

The Importance of Ethics in Business and Accounting

By Donald Sauder

Ethics and good character are a significant factor in lasting business success. They are even more important to an entrepreneur than an MBA. To quote Wade Myers, an entrepreneurial trainer, “earnings [from your business] have more to do with character than [preparatory] training.” Ethics matter. Integrity of character, integrity in business, and integrity in accounting and tax matters.

Ethics is the set of moral principles that govern a person’s behavior, such as what is right and what is wrong, the values a person lives by, and what their conscience tells them. Doing something ethical is doing something right or approved, while being unethical is doing something wrong or unacceptable. Ethics is about doing unto others as you would have them do to you.

Accounting Ethics

Accounting ethics are the study of moral values and judgments as they apply to accounting. Knowing the ethics of accounting is important. It helps us know the difference between right and wrong when we make decisions in accounting.

The work of bookkeepers and accountants requires understanding clearly what is right and wrong and applying a godly conscience when judgment calls must be made. Many people, ranging from management, shareholders, potential shareholders, bankers, and other users of the financial statements rely heavily on a company’s yearly financial statements. They depend on this information to make informed decisions about business operations and investment. If the numbers do not reflect reality, the

decisions based on those numbers are likely to be bad decisions. Accountability to those who rely on these numbers is a primary component of ethical accounting.

A commitment to ethical accounting helps us avoid carelessness and inaccuracy in an area most business owners don’t particularly enjoy. The function of accounting is to “account” for the money that flows through your business in everyday transactions. Those who work with and record the transactions must decide how they should be classified; for example, which expenses are related to sales, or advertising, or labor, and how they should be allocated. Sometimes what appears as an expense may more properly be an equity withdrawal. While most decisions are fairly straightforward, some are not so clear, and we must decide the most proper way to account for the transaction.

These less clear areas are opportunities for unethical businesspeople to misclassify to save taxes, pad profits, or misstate expenses, or achieve other purposes. Such misclassification can range from minor financial misstatement of personal expense accounts to fraudulent transactions that breach accounting ethics and even break the law. Sometimes misclassifications are unintentional and simply need to be corrected, perhaps even by reissuing financial statements. Sometimes “unintentional” errors result from sloppy bookkeeping or lack of attention to detail, where business owners take a “don’t look so you don’t know” or “it’s too hard to understand” approach. Sometimes misclassifications of personal expenses as business expenses intentionally push the boundaries

in areas of discretion for personal benefit, even if other people may be misled as a result. And sometimes, of course, misstatements are made intentionally to deceive.

In this entire range of circumstances, all wrongdoing can be avoided by a strong commitment to ethical accounting and Christian integrity. Much damage has been done to our Christian testimony through our business dealings because of a weak or nonexistent commitment to ethical accounting.

ETHICAL ACCOUNTING

- 1 | Provides accountability
- 2 | Ensures that taxes are paid accurately
- 3 | Enables dependable planning
- 4 | Avoids fraudulent transactions
- 5 | Avoids misappropriation of funds
- 6 | Avoids business scandals that tarnish our Christian testimony

Ethical accounting is an expression of our Christian faith. It is a personal expression of honesty in our business dealings. Christian businesspeople cannot hide behind a corporate veil or claim ignorance. Whether as sole proprietors, as owners of limited liability companies, or as corporations, how we account for our numbers is a direct expression of “providing things honest in the sight of all men.” Ultimately, it is a matter of integrity that arises from our commitment to Jesus Christ.

Business Ethics

From where you shop for staples to how you do your banking, you make ethical decisions that can help or hurt people. It is vitally important that your integrity is an ethical lighthouse for your business decisions every day. Integrity of character should be a top priority. Integrity is something almost everyone wants to have, but it’s not something that you can earn or buy. It is something that is nurtured, maintained, and protected.

If you are secretary of the United States Treasury, responsible for government bookkeeping and bill paying,

you want everyone working in the country to pay their fair share of tax liabilities. If you are buying a business, you want accurate financial statements from the seller—not just for one year, but each year.

If you are a shareholder in an IPO, you want timely and accurate financial statements, not creative accounting tactics.

Consider the entrepreneur who’s having a challenging year and needs to increase cash flow to pass loan covenants. He may be tempted to overstate inventory by \$50,000, \$500,000, or more. He knows that the accountant has only requested an inventory value report in prior years, and the corporation has no corporate audit. He plans to adjust inventory accurately next year when the economic forecast is set to improve.

Do you manage your accounting records creatively? I hope not. Is it unethical? Yes, without a doubt. Most business owners don’t think of themselves as unethical, they just want to reduce expenses, especially their taxes.

Between 2009 and 2012 Apple, which makes the popular iPhone, went to great lengths to avoid taxes on revenue of \$74 billion. At a 35% federal rate, that is \$25.9 billion additional cash reserves. But there is a price to pay—the legal and accounting fees for that tax savings. You can ethically minimize federal and state income taxes with credits and deductions in the tax code, but adherence to tax codes doesn’t guarantee ethical business decisions.

Ethical matters are not always black and white. Consider a business that has employees as partners at a tiny percentage so the employer can save on payroll taxes and workers’ comp. This can reduce direct expenses to employers significantly. Yet the unlimited liability exposure miniscule partners shoulder every workday, from possible project litigation to on-the-job injury, should make us ponder whether it is the employer’s profitability or the welfare of the employees that is more valuable. The ethical answer is easy to the observer, more difficult for those opposed to government subsidies, and most problematic to those who directly benefit. Ultimately, as an employer, you must personally decide on the ethics of employment compensation that you offer.

Integrity exemplified

One of most compelling chronicles of integrity nurtured, maintained, and protected is the Book of Job in the Bible. One of the wealthiest men in the East, living in the land of Uz, Job maintained his integrity during severe tribulations and chaotic circumstances. The story begins with Job as a very prosperous man, and concludes with him having twice what he began with. Integrity does not guarantee a problem-free life of ease, but it was truly worth the steadfast effort for Job, and it is worth the effort for you too.

Jesus, Noah, Joseph, and Daniel are other great examples of uncompromising lives of integrity in the Bible. Each honored God in difficult circumstances in spite of the personal cost of maintaining their integrity.

Conclusion

Ethics includes characteristics like empathy, understanding, consideration for others, and most importantly, complete integrity and moral values. Practice these characteristics if you want to succeed as an entrepreneur.

Conduct business with a superior reputation, and above all, nurture, appreciate, and highly esteem the value of uncompromising morals and integrity of character.

Ethical behavior in business decisions is easier envisioned than exemplified, and a harvest only arises from what is sown and cultivated.

If you plant quality in your business,
you will reap confidence;

If you plant honesty in your
business, you will reap trust;

If you plant humility in your
business, you will reap excellence;

If you plant perseverance in your
business, you will reap satisfaction;

If you plant integrity in your
business, you will reap a good name,
and a good name is priceless.

Donald Sauder is a CPA with Kevin J. McClarigan CPAs, in Paradise, PA. As a CPA and tax accountant, he specializes in entrepreneurial businesses with expertise in business taxation and financial statement attestation.