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A Study of Ethics for Accounting Students at East Tennessee State University

Jordan Warhurst

East Tennessee State University

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A Study of Ethics for Accounting Students at East Tennessee State University
By

Jordan Warhurst

Thesis Submitted in Partial Fulfillment of the Requirements for the

Honors College

Midway Honors Program

East Tennessee State University

Anthony Masino, J.D. CPA, Faculty Mentor

Dr. Mark Steadman, CPA, Faculty Reader

Dr. Jean Stead, MBA, Faculty Reader

Jordan Warhurst, Author

This work is dedicated to:

My parents.

For everything.

Anthony Masino, ETSU Department of Accountancy.

For his help and guidance, and for making this project sound professional.

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Chapter 1

Background:

Accounting is based on mandated rules and procedures. Rules and procedures (laws) exist for every facet of the taxation and audit fields. The integrity, reliability, and veracity of accounting data are dependent on those rules and procedures being strictly adhered to. When those rules and procedures are not maintained, opportunities exist for strife, fraud, and error.

There are occasional incidents that shock the accounting arena and the world in general. For example, the Bernard Madoff and the Enron scandals could not have happened without lax oversight and some help from questionable accounting ethics. Fraud like this usually involves blatant disobedience of the rules or creative manipulation of the rules (intent). Unfortunately, these events seem to happen with increasing regularity. The obvious result of fraud is an individual's loss of wealth. The complete loss of a retirement account is easy to recognize. However, when fraud occurs it negatively impacts all aspects of the accounting arena. The unseen consequence is that the most important facet of accounting is severely damaged. This important issue and the foundation of the accounting field is the public's trust. As the field of accounting has grown and matured, the public's trust in it has grown. When the services of a Certified Public Accountant (hereinafter CPA) are purchased, the trust is that the CPA will

follow the rules and regulations of the profession and abide by the ethical code that is adhered to by the rest of the CPA community. This ethical code is the American Institute of Certified Public Accountants (hereinafter the AICPA) Code of Professional Conduct and requires CPA's to act in the good of the public interest, act with integrity, objectivity, and exercise due care. Lynne Zucker as early as 1986 stated the reason why people want a uniform product when purchasing the services of a CPA. "Extensive socialization, emergence of licensing standards across the country, and creation of professional associations all increased the certainty of performance characteristics."¹ (Zucker) The CPA in one state should be following the same ethical standards as a CPA in another. This is critical for the longevity of the CPA profession. Any opportunity to cut back on future occurrences of fraud would protect the interest of the public and benefit the accounting field at the same time.

Objective:

To practice accounting, one must graduate with a Bachelor's degree in Accounting. This degree typically provides classwork on accounting aspects but does not usually incorporate a specific accounting ethics class into the curriculum. Graduates with a degree in accounting generally have not taken a specific ethics course regarding ethical behavior in their future field. Beginning

¹ Zucker, L. (1986). Production of Trust: Institutional Sources of Economic Structure

and intermediate level accounting books available for use in accounting programs typically contain several paragraphs in an introductory chapter or an appendix in reference to the ethical decision-making process.^{2&3} (Spiceland, Sepe, & Tomassini, 2004) (Warren, Reeve, & Fess, 2002) The decision-making emphasis in these texts relative to resolving ethical dilemmas in accounting varies from personal judgment based on personal ethics to professional judgment based on the AICPA Code of Professional Conduct. Personal judgment is defined as using an individual's personal value system as a basis for accounting decision making concerning the resolution of accounting ethics dilemmas. Professional judgment, on the other hand, is defined as using the norms and standards of the profession as a basis for accounting decision making concerning the resolution of accounting ethics dilemmas. Those who sit for the Uniform CPA examination are required to successfully complete a separate and distinct ethics exam before being licensed by the individual jurisdiction. Questions have been raised about the effectiveness of this ethics test as it relates to the CPA over the course of his or her career. Since the CPA ethics exam is usually completed online and open book, would the future CPA be better prepared to retain and implement accounting ethics in their future career if accounting ethics was a semester long stand-alone class in their undergraduate accounting program? Could these problems in the financial and

² Spiceland, J., Sepe, J., & Tomassini, L. (2004). *Intermediate Accounting*

³ Warren, C., Reeve, J., & Fess, P. (2002). *Financial Accounting 8th edition*.

accounting fields be reduced if an ethics course was offered to undergraduate accounting students?

Review of Pertinent Literature:

In 2004 Gene Sullivan did a study on ethics in accounting at Liberty University and the research at East Tennessee State University will model his research. It was a study of accounting students who took an accounting ethics test, and were taught ethics from the AICPA Code of Conduct over the course of a four hour seminar. After the class, the students were given another similar ethics test. He found that the scores on the second test were statistically higher than the scores on the pretest. He also found that students with a higher GPA had an even higher increase in scores.⁴ (Sullivan, 2004)

In a study done in 2004, a questionnaire was sent to students and faculty around the county, questioning them about the ethics teaching at their institution and the overall importance of ethics education as it relates to accounting students at the undergraduate level. One hundred and fifty-eight faculty members and two hundred and fifty three students from Midwestern and Southern Universities participated in the survey. In response to the question, “If an ethics course in business were offered as an elective, would you enroll in it?” 50.4% of the

⁴ Sullivan, G. (2004). *Enhancing Public Trust in the Accounting Profession Using Professional Judgment rather than Personal Judgment in Resolving Accounting Ethics Dilemmas*

students indicated yes, 24% indicated no, and 25.6% indicated they were not sure. In response to the question, “Do you think having an ethics course in college would help you (your students) solve moral and ethical issues facing the accounting profession?” of the faculty, 59.1% responded in the affirmative, compared to 66.2% of the students.⁵ (Adkins, 2004)

In an article in a 2006 issue of the *Journal of Business Ethics* the difference between rule based accounting (what is currently in place) and principle based accounting was studied. The article claimed that the people in high profile accounting scandals had been following rule based accounting. The article offered six suggestions for implementing principle based ethics. One of the suggestions was that CPA must be required to complete ethics courses in order to retain their licenses.⁶ (Satava, Caldwell, & Richards, 2006)

A study done in 2013 evaluated what current CPAs thought of their ethics training and how they were trained and prepared to make decisions. The CPAs were asked to answer questions by marking their answers on a scale of one to five where one meant they strongly disagreed and five meant they strongly agreed. In response to the question, “There are major ethical and moral issues affecting the world of accounting,” 83% selected five, indicating that they strongly agreed with the statement. In response to the question, “Ethical decision-making is important

⁵ Adkins, N. a. (2004). Students' and Faculty Members Perceptions of the Importance of Business Ethics and Accounting Ethics.

⁶ Satava, D., Caldwell, C., & Richards, L. (2006). Ethics and the Auditing Culture: Rethinking the Foundation of Accounting and Auditing

in public accounting,” 100% indicated that they strongly agreed. However, when asked about their preparedness for ethical decision making as college graduates, the majority, 67%, answered with a three or lower, showing that they disagreed with the statement. Many of the CPAs lament the fact that they have received very little guidance.⁷ (Bealman Vicki Donna, 2013)

In 2011 a study was released in the *Academy of Educational Leadership Journal*. It studied the difference between two sets of accounting students. One set of students had taken a three hour stand-alone class on ethics while the other group had not. This study found that students that took the ethics course did have a higher ethical reasoning ability than those that did not.⁸ (Klimek Janice, 2011)

In another 2011 study, the content of accounting and auditing textbooks was studied. They studied the amount of pages that covered five different topics vs. the total amount of pages in the textbook. The five topics were ethics, professional judgment, governance, corporate social responsibility, and fraud. As to be expected US auditing textbooks contained a large amount of material on these topics. Newer editions of US accounting textbooks also showed a large increase of coverage of these topics over older editions. This could signal good things for the future. While colleges do not teach an accounting ethics class

⁷ Bealman Vicki Donna. (2013). *Certified Public Accountant Education and Ethical Decision Making Preparedness: a Phenomenological Study Exploring the Connection*.

⁸ Klimek Janice, W. K. (2011). Ethics in Accounting: an Indispensable Course?

specifically, they are spending more class time on accounting scandals.⁹ (Gordon, 2011)

⁹Gordon, I. (2011). Lessons to be Learned: an Examination of Canadian and U.S. Financial Accounting and Auditing Textbooks for Ethics/Governance Coverage.

Chapter 2

Methodology:

The first part of this chapter presents general observations about the test and the composition of the students who took the test. The second part presents the statistical analysis of the data given the hypotheses.

Class Characteristics:

The test was administered to a junior level accounting class at East Tennessee State University. This particular class was on professionalism in the accounting field. This class did not teach ethics but the accounting rules mandated by the AICPA code of conduct. This class was chosen because it would give the best look at the change in the accounting student's use of professional judgement.

Test Characteristics:

The test was comprised of two parts. The first section was a multiple choice section. This section specifically asked questions that could be traced back to the AICPA code of conduct and gauged the student's understanding of the Code. (Appendix I) The second section of the test was a scenario test that was

created by one of the leading researchers in accounting ethics, Linda Thorne.¹⁰ (Thorne, 2000) (Appendix II) The scenario involved the student putting themselves in the shoes of a new auditor named Bridget who worked in a large public accounting firm. Bridget was working on an audit of ABC Company. Bridget was specifically auditing the accounting system software that the ABC Company used. Bridget found significant control weaknesses in the specific software and consequently rendered a poor decision.

Later on, she discovered that the software that the ABC Company used was developed and sold by her accounting firm. While the boss was reviewing Bridget's work, he ran across Bridget's comments involving the software and asked Bridget to change her comments. This section of the test would determine if the student would make a "small" accounting lapse early in their career. This particular section of the test also determined where the students stood when there was a possibility of adverse personal consequences such as a poor reputation within the firm, the lack of promotions, or outright job loss. These were two of three general principles mentioned by Warren, Reeve, and Fess in their introductory accounting textbook. The three principles that they taught for ethical behavior were (1) avoid small ethical lapses, (2) focus on your long-term reputation, and (3) expect to suffer adverse personal consequences for holding to

¹⁰ Thorne, L. (2000). The development of two measures to assess accountants' prescriptive and deliberative moral reasoning.

an ethical position.¹¹ (Warren, Reeve, & Fess, 2002) As a young accountant your job is to do what you are told. If superior tells you to do something unethical and your disobedience to the commands could result in negative personal consequences, it is very difficult to resist.

Student Characteristics:

Thirty junior and senior level accounting students at East Tennessee State University participated in the test.

<i>Table 2.1 (Average age)</i>	<i>Number</i>	<i>Average Age</i>
<i>Junior</i>	16	22
<i>Senior</i>	14	25.6
<i>Total</i>	30	23.7

It needs to be noted that one of the seniors in the class was fifty-one years old and thus slightly skewed the average. If this student was taken out and the age recalculated, the average age of the seniors drops to 23.7.

Remarkably, the gender breakdown was split evenly down the middle.

<i>Table 2.2 (gender)</i>	<i>Male</i>	<i>Female</i>

¹¹ Warren, C., Reeve, J., & Fess, P. (2002). *Financial Accounting 8th edition*

<i>Juniors</i>	7	9
<i>Seniors</i>	8	6
<i>Total</i>	15	15

Data Collection Procedures:

Within the first couple weeks of the semester, the first test was administered. All of the students present in the class on that day took the test. The entire test took about twenty minutes. The test was administered again at the end of the semester but a couple of weeks before final exams. Seven students did not participate in both tests. Meaning, they took one of the tests but were absent for one administration of the test. Their data was thrown out. Before taking the test, the students were told that their participation was voluntary and confidential. If at any time, they did not wish to continue, they were free to withdraw from participation. Since the test had no bearing on their grade in the class, there was a possibility that a lack of effort could affect the results. As a result, the students were asked to answer the questions to the best of their ability. Students then signed their papers by their first name and last initial for matching purposes. Students were then asked to indicate their age and university level. (Senior or Junior) Students were then given permission to take the test.

Statistical analysis of Part 1:

The possible scores could range from a high of 100% (signifying a complete consensus with the AICPA code of conduct) or a 0% (no consensus with the AICPA code of conduct). The following tables are a breakdown of the mean test scores of the participants.

<i>Table 2.3 (Total Sample)</i>	<i>N</i>	<i>Mean</i>
<i>Pretest</i>	23	52.17
<i>Posttest</i>	23	64.13

<i>Table 2.4 (Senior level)</i>	<i>N</i>	<i>Mean</i>
<i>Pretest</i>	9	61.11
<i>Posttest</i>	9	77.78

<i>Table 2.5 (Junior level)</i>	<i>N</i>	<i>Mean</i>
<i>Pretest</i>	14	46.43
<i>Posttest</i>	14	55.36

The increase in mean scores indicates that this particular class had a positive impact on increasing the students' knowledge of professional judgement. Overall the mean test scores improved 11.96 points. The seniors who took the test had a

massive jump in scores, their mean score increased 16.67 points. While the juniors had an increase of 8.93 points.

Comparison of means using T-tests. The majority of the analysis included one-tailed t-tests that compared the students change in their use of professional judgment. The Wilcoxon Signed Ranks T-test was used to analyze the raw data in Table 2.6 to determine if a statistically significant difference existed in either or both of the hypotheses tested. The hypotheses tested were as follows.

H₀. (Null hypothesis) There is no statistically significant difference in the student's use of AICPA Code of Professional Conduct when making professional decisions at the beginning of class and at the end of class.

H₁. (Alternative Hypothesis) There is a statistically significant difference in the student's use of AICPA code of Professional Conduct when making professional decisions at the beginning of class and at the end of class.

<i>Table 2.6 (Raw Data)</i>		
<i>Test 1</i>	<i>Test 2</i>	<i>Results</i>
<i>Correct out of 4</i>		<i>Results</i>
1	3	Increase
3	4	Increase
3	3	Same
1	2	Increase
2	4	Increase
3	3	Same
1	3	Increase
2	3	Increase
3	3	Same
2	1	Decrease
1	4	Increase
4	2	Decrease
2	2	Same
3	1	Decrease
2	2	Same
2	3	Increase
2	2	Same
1	2	Increase
2	3	Increase
2	2	Same
2	2	Same
2	3	Increase
2	2	Same

The difference in test scores was calculated by subtracting the score from the second test from the score from the first test.

Table 2.6 Difference in Scores		
Test 1	Test 2	Difference
25	75	-50
75	100	-25
75	75	0
25	50	-25
50	100	-50
75	75	0
25	75	-50
50	75	-25
75	75	0
50	25	25
25	100	-75
100	50	50
50	50	0
75	25	50
50	50	0
50	75	-25
50	50	0
25	50	-25
50	75	-25
50	50	0
50	50	0
50	75	-25
50	50	0
50	75	-25
50	50	0
50	75	-25

The tests that matched were taken out of the equation and the tests that did not, were given points based on the differences. The lower the score the lower the number. Thus the negative numbers were given the lowest numbers.

Table 2.7 Wilcoxon signed ranks stats				
Change	Sign	Absolute value	Rank	Sign Rank
-50	-1	50	12	-12
-25	-1	25	5	-5
0		0		
-25	-1	25	5	-5
-50	-1	50	12	-12
0		0		
-50	-1	50	12	-12
-25	-1	25	5	-5
0		0		
25	1	25	5	5
-75	-1	75	15	-15
50	1	50	12	12
0		0		
50	1	50	12	12
0		0		
-25	-1	25	5	-5
0		0		
-25	-1	25	5	-5
-25	-1	25	5	-5
0		0		
0		0		
-25	-1	25	5	-5
0		0		
-25	-1	25	5	-5

The question being asked was, “Is there a difference in test one and test two given an α level of .05?” In order to get a confidence level in the test of 95%, a z score of 1.645 was chosen. Thus the decision rule is that if the calculated z

value on a one tailed t test is less than -1.645, the null hypothesis would be rejected. After that, the numbers were plugged into the Wilcoxon signed ranks test formula.

$$z = \frac{T - \left(\frac{n(n+1)}{4}\right)}{\sqrt{\frac{n(n+1)(2n+1)}{24}}}$$

T is the smaller of sum of the positive or negative ranks.

Analysis of part 2:

The three possible answers to part two of the test were (1) Obey your boss and change your report, (2) Disobey your boss and leave your report unchanged, and (3) Unsure. Part two had no mathematical way to compute the difference in scores because there was three possible answers. All that could be done was look at the change in scores by each group of answer.

Chapter 3

Results from part one:

The result of the Wilcoxon signed ranks test came out to be a -1.76 z value. Thus the null hypothesis (There is no statistically significant difference in the student's use of AICPA Code of Professional Conduct when making professional decisions at the beginning of class and at the end of class) was rejected. There was a statistical difference in the students' scores. Something that was very fascinating was the mean score increase of the seniors. They had higher scores than the junior level students to start out with, but in addition they had the largest jump in scores from the pre-class test to the end of class test.

Results from part two:

Of the twenty-three participants, eleven of the student's answers remained unchanged on both tests and they said that they would not modify the report despite the orders of their boss. Five students answered the pre-class test answers by saying that they were unsure of what to do or that they would obey the boss. However, on the test given at the end of class, these five changed their answer to no. Two students, however, changed their answers from unsure at the beginning of class to a yes at the end of class.

Discussion:

Ethical judgements can either be made through a sense of duty (deontological) or sense of utilitarianism (teleological), which asks “what is the result in the end?”¹² (Geisler, 1990) In the professional world and especially the accounting field, a utilitarian (teleological) view is not the prevailing ethical system. The ethical system that prevails over the accounting profession is rule and duty based (deontological).¹³ (Adams, Malone, & James, 1995) A deontological view of ethics is supported by the AICPA Code of Professional Conduct because of its emphasis on the duty of CPAs to serve the public interest. According to Sullivan, “a deontological view of ethics is characteristic of professional judgment rather than personal judgment because it emphasizes an individual’s duty or obligation to comply with the norms and standards of the profession.”¹⁴ (Sullivan, 2004) For individuals, the prevailing ethical system is utilitarianism. What benefits me the most in the end? Accountants on the job need to get away from this and rely on professional (duty based) judgement.

Despite the statistical analysis, the question remains, how accurate are the findings? There are a lot of factors. Students could have regurgitated what they were taught in class with no change in their way of thinking. In other words, is a

¹² Geisler, N. (1990). *Christian Ethics: Options and Issues*.

¹³ Adams, B., Malone, F., & James, W. (1995). Confidentiality decisions: The reasoning process of CPAs in resolving ethical dilemmas.

¹⁴ Sullivan, G. (2004). *Enhancing Public Trust in the Accounting Profession Using Professional Judgment rather than Personal Judgment in Resolving Accounting Ethics Dilemmas*.

class specifically on ethics really going to change someone deep down? The answer is not an easy one. Studies similar to this one need to take place at other public and private colleges and universities in the United States and around the world. There has been a lot of work done on the field of ethics but there lacks a wide body of work entwining ethics and accounting. Whether there should be a class on ethics at the undergraduate level is not yet a foregone conclusion. Hopefully future research efforts can us get closer to the solution.

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APPENDIX I

Name: _____ Age: _____ Class: So / JR / SR

Professional Accountants, in their fiduciary role, owe their primary loyalty to:

- a. The accounting profession
- b. The client
- c. The general public
- d. Government regulations
- e. All of the above

What are considered core values of the accounting profession?

- a. Integrity
- b. Objectivity, based upon independent judgment
- c. Confidentiality
- d. Competence
- e. All the above

The following value(s) are not necessary for an accounting professional:

- a. Honesty
- b. Integrity
- c. Objectivity
- d. Primary Commitment to self-interest
- e. All but one of the above

Which of the following is not a fundamental principle in codes of conduct for professional accountants?

- a. Act in the client's best interest
- b. Objectivity and independence
- c. Maintain the good reputation of the profession
- d. Maintain confidentiality
- e. Not to be associated with misleading information

APPENDIX II

Bridget is a Senior Auditor with a national firm. This firm has developed a package called the ACME Accounting System. This system is sold to the general public as well as the firm's clients.

Bridget is the auditor in charge of the field work on the ABC Company's audit. During the course of the audit assignment, Bridget is asked to evaluate the quality control of the accounting system software which happens to be the ACME package. Bridget uncovers several severe control weaknesses in the ACME system. Before rendering the management letter to ABC, Bridget is told by her boss to modify the negative comments regarding the ACME software.

In the process of advising Bridget whether she should amend the management letter, many issues need to be considered.

Ideally, should Bridget amend the management letter? (Pick one)

Bridget **should** amend it_____ I Can't decide_____ Bridget **should not** amend it_____