Course Outline for Business 6

ACCOUNTING ETHICS

Catalog Description:

BUS 6 - Accounting Ethics

A comprehensive study of ethical issues that accountants must address in the various sectors of accounting. Topics include general principles of ethics applied to accounting, personal responsibilities, the AICPA Code of Professional Conduct, tax/audit/accounting issues, confidentiality, independence, conflicts of interest, discreditable acts, whistleblower duties, and the Sarbanes-Oxley Act.

Prerequisite: BUS 1A

Grading Option: Optional

Discipline

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<tr>
<th>Units</th>
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<td>Week Term</td>
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<td>3.00</td>
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Prerequisite Skills:

Before entry into this course, the student should be able to:

1. define accounting, list users of accounting information, and distinguish between financial and managerial accounting;
2. describe the usefulness of a conceptual framework and its qualitative characteristics;
3. describe the usefulness of a conceptual framework and its qualitative characteristics;
4. describe the usefulness of a conceptual framework and its qualitative characteristics;
5. list and recognize four basic assumptions, four principles of accounting, constraints and limitations to accounting reporting;
6. prepare, apply and demonstrate an understanding of various forms of corporate financial statements including income statement, statement of stockholders' equity (including statement of retained earnings), statement of retained earnings, and statement of cash flows;
7. differentiate among operating, investing, and financing activities on the statement of cash flows;
8. complete the accounting cycle: prepare journal entries, post to ledger, perform adjusting and closing entries at the end of the period using accrual basis and corporate form of business;
9. process transactions relating to a service and a merchandising business;
10. demonstrate an understanding of the cash and accrual methods of accounting;
11. process transactions relating to current assets (accounts and notes receivable);
12. apply different methods of valuing inventory and calculating depreciation;
13. record transactions relating to long-term assets (fixed assets, natural resources, and intangibles), calculate depreciation/amortization using various methods, distinguish between capital and revenue expenditures, and record the asset disposal;
14. record and analyze transactions related to current liabilities, including known, estimated, and contingent liabilities;
15. record and analyze transactions related to long-term liabilities, including bonds and long-term notes payable;
16. explore reporting requirements for stockholders' equity;
17. analyze financial statements using horizontal, vertical, and ratio analyses and data from annual reports and notes to the financial statements;
18. identify ethical issues, decide appropriate course of action by applying critical thinking and communication skills;
19. use appropriate accounting terminology as it applies to various business scenarios.

Measurable Objectives:

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

1. recognize the significance of an ethical corporate environment;
2. describe the general principles of ethics in accounting and recognize how these principles govern the profession;
3. describe and apply the various components for decision making: moral philosophy principles and the decision making model;
4. interpret the AICPA Code of Professional Conduct and apply the various components to audit/attest engagements;
5. explain the roles and responsibilities of auditors and describe their obligation in identifying financial statement fraud;
6. interpret and apply the components of IRS Circular 230 to tax engagements and tax practice;
7. define the components of the Sarbanes-Oxley Act and identify their contribution to corporate ethics;
8. define and apply the principles of independence, conflicts of interest, and confidentiality;
9. explain personal responsibilities as an/a auditor, tax professional, whistleblower, and public company.

Course Content:

1. Introduction to ethics
   A. What is ethics?
   B. Why study ethics?
   C. Philosophical foundation of ethics
      a. Utilitarianism
Upon the completion of this course, the student should be able to:

* **Student Learning Outcomes**
  1. **Methods of Evaluating Student Progress**
  2. **Assignments and Methods of Evaluating Student Progress**
  3. **Methods of Evaluation**

#### Methods of Presentation
1. Case Study
2. Lecture/Discussion
3. Research Report
4. Textbook reading assignments
5. Class and group discussions
6. Handouts and rule interpretations.
7. Written assignments
8. Group Activities
9. Demonstration/Exercise
10. Use of Recordings

#### Assignments and Methods of Evaluating Student Progress

1. **Typical Assignments**
   - Given a set of fictional scenarios involving a service provider and a client (examples shown below), please determine whether the service provide is independent. 1. A bank retains a CPA firm to perform an audit. During the period of the professional engagement, a manager in the CPA firm obtains a mortgage from the bank. He works in the same office as the lead partner on the audit but does not provide any services to the bank. Is the firm’s independence impaired? 2. A CPA firm performs an audit of a large manufacturing company. One of the firm’s managers, who plans to provide a significant amount of tax services to the company, has a spouse who inherited a small amount of stock in it. The manager does not work in the same office as the lead audit partner. Is the firm’s independence impaired?
   - **B. Disclaimer:** this case study is taken from the Carnegie Mellon Tepper School of Business. Credit has been given to the authors below. "Kelsey, a senior accountant at a multi-office CPA firm, is assigned to the audit of Compo Corporation. Compo is a closely held corporation and a major client of the firm. During the audit, Kelsey finds a material cutoff error which causes Compo’s income to be significantly misstated. Kelsey is aware that the CPA firm’s policy clearly states the audit senior must document any potential material adjustment in the work papers. The final determination of materiality is then made by the partner in charge of the audit. Kelsey also knows Compo does not want to make the adjustment. Before wrapping up the field work, the audit manager, Bruce, tells Kelsey ‘Let’s not mention this adjustment in the work papers’. Since Compo is closely held and there are not tax implications, the partner has decided not to force an adjustment. Compo is our largest client. We need to get the Compo work up to the partner as soon as possible.” Kelsey is concerned and upset after the conversation with Bruce. Failure to document such a material amount just does not seem right.”
   - Author: Sandra K. Fleak, Associate Professor of Accounting, Northeast Missouri State University Co-author: Scott R Fouch, Assistant Professor of Accounting, Northeast Missouri State University

2. **Duties and Responsibilities**
   - Duties as a whistleblower
   - Duties of public companies
     - **A. Impact of the Sarbanes-Oxley act on the duties of public companies**
     - **B. Roles and responsibilities of tax professionals**
     - **C. Duties and responsibilities of auditors**

3. **Impact of Sarbanes-Oxley act on importance of ethics**
   - a. General nature of decision making in accounting
   - b. Dealing with uncertainty in decision making
     - a. Estimates
     - **C. A decision making model**
   - 3. **Unethical Actions**
     - a. Financial statement fraud
     - b. Errors
     - **B. Management of earnings**
     - **C. Violations of accounting standards**
     - **D. Violation of the Internal Revenue Code**
     - **E. Internal controls**
     - **F. Embezzlement**
     - **G. Bribery**

4. **The Professional Rules of Conduct**
   - **A. AICPA Code of Professional Conduct**
     - a. Integrity
     - b. Objectivity
     - c. Independence
     - d. Due care and due diligence
     - e. Acts discreditable
     - f. Fees
     - g. Advertising
     - h. Confidential information
   - **B. IRS Circular 230**
     - a. Rules governing the authority to practice
     - b. Duties and restrictions relating to practice before the IRS
     - c. Sanctions and penalties for violation of regulations

5. **Duties and Responsibilities**
   - Duties as a whistleblower
   - Duties of public companies
     - a. Impact of the Sarbanes-Oxley act on the duties of public companies
   - **B. Roles and responsibilities of tax professionals**
   - **C. Duties and restrictions relating to practice before the IRS**
   - **D. Duties and responsibilities of auditors**

**Methods of Presentation**

1. **1. Case Study**
2. **2. Lecture/Discussion**
4. **4. Textbook reading assignments**
5. **5. Class and group discussions**
6. **6. Handouts and rule interpretations.**
7. **7. Written assignments**
8. **8. Group Activities**
10. **10. Use of Recordings**

**Assignments and Methods of Evaluating Student Progress**

1. **1. Typical Assignments**
   - **A. Given a set of fictional scenarios involving a service provider and a client (examples shown below), please determine whether the service provide is independent.**
     - 1. A bank retains a CPA firm to perform an audit. During the period of the professional engagement, a manager in the CPA firm obtains a mortgage from the bank. He works in the same office as the lead partner on the audit but does not provide any services to the bank. Is the firm’s independence impaired? 2. A CPA firm performs an audit of a large manufacturing company. One of the firm’s managers, who plans to provide a significant amount of tax services to the company, has a spouse who inherited a small amount of stock in it. The manager does not work in the same office as the lead audit partner. Is the firm’s independence impaired?

2. **2. Methods of Evaluating Student Progress**
   - **A. Class Participation**
   - **B. Homework**
   - **C. Papers**
   - **D. Quizzes**
   - **E. Final Examination**
   - **F. Midterm Examination**
   - **G. Research Projects**

3. **3. Student Learning Outcomes**
   - Upon the completion of this course, the student should be able to:
     - **A. Interpret the AICPA Code of Professional Conduct and apply the various components to audit/attest engagements.**
     - **B. Explain the roles and responsibilities of auditors and describe their obligation in identifying financial statement fraud.**
     - **C. Define and apply the principles of independence, conflicts of interest, and confidentiality.**
**Textbooks (Typical):**
4. AICPA Code of Professional Conduct
5. IRS Circular 230

**Special Student Materials**

**Abbreviated Class Schedule Description:**

A comprehensive study of ethical issues that accountants must address in the various sectors of accounting. Topics include general principles of ethics applied to accounting, personal responsibilities, the AICPA Code of Professional Conduct, tax/audit/accounting issues, confidentiality, independence, conflicts of interest, discreditable acts, whistleblower duties, and the Sarbanes-Oxley Act.

**Prerequisite:** BUS 1A