues are areas on which deliberate thinking is required.

2. Following are the issues in Business Ethics :-

a) What is the logic to follow Ethics?

b) Why to follow fairness, Justice and Transparency?

c) How to solve conflicts?

dy How to take unbiased decision ?

ex How to handle adversities ?

Need for Business Ethics

1. To stop Business Malpractices.
2. To improve customer's confidence.
3. To survive in the market.
4. To safeguard consumer rights.
5. To protect employees and shareholders.
6. To develop good relations.
7. To create good image.
8. To function smoothly.
9. To fight with consumer movement.
10. To increase customer's satisfaction.
11. To recognise importance of labour
12. To sustain healthy competition.

Advantages of Business Ethics [MTP - June - 17, Set - 1]

1. It provides competitive advantage.
2. It increases goodwill of company.
3. It increases productivity of company.
4. It increases market share of company.
5. It helps in publicity of company.
6. Public easily accepts our new products.

Disadvantages of Business Ethics

1. It does not support company objective of profit maximisation.
2. Everyone defines success in different ways and not on monetary terms.
3. Ethics and charitable activities are sometimes very costly, so company will have to incur extra expenditure.

Recognition of Ethical Issues in Business

[MTP June - 17, Set - 2]

[MTP Dec - 18, Set - 2]

1. Ethical issues can be undertaken by a company only when it recognises that they are issues.
2. Ethical issues is an area which requires deliberate thinking so we must realise that thinking is required.
3. Some issue get resolved easily, but some take a longer period of time.

Ethical training, corporate culture and experience are the only ways to recognise ethical issues.

How To Improve Ethical Behaviour

[MTP - June - 17, Set - 1]

[MTP - Dec - 18, Set - 1]

1. Ethical decision in an organisation is influenced by 3 key factors.

They are as follows:-

- (a) Individual Moral standards
- (b) Influence of managers & co-workers.
- (c) Opportunity to engage in mis-conduct.

2. Individual standards are developed by a person since his birth and they donot change easily if a person is ethical himself much training is not required.

3. If a person is less ethical, he can improve if he gets positive influence in the work environment when all are behaving ethically, he will also improve.

⑤ A person remains ethical till the time he does not get opportunity to do misconduct. So he should be examined by offering an opportunity to do misconduct and then there will be a true test.

⑥ If nothing works, a proper code of conduct should be designed and implemented so that everyone comes to know what is acceptable and what is unacceptable

Threats To Ethical Behaviour

① Self Interest :- A person may behave unethically if he always looks for his own profits without looking for common good. Self Interest is not bad if it gets aligned with social and common interest.

Example:-

- (a) Salary to be very high.
- (b) Undue dependence on our clients.
- (c) Close business relationship.
- (d) Fear of losing a handsome amount of fees.

② Self Review :- When a person commits errors and fraud, he commits more errors and fraud to hide the original fraud. A person becomes more and more unethical because it becomes a daily practise.

Example:-

- (a) Discovery of significant error.
- (b) Financial Reporting.
- (c) Power position to hide the error easily.

③ Advocacy :- When we represent our client in front of court tribunal or tax authorities, we keep on doing unethical things just to save our client.

Example :-

- (a) Undertaking issue of shares for a company.
- (b) Acting as advocate for client.

④ Familiarity :- When a person becomes familiar to someone, it is natural that we deliberately close our eyes when he commits something wrong, This blind faith and feeling leads to lack of ethics.

Example :-

- (a) Close connections with people.
- (b) Accepting gifts or preferential treatment.

⑤ Intimidation :- (fear of losing job).

When we work for employer or client, it is obvious that we work as per their instructions, they may be right or wrong but still we follow because we are afraid of losing them.

Example :-

- (a) Fear of litigation.
- (b) Fear of losing status.
- (c) Fear of losing regular cash flow.

Safeguards for Threats

[RTP - June - 2018]

(A) Safeguards created by regulations

- Education training and experience requirements for accountant.
- Continuing professional development programmes.
- Corporate governance regulations.
- Professional standards.
- Disciplinary procedures
- Regular Regulations Reporting.

(B) Safeguards in the work environment

- Keeping competent workers.
- Strong Internal control
- leadership should support workers.
- Quality of performances.
- Communication of policies and procedures.

- Employees Training
- Encourage and motivate Employees.

Ethical Conflict and its Resolution

[RTP - June - 2018]

- ① Conflict is also called Dilemma.
- ② When both the options seem to be equally right or equally wrong, we fail to decide a particular course of action.
- ③ Accepting one will result in [↑]transgressing others. [less important]
- ④ Following are the three steps to come out of this dilemma :-

(a) Documentation -

Means making a list of all options with their advantages and disadvantages, it will be helpful because option with more advantages and less disadvantages can be selected.

(b) Legal Advice -

If the matter is still unresolved, take expert advice. We must take advice from someone whom we trust.

(c) Withdrawl:- When nothing helps, leave the matter on time, Everything will be alright one day.

Fairness and Honesty are Pillars of Success

[RTP - June - 2018]

[RTP - Dec - 2018]

- ① Fairness and Honesty means being natural and truthfull in performance of duties.
- ② Fairness and Honesty also means walk the talk which means their should be no difference in speech and action.
- ③ If anything done by company can give harm to others, we must minimize the harm and avoid the problems for them.
- ④ We must not perform unethical practices in order to get early success.

Healthy Competition and Protecting Consumer Interest are part of Business Ethics

[RTP - Dec - 2018].

1. Competition is rivalry but it is not a war science.
2. Competition should be ethical in a sense that we must offer quality products at reasonable prices so that we focus on our development and not on destruction of others.
3. Similarly, consumer interest should be kept at prime level because his satisfaction is critical for success.
4. We must not cheat them.

Corporate Governance and Corporate Fairness are Interrelated

[RTP - Dec - 2018]

1. Corporate governance is about how company is run by caretakers.
2. It should be done with fairness, transparency and accountability.
3. Decision making should be fair and with justice.

4. Following are the 3 benefits of such governance:-

- a) Protection of Investors.
- b) High Market Valuation.
- c) Transparent Management.

Mission Statement of ICAS (Kolkata) [June-2017] 10marks

[Standards of Ethical conduct prescribed by Institute, to be followed by every CMA].

- ① Maintain independence of thought and action.
- ② Not to express opinion without proper examination.
- ③ Make reports based on findings and not feelings.
- ④ Maintain Confidentiality of clients information.
- ⑤ Avoid any conflict of interest, Interest.
- ⑥ Maintain level of competence.
- ⑦ Always & have courtesy.
- ⑧ Do not give opinion on fellow members.
- ⑨ Not to have any undue advantage.
- ⑩ Maintain standard of work.

- ⑪ Undertake only that work in which you are competent.
- ⑫ Do not do anything defamatory to profession.

Study Material Questions

1. What is a role of management accounting in ethics?
2. Standard fixed by ICAI.
3. Seven principles of public life.
4. Need of Business Ethics
5. Advantages and Disadvantages of Ethics.
6. Definition of Business Ethics.
7. Areas of business Ethics.
8. A competent professional accountant in business is an invaluable asset to the company. - Discuss.

Fill it :-

- a) The word ethics is derived from latin word Ethos.
- b) Ethics is of 3 types viz Meta, Normative, Applied
- c) The ethical operation of a company is directly related to profitability in both short & long term.
- d) Meta ethics deals with the nature of Moral Judgement
- e) Continuous improvement or KAIZEN is a popular theme.

BUSINESS ETHICS

DEFINITION OF ETHICS	<ul style="list-style-type: none">➤ According to Andrew Crane—Business ethics is the study of business situations, activities and decisions where issues of right and wrong are addressed.
❖ DEC-17 5 MARKS ❖ Model Question	<ul style="list-style-type: none">➤ Raymond C. Baumhart contend —The ethics of business is the ethics of responsibility.➤ The businessman must promise that he will not harm knowingly॥➤ Business ethics concerns itself with adhering to the social principles of the situations in which business takes place.➤ The analysis of this definition leads us to the following discussion.➤ Thus, Business Ethics (also called Corporate Ethics) is a form of applied ethics or professional ethics that examines ethical principles and moral or ethical problems that arise in a business environment.➤ It applies to all aspects of business conduct, and is relevant to the conduct of individuals and the entire organizations.➤ It deals with morality in business environment.➤ It involves moral judgment based on understanding of the society.➤ It extends beyond the legal questions and involves moral judgment based on understanding of the society.➤ It extends beyond the legal questions and involves goodness and badness of an act. <p>(1) Business ethics refers to the application of everyday moral or ethical norms to business. It requires an awareness of how the products and services of an organization and the action of its employees, can affect its stakeholders and society as a whole, either positively or negatively.</p> <p>(2) Ethics in business organization relates to a corporate culture of values, leadership program and enforcement. It is that set of principles or reasons which governs the conduct of business at the individual or collective level by the application of ethical reasoning to specific business situations and activities.</p>
ETHICS	<ul style="list-style-type: none">➤ Business is an extension of the society and no business can sustain in the long run ignoring social values.➤ Individual values percolate into society and turn into social values, which in turn are adopted by corporates and become corporate values.➤ Corporate ethics, therefore, is choosing, adopting and practicing good things and avoiding bad things.➤ And what varies from company to company but there are some virtues and values which are universally accepted.

- Ethics is a set of rules that define right and wrong conduct. The term 'ethics' derived from Latin word 'ethos' which means character. Ethics is a social science which deals with concepts such as right and wrong, moral and immoral, good and bad behavior of dealing with one another.
- Ethics is the basic concepts and fundamental principles of decent human conduct.
- It includes the study of universal values of such as the essential quality of all men and women, human or natural rights, obedience to the law of land, concern for health and safety and increasingly, also for the natural environment.
- Ethics are the set of moral principles that guide a person's behavior.
- These morals are shaped by social norms, cultural practices, and religious influences.
- Ethics reflect beliefs about what is right, what is wrong, what is just, what is unjust, what is good, and what is bad in terms of human behavior.
- They serve as a compass to direct how people should behave toward each other, understand and fulfill their obligations to society, and live their lives.
- While ethical beliefs are held by individuals, they can also be reflected in the values, practices, and policies that shape the choices made by decision makers on behalf of their organizations.
- The phrases 'business ethics and corporate ethics' are often used to describe the application of ethical values to business activities.
- Ethics applies to all aspects of conduct and is relevant to the actions of individuals, groups, and organizations.
- In addition to individual ethics and corporate ethics there are professional ethics.
- Professionals such as managers, lawyers, and accountants are individuals who exercise specialized knowledge and skills when providing services to customers or to the public.
- By virtue of their profession, they have obligations to those they serve.
- For example, lawyers must hold client conversations confidential and accountants must display the highest levels of honest and integrity in their record keeping and financial analysis.
- Professional organizations, such as the American Medical Association, and licensing authorities, such as state governments, set and enforce ethical standards.

TYPE OF ETHICS ❖ WORKBOOK	<p>Ethics may be divided into three types as follows:</p> <ul style="list-style-type: none"> • Meta ethics; • Normative ethics; • Applied ethics. <p>➤ Meta ethics deal with the nature of moral judgment. It looks at the origins and meanings of ethical principles.</p> <p>➤ Normative ethics is concerned with the content of moral judgments and the criteria for what is right or wrong.</p> <p>➤ Applied ethics looks at controversial topics like war, animal rights and capital punishment. Importance of</p>
IMPORTANCE OF ETHICS ❖ DEC-17 10 MARKS ❖ JUNE-19 5 MARKS ❖ MTP J-17 SET 1 D-17 SET 2 J-18 SET 1 D-18 SET 2 D-19 SET 2	<ul style="list-style-type: none"> ➤ Ethics is a requirement for human life. ➤ It is our means of deciding a course of action. ➤ Without it, our actions would be random and aimless. ➤ There would be no way to work towards a goal because there would be no way to pick between a limitless numbers of goals. ➤ Even with an ethical standard, we may be unable to pursue our goals with the possibility of success. ➤ To the degree which a rational ethical standard is taken, we are able to correctly organize our goals and actions to accomplish our most important values. ➤ Any flaw in our ethics will reduce our ability to be successful in our endeavors. ➤ A proper foundation of ethics requires a standard of value to which all goals and actions can be compared to. ➤ This standard is our own lives, and the happiness which makes them livable. ➤ This is our ultimate standard of value, the goal in which an ethical man must always aim. ➤ It is arrived at by an examination of man's nature, and recognizing his peculiar needs. ➤ A system of ethics must further consist of not only emergency situations, but the day to day choices we make constantly. ➤ It must include our relations to others, and recognize their importance not only to our physical survival, but to our wellbeing and happiness. ➤ It must recognize that our lives are an end in themselves, and that sacrifice is not only not necessary, but destructive.
ETHICS – NATURE AND RELEVANCE TO THE BUSINESS ❖ DEC-18 10 MARKS ❖ RTP D-18 ❖ RTP J-18	<ul style="list-style-type: none"> ➤ Several factors play a role in the success of a company that is beyond the scope of financial statements alone. ➤ Organizational culture, management philosophy and ethics in business each have an impact on how well a business performs in the long term. ➤ No matter the size, industry or level of profitability of an organization, business ethics are one of the most important aspects of long-term success. ➤ The management team sets the tone for how the entire company runs on a day-to-day basis. ➤ When the prevailing management philosophy is based on ethical practices and behavior, leaders within an organization can direct employees by example and guide them in making decisions that are not only beneficial to them as individuals, but also to the organization as a whole. ➤ Building on a foundation of ethical behavior helps create long lasting positive effects for a company, including the ability to attract and retain highly talented

	<p>individuals and building and maintaining a positive reputation within the community.</p> <ul style="list-style-type: none"> ➤ Running a business in an ethical manner from the top down builds a stronger bond between individuals on the management team, further creating stability within the company. ➤ When management is leading an organization in an ethical manner, employees follow in those footsteps. ➤ Employees make better decisions in less time with business ethics as a guiding principle; this increases productivity and overall employee morale. ➤ When employees complete work in a way that is based on honesty and integrity, the whole organization benefits. ➤ Employees who work for a corporation that demands a high standard of business ethics in all facets of operations are more likely to perform their job duties at a higher level and are also more inclined to stay loyal to that organization. ➤ The importance of business ethics reaches far beyond employee loyalty and morale or the strength of a management team bond. ➤ As with all business initiatives, the ethical operation of a company is directly related to profitability in both the short and long term. ➤ The reputation of a business from the surrounding community, other businesses and individual investors is paramount in determining whether a company is a worthwhile investment. ➤ If a company's reputation is less than perfect based on the perception that it does not operate ethically, investors are less inclined to buy stock or otherwise support its operations. ➤ With consistent ethical behavior comes increasingly positive public image, and there are few other considerations as important to potential investors and current shareholders. ➤ To retain a positive image, businesses must be committed to operating on an ethical foundation as it relates to treatment of employees, respect to the surrounding environment and fair market practices in terms of price and consumer treatment.
<p>VALUES AND ATTITUDES OF PROFESSIONAL ACCOUNTANTS</p> <p>❖ Model Question</p> <p>❖ MTP</p> <p>D-17 SET 1</p> <p>J-18 SET 2</p>	<ul style="list-style-type: none"> ➤ The roles, professional accountants take on a vast array of other roles in businesses of all sorts including in the public sector, not-for-profit sector, regulatory or professional bodies, and academia. ➤ Their wide ranging work and experience find commonality in one aspect – their knowledge of accounting. ➤ As such, professional accountants in businesses therefore have the task of defending the quality of financial reporting right at the source where the numbers and figures are produced besides the cost accounting. ➤ Like their counterparts in taxation or auditing, professional accountants in business play important roles that contribute to the overall stability and progress of society. ➤ Without public understanding of all these diverging roles and responsibilities of different accounting specialists working in business, public perceptions of their value may be misinformed. ➤ A competent professional accountant in business is an invaluable asset to the company. ➤ These individuals employ an inquiring mind to their work founded on the basis of their knowledge of the company's financials. ➤ Using their skills and intimate understanding of the company and the environment in which it operates, professional accountants in business ask

	<p>challenging questions.</p> <ul style="list-style-type: none"> ➤ Their training in accounting enables them to adopt a pragmatic and objective approach to solving issues. ➤ This is a valuable asset to management, particularly in small and medium enterprises where the professional accountants are often the only professionally qualified members of staff. ➤ Cost management is an activity of managers related to planning and control of costs. ➤ Managers have to take decisions regarding use of materials, processes, product designs and have to plan costs or expenses to support the operating plan for their department or section. ➤ All these activities come under cost management. ➤ Information from accounting systems help managers in cost management activities. ➤ But the cost accounting system and the reports it generates is not the cost management system. ➤ Accounting system can be interpreted as a part of cost management system of an organization. ➤ Cost management is not cost reduction alone. ➤ It is much broader. ➤ Organization increase advertising expenditure to increase sales, increase research and development expenditures to promote new products. ➤ Here the concerned managers are deliberately incurring additional costs in a period (compared to the previous period) as they expect profits from such decisions or expenditures. ➤ Cost management system has to ensure that a cost is incurred with the expectation of profit. ➤ The role of management accounting is also described as problem solving, score keeping and attention directing. <ul style="list-style-type: none"> • Problem solving: The role of accounting in problem solving is to provide information useful in evaluating alternatives. • Scorekeeping: Scorekeeping records the results of various actions of the managers and helps in assessing whether the results expected from the various actions are realized or not. • Attention directing: The scorekeeping function in combination with expected results, and comparative analysis of scores of various companies, divisions and departments, comparative analysis of present period scores or results with previous periods show opportunities of focusing attention of managers to improve things.
VALUE CHAIN	<ul style="list-style-type: none"> ➤ Value chain is a visualization of complete business as a sequence of activities in which usefulness is added to the products or services produced and sold by an organization. ➤ Management accountants provide decision support for managers in each activity of value chain. ➤ The design of management accounting system has to take into consideration the decision needs of the managers. ➤ Also it has to take into consideration the new themes and challenges that managers face currently.

	<ul style="list-style-type: none"> • Customer focus: The challenge for managers is to invest sufficient resources to enhance customer satisfaction. But every action of the organization has to result in enhanced profitability or maintained profitability for the organization. • Key Success Factors: These are nonfinancial factors which have an effect on the economic viability of the organization. Cost, quality, time and innovation are important key success factors. Management accounting systems need to have provisions for tracking the performance of the organization and its divisions as well as competitors on these success factors. • Continuous improvement: Continuous improvement or kaizen is a popular theme. Innovation related to this area in costing is kaizen costing. • Value Chain and Supply Chain Analysis: Value chain as a strategic framework for analysis of competitive advantage was promoted by Michael Porter. Management accountants have to become familiar with the framework and provide information to implement the framework by strategic planners.
PROFESSIONAL ETHICS	<ul style="list-style-type: none"> ➤ Like other professionals, accountants also face ethical dilemmas. They need ethical guidelines. ➤ Competence, confidentiality, integrity and objectivity shall be the important themes of the guidance note.
MISSION STATEMENT OF ICAI <ul style="list-style-type: none"> ❖ Model Question ❖ Workbook ❖ June 17 10 Marks ❖ MTP J-19 SET 2 	<ul style="list-style-type: none"> ➤ The Cost and Management Accountant professionals would ethically drive enterprises globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting. ➤ The Institute has promulgated the following standards of ethical conduct for practitioners- <ul style="list-style-type: none"> • maintain at all times independence of thought and action; • not to express an opinion on cost / financial reports or statements without first assessing her or his relationship with her or his client to determine whether such Member might expect her or his opinion to be considered independent, objective and unbiased by one who has knowledge of all the facts; and • when preparing cost / financial reports or statements or expressing an opinion on cost / financial reports or statements, disclose all material facts known to such Member in order not to make such cost / financial reports or statements misleading, acquire sufficient information to warrant an expression of opinion and report all material misstatements or departures from generally accepted accounting principles. • not to disclose or use any confidential information concerning the affairs of such Member's employer or client unless acting in the course of his or her duties or except when such information is required to be disclosed in the course of any defense of himself or herself or any associate or employee in any lawsuit or other legal proceeding or against alleged professional misconduct by order of lawful authority or any committee of the Society in the proper exercise of their duties but only to the extent necessary for such purpose; • inform his or her employer or client of any business connections or interests of which such Member's employer or client would reasonably expect to be informed;

- not, in the course of exercising his or her duties on behalf of such Member's employer or client, hold, receive, bargain for or acquire any fee, remuneration or benefit without such employer's or client's knowledge and consent; and
- take all reasonable steps, in arranging any engagement as a consultant, to establish a clear understanding of the scope and objectives of the work before it is commenced and will furnish the client with an estimate of cost, preferably before the engagement is commenced, but in any event as soon as possible thereafter.
- conduct himself or herself toward other Members with courtesy and good faith;
- not to accept any engagement to review the work of another Member for the same employer except with the knowledge of that Member, or except where the connection of that Member with the work has been terminated, unless the Member reviews the work of others as a normal part of his or her responsibilities;
- not to attempt to gain an advantage over other Members by paying or accepting a commission in securing management accounting work;
- not to act maliciously or in any other way which may adversely reflect on the public or professional reputation or business of another Member;
- at all times maintain the standards of competence expressed by the Institute from time to time;
- undertake only such work as he or she is competent to perform by virtue of his or her training and experience and will, where it would be in the best interests of an employer or client, engage, or advise the employer or client to engage, other specialists;

<p>SEVEN PRINCIPLES OF PUBLIC LIFE</p> <p>❖ Model Question</p> <p>❖ Workbook</p> <p>❖ June 17</p> <p>5 MARKS</p> <p>❖ MTP</p> <p>J-17 SET 2</p> <p>D-17 SET 2</p> <p>J-18 SET 1</p> <p>D-18 SET 1</p> <p>J-19 SET 1</p> <p>D-19 SET 2</p>	<ul style="list-style-type: none"> ➤ The Seven Principles of Public Life were set out by Lord Nolan for the first time in the year 1995. ➤ These principles of public life will apply to any one who works as a public office holder, including elected and appointed to public office either locally or nationally. ➤ These principles apply to civil service, local government, the police, the Courts and probation of services, non departmental public bodies, health, education, social care services. ➤ These principles also apply to other sectors that deliver public services. ➤ The British Government appointed a committee called as Committee on Standards in Public Life to advise the Prime Minister on ethical standards of public life. ➤ The Committee was established in October 1994. The term of reference to the committee is – <ul style="list-style-type: none"> • to examine current concerns about standards of conduct of all holders of public office, including arrangements relating to financial and commercial activities; and • to make recommendations as to any changes in present arrangements which might be required to ensure the highest standards of propriety in public life. ➤ The Committee submitted its first report in the year 1995 containing the seven principles of public life. ➤ The said principles have been amended over years. ➤ The seven principles of public life as amended up to and as on 2015 are as follows- <ul style="list-style-type: none"> • Selflessness – Holders of public office should act solely in terms of the public interest. • Integrity - Holders of public office must avoid placing themselves under any obligation to people or organizations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships. • Objectivity - Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias. • Accountability - Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this. • Openness - Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing. • Honesty - Holders of public office should be truthful • Leadership - Holders of public office should exhibit these principles in their own behavior. They should actively promote and robustly support the principles and be willing to challenge poor behavior wherever it occurs.
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ETHICS IN BUSINESS MEANING	<ul style="list-style-type: none"> ➤ Business ethics deals with morality in the business. ➤ It is a system of moral principles and values applied to business activities. ➤ This means the business activities should be conducted according to ethics or moral standard.
DEFINITION	<ul style="list-style-type: none"> ➤ Business ethics is an art or science of maintaining harmonious relationship with society, its various groups and institution as well as reorganizing for right or wrong of business conduct.
FEATURES OF BUSINESS ETHICS ❖ WORKBOOK	<ul style="list-style-type: none"> • Code of conduct; • Provide protection to social group; • Provide basic frame work; • Need willing acceptance; • Education and guidance; • Not against for profit making.
PRINCIPLES	<ul style="list-style-type: none"> • Avoid exploitation of consumers; • Avoid unfair trade practices; • Fair treatment to employees
IMPORTANCE	<ul style="list-style-type: none"> • Improving consumer confidence • Business become conscious of social responsibilities; • Create good image of business; • Goodwill; • Profitability; • Survival of heated competition • Safety from legal perspectives <p>Business ethics is defined as written unwritten codes of principles and values that govern decisions and actions within a company. Seven principles in business ethics are-</p> <ul style="list-style-type: none"> • Be trustful; • Be keep open mind; • Meet obligations; • Have clear documents; • Become community involved;

	<ul style="list-style-type: none"> • Maintain accounting control; • Be respectful. <ul style="list-style-type: none"> ➤ Wrong doing by businesses has focused public attention and government involvement to encourage more acceptable business conduct. ➤ Any business decision may be judged as right or wrong, ethical or unethical, legal or illegal. ➤ Business ethics is the principles and standards that determine acceptable conduct in business organizations. ➤ The acceptability of behavior in business is determined by customers, competitors, government regulators, interest groups, and the public, as well as each individual's personal moral principles and values. ➤ Also consider the social implications of their activities. ➤ Define social responsibility as a business's obligation to maximize its positive impact and minimize its negative impact on society. ➤ Although many people use the terms social responsibility and ethics interchangeably, they do not mean the same thing. ➤ Business ethics relates to an individual's or a work group's decisions that society evaluates as right or wrong, whereas social responsibility is a broader concept that concerns the impact of the entire business's activities on society. ➤ From an ethical perspective, for example, we may be concerned about a health care organization or practitioner overcharging the provincial government for medical services. ➤ From a social responsibility perspective, we might be concerned about the impact that this overcharging will have on the ability of the health care system to provide adequate services for all citizens.
<p>AREAS IN BUSINESS ETHICS</p> <p>❖ Model Question</p> <p>❖ Workbook</p> <p>❖ JUNE 18 10 marks</p> <p>❖ MTP D-19 SET 1</p>	<ul style="list-style-type: none"> • Corporate Social Responsibility; • Fiduciary responsibility to stakeholders; • Industrial espionage. <p>Ethical behavior and corporate social responsibility can bring significant benefits to a business.</p> <p>For example, they may:</p> <ul style="list-style-type: none"> • attract customers to the firm's products, which means boosting sales and profits • make employees want to stay with the business, reduce labour turnover and therefore increase productivity • attract more employees wanting to work for the business, reduce recruitment costs and enable the company to get the most talented employees • attract investors and keep the company's share price high, thereby protecting the business from takeover. <ul style="list-style-type: none"> ➤ Knowing that the company they deal with has stated their morals and made a promise to work in an ethical and responsible manner allows investors' peace of mind that their money is being used in a way that aligns with their own

	<p>moral standing.</p> <ul style="list-style-type: none"> ➤ When working for a company with strong business ethics, employees are comfortable in the knowledge that they are not by their own action allowing unethical practices to continue. ➤ Customers are at ease buying products or services from a company they know to source their materials and labor in an ethical and responsible way. ➤ A company which sets out to work within its own ethical guidelines is also less at risk of being fined for poor behavior, and less likely to find themselves in breach of one of a large number of laws concerning required behavior. ➤ Reputation is one of a company's most important assets, and one of the most difficult to rebuild should it be lost. ➤ Maintaining the promises it has made is crucial to maintaining that reputation. ➤ Businesses not following any kind of ethical code or carrying out their social responsibility leads to wider consequences. ➤ Unethical behavior may damage a firm's reputation and make it less appealing to stakeholders. ➤ This means that profits could fall as a result. ➤ The natural world can be affected by a lack of business ethics. ➤ For example, a business which does not show care for where it disposes its waste products, or fails to take a long-term view when buying up land for development, is damaging the world in which every human being lives, and damaging the future prospects of all companies.
ISSUES IN BUSINESS ETHICS	<ul style="list-style-type: none"> ➤ The business is suffering and troubles by lack of proper directions and is struck on issues like logic, reasons etc., ➤ The issues like fairness, justice and honesty are the main issues that are posing complex dilemma to the businesses. ➤ A wrong or biased decision can have a profound impact on the goodwill of the company as well as its market position.
GENERAL BUSINESS ETHICS	<ul style="list-style-type: none"> • Ethics of human resource management; • Ethics of sales and marketing; • Ethics of production; • Ethics of Intellectual property, knowledge and skills; <p>Common unethical practices by executives of a corporate</p> <ul style="list-style-type: none"> (i) Corruption - financial/non-financial (ii) Greed for profit/turnover (iii) Accommodating a group, may be employees, vendors, customers. (iv) Leak of knowledge (v) Leak of professionalism (vi) External pressure (vii) Ego and dominance of top management ignoring right things

IMPORTANCE OF ETHICS	<ul style="list-style-type: none"> • Public expects business to exhibit high levels of ethical performance and social responsibility; • Encouraging business firms and their employees to behave ethically is to prevent harm to society; • Promoting ethical behavior is to protect business from abuse by unethical employees or unethical competitors; • High ethical performance also protects the individuals who work in business
NEED FOR BUSINESS ETHICS ❖ WORKBOOK ❖ Model Question	<p>The following points discuss the need and importance of business ethics-</p> <ul style="list-style-type: none"> • to stop business malpractice; • to improve customers' confidence; • for the survival of business; • to safeguard consumers' rights; • to protect employees and shareholders; • to develop good relations; • to create good image; • for smooth functioning; • consumer movement; • consumer satisfaction; • importance of labor; • healthy competition
TO STOP BUSINESS MALPRACTICE	<ul style="list-style-type: none"> ➤ Some unscrupulous businessmen do business malpractices by indulging in unfair trade practices like black-marketing, artificial high pricing, adulteration, cheating in weights and measures, selling of duplicate and harmful products, hoarding, false claims of representations about their products etc., ➤ These business malpractices are harmful to the consumers. Business ethics help to stop these business malpractices.
TO IMPROVE CUSTOMERS' CONFIDENCE	<ul style="list-style-type: none"> ➤ Business ethics are needed to improve the customers' confidence about the quality, quantity, price etc., of the products. ➤ The customers have more trust and confidence in the businessmen who follow ethical rules. ➤ They feel that such businessmen will not cheat them.
FOR THE SURVIVAL OF THE	<ul style="list-style-type: none"> ➤ Business ethics are mandatory for the survival of business. ➤ The businessmen who do not follow it will have short term success, but they

BUSINESS	<p>will fail in the long run.</p> <ul style="list-style-type: none"> ➤ This is because they can cheat a consumer only once. After that, the consumer will not buy goods from that businessman. ➤ He will also tell others not to buy from that businessman. ➤ So this will defame his image and provoke a negative publicity. ➤ This will result in failure of the business. ➤ Therefore, if the businessmen do not follow ethical rules, he will fail in the market. ➤ So, it is always better to follow appropriate code of conduct to survive in the market.
TO SAFEGUARD CONSUMERS' RIGHT	<ul style="list-style-type: none"> ➤ Consumer sovereignty cannot be either ruled out or denied. Business can survive so long it enjoys the patronage of consumer. ➤ The consumer has many rights such as right to health and safety, right to be informed, right to choose, right to be heard, right to redress, etc., ➤ But many businessmen do not respect and protect these rights. Business ethics must safeguard these rights of the consumers.
TO PROTECT EMPLOYEES AND SHAREHOLDERS	<ul style="list-style-type: none"> ➤ Business ethics are required to protect the interest of employees, shareholders, competitors, dealers, suppliers etc., ➤ It protects them from exploitation through unfair trade practices.
TO DEVELOP GOOD RELATIONS	<ul style="list-style-type: none"> ➤ Business ethics are important to develop good and friendly relations between business and society. ➤ This will result in a regular supply of good quality goods and services at low prices to the society. ➤ It will also result in profits for the businesses thereby resulting in growth of economy
FOR SMOOTH FUNCTIONING	<ul style="list-style-type: none"> ➤ If the business follows all the business ethics, then the employees, shareholders, consumers, dealers and suppliers will all be happy. ➤ So they will give full cooperation to the business. ➤ This will result in smooth functioning of the business. ➤ So, the business will grow, expand and diversify easily and quickly. ➤ It will have more sales and more profits.
CONSUMER MOVEMENT ❖ JUNE 2018 5 MARKS	<ul style="list-style-type: none"> ➤ Business ethics are gaining importance because of the growth of the consumer movement. ➤ Gone are the days when the consumer can be taken for ride by the unscrupulous business by their false propaganda and false claims, unfair trade practices. ➤ Today, the consumers are aware of their rights and well informed as well as well organized. ➤ Now they are more organized and hence cannot be cheated easily. ➤ They take actions against those businessmen who indulge in bad business practices. ➤ They boycott poor quality, harmful, high priced and counterfeit goods. ➤ Therefore, the only way to survive in business is to be honest and fair. ➤ Consumer forum and consumer associations are more active and vocal now.
CONSUMER SATISFACTION	<ul style="list-style-type: none"> ➤ Today the consumer is the king of the market. Any business simply cannot survive without the consumers. ➤ Therefore, the main aim or objective of business is consumer satisfaction.

	<ul style="list-style-type: none"> ➤ If the consumer is not satisfied, then there will be no sales and thus no profits too. ➤ Consumers will be satisfied only if the business follows all the business ethics and hence are highly needed.
IMPORTANCE OF LABOR	<ul style="list-style-type: none"> ➤ Labor, i.e., employees or workers play a very crucial role in the success of a business. ➤ Therefore, business must use business ethics while dealing with the employees. ➤ The business must give them proper wages and salaries and provide them with better working conditions. ➤ There must be good relations between employer and employees. ➤ The employees must also be given proper welfare facilities.
HEALTHY COMPETITION	<ul style="list-style-type: none"> ➤ The business must use business ethics while dealing with the competitors. ➤ They must have healthy competition with the competitors. ➤ Healthy competition brings about efficiency, breaks complacency and leads to optimal utilization of scarce resources, hence is always welcome. ➤ They must not do cutthroat competition. ➤ Similarly, they must give equal opportunities to small scale business. They must avoid monopoly. ➤ This is because a monopoly is harmful to the consumers.
ADVANTAGES OF BUSINESS ETHICS ❖ Model Question ❖ MTP J-19 SET 2 D-19 SET 1	<p>The following are the advances for following the principles of business ethics-</p> <ul style="list-style-type: none"> • It offers a company a competitive advantage; • Goodwill of the firm hikes depending on its responds towards its ethical issues; • Productivity through rigid, firm and sincere workers as well as other business chain members; • Through increasing morale and trust business can increase their market share; • Publicity due to well and ethical performance; • Acceptance of products of the company by the public; • Overall growth of the society; • Makes change management easy; • Value integration with quality, strategy and pende;
DISADVANTAGE OF BUSINESS ETHICS ❖ Model Question	<ul style="list-style-type: none"> • It negativates the object of the business concerns in maximizing the profits; • Diversity in achievements; • The company has to incur extra expenditure.

RECOGNITION OF ETHICAL ISSUES IN BUSINESS ❖ WORKBOOK ❖ MTP J-17 SET 2 D-18 SET 2	<ul style="list-style-type: none"> ➤ Learning to recognize ethical issues is the most important step in understanding business ethics. ➤ An ethical issue is an identifiable problem, situation, or opportunity that requires person to choose from among several actions that may be evaluated as right or wrong, ethical or unethical. ➤ In business, such a choice often involves weighing monetary profit against what a person considers appropriate conduct. ➤ The best way to judge the ethics of a decision is to look at a situation from a customer's or competitor's viewpoint. ➤ Many business issues may seem straightforward and easy to resolve, but in reality, a person often needs several years of experience in business to understand what is acceptable or ethical. ➤ Ethics are also related to the culture in which a business operates.
BUSINESS RELATIONSHIP	<ul style="list-style-type: none"> ➤ The behavior of business persons toward customers, suppliers, and others in their workplace may also generate ethical concerns. ➤ Ethical behavior within a business involves keeping company secrets, meeting obligations and responsibilities, and avoiding undue pressure that may force others to act unethically.
IMPROVING ETHICAL BEHAVIOR IN BUSINESS ❖ DEC-2018 5 MARKS ❖ WORKBOOK ❖ MTP J-17 SET 1 D-18 SET 1	<ul style="list-style-type: none"> ➤ Understanding how people make ethical choices and what prompts a person to act unethically may reverse the current trend toward unethical behavior in business. ➤ Ethical decisions in an organization are influenced by three key factors: individual moral standards, the influence of managers and coworkers, and the opportunity to engage in misconduct. ➤ It is difficult for employees to determine what conduct is acceptable within a company if the firm does not have ethics policies and standards. ➤ And without such policies and standards, employees may base decisions on how their peers and superiors behave. ➤ Professional codes of ethics are formalized rules and standards that describe what a company expects of its employees. ➤ Codes of ethics, policies on ethics, and ethics training programs advance ethical behavior because they prescribe which activities are acceptable and which are not, and they limit the opportunity for misconduct by providing punishments for violations of the rules and standards. ➤ The enforcement of such codes and policies through rewards and punishments increases the acceptance of ethical standards by employees.
TYPES OF JUSTICE ❖ WORKBOOK	<p>In the literature of ethics in general and business ethics in particular three types of Justice can be observed-</p> <ul style="list-style-type: none"> (i) Distributive Justice (ii) Retributive Justice (iii) Compensatory Justice <p>(a) Distributive Justice- Sharing society's benefits and burden fairly</p> <p>(b) Retributive Justice- Blaming or punishing persons fairly for doing wrong</p> <p>(c) Compensatory Justice- Restoring to a person what the person lost when he or</p>

	she was wronged by someone																		
<p>CIRCUMSTANCES LEADING TO ACTUAL HAPPENING OF THREATS FOR AN ACCOUNTING PROFESSIONALS WORKING AS CONSULTANTS OR AUDITORS</p> <p>❖ RTP D-18 ❖ RTP J-18</p>	<table border="1" data-bbox="486 291 1432 1028"> <thead> <tr> <th data-bbox="486 291 567 375">Sl. No.</th> <th data-bbox="567 291 747 375">Types of threats</th> <th data-bbox="747 291 1432 375">Accounting professional working as Consultants or Auditors</th> </tr> </thead> <tbody> <tr> <td data-bbox="486 375 567 566">1.</td><td data-bbox="567 375 747 566">Self interest threat</td><td data-bbox="747 375 1432 566"> <ul style="list-style-type: none"> (i) A financial interest in a client. (ii) Undue dependence on fees from a client. (iii) Close business relationship with a client. (iv) Fear of losing a client. (v) Potential employment with a client. (vi) Contingent fees relating to an assurance engagement. </td></tr> <tr> <td data-bbox="486 566 567 756">2.</td><td data-bbox="567 566 747 756">Self review threat</td><td data-bbox="747 566 1432 756"> <ul style="list-style-type: none"> (i) Discovery of a significant error of the work of the professional. (ii) Reporting on the operation of the designed financial systems. (iii) Being a Director or Officer of the client. (iv) Being employed by the client in a position to exert influence over the subject-matter of the engagement. </td></tr> <tr> <td data-bbox="486 756 567 861">3.</td><td data-bbox="567 756 747 861">Advocacy threat</td><td data-bbox="747 756 1432 861"> <ul style="list-style-type: none"> (i) Promoting shares in a Listed Entity of a client. (ii) Acting as an advocate on behalf of client in litigation or disputes with third parties </td></tr> <tr> <td data-bbox="486 861 567 925">4.</td><td data-bbox="567 861 747 925">Familiarity threat</td><td data-bbox="747 861 1432 925"> <ul style="list-style-type: none"> (i) Close relationship with a Director or Officer of the client (ii) Accepting gifts or preferential treatment from a client </td></tr> <tr> <td data-bbox="486 925 567 1028">5.</td><td data-bbox="567 925 747 1028">Intimidation threat</td><td data-bbox="747 925 1432 1028"> <ul style="list-style-type: none"> (i) Being threatened with litigation. (ii) Fear of losing work from client. (iii) Being threatened with replacement. </td></tr> </tbody> </table>	Sl. No.	Types of threats	Accounting professional working as Consultants or Auditors	1.	Self interest threat	<ul style="list-style-type: none"> (i) A financial interest in a client. (ii) Undue dependence on fees from a client. (iii) Close business relationship with a client. (iv) Fear of losing a client. (v) Potential employment with a client. (vi) Contingent fees relating to an assurance engagement. 	2.	Self review threat	<ul style="list-style-type: none"> (i) Discovery of a significant error of the work of the professional. (ii) Reporting on the operation of the designed financial systems. (iii) Being a Director or Officer of the client. (iv) Being employed by the client in a position to exert influence over the subject-matter of the engagement. 	3.	Advocacy threat	<ul style="list-style-type: none"> (i) Promoting shares in a Listed Entity of a client. (ii) Acting as an advocate on behalf of client in litigation or disputes with third parties 	4.	Familiarity threat	<ul style="list-style-type: none"> (i) Close relationship with a Director or Officer of the client (ii) Accepting gifts or preferential treatment from a client 	5.	Intimidation threat	<ul style="list-style-type: none"> (i) Being threatened with litigation. (ii) Fear of losing work from client. (iii) Being threatened with replacement.
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<p>TWO BROAD CATEGORIES OF SAFEGUARDS CREATED BY BUSINESS ENTERPRISE TO ELIMINATE THREATS</p>	<p>➤ It is important to have safeguards created by the Finance and Accounting profession, to identify or deter unethical behavior. Such safeguards to eliminate or reduce threats may classified in two broad categories:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Safeguards created by the Finance and Accounting profession, Legislation or Regulation. <input type="checkbox"/> Safeguards in the work environment. <p>(A) Safeguards created by the Finance and Accounting profession, Legislation or Regulation:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Educational, training and experience requirements for entry into the profession. <input type="checkbox"/> Continuing professional development requirements. <input type="checkbox"/> Corporate Governance Regulations. <input type="checkbox"/> Professional standards. <input type="checkbox"/> Professional or regulatory monitoring and disciplinary procedures. <input type="checkbox"/> External review of reports by a legally empowered third party. <p>(B) Safeguards in the work environment:</p> <ul style="list-style-type: none"> <input type="checkbox"/> The employing organization's ethics and conduct programs. <input type="checkbox"/> Employing competent staff. <input type="checkbox"/> Strong internal controls. <input type="checkbox"/> Appropriate disciplinary processes. <input type="checkbox"/> Leadership or cultivating ethical behavior to encourage employees to act in ethical manner. <input type="checkbox"/> Policies and procedures to implement and monitor the quality of employee 																		

	<p>performance.</p> <ul style="list-style-type: none"> <input type="checkbox"/> Timely communication of organisation's policies and procedures. <input type="checkbox"/> Employee training and education on policies and procedures. <input type="checkbox"/> Encourage employees to communicate ethical issues without fear of retribution, organisation's system of corporate overview.
<p>ELEMENTS OF MORAL RESPONSIBILITY</p> <p>❖ WORKBOOK</p>	<ul style="list-style-type: none"> ➤ The term moral responsibility is sometimes used to mean moral duty or obligation. ➤ For example, when we say "Mr. X had a moral responsibility not to lie." ➤ It means this is the moral obligation of Mr. X not to tell lie. However, people are not always morally responsible for their deed. ➤ For example, a person who injures someone by accident is excused from any blame if he unwillingly commits such a foul. ➤ However, a person is morally responsible for an injury when that person caused the injury and did so knowingly and freely. ➤ Hence a person is morally responsible for an injury if- <ul style="list-style-type: none"> (i) the person caused or helped cause it , or failed to prevent it when he could and should have, and (ii) the person did so knowing what he or she was doing and (iii) the person did so of his own free will. <p>In the light of the above statement basic elements of moral responsibility can be the following-</p> <ul style="list-style-type: none"> (i) Individual must cause or fail to prevent an avoidable injury or wrong, and (ii) Individual must know what he is doing and (iii) Individual must act of his own free will.
<p>EVOLUTION OF ETHICS</p> <p>❖ RTP D-18</p> <p>❖ RTP J-18</p>	<ul style="list-style-type: none"> ➤ Social conduct has evolved along with the evolution of society. ➤ When our elders tell us <u>'Do not cheat'</u>, they are referring to a social code of conduct. ➤ Social conduct has developed in society over hundreds of years. ➤ The codes of conduct have been passed down from generation to generation, and there is a pattern to the evolution of such codes. ➤ Acceptable behaviour is promoted and elevated as a social value, and unacceptable behaviour is rejected and condemned. ➤ The laws of country are based on the customs or moral codes of its society. ➤ Penalties are prescribed for bad actions, actions that contradict the established laws. ➤ The laws are a measure against those people who cross the limits of the code of social conduct, and ensure that good citizens are protected from the negative consequences of the law-breakers. ➤ The object of the social codes of conduct is to maintain, promote and elevate harmonious relationships.
<p>CONFLICT RESOLUTION PROCESS</p>	<ul style="list-style-type: none"> ➤ A finance and accounting professional should determine the appropriate course of action and weigh the consequences of each possible course of action. ➤ If the matter remains unresolved, the professional should consult with other appropriate persons within the firm and if required, with persons responsible for governance of the organisation (e.g. Board of Directors). <p>The following steps are suggested to resolve the issues:</p>

	<p>(a) Documentation: He should document the substance of the issue and details of any discussions held or decisions taken, concerning that issue.</p> <p>(b) Legal Advice: If a significant conflict cannot be resolved, a professional may obtain advice from the relevant professional body or legal advisors without breach of confidentiality.</p> <p>(c) Withdrawal: If, after exhausting all relevant possibilities, the ethical conflict remains unresolved, a professional should, where possible, refuse to remain associated with the matter creating the conflict, withdraw from the engagement team or specific assignment or resign from the employing organization.</p>
<p>HEALTHY COMPETITION AND PROTECTING CONSUMER INTEREST ARE A PART OF BUSINESS ETHICS</p> <p>❖ RTP D-18 ❖ RTP J-18</p>	<ul style="list-style-type: none"> ➤ Competition means rivalry in the marketplace, which is regulated by a set of policies and laws to achieve the goals of economic efficiency and consumer welfare, and to check on the concentration of economic power. ➤ All these goals have an interactive relationship and, when in harmony, deliver total welfare. ➤ Indeed, it is the consumers who are supposedly the biggest beneficiaries of competition. ➤ At the macro level, the design and implementation of a competition policy promotes the advancement and increased welfare of the poor. ➤ At the micro level, an effective competition regime or consumer law (covering competition distortions) can prevent consumer abuses, both at industry level as well as in a village or locality where one shopkeeper can cheat the whole community. ➤ An appropriate and dynamic competition policy and law are imperative to support the economic development, control the corruption, reduce wastage and arbitrariness, improve competitiveness and provide relief to the poor. ➤ An efficient implementation of Business ethics would promote both Healthy competition and protect consumer interests
<p>CORPORATE GOVERNANCE AND CORPORATE FAIRNESS ARE INTER-RELATED.</p> <p>❖ RTP D-18 ❖ RTP J-18</p>	<ul style="list-style-type: none"> ➤ Corporate governance is about promoting corporate fairness, transparency and accountability. ➤ It is concerned with structures and processes for decision-making, accountability, control and behavior at the top level of organizations. ➤ It influences how the objectives of an organisation are set and achieved, how risk is monitored and assessed and how performance is optimized. ➤ The term governance relates to a process of decision making and implementing the decisions in the interest of all stakeholders. ➤ It basically relates to enhancement of corporate performance and ensures proper accountability for management in the interest of all stakeholders. ➤ It is a system through which an organisation is guided and directed <p>Benefits of goods Corporate Governance:</p> <ol style="list-style-type: none"> 1. Protection of investor interests and strong capital markets 2. Good governance is rewarded with a higher market valuation. 3. Ensure commitment of the board in managing the company in a transparent manner <p>➤ Thus corporate Governance can also be defined as the formal system of accountability and control for ethical and socially responsible organizational decisions and use of resources.</p>

	<ul style="list-style-type: none"> ➤ Corporate governance arrangements are key determinants of an organization's relationship with the world
<p>FAIRNESS AND HONESTY ARE THE PILLARS OF SUCCESS IN BUSINESS.</p> <p>❖ RTP D-18 ❖ RTP J-18</p>	<ul style="list-style-type: none"> ➤ The success of the business depends very much on fairness and honesty in the business. ➤ Fairness and honesty are at the heart of the business ethics and relate to the general values of decision makers. ➤ At a minimum, business professionals and persons are expected to follow all applicable laws and regulation. ➤ Even then, they are expected not to harm customers, employees, clients or competitors knowingly through deception, misrepresentation, coercion or discrimination. ➤ One aspect of fairness and honesty is related to disclosure of potential harm caused by product use. ➤ Another aspect of fairness relates to competition. ➤ Although numerous laws have been passed to foster competition and make monopolistic practices illegal, companies sometimes gain control over markets by using questionable practices that harm competition. ➤ Rivals of Microsoft, for example, accused the software giants of using unfair and monopolistic practices to maintain market dominance with its Internet explorer browser. ➤ These aforesaid examples show that fairness and honesty pay in the long run; they secure the stability of the business and overall reputation in the business world. ➤ Therefore we may say that fairness and honesty are the pillars of success in the business.
<p>Consequences of Unethical Behaviour</p> <p>❖ MTP D-17 SET 1 J-18 SET 2</p>	<p>Unethical behavior has adverse effects on business. Moreover, working for an unethical, deceptive, unfair or dishonest organization requires one to take unethical or compromised decisions which also take a toll on physical, mental and emotional health of individuals. Unethical behavior has a few consequences, as follows:</p> <p>Firstly, if a company is unethical, the word spreads fast, and the reputation and goodwill of the company is at stake. Such impact can be of a permanent nature destroying the company's reputation possibly forever.</p> <p>Secondly, unethical behaviour can also have a detrimental impact on the productivity of a company due to mistrust and lack of faith among the employees.</p> <p>Thirdly, unethical behavior can, not only cause a company to lose good and valuable employees, but also it can be quite difficult to find new employees. Moreover, indulgence in unethical behavior shall not only be instrumental in expediting the cost of training of new employees in terms of money, but also loss of valuable time which could be spent in production. Such disruptions or slowing down of production will result in greater customer dissatisfaction and fewer new customers.</p> <p>It is proved that good ethics carries many benefits, and its violations – penalties, and therefore refraining from unethical behavior should be the sine-qua-non consideration for an organization.</p>

CONCLUSION	<ul style="list-style-type: none"> ➤ Business ethics is important to practice good ethical behavior. ➤ One of the most formidable challenges is avoiding immoral management, and transitioning from an amoral to a moral management mode of leadership, behavior, decision making, policies and practices. ➤ Moral management requires ethical leadership. It entails more than just 'not doing wrong'. ➤ Moral management requires that managers search out of those vulnerable situations in which amorality may reign if careful, thoughtful reflection is not given by management. ➤ Moral management requires that managers understand, and be sensitive to, all the stakeholders of the organization and their stakes. ➤ If the moral management model is to be achieved, managers need to integrate ethical wisdom with their managerial wisdom and take steps to create and sustain an ethical climate in their organizations.
<p>"ETHICS IS THE FIRST LINE OF DEFENCE AGAINST CORRUPTION, WHILE LAW ENFORCEMENT IS REMEDIAL AND REACTIVE. HOWEVER, BOTH FAIL TO ACHIEVE THE DESIRED AIM IN THE INDIAN SET-UP."</p> <p>JUNE 19 10 MARKS</p>	<ul style="list-style-type: none"> ➤ It is, absolutely correct to say that ethics is the first line of defense against corruption. What prevents corruption in the first place is ethics. The enforcement of law is a reaction to the occurrence of the corruption. ➤ While the law can only lay down the do's and don'ts and the consequences of doing or not doing something. ➤ The compliance to law in letter and spirit can be achieved only through ethical practices being followed. ➤ An act may be perfectly legal but totally unethical. Therefore, the statement law enforcement is remedial and reactive is also true. ➤ However, ethics is not absolute and is open to the influence of time, place and situation. ➤ Certain unethical practice on account of the fact that is widely prevalent is apparently justified. ➤ The following are some of the factors that have contributed to the prevalence of corruption in India: <ul style="list-style-type: none"> (i) Cultural ethos: Putting a premium on materialism, profiteering, power play and casual attitude for ethical values Myopic concern overriding long-term considerations and values. (ii) Institutional failures: Procedural formalities in-built obstacles, bureaucratic red-tapism etc. (iii) Poor enforcement of law: delay in justice. (iv) Erosion of values in politicians, entrepreneurs political lobbying etc.

STUDY MATERIAL QUESTIONS

Fill in the blanks

1. The term ethics is derived from latin word _____.
2. Ethics of a three types viz., _____, _____ and _____.

3. The ethical operation of a company is directly related to _____ in both short and long term.
4. Meta ethics deal with the nature of _____.
5. Continuous improvement or _____ is a popular theme.

Model Questions

1. What is the role of management accounting in ethics?
2. What are the standards of ethical conduct for practitioners fixed by the ICAI?
3. Describe the seven principles of public life.
4. What are the needs for business ethics?
5. What are the advantages and disadvantages of the principles of business ethics.
6. Define 'Business ethics'.
7. What are the areas in business ethics and write note of the same.
8. A competent professional accountant in business is an invaluable asset to the company – Discuss.

Answers:

Fill in the blanks

1. Ethos;
2. Meta ethics, normative ethics and applied ethics.
3. Profitability;
4. Moral judgment;
5. Kaizen.