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What are the Legal and Ethical Considerations in the Field of Accounting

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ABSTRACT: Ethics are the moral principles that guide our actions and decisions, and they play a pivotal role in the field of accounting. Accounting professionals hold a position of trust in society, as they are responsible for managing financial information that impacts stakeholders' decisions. In this blog, we will delve into the ethical issues in accounting & finance faced by accountants.

KEYWORDS: ethics, accounting, society, finance, issues, legal

I. INTRODUCTION

Accounting is the process of recording, classifying, summarizing, analyzing, and interpreting the financial transactions of a business or organization. The primary purpose of accounting is to provide an accurate and reliable financial position of the company to its stakeholders. These stakeholders may include investors, creditors, management, employees, and other interested parties.

Ethical issues in accounting & finance faced by accountants

The following are the ethical issues in accounting & finance faced by accountants in India:

1. Confidentiality

Confidentiality is a critical ethical issue in finance and accounting. Accountants and finance professionals have access to sensitive financial information, and it is their responsibility to keep this information confidential. Any unauthorized disclosure of this information can have serious consequences for the client and the accountant. Accountants and finance professionals must ensure that they maintain confidentiality always and only disclose information with the client's consent or when required by law.[1,2,3]

2. Independence

Independence is another critical ethical issue in accounting and finance. Accountants and finance professionals must maintain independence and objectivity when providing services to their clients. This means that they must avoid any conflicts of interest and not allow personal relationships or financial interests to influence their professional judgment. Accountants and finance professionals must also avoid any actions that could compromise their independence, such as accepting gifts or favors from clients.



3. Professional Competence

Professional competence is an ethical issue in accounting and finance that relates to the accountant's or finance professional's ability to provide high-quality services to their clients. Accountants and finance professionals must have the necessary knowledge, skills, and experience to provide services that meet professional standards. They must also keep up to date with changes in accounting and finance standards and regulations to ensure that they provide accurate and reliable information to their clients.

4. Objectivity

Objectivity is an ethical issue in finance and accounting that relates to the accountant's or finance professional's ability to provide unbiased and impartial advice to their clients. Accountants and finance professionals must avoid any conflicts of interest and not allow personal relationships or financial interests to influence their professional judgment. They must also avoid any actions that could compromise their objectivity, such as accepting gifts or favors from clients.

5. Fraud

Fraud is a significant ethical issue in finance and accounting. Accountants and finance professionals must be vigilant in detecting and preventing fraud in their clients' financial statements. They must also report any suspected fraud to the appropriate authorities. Accountants and finance professionals must ensure that they maintain professional skepticism and exercise due diligence when reviewing financial statements to detect any irregularities or inconsistencies.

6. Professional Conduct[4,5,6]

Professional conduct is an ethical issue in accounting and finance that relates to the accountant's or finance professional's behavior and actions. Accountants and finance professionals must maintain high standards of professional conduct and avoid any actions that could damage their reputation or the reputation of the accounting and finance profession. They must also comply with professional standards and regulations and avoid any behavior that could be considered unethical or unprofessional.

II. DISCUSSION

Knowing some of the ethical issues in accounting and finance can help you understand the implications of the unethical actions of an accountant.

- Inaccurate Financial Reporting

Manipulating and misrepresenting financial information to a layman is one of the most unethical actions as per financial and accounting principles, as it violates the code of trust between the accountant and the others dependent on him for such confidential financial information. Some may do this to mislead stakeholders and investors and maintain the company's share price. While it may still work in the short term, the effects of misreporting financial information may soon catch up.

- Disclosure Violations

Disclosing too much or too little has consequences that must be faced. It is unlawful and has dangerous consequences. If there is a loss and the accountants try to hide it from the investors and stakeholders, it will negatively impact the actual business of the organization. Failure to disclose financial information can also be considered inaccurate financial

reporting. Additionally, intentionally recording transactions in a manner that does not follow the generally accepted accounting principles is also considered unethical and misrepresents financial information.

- Executive-focused Organizational Environment

In an organization where the executive is given a lot of power, he can influence the decisions and reporting of financial analysis. They may force the manipulation of numbers, trying to get more investors to rise in power and money. Due to this, the real picture of the company's finances may not be shown, which may harm the organization in the long term.[7,8,9]

- Misappropriation of Assets

Using the resources of the company for purposes other than the interests of the company is termed as misappropriation of assets. It can happen at any level of the organization. Still, accountants may help fish out the discrepancies with the help of accounting and financial analysis tools and techniques conforming to financial principles. But if the accountant is involved in the embezzlement issue, it will negatively affect the organization's business.

- No Direct Chain of Command

Every organization requires a well-specified chain of command to ensure proper and efficient financial decision-making and analysis reporting. Without efficient communication and collaboration between departments and relevant employees, essential financial information may remain unreported to the accountant, leading to discrepancies in reporting and disrupting accounting principles.

What Are The Principles Of Financial Accounting?

To prevent harm to the business, every organization must have certain ethical principles to abide by as a benchmark of their professional practice. There may also be other more specific principles of financial accounting pertaining to the company's specific needs.

Here are some of the ethical considerations in the principles of accounting and finance.

- Objectivity

Avoiding bias and objectivity towards financial representation is a principle to stand by. Presenting financial information without personal bias or outside pressure is essential for the organization's business.

- Integrity

Being honest, truthful, and abiding by the correct rules and laws for providing analysis and representation of financial information is important. It is also implied in being able to handle pressure, people, and situations with fairness and impartiality. The accountant is also expected not to provide misleading or incorrect information while reporting financial information.

- Confidentiality[10,11,12]

Maintaining the confidentiality and legal compliance of financial matters on the company's behalf is crucial to preventing sensitive information from getting leaked. It can cause confusion, discontent, and mistrust among employees and shareholders, as well as become leverage for competitors. It is extremely important to involve only those in the financial analysis process who have the right to know and are an indispensable part of the process.

- Professional Competence

It relates to the personal working standards of the accountant in being competent and skilled enough to handle the responsibilities of financial and accounting analysis while maintaining the required level of competence to undertake professional duties.

- Professional Behaviour

Every company has a code of ethics and standards for practices that everyone must follow. Accountants are expected to follow such codes of standards and company laws to avoid violations of trust and any action that may be brought against them if discrepancies are detected.

III. RESULTS

Example of ethics in accounting

AICPA codes of conduct and the Sarbanes-Oxley Act detail important accounting ethics. The AICPA codes of conduct elaborate on principles, values, and competence needed in the accounting profession. The Sarbanes-Oxley Act defines the type of financial information companies should avail of and the penalties for unethical practices.

Ethics of accounting

Ethics of accounting are guidelines established by different accounting bodies to deter accountants from misusing financial information. They include confidentiality, integrity, and professional competence. Confidentiality mandates that all accountants should not disclose financial information to third parties. Integrity expects accountants to be honest in their financial dealings. Professional competence requires accountants to be knowledgeable and experienced.[13,14,15]

Ethics so important in accounting

Ethics are essential in accounting to act as a guide on how information should be handled as well as the types of information necessary. They also stipulate the essential values and principles that accountants and auditors should apply. Lastly, ethics provide penalties for offenders, which act as a solution for unethical behavior.

Importance of Ethics in Accounting

1. **Maintaining Public Trust.** One of the primary responsibilities of accountants is to provide accurate and reliable financial information to stakeholders. The public and investors rely on this information to make informed decisions about investing in companies. If accountants do not adhere to ethical principles, it can lead to a loss of public trust in the accounting profession and damage the reputation of the profession.
2. **Legal Compliance.** Accountants are required to comply with legal and regulatory requirements when preparing financial statements. Failure to comply with these requirements can result in legal action against the accountant and their firm. Adherence to ethical principles helps accountants to ensure that they comply with legal and regulatory requirements.
3. **Maintaining Professionalism.** Adherence to ethical principles is a hallmark of professionalism in the accounting profession. Professionalism is critical to building and maintaining trust in the accountant-client relationship. Ethical behavior demonstrates a commitment to the profession and a willingness to act in the best interests of clients.
4. **Risk Management.** Unethical behavior in accounting can lead to significant risks for the accountant and their firm. Misrepresentation of financial information can lead to legal action, reputational damage, and financial loss for clients and stakeholders. Adherence to ethical principles helps accountants to mitigate these risks and protect their clients and stakeholders.[16,17,18]

IV. CONCLUSION

Ethics is a critical component of the accounting profession. Adherence to ethical principles helps to maintain public trust, comply with legal and regulatory requirements, maintain professionalism, and manage risks. [19] Accountants must apply ethical principles in practice by acting with integrity, objectivity, confidentiality, and professional competence. The reputation of the accounting profession rests on the trust that stakeholders have in the ethical behavior of accountants.[20]

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