Ethics in Managerial Accounting: Today's Challenges in USA

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***Abstract* – While accounting, both financial and managerial, is used worldwide and there are increasing efforts to bring about harmonization among accounting practices within and among nations the, understanding of such practices is still not up to par with expectations. This leads to concerns about standard practices and serious concerns about ethical practices in all forms of accounting. This paper addresses differences between financial and managerial accounting. Since financial accounting is mandated by legal requirements of governments there is more opportunity in managerial accounting for ethical discrepancies and malpractices. This paper also addresses ethical concerns in managerial accounting.**

Keywords* – *Ethics, Financial Accounting, Managerial Accounting

I. INTRODUCTION

Accounting is essential to all businesses. Without accounting a person does not know the health of a business. Accounting enables a business to be abreast of its latest financial position and also enables it to share its financial health report with the public as and when required by law. Accounting checks, maintains, and reveals the financial health of a business and its operations. Two areas of accounting that a lot of professionals are familiar with are financial accounting and managerial accounting. In this paper, the two areas of accounting are being compared and we will be visiting the critical concern over ethics in managerial accounting.

II. SOME DIFFERENCES BETWEEN FINANCIAL AND MANAGMERIAL ACCOUNTING

Financial accounting is conducted to provide information to stockholders, creditors, lenders [1], and other external publics such as investors [2], attorneys, analysts, potential investors and other interested parties [3]. Managerial accounting is used for internal purposes by managers, directors, and employees [1].

Financial accounts are historical whereas managerial accounts looks into the present and projects into the future [1]. Financial accounting reports the current financial health of the company and shows how the company has performed to external stakeholders, whereas managerial accounting looks at the present and allows mangers to make decisions about the future [2], [3].

Financial accounting provides an assessment of the past performance of the company, whereas managerial accounting provides information for running the business on a continual basis [[1], [3]. Financial accounting is for the public record, whereas managerial accounting could be confidential. Financial accounts have to be reviewed, certified, and reported by external auditors, while managerial accounts do not have to be revealed to external sources [3].

Financial accounting has to follow set procedures and standards, GAAP - General Accepted Accounting Procedure, so they are comparable to the financial accounts of others, whereas managerial accounts do not have to follow set procedures and are done according to management's preferences [1], [3]. Financial accounts help in making credit ratings, whereas managerial accounts do not [1].

Financial accounting reports for the entire organization and/or significant business units, whereas managerial accounting is for the organizations, smaller business units, individual departments, products, cost centers, and divisions so the organization can be monitored at various levels [1], [3].

Financial accounts are normally reported on an annual or quarterly basis, whereas managerial accounts are reported more frequently as needed, even as often as daily [1].

While investors rely on financial accounts over periods of time for performance determination, managers need information from managerial accounting for decision making in an almost continuous and more frequent basis.

For accountants it is very important to visit both financial accounting and managerial accounting. Financial accounting has more set procedures and standards and must be uniform for comparison with other corporations. Managerial accounting is more usable for the continuous

DOI: 10.5176/2251-2853_4.2.187

operational decision making by management. Both are essential for the successful operations of a corporation. Publicly reported financial accounts provide credibility and confidence in the corporation. Managerial accounting allows for management planning, operation, and control of the present and future of the firm for continued growth and success.

III. ETHICAL CONCERNS ABOUT MANAGERIAL ACCOUNTING

Managers need information from managerial accounting for decision making in an almost continuous and more frequent basis. Managerial accounting allows for management planning, operation, and control of the present and future of the firm for continued growth and success.

As mentioned earlier, since managerial accounting could be confidential and are done as per management's preferences that leaves a lot of decisions to subjective judgment. As one of the primary purposes of managerial accounting is self- monitoring within a firm, it can lead to personal preferences, biases and favoritism, or even sabotage due to interpersonal rivalry in the firm. Exxon, WorldCom, and Global Crossing are some classic examples of failing ethics and resulting bankruptcy [4].

The Institute of Management Accountants, USA lists four areas of ethical concerns. They are:

1. Competence;
2. Confidentiality;
3. Integrity; and,
4. Credibility [4].

It is a matter of grave concern if a managerial accountant is incompetent. Providing wrong information or wrongly accounting for financial information can gravely hurt the corporation for they will not be able to get the true picture. By the time they can figure out that something is wrong in the managerial accounting much damage could have occurred and the existence of the corporation could be in jeopardy. Additionally, a failed corporation could negatively affect employment and income of employees. This in turn can impact families and potentially neighborhoods and towns. A managerial accountant has to be abreast of all applicable laws and regulations to be competent.

A managerial accountant has to be able to maintain absolute confidentiality. As managerial accounting is generally within a firm, managerial accountants need high ethical standards in determining who should be privy to the information in their possession. How far does their authorized jurisdiction extend? Do they share the information with those within the firm but outside the individual accountant's authorized jurisdiction? Do they conceal damaging information from authorities within the firm but outside their authorized jurisdiction? Do they act as whistleblowers and report white collar criminal activities to the top management or government authorities?

Integrity is a must for managerial accountants. They should be conscientious in providing accurate numbers without tailoring and doctoring figures for ulterior motives. Whether numbers are skewed because of acts of commission or omission by the managerial accountant, the individual is still bound by ethics to ascertain their accuracy. Giving credit to the right entities and maintaining objectivity are essential pillars for preserving integrity. Buttross, Schmelzle, and Rao [5], found in a survey of 168 members of the Institute of Management Accountants that pressure from supervisors affected both ethical and unethical behaviors of management accountants. Their study also found that the financial amount was irrelevant to the ethical or unethical behavior. In a global survey on business ethics of around 2,000 respondents from around 80 countries conducted by the American Institute of Certified Public Accountants [AICPA] and the Chartered Institute of Management Accountants [CIMA] and reported in 2012 [6], some of the key findings were as follows:

1. Pressure to compromise organizational standards of ethical conduct had increased significantly compared to 2008;
2. Violations of ethical conduct were observed by 23% of the respondents.
3. 69% of those who observed violations claimed to have reported it and 26% of those who claimed to have reported violations feared retribution for having done so;
4. According to 22% of the respondents, the most pressure to compromise ethical standards came from colleagues in other functional areas of the organization.

The IMA lists credibility in its ethics guidelines. According to Hunter [4], this is interpreted as the management accountant providing complete and relevant information to decision makers in order for them to make their "informed" calls, failing which the company could be in jeopardy. Missing information or selective reporting of information to decision makers can result in erroneous or suboptimal strategies because of the lack of quality of information at hand at a given time for them to make sound decisions.

IV. CONCLUSION

Corporations are entirely dependent on managerial accountants for providing the true state of operations such as "accurate market purchasing trends, inventory quantity levels, as well as expected costs for supplies and production labor" [4]. Unethical managerial accounting could result in misleading numbers resulting in stock outs, delivery delays, production stoppages and wastages, financial failings, and disastrous strategic decisions.

With the developments in information technology additional challenges are and will be created to ethics in managerial accounting. Such developments include phishing, hacking, and cloud computing. These developments make it possible to usurp managerial accounting information of competitors. This is highly unethical.

Ethical standards should be upheld by all managerial accountants with exemplary ethical leadership from top management. Additionally, without self-motivated ethical behavior by management accounts, all codes, policies, and statements will end up as mere talk. It is time every management accountant practiced to "Walk the talk."

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AUTHOR'S PROFIEL

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