

THE ROLE OF ETHICS FOR COST ACCOUNTING PROFESSIONALS

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Abstract: The purpose of this paper is to improve the understood importance of ethics for cost accounting professionals as a tool for successful cost accounting system. Also, present study is outpointing the implications of ethical conduct over the cost accounting system and, also, a review of ethical standards and principles for cost accounting professionals.

The value contribution of this paper comes from a critical review of the ethics of cost accounting professionals presented by the most important cost accounting professional institutes, showing the role of ethics for a cost accounting system, and the need to treat cost accounting ethics as an important discipline of accounting curricula.

The paper stops at the conceptual level, and represents a starting point for studying cost accounting ethics for Romanian cost accounting professionals and it also outlines an agenda for further research.

JEL classification: M41, M21

Key words: cost accounting system, ethical standards, cost accounting profession, accounting curricula, key factors

1. INTRODUCTION

One recent study shows an increase in the number of articles on accounting ethics field published annually from around 1995 (Bamton, R. and Cowton, C.J., 2013). Another study shows that ethics among professionals diminished with age (Sankaran, S. and Bui, T., 2013). Also, can be said that the trend is on a positive path, because of increasing number of ethical studies and the fact that the younger professionals are more ethical than the old ones.

The importance of accounting ethics was more and more often highlighted (Tweedie, D. et al., 2013; Atlas, J., 2013), but also, the need to improve ethics education on accounting (AAA, 2012; Bernardi and Arnold, 2004).

Also, Kaplan (Atkinson et al., 2012, p: 345) says that employees ethical judgement is often challenged

- 1, by requests to tailor information to favor particular individuals or groups
2. Pleas to falsify reports or test results
3. Solicitations for confidential information

4. Pressures to ignore a questionable or unethical practice

Also, in lack of rules and regulations, the cost accounting profession is driven by the specific methods and techniques, letting an enormity of space for subjectivism. Interpretations of the data and the recommendations that follows are made in accordance with cost accounting principle "different costs for different scope". This principle means to use specific information for specific situation, giving space for more subjectivism. Also, choosing between specific methods and techniques can influence the final outcome, and the subjectivism intervenes again.

Therefore, it is known that both financial accounting and cost accounting systems are mandatory. Anyway, rules of measurement and reporting data are different from financial to managerial accounting system. The financial accounting system, is conducted in accordance with rules and regulations. Regarding cost accounting system, there are not mandatory rules and regulations.

This fact brings in front a very important question regarding the success factors of the cost accounting system, respectively what ensures the factors that are needed for cost accounting system to succeed.

2. OBJECTIVES

The purpose of this paper is to improve the understood importance of ethics for cost accounting professionals as a tool for successful cost accounting system. Also, present study is outlining the implications of ethical conduct over the cost accounting system and, also, a review of ethical standards and principles for cost accounting professionals.

The aim of this study is to answer to a very important question regarding the core of the cost accounting system, respectively what ensures the factors that cost accounting system needed to succeed.

Also, the study objectives are:

4. Present the functions of a cost accounting system
5. Identify the key factors of a successful cost accounting system
6. Identify the role of ethics in a successful cost accounting system.

3. METHODOLOGY

The present paper takes the form of literature review and argument. This study is based on literature review for first objective and, it is based on authors' argumentation for third and fourth objective. Data are collected from cost accounting books, academic articles on accounting ethics field and other accounting academic papers.

The information is analyzed in a critical manner in order to present the role of cost accounting ethics for a successful cost accounting system.

4. ANALYSES

The consequences over the company performances are different when is caused by non-ethical financial accounting behavior or non-ethical cost accounting behavior. In first case, non-ethical behavior will have negative impact in the form of fines, legal judgments and public scandals affecting company's image.

Effects of non-ethical behavior of cost accounting professionals are bad quality of informations which can lead to inefficiently decisions and, in the end, to low company performances. This low performances can be in terms of quality of the products or services, employee motivation, financial performances or malfunctions of the different company subsystems with effects on the long terms financial performance. Financial non-ethical behavior has negative effects regarding external environment, while cost accounting non-ethical behavior has negative effects regarding internal environment. Also, non-ethical cost accounting behavior lead to mistrust in cost accounting system, transforming this system in a set of activities which are generating only costs, and which are not leading to value creation

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4.1. Present the functions of an cost accounting system

The literature regarding the cost accounting field is offering a list on cost accounting system characteristics and functions (Lianabel, O., 2004, p: 3-5; Zimmerman, J.L., 2011, p:4-5; Atkinson et all., 2012, p: 342). Analyzing the data, we are able to identify the following functions of cost accounting system.

- a) delivering accurate, timely, consistent and flexible informations in order to sustain the managerial decision and control processs
- b) combined with evaluation and rewarding system it becomes part of the motivational system
- c) it becomes a support function for financial accounting.

4.2. Identify the key factors of a successful cost accounting system

Starting from th functions of a cost accounting system, it is possible to identify the key factors for a successful cost accounting system as:

- 1) Information quality, in terms of accuracy, time, consistency and flexibility
- 2) The trust which is given by the information supplier (cost accountant).

Information quality it is a factor of success due to the decisional system need of accurate, timely, consistent and flexible informations (Atkinson et all., 2012, p: 342). Also, additional to the quality informations, another key factor has been considered the trust given by the cost accounting professionals. These because, in order tot make decisions based on cost accounting informations, among the quality of informations, managers need to be sure of ethical integrity of the cost accountant professionals (Buys, P. et al., 2012).

4.3. Identify the role of ethics in a succesful cost accounting system

Cost accounting ethical standards are provided by most larger cost accounting professionals associations. We have analyzed two of such ethical standards guides.

First one was Chartered Institute of Cost Accountans (CIMA) Code Of Ethics. Also, CIMA`s code of ethics is issuing following ethical fundamental principles:

Integrity, Objectivity, Professional Competence and Due Care, Confidentiality, Professional Behavior.

Second one was Institute of Management Accountants (IMA) Statement of Ethical Professional Standards. Also, IMA's is issuing following ethical standards: Competence, Confidentiality, Integrity, Credibility.

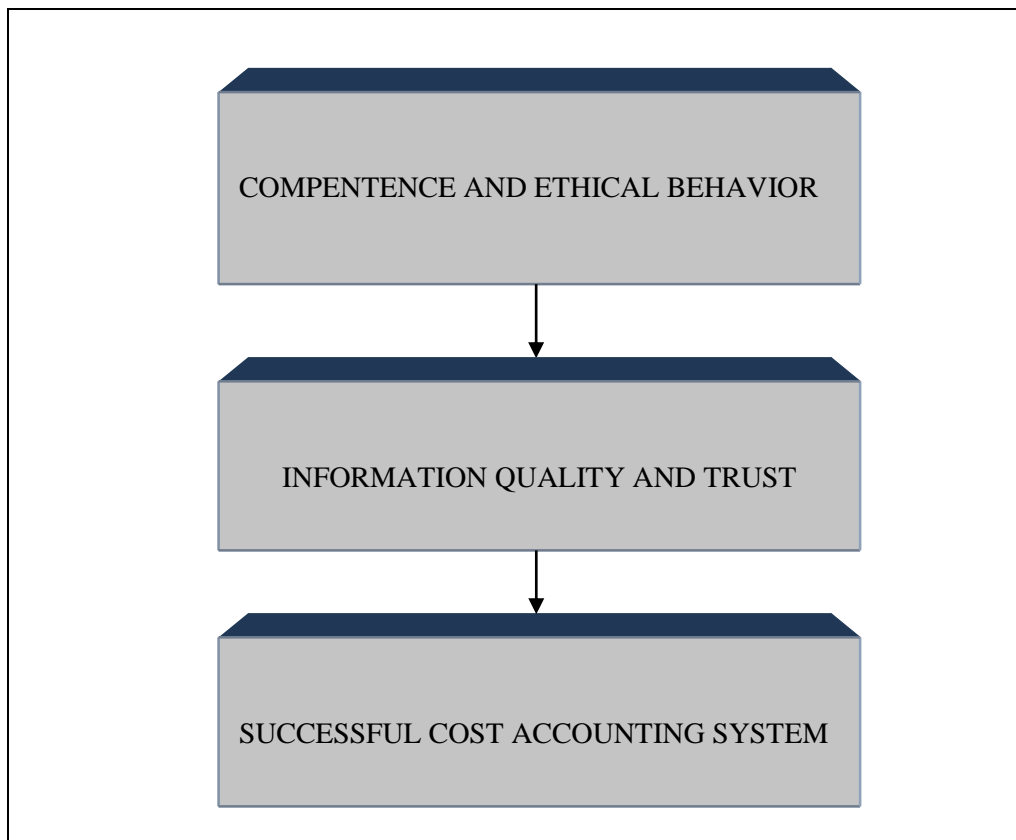


Figure no. 1 The role of ethics in cost accounting system

So, for a cost accounting professional both, CIMA's Code of Ethics, and also IMA's Statement of Ethical Professional Standards suggest that it is needed the appropriate level of competence and an ethical behavior which is leading to trust, in order to perform in cost accounting profession. Also, considering ethics is inversely related to individual competitiveness (Sankaran, S. and Bui, T., 2013) strenght this hypothesis.

Also, considering key factors of a successful cost accounting system can be said that cost accounting ethics it is such a key factor for a successful cost accounting system. Therefore, the role of ethics for the cost accounting system is to ensure that the system is working properly and performs his functions at the required level.

In other words, in lack of rules and regulations, the cost accounting profession is driven by the specific methods and techniques, letting an enormity of space for subjectivism. Interpretations of the datas and the recomandations that follows are

made in according with cost accounting principle “different costs for different scope”. This principle means to use specific datas for specific situation, giving space for subjectivism. Also, choosing between specific methods and theniques can influence the final outcome, and the subjectivism intervenes again.

Also, ethical principles and standards should be the factors which ensures the quality of informations and the trust in system needed for a optimal work of the cost accounting system.

Successful cost accounting system is influenced by the professional ethics trough link between competence and ethical behavior, information quality and trust, and cost accounting system (Figure no. 1).

5. CONCLUSIONS

For a cost accounting professional both, CIMA`s Code of Ethics, and also IMA`s Statement of Ethical Professional Standards suggest that it is needed the appropriate level of competence and an etical behavior which is leading to trust, in order to perform in cost accounting profession.

Considering key factors of a successful cost accounting system can be said thath cost accounting ethics it is a key factor for a successful cost accounting system. Therefore, the role of ethics for the cost accounting system is to ensure thath the system is working properly and performs his functions at the required level.

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As a conclusion, was shown thath successful cost accounting system is influenced by the professional ethics trough link between competence and ethical behavior, information quality and trust, and cost accounting system.

In addition to the showed role of cost accounting ethics for cost accounting professionals, and considering thath moral development and moral reasoning are associated with ethical behavior (Abdolmohammadi, M. J., and C. R. Baker, 2007), the need to embed the cost accounting ethics in cost accounting curricula is most important issue to solve.

The paper stops at the conceptual level, and represents a starting point for studying cost accounting ethics for Romanian cost accounting professionals and it also outlines an agenda for further research.

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