

## Morality and Ethics of Accounting

---

**Cemal Elitaş**

*Yalova University, Yalova, Turkey*  
[cemalelitas@gmail.com](mailto:cemalelitas@gmail.com)

**Çetin Yurt**

*International Burch University, Sarajevo, Bosnia and Herzegovina*  
[yurtcetin@gmail.com](mailto:yurtcetin@gmail.com)

### **Abstract**

In our present day, even though morality and ethics are used interchangeably in most cases, what they refer to is usually different. Accounting morality may vary according to time and space, however, when the ethics in accounting is mentioned, what is usually observed is whether the methods employed by accounting to achieve its goals are righteous or unrighteous. This rectitude is not relative but absolute righteousness. This study aims to analyze the concept of ethics in the profession of accountancy, how these codes of ethics are formed, and the influence of both public administration and business circles on these codes and how individuals currently employed in the accountancy business interpret these codes. The implementation difficulties of codes of ethics which the employed in the profession need to conform to for the social benefits, welfare, and professional dignity, the measures taken by the chambers and joint work groups, and the suggestions provided by the professionals that will contribute to the process will be given at the end of the study.

**Keywords:** Morality in Accounting, Ethics, Ethics in Accounting, Business Ethics.

### **Introduction**

Morality means good qualities and good habits. Another definition of morality is the rules of behavior adopted by people in the community to which they are obliged to comply (Çalışır & Şefkatlı, 2003). It could be spoken of personal morality when this behavior and way of life has personal nature, social morality when it has social nature and professional ethics when it is about a particular occupational group respectively. Established at the end of a given period, these rules vary from person to person and society to society.

This variability of moral values in time and space do not apply to ethics because ethics is a philosophical concept which attempts to determine what is right and what is wrong in conjunction with the way to behave in order to achieve the truth.

In all aspects of life throughout the history, morality and ethics were concepts of integrity, honesty and good faith and have been discussed and given much importance to. As a result of this, for the science of accounting whose historical depth stretches beyond BC, accounting ethics is not a new concept. Similarly, the concepts and rules of business ethics have also always been important.

As the world economy having the features of closed economy in general until the last century, the rules of accounting had the characteristics usually in the form of tax records and the government accounting, and as a result, each country had its own specific accounting rules.

In the last century, and in particular after the Second World War with the impact of globalization and disappearance of economic boundaries, the accounting rules began to be determined at international dimensions. That the accounting being determined at international dimensions has paved the way to the emergence of internationally recognized accounting principles of ethics.

Accounting ethics, in simplest terms, can be summarized as providing the most accurate information for the addressee through financial statements in accordance with accounting rules.

In the context of accounting ethics, "the codes of ethics applicable to all accountants," which were identified by the International Federation of Accountants (IFAC), and comprise 7 principals, are elaborated in this study.

### **General Concepts Of Morality and Ethics**

Human beings are exposed to various influences, trained from birth onward, and as a result of these trainings, the experience they gain is reflected to the outside world, for these behaviors, they are considered as an asset by the surroundings.

As people individually vary in terms of their thought, life styles, these differences decrease in their families, societies and the inhabitants of the country in which they reside.

In this perspective, we can come to the conclusion that people, by living together, may give similar or even same reactions to some issues. These behaviors over time develop into a set of rules, which must be complied with, if differently treated, unwelcome by masses, and (whose sanctioning is in moral nature). Thus, the righteous behavior formed through a certain period of time is called morality. It means ethics, and righteous values.

In different sources, it can be possible to meet in different definitions of morality. Moral means good quality and good habits. According to another definition, morality is the rules and the forms of behavior that are adopted by people and obliged to comply (Çalışır & Şefkatlı, 2003).

Morality is presented to us not to postpone in the fluency of life and has sometimes formed sum of the values that repaired and all of them. People in the community that is told "moral" or "immoral", or is mentioned "exemplary moral values" has been drawn attention behind the person's behavior to the values (Çotuksöken, 2003).

The explanation of variance between morality and ethnics is reaction to the face of situations when the people give reacts. In other words, individual decides which one is right or wrong in a condition in daily or professional life. That is for individual 'what is valuable' or 'what is the right or the questions what valuable behavior is' as an action questions as the qualitative one such as ethics, good, duty, necessity, permitted takes place in the concepts of morality; namely, morality is a phenomenon stepped in decision-making in the concept of ethnics (Tepe, 1999).

The concept of ethics and morality in the field of philosophical ethics as a discipline is possible to handle. Ethics is shown how to behave with common sense and refers to the duties. It concerns about the ability to discriminate between right and wrong and the truth

that the tendency to carry out the truth (Sözbilir, 2000). For example, when accounting ethics mentioned how the financial statements prepared in accordance with the purpose of accounting for the preparation and the presentation that determine to be right, is the best suited to apply as morality.

If some approaches are from the outset of nature, ethics deal with as a branch of philosophy. If some approaches are in the daily use, it is similar with morality. If some approaches get morality contented; in this way, the question of "What are the approaches in morality?" determines the answer to the question form. In the pursuit of these determinations rightly, it is called as the directions of ethnics' job that are followed. Here is the way that will be followed; ethics are seen as morality-behavior and their determinant that is related to information carried to the thinking of direction (Çotuksöken, 2003).

### **Work Ethics**

Work Ethics is the sum of principles and rules that base on beliefs about what is right or what is wrong what is fair or unfair related to the conduct of business right (Şan & Sevgi, 2002). A job that is proper for the ethics is the job that is done by showing the necessary attention in the best way.

Businesses as the institutions operating in certain environmental conditions are affected not only by their environments in the decisions that they give; they also affect their environments by their decisions and actions. Businesses' understanding the impact of their actions on society and taking these effects into consideration while taking decision and applying to them are related to the sense of social responsibility.

Adam Smith, the father of Liberalism says: "the economic life is buried into the depths of social life. Habits of the society in which it operates, their morals and customs cannot be seen differently; in other words, the economy as alone cannot be separated from culture and discussed apart from others (Francis, 1998, p. 27).

Business ethics that dominates a society is closely related to the personal ethics of individuals that make up that society. The things that determine individuals' personal morals are usually traditions, religious values and people who are taken as model figures and adopted thoughts.

The historical development of business ethics dates back to ancient times. Writers and philosophers of Ancient Greek and Rome were not looking business and commercial activities well. Because they regarded this kind of activities involve with only ambitions of moneymaking and lies. They also thought that their civilizations would be degenerated by the corruptions that will be contaminated by these communities as a result of their relationship with barbaric traders (Arslan, 2001).

Despite these negative attitudes of ancient Greece and Rome, this negative attitude towards commercial activities in ancient times was not the same in every society (Sözbilir, 2000).

Religion's "rules that have to be accepted without any questioning" has been the most important factor on transmission of business and professional ethics that this religion has placed in the essence of societies from generation to generation.

For instance, Judaism views wealth as a gift of God and accepts a person's success as a heavenly occasion (Sözbilir, 2000). In addition, in holy books of Judaism, there are details regarding the regulations in business and vocational life. It would be fair to say, the most important factor behind the success of Jewish people who lead the economy in the whole world, and, in a way, holds the world economy under control is religious regulations.

On one hand, we can claim that in the course of history, religion plays a determining role in constitution of moral values, on the other; we can say that since the 19th century it loses ground. The biggest reason for this the downfall of theocratic states and the existence of anti-religious factors in moral system. Then, the religious rules "which should be accepted without questioning" turn into rules questioned and Emile Durkheim puts it "secular morality" starts to rule over societies. This change in the morality of societies is unsurprisingly reflected in business morality.

Moreover, till the last century, the economies of countries are closed economies and if people want to start unions, which can be possible in the borders of the country. Since the economies were closed, and were run on the base of the state control, it lead to the business morality changing from region to region in the same country and changing from country to country in the global sense.

Up to now, the economical borders have been disappeared with the effects of globalization; business and vocational regulations gained an "above-the-place" status. In this way, national and international vocational organizations were established and the legal regulations serving to the needs of the particular occupations have been decided by independent organizations and are rationalized for public authorities.

### **Accounting Ethics**

Since the beginning of life, people have expressed goods of economic value with financial instruments and felt the need to record them for different purposes. While the first records kept in this way are not known exactly, many instances of registers dated to BC have been seen as a result of current investigations today.

There are some research results showing these records under certain conditions by Persians around 500 BC, by Greeks around 1400 and by many other similar civilizations. Given that, accounting in essence is a recording process subject to certain conditions; in other words, it could be said that these records kept by different societies in different formats are the first accounting examples. The first accounting records in the flow of history, Encyclopedia Diderot defines accounting accordingly: "Recording goods and money in the book and keeping their account."

These first accounting records were dissimilar in different societies as a natural result of working ethics mentioned above, affecting each society. These different forms of record keeping were expressed in different ways to the contemporary society and its economic life and in time it resulted in accounting values' being understood in diverse forms in different communities.

A new economic order was created after the WWII in particular and new regulations started to be recognized at an international level in the field of accounting. The countries started to adapt to accounting rules recognized by international associations instead of their

own so as to be able to adapt to the new world order and keep pace at the market economy. Thus, despite some differences, when considered in the essence, principles of accounting ethics have become universally determined and applied, being cleared from international variances. The principles of accounting ethics has taken written form now like Declaration of Human Rights which in turn has increased the cooperation and the effectiveness of the jobs done between the accountants and the ones benefiting from accounting records.

“Code of Ethics for Professional Accountants” has been published by International Federation of Accountants for which there is 156 members of occupational organizations from 114 countries and it has been translated into our language by TÜRMOB. Seven parts of this Code of Ethics for Professional Accountants, which has totally 18 parts, can be applied to all accountants, seven parts of it can be applied to self-employed accountants, and four parts can be applied to the accountants who work dependently (Uyar, 2005). We think that it would be sufficient in terms of the boundaries of the subject to examine the following rules of ethics, which are applicable to all accountants.

### *1. Accuracy and Impartiality*

The principle of accuracy is having the work done within the framework of justice rather than it's being right. Each transaction, which matches with laws and accounting regulations, is not accepted as correct. The moral side of accounting emerges here. Doing the job right is not the same thing with doing it in conformity with the principles of morality.

Accounting transactions, which are in accordance with the relevant laws but are unethical, are called “Creative Accounting” and there is a lot of work on this subject.

### *2. Resolution of Moral Conflicts*

In market economy, everyone does procedures to ensure the maximization of benefit. Naturally this situation gives rise to conflicts of interest between parties. Conflicts of interest cause the accountant to be exposed to repression by their counterparts in both familial and personal relationship.

An accountant who faces with such cases should implement the ethical policy of the institution on which he/she is dependent if that institution has one.

If the moral conflict cannot be resolved in this way, the accountant should apply to the nearest supervisor. If he/she cannot still find a solution, he/should apply to a top administration. In addition, an accountant may take an appropriate idea or suggestion for the resolution of this conflict from an independent accountant or accounting institution in a confidential way. If a solution cannot be reached as a result of testing of internal investigation of all possibilities the accountant should resign as a last resort.

### *3. Professional Competency*

Accountants should reflect themselves as if they had mastery or experience that they don't have. Professional competency is gained through the theoretical education at the university, then special training, courses and work experience. Gaining professional competency necessities that one had worked for the first time at public or private companies at a certain period of time (trial period) at the status of a candidate and then the appointment as a principal on condition of fulfilling the requirements.

It is more probable to act as illegally. Particularly, one exam and one interview based on professional competency and mastery are required to be employed at state and private institutions. As a result of that evaluation, employment of a person lacking necessary knowledge and competency is unethical at all and means encouragement of unethical accounting action.

Having academic career and knowledge of mastery is insufficient even it is a necessity. Ongoing economical changes and related national and international arrangements should be followed and updated.

#### *4. Privacy*

Accountants have to keep the information about the costumers or employers secret. That privacy continues after the work between accountant and costumer ends as well. However, that privacy is not an absolute one. On condition of judiciary case or mandatory situation to reveal it, it is proper not to keep it, but to reveal is ethical.

#### *5. Tax Application*

Companies have to pay certain taxes relevant to their income to the state. Accountants keep records of their income. Hereby, accountants have to detect basic income correctly. In case of an exposure to the pressure to reduce the income or extracting totally, accountants should act according to the article 2 rules with the title "resolution of unethical conflicts". In addition, in the event of an error, it is the duty of accountant to correct the errors if declarations prepared in accordance with the performance of any other tax liability within the period specified by law.

#### *6. Cross-Border Activities*

Moral requirements of cross-border activities may be encountered when dealing with different situations. For example, an accountant offering their services in a country other than the country in terms of the requirements of morality, providing that there are differences between the two countries, the following conditions must be met:

- a) The IFAC code of ethics offered in the country should be applied where the law is less stringent than the IFAC requirements of morality.
- b) Service presented the country's moral requirements, IFAC cases where more stringent ethical requirements of that country apply.
- c) Citizen in the host country requirements of morality, if necessary during the implementation of the services provided in a foreign country, and to be more stringent in case of IFAC, the citizen in the host country should be the requirements of morality.

#### *7. Promotion*

Accountants in marketing and promotion of their own professions:

- a) Tools should not be implemented that undermine the dignity of the profession
- b) To offer the services themselves, they should not make exaggerated claims about the qualifications or experience they gained;
- c) They should not make false claims of other accountants

Morality or ethical behavior defined by an internationally renowned psychologist needs to be implemented for the following four criteria (Sözbilir, 2000). Consider these criteria in terms of an accountant:

- 1) The behaviors need to be identified about who will be affected: An accountant needs to understand who would be affected by the reports financial reports prepared by himself.
- 2) What is ethical behavior should be agreed on: An accountant's job is to determine which behavior is ethical.
- 3) Moral and ethical values should be above personal values: to be understood by their counterparts in financial statements correctly, a report prepared by an accountant needs to be within the framework of vocational ethics and should contain the correct information.
- 4) Accountant must find the strength of ethical decision and the application of the act itself: Accountant must find the strength of the application of the three the rules laid down in first Article.

### **Accounting Ethics**

We have mentioned that ethics is a responsibility how should be treated. Ethical behavior, however, is not only legal responsibilities. An act that is not a matter of legality may be a non-issue of ethics. An ethical issue may not be included in the legislation. For this reason, ethics should be addressed within the framework of a concept and understanding (Gözener, 2008).

Dignity of a profession plays an important role in the code of ethics. For the healthy functioning of the economic and commercial life, on the other hand, the code of ethics of the accounting profession needs to be established. Between the interests of the public and taxpayers, however, remain in the profession on the one hand, on the other hand it increases the pressure on the profession as it is related to monetary transactions (Ergun & Gül, 2005). In addition, professionals, if not show due diligence to ethical principles, it is believed that they are the most adversely affected by the situation.

One of the most important tasks of accounting is to provide accurate and reliable information to people. If accurate and reliable financial information is not presented, providers of this information cannot take sound decisions. As mentioned before, if such a situation exists, it is the proof as it ethical terms are violated in terms of accounting.

### **Accounting of Code of Ethics Implementation Issues**

There are three problems that harm the nature of accounting profession today. The first one is the increasing commercialization. This problem causes accountants to remain between their own interests and the service they offer to customers. The second problem is that there is confusion growing in business life. Finally, the changes in moral values and standards lead to the emergence of problems in terms of profession (Neu, Friesen, & Everett, 2003).

İşgüden and Çabuk (2006) Investigated the effect of the concept of professional ethics and rules of professional life. Despite best efforts of professional organizations, they do not comply with the rules of professional ethics by giving priority to personal interests, and escaping from professional liability and legal liabilities, it is concluded that the most important reason is the lack of adequate legal and financial audit.

Güney and Çınar (2012), found on the study of professional ethics perceptions that

accountants are aware of the importance of the ethical principles of the profession, they do not approve of the behavior contrary to them, but in practice they think there is unethical behavior and they demand more training support from ethical professional organizations. In addition, they concluded that there is in direct proportion to the level of income and adherence to ethical principles and the level of education.

Accounting functions as a bridge between different interest groups and business and used by large segments, information provided by them directly affect their decisions. In this regard, the ethical accounting practices become an important issue. On the other hand, recent accounting scandals that emerged proves that the relevant laws, professional ethics and social values are paid adequate attention.

Bayraktar (2007) stated in his study that accounting tricks in Turkey are conducted for two purposes. The first of these is to show business better, second, to show that business is worse. As a result of the study, the most common events include the following: tax evasion, embezzlement and corruption, concealment, document fraud (fake invoice), informal processes, using fictitious accounts. This kind of unethical behavior damaging the profession of accountancy in all aspects of society may have only one explanation; the person or entity want to hold their customers.

In a study conducted by Kirik (2007) the accounting error and fraud is intense, on the basis that not only accountants are accountable but also particularly taxpayers, government policies, tax practices, professional organizations and the factors such as social structure as well. Demands and pressures to cheat, especially by taxpayers, put professional members in difficult situations such as conflicts between the public interest and professionals live. In addition, the lack of adequate financial control, legal gaps and member of the professions dependent on taxpayers in terms of money (source of income), causes this pressure to increase. Because when some taxpayers pay accountants fees, it is like to be for "paying less tax". Again Aymankuy & Sarıođlan, (2005) work, directly or indirectly, the reason in the professional members to conduct non-ethical behaviors is that taxpayers come first and legislation second.

Members of the profession, believes that the most important factor that pushes an error is "constantly changing legislation". In addition, the most important factor preventing unethical behavior is found to be the subsequent commitment to the state and the other factors are listed as conscience, a sense of shame and fear of punishment.

Ethical and unethical behavior in today's world the most important behavior is cited as an example the act of bribe taking and giving. Accountants and trying to hide its own erroneous records to bribe government officials on behalf of the company are to gain unfair. Prohibited by the laws of all states to prevent this corruption and appealed to a certain criminal proceedings. However, the United Kingdom put into effect July 1, 2011 in the United Kingdom Anti-Bribery Act, with great interest. The most important reason for this interest is to be processed within the jurisdiction of the law of bribery offenses, the United Kingdom is that the nature of a law. In other words, the offense of bribery was committed, regardless of which country or countries in which the guilty party regardless of nationality law offense of bribery occurred processed the conditions considered and the United Kingdom courts shall be competent to judge. If you have a company or the employee's close links with the United Kingdom (residence, citizenship, participation, partnership) will be covered under this law (The Bribery Act 2010, 2010).



While doing their jobs in an intensive competitive environment, another factor directing professional accountants to act unethically in a matter of professional is the collection of fees. Accountants who cannot get value for their work, or at least who cannot get timely processing of their fees do not show too much sensitivity in their jobs. On the contrary, in the fear of losing the company, the ethical rules may be ignored in the name of a company that pays their fees on time.

As a proposal to support other initiatives, training activities of other professional organizations, increasing the effectiveness of the controls, as well as the organization of responsibilities can be counted. Problems from the frequent changes in legislation often emerge as a very wide subject area of professional competence. The methods of profession selections come up as another factor of violating ethical codes. In fact, after a challenging training and examination system, members of the profession, professional members put aside training and remain inadequate to keep pace with developments and regulations. We believe that it would be beneficial that they are subjected to compulsory education at certain periods as well as training of ethics.

## **Conclusion**

The concept of morality changes from person to person and from one society. It allows us to realize, however, that the relativity of the concept of ethics. Morality is a concept which shapes in a considerably long period of living together in societies brought a set of values, a common approach and to show differences between communities.

The concept of ethics, however, involves the concept of morality in the field, and a universal approach to philosophical ethics, which also categorizes morality. These two concepts taken for accounting purposes, which is a branch of science, of course, this distinction will manifest themselves.

While investigating the distinction between the concepts of ethics and morality, the distinction needs to be highlighted and even emphasized. Written in different languages, especially on moral and ethical articles, essays and books should be well-read and translated into as correctly as possible. Otherwise, a lot of concept confusion is unavoidable. Especially, when investigating the concept of "morality" from dictionaries, "ethical" and appears to be in the same sense. Naturally, this situation results in the reflection of scientific studies of these two concepts in a wrong way. In order to prevent such usage that is far from scientific values, the distinction between morality and ethics is emphasized in many places.

Works to base the same principles of accounting rules throughout the world has been continuing for many years. The different economic structures of the countries are making the standardization very difficult. Since economies have a different structure, it brings variety in business morality and in professional morality. Of all countries in the world, economic structure and the accounting principles used in parallel with the same characteristics as much as, if we ignore the effect of moral values of individual professional accountants, accounting ethics - reconcile the concepts of ethics in accounting.

## References

- İşgüden, B., & Çabuk, A. (2006). Meslek Etiği ve Meslek Etiğinin Meslek Yaşamı Üzerindeki Etkileri. *Balıkesir Üniversitesi Sosyal Bilimler Dergisi* , 59-86.
- Şan, Ö., & Sevgi, Ö. A. (2002). *Genel İşletme*. Eskişehir, Turkey: Anadolu Üniversitesi Yayınları.
- Çalışır, A., & Şefkatlı, M. (2003). *Beşeri Münasebetler*. Ankara, Turkey: Tutibay Yayınları.
- Çotuksöken, B. (2003). Felsefe Açısından Etik: Tanımla-Sınırlar. (423), 13.
- Arslan, M. (2001). *İş ve Meslek Ahlakı*. Ankara, Turkey: Nobel Yayınevi.
- Aymankuy, Y., & Sarıoğlan, M. (2005). Muhasebe Mensuplarının Meslek Etiğine Yaklaşımları ve Balıkesir İl Merkezinde Bir Uygulama. *Balıkesir Üniversitesi Sosyal Bilimler Dergisi* , 8-14.
- Bayraktar, A. (2007). Türkiye'de Muhasebe Hileleri Tarihi. *Trakya Üniversitesi Sosyal Bilimler Enstitüsü Yayınlanmış Yüksek Lisans Tezi* . Tekirdağ.
- Ergun, H., & Gül, K. (2005). Muhasebe Mesleği Etik Kuralları ve Bu Kuralların Meslek Mensuplarının Algılanışı. *MUFAD Muhasebe ve Finansman Dergisi* (25), 147-149.
- Francis, F. (1998). *Güven*. Ankara, Turkey: Türkiye İş Bankası Yayınları.
- Gözener, E. (2008). Etik ve İşletme Etiği Üzerine. *Eğitim Dergisi* (18).
- Güney, S., & Çınar, O. (2012). Serbest Muhasebeci Mali Müşavirlerin (SMMM) Etik Algıları: Erzurum Örneği. *Atatürk Üniversitesi İktisadi ve İdari Bilimler Dergisi*, 26 (2).
- Kirik, Z. (2007, September). Muhasebe Hata ve Hileleri ile Muhasebe Mesleğinde Etik Afyonkarahisar'da Muhasebeciler Üzerine Bir Araştırma. *Yayınlanmamış Yüksek Lisans Tezi* . Eskişehir, Turkey: Anadolu Üniversitesi Sosyal Bilimler Enstitüsü.
- Neu, D., Friesen, C., & Everett, J. (2003). The Changing Internal Market for Ethical Discourse in the Canadian CA Profession. *Accounting, Auditing and Accountability Journal*, 16 (1), 91-94.
- Sözbilir, N. (2000). *Türkiye'de Muhasebe Uygulamalarında Etiksel Boyutlar*. Afyon, Turkey: Afyon Kocatepe Üniversitesi Yayınları.
- Tepe, H. (1999). Bir Felsefe Dalı Olarak Etik. *Doğu Batı Düşünce Dergisi* (4), 12-14.
- The Bribery Act 2010. (2010). *Ministry Of Justice*. Retrieved March 10, 2013, from justice.gov.uk: [www.justice.gov.uk/downloads/legislation/bribery-act-2010-guidance.pdf](http://www.justice.gov.uk/downloads/legislation/bribery-act-2010-guidance.pdf)
- Uyar, S. (2005, July 12). *Makaleler*. Retrieved Jun 23, 2011, from muhasebetr: [www.muhasebetr.com/yazarlarimiz/suleyman/001/](http://www.muhasebetr.com/yazarlarimiz/suleyman/001/)