

ETHICS IN MANAGEMENT ACCOUNTING

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***Abstract:** In the knowledge based economy, accounting information in general, and cost information in particular acquire increased importance. The quality of accounting information can be affected by the non-compliance with professional ethical requirements. In relation to the management accounting, the law provides a higher degree of freedom for the organization and presentation of the information, as compared to the financial accounting. Due to the importance of the information supplied, management accountants should observe certain professional ethical standards. Professional associations develop ethical guides with the purpose of supporting management accountants in solving the ethical problems they may encounter. Among other factors, universities play a significant role in the development of management accountants' professional ethical conduct.*

***Key words:** ethics, management accounting, cost, information*

***Jel Classification:** D63, D24, M41*

1. FOREWORD

Under the current economic circumstances, when the economy of each country is a component of the global economy, the importance attached to production cost information is constantly increasing.

Enterprises should offer high-quality products on the market for reasonable costs, in such a way as to ensure their future economic growth.

Nowadays, there are two accounting organization systems used worldwide:

- the integrated or monist system;
- the non-integrated or dualist system.

The integrated accounting system requires the existence of a sole accountancy able to meet the external as well as the internal information needs at the same time.

The non-integrated or dualist system, specific to Romania, proposes the organization of two distinct types of accounting: the financial accounting and the management accounting, autonomous from the functional point of view, but dependant from the informational point of view. Unlike the annual accounts provided through the financial accounting, which are standardized, the statements provided through the management accounting do not have this feature. Thus, budgets, synthetic charts, reports, cash flow charts, as well as other situations are influenced both in terms of form as well as in terms of contents, by the users' information needs and by the nature of the activity performed by the company.

2. THE IMPORTANCE OF THE INFORMATION SUPPLIED BY THE MANAGEMENT ACCOUNTING

The management accounting is the main supplier of business information required for making decisions within a company. In relation to the management accounting, the law provides a higher degree of freedom for the organization and presentation of the information, as compared

to the financial accounting. The freedom provided by the law in governing management accounting should be used as efficiently as possible by adapting the organization of the management accounting to the management information requirements. The management accounting is a control tool used for various internal business processes of the enterprise, thus becoming indispensable in any manager's everyday life.

While the information provided by the financial accounting is dedicated both to external, as well as to internal users, the management accounting information is confidential and is dedicated to internal users only.

The IASB General Framework presents seven categories of financial statements users: current and potential investors, employees, creditors, suppliers, and other commercial creditors, customers, the government and its institutions, and the public.

Professor Horia Cristea presents¹ the users of the management accounting information (internal accounting, in this author's opinion) in the following block diagram:

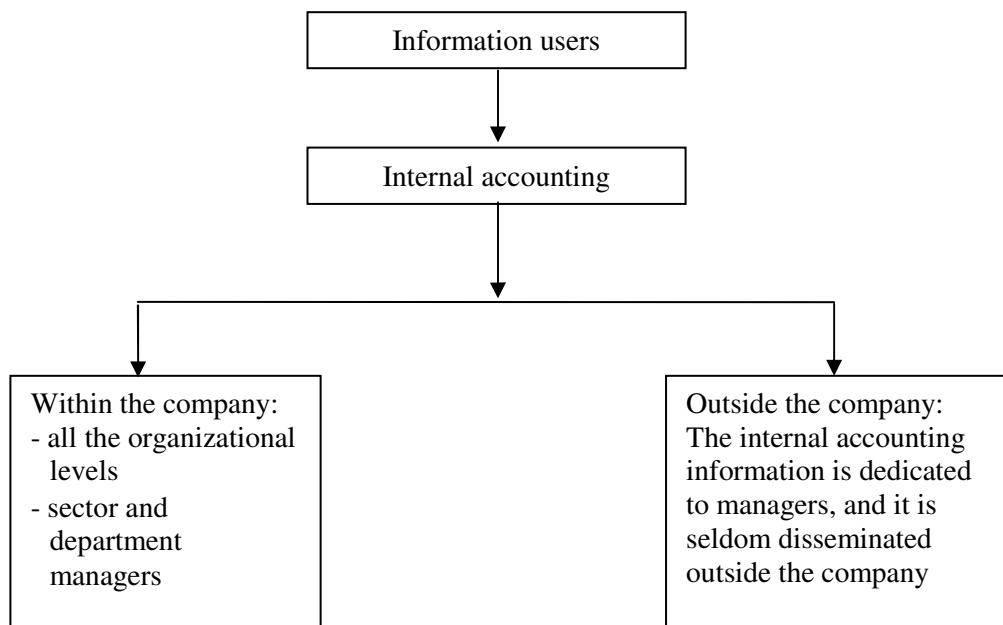


Fig.1. Users of management accounting information

In the same author's opinion, the information generated internally is used by the managers in three ways²:

- for drawing up plans and monitoring these plans;
- for the daily coordination, including pricing and an adequate publicity policy;
- for solving the problems encountered by their organizations.

The management accounting supplies the information necessary for drawing up internal reports and analyses used by the company management in the decision-making process.

Based on the cost information, they can set a sale price. Cost-based pricing relies on the objective theory of prices built by taking into account the interest of the supplier to ensure a price able to cover his expenses. According to this concept, the price is set by adding the intended

¹ Cristea H., *Contabilitatea și calculațiile în conducerea întreprinderii*, (Accounting and Calculations in the Company Management) 2nd Edition, CECCAR, Bucharest, 2003, p. 18

² Cristea H., *Contabilitatea și calculațiile în conducerea întreprinderii*, (Accounting and Calculations in the Company Management) 2nd Edition, CECCAR, Bucharest, 2003, p. 15

margin to the cost. In the market economy characterised by strong competition among product and service suppliers, the level of the price is determined by the supply/demand ratio.

One of the anti-competitive practices applied to companies with very good results is the cost strategy. This strategy is also called “the Japanese strategy” and consists in acquiring supremacy on the market by low prices, as a result of low costs.

Suppliers seem to compete in the market at the level of prices set for the same product. Actually, the competition is related to the costs of each supplier³.

3. ETHICS IN THE MANAGEMENT ACCOUNTING. INFLUENCE FACTORS

Due to the importance of the information supplied, management accountants should observe certain professional ethical standards.

Professional management accountant organizations worldwide have developed professional ethics standards. Setting professional ethical standards is important due to the fact that:

- they provide trust in the employee-employer relationship,
- standards represent a reference for management accountants facing ethical dilemmas;
- they provide a guarantee to the information users that concerning the quality of the information.

In the USA, in the opinion polls related to the ethics of the members of various professions, accountants are systematically present on the first places. This proves the improvement in the image of this profession.

The Institute Management of Accountants (IMA) is the most important management accountant professional organization in the USA. IMA developed “Standards of Ethical Conduct for Management Accountants”. These standards require the compliance with four basic principles: competence, confidentiality, integrity, and objectivity.

Management accountants have the obligation to improve on a continuous basis in order to insure a high level of professional **competence**.

Taking into account the nature of the information supplied by the management accounting, it is important to ensure its **confidentiality**. Management accountants have the obligation not to communicate confidential information; with the exception of the cases when they have the legal obligation to do so. According to their position within the compartment, management accountants have the obligation to inform their subordinates concerning the confidentiality of the information obtained during work, and to supervise their subordinates’ compliance with these principles.

Management accounting practitioners must be **incorruptible**. They must avoid conflicts of interests, and refuse presents or benefits that might influence their current or future actions.

The objectivity expected from management accountants is related to their obligation to communicate the information correctly, objectively, even if this information is not in the favour of those who requested it.

The balance statements can be manipulated in order to obtain the results expected by current or potential shareholders.

The objective of the professional ethics guides is not to provide solutions to all practical ethical problems encountered.

³ Moșteanu T. and co-authors, *Prețuri și concurență, (Prices and Competition)* University Publishing House, Bucharest, 2006, p. 96.

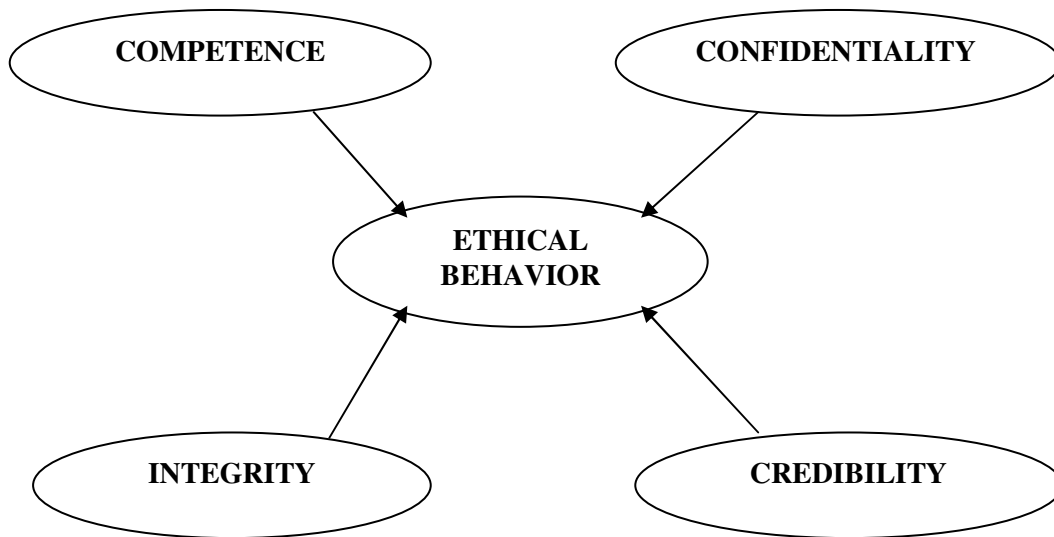


Figure 2. The four basic principles required by IMA's ethical standards

The resounding bankruptcies occurred in the USA in the last decade have once again brought to the forefront the aspects of professional ethics in the accounting field.

Their role is to support management accountants who encounter such problems in making a decision. In the USA, the Institute of Management Accountants established special telephone lines for the counselling, under the protection of anonymity, of management accountants confronted with ethical problems for which they cannot find any solution.

Higher educational institutions play an important role in the cultivation of the values of professional ethics. Universities should cultivate ethical values instead of allowing young specialists to acquire them on their own.

In the last decades, a new problem raised worldwide was that of the adaptation of the university curricula, by including aspects of professional ethics.

Teaching staff in universities can successfully use case studies and examples of reality to teach professional ethics. Students must realize that in practical work they may face ethical dilemmas. They must understand that ethics is the foundation of sustainable business. Company responsibility is not confined to economic aspects but also include ethical, social and environmental aspects.

More often than not, the first criteria of young graduates looking for a job are the following:

- the salary;
- other benefits offered by the employer;
- possibilities to promote.

The problems related to the ethics of the employer are often on the last place.

Some studies have analyzed the change in attitudes towards ethical issues. Cohen et al (2001) compared the ethical attitudes of Canadian students and practitioners. The results showed that accounting professionals saw some scenarios as less ethical than were considered by accounting students.

Factors that may influence ethical behavior of accounting practitioner are presented in Table 1.

Table 1. Factors that may influence ethical behavior of accounting practitioner

Type	Influence factors	Role
Educational, support	Universities	Train management accounting professionals in terms of scientific knowledge and ethical conduct
	Professional organizations	Provide support to accountants, but may also penalize those who do not comply with the standards, and can even exclude them from the profession
	Moral and religious reasons	Guide individuals' conduct
Coercive	The law	Contains provisions that must be observed and penalties for infringements
	Internal procedures of the company	Guide employees' behaviour in compliance with the legal provisions and to the interests of the company

4. CONCLUSIONS

The sources of ethical problems can be:

- ▶ the management's expectations opposed to the principles of professional ethics;
- ▶ the desire to be promoted;
- ▶ the desire to earn money quickly;
- ▶ personal obligations or obligations of companions.

Unlike external auditors, management accountants are employees of the company and are paid by the company, and due to this aspect the company expects them to be loyal.

Managers who want to be appreciated by the Board of Directors may put pressure on the accountant in order to make a facelift of the balance sheets. Many times, accountants are tempted to give in to such pressures.

Accountants have the obligation to present balance sheets in which they should depict situation of the company with maximum accuracy, even if this is not in favour of the management team or of the company itself.

The ethical standards developed by the IMA specify that "practitioners of management accounting and financial management have an obligation to the public, their profession, the organization they serve, and themselves to maintain the highest standards of ethical conduct".

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