

# ACC 215 Ethics in Accounting

## COURSE DESCRIPTION:

Prerequisites: ACC 121

Corequisites: None

This course introduces students to professional codes of conduct and ethics adopted by professional associations and state licensing boards for accountants, auditors, and fraud examiners. Topics include research and discussion of selected historical and contemporary ethical cases and issues as they relate to accounting and business. Upon completion, students should be able to apply codes, and interpret facts and circumstances, as they relate to accounting firms and business activities. Course Hours per Week: Class 3, Lab 0, Semester Hour Credit 3.

## LEARNING OUTCOMES:

Upon completion of this course, the student will be able to:

1. Explain how integrity enables a CPA to withstand pressures and avoid subordination of judgment and discuss the relationship between one's values, ethics, and legal obligations. Describe how the pillars of character support ethical decision-making.
2. Describe the stages of moral development. Explain how moral reasoning and virtue influence ethical decision-making. Apply the steps in the Integrated Ethical Decision-Making Model to a case study.
3. Describe the link between organizational ethics, individual ethics, and corporate culture. Analyze why and how organizational culture is formed. Define elements in financial reporting systems including the ethics of the internal control environment, the effectiveness of accounting in auditing within an ethical framework, and the board of directors and audit committee responsibilities under the Sarbanes-Oxley Act.
4. Explain how professional judgment and skepticism influence ethical decision-making. Discuss how the public interest may be affected by the commercial activities of CPAs. Explain the threats and safeguards approach to independence. Discuss how nonattest services can impair audit independence.
5. Distinguish between audit requirements for errors, fraud, and illegal acts. Explain the components of the Fraud Triangle.
6. Describe the motivation for earnings management. Explain what earnings management seeks to accomplish. Discuss how earnings management judgments are made. Describe the various devices used to manage earnings.

## OUTLINE OF INSTRUCTION:

Chapter 1 Ethical Reasoning: Implications for Accounting

- Explain how integrity enables a CPA to withstand pressures and avoid subordination of judgment.
- Discuss the relationship between ethics, morals, the law and ethical decision making.
- Describe how the pillars of character support ethical decision making.
- Differentiate between moral philosophies and their effect on ethical reasoning in accounting.

- Describe the regulatory system in accounting and how professional accountants serve the public interest.
- Discuss the principles section of the AICPA Code of Conduct.
- Apply the IMA statement of Ethical and Professional Practice to a case study.

## Chapter 2 Cognitive Processes and Ethical Decision Making in Accounting

- Analyze the thought process involved in making decisions and taking ethical action.
- Explain how our thoughts might bias our decision-making process.
- Explain how cognitive processes influence ethical decision making in accounting.
- Describe Kohlberg's stages of moral development.
- Explain Rest's model and how its components influence ethical decision making.
- Explain how moral reasoning and virtue influence ethical decision making.
- Describe the link between organizational culture, ethical climate, ethical leadership and ethical decision making.
- Distinguish between equity, diversity and inclusion.
- Apply the steps in the Integrated Ethical Decision-Making Model to a case study.
- Describe the Giving Voice to Values technique and apply it to a case study.

## Chapter 3 Organizational Ethics and Corporate Governance

- Describe the causes of fraud, detection methods, and preventative controls.
- Describe the signs that an organization has collapsed ethically.
- Discuss compliance, integrity, and employee view about ethics in the workplace.
- Discuss the scope and role of corporate governance systems in the ethical decision-making process.
- Explain the models of corporate governance and ethical expectations of organizations.
- Explain conscious capitalism and the models of corporate social responsibility.
- Explain how the provisions of the Sarbanes-Oxley Act relate to corporate governance, including relationships with key parties and internal control over financial reporting (ICFR).
- Discuss whistleblowing procedures under Dodd-Frank and concerns about the program.
- Analyze the moral basis for whistleblowing and accountants' obligations to whistle-blow.

## Chapter 4 AICPA Code of Professional Conduct

- Explain professional judgment and the CPA's obligations under the AICPA Code of Conduct.
- Discuss the KPMG Professional Judgment Framework.
- Explain the threats and safeguards approach to independence.
- Describe SEC actions taken against auditors for a lack of independence.
- Describe the process to resolve ethical conflicts that may cause violations to the rules.
- Explain what is meant by subordination of judgment in the context of the integrity and objectivity rules.
- Explain how the conceptual framework works to keep in check possible violations of independence, integrity, and objectivity for CPA's in business.
- Explain how to apply the rules of conduct in the AICPA Code to the performance of professional services.
- Describe the ethics rules for tax practice and how they are influenced by the realistic possibility standard.
- Describe the PCAOB independence and ethics rules.

## Chapter 5 Fraud in Financial Statements and Auditor Responsibilities

- Distinguish between audit requirements for errors, fraud, and illegal acts.
- Explain the components of the Fraud Triangle and how they are integrated into AU-C 240.
- Describe fraud risk assessment procedures.
- Describe red flags which might indicate an individual is committing fraud.
- Describe the responsibilities of the external auditor, board of directors and company management in regard to ICFR.
- Explain the standards for audit reports and auditor communications.
- Explain when critical audit matters (CAMs) need to be disclosed.
- Identify the differences in the audit report requirements of the AICPA and the PCAOB.
- Explain the potential benefits and concerns over the use of Machine Based Learning systems by external auditors.

## Chapter 6 Motivation for Fraudulent Financial Reporting

- Describe the motivation for earnings management.
- Explain the purpose of providing earnings guidance and the motivation for making false and misleading disclosures.
- Explain how an auditor might look for red flags that indicate that fraud may exist in the financial statements.
- Explain the role of materiality in earnings management.
- Describe earnings management techniques in SEC enforcement actions.
- Explain the workings of financial shenanigans and its effect on reported earnings.
- Describe the scope and purpose of reporting non-GAAP financial measures and the responsibility of management, the board of directors and external auditors have surrounding their use.

## Chapter 7 Consequences of Earnings Management: The Need for Ethical Leadership in Accounting

- Describe the characteristics of financial statement restatements.
- Explain the difference between 'little r' and 'Big R' restatements.
- Describe how errors in reporting can trigger restatements.
- Explain how restatements due to operational issues occur.
- Explain how corporate governance systems influence earnings management.
- Describe the characteristics of ethical leadership.
- Explain how various leadership styles influence earnings management.
- Explain how ethical leadership in accounting might positively influence the use of earnings management.

## Chapter 8 Auditors' Legal Liabilities and Defenses

- Describe common-law rulings and auditors' legal liability to clients and third parties.
- Describe auditor defenses to negligence, negligent misrepresentation and fraud.
- Explain the basis for auditors' statutory legal liability.
- Explain the provisions of the PSLRA.
- Discuss auditors' legal liabilities under SOX.

- Explain the provisions of the FCPA.

**REQUIRED TEXTBOOK AND MATERIAL:**

The textbook and other instructional material will be determined by the instructor.