

# Teaching Ethics Under IFRS: Developing Ethical Reasoning Skills in Accounting Students



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## Introduction

In a 1993 study on the ethical reasoning skills of accountants, Ponemon and Gabhart found that “Canadian accountants appeared to be conventional rule-based moral reasoners with the majority focusing purely on compliance with accounting and auditing regulation” (Flanagan and Clarke 495). A separate study performed in 2009 by Abdolmohammadi, Fedorowicz and Davis further reinforced the conclusion that the dominant cognitive style of accountants tends toward rules-based compliance and lower ethical reasoning skills (Abdolmohammadi, Fedorowicz and Davis 194). Considering that Canada has recently adopted the International Financial Reporting Standards (IFRS) for accounting, these results are not encouraging.

Under IFRS, ethics are treated using a principles-based approach. This requires accountants to have a meaningful understanding of the ethical principles laid out in the CICA Handbook and possess an ability to apply those principles effectively using a personal decision-making process. This point was not lost on Ponemon and Gabhart, who went so far as to warn in their conclusion that, “one might argue that professionals with higher ethical reasoning scores may be needed for a principles-based system such as IFRS” (Abdolmohammadi, Fedorowicz and Davis 194-195).

As we move forward under IFRS, this matter will become ever more apparent. Accountants will increasingly be required to appreciate the critical role ethics serves in the accounting profession and work continually in improving their process for recognizing and thinking through ethical issues (Verschoor). As many accountants demonstrate an inherent weakness in the area of ethical reasoning, it is especially important that the accounting education system be better designed to assist students in developing these essential skills. This will require significant action from both the post-secondary institutions and the accounting bodies in order to improve teaching methods and increase the instructional time dedicated to ethics material.

## The objective: teach students to *think* about ethics

There has long been debate over whether teaching ethics in business programs is effective; or, for that matter, whether it should be taught in business programs at all (Dellaportas 391). That debate is not the focus of this essay. There are many fine papers that deal specifically with the topic of whether ethics can be taught (Dellaportas 391). While not reaching a true consensus, it seems that the question has largely been settled, and “the debates about teaching ethics have moved away from whether we should teach ethics to what the best methods and pedagogies for teaching ethics are” (McWilliams and Nahavandi 429). This shift is due in large part to the extensive “empirical research [which] suggests that a purposefully designed curricula or course intervention can have a positive effect on the development of principled moral judgment during a student’s university experience” (Dellaportas 400). Given this conclusion, I will take it as given that ethics can be taught, and focus instead on how best to teach ethics for our purposes.

The first step in designing any educational program should be to determine the outcome we are looking for. We must begin with the end in mind, and ask ourselves “what the students ought to be able to do better when they finish the course” (Felton and Sims 380). Better yet, we should look at the whole picture and ask ourselves what the students will do better after completion of the entire university accounting program. Upon graduation, in addition to having mastered the necessary technical skills, accounting students should possess a strong understanding of how intimately ethics relates to the profession. They must understand that the decisions accountants make can never be independent of ethical implications (Felton and Sims 381). Their actions will inevitably affect stakeholders, many of whom the accountants will never be aware of (Flanagan and Clarke 491), so they must be able to analyze situations and consider who the stakeholders may be and how they will be affected. Students must also learn to ask the necessary questions in order to gain an informed perspective of any ethical issues they are confronted with, and become comfortable in doing so. Finally, they must pull this all together to mold a fundamental framework for how they think about accounting. In short, they must *develop a process* for recognizing and thinking through ethical issues.

## **The current model does not suit our needs**

Given the critical role ethics serves in accounting, it seems reasonable to expect the accounting curricula would be designed to promote our teaching objectives. Yet, if we were to design an accounting curriculum from scratch with proper attention paid to ethics, it is highly unlikely that the program would resemble what is in place today. Presently, “in accounting, ethics is commonly taught in auditing courses, and is often code-bound and concerned with rule-conformance rather than the underlying ethical issues” (Dellaportas 392). This is insufficient. Under the old GAAP system, such a teaching method may have been appropriate; however, we have already noted that the memorization of codes and rules is not what is required under today’s IFRS. Accounting students must be able to recognize ethical issues when they arise. Further, they must be able to assess them on a case-by-case basis and apply an effective decision-making process, using the information available to them. Memorizing rules and codes does nothing to develop this process, and fails to provide students with the skills they will need in a real business environment (Flanagan and Clarke).

## **Challenges for teaching ethics**

The teaching of ethics within the business program is not a modest aspiration (Lampe 16). This is especially the case for instructors assigned the task of teaching ethics to accounting students, as they are faced with a number of innate challenges. Firstly, the principles of ethics are fundamentally different from the technical subjects that make up the bulk of accounting programs. The philosophical nature of ethics does not lend itself to the teaching methods accounting students and instructors are accustomed to, and is one reason why the teaching of ethics is so often neglected (Stephan 35). The difficulty is compounded by factors the students themselves bring to the equation. We have already noted studies citing that accounting students are predisposed to rules-based ways of thinking and demonstrate relatively weak moral-reasoning skills (Abdolmohammadi, Fedorowicz and Davis 194). This means educators are starting from a handicap when they attempt to teach ethics to such an audience. The average accounting student is simply not proficient at ethical reflection. This does not mean they are incapable of developing the necessary skills — it just means that extra effort is required to get them there (Abdolmohammadi, Fedorowicz and Davis 195). In addition to the fundamental difficulties, there is also the matter of budgetary limitations. Traditionally, university instructors are subject to significant

time constraints (Madison and Schmidt 107). Fitting the core syllabus into a fifteen-week semester is challenging enough, let alone attempting to wedge in “an apparent ‘softer’ topic” (Dellaportas 401). When classes fall behind schedule and deadlines look unlikely to be met, instructors must choose which material to cut while still meeting their responsibilities. In such scenarios, it is ethics which often gets the short end of the stick (Lund Dean and Mullins Beggs 18).

While these factors may explain why accounting instructors have a hard time addressing ethics in the curriculum, it does not excuse them from teaching it. The essential role of ethics in accounting cannot simply be neglected in exchange for giving more attention to technical subjects. As one scholar has stated, “educating technically proficient but shallow graduates does a disservice to society” (Low, Davey and Hooper 252). All one needs to do is consider the recent accounting scandals of the past decade to see why this is so<sup>1</sup>.

The teaching of ethics to accounting students may never operate under ideal conditions, but we must give it our best effort. The goals established above were for students to come to appreciate the important role ethics has in the accounting profession and to develop a process for recognizing and thinking through ethical issues. Depending on an individual student’s disposition, this could potentially be a very challenging objective. For this reason, it is important to emphasize that we are not seeking perfection. It is not essential that students’ ethical development reaches maturity before they enter the workplace. Nor, perhaps, is it even realistic. What is required, rather, is that the *laying of a foundation* for continued ethical growth has been firmly established. “Changing behavior, as a course outcome, is difficult, but setting the scene for change is a realistic and an achievable objective that should not be overlooked” (Dellaportas 402). This is a more sensible measure to set.

It has been argued that it is “unlikely for individuals to attain higher moral reasoning ability until their late 30s or beyond as a result of life experience” (Frank, Ofobike and Gradisher 138). Trying to rush students to reach a level of ethical maturity beyond their experience should not be our aim. Instead, “the proper role for accounting professors is to assist in the developmental process. The quandary accounting professors face is how to accomplish this objective given [the] stringent time constraints” to

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<sup>1</sup> Following the high-profile collapses and subsequent accounting scandals of the past decade, scholars have asserted a cause and effect relationship between the inadequacies of ethics education in business programs and the prevalence of unethical business practices exhibited in the marketplace. As Smyth and Davis state, “Certainly the widespread nature of the recently publicized scandals suggests that there has been a deterioration of ethical standards in the corporate workplace... (Smyth and Davis 64)”. Amernic and Craig offer an explanation, suggesting that “one of the causes of the seemingly never-ending parade of accounting scandals and unexpected company collapses has been the inadequacy of university curricula in accounting and business education” (Amernic and Craig).

which they are subjected (Frank, Ofobike and Gradisher 138). This may be the most important concept in ethics education, and it is this issue which we shall turn to next.

## **The nature of the material**

So far, we have determined our objectives for teaching ethics, and identified the obstacles we must overcome in pursuing them. We must now explore the nature of the ethics classroom experience and ensure that it is conducive to achieving these objectives.

If students are going to truly come to appreciate the important role ethics has in the accounting profession and to develop a process for recognizing and thinking through ethical issues, they will need to be engaged in the material, think about it deeply and apply themselves to it. This requires slowing down the classroom experience and encouraging discussion. As Professor Alfonso Oddo of Niagara University states, “The primary reason for discussing ethical issues in the business classroom is for the students to develop a process which considers the ethical implications for business decisions” (Oddo 296). This is precisely what we are looking to achieve.

The ideal method for fostering such a dialogue is an approach called reflective learning. Dr. Steven M. Mintz does an excellent job of describing the value of reflective learning in the following statement:

*“Reflective learning helps to transform existing ideas and understandings to come to a new understanding of a situation. As a tool for ethics education in accounting, reflective learning provides the link that may enhance ethical understanding and enable students to apply virtue and reflective thinking to a variety of situations discussed in accounting courses ... reflective learning slows down classroom activity giving [students] more time to process the material, linking it to prior ideas” (Mintz 97).*

The variety of activities that can be incorporated into reflective learning is limited only by one’s imagination. They can be either written or orally based, with a mixture of both mediums being ideal. Some stalwarts include reflection journals, case analyses, role playing, live cases, group interaction and class discussion (Mintz 97). Ultimately, the choice of activities will be up to the instructor, but students often demonstrate a strong preference towards some particular topical areas. A study performed by Low, Davey and Hooper found that students lacked enthusiasm for general ethics theory, and “wanted ethics education to help them deal with ‘real issues’ that would occur in the workplace” (Low, Davey and

Hooper 247). Similar sentiments were witnessed by Haywood and Wygal, who concluded that teachers “need to bring the subject to life in the classroom when students have yet ‘to live it’ in the workplace” (Haywood and Wygal 74). The key, here, is to remember that many students have little work experience to draw perspective from, so the more the instructor can do to aid students by providing examples of workplace scenarios, the more value the students can gain from the class (Felton and Sims 384). Instructors must be careful, however, not to lead discussion too strongly when providing input. The potential for indoctrination is always a concern, and finding the right balance between directing the students and allowing them to handle the reins is important. When engaging in class discussion, “the values of the educator should be expressed, but most importantly, must be subjected to analysis by the students” (Huss and Patterson 241). Further, “the teacher should be cautious about ending a class by giving his views on what is the ‘correct answer’ or most appropriate action. If a summary of the discussion is needed, it is desirable to call upon a student to make the summary rather than to have the final comments come from the teacher who often are viewed by students to be the source of ‘truth and wisdom’ or the ‘expert’” (Felton and Sims 385).

Remember the objectives we have set. Students are working to develop a process for recognizing and thinking through ethical issues. They need to learn how to apply their own reasoning, not be told the answers by their instructors. Providing students with stimulating material, an environment that encourages a dialogue, and plenty of time to think through the issues is an effective method to assist students in developing their moral reasoning skills.

## **The format of the courses**

We have just explored the nature of the material that will best assist students in developing their ethical reasoning processes. Now, we must decide upon the best format in which to deliver it. There are two distinct viewpoints on how best to structure ethics education within the accounting curriculum. The argument is largely polarized between offering a discrete ethics course and a strategy where the material is made pervasive throughout the entire program (Sims and Felton 298). Both options have their strengths and limitations.

A discrete ethics course refers to a free-standing one, devoted exclusively to the topic of ethics. One clear benefit of a discrete course on ethics is the guarantee that time will be dedicated to the material.

The scenario discussed in the section on reflective learning was an ideal depiction of how a discrete course would be delivered. An environment of discussion and analysis could easily be established, and students would have the opportunity to hone their ethical reasoning skills without being rushed through the material. An additional benefit to delivering ethics as a discrete course is that it could be taught outside of the business faculty by philosophy instructors who are more fluent in the subject. When we look at the challenge of balancing the instructor's contributions with those provided by the students, we can see how having instructors who are experienced in such a class environment would be valuable (Klein 567).

The value of a discrete course on ethics is readily apparent, and many studies exist in support of this fact (Dellaportas 391). Discrete ethics courses do not serve all functions, however. One concern is that when ethics is treated as a stand-alone topic, students do not necessarily translate the material across to their other courses (Low, Davey and Hooper 252). Further, there is the ever-present matter of time constraints, leading to the objection that "a discrete course on ethics imposes demands on additional resources" and therefore the addition of an ethics course means the sacrifice of technical subjects elsewhere (Dellaportas 401). For these reasons, many institutions have not adopted a discrete course (Frank, Ofobike and Gradisher).

The alternative method is to use a pervasive approach to teaching ethics. A pervasive approach simply means that ethics material is integrated into other studies throughout the program, rather than being handled in a separate course. There is scholarly support for this method as well; suggesting that students are better able to retain and apply the knowledge when they receive prolonged exposure to it in parallel to the technical course material (Oddo 294).

In 2003, PricewaterhouseCoopers commissioned a study that concluded "collegiate education had a very significant and lasting effect on the knowledge, skills and attitudes that individuals took to the marketplace". The study also "recommended that the values of quality, integrity, transparency and accountability should be integrated throughout the curriculum" (Low, Davey and Hooper 238). This is a very strong endorsement for the value of a pervasive approach to ethics, particularly since it comes from the end user — a firm that may ultimately employ the subjects of the study.

There are, however, weaknesses to the pervasive method as well. For one, it loses the values that were so attractive in the discrete option. Without giving students an introductory course committed to developing their ability to think about ethics, they are not well prepared to address the issues that arise

throughout the curriculum (Procario-Foley and McLaughlin 280). Further, when no single course is held accountable for teaching ethics, the subject can more easily become marginalized. As Diane Swanson of Kansas State University states:

*“Deans can claim that ethics is incorporated into curriculum overall; that is, professors from disciplines such as marketing, finance, operations management, accounting, and strategic management can claim to teach some ethics in their courses. In reality, however, many of these professors find it burdensome to try to integrate well-developed variants of ethics systematically across the curriculum, particularly given their understandable desire to teach, first and foremost, in their own areas of expertise” (Swanson 249).*

Clearly, neither the discrete nor the pervasive approach provides an ideal solution to our dilemma, but both are valuable channels in their own ways. The discrete method provides an open environment dedicated to the process of navigating ethical issues. The pervasive approach relates ethical issues throughout all areas of the program and demonstrates that ethics are intricately related. Having to select one teaching method and exclude the other will inevitably sacrifice valuable inputs.

This is where we must recognize the fault in the argument over which method to choose. The argument does not lie in which method has more merit. It is not an argument over what is effective and what is not. Here, both methods contribute and clearly have a place in the curriculum. What we have is just an argument over how to allocate a tight budget of available course hours. This is not what ethics should come down to. Ethics in accounting should be an educational priority, it “should not be viewed as an ‘add on’ to an already-crowded curriculum” (Oddo 294). When taken this way, it is clear that rather than choosing ‘one or the other’, the correct path is to choose ‘both and more’ (Williams and Elson 111). Steven Dellaportas summarizes the idea nicely, while introducing the notion of a capstone course in the final semester which brings together all the material and explores issues that were too complex for the primary ethics course from the program’s first year.

*“Ideally, ethics education should be taught as part of a broad based program that includes three elements: (1) an introduction to ethical thought early in the degree program<sup>2</sup>; (2) ethical discussion in existing accounting courses relevant to the topics at*

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<sup>2</sup> This refers to our discrete course, which should be offered in the first year to immediately introduce ethics issues to the students.

*hand<sup>3</sup>; and (3) a dedicated capstone course that ties together previous ethics material<sup>4</sup>... Each of the three prongs provides distinctive and important benefits that may not be fully achieved if implemented in isolation of each other” (Dellaportas 401).*

If ethics is as essential to accounting as we believe it to be, this three-pronged approach surely should be the way we go. Of course, the educational institutions will not undertake such a sizable change on their own initiative. It could hardly be justified, considering there is no incentive for them to do so. For such a change to occur, it would have to be instigated by the professional accounting bodies.

## **The role of the professional accounting bodies**

Throughout this report, we have looked at the inherent challenges of teaching ethics to accounting students. We have also explored the changes that must be made in order for educational institutions to teach ethics in a more effective way — one that meets the needs of the new IFRS environment. For these changes to occur, someone has to make the first move, and it is not the educational institutions. That ‘someone’ refers to the professional accounting bodies.

The justification for this statement is a simple matter of supply and demand. As Karl Stephan explains:

*“Every professional school is bound to observe the rules of its corresponding accreditation organization and the professional organizations behind them... The true decision-making power over what gets taught has been gradually ceded... to external agencies that enforce policies designed to further... the goals of the various professions which use the university’s ‘product’— students. This situation has profound implications for any attempt to implement across-the-board reforms of the system” (Stephan 37-38).*

The professional bodies demand a supply of educated students and the educational institutions provide what is asked of them. This is the most fundamental law of the marketplace. Change must come from the demand side of the equation. Until the accounting bodies demand change, none will occur. They must take action to preserve their own imperatives and raise the bar for what accounting students are required to learn. This means, demanding extensive ethics coverage as a component of entrance into

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<sup>3</sup> This refers to the pervasive approach.

<sup>4</sup> The capstone course should be offered in the final semester to bring together all the issues that have been discussed throughout the entire accounting program.

the profession. At present, none of the three Canadian professional accounting bodies<sup>5</sup> requires even a single ethics course from incoming university graduates. This is largely the topic for another essay, but it warrants stating that this is not an acceptable state of affairs. The accounting profession needs to take the lead and set its requirements for ethics education accordingly. Only then will the schools adjust their programs and begin producing graduates who have developed the skills to navigate the increasingly complex world of accounting ethics.

## **Conclusion**

As we move forward under IFRS, accountants will increasingly be required to understand and appreciate the critical role ethics serves in the accounting profession. They will also be required to work continually at improving their ability to recognize and think through ethical issues. As many accountants demonstrate an inherent weakness in the area of ethical reasoning, it is especially important that the accounting education system be better designed to assist students in developing these essential skills. This will require significant action from both the post-secondary institutions and the professional accounting bodies in order to improve teaching methods and increase the instructional time dedicated to ethics.

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<sup>5</sup>This refers to the Canadian Institute of Chartered Accountants, the Certified General Accountants Association of Canada, and the Society of Management Accountants of Canada.

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