

Chapter 1

INTRODUCTION TO ETHICS

Exercises

Ethics in Everyday Life

1. Rank each of the following ethical issues from 1 to 10. A ranking of 1 means that your conduct is extremely unethical, and a ranking of 10 means that conduct is extremely ethical.
 - a. When you wake up, you jump in the shower right away, knowing that your use of the available hot water might prevent your roommate from getting to work on time.
 - b. You arrive at class a bit late because you overslept. When the instructor stares at you disapprovingly, you mutter that “traffic was horrible,” even though it wasn’t.
 - c. At lunch, you notice a college administrator telling the cashier that she is a “student” to get a discount on food purchased from the student-run facility. You do not inform the cashier to avoid conflict with the administrator.
 - d. Between classes, you ask your professor for “special tips” on how to do better on the upcoming midterm, knowing that your course grade is curved relative to the performance of your classmates.
 - e. At your part-time afternoon job, you use a company pen to jot some notes, and then place the pen in your pocket.
 - f. At your part-time afternoon job, you use the company computer to transact an online purchase of sunglasses while you were waiting for your boss to return with documents that you need to complete your work assignment.
 - g. On your way home, you stop in a shoe store to figure out which size shoe fits you best. You thank the salesperson for his help, and then order these shoes online to save money.
 - h. While driving home from the shoe store, you notice that there is a car accident in the far right lane, so several cars are trying to slide over into your faster-moving lane. You decide to not let any cars merge into your lane.
 - i. After arriving at your apartment, you feel somewhat tired. As a result, you back out on your friends, claiming that you “have too much homework” to go out that evening, although you had previously agreed. Because your friends lack convenient access to transportation, your change of heart disrupts their plans.

- j. That evening, you are struggling to understand a difficult concept, so you call an acquaintance from your accounting class. You know that he will patiently share his time because you can tell that he has a romantic interest in you. You want and need his academic assistance, but you sure hope that he doesn't ask you out on a date.
- k. Immediately after your call, you go to an online dating website to post your photo, which was shot at a wedding three years ago.
- l. You agree to meet your work supervisor Saturday evening at a club with live music. You plan to bring your "fake ID" in case you want to order an alcoholic drink.
- m. You really enjoy that club because the "cover" band plays recent hit songs and has an awesome lead singer. You are fairly sure that the band plays copyrighted songs without paying a royalty to the song composers, but you don't care.
- n. You enjoy this band so much that you recorded a few of its songs with your cell phone.
- o. You are disappointed that the college counselor did not answer an email that you had sent earlier that morning. Before going to bed, you impatiently re-send that email.

SOLUTION for Exercise 1-1: For discussion.

- 2. With regard to each of the events identified in question 1, can you defend the opposing viewpoint? That is, if you considered one of the behaviors to be highly ethical, can you advocate for the view that the behavior was unethical? Conversely, can you advocate that an act labeled as unethical was ethical?

SOLUTION for Exercise 1-2: For discussion.

The Regulatory Environment

- 3. A licensed CPA in Arkansas does not want to be bound by one of the rules expressed in the AICPA Code of Professional Conduct. Can she avoid being subject to the policies and rules of this Code?

SOLUTION for Exercise 1-3: Yes and no. Literally, the Code of Conduct only applies to members of the AICPA. Therefore, from a narrow viewpoint, a CPA can avoid these rules by not joining the AICPA.

However, most state licensing boards for accountants, as well as most

voluntary state societies of CPAs, have adopted rules that are very similar to the AICPA's rules. Consequently, as a practical matter, CPAs are subject to the rules embodied in the AICPA's Code of Conduct, even if they do not actually join the AICPA.

4. Does the AICPA Code apply to AICPA members who leave a private CPA firm to begin work in industry?

SOLUTION for Exercise 1-4: Yes. With one narrow exception pertaining to an accountant's conflict of interest with an employer, the AICPA Code applies to all members of the AICPA, regardless of whether or not they are in private CPA practice or work in industry.

5. Is the AICPA's Code of Conduct applicable to accountants who are licensed outside the United States?

SOLUTION for Exercise 1-5: No. However, professional accountants who are licensed outside the United States often are bound by the IFAC Code, which is very similar to the AICPA Code. Most professional organizations of accountants, including the AICPA, are members of IFAC.

6. Do SEC financial reporting rules apply to companies that are not publicly traded?

SOLUTION for Exercise 1-6: Generally no. The SEC's reporting rules principally apply only to publicly-traded corporations, with a few limited exceptions.

7. "If accountants meticulously follow generally accepted accounting principles and generally accepted auditing standards, their souls will always ascend to the heavens." Do you agree that following GAAP and GAAS is always the correct moral choice?

SOLUTION for Exercise 1-7: For discussion.

8. Most ethics codes require accountants to act in "the public interest." Assume that a large, publicly traded automobile manufacturer prepares financial statements that require restatement due to a material error made by the company's accounting staff. What subcategories of "the public," such as investors, were owed a duty of care by the company's accounting staff?

SOLUTION for Exercise 1-8: The company's accounting staff clearly owes a

duty of professional care to the company's existing stockholders, short-term creditors, and long-term creditors. Other less obvious financial statement readers include prospective investors, existing employees, prospective employees, and the employees' union.

FOLLOW UP: Perhaps ask if the company's accounting staff owes a duty to the government tax authorities? Government regulators, such as environmental regulators or antitrust regulators? Environmentalists who want to assess how well the company is progressing producing energy-efficient cars? Suppliers who want to forecast the company's future raw materials needs? Competitors who want to discover the relative profitability of each of the company's operating divisions and products? A graduate student who is basing her thesis on the accuracy of the company's reported results?

General Ethics Issues

9. Is it ethical to use a company credit card to make an online Internet purchase if you will reimburse your employer?

SOLUTION for Exercise 1-9: For discussion.

10. When a successful plumber came to your home to perform a repair, he told you that his fee was \$90 if you pay with a credit card or \$85 if you pay with cash.
- Does this situation raise any ethical issues?
 - Would it raise any ethical issues if the cash price had instead been \$65?

SOLUTION to Exercise 1-10:

- A \$5 discount is commercially reasonable. The plumber saves credit card processing fees and gets immediate cash. This situation does not appear to raise any ethical issues.
 - The large fee differential in this case suggests that the plumber favors cash payments because they are not traceable, which facilitates tax evasion. It clearly would be unethical to knowingly conspire with another person to evade taxes. However, while the plumber's price differential certainly is suspicious, it is not clear that he definitely has a tax evasion motivation. To better understand his motives, it would be reasonable to ask why the cash price is so much lower.
11. A well-regarded accounting firm has a policy of giving a \$1,000 commitment fee to brilliant freshman accounting majors if they agree to not interview with

named competitor firms while they are still enrolled in school. Is this firm's policy ethical?

SOLUTION for Exercise 1-11:

A fervent believer in the economic benefits of voluntary market exchanges would support this policy. Both parties presumably are better off if they opt to enter into such an agreement.

On the other hand, students are often desperate to satisfy their short-term needs for liquidity, and some would view the firm's actions in offering such an agreement to be unconscionable, overreaching, and contrary to the best interests of the student exploring other employment opportunities that might better suit their needs.

Common Ethical Rationalizations

12. Our criminal laws usually impose lesser penalties for attempting a crime than for successfully completing a crime.
- Should a person convicted of the crime of Attempted Automobile Theft serve a shorter sentence in jail than someone convicted of Automobile Theft?
 - If you answered yes to the preceding question, would your answer be the same if someone was convicted of Attempted Rape versus Rape?

SOLUTION for Exercise 1-12:

- People who engage in harm-creating activities are equally culpable, regardless of whether their acts were successful or unsuccessful in achieving the intended harm. This is the "no harm, no foul" rationalization.
- For discussion.