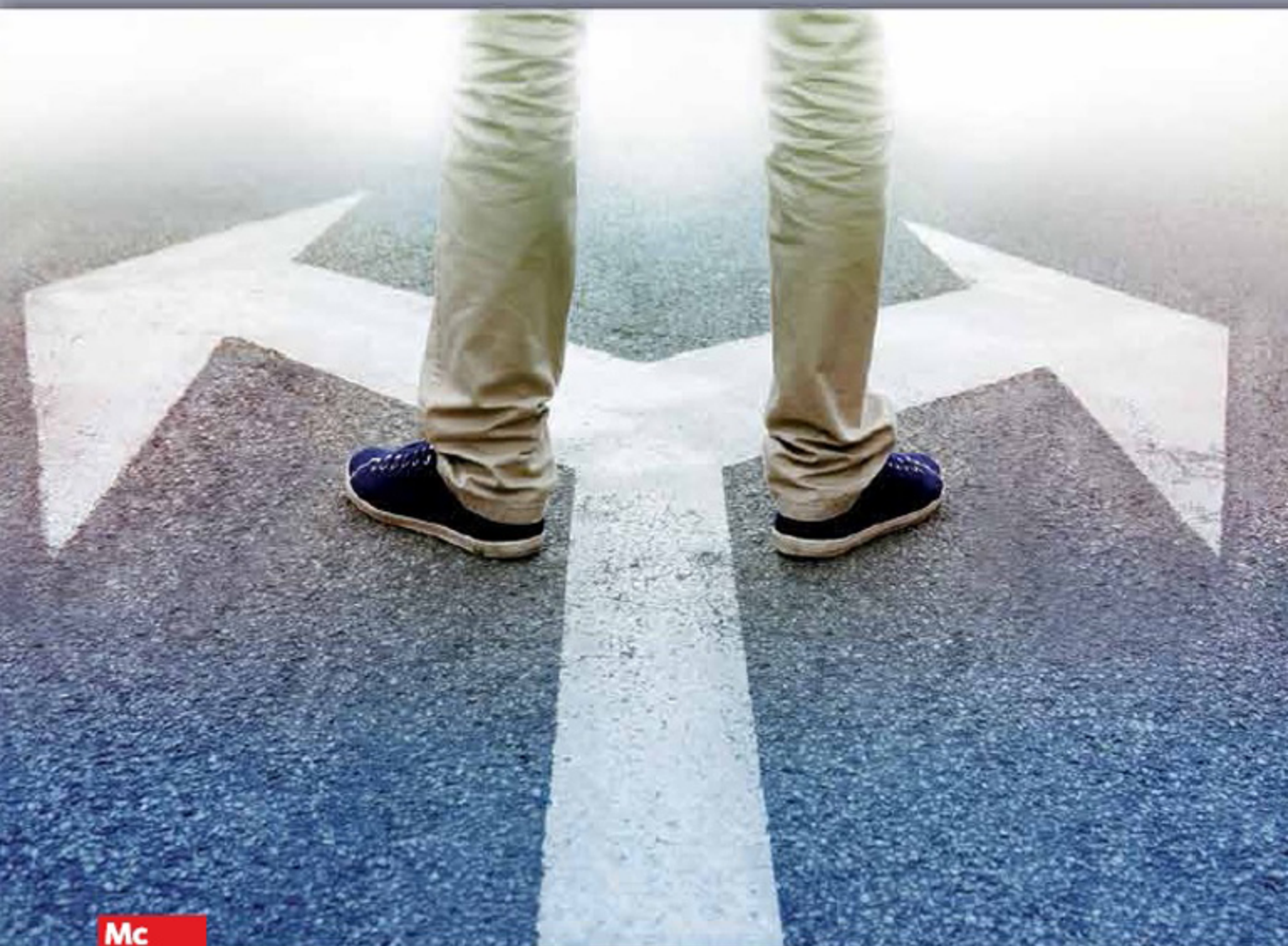


Ethical Obligations and Decision Making in **ACCOUNTING**

Fourth Edition **TEXT AND CASES**



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Education

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Ethical Obligations and Decision Making in Accounting

Text and Cases

Fourth Edition

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ETHICAL OBLIGATIONS AND DECISION MAKING IN ACCOUNTING: TEXT AND CASES,
FOURTH EDITION

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Dedication

“Educating the mind without educating the heart is no education at all.”

Aristotle

What Aristotle meant by this statement is intelligence that is not informed by our hearts--by compassion--is not really intelligent at all. We strive in this book not only to educate accounting students to be future leaders in the accounting profession but to stimulate your ethical perception and cultivate virtue thereby awakening your sense of duty and obligation to the public interest.

About the Authors



Steven M. Mintz, DBA, CPA, is a professor of accounting in the Orfalea College of Business at the California Polytechnic State University–San Luis Obispo. Dr. Mintz received his DBA from George Washington University. His first book, titled *Cases in Accounting Ethics and Professionalism*, was also published by McGraw-Hill. Dr. Mintz has recently been acknowledged by accounting researchers as one of the top publishers in accounting ethics and in accounting education. He was selected for the 2014 Max Block Distinguished Article Award in the “Technical Analysis” category by The CPA Journal. Dr. Mintz received the 2015 Accounting Exemplar Award of the Public Interest Section of the American Accounting Association. He also has received the Faculty Excellence Award of the California Society of CPAs. Dr. Mintz writes two popular ethics blogs under the names “ethicssage” and “workplaceethicsadvice.”



Roselyn E. Morris, Ph.D., CPA, is a professor of accounting in the Accounting Department at the McCoy College of Business, Texas State University–San Marcos. Dr. Morris received her Ph.D. in business administration from the University of Houston. She is a past president of the Accounting Education Foundation and chair of the Qualifications Committee of the Texas Board of Public Accountancy. Dr. Morris has received the Outstanding Educator Award from the Texas Society of CPAs.

Both Professors Mintz and Morris have developed and teach an accounting ethics course at their respective universities.

Preface

Ethical Obligations and Decision Making in Accounting was written to guide students through the minefields of ethical conflict in meeting their responsibilities under the professions' codes of conduct. Our book is devoted to helping students cultivate the ethical commitment needed to ensure that their work meets the highest standards of integrity, independence, and objectivity. An expanded discussion of professional judgment highlights the challenges to ethical decision-making for internal accountants and auditors, and external auditors. We hope that this book and classroom instruction will work together to provide the tools to help students to make ethical judgments and carry through with ethical actions.

The fourth edition of *Ethical Obligations and Decision Making in Accounting: Text and Cases* incorporates a behavioral perspective into ethical decision-making that encourages students to get in touch with their values and learn how to voice them in the workplace when conflicts arise and ethical dilemmas exist. We build on traditional philosophical reasoning methods by taking the process one step further, that is, to convert ethical intent into ethical action. The "Giving Voice to Values" (GVV) approach provides this link. If accounting professionals are successful in voicing values in a way that encourages doubters and detractors to join the effort, then there may be no need for whistle-blowing. We also connect many of the issues discussed in the book with a new final chapter on "Ethical Leadership."

Several states now require their accounting students to complete an ethics course prior to being licensed as a CPA. This book has been designed to meet the guidelines for accounting ethics education including:

- encouraging students to make decisions in accordance with prescribed values, attitudes, and behaviors
- providing a framework for ethical reasoning, knowledge of professional values and ethical standards
- prescribing attributes for exercising professional skepticism and behavior that is in the best interest of the investing and consuming public and the profession.

What's New in the 4th Edition?

In response to feedback and guidance from numerous accounting ethics faculty, the authors have made many important changes to the fourth edition of *Ethical Obligations and Decision Making in Accounting: Text and Cases*, including the following:

- **Connect is available for the first time** with assignable cases, test bank assessment material, and SmartBook. **SmartBook** is an excellent way to ensure that students are reading and understanding the basic concepts in the book and it prepares them to learn from classroom discussions. Several of the **Chapter Cases** are available in an auto-graded format to facilitate grading by instructors. The purpose of using the digital format is to better prepare students ahead of class to free up instructors to discuss a broader range of topics in their lectures and in the give-and-take between teacher and student. **Connect Insight Reports** will also give the instructor a better view into the overall class's understanding of core topics prior to class, to appropriately focus lectures and discussion. The **Connect Library** also offers materials to support the efforts of first-time and seasoned instructors of accounting ethics, including a comprehensive Instructor's Manual, Test Bank, Additional Cases, and PowerPoint presentations.
- **Learning Objectives** have been added and linked to specific content material in each chapter.
- **Giving Voice to Values (GVV)** approach is explained in Chapter 2 and used throughout the text. GVV is an innovative pedagogical method that complements the traditional philosophical reasoning

approaches to ethical decision-making by emphasizing developing the capacity to express one's values in a way that positively influences others. The technique is used post-decision-making and is based on developing and fine-tuning an action plan using scripting and rehearsal. It is ideal for role-playing exercises.

- **International** auditing and ethics issues are incorporated into existing chapters.
- Added five new **Discussion Questions** to each chapter as well as revised questions with more current topics and issues.
- Replaced many of the **cases** with more current and topical issues. Eighteen of the 76 cases have been specifically developed to enable students to practice the “Giving Voice to Values” technique in the context of the decision-making model.
- **Expanded the discussion of whistleblowing obligations** of accounting professionals in Chapter 3 including guidelines for reporting under Dodd-Frank and the AICPA rules of conduct.
- Added a comprehensive section on **professional judgment** in accounting and auditing to Chapter 4 and models for making judgments and exercising professional skepticism.
- Updated Chapter 4 to incorporate the **Revised AICPA Code of Professional Conduct**.
- **Expanded** the discussion of the PCAOB inspection process in Chapters 5 and 6 for audits of companies listing stock in the U.S., including Chinese companies and audit deficiencies noted in inspections of U.S. companies.
- Updated case examples used throughout the text to describe **earnings management** techniques with expanded coverage in Chapter 7.
- New Chapter 8 on “**Ethical Leadership**” that ties together many of the topics in the chapters in the text. Ethical leadership is explored in the context of making ethical decisions and judgments in the performance of professional accounting services.
- Improved and expanded the scope of major cases that can be used as an end-of-course project to enhance the experiences of upper-division undergraduates and graduate students.
- Revised and greatly enhanced **Instructor’s Resource Materials** and supplements.

Chapter 1

- **New** discussion of the use of social networks and social media communications, personal responsibility, and workplace ethics.
- Expanded discussion of moral philosophies and implications for ethical reasoning in accounting and auditing.
- Expanded discussion of the Principles of the AICPA Code of Professional Conduct, the public interest obligation, and regulation in the accounting profession.

Chapter 2

- **New** discussion of moral intensity and influence on ethical decision making.
- **New** discussion of Kidder’s Ethical Checkpoints and link to moral action.
- Expanded discussion of Behavioral Ethics and cognitive development.
- **New** and comprehensive discussion of the **GVV** technique that provides a mechanism for students to act on ethical intent. Chapter 2 discusses the foundation of the approach including examples on applying the methodology. There are **five cases** in the chapter to engage students in discussions of the **GVV** approach to ethical action. Subsequent chapters also contain cases with a **GVV** dimension.

Chapter 3

- **New** section on “Organizational Ethics and Leadership.”
- **New** discussion of “Character and Leadership in the Workplace.”
- Updated results from the National Business Ethics Survey, Association of Certified Fraud Examiners Global Survey, and KPMG Integrity Survey.
- Expanded discussion of financial statement fraud schemes.
- **New** discussion of the morality of whistleblowing.
- Added discussion of major whistleblower case of *Anthony Menendez v. Halliburton, Inc.*
- Expanded discussion of Dodd-Frank provisions for whistleblowing by internal accountants and auditors, and external auditors including when external auditors can blow the whistle on their audit firms.
- Expanded discussion of subordination of judgment rules and their application to whistleblowing.

Chapter 4

- **Extensive new discussion** of professional judgment in accounting.
- Added an explanation of KPMG Professional Judgment Framework.
- Expanded discussion of professional skepticism.
- **New** discussion of professionalism and commercialism.
- **Comprehensive** discussion of the **Revised AICPA Code of Professional Conduct** including: Conceptual Framework for Members in Public Practice and Conceptual Framework for Members in Business.
- **New** discussion of ethical conflict requirements and decision-making model under the Revised Code.
- Expanded discussion of AICPA Conceptual Framework for Independence Standards.
- Expanded discussion of integrity and subordination of judgment rules.
- **New** discussion of confidentiality and disclosing fraud.
- Expanded discussion of ethics in tax practice.
- Expanded discussion of “Insider Trading” cases against CPAs.
- **New** discussion of Global Code of Ethics.

Chapter 5

- Expanded discussion of errors, illegal acts, and fraud.
- **New** discussion of Private Securities Litigation Reform Act and reporting requirements to the SEC; fraud and confidentiality issues explored.
- Discussion of **Professional Skepticism Scale** that measures traits conducive to developing a questioning mind and informed judgment.
- Discussion of findings of the Center for Audit Quality of audit deficiencies.
- Expanded discussion of PCAOB audit inspection process and high rate of deficiencies of audit firms.

Chapter 6

- **New** cases that explore in depth legal obligations of accountants and auditors.
- Expanded discussion of auditor legal liabilities.
- Expanded section on legal liabilities under Sarbanes-Oxley.
- **New** discussion of International Financial Reporting Standards and international enforcement.
- **New** discussion of principles versus rules-based standards and SEC position on objectives-oriented standards.
- **New** section on “Compliance and Management by Values.”
- **New** section on “Global Ethics, Fraud, and Bribery” and the Foreign Corrupt Practices Act.
- Expanded discussion on regulatory issues and PCAOB inspections.

Chapter 7

- **New** section on “Non-Financial Measures of Earnings.”
- Expanded discussion of earnings management and professional judgment.
- Expanded discussion of the use of accruals and earnings management.
- Introductory discussion of new revenue recognition standard.
- Detailed examples of financial statement restatements of Hertz Corporation and Cubic Corporation, and CVS-Caremark merger.

Chapter 8 – New Chapter on Ethical Leadership

Chapter 8 links back to discussions in Chapters 1 through 7 by incorporating material on “Ethical Leadership.” The purpose is to leave students with a positive message of the importance of being a leader and ethical leadership in building organizational ethics. Leadership in decision-making in accounting, auditing, tax, and advisory services engagements is addressed. The chapter includes 20 discussion questions and 6 new cases. The chapter includes the following major topics:

- Discussion of moral decision-making and leadership.
- Exploring different types of leaders: authentic leaders, transformational leadership, followership and leadership, and how social learning theory influences leadership.
- Revisiting moral intensity in the context of ethical leadership.
- Ethical leadership and internal audit function.
- Ethical leadership and tax practice.
- Gender influences in leadership.
- Causes of leadership failures.
- Case studies on ethical leadership.
- Implications of ethical leadership for whistleblowing activities.
- Values-based leadership.
- Ethical leadership and the GVV technique.
- Ethical leadership competence.



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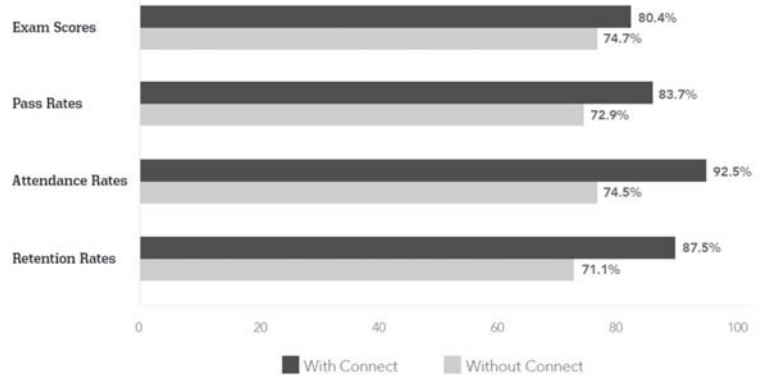
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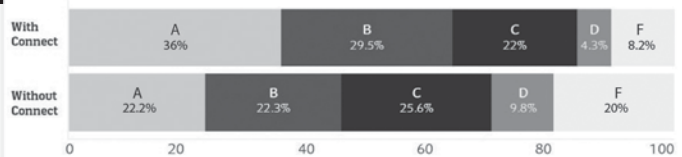
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