

Enhancing Public Trust in the Accounting Profession Using Professional Judgment  
Rather Than Personal Judgment in Resolving Accounting Ethics Dilemmas

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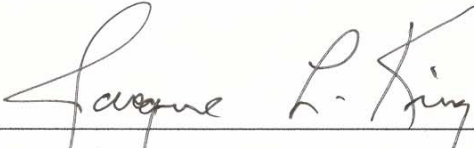
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## Abstract

This dissertation empirically examined the impact of ethics instruction and ability on students' propensity to use professional judgment in resolving accounting ethics dilemmas. The literature has supported the need for increased ethics instruction in accounting programs as a vehicle to improve ethical decision making in the accounting profession. The significance of the American Institute of Certified Public Accountants (AICPA; 2004) Code of Professional Conduct as the profession's source of authority relative to ethical decision making was documented. The Code emphasizes three trust characteristics (ability, benevolence, and integrity) identified in the literature that are important relative to enhancing public trust in the accounting profession. Ability is important to ethics instruction as it determines the extent to which students acquire a working knowledge of the AICPA Code of Professional Conduct Provisions. The ethical norms contained in the Code's provisions are derived from the underlying ethical decision-making characteristics inherent in the accounting profession's organizational culture. These ethical decision-making characteristics relate to an individual's ethics system, ethics application perspective, moral reasoning perspective, and level of moral reasoning. The literature has supported a deontological ethics system, holistic ethics application perspective, orthodox moral reasoning perspective, and conventional level of moral reasoning as appropriate for ethical decision making in the accounting profession. All of these ethical decision-making characteristics point to the use of professional judgment rather than personal judgment in the resolution of accounting ethics dilemmas. The primary goal of this dissertation was to obtain reliable data regarding the impact that ethics instruction, in the form of a 4-hour ethics symposium concerning the provisions of

the AICPA Code of Professional Conduct, and level of ability have on accounting students' use of professional judgment. A demographic questionnaire and a pretest/posttest, using the Index of Ethical Congruence, were administered to junior and senior accounting students. The Wilcoxon T-test revealed that a statistically significant difference existed in students' use of professional judgment before and after exposure to ethics instruction concerning the AICPA Code of Professional Conduct. It also showed that students with higher levels of ability demonstrated greater increases in the use of professional judgment than students with lower levels of ability.

## Dedication

This dissertation and all the work associated with my doctoral studies are dedicated to my wife, Linda Sullivan, who has supported me wholeheartedly. I am truly blessed by God to have such a wonderful wife who is a constant source of love and encouragement. She has stood beside me in all that God has called me to do; and, for that, I am forever thankful.

## Acknowledgements

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For over 17 years, I have been blessed with some of the finest coworkers an individual could have. My fellow faculty members at Liberty University encouraged me, instructed me, and inspired me. I am deeply thankful to Dr. Bruce Bell, Dr. James Shelton, and Dr. Andrew Light for their assistance.

Finally, I am most thankful for my Lord and Savior Jesus Christ to whom I owe everything. All that I have been able to accomplish in my life up to this point and all my future successes have and will be because of His great provision. Soli Deo Gloria!

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## Definitions

1. Conventional reasoning – a level of reasoning where an external orientation exists in which ethical decisions are made in accordance with group norms and in accordance with the rules of law (Green & Webber, 1997).
2. Holistic – an ethics application perspective that is based on the norms and values of the accounting profession.
3. Individualistic – an ethics application perspective that is based on an individual's personal value system.
4. Orthodox – a moral reasoning perspective that defines moral authority in terms of an external transcendent force.
5. Personal judgment –using an individual's personal value system as a basis for accounting decision making concerning the resolution of accounting ethics dilemmas.
6. Postconventional reasoning – a level of reasoning where an internal orientation exists in which ethical decisions are made apart from group authority or norms and in accordance with self-chosen ethical principles (Green & Webber, 1997).
7. Professional judgment – using the norms and standards of the profession as a basis for accounting decision making concerning the resolution of accounting ethics dilemmas.
8. Progressive – a moral reasoning perspective that defines moral authority internally as conditional, relative, and ever changing based on individual experience and circumstances.

9. Public trust - the degree to which the public has confidence in the services provided by the accounting profession.

## Chapter 1: Introduction

According to Zucker (1986), the basis upon which the accounting profession was founded and continues to exist is public trust, which is the degree to which the public has confidence in the services provided by the accounting profession. According to Spiceland, Sepe, and Tomassini (2004), public trust in the services provided by professional accountants has declined in recent years due to occurrences of unethical behavior in the profession. The profession's inability to produce more ethical accountants may be due to insufficient emphasis on ethics instruction in accounting programs.

Langenderfer and Rockness (1989), Loeb (1988), and Kerr and Smith (1995) recognized the importance of accounting ethics education and agreed with the conclusion of several professional and accounting organizations who have responded to the lack of ethics instruction in accounting programs by calling on educators to emphasize ethics instruction to a much greater extent than in the past. In addition, the results of accounting faculty and student surveys conducted by Smith (1993) indicated that both of these groups understood the importance of ethics instruction as an integral part of the accounting curriculum.

This increased emphasis on ethics instruction in accounting curriculums is supported by special reports that several key accounting organizations have issued emphasizing the integration of ethics in accounting curriculums (Accounting Education Change Commission, 1990; American Accounting Association, 1986; National Commission on Fraudulent Financial Reporting, 1987).

According to a study conducted by Cohen and Pant (1989), most accounting programs emphasize ethics instruction in auditing courses with very little emphasis in

other areas of the accounting curriculum. Outside of auditing courses, students are only exposed to accounting ethics through occasional ethics cases introduced by some accounting professors in beginning and intermediate level accounting courses. According to Armstrong and Mintz (1989), overall ethics instruction in accounting programs is minimal. Green and Webber (1997) indicated that one of the reasons for the lack of emphasis on ethics instruction in accounting programs is that accounting educators do not agree as to when and how ethics instruction should be included in the accounting curriculum. For example, Cohen and Pant (1991) argued that ethics should be integrated in each accounting course in the accounting curriculum. On the other hand, Kunitake and White (1986) believed that ethics instruction should be strongly emphasized in the auditing course while Armstrong (1991) favored integrating ethics instruction throughout the accounting curriculum in combination with a separate capstone accounting course in professionalism and ethics.

Beginning and intermediate level accounting books available for use in accounting programs typically contain several paragraphs in an introductory chapter or an appendix in reference to the ethical decision-making process (Spiceland et al., 2004; Warren, Reeve, & Fess, 2002). The decision-making emphasis in these texts relative to resolving ethical dilemmas in accounting varies from personal judgment based on personal ethics to professional judgment based on the AICPA Code of Professional Conduct. Personal judgment is defined as using an individual's personal value system as a basis for accounting decision making concerning the resolution of accounting ethics dilemmas. Professional judgment, on the other hand, is defined as using the norms and

standards of the profession as a basis for accounting decision making concerning the resolution of accounting ethics dilemmas.

Fatt (1995) and Fogarty (1995) emphasized organizational culture as an important determinant relative to decision making in the accounting profession, which points to professional judgment rather than personal judgment as the appropriate basis for the resolution of accounting ethics dilemmas. According to Adams, Malone, and James (1995), it would seem the more informed that students are concerning the AICPA Code of Professional Conduct, the more inclined they would be to use professional judgment rather than personal judgment in resolving accounting ethics dilemmas. However, with little emphasis placed on ethics instruction relative to the provisions contained in the AICPA Code of Professional Conduct, which serve as the basis for making ethical decisions in the accounting profession, students may lack the ability to exercise professional judgment in the resolution of accounting ethics dilemmas as emphasized by the Code.

In that regard, this dissertation sought to determine the difference in students' decision-making approach (personal judgment or professional judgment) before and after they attended a 4-hour ethics symposium concerning the AICPA Code of Professional Conduct. This research is valuable to the profession as it determines the impact that accounting ethics instruction concerning the provisions of the current Code has on accounting students' ability to exercise professional judgment.

### *Theory and Variables*

A professional code of ethics that is adhered to by its members is a defining mark of a profession, and the accounting profession's main vehicle for guiding the ethical

behavior of its members is the AICPA Code of Professional Conduct. According to Epstein and Spalding (1993) as well as Frankel (1989), a code of ethics is important in establishing guidelines for proper ethical behavior in a profession. Mayer, Davis, and Schoorman (1995), through their identification of trust characteristics, emphasized the importance of the Code relative to maintaining and enhancing public trust. They identified three important characteristics of trust (ability, benevolence, and integrity) from trust literature that explain the major portion of trustworthiness. All three are emphasized in the AICPA Code of Professional Conduct. Given the significance of the Code relative to establishing the profession's norms and standards of conduct that are necessary to ensure public trust in the services provided by members of the accounting profession, it is important that ethics instruction in accounting programs emphasize the provisions of the Code. Loeb's (1988) goals of ethics instruction for accounting programs have supported this conclusion because of the significant relationship that exists between the provisions contained in the AICPA Code of Professional Conduct and the accounting ethics instruction goals.

The ethical norms contained in the provisions of the AICPA Code of Professional Conduct are derived from the accounting profession's organizational culture. According to Schwartz and Davis (1981), the norms that shape the behavior of individuals and groups in an organization are determined on the basis of organizational culture. A presupposition of this dissertation was that the underlying ethical decision-making characteristics inherent in the organizational culture of the accounting profession point to professional judgment rather than personal judgment as the appropriate decision-making approach to use in resolving accounting ethics dilemmas in accordance with the

profession's Code. These ethical decision-making characteristics relate to an individual's (a) ethics system, (b) ethics application perspective, (c) moral reasoning perspective, and (d) level of moral reasoning.

According to Geisler (1990), all ethical systems can be viewed as either deontological (duty-centered) or teleological (end-centered). Adams et al. (1995) identified rule deontology (a deontological ethics system) and utilitarianism (a teleological ethics system) as the prevailing ethics systems advocated for the accounting profession in previous accounting ethics studies. Riahi-Belkaoui (1992) emphasized the importance of a deontological view of ethics for the accounting profession. A deontological view of ethics is also supported by and is consistent with the AICPA Code of Professional Conduct because of its emphasis on the obligation or duty of CPAs to serve the public interest. A deontological view of ethics is characteristic of professional judgment rather than personal judgment because it emphasizes an individual's duty or obligation to comply with the norms and standards of the profession.

An individual's ethics application perspective is either holistic (a characteristic of professional judgment) or individualistic (a characteristic of personal judgment). For purposes of this dissertation, holistic is defined as an ethics application perspective that is based on the norms and values of the accounting profession, while an individualistic perspective is one that is based on an individual's personal value system. According to Epstein and Spalding (1993) as well as Fatt (1995), decision making relative to the resolution of accounting ethics dilemmas is appropriately based on the shared norms of the profession. Their contention supports a holistic ethics application perspective, which is characteristic of professional judgment rather than personal judgment.



According to Epstein and Spalding (1993) as well as Frankel (1989), the strong emphasis in the AICPA Code of Professional Conduct on moral values is appropriate. In this regard, Hunter (1991) identified two competing moral visions (orthodox and progressive) that relate to the two ethical systems (deontological and teleological) discussed. The orthodox view is a moral reasoning perspective that defines moral authority in terms of an external transcendent force; while the progressive view is a moral reasoning perspective that defines moral authority internally as conditional, relative, and ever changing based on an individual's experience and circumstances. The orthodox moral reasoning perspective is supported by the AICPA Code of Professional Conduct which serves as the accounting profession's external transcendent force and authoritative source for ethical decision making. The orthodox moral reasoning perspective with its emphasis on external authority is characteristic of professional judgment (emphasis on the profession's norms for decision making) rather than personal judgment.

According to Fisher and Sweeney (1998), moral reasoning ability in the accounting profession has been predominantly measured in prior studies using the Defining Issues Test (DIT) (Rest, 1993) which emphasizes a postconventional level of moral reasoning. Postconventional reasoning is a level of reasoning where an internal orientation exists in which ethical decisions are made apart from group authority or norms and in accordance with self-chosen ethical principles (Green & Webber, 1997). Postconventional reasoning is based on an individual's personal value system and is characteristic of personal judgment. However, Gaa (1992) and Lampe and Finn (1992) indicated that individuals in the accounting profession predominantly use conventional reasoning in resolving accounting ethics dilemmas. In conventional reasoning, an

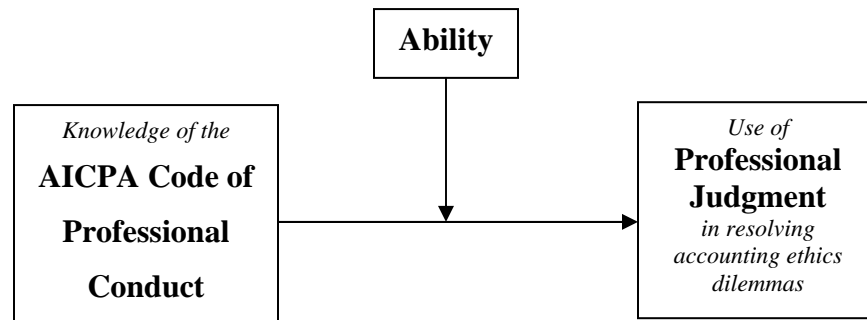
external orientation exists in which ethical decisions are made in accordance with group norms and in accordance with the rules of law (Green & Webber). Conventional reasoning, with its emphasis on group norms, is characteristic of professional judgment.

The above identification of the underlying ethical decision-making characteristics inherent in the organizational culture of the accounting profession supports (a) a deontological (duty-centered) ethics system, (b) a holistic ethics application perspective, (c) an orthodox moral reasoning perspective, and (d) a conventional level of moral reasoning. All of these ethical decision-making characteristics are associated with professional judgment rather than personal judgment. In addition, studies by Adams et al. (1995) and McCarthy (1993) have indicated that professional judgment rather than personal judgment is appropriate for resolving ethical dilemmas in the accounting profession.

According to Adams et al. (1995), since knowledge of the AICPA Code of professional conduct influences student inclination to use professional judgment in resolving accounting ethics dilemmas; then student ability, which according to Mayer et al. (1995) is a characteristic that enhances public trust, is an important variable that must be considered in the exercise of professional judgment. Student grade point average (GPA) and level of education have been used to account for differences in student ability. For example, Eckel and Johnson (1983) and Hicks and Richardson (1984) incorporated a measure of ability in their studies concerning the accounting profession.

### *Relationships of the Variables*

Figure 1 illustrates the relationship between the AICPA Code of Professional Conduct, ability, and student inclination to use professional judgment in resolving accounting ethics dilemmas.



*Figure 1.* Model of professional judgment

According to Adams et al. (1995) as well as the AICPA, knowledge of the provisions contained in the AICPA Code of Professional Conduct is important to the exercise of professional judgment. Knowledge of the AICPA Code of Professional Conduct is the independent variable in Figure 1. Because the use of professional judgment is influenced by student knowledge of the AICPA Code of Professional Conduct, professional judgment is the dependent variable. According to Bartels, Bommer, and Rubin (2000), the ability to acquire and apply knowledge differs among students as indicated by student GPA. Therefore, ability serves as a mediating variable in the model. The level of student ability determines the extent to which students acquire a working knowledge of the AICPA Code of Professional Conduct provisions.

It is anticipated that providing students with ethics instruction, in the form of a 4-hour symposium concerning the provisions of the AICPA Code of Professional Conduct, will enhance students' knowledge of the Code and their propensity to use professional

judgment rather than personal judgment in resolving accounting ethics dilemmas. It is also anticipated that students with higher levels of ability will show a greater increase in propensity for using professional judgment than students with lower levels of ability when comparing student responses to accounting ethics dilemmas before and after receiving ethics instruction during a 4-hour ethics symposium.

### *Hypotheses*

Two research questions based on variable relationships in the Model of Professional Judgment (see Figure 1) are presented in this dissertation. The first research question concerns students' propensity to use professional judgment in relationship to their knowledge of the AICPA Code of Professional Conduct. Will students' use of professional judgment in resolving accounting ethics dilemmas increase after receiving ethics instruction relative to the AICPA Code of Professional Conduct during a 4-hour ethics symposium? In order to answer this research question, the following null hypothesis will be tested:

$H_{01}$ : There is no statistically significant difference in students' use of professional rather than personal judgment in resolving accounting ethics dilemmas before and after receiving ethics instruction concerning the AICPA Code of Professional Conduct during a 4-hour ethics symposium.

The second research question concerns the relationship between students' level of ability and their acquisition of knowledge concerning the AICPA Code of Professional Conduct. Will students with higher levels of ability acquire a greater knowledge of the AICPA Code of Professional Conduct during a 4-hour ethics symposium than students with lower levels of ability as demonstrated by the extent to which they use professional

judgment rather than personal judgment in resolving accounting ethics dilemmas? In order to answer this research question, the following null hypothesis will be tested:

H<sub>02</sub>: There is no statistically significant difference in students' use of professional rather than personal judgment in resolving accounting ethics dilemmas based on their level of ability.

### *Scope*

Ethics instruction is important relative to enabling the accounting profession to enhance public trust in the services provided by members of the profession. As stated previously, accounting professors do not agree concerning when and how ethics instruction should take place within the accounting curriculum. Ethics instruction can be taught in various financial accounting courses in conjunction with the teaching of generally accepted accounting practices (GAAP). It can also be emphasized in a specific accounting course such as auditing or a separate accounting ethics course. In any case, the provisions of the AICPA Code of Professional Conduct should be an important component of ethics instruction in accounting programs. For purposes of this dissertation, ethics instruction was limited to a 4-hour ethics symposium concerning the provisions of the AICPA Code of Professional Conduct.

The two decision-making approaches that have been advocated by accounting professors relative to resolving accounting ethics dilemmas are personal judgment and professional judgment. The underlying ethical decision-making qualities inherent in the organizational culture of the accounting profession point to professional judgment as the appropriate decision-making approach for resolving accounting ethics dilemmas. In addition, professional judgment is emphasized in the AICPA Code of Professional

Conduct. The decision-making approach used in this dissertation was professional judgment.

The AICPA Code of Professional Conduct emphasizes three important trust characteristics (ability, benevolence, and integrity) that are important relative to enhancing public trust in the services provided by the accounting profession. While all three trust characteristics can influence an individual's propensity to use professional judgment in resolving accounting ethics dilemmas, this dissertation only looked at the trust characteristic of ability in relation to student use of professional judgment.

### *Method*

The two hypotheses to be tested in this dissertation are as follows:

H<sub>01</sub>: There is no statistically significant difference in students' use of professional rather than personal judgment in resolving accounting ethics dilemmas before and after receiving ethics instruction concerning the AICPA Code of Professional Conduct during a 4-hour ethics symposium.

H<sub>02</sub>: There is no statistically significant difference in students' use of professional rather than personal judgment in resolving accounting ethics dilemmas based on their level of ability.

The first hypothesis required the collection of data concerning the impact of ethics instruction on students' use of professional judgment in resolving accounting ethics dilemmas. The second hypothesis required the collection of data concerning students' level of ability.

The ethics instruction concerning the provisions of the AICPA Code of Professional Conduct was provided to students in the sample population during a 4-hour

symposium. The data needed to determine students' propensity to use professional judgment as a result of ethics instruction were gathered using a pretest/posttest consisting of ethics cases (based on the AICPA Code of Professional Conduct) involving accounting ethics dilemmas (see Accounting Practices Questionnaire in Appendix A). Armstrong (1984), Beets (1992), Byrd (1979), Davis (1984), Loeb (1971), and McCarthy (1993) used ethics cases involving accounting ethics dilemmas based on the AICPA Code of Professional Conduct as a means of determining CPAs' consensus to and/or knowledge of the AICPA Code of Professional Conduct. The data needed to determine students' level of ability (accounting GPA and accounting class enrollment) were gathered through the use of an author-developed student demographic questionnaire (see Personal Data Sheet in Appendix B) administered to the students in the sample population.

This dissertation sought to determine the impact that accounting ethics instruction concerning the provisions of the current Code had on accounting students' ability to exercise professional judgment. Therefore, the population that the findings are generalized to consists of junior and senior accounting majors in regionally accredited colleges and universities in the United States. The frame from which this dissertation drew a sample consisted of undergraduate accounting students at a major evangelical institution of higher learning who were enrolled in a junior or senior level accounting course. The frame was limited to one academic institution to eliminate potential biases that could result from differences in ethics instruction and student demography among academic institutions. The sample size was 32 students. Since the research was conducted as a component part of the accounting courses in which the students in the sample were

enrolled, the sample size was adequate for the stated purposes of this dissertation due to a high rate of student response.

### *Analysis*

Gravetter and Wallnau (2000) advocated evaluating differences in the outcome of a repeated-measures experiment, such as this dissertation's pretest/posttest experiment, using the Wilcoxon T-test. The Wilcoxon T-test was used in this dissertation to determine if a statistically significant difference exists in either or both of the two hypotheses being tested. Davis (1984) and McCarthy (1993) used the Index of Ethical Congruence (IEC), an accounting practices questionnaire containing accounting ethics dilemmas, to measure respondents' propensity to use professional judgment based on their consensus to the AICPA Code of Professional Conduct. This dissertation also used the IEC to measure students' use of professional judgment in resolving accounting ethics dilemmas. The IEC scores were used in the analysis of differences using the Wilcoxon T-test.

### *Limitations of the Study*

The frame from which the sample used in this dissertation was drawn may be a potentially limiting factor. The frame consists of junior and senior accounting majors at a private evangelical institution of higher learning. The characteristics of accounting students at that institution may be significantly different from the characteristics of accounting students at public and nonevangelical institutions of higher learning. Therefore, the results of testing the two hypotheses in this dissertation may not necessarily be generalized to other frames within the population without further research efforts.



This limitation is mitigated to some extent because the Accounting Practices Questionnaire and the use of the IEC have been validated in previous studies with different samples. For example, Davis (1984) and McCarthy (1993) used the Accounting Practices Questionnaire and the IEC with samples involving professional accountants and accounting students at both public and private institutions of higher learning, respectively.

## Chapter 2: Literature Review

The basis upon which the accounting profession was founded and continues to exist is public trust. Zucker (1986) emphasized that professions such as accounting and law have developed and continue to exist for the purpose of producing the trust required to support complex economic systems. In his work concerning the production of trust, Zucker described three central modes of trust production: process-based, characteristic-based, and institutional-based. He then examined, from a historical standpoint, the disruption of process-based trust and the growth of institutional-based trust brought about by the industrial revolution and the increasing complexity of the economy. He stated “institutional-based trust became predominant because of the nature of transactions in the emerging economic order” (p. 90). Production of trust in an institutional-based mode is accomplished through formalization and standardization, which is characteristic of the accounting profession. Zucker stated “extensive socialization, emergence of licensing standards across the country, and creation of professional associations all increased the certainty of performance characteristics” (p. 94). He emphasized that the production and maintenance of trust in the services provided by members of the accounting profession, as well as other professions, is generated through rules and regulations, adhered to by the members of the profession, that specify professional conduct and uniformity of practice. That is why this dissertation considered student knowledge of the AICPA Code of Professional Conduct important in relation to professional judgment.

Spiceland et al. (2004), in the first chapter of their intermediate accounting textbook, presented the theoretical structure of financial accounting that serves as the profession’s basis for developing and applying the accounting rules and regulations

related to the financial reporting process. They illustrated the importance, relative to public trust, of knowing and adhering to the norms and standards of the profession by showing through current events, the negative consequences of not complying with accounting rules and regulations. Spiceland et al. emphasized that public trust in the services provided by professional accountants has declined in recent years due to occurrences of unethical behavior in the profession as indicated by the public outrage that has resulted from accounting scandals at companies such as Adelphia Communications, Enron, Merck, Xerox, and WorldCom. They stated,

The dramatic collapse of Enron in 2001 and the dismantling of the international public accounting firm of Arthur Andersen in 2002 severely shook U.S. capital Markets. The credibility of the accounting profession itself as well as of corporate America was called into question. (p. 16)

According to this dissertation, the profession's inability to produce more ethical accountants may be due to insufficient emphasis on ethics instruction in accounting programs.

#### *Importance of Ethics Instruction*

Loeb (1988) examined three critical issues relative to the teaching of ethics in accounting education: (a) the need for teaching ethics in accounting curriculums, (b) the appropriate goals for teaching ethics in accounting classrooms, and (c) who should teach accounting ethics. Loeb documented the need for increased ethics instruction. He emphasized the importance of teaching the provisions of the AICPA Code of Professional Conduct by stating, "Accountants practicing in all segments of accounting need to understand both the relevant ethical standards of accounting and the mechanisms for

enforcing these ethical standards” (p. 317). He also stressed the fact that accountants “need to have an understanding of how to apply these standards in practical situations” (p. 317). This dissertation’s use of accounting ethics dilemmas to measure students’ propensity to use professional judgment emphasizes the application of Code provisions in actual practice situations.

Langenderfer and Rockness (1989) pointed to insufficient emphasis on ethics instruction in accounting programs by stating, “the academic community and individual accounting professors have been slow to accept ethics education and have been reluctant to include ethics education in the accounting curriculum” (p. 59). They believed that the current crisis relative to diminished public trust in the services provided by members of the accounting profession will serve as a driving force to bring about increased ethics instruction in accounting programs. Langenderfer and Rockness presented three dilemmas that explain accounting professors’ reluctance to integrate ethics in accounting classes: (a) the ethical-legal dilemma, (b) the philosophical-practical dilemma, and (c) the moral-amoral dilemma. They offered suggestions for resolving those three dilemmas and then presented a plan for implementing the teaching of ethics in accounting curriculums using cases involving accounting ethics dilemmas as emphasized in this dissertation.

Kerr and Smith (1995) also recognized the importance of accounting ethics education to the well being of the accounting profession and for the purpose of providing much needed support for this country’s economic system by stating, “ethical conduct and education are critical to modern society, the business world, and the accounting profession. When lapses in ethical behavior by accountants occur, the profession’s credibility is endangered” (p. 987). Three important issues relative to accounting ethics

education were examined by Kerr and Smith: (a) whether ethics can be taught in accounting courses, (b) the utilization of innovative approaches to teaching ethics in accounting classes, and (c) student perspectives relative to ethical issues in accounting education. Their findings indicated that although the task of integrating ethics in accounting curriculums is not easy, it is essential. They cited textbooks, case problems, videotape presentations, educational novels, and journal articles among the innovative methods used by professors to present ethical issues in accounting classes. Finally, their findings relative to surveying 244 accounting students at a major university supported the increased emphasis on ethics instruction in accounting education as emphasized in this dissertation. The students in the survey were reported to “strongly believe that ethics is a major issue in business and accounting, and that a lack of ethics hurts the accounting profession” (p. 992). The survey also verified that students recognized the need for ethical and moral direction in the accounting curriculum.

In addition, surveys of auditing professors conducted by Smith (1993) from a random sample of faculty listed in Hasselback’s *Prentice-Hall Accounting Faculty Directory 1991* also revealed overwhelming support for teaching ethics in the accounting curriculum. While the professors agreed that ethics should be emphasized in auditing courses, they also concurred that ethics should be integrated throughout the accounting curriculum. Smith also conducted a student survey consisting of auditing students in one of his classes at Texas A & M University and discovered that the study of accounting ethics is of major concern to accounting students as well.

Special reports issued by several key accounting organizations also pointed to the lack of and need for more ethics instruction in accounting programs as they emphasize

the integration of ethics in accounting curriculums (Accounting Education Change Commission, 1990; American Accounting Association, 1986; National Commission on Fraudulent Financial Reporting, 1987). The Accounting Education Change Commission (AECC; 1990), in its Position Statement Number One, presented the commission's views concerning the appropriate objectives of accounting education. The statement is intended to provide a basis for improving accounting education. Position Statement Number One described the desired capabilities of accounting students that are needed as a basis for life-long learning in the profession. The statement separated these capabilities into three categories: skills, knowledge, and professional orientation. The AECC lists among the objectives of education for accountants that students should (a) develop the "ability to identify ethical issues and apply a value-based reasoning system to ethical questions" (p. 311) and (b) acquire a working knowledge of the "ethical and professional responsibilities of an accountant" (p. 311). These educational objectives for accounting students support the emphasis on accounting ethics dilemmas and the AICPA Code of Professional Conduct in this dissertation. In addition to desired capabilities, the commission also discussed the appropriateness of particular courses and course content in relation to accounting curriculums as well as suitable instructional methods.

Similarly, the American Accounting Association's Committee on the Future Structure, Content, and Scope of Accounting Education (1986) examined the expanding profession and the current state of accounting education relative to meeting the needs of the profession. The committee's analysis of the current state of accounting education resulted in the conclusion that the current approach to accounting education was inadequate to meet the needs of the expanding profession. The committee then produced

broad guidelines in the form of recommendations relative to the future scope, content, and structure of accounting education to serve as a vehicle for needed accounting education change. The committee recommended that “accounting education must not only emphasize the needed skills and knowledge, it must also instill the ethical standards and the commitment of a professional” (p. 179).

In addition, the National Commission on Fraudulent Financial Reporting (1987) studied the financial reporting system in the United States and produced a special report that presented its findings, conclusions, and recommendations concerning the prevention and detection of fraudulent financial reporting. The commission emphasized the role of academia relative to the potential influence that education should have on present and future participants in the financial reporting process. The commission specifically recommended that “accounting curricula should emphasize ethical values by integrating their development with the acquisition of knowledge and skills” (p. 82). These special reports, prepared by academic and professional organizations in the accounting profession, validate the need for increased ethics instruction in accounting curriculums as emphasized in this dissertation.

Cohen and Pant (1989) examined the current status of ethics instruction in accounting curriculums. In addition, they addressed the factors that have inhibited the integration of ethics in accounting curriculums. Their study, which surveyed accounting department chairpersons, had a 33% response rate (145 responses out of 445 questionnaires distributed). The results of their study indicated that the only significant emphasis concerning ethics instruction in most accounting programs occurs in auditing courses, with very little emphasis in other areas of the accounting curriculum. Outside of

auditing courses, students are only exposed to accounting ethics through occasional ethics cases introduced by some accounting professors in beginning and intermediate level accounting courses.

According to Armstrong and Mintz (1989), overall ethics instruction in accounting programs is minimal. They base this conclusion on the results of a survey they conducted concerning the ethical coverage in accounting curriculums. Their survey was sent to deans and accounting administrators at selected schools accredited by the American Assembly of Collegiate Schools of Business(AACSB). The response rate relative to the survey was 54% (137 out of 254). Only 7.3 % of the schools responding to the survey had a separate accounting ethics course, and only one school offered such a course at the undergraduate level. The overwhelming majority of schools (95.6%) indicated that ethics was included as part of the auditing course where approximately 1 ½ weeks was spent on accounting ethics and related topics. Outside of the auditing course, 19.7% of the respondents indicated that ethics was covered in some other accounting course with typical coverage limited to one class session. Armstrong and Mintz concluded from the results of their survey that “accounting students are receiving very limited coverage of accounting ethics in their curricula and clearly more needs to be done to improve this situation” (p. 74). Their conclusion relative to the need for increased ethics instruction in accounting programs supports this dissertation’s use of an ethics symposium relative to the provisions of the AICPA Code of Professional Conduct.

In a study conducted by Green and Weber (1997), accounting and business students’ level of moral reasoning was compared before and after the senior accounting students were exposed to ethics instruction concerning the AICPA Code of Professional



Conduct. The study consisted of 59 seniors (32 accounting majors and 27 business majors) and 53 juniors (26 accounting majors and 27 business majors). The participants were asked to respond to an accounting ethics dilemma. The respondents' level of moral reasoning ability was measured using the DIT. The results of this study revealed that while moral reasoning abilities of junior accounting and business majors were not significantly different; the senior accounting majors, after exposure to the AICPA Code of Professional Conduct, reasoned at significantly higher levels of moral reasoning than senior business majors. Green and Weber concluded that exposure to ethics instruction relative to the AICPA Code of Professional Conduct, as emphasized in this dissertation, is beneficial in influencing the ethical development of accounting students. In spite of the benefits of ethics instruction revealed in the study, they believed a major reason for the lack of ethics instruction in accounting curriculums on the part of accounting educators is the result of "no general agreement as to either when or how educational interventions should occur" (p. 778).

For example, Cohen and Pant (1991) argued that ethics should be integrated throughout the accounting curriculum. They conducted a study of CPAs' perceptions concerning the role of CPAs, regulatory groups, and accounting education in influencing ethical behavior in the profession. The respondents in their study were selected from a random sample of CPAs in the Massachusetts Society of CPAs. The study achieved a 49.6% response rate concerning the questionnaires that were distributed (203 out of 461 possible respondents). Of particular interest to this dissertation, the study examined CPAs' perceptions concerning the extent to which ethics instruction should be included in specific accounting courses. The responses of the CPAs were compared to the

responses of accounting department chairpersons, obtained from a previous study (see Cohen & Pant, 1989) concerning actual ethics instruction in accounting curriculums. The results of the study, which support this dissertation's emphasis on ethics instruction as a vehicle to increase the use of professional judgment, indicated that CPAs believe ethics instruction in every accounting course "should be covered significantly more than what presently exists" (p. 52).

Kunitake and White (1986) addressed concerns over changes in the rules section of the AICPA Code of Professional Conduct relative to competitive bidding, solicitation, and advertising and the potential long-run negative effect the changes could have on the ethical behavior of CPAs' and ultimately the profession's image. They emphasized the need for enhanced professional conduct and self-restraint in the profession relative to competitive behavior. Kunitake and White expressed concern that ethics instruction in accounting curriculums focuses "on the Code's enforceable Rules of Conduct rather than on the higher, ethical values emphasized in the Code's Concepts section" (p. 229). They recommended emphasizing ethics instruction in the auditing class and going beyond the traditional teaching of conduct rules by providing students with "a thorough understanding of the spirit of the AICPA Concepts section of the Code" (p. 229). The ethics symposium included in this dissertation emphasized both the principles and rules contained in the AICPA Code of Professional Conduct.

Armstrong (1991) developed and tested a sample course in ethics and professionalism (E & P) for the purpose of determining if such a capstone course in ethics and professionalism combined with ethics training integrated throughout the accounting curriculum would increase the moral reasoning abilities of accounting

students. The theoretical basis for her course consisted of (a) traditional ethical theories, (b) moral development theories, and (c) the sociology of professions. Students selected for the study were from a major state university. Senior accounting students were enrolled in the E & P course on an elective basis, and intermediate accounting students from the same university were selected as a control group. A pretest/posttest using the DIT to determine their level of moral reasoning ability was administered to the 21 senior accounting students in the E & P course and the 33 junior accounting students in the control group. The results of the study indicated that “neither one stand-alone E & P course nor previous exposure to ethics in other accounting courses were strong predictors of students’ increases in moral maturity, yet the combination of the two was very predictive of moral development” (p. 89). While accounting educators disagree as to how and when ethics instruction should occur in the accounting curriculum, they all agree that increased ethics instruction as emphasized in this dissertation is needed in order to maintain and enhance public trust in the accounting profession.

#### *Importance of Professional Judgment*

This dissertation emphasized the use of professional judgment rather than personal judgment in the resolution of accounting ethics dilemmas. While beginning and intermediate level accounting books available for use in accounting programs contain several paragraphs in an introductory chapter or an appendix in reference to the ethical decision-making process, that information is typically limited in scope and content. For example, Spiceland et al. (2004), in Chapter 1 of their intermediate accounting textbook, mentioned that professionals are expected to have high ethical standards and that those standards are typically found in a code of ethics, but they did not detail any of the

principles or rules found in the AICPA Code of Professional Conduct. In addition, they provided a model for ethical decision making that emphasizes personal ethics. Warren et al. (2002), in Chapter 1 of their principles text, only offered three general principles for ethical behavior: (a) avoid small ethical lapses, (b) focus on your long-term reputation, and (c) expect to suffer adverse personal consequences for holding to an ethical position. Their book presented information concerning the principles section of the AICPA Code of Professional Conduct in an appendix. They indicated that individuals have different beliefs concerning what is right and wrong and emphasized that ethics consist of “moral principles that guide the conduct of individuals” (p. 7). These examples demonstrate the limited coverage relative to the ethics decision-making process contained in principles and intermediate accounting books. Based on this dissertation author’s review of the popular accounting textbooks used in accounting curriculums, the ethics decision-making process varies from personal judgment based on personal ethics as emphasized in the above examples to professional judgment based on the AICPA Code of Professional Conduct, with most accounting books leaning towards personal judgment in their limited presentations.

Fatt (1995) and Fogarty (1995) emphasized organizational culture as an important determinant relative to decision making in the accounting profession, which points to professional judgment rather than personal judgment as the appropriate basis for the resolution of accounting ethics dilemmas. Fatt conducted a study to determine the essential qualities needed by accountants in the performance of their duties. For purposes of his study, essential qualities were defined from an organizational culture perspective in terms of expectations and values. He emphasized professional judgment, stating that “the

shared values of any group constitute the norms by which that group operates” (p. 998). The design of his study took into consideration the fact that the organizational culture of the accounting profession is shaped by those within the profession as well as the public at large which the profession serves. Fatt identified the relationship between accountants and others within the context of organizational culture relative to its influence on ethical decision making by stating “accountants have an obligation to the organizations they serve, their profession, the public, and themselves to maintain the highest standards of ethical behaviour” (p. 997). As part of his study, a survey was distributed to 500 individuals consisting of accountants, accounting students, and the public at large. He received 380 responses (76% response rate) including responses from 48 accountants, 219 accounting students, and 113 individuals from the public at large. All three groups of respondents agreed that the most essential qualities relative to accountants in the performance of their duties were that accountants should be ethical and have integrity. This dissertation’s emphasis on ethics instruction and student use of professional judgment is supported by the results from Fatt’s study and his conclusions that stressed the importance of ethics instruction to the accounting profession and the use of professional judgment rather than personal judgment as the appropriate decision-making approach to be used by accountants in the performance of their duties.

Fogarty (1995) examined the traditional parameters of accountant ethics relative to practice and education. He demonstrated how important sociological features of ethics such as (a) treatment of the accounting profession as a group, (b) extrapersonal aspects of decision making, (c) stratification of accounting practice, (d) and a sense of ethical action

are neglected because of those parameters. He then made a case for institutional theory as a systematic sociological approach to examining ethics in the accounting profession.

Fogarty (1995) emphasized the importance of organizational culture from a sociological standpoint relative to its influence on ethical behavior. He demonstrated how the current predominant approach to ethics in the accounting profession ignored the profession's organizational culture, which is a significant determinant of ethical standards and ethical behavior. In the current approach to accounting ethics, Fogarty found the individualistic assumption that individuals can be aggregated into groups such as the accounting profession problematic. He stated, "when the study of the accounting profession becomes the study of individual accountants, the cultural, social, and political dimensions are systematically neglected" (p. 104). Fogarty also argued against the use of the DIT as the predominant assessment instrument relative to accounting ethics. He pointed to its lack of rigor as a psychological assessment tool and to a more basic problem with psychological inquiry, which is that "by definition, psychological variables highlight individual differences and are incapable of reaching questions that transcend that level" (p. 105). The traditional parameters of accounting ethics practice and education, which emphasize the individual level rather than group or organizational level ignore the influence of organizational culture on ethical decision making in the accounting profession. Fogarty concluded "by restricting the consideration of ethics to the individual level of analysis, and by making psychology the primary approach to the individual, the ethics literature in accounting is devoid of a sense of collective fates and collective responsibilities" (p. 106). His assertion that accounting ethics should be examined at the group or organizational level supports this dissertation's emphasis on

organizational culture as an important determinant relative to decision making in the accounting profession and its use of professional judgment rather than personal judgment as the appropriate basis for the resolution of accounting ethics dilemmas.

Adams et al. (1995) evaluated the ethical reasoning process used by CPAs in resolving ethical dilemmas related to confidentiality issues. They sent a survey consisting of three ethical dilemmas concerning confidentiality to 100 CPAs randomly selected from the AICPA membership directory and received a 91% response rate. Based on an analysis of CPA responses, Adams et al. determined that the CPAs adhered to the provisions of the AICPA Code of Professional Conduct in resolving the ethical dilemmas. They found that CPAs used professional judgment rather than personal judgment even in situations where their personal ethics conflicted with the Code. Drawing support from their study concerning CPAs' propensity to use professional judgment rather than personal judgment in resolving accounting ethics dilemmas, it would seem the more informed that students are concerning the AICPA Code of Professional Conduct, the more inclined they would be to use professional judgment rather than personal judgment in resolving accounting ethics dilemmas as emphasized in this dissertation. However, with little emphasis placed on ethics instruction in general and in particular on the provisions contained in the AICPA Code of Professional Conduct which serves as the basis for making ethical decisions in the accounting profession, students may lack the ability to exercise professional judgment in the resolution of accounting ethics dilemmas as emphasized by the Code (AICPA, 2004). Concerning the responsibilities of CPAs in the performance of their professional duties, the Code states they are to "exercise sensitive professional and moral judgments in all their activities"

(AICPA, 2004, Section 52, Article I, Para. 1). In that regard, this dissertation sought to determine the difference in students' decision-making approach (personal judgment or professional judgment) before and after they have attended a 4-hour symposium concerning the AICPA Code of Professional Conduct.

### *Theory and Variables*

The theoretical foundation for this dissertation's independent, dependent, and moderating variables related to ethical decision making in the accounting profession are presented in this section. The significance and relationship of (a) a professional code of ethics, (b) organizational culture, (c) professional judgment, and (d) student ability as they relate to ethical decision making in the accounting profession are examined.

*Code of ethics.* A professional code of ethics that is adhered to by its members is a defining mark of a profession, and the accounting profession's main vehicle for guiding the ethical behavior of its members is the AICPA Code of Professional Conduct. The principles and rules contained in the Code are intended to guide CPAs "in the performance of their professional responsibilities and express the basic tenets of ethical and professional conduct" (AICPA, 2004, Section 51, Para. 2). The principles and rules sections of the Code are examined in the ethics symposium utilized by this dissertation to provide ethics instruction to accounting students.

Epstein and Spalding (1993) as well as Frankel (1989) emphasized the importance of a code of ethics in establishing guidelines for proper ethical behavior in a profession. Epstein and Spalding looked at the ethical foundation that exists in the accounting profession. They evaluated the impact that ethical models such as the utilitarian and deontological approach have had on the ethical conduct of CPAs. They also confirmed



the profession's claim of professional status by evaluating their standing in four areas common to all professions: (a) general and systematic knowledge, (b) orientation to community interest, (c) self-monitoring via a code of ethics, and (d) recognition of excellent work and technical accomplishments. Finally, Epstein and Spalding looked at the importance of ethical codes to professions in general and the AICPA Code of Professional Conduct to the accounting profession in particular. In that regard, they stated, "the purpose for a code of ethics is the establishment of moral norms within which the profession hopes to operate." (p. 236).

Frankel (1989) examined the importance of professional codes of ethics to professions and the public at large. He indicated that codes of ethics are "both a foundation and guide for professional conduct" (p. 109). As part of his examination relative to why and how professional organizations develop codes of ethics as well as what impact those codes have on the profession and others, Frankel identified eight basic functions that codes serve: (a) as an enabling document, (b) as a source of public evaluation, (c) as professional socialization, (d) to enhance a profession's reputation and public trust, (e) to preserve entrenched professional biases, (f) to deter unethical behavior, (g) as a support system, and (h) as a form of adjudication. He stated that these eight functions, taken as a whole, "reveal a great deal about the relationship between a profession and its members, its clients and the larger society" (p. 111). As indicated in this dissertation, compliance with the AICPA Code of Professional Conduct by CPAs as they exercise professional judgment in the resolution of accounting ethics dilemmas is important in developing and maintaining a trust relationship with the public at large.

Mayer et al. (1995) developed an integrative model of organizational trust. Their definition of trust, which is the “willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party” (p. 712), is very applicable to the accounting profession and its relationship to the public at large. Their trust model (a) considers both trustee and trustor characteristics, (b) differentiates trust from contributory factors, (c) differentiates trust from its outcome of risk taking in the relationship, and (d) defines trust in a way that distinguishes it from other similar constructs (cooperation, confidence, predictability). Their identification of important trust characteristics that are contained in the AICPA Code of Professional Conduct emphasized the importance of the Code relative to maintaining and enhancing public trust in the accounting profession. It also supports this dissertation’s emphasis on student acquisition of knowledge relative to Code provisions.

Mayer et al. (1995) identified three important characteristics of trust (ability, benevolence, and integrity) from trust literature that explain the major portion of trustworthiness. Ability (emphasized in this dissertation) relates to “that group of skills, competencies, and characteristics that enable a party to have influence within some specific domain” (p. 717). The competence of professional accountants is a key factor relative to the credibility of the profession and is an important element in determining the level of public trust exhibited toward CPAs. The due care provisions of the Code stress the fact that CPAs should “observe the profession’s technical and ethical standards, and strive continually to improve competence” (AICPA, 2004, Section 56, Article IV). Benevolence is the “extent to which a trustee is believed to want to do good to the trustor,

aside from an egocentric profit motive” (Mayer et al., p. 718). Acceptance of responsibility to the public is a distinguishing mark of a profession, according to the AICPA Code of Professional Conduct. The Code states that CPAs are to “act in a way that will serve the public interest, honor the public trust, and demonstrate commitment to professionalism” (AICPA, Section 53, Article II). Integrity results when the “trustee adheres to a set of principles that the trustor finds acceptable” (Mayer et al., p. 719). According to the Code, “integrity is an element of character fundamental to professional recognition. It is the quality from which the public trust derives and the benchmark against which [CPAs] must ultimately test all decisions” (AICPA, Section 54, Article III, Para. 1).

Given the significance of the Code relative to establishing the profession’s norms and standards of conduct that are necessary to ensure public trust in the accounting profession, it is important that ethics instruction in accounting programs emphasizes the Code provisions. Loeb’s (1988) goals of ethics instruction for accounting programs support this conclusion because of the significant relationship that exists between the purpose and content of the AICPA Code of Professional Conduct and the accounting ethics instruction goals. His suggested goals for accounting ethics education are to (a) relate accounting education to moral issues, (b) recognize issues in accounting that have ethical implications, (c) develop a sense of moral obligation or responsibility, (d) develop the abilities needed to deal with ethical conflicts or dilemmas, (e) learn to deal with the uncertainties of the accounting profession, (f) set the stage for a change in ethical behavior, and (g) appreciate and understand the history and composition of all aspects of accounting ethics and their relationship to the general field of ethics. These goals for

ethics instruction are consistent with the spirit and provisions of the AICPA Code of Professional Conduct and support this dissertation's emphasis on ethics instruction in the form of an ethics symposium.

*Organizational culture & ethical decision making.* The ethical norms contained in the provisions of the AICPA Code of Professional Conduct are derived from the accounting profession's organizational culture. Schwartz and Davis (1981) examined organizational culture in relationship to business strategy and developed a plan to determine whether an organization's culture and business strategy are properly matched. They (a) looked at the relationship between strategy and organization, (b) defined what culture is and is not, (c) examined how to assess cultural risk, and (d) discussed the importance of properly matching culture with strategy. According to Schwartz and Davis, the norms that shape the behavior of individuals and groups in an organization are determined on the basis of organizational culture. They defined organizational culture as the "pattern of beliefs and expectations shared by the organization's members" (p. 33). They indicated the significant influence that organizational culture has on individuals' ethical behavior by stating, "these beliefs and expectations produce norms that powerfully shape the behavior of individuals and groups in the organization" (p. 33).

According to this dissertation, the underlying ethical decision-making characteristics inherent in the organizational culture of the accounting profession point to professional judgment rather than personal judgment as the appropriate decision-making approach to use in resolving accounting ethics dilemmas in accordance with the profession's code of conduct. These ethical decision-making characteristics relate to an

individual's (a) ethics system, (b) ethics application perspective, (c) moral reasoning perspective, and (d) level of moral reasoning.

Geisler (1990), in part 1 of his book on Christian ethics, examined six major ethical systems: (a) antinomianism, (b) situationism, (c) generalism, (d) unqualified absolutism, (e) conflicting absolutism, and (f) graded absolutism. He categorized these six ethical systems according to two broad ethical views, deontological (duty-centered) or teleological (end-centered). Figure 2 contrasts deontological and teleological views of ethics:

<b>Deontological View</b>	<b>Teleological View</b>
Rule determines the result	Result determines the rule
Rule is the basis of the act	Result is the basis of the act
Rule is good regardless of result	Rule is good because of result
Result always calculated within the rules	Result sometimes used to break rules

*Figure 2.* Two ethical views (Geisler, 1990, p. 24).

Adams et al. (1995) identified rule deontology (a deontological view) and utilitarianism (a teleological view) as the prevailing ethics systems advocated for the accounting profession in previous accounting ethics studies.

Riahi-Belkaoui (1992) emphasized the importance of a deontological view of ethics for the accounting profession. In Chapter 2 of his book concerning morality in accounting, he evaluated the implications for the accounting profession of (a) moral perspectives (utilitarian and deontological), (b) moral development, and (c) codes of ethics relative to ethical conduct and the teaching of accounting ethics. He concluded the following, with respect to the appropriate ethics system for the accounting profession:

Ethics in accounting is fundamental to the credibility and reputation of the integrity of the accounting profession and discipline. While individual

accountants may be tempted to define their ethics in utilitarian terms, the presence of codes of ethics in accounting, as well as various rules of conduct, point to a deontological view favored by the profession and the discipline. (p. 58)

A deontological view of ethics is also supported by and is consistent with the AICPA Code of Professional Conduct which emphasizes the obligation or duty of CPAs to serve the public interest (AICPA, 2004). This dissertation emphasized a deontological view of ethics, which is characteristic of professional judgment rather than personal judgment, because of its emphasis on an individual's duty or obligation to comply with the norms and standards of the profession.

An individual's ethics application perspective is either holistic (based on professional norms and values – a characteristic of professional judgment) or individualistic (based on personal values – a characteristic of personal judgment). According to Epstein and Spalding (1993) and Fatt (1995), decision making in the accounting profession relative to the resolution of accounting ethics dilemmas is appropriately based on the shared norms of the profession. Epstein and Spalding concluded that the norms and standards encompassed in the AICPA Code of Professional Conduct are intended to “govern the behavior of each member of the profession” (p. 236). Likewise, Fatt concurred, emphasizing that CPAs carry out their duties and conduct themselves in accordance with the shared norms and values of the profession. The organizational culture of the accounting profession supports a holistic application perspective, which is characteristic of professional judgment as emphasized in this dissertation.

According to Epstein and Spalding (1993) and Frankel (1989), the strong emphasis in the AICPA Code of Professional Conduct on moral values is appropriate. Epstein and Spalding emphasized the significance of moral values in the development of the Code by pointing out that the purpose of a professional code of ethics is the “establishment of moral norms” (p.236). Frankel views members of a profession as a moral community and asserted that a code of ethics “embodies the collective conscience of a profession and is testimony to the group’s recognition of its moral dimension” (p. 110). He indicated that this moral dimension is crucial in developing and maintaining the trust relationship that must exist between members of a profession and the public they serve.

Hunter (1991), in Chapter 4 of his book dealing with modern culture, (a) examined the cultural impact of competing moral visions, (b) described the historical roots of those moral visions, and (c) identified each moral vision’s source of authority. He emphasized that each source of moral authority carried with it certain fundamental assumptions that influence individuals’ perceptions of the world. According to Hunter, these assumptions “are the basic standards by which we make moral judgments and decisions” (p. 119). In this regard, he identified two competing moral visions (orthodox and progressive) that relate to the two ethical systems (deontological and teleological) discussed previously. The orthodox view is a moral reasoning perspective that defines moral authority in terms of an external transcendent force; while the progressive view is a moral reasoning perspective that defines moral authority internally as conditional, relative, and ever changing based on an individual’s experience and circumstances. The orthodox moral reasoning perspective is supported by the AICPA Code of Professional

Conduct, which serves as the accounting profession's external transcendent force and its authoritative source for ethical decision making. The Due Care section of the Code authoritatively states that CPAs are to comply with all of the "profession's technical and ethical standards" (AICPA, 2004, Section 56, Article V). The orthodox moral reasoning perspective, with its emphasis on external authority, is characteristic of professional judgment (emphasizing the profession's norms for decision making) rather than personal judgment and supports this dissertation's emphasis on professional judgment as the appropriate decision-making approach in the resolution of accounting ethics dilemmas.

Fisher and Sweeney (1998) examined the "validity of the DIT as an unbiased measure of moral judgment" (p. 905). They administered the three-story version of the DIT to 132 junior and senior undergraduate accounting majors from two universities. The accounting students were categorized as politically liberal, moderate, or conservative based on self-reported political ideology validated by administering the National Election Survey. After randomly receiving one of two sets of instructions, the students were asked to complete the DIT a second time (2 weeks later). Depending on the set of instructions received, the students were to answer the questions from the perspective of being either extremely liberal or extremely conservative. The results demonstrated that moral reasoning scores achieved by the accounting students in the second test when compared to the first test significantly decreased when assuming the perspective of extremely conservative and significantly increased when assuming the perspective of extremely liberal. Fisher and Sweeney made two important conclusions from the results of their study relative to the use of the DIT for measuring moral reasoning ability in the accounting profession: (a) "some items in the DIT may have a political content [liberal



ideology] separate from their contribution to the assessment of moral judgment” (p. 913) and (b) “given the generally conservative political orientation of accountants, the DIT may systematically understate the moral judgment of accountants and accounting students” (p. 913).

Because of the above reasons, Fisher and Sweeney (1998) became concerned about moral reasoning ability in the accounting profession being predominantly measured using the DIT. They pointed out that the DIT emphasizes a postconventional level of moral reasoning, which has been associated with politically liberal ideology. Postconventional reasoning is a level of reasoning where an internal orientation exists in which ethical decisions are made apart from group authority or norms and in accordance with self-chosen ethical principles (Green & Webber, 1997). Postconventional reasoning is based on an individual’s personal value system and is characteristic of personal judgment.

However, Gaa (1992) and Lampe and Finn (1992) indicated that individuals in the accounting profession predominantly use conventional reasoning rather than postconventional reasoning in resolving accounting ethics dilemmas. This dissertation defines conventional reasoning as a level of reasoning where an external orientation exists in which ethical decisions are made in accordance with group norms and in accordance with the rules of law (Green & Webber, 1997). This dissertation emphasizes conventional reasoning, which emphasizes group norms and is characteristic of professional judgment.

Gaa (1992) examined the professional role of CPAs in society from both a philosophical and psychological perspective. In doing so, he drew from normative and

moral development theories in addressing the issue of moral judgment and action. Gaa looked at the relationship between CPAs and the public at large on the basis of a social contract that requires CPAs to comply with the standards and norms of the profession. In noting that previous studies using the DIT indicated that accountants and accounting students predominately use conventional reasoning, he also pointed out the possibility that “conventional moral judges exhibit a higher degree of consensus, because they are more rule-oriented than post-conventional moral judges” (p. 32-33).

Lampe and Finn (1992) developed and tested a five-element model of decision making in comparison to the AICPA Code-implied model. The five-element model, in addition to Code-based rules and principles, also considers the influence of external considerations, decision rationalization, and personal utility. Their model emphasizes a five-step decision-making process relative to the resolution of accounting ethics dilemmas. The five steps are: (a) gain understanding, (b) recognize impact, (c) judge alternatives, (d) assess other values, and (e) make a final decision. The participants in their study consisted of 129 senior accounting majors enrolled in auditing classes, 106 staff auditors with 1 to 2 years of experience, and 123 audit managers with 6 or more years of experience. Administration of (a) the three-story DIT, (b) an accounting ethics questionnaire including seven ethical dilemmas, and (c) a demographic questionnaire provided the data for the study.

Lampe and Finn (1992) differentiated their model from the DIT relative to the measurement of moral development in that while the DIT primarily focuses on the postconventional level of reasoning, their model emphasizes the conventional level of reasoning. They stated that the conventional level of reasoning is representative of “right

behavior based on performing one's duty, respecting authority, and maintaining social order" (p. 40). The results of testing their five-element decision-making model indicated that while Code-based rules and principles were the most significant influence on the decision process, "personal utility for other-than moral values, consideration of decision impact on other parties, and differences in cognitive moral development" (p. 43) also influenced the ethical decision-making process of those in the accounting profession. Lampe and Finn concluded that the predominant use of conventional reasoning in the accounting profession reflects "an orientation to internalized compliance with GAAP, GAAS (Generally Accepted Auditing Standards), codes of ethics, and other rules of social order" (p. 43). The accounting profession's predominant use of conventional reasoning supports this dissertation's emphasis on professional judgment rather than personal judgment as the appropriate accounting ethics decision-making approach.

In summary, underlying ethical decision-making characteristics inherent in the organizational culture of the accounting profession support (a) a deontological (duty-centered) ethics system, (b) a holistic ethics application perspective, (c) an orthodox moral reasoning perspective, and (d) a conventional level of moral reasoning. All of these ethical decision-making characteristics are associated with and support this dissertation's use of professional judgment rather than personal judgment.

*Professional judgment & ethical decision making.* Studies by Adams et al. (1995) and McCarthy (1993) have indicated that professional judgment rather than personal judgment is appropriate for resolving ethical dilemmas in the accounting profession. Adams et al. revealed that CPAs used professional judgment in resolving accounting ethics dilemmas as evidenced by their compliance with the provisions of the AICPA

Code of Professional Conduct, even when such compliance conflicted with their personal value system.

On the other hand, McCarthy (1993) conducted a study to determine the effect of exposure to the AICPA Code of Professional Conduct in an auditing class on students' consensus with the Code in resolving accounting ethics dilemmas. She also incorporated situation ethics in her study to determine the impact of students' personal values in the ethical decision-making process. The IEC and the Rokeach Value Survey (RVS) were administered to 306 beginning accounting students and 294 advanced accounting students from regionally accredited public and private colleges in the New York Metropolitan Area. The results of her study indicated that limited exposure to the AICPA Code of Professional Conduct in an auditing class was not sufficient to improve student consensus to Code provisions. This finding supports the need for increased ethics instruction in accounting curriculums as emphasized in this dissertation. In relation to the ethical decision-making process, the results of her study indicated that there was no correlation between personal values and consensus to the Code. Both the study by Adams et al. (1995) and the study by McCarthy confirm that those in the accounting profession should use professional judgment rather than personal judgment as a basis for resolving ethical dilemmas in accounting.

*Student ability.* According to Adams et al. (1995), knowledge of the AICPA Code of Professional Conduct influences student inclination to use professional judgment in resolving accounting ethics dilemmas. If this is so, student ability, which according to Mayer et al. (1995) is a characteristic that enhances public trust, is an important variable that must be considered in the exercise of professional judgment. Student GPA and level

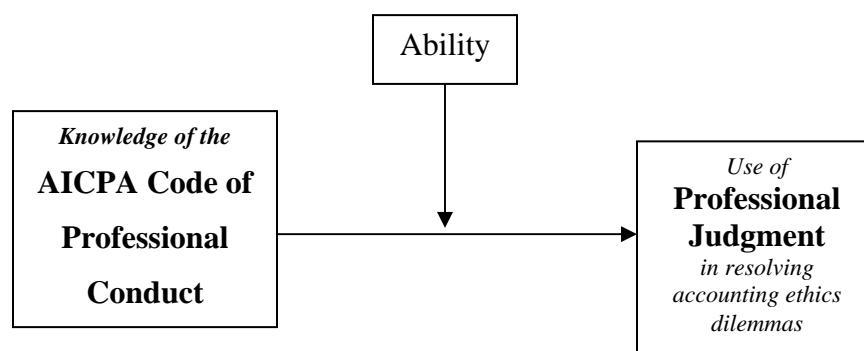
of education have been used to account for differences in student ability. For example, Eckel and Johnson (1983) as well as Hicks and Richardson (1984) incorporated a measure of ability in their studies concerning the accounting profession. Eckel and Johnson used GPA as an indicator of ability for the purpose of determining student success in the accounting program at Bowling Green State University. They developed a model to screen and classify students who were potential accounting majors. Their model was developed using data from a population of 96 accounting graduates. The data consisted of grades in particular courses, GPAs, and ACT assessment test scores. Of the 96 participants, 69 were used in the process of developing a classification model to predict success in the accounting program and the other 27 were used to test the prediction capabilities of the model. The classification model correctly classified 85% of the participants. The results of their study indicated that GPA is a significant predictor of student ability.

Hicks and Richardson (1984) incorporated two measures of GPA (accounting GPA and overall GPA) along with student grades on an entry examination to predict students' ability to perform well in intermediate accounting. Their study included 312 accounting students enrolled in intermediate accounting at Virginia Tech. The results of their study indicated that student knowledge (based on the entrance examination) as well as accounting GPA and overall GPA are significant predictors of student success in intermediate accounting. Accounting GPA, as emphasized in this dissertation, was the most significant predictor of student ability.

In summary, a review of the literature concerning the theoretical foundation of ethical decision making in the accounting profession identified three important variables

that are emphasized in this dissertation. The literature verified the importance of ethics instruction to ethical decision making and, in particular, the need for accounting students to acquire knowledge of the provisions of the AICPA Code of Professional Conduct to enable them to resolve accounting ethics dilemmas in a way that enhances public trust in the accounting profession. The literature related to the organizational culture of the accounting profession validated the need for accounting students to use professional judgment rather than personal judgment as the appropriate decision-making approach for the resolution of accounting ethics dilemmas. Finally, the literature identified the role of student ability relative to acquiring and applying knowledge concerning ethical decision making in the accounting profession.

*Relationships of the variables.* Figure 3 illustrates the relationship between the AICPA Code of Professional Conduct, ability, and student inclination to use professional judgment in resolving accounting ethics dilemmas.



*Figure 3.* Model of professional judgment.

According to Adams et al. (1995) as well as the AICPA (2004), knowledge of the provisions contained in the AICPA Code of Professional Conduct is important to the exercise of professional judgment. As mentioned previously, Adams et al. determined

that CPAs complied with the provisions of the Code even in situations that were in conflict with their personal value system. CPAs' inclination to use professional judgment, which is based on the norms and standards of the accounting profession, supports this dissertation's emphasis on the use of professional judgment rather than personal judgment in the resolution of accounting ethics dilemmas. In addition, the AICPA requires CPAs to comply with the provisions of the Code. The importance of CPAs acquiring knowledge of Code provisions is supported by the profession's requirement that candidates for the CPA certificate pass an ethics exam based on Code provisions as part of the certification process. Knowledge of the AICPA Code of Professional Conduct, as emphasized in this dissertation, is the independent variable in the above model.

Professional judgment is the dependent variable in this dissertation because use of professional judgment is influenced by student knowledge of the AICPA Code of Professional Conduct. Bartels et al. (2000) evaluated the use of assessment centers as an alternative to traditional classroom evaluation techniques to determine student ability as a measure of future performance. Their study evaluated the performance of 347 undergraduate business students from a large midwestern university who participated in a managerial assessment center as part of an organizational behavior course. The results of their study indicated that assessment centers provide a vehicle for evaluating factors other than intelligence (as measured by traditional classroom evaluation techniques) that influence GPA such as motivation, opportunity, interest, and persistence. Bartels et al. concluded from the analysis of assessment center performance that GPA is a significant predictor of individual performance and that the ability to acquire and apply knowledge differed among students as indicated by student GPA. Therefore, ability, as emphasized

in this dissertation, serves as a mediating variable in the model. The level of student ability determines the extent to which students acquire a working knowledge of the AICPA Code of Professional Conduct provisions.

According to this dissertation, providing students with ethics instruction in the form of a 4-hour symposium concerning the provisions of the AICPA Code of Professional Conduct will enhance their knowledge of the Code and their propensity to use professional judgment rather than personal judgment in resolving accounting ethics dilemmas. Based on previous studies concerning student ability, it was anticipated that students with higher levels of ability would show a greater increase in propensity for using professional judgment than students with lower levels of ability when comparing student responses to accounting ethics dilemmas before and after receiving ethics instruction during a 4-hour ethics symposium.

*Hypotheses.* Two research questions based on variable relationships in the Model of Professional Judgment (see Figure 3) are presented in this dissertation. The first research question concerns students' propensity to use professional judgment in relationship to their knowledge of the AICPA Code of Professional Conduct. The literature presented in this dissertation relative to organizational culture and ethical decision making in the accounting profession supports professional judgment as the appropriate decision-making approach. Professional judgment requires the application of the profession's norms and standards in the resolution of accounting ethics dilemmas. According to this dissertation, the AICPA Code of Professional Conduct is the profession's source of authority relative to ethical norms and standards of behavior. If this is true, then increased student knowledge relative to the provisions of the Code



should increase their propensity to use professional judgment rather than personal judgment. The following question relates to this dissertation's position concerning the relationship between professional judgment and ethics instruction: will students' use of professional judgment in resolving accounting ethics dilemmas increase after receiving ethics instruction relative to the AICPA Code of Professional Conduct during a 4-hour ethics symposium? In order to answer this research question, the following null hypothesis will be tested:

H<sub>01</sub>: There is no statistically significant difference in students' use of professional rather than personal judgment in resolving accounting ethics dilemmas before and after receiving ethics instruction concerning the AICPA Code of Professional Conduct during a 4-hour ethics symposium.

The second research question concerns the relationship between students' level of ability and their acquisition of knowledge concerning the AICPA Code of Professional Conduct. The literature presented in this dissertation relative to ability and the acquisition of knowledge supports the author's assertion that students with differing levels of ability will acquire varying degrees of knowledge concerning Code provisions, which in turn will impact the extent to which they use professional judgment in the resolution of accounting ethics dilemmas. If this is true, then accounting students with higher levels of ability should acquire a greater knowledge of Code provisions than accounting students with lower levels of ability and consequently demonstrate a greater use of professional judgment in resolving accounting ethics dilemmas. The following question is designed to address that issue in this dissertation: will students with higher levels of ability acquire a greater knowledge of the AICPA Code of Professional Conduct during a 4-hour ethics

symposium than students with lower levels of ability as demonstrated by the extent to which they use professional judgment rather than personal judgment in resolving accounting ethics dilemmas? In order to answer this research question, the following null hypothesis will be tested:

H<sub>02</sub>: There is no statistically significant difference in students' use of professional rather than personal judgment in resolving accounting ethics dilemmas based on their level of ability.

### *Summary of the Literature*

The literature pertaining to ethical decision making in the accounting profession indicates the importance of public trust to the accounting profession and demonstrates the negative impact that unethical behavior has on the profession's ability to maintain that public trust (Spiceland et al., 2004; Zucker, 1986). The literature supports the need for increased ethics instruction in accounting programs as a vehicle to improve ethical decision making in the accounting profession (AECC, 1990; American Accounting Association, 1986; Armstrong, 1991; Armstrong & Mintz, 1989; Cohen & Pant, 1989, 1991; Green & Webber, 1997; Kunitake & White, 1986; Langenderfer & Rockness, 1989; Loeb, 1988; National Commission on Fraudulent Financial Reporting, 1987; Smith, 1993). The literature has identified the importance of accounting students using professional judgment rather than personal judgment in the resolution of accounting ethics dilemmas (Adams et al., 1995; AICPA, 2004; Fatt, 1995; Fogarty, 1995; Spiceland et al.; Warren et al., 2002).

The literature review provides theoretical support for this dissertation's independent, dependent, and moderating variables related to ethical decision making in

the accounting profession. The significance of the AICPA Code of Professional Conduct as the profession's source of authority relative to ethical decision making, as validated by the literature, supports student knowledge of the Code as the independent variable (AICPA, 2004; Epstein & Spalding, 1993; Frankel, 1989; Loeb, 1988; Mayer et al., 1995). The underlying ethical decision-making characteristics inherent in the organizational culture of the accounting profession validate professional judgment, the dependent variable, as the appropriate decision-making approach for the resolution of accounting ethics dilemmas (AICPA; Epstein & Spalding; Fatt, 1995; Fisher & Sweeney, 1998; Frankel; Gaa, 1992; Geisler, 1990; Green & Weber, 1997; Hunter, 1991; Lampe & Finn, 1992; McCarthy, 1993; Riahi-Belkaoui, 1992; Schwartz & Davis, 1981). According to the literature, the moderating variable of ability, a characteristic that enhances public trust, determines the extent to which accounting students acquire knowledge of the AICPA Code of Professional Conduct so as to enable them to exercise professional judgment in the resolution of accounting ethics dilemmas (Adams et al., 1995; Bartels et al., 2000; Eckel & Johnson, 1983; Hicks & Richardson, 1984; Mayer et al.). The relationship of these three variables is illustrated in the Model of Professional Judgment (see Figure 3) and two hypotheses are drawn from that relationship. Chapter 3 presents the methodology relative to testing these hypotheses.

### Chapter 3: Method

The literature review validates the need for increased ethics instruction in accounting programs with particular emphasis on the provisions of the AICPA Code of Professional Conduct. The literature related to organizational culture and ethical decision making in the accounting profession has pointed to professional judgment rather than personal judgment as the appropriate decision-making approach relative to the resolution of accounting ethics dilemmas. In that regard, this dissertation sought to determine the difference in accounting students' decision-making approach (personal judgment or professional judgment) before and after they had attended a 4-hour ethics symposium concerning the AICPA Code of Professional Conduct. The following hypotheses are presented in the study to empirically test the relationship between accounting ethics instruction and student use of professional judgment.

#### *Hypotheses*

The two hypotheses to be tested in this dissertation are as follows:

- H<sub>01</sub>: There is no statistically significant difference in students' use of professional rather than personal judgment in resolving accounting ethics dilemmas before and after receiving ethics instruction concerning the AICPA Code of Professional Conduct during a 4-hour ethics symposium.
- H<sub>02</sub>: There is no statistically significant difference in students' use of professional rather than personal judgment in resolving accounting ethics dilemmas based on their level of ability.

### *Data Collection*

The first hypothesis required the collection of data concerning the impact of ethics instruction on students' use of professional judgment in resolving accounting ethics dilemmas. The second hypothesis required the collection of data concerning students' level of ability in relation to professional judgment.

*Ethics instruction.* The ethics instruction concerning the provisions of the AICPA Code of Professional Conduct was provided to junior and senior accounting students in the sample population who met together during a 4-hour ethics symposium presented by the author. The accounting students, as a course requirement, participated in the ethics symposium which was given over three consecutive class sessions. The ethics symposium provided in-depth coverage of both the principles and rules sections of the AICPA Code of Professional Conduct.

*Students' use of professional judgment.* The data needed to determine students' propensity to use professional judgment as a result of ethics instruction were gathered using a pretest/posttest format. The IEC was used for this purpose. The accounting students were administered the pretest/posttest by the author in their accounting classes immediately preceding and following the ethics symposium. Armstrong (1984), Beets (1992), Byrd (1979), Davis (1984), Loeb (1971), and McCarthy (1993) also used ethics cases involving accounting ethics dilemmas based on the AICPA Code of Professional Conduct as a means of determining CPAs' consensus to and/or knowledge of the AICPA Code of Professional Conduct.

Armstrong (1984), in her study involving accounting students and practicing CPAs, examined the relationship between moral reasoning ability and the manner in

which accounting ethics dilemmas are resolved. The accounting students participating in the study were enrolled in an advanced financial accounting course at University of Southern California while the practicing CPAs were randomly selected from a 1982 AICPA membership list. Of the 50 accounting students and 200 CPAs invited to participate, 14 students and 55 CPAs completed the questionnaires which consisted of the three-story version of the DIT and 10 accounting ethics dilemmas selected from a group of 13 that had been used by Loeb (1971). Three of Loeb's original 13 ethical dilemmas were omitted because they related to provisions of the AICPA Code of Professional Conduct that were no longer applicable. Armstrong divided the participants into three groups (CPAs with high levels of moral reasoning ability, CPAs with lower levels of moral reasoning ability, and students) The results of her study revealed that the CPAs with high levels of moral reasoning ability resolved accounting ethics dilemmas from the perspective of an internalized sense of responsibility or duty to others, while the other CPAs and accounting students tended to resolve the accounting ethics dilemmas externally by relying on the rules of the AICPA Code of Professional Conduct.

Beets (1992) conducted a study to determine whether the personal morals of CPAs were in agreement with the ethical norms of the profession as represented by the AICPA Code of Professional Conduct. The participants in the study consisted of professional accountants in individual practice offices of public accounting firms. Two offices were selected from national accounting firms and one office from a regional accounting firm. All accountants in each office participated in the study by completing a questionnaire that consisted of 15 accounting ethics dilemmas. Each dilemma described a hypothetical CPA performing an ethically questionable act. For each dilemma, the

questionnaire specified the applicable Code rule and whether the questionable act was a Code violation or nonviolation. The participants were asked to state whether they thought the hypothetical CPA's action was morally wrong. The results of the study indicated that the personal morals of a majority of the professional accountants surveyed (more than 80%) were in agreement with the AICPA Code of Professional Conduct.

Byrd (1979) evaluated practicing CPAs' understanding of and adherence to the AICPA Code of Professional Conduct. As part of her study, she mailed a questionnaire consisting of 20 accounting ethics dilemmas developed based on Volume 2 of the 1976 AICPA Professional Standards to a random sample of 400 Arkansas CPAs and received a 28.5% response rate (114 out of 400). The questionnaire was "designed to test if the CPAs knew the rules of the 1973 Code and if they interpreted these rules in the same manner as did the AICPA ethics division in its rulings" (p. 54). Byrd divided the respondents into two categories (pass/fail) based on whether they answered correctly on at least 75% of the accounting ethics dilemmas. The results of the study (59% pass rate) demonstrated the need for increased ethics instruction in accounting programs.

Davis (1984) conducted a study to determine practicing CPAs' extent of ethical knowledge and their consensus to the AICPA Code of Professional Conduct. His purpose for the study arose out of his concern that practicing CPAs might not be keeping abreast of changes in the ethics rules. As part of his study, Davis developed and mailed to practicing CPAs the IEC. Davis concluded that increased accounting ethics education was needed to assist CPAs in "understanding and accepting their ethical code" (p. 36).

Loeb (1971) used accounting ethics dilemmas to study the ethicality of CPA practitioners. He selected dilemmas from various sources including journals, textbooks,

and interviews and pretested them for content, clarity, and discriminating power (the difference between the percentage of respondents noted as unethical who reported taking the unethical action and the percentage who were noted as ethical but who also reported taking the unethical action) with practicing CPAs who he believed to be either ethical or unethical. Thirteen of the accounting ethics dilemmas were included in a questionnaire that was completed by 122 management level practicing CPAs selected from large, medium, and small CPA firms in Milwaukee, Wisconsin. The results of the study indicated that “violations of the professional code of ethics may exist in a stratified professional accounting community” (p. 301). Loeb indicated that the violations appeared to be related to firm size.

McCarthy (1993), as previously mentioned, conducted a study to determine the effect of exposure to the AICPA Code of Professional Conduct in an auditing class on students’ consensus with the Code in resolving accounting ethics dilemmas. Her study utilized the ethical dilemmas developed by Davis (1984) as contained in the IEC. Because McCarthy’s study related to accounting students rather than professional accountants, as was the case in the study by Davis, McCarthy modified the IEC for student use.

*IEC.* The IEC, developed by Davis (1984) and modified for student use by McCarthy (1993), was used in this dissertation to determine students’ propensity to use professional judgment. The IEC, as originally developed, consisted of 15 cases involving ethical dilemmas that were based on the AICPA Code of Professional Conduct. The cases are comprehensive with respect to Code provisions as they relate to the four major areas of ethical responsibility concerning CPAs: (a) independence, integrity, and objectivity;



(b) general standards accounting principles; (c) responsibility to clients; and (d) other responsibilities and practices. Each of the ethics cases selected by Davis for inclusion in the IEC were based on specific rules of conduct contained in the AICPA Code of Professional Conduct and were designed to assess CPAs' consensus to the Code. A major consideration for the inclusion of specific ethics cases in the IEC was that a published guideline, either in the form of an AICPA interpretation or ruling, already existed. The published guideline, as a criterion for selection, is significant because it stipulates the acceptable ethical behavior for the specific conditions in each accounting dilemma. Therefore, for each ethics case, there is a sanctioned conduct that could be interpreted as proper ethical behavior.

Davis (1984) was detailed and elaborate in developing and applying specific criteria relative to the selection of ethics cases for inclusion in the IEC. In addition, the cases are based on consensus to the AICPA Code of Professional Conduct rules and regulations. Therefore, according to the criteria set by Long, Convey, and Chwalek (1985) in their book on completing dissertations in the social sciences, Davis has established that the IEC has content validity: "...how well the material included in the instrument represents all possible material that could have been included" (p. 20). An exhaustive literature search was conducted to locate specific reliability and validity studies that could establish, without question, procedures to be used for the selection of ethics cases, but none were found. However, the reliability and validity of the selection of ethics cases and their use in the current study is supported by the preponderance of evidence from prior researchers mentioned in this study who have also selected and used ethics cases based on consensus to the AICPA Code of Professional Conduct.

McCarthy (1993) examined the original ethics cases included in the IEC for “timeliness and agreement with the current code” (p.54) and omitted 4 of the original 15 cases due to changes and/or deletions in the AICPA Code regulations. A similar examination of the remaining 11 cases in the IEC was conducted as part of this dissertation. The results of that examination revealed that 1 of the 11 cases was no longer applicable due to changes in the AICPA Code regulations. The deleted case was replaced by another case supported by the current Code that dealt with the same area of ethical responsibility.

The selection of this new case was based on the same criteria as used by Davis (1984) in the selection of his cases. This replacement was necessary to ensure that the IEC contained at least 2 ethics cases from each of the four areas of ethical responsibility. According to Backof and Martin (1991); who examined the historical development of codes of ethics in the legal, medical, and accounting professions; codes of ethics are not static but evolve over time as they “respond to forces that are exogenous and endogenous to the professions” (p. 99). The evolution of the AICPA Code of Professional Conduct, as a living document, necessitates the critical importance of revising instruments, such as the IEC, that test individuals’ consensus to the Code. The 11 cases contained in the current version of the IEC are included in Appendix A entitled Accounting Practices Questionnaire. Background information and references to the AICPA Code of Professional Conduct for the 11 cases are included in Appendix C entitled IEC Case Support.

*Students’ level of ability.* The data needed to determine students’ level of ability was gathered through the use of a demographic questionnaire administered by the author

to the accounting students in the sample population prior to the IEC pretest. The demographic questionnaire (see Personal Data Sheet in Appendix B) was developed by the author to gather information needed to test the dissertation's hypotheses and analyze its findings. The questionnaire contains information relative to group composition (accounting class enrollment, gender, and ethnicity) and student ability (accounting GPA).

The demographic questionnaire was field-tested to determine face validity by administering the instrument to a sample of students who completed a university capstone accounting course (Accounting Theory and Ethics) in the spring semester of 2003. This pretest was recommended by Mark (1996), in Chapter 12 of his book concerning research in the social sciences, as important in gathering feedback on the instrument to make sure that (a) questions are clear and not ambiguous, (b) questions are appropriate, (c) response options are appropriate, and (d) the order of questions is appropriate. The respondents answered all questions, and their comments indicated that the questionnaire's instructions and questions were clear and appropriate.

Based on Mark's (1996) recommendations, the questionnaire used fixed-alternative or closed-item questions because they are easy to code and tabulate. Mark stated that fixed-alternative questions are advantageous to the research effort in that "measurement is uniform across respondents and reliability is enhanced because each respondent's answers must fit into clearly defined categories" (p. 246). The response categories in the questionnaire will be assigned numerical values to facilitate their use in testing the study's hypotheses and for supplementary analysis purposes.

*Sample population and frame.* This dissertation sought to determine the impact that accounting ethics instruction concerning the provisions of the current Code had on accounting students' ability to exercise professional judgment. Therefore, the population that the findings are generalized to consists of junior and senior accounting majors in regionally accredited colleges and universities in the United States. The frame from which this dissertation drew a sample consisted of undergraduate accounting students at a major evangelical institution of higher learning who are enrolled in a junior or senior level accounting course (Intermediate Accounting II or Accounting Theory & Ethics, respectively). The frame was limited to one academic institution to eliminate potential biases that could result from differences in ethics instruction and student demography among academic institutions. The sample size was 32 students. Since the field study was conducted as a component part of the accounting courses in which the students in the sample were enrolled, the sample size was adequate for the stated purposes of this dissertation due to a high rate of student response.

*Analysis.* Gravetter and Wallnau (2000) presented statistical techniques for ordinal data. They advocated evaluating differences in the outcome of a repeated-measures experiment using the Wilcoxon T-test. The IEC pretest/posttest used for data collection in this dissertation to determine student use of professional judgment is a repeated-measures experiment. The Wilcoxon T-test was used in this dissertation to determine if a statistically significant difference exists in either or both of the two hypotheses being tested relative to changes in accounting students' use of professional judgment.

Davis (1984) and McCarthy (1993) used the IEC to measure respondents' propensity to use professional judgment based on their consensus to the AICPA Code of Professional Conduct. This dissertation also used the IEC to measure students' use of professional judgment in resolving accounting ethics dilemmas.

The IEC, as modified by McCarthy (1993) for student use, uses a Likert scale to measure student responses. The range of responses in the IEC (for those accounting ethics dilemmas where the CPA's intended action is unethical) is (a) very unethical (5), (b) unethical (4), (c) undecided (3), (d) ethical (2), and (e) very ethical (1). The range of responses in the IEC (for those accounting ethics dilemmas where the CPA's intended action is ethical) is (a) very unethical (1), (b) unethical (2), (c) undecided (3), (d) ethical (4), and (e) very ethical (5). This scale will not be disclosed to the accounting students in the sample frame. The IEC scores were utilized in the analysis of differences using the Wilcoxon T-test.

#### *Summary of Research Design*

The primary goal of this dissertation was to obtain reliable data regarding the impact that (a) ethics instruction, in the form of a 4-hour ethics symposium concerning the provisions of the AICPA Code of Professional Conduct, and (b) level of ability have on accounting students' use of professional judgment. The researcher collected data concerning professional judgment and level of ability using the IEC, which is both a valid and reliable instrument, and a demographic questionnaire that had been pretested for face validity. The ethics symposium and data collection instruments were administered to a carefully selected sample frame consisting of junior and senior accounting students. Finally, the data was examined by using demographic information, the IEC scores, and

the Wilcoxin T-test to determine if a statistically significant difference existed in students' use of professional judgment before and after exposure to ethics instruction concerning the AICPA Code of Professional Conduct.

## Chapter 4: Results

Chapter 4 presents the results of the field study used to gather data to test the two hypotheses referenced in this dissertation. The first part of the chapter presents general observations about the raw aggregate data relative to group composition (class enrollment, gender, and ethnicity) to enhance understanding of the sample frame and provides a detailed description of the procedures used in gathering and analyzing the data. The second part of the chapter presents the statistical treatment and analysis of the data pertaining to the dissertation's two hypotheses, which include student performance on the IEC pretest/posttest and level of ability (higher – accounting GPA > 3.4, lower – accounting GPA < 3.5).

### *Data Collection*

Prior to beginning the data collection phase, the Institutional Review Board at the University where the field study took place was contacted and approval was obtained to conduct the study. The students in the two accounting classes selected for the sample frame were given an introduction to the field study at their appointed class times. During those initial meetings, which lasted approximately 10 minutes, the students in the sample frame were informed of the purpose for the study, students' role in the study, time requirements of the study, and potential student benefits from participating in the study. The students were told that their participation was voluntary and that they could choose not to participate at any time during the study. The students were assured that their responses to the surveys were confidential and only group data would be used in analyzing and presenting the study's results. Randomly generated code numbers were assigned to participating students to assure confidentiality. Students in the sample frame

who agreed to participate in the study were asked to read and sign an informed consent agreement at the end of these meetings.

*Characteristics of students in the sample frame.* The sample frame consisted of students at a major evangelical university who were enrolled in either Intermediate Accounting II (a junior level accounting course) or Accounting Theory & Ethics (a senior level accounting course). Of the 34 students enrolled in the two accounting courses, 94.1% (32 out of 34) volunteered to participate in the study. The two students from the sample frame that did not participate in the study had other classes that conflicted with the scheduled time for the ethics symposium. Both junior and senior accounting majors were well represented in the sample frame based on class enrollment. Of the 32 student participants, 17 (53%) were enrolled in Intermediate Accounting II (a junior level accounting course) while 15 (47%) were enrolled in Accounting Theory & Ethics (a senior level accounting course). Relative to gender, of the 32 participants, 17 (53%) were female students and 15 (47%) were male students. An analysis of ethnic background revealed that 81% of the students were White, while 16% were Black, and 3% were Asian.

*Data collection procedures.* Participant requirements for the study consisted of a demographic survey, a pretest/posttest of the IEC, and a 4-hour ethics symposium presented during three consecutive sessions in which the two classes were combined. The IEC pretest and the demographic survey were administered to the two classes the first day of the field study and took approximately 25 minutes to complete. Each student was given an instruction sheet and a copy of the IEC pretest (see Appendix A). The instructions were explained to the students in each class, and they were requested to



record their randomly assigned code number in the top left hand corner of their IEC pretest. After emphasizing the importance of answering all questions, the students were directed to complete the IEC pretest. When the students finished the pretest, the tests were collected and checked to insure that all students had recorded their code number on it. The students were then given the demographic survey (see Appendix B) and requested to complete all questions. When the students finished the demographic survey, the surveys were collected and checked to insure that all students had recorded their code number. The students were thanked for their participation in completing the IEC pretest and the demographic survey and were given the dates, times, and location for the ethics symposium.

The two classes were combined for the next three class sessions to allow students to participate together in the ethics symposium. The ethics symposium represented the first in-depth exposure to the AICPA Code of Professional Conduct for both junior and senior accounting majors as the senior accounting majors at this university are exposed to the Code provisions in the capstone Accounting Theory & Ethics course rather than in the traditional Auditing course. The symposium began 5 days after the pretest and was conducted over three class sessions. An in-depth presentation concerning the principles sections of the AICPA Code of Professional conduct was provided during the first session. The principles sections included in the presentation were (a) Preamble, (b) Article I – Responsibilities, (c) Article II – The Public Interest, (d) Article III – Integrity, (e) Article IV – Objectivity and Independence, (f) Article V – Due Care, and (g) Article VI – Scope and Nature of Services. The remaining two sessions provided an in-depth presentation of the rules sections of the Code pertaining to the applicability of the rules

and to the four major areas of ethical responsibility for CPAs: (a) independence, integrity, and objectivity; (b) general standards accounting principles; (c) responsibility to clients; and (d) other responsibilities and practices. The second session conducted 2 days later provided in-depth coverage of the rules in (a) Code Section 91 –Applicability, and (b) Code Section 100 – Independence, Integrity, and Objectivity. The final session of the ethics symposium conducted 5 days later provided an in-depth coverage of the rules in (a) Code Section 200 – General Standards Accounting Principles, (b) Code Section 300 – Responsibilities to Clients, and (c) Code Section 500 – Other Professional Responsibilities and Practices.

Two days later, on the last day of the field study, participating students once again met in their individual classes and completed the IEC posttest; which took approximately 20 minutes to administer. The students were given the posttest and instructed to record their randomly assigned code number in the top left hand corner of the test and then answer all questions. After the students finished the posttest, the tests were collected and checked to insure that all students had recorded their code number on it. They were then thanked for their participation in the field study.

*Data coding and analysis procedures.* All 32 student-participants completed every requirement of the field study and thus 100% of their responses provided usable data for analysis. Participant responses from the demographic survey (Personal Data Sheet – Appendix B) and the IEC pretest/posttest (Accounting Practices Questionnaire – Appendix A) were coded (Personal Data Coding Sheet, IEC Coding Sheet – Appendix D) and the raw data entered into a statistical package (SPSS) for further analysis. The student responses (based on a five-point Likert scale) for the 11 accounting ethics

dilemmas contained in the IEC pretest/posttest were summed for each student-participant to obtain their IEC scores on the pretest/posttest. The assignment of codes, the computation of IEC scores, and the entry of responses in SPSS were checked and verified by an assistant to insure accuracy in the reported data.

### *Statistical Analysis*

Table 1, which provides the raw data needed to test the dissertation's two hypotheses, presents accounting GPA as well as pretest/posttest IEC scores for each student participant. Since accounting GPA provides the basis for determining the level of student ability needed to test  $H_{02}$ , the sample frame was subgrouped to show students with higher and lower levels of ability. The statistical analysis of accounting GPA for this dissertation distinguishes between students with higher levels of ability, characterized by accounting GPAs higher than 3.4, and students with lower levels of ability, characterized by accounting GPAs lower than 3.5. The dividing line of 3.5 between higher and lower levels of ability relates to the level of GPA typically expected of students by universities in order to be placed on the honor roll. An analysis of accounting GPA indicated 19 (59.4%) students with higher levels of ability and 13 (40.6 %) students with lower levels of ability in the sample frame.

The pretest/posttest scores represent the numerical value earned by students on the IEC and indicate the degree to which they use professional judgment rather than personal judgment in resolving accounting ethics dilemmas. Higher scores signifying consensus to the AICPA Code of Professional Conduct indicate a greater use of professional judgment. Possible scores on the IEC range from a high of 55 (consensus with the Code provisions on all 11 accounting ethics dilemmas) to a low of 11 (no

consensus with Code provisions on any accounting ethics dilemmas). The results of the IEC pretest/posttest revealed that the mean, mode, and median scores all increased when comparing the posttest scores with the pretest scores, indicating a positive impact on professional judgment due to the 4-hour ethics symposium. The pretest/posttest comparisons of the above statistical measures cited based on the total sample frame are mean (39.69), (41.69), mode (39), (40,43,47), and median (40), (42.5) respectively.

*Comparison of means and standard deviations by group.* An analysis was done on the raw data in Table 1 relating to pretest/posttest IEC scores for the total sample frame as well as for each of the two subgroups based on level of ability. Table 2 presents the pretest/posttest means and standard deviations for the sample frame and the two subgroups. The posttest mean scores increased over the pretest mean scores for the total sample frame, the higher level ability subgroup and the lower level ability subgroup, by 2.00, 2.36, and 1.46 respectively. The increases in mean scores at all three levels indicate a positive impact on professional judgment from student exposure to the ethics symposium. The substantially more significant increase for the higher level ability group in comparison to the lower level ability group demonstrates the importance of ability in student acquisition of knowledge relative to the AICPA Code of Professional Conduct.

Table 1

*Accounting GPA, IEC Pretest/Posttest Scores by Participant*

GPA Range & IEC Scores			
(n = 32)			
Participant	GPA	Pretest	Posttest
Higher Level Ability (n = 19)			
1	4.0	35.00	47.00
2	4.0	35.00	42.00
3	4.0	44.00	48.00
4	4.0	42.00	43.00
5	4.0	39.00	44.00
6	4.0	40.00	40.00
7	3.5 - 3.9	43.00	47.00
8	3.5 - 3.9	40.00	43.00
9	3.5 - 3.9	42.00	47.00
10	3.5 - 3.9	42.00	45.00
11	3.5 - 3.9	45.00	39.00
12	3.5 - 3.9	38.00	36.00
13	3.5 - 3.9	41.00	41.00
14	3.5 - 3.9	42.00	43.00
15	3.5 - 3.9	33.00	32.00
16	3.5 - 3.9	39.00	40.00
17	3.5 - 3.9	30.00	34.00
18	3.5 - 3.9	41.00	45.00
19	3.5 - 3.9	40.00	40.00
Lower Level Ability (n = 13)			
20	3.0 - 3.4	44.00	37.00
21	3.0 - 3.4	43.00	50.00
22	3.0 - 3.4	41.00	45.00
23	3.0 - 3.4	51.00	43.00
24	3.0 - 3.4	32.00	36.00
25	2.5 - 2.9	34.00	39.00
26	2.5 - 2.9	39.00	40.00
27	2.5 - 2.9	44.00	47.00
28	2.5 - 2.9	40.00	39.00
29	2.5 - 2.9	39.00	38.00
30	2.5 - 2.9	38.00	32.00
31	2.0 - 2.4	35.00	48.00
32	2.0 - 2.4	39.00	44.00

Table 2

*Comparison of Group Means and Standard Deviation*

Pretest/Posttest Means and Standard Deviations			
IEC	N	Mean	SD
Total Sample Frame			
Pretest	32	39.69	4.27
Posttest	32	41.69	4.73
Higher Level Ability			
Pretest	19	39.53	3.86
Posttest	19	41.89	4.46
Lower Level Ability			
Pretest	13	39.92	4.96
Posttest	13	41.38	5.27

*Comparison of means using T-tests.* The primary portion of the analysis included two-tailed t-tests that compared student use of professional judgment in resolving accounting ethics dilemmas before and after exposure to the AICPA Code of Professional Conduct during a 4-hour ethics symposium. The Wilcoxon T-test was used to analyze the raw data from Table 1 to determine if a statistically significant difference existed in either or both of the two hypotheses tested relative to changes in accounting students' use of professional judgment.

$H_{01}$ : There is no statistically significant difference in students' use of professional

rather than personal judgment in resolving accounting ethics dilemmas before and after receiving ethics instruction concerning the AICPA Code of Professional Conduct during a 4-hour ethics symposium.

H<sub>02</sub>: There is no statistically significant difference in students' use of professional rather than personal judgment in resolving accounting ethics dilemmas based on their level of ability.

Tables 3 and 4 present the statistical results of the Wilcoxon T-test relative to the ranking of pretest/posttest score differences, T-scores, z-scores, and level of significance for the total sample frame and both subgroups. An alpha level of .05 was used for all statistical tests.

H<sub>01</sub> was evaluated by analyzing the statistical data from Tables 3 and 4 concerning the Wilcoxon T-test relative to the total sample frame. Three students showed no change in their use of professional judgment and were discarded prior to analysis. The remaining 29 students were rank ordered by the magnitude of the change in their use of professional judgment as indicated by the difference in pretest/posttest scores from the IEC. The results showed a significant increase in the use of professional judgment following student exposure to the AICPA Code of Professional Conduct during the 4-hour ethics symposium ( $T = 117, p = .029$ ) with the ranks of increases totaling 318 and the ranks for decreases totaling 117. Therefore, the results of the T-test disproved H<sub>01</sub>. There was, in fact, a statistically significant difference at the .05 level in students' use of professional judgment rather than personal judgment in resolving accounting ethics dilemmas before and after receiving ethics instruction concerning the AICPA Code of Professional Conduct during a 4-hour ethics symposium.

$H_{02}$  was evaluated by analyzing the statistical data from Tables 3 and 4 by applying the Wilcoxon T-test to the two subgroups concerning students' level of ability. In the first subgroup (students with higher levels of ability – GPA > 3.4), 3 students showed no change in their use of professional judgment and were discarded prior to analysis. The remaining 16 students were rank ordered by the magnitude of the change in their use of professional judgment, as indicated by the difference in their IEC pretest/posttest scores. The results showed a significant increase in the use of professional judgment following student exposure to the AICPA Code of Professional Conduct during the 4-hour ethics symposium ( $T = 21.50$ ,  $p = .016$ ) with the ranks of increases totaling 114.50 and the ranks for decreases totaling 21.50.

In the second subgroup (students with lower levels of ability – GPA < 3.5), the 13 students were also rank ordered by the magnitude of the change in their use of professional judgment based on the difference in their IEC pretest/posttest scores. The results of the Wilcoxon T-test were used to evaluate the data for the lower level ability subgroup as well. While the results showed an overall increase in the use of professional judgment following student exposure to the AICPA Code of Professional Conduct during the 4-hour ethics symposium, the results were not statistically significant ( $T = 35.50$ ,  $p = .484$ ) with the ranks of increases totaling 55.50 and the ranks for decreases totaling 35.50.

A comparison of the results from the two subgroups (higher level ability, lower level ability) indicated that students with higher levels of ability demonstrated a significantly greater use of professional judgment than students with lower levels of ability (z-scores = -2.413, -.700, p values = .016, .484) respectively. Therefore, the results of the T-tests relative to the two subgroups (higher level of ability and lower level of



ability) disproved  $H_{02}$ . There was, in fact, a statistically significant difference at the .05 level in students' use of professional judgment rather than personal judgment in resolving accounting ethics dilemmas based on level of ability (higher level of ability –  $p = .016$ , lower level of ability –  $p = .484$ ).

Table 3

*Comparison of Signed Ranks (Posttest–Pretest)*

Wilcoxon T – Signed Ranks by Group					
Ranks	N	Mean Rank	Sum of Ranks	Wilcoxon T	Level of Sig. $\alpha$ .05 (Two Tailed)
Total Sample Frame					
Negative	8 <sup>a</sup>	14.63	117.00	117.00	126.00
Positive	21 <sup>b</sup>	15.14	318.00		
Ties	3 <sup>c</sup>				
Total	32				
Higher Level Ability Subgroup					
Negative	3 <sup>a</sup>	7.17	21.50	21.50	29.00
Positive	13 <sup>b</sup>	8.81	114.50		
Ties	3 <sup>c</sup>				
Total	19				
Lower Level Ability Subgroup					
Negative	5 <sup>a</sup>	7.10	35.50	35.50	17.00
Positive	8 <sup>b</sup>	6.94	55.50		
Ties	0 <sup>c</sup>				
Total	13				

a. IEC Posttest Score < IEC Pretest Score

b. IEC Posttest Score > IEC Pretest Score

c. IEC Posttest Score = IEC Pretest Score

Table 4

*Comparison of Wilcoxon T Statistics*

Wilcoxon T Statistics by Group		
Group	Z Score	P Value
Total Sample Frame	-2.180 <sup>a</sup>	.029
Higher Level Ability	-2.413 <sup>a</sup>	.016
Lower Level Ability	-.700 <sup>a</sup>	.484

a. Based on negative ranks

*Summary of statistical analysis.* In summary, the statistical data indicated that students' use of professional judgment significantly increased after being exposed to the AICPA Code of Professional Conduct during a 4-hour ethics symposium. In addition, students with higher levels of ability demonstrated significantly greater use of professional judgment in resolving accounting ethics dilemmas than students with lower levels of ability. Overall, the statistical analysis provided strong evidence that refuted both of the null hypotheses concerning students' use of professional judgment.

## Chapter 5: Discussion

The study demonstrates the positive impact that accounting ethics instruction concerning the provisions of the current AICPA Code of Professional Conduct has on the use of professional judgment by measuring the difference in accounting students' use of professional judgment before and after exposure to a 4-hour ethics symposium. It also provides insight concerning the importance of ability, one of the three important trust characteristics that enhance public trust, in student acquisition of knowledge relative to Code provisions by comparing higher level and lower level ability students' use of professional judgment. Finally, the study's research design, through its repeated measures experiment, provides a vehicle for accounting educators to incorporate course embedded assessment in their courses as a means to determine the effectiveness of educational interventions involving ethics instruction.

### *Impact of Accounting Ethics Instruction on Students' Use of Professional Judgment*

The results of the study have significant implications for accounting educators as they make an effort to increase students' use of professional judgment. The study revealed that educational interventions involving in-depth exposure to the provisions contained in the AICPA Code of Professional conduct significantly increase students' use of professional judgment in resolving accounting ethics dilemmas. The results support the profession's charge to accounting educators concerning the importance of increased ethics instruction in accounting curriculums. Based on the results of this study, accounting educators need to provide accounting students with more intense classroom exposure to the principles and rules sections of the Code as they prepare them to become the future leaders in the accounting profession.

This conclusion is supported by an earlier study (McCarthy, 1993) that found limited exposure to the AICPA Code of Professional Conduct in an auditing class not sufficient to improve student consensus to Code provisions. In-depth coverage of the Code as part of the traditional auditing class, or in a separate capstone course in theory and ethics, is warranted. In addition, it would seem beneficial to relate Code principles and rules to the resolution of accounting ethics cases presented in accounting courses throughout the accounting curriculum as a means of enhancing student use of professional judgment.

The careful observer will notice that while the overwhelming majority of students scored higher on the IEC posttest than the pretest, 25% of the students scored lower. Their poor performance on the posttest in comparison to the pretest may have resulted from environmental test factors, such as lack of nourishment due to skipping some meals, not getting enough sleep the night before, or various stress related factors. Also, because these students had no previous exposure to the AICPA Code of Professional Conduct prior to taking the pretest, they may have guessed on some of their responses rather than trying to apply acquired knowledge. These results are typical for repeated measures experiments.

#### *Impact of Ability on Students' Acquisition of Knowledge*

The study revealed a significant relationship between the trust characteristic of ability and student acquisition of knowledge relative to Code provisions. Students with higher levels of ability demonstrated a greater increase in the use of professional judgment than students with lower levels of ability after in-depth exposure to Code provisions in an educational intervention. The importance of ability relative to student

acquisition of knowledge is supported by other studies involving accounting students (Eckel & Johnson, 1983; Hicks & Richardson, 1984) that found student performance in accounting courses and programs varied based on students' level of ability.

The significance of student ability concerning acquisition of knowledge has important ramifications for the accounting profession as well as accounting educators. The profession and accounting educators need to recruit and retain students with higher levels of ability. This will aid the profession in meeting its educational objective of preparing accounting students to become future leaders who exemplify the highest standards of ethical and professional conduct. Ethical leaders are crucial to the profession's goal of enhancing and maintaining public trust in the services provided by CPAs.

#### *Model for Course Embedded Assessment in Accounting Courses*

Preparing accounting students to become the future leaders in the profession requires accounting educators to do more than just simply increase their emphasis on ethics instruction. The outcomes of educational interventions involving ethics instruction need to be assessed to determine their effectiveness. In that regard, the study's research design incorporated the IEC pretest/posttest as a means to evaluate student learning relative to the ethics symposium. It proved very effective in assessing the outcome of the ethics symposium concerning students' use of professional judgment and the impact of ability on their acquisition of knowledge.

By providing an excellent vehicle for developing course embedded assessments relative to assessing the effectiveness of ethics instruction in accounting courses, the research design enables accounting educators in effectively assessing accounting courses

in accounting programs for several reasons. Course embedded assessment allows an accounting educator to assess a single educational intervention within a course. The assessment results are used to improve teaching, improve student learning, and make the curriculum more relevant. Course embedded assessment is very valuable in measuring changes over time that result from educational interventions, such as the increase in students' use of professional judgment.

#### *Recommendations for Future Research*

There are several avenues for future research efforts relative to increasing the use of professional judgment in present and future accounting leaders and ultimately enhancing public trust in the accounting profession. They are (a) replicating the study's repeated measures experiment to other sample frames within the sample population, (b) extending the repeated measures experiment to other sample populations, (c) conducting a longitudinal study involving students' use of professional judgment, (d) preparing and conducting repeated measures experiments that evaluate the impact of the other important trust characteristics of benevolence and integrity on students' use of professional judgment, and (e) developing and testing a comprehensive model of professional judgment that incorporates all three of the important trust characteristics that enhance public trust.

Evaluating students' use of professional judgment and the impact of ability on their acquisition of knowledge relative to Code provisions in sample frames other than private evangelical institutions of higher learning will further support and validate the results of this study. Replicating the study with junior and senior accounting majors from other private as well as public colleges and universities in the United States should prove

valuable to accounting educators in preparing future accounting leaders and ultimately enhancing public trust in the accounting profession. In addition, a valuable contribution could also be made by replicating the study to other sample populations within the accounting profession such as CPAs in public and private practice.

The repeated measures experiment from the study offers a way to evaluate educational interventions throughout the accounting curriculum when combined with case studies and other types of interventions involving Code provisions introduced in various accounting courses. Future research in the form of a longitudinal study that tracks the results of particular students as they progress through their accounting major would provide additional valuable insight relative to improving teaching and increasing students' use of professional judgment.

Future research efforts also need to focus on the other two important trust characteristics (benevolence, and integrity) that enhance public trust. Each of these trust characteristics, similar to the trust characteristic of ability, influences accounting students' choice of decision-making method (professional judgment or personal judgment). Studies that incorporate benevolence or integrity as part of a repeated measures experiment concerning students' use of professional judgment have the potential to make valuable contributions in the area of preparing future accounting leaders.

Finally, all three trust characteristics are important to present and future accounting leaders as they resolve accounting ethics dilemmas in a way that enhances public trust in the accounting profession. Future research efforts are needed to expand the model of professional judgment developed in this dissertation, which only includes the

trust characteristic of ability, to also show the impact of the other two important trust characteristics (benevolence and integrity) on student use of professional judgment.



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## Appendix A

### *Instructions for Completing Questionnaire*

The following questionnaire contains cases that describe ethical scenarios that CPAs might encounter in public practice. The researcher would like you to give your honest opinion concerning the ethical behavior exhibited in the course of action followed by the CPA in each case. Ethical behavior describes the morality of human actions; that is, are they right (ethical) or wrong (unethical). In exercising professional judgment, CPAs exemplify standards of ethical behavior that are found in their Code of Professional Conduct, which serves as a guide and prescribes certain courses of action.

Please check the box in each case that best represents your honest opinion about the ethicality of each course of action followed by the CPA. Your choices are as follows: Very Unethical (A), Unethical (B), Undecided (C), Ethical (D), and Very Ethical (E). It is essential that you respond to all eleven ethical scenarios.

Also, please complete the Personal Data Sheet, which requests a few items of demographic information essential to this research. Your responses will be kept absolutely confidential.

Thank you for participating in this research project.

*Accounting Practices Questionnaire*

*Please check the box in each case that best represents your honest opinion about the ethicality of each course of action followed by the CPA. Your choices are as follows: Very Unethical (A), Unethical (B), Undecided (C), Ethical (D), and Very Ethical (E). It is essential that you respond to all eleven ethical scenarios.*

In all cases, assume the CPA follows the course of action described:

CASE NO. 1

A CPA has been engaged by a client to perform an audit in accordance with generally accepted auditing standards. The CPA has also been asked by the client to recruit and hire a chief accounting officer for a new branch location.

- A  Very Unethical
- B  Unethical
- C  Undecided
- D  Ethical
- E  Very Ethical

CASE NO. 2

A CPA has a client who owes the CPA's firm \$15,000 for accounting services performed approximately eighteen months ago. At the conclusion of the current audit, the CPA is considering issuing the client an unqualified opinion inasmuch as the CPA has conducted the audit in accordance with generally accepted auditing standards.

- A  Very Unethical
- B  Unethical
- C  Undecided
- D  Ethical
- E  Very Ethical

CASE NO. 3

A CPA is designing a block advertisement for the local newspaper to announce the creation of his new practice. In the advertisement he is considering identifying himself as a “specialist” in estate tax affairs and an “expert” in providing accounting services to small business.

- A  Very Unethical
- B  Unethical
- C  Undecided
- D  Ethical
- E  Very Ethical

CASE NO. 4

A CPA has been asked by a client to evaluate various commercial service bureaus and recommend a particular service bureau for processing the client’s accounting records. Several partners in the CPA’s firm have a material interest in one of the service bureaus under consideration.

- A  Very Unethical
- B  Unethical
- C  Undecided
- D  Ethical
- E  Very Ethical



CASE NO. 5

A CPA, a staff member, plans to submit her resume to another firm. In her resume, as an indication of her auditing experience, she is considering listing the names of several non-public companies for which she has performed audits.

- A  Very Unethical
- B  Unethical
- C  Undecided
- D  Ethical
- E  Very Ethical

CASE NO. 6

A CPA, a sole practitioner, has acquired a practice from a retiring CPA. The CPA plans to retain the professional staff which includes 5 CPAs. The CPA is considering identifying the new firm as “John Smith, CPA and Associates.”

- A  Very Unethical
- B  Unethical
- C  Undecided
- D  Ethical
- E  Very Ethical

CASE NO. 7

Hamilton Company underwent a major product recall. This recall was primarily responsible for the company showing a significant loss on its Income Statement for the current year. The company has had product recalls before, but management believes the cost of the recall should be treated as an extraordinary item because of its magnitude. The CPA in charge of the audit concurs with management's treatment concerning the product recall.

- A  Very Unethical
- B  Unethical
- C  Undecided
- D  Ethical
- E  Very Ethical

CASE NO. 8

A CPA has been selected as auditor for a federally subsidized housing complex. The engagement contract required that such audits be in compliance with government audit standards as well as generally accepted auditing standards. The CPA is unfamiliar with the particular government audit requirements but conducts an otherwise satisfactory audit, in accordance with generally accepted auditing standards, and is considering issuing an unqualified report.

- A  Very Unethical
- B  Unethical
- C  Undecided
- D  Ethical
- E  Very Ethical

CASE NO. 9

A CPA is considering organizing a corporation to provide billing services for local MDs. The corporation would be in a separate office. The CPA claims that this type of service does not constitute the practice of public accounting and therefore its operations are not bound by the Institute's professional ethics.

- A  Very Unethical
- B  Unethical
- C  Undecided
- D  Ethical
- E  Very Ethical

CASE NO. 10

Freon Company has decided to deviate from a generally accepted accounting principle (GAAP) in publishing their financial statements because Freon believes that the statements would be misleading, if they followed GAAP. The CPA concurs in this departure from GAAP. In his report, the CPA is considering disclosing the following information in a middle paragraph: the deviation and the approximate effects thereof. Based upon these disclosures, the CPA thinks that an unqualified opinion would be appropriate.

- A  Very Unethical
- B  Unethical
- C  Undecided
- D  Ethical
- E  Very Ethical

CASE NO. 11

A CPA's client, Galaxy, performs payroll service for approximately forty companies including twelve of the CPA's clients. The payroll services performed by Galaxy include all of the standard payroll operations along with payment, i.e. for each payroll period. Galaxy receives funds from each company to deposit in a special imprest bank account to cover the payroll checks issued to their employees. During the current audit of Galaxy, the CPA discovers that Galaxy's liabilities exceed its assets by approximately \$50,000. After discussing the problem with Galaxy, the CPA is considering notifying its clients, who use Galaxy's services, to stop sending funds to Galaxy lest the cash disappear or become frozen due to legal or financial complications.

- A  Very Unethical
- B  Unethical
- C  Undecided
- D  Ethical
- E  Very Ethical

## Appendix B

*Personal Data Sheet*

*Please answer all questions as accurately as possible. All responses will be kept confidential; only aggregate data on a group basis will be reported. Individuals will not be identified for any purpose. Thank you for taking your time to respond to these questions and participating in this research effort.*

DIRECTIONS: Please check only one box to signify your answer in each of the questions below. Thank you.

Q-1 Grade point average (GPA) for Accounting courses completed:

4.0

3.5 to 3.9

3.0 to 3.4

2.5 to 2.9

2.0 to 2.4

Q-2. Accounting course currently enrolled in

Intermediate Accounting II

Accounting Theory and Ethics

Q-3. Gender:

Female

Male

Q-4 Ethnic Background:

White

Black

Hispanic

Asian

Other

## Appendix C

*IEC Case Support*

## Case #1 (Unethical ) Executive recruiting and hiring decision

*Area of Ethical Responsibility* – Independence, integrity, and objectivity*Rules of Conduct* – Rule 101 – Independence*Ethics Ruling* – Rule 101-3 – Performance of other services

A CPA (auditor) is requested by an audit client to recruit and hire a chief accounting officer for a branch location. Independence is impaired under Rule 101-3 in situations where a CPA in the performance of other services for the client makes management decisions, such as exercising authority on behalf of the client. This would be the situation in this case where the CPA is making a management decision concerning the selection and hiring of personnel.

## Case #2 (Unethical) Fees in arrears

*Area of Ethical Responsibility* – Independence, integrity, and objectivity*Rules of Conduct* – Rule 101 – Independence*Ethics Ruling* – Rule 191.52.104 – Unpaid Fees

A CPA is performing an audit for a client that has unpaid fees related to services performed eighteen months ago. According to ethics rule 191.52.104 independence is impaired with respect to the current audit engagement if at the time of issuing the audit report, the client has billed or unbilled fees that remain unpaid relative to professional services provided by the CPA more than one year prior to the date of the report.

## Case #3 (Ethical) Block advertisement

*Area of Ethical Responsibility* – Other responsibilities and practices*Rules of Conduct* – Rule 502 – Advertising and other forms of solicitation*Ethics Ruling* – Rule 502.2 – False, misleading or deceptive acts in Advertising

The CPA in this case designs a block advertisement for placement in a local newspaper that describes the CPA as an expert and a specialist. The use of the descriptors expert and specialist would be permitted under Rule 502.2 in that in the specific case, they do not appear to be misleading or deceptive.

Case #4 (Unethical) Service bureaus

*Area of Ethical Responsibility* – Independence, integrity, and objectivity

*Rules of Conduct* – Rule 102 – Integrity and objectivity

*Ethics Ruling* – Rule 102-2– Conflict of interest

The CPA in this case is requested by a client to investigate various commercial service bureaus and recommend one for the purpose of processing the client's accounting data. Some of the partners in the CPA's firm have a material financial interest in one of the service bureaus under consideration. According to Rule 102-2, a conflict of interest that could impair the CPA's objectivity would exist if the CPA accepted the engagement under these circumstances. It would be unethical for the CPA to proceed under these circumstances unless the CPA felt in his/her professional judgment that objectivity would not be impaired. In that case, the CPA would need to disclose to the client the partners' relationship with the particular service bureau and obtain the client's consent to proceed with the engagement.

Case #5 (Ethical) Audit clients named in resume

*Area of Ethical Responsibility* – Responsibility to clients

*Rules of Conduct* – Rule 301 – Confidential client information

*Ethics Ruling* – Rule 391-7.14 – Revealing names of clients

The CPA in this case is a staff member who intends to include in her resume the names of companies she has audited. This case involves the issue of confidential client information. Ethics ruling 391.7.14 states that it is permissible for a member to disclose the name of a client without the client's specific consent unless the disclosure of the



client's name constitutes the release of confidential information. For example, if a member's practice is limited to bankruptcy matters, the disclosure of a client's name would suggest that the client may be experiencing financial difficulties, which could be confidential client information.

Case #6 (Unethical) Name of firm

*Area of Ethical Responsibility* – Other responsibilities and practices

*Rules of Conduct* – Rule 505.01 – Form of organization and name

The CPA in this case is a sole proprietor (practitioner) who acquired a practice and planned to identify the new firm as “John Smith, CPA and Associates.” The ethical rules that govern this situation are included in Rule 505 – Form of organization and name. Rule 505-01 specifically states that a member shall not practice public accounting under a firm name that is misleading. This would be unethical because it would imply that there is more than one partner when in fact the business form is a proprietorship.

Case #7 (Unethical) Departure from GAAP

*Area of Ethical Responsibility* – General standards and accounting principles

*Rules of Conduct* – Rule 203 – Accounting principles

*Ethics Ruling* – Rule 203-1.02 – Departures from established accounting Principles

This case involves the accounting treatment of a product recall by a company being audited by the CPA in question. Although the product recall does not meet the criteria of unusual and infrequent, the client intends to treat the recall as an extraordinary item because of its materiality. The CPA agrees with the treatment of the recall. This would constitute a departure from an established accounting principle under Rule 203.

Departures from established accounting principles are justifiable if it can be demonstrated that due to unusual circumstances the financial statements or data would otherwise have been misleading. However, ethics ruling 203-1.02 specifically states that an unusual

degree of materiality would not ordinarily be regarded as unusual in the context of rule 203.

Case #8 (Unethical) Government audit

*Area of Ethical Responsibility* – Other responsibilities and practices

*Rules of Conduct* – Rule 501 – Acts discreditable

*Ethics Ruling* – Rule 501-3.04 – Failure to follow standards and/or procedures or other requirements in governmental audits

The CPA in this case has been engaged to conduct an audit of a federally subsidized housing complex. The terms of the engagement require the CPA to conduct the audit in accordance with government auditing standards as well as generally accepted auditing standards. The CPA, who is unfamiliar with government auditing standards, accepts the engagement and issues an unqualified opinion after conducting the audit with generally accepted auditing standards only. Rule 501-3.04 states that when a CPA accepts an engagement in which he or she agrees to follow government audit standards, then the CPA is obligated to do so. Failure to follow government audit standards in this situation is considered an act discreditable to the profession in violation of rule 501.

Case #9 (Unethical) MD service bureau

*Area of Ethical Responsibility* – Other responsibilities and practices

*Rules of Conduct* – Rule 505 – Form of organization and name

*Ethics Ruling* – Rule 591-177.354 – Data processing: Billing services

This case involves a CPA who forms a corporation to provide billing services for a segment of the medical profession. The CPA believes that the operations of this new corporation are not subject to the provisions of the AICPA Code of Professional Conduct because it does not constitute the practice of public accounting. Ethics ruling 591-177.354 states that the operation of a service bureau to perform centralized billing services for the medical profession does in fact constitute service of a type performed by

public accountants and consequently the operation must be conducted in accordance with the Institute's rules of conduct.

Case #10 (Unethical) Departure from GAAP

*Area of Ethical Responsibility* – General standards and accounting principles

*Rules of Conduct* – Rule 203 – Accounting Principles

This case involves the appropriate procedures for reporting a departure from GAAP in the audit report. The CPA in this case decides to report a departure from GAAP because the client believes that compliance with GAAP would result in misleading financial statements. The audit report prepared by the CPA disclosed the departure from GAAP along with the appropriate effects thereof in a middle paragraph of the opinion. However, in order to comply with Rule 203-01, the CPA must also state the reason why compliance with the principle would result in a misleading statement.

Case #11 (Unethical) Payroll service company

*Area of Ethical Responsibility* – Responsibility to clients

*Rules of Conduct* – Rule 301 – Confidential client information

*Ethics Ruling* – None in code, but in law. A jury found an accounting firm guilty of negligence and breach of contract for violating an obligation of confidentiality implied in the AICPA CODE (reported in the October 27, 1981 edition of The Wall Street Journal).

The CPA in this case discovered that a client he or she was auditing was insolvent.

Because the CPA has other clients who routinely entrust this company with funds for the purpose of payroll disbursement, the CPA decided to inform the clients of the situation.

The CPA's actions in this situation would be a violation of Rule 301 in that he or she would be giving out confidential client information. The case at law referenced above encompassed similar circumstances. In that case, a CPA audited a company that performed all the payroll preparation services for a variety of firms including

disbursements of checks from funds received from those companies. During the course of the audit, the CPA discovered that the payroll services company was insolvent and on the brink of bankruptcy. The CPA informed other audit clients who were current using the services of this payroll services company and advised that they stop remitting funds to the company because the funds might disappear or become frozen due to the legal complications resulting from the company's financial problems. The payroll company subsequently entered into receivership. The jury in the case found the CPA firm guilty of negligence and breach of contract for violating an obligation of confidentiality implied in the AICPA code.

## Appendix D

*Coding Specifications***IEC  
Coding Sheet**

<b>Case #</b>	<b>Letter</b>	<b>Score</b>
1	A	5
	B	4
	C	3
	D	2
	E	1
2	A	5
	B	4
	C	3
	D	2
	E	1
3	A	1
	B	2
	C	3
	D	4
	E	5
4	A	5
	B	4
	C	3
	D	2
	E	1
5	A	1
	B	2
	C	3
	D	4
	E	5
6	A	5
	B	4
	C	3
	D	2
	E	1

**IEC  
Coding Sheet**

<b>Case #</b>	<b>Letter</b>	<b>Score</b>
7	A	5
	B	4
	C	3
	D	2
	E	1
8	A	5
	B	4
	C	3
	D	2
	E	1
9	A	5
	B	4
	C	3
	D	2
	E	1
10	A	5
	B	4
	C	3
	D	2
	E	1
11	A	5
	B	4
	C	3
	D	2
	E	1

**Personal Data  
Coding Sheet**

<b>Question #</b>	<b>Answer</b>	<b>Code</b>
<b>Q-1 Accounting GPA</b>	4.0	1
	3.5 to 3.9	2
	3.0 to 3.4	3
	2.5 to 2.9	4
	2.0 to 2.4	5
<b>Q-2 Course Enrollment</b>	Intermediate Accounting II	1
	Accounting Theory & Ethics	2
<b>Q-3 Gender</b>	Female	1
	Male	2
<b>Q-4 Ethnic Background</b>	White	1
	Black	2
	Hispanic	3
	Asian	4
	Other	5