1.5 Ethical Issues in Management Accounting

1.5.1 Meaning of Ethics

Ethics means doing what is **right, fair, and honest**, even when no one is watching.
In management accounting, ethics ensures that information is **true, unbiased, and confidential.**

💬 *Example:* If a manager pressures you to change cost figures to show higher profit, ethics means you say **no** and report only the truth.

✅ **Key Takeaways**

- Ethics = **moral principles** guiding professional behaviour.
- In accounting, ethics ensures **trust, transparency, and responsibility.**
- Unethical actions may lead to **legal problems and loss of reputation.**

1.5.2 Importance of Ethics in Management Accounting

Ethical behaviour is critical because management accountants handle **sensitive business information**.
Their reports influence decisions, investments, and people's jobs.

Reason	Why It Matters	Simple Example
Trust	Builds confidence between managers and accountants.	Management relies on reports to plan budgets.
Integrity	Prevents manipulation of results.	Accountant refuses to hide a loss.
Reputation	Protects company image.	Honest reporting increases investor trust.
Legal Compliance	Avoids fraud and penalties.	Accurate tax reporting saves legal trouble.

✅ **Key Takeaways**

- Ethics keeps management accounting **reliable and respected.**
- Without ethics, decisions are based on **false information.**
- Ethical accountants protect both **the company and the public.**

1.5.3 Fundamental Ethical Principles

According to professional codes (like CA Sri Lanka, CIMA, and IFAC), management accountants must follow five main principles:

Principle	Meaning	Example
Integrity	Be honest and fair in all reports.	Do not hide bad results to please management.
Objectivity	Do not let personal feelings or pressure affect decisions.	Do not change figures to earn a promotion.
Confidentiality	Keep company information private.	Don't share internal cost data with outsiders.
Professional Competence	Keep skills up to date and work carefully.	Attend training, follow correct methods.
Professional Behaviour	Follow laws and avoid actions that harm the profession.	Refuse to help in tax evasion.

✅ **Key Takeaways**

- Every management accountant must follow **five global ethical principles.**
- Ethics ensures that accounting remains a **trusted decision-making tool.**
- Breaking these principles can lead to **disciplinary or legal action.**

1.5.4 Common Ethical Issues Faced by Management Accountants

Ethical Issue	Description	Simple Example
Pressure to manipulate figures	Managers push for better-looking results.	Changing expense figures to show fake profit.
Conflict of interest	Personal interest clashes with company interest.	Approving a supplier who is a relative.
Disclosure of confidential information	Sharing internal data without permission.	Revealing product cost to a competitor.
Misuse of company assets	Using company funds or equipment for personal use.	Using company car for personal trips.

Insider information misuse	Using internal knowledge for personal gain.	Buying shares based on secret profit info.

✅ **Key Takeaways**

- Ethical issues arise when **personal gain or pressure** conflicts with professional duty.
- MA must remain **independent and truthful** even under pressure.
- Short-term dishonesty can cause **long-term damage** to reputation and trust.

1.5.5 Real-Life Example

Example 1 – Budget Manipulation:
A production manager asks the accountant to reduce recorded costs to meet the target profit.
👉 The accountant refuses and reports the actual figures.
✅ *Correct action:* Upholding **integrity** and **objectivity.**

Example 2 – Confidentiality Breach:
An accountant shares company pricing data with a friend working for a competitor.
👉 This is a serious **ethical violation** and may result in job loss or legal action.

✅ **Key Takeaways**

- Real-life ethical challenges often involve **pressure and temptation.**
- Saying "no" to unethical actions protects both **the person and the company.**
- **Integrity is more valuable than short-term rewards.**

1.5.6 Role of Management Accountant in Promoting Ethics

Role	Description	Example
Policy Advisor	Helps develop ethical codes and internal controls.	Drafts rules on data privacy and reporting.

Educator	Trains staff about ethics and accountability.	Conducts awareness sessions for employees.
Guardian of Integrity	Ensures reports are honest and accurate.	Reviews data before presenting to board.
Whistleblower	Reports unethical behaviour when necessary.	Reports misuse of company funds to senior management.

✅ **Key Takeaways**

- MAs are **guardians of ethics** within organisations.
- They must encourage others to act with **honesty and fairness.**
- Ethical culture starts with **transparent leadership.**

1.5.7 Consequences of Unethical Behaviour

Consequence	Impact on Business
Loss of reputation	Customers and investors lose trust.
Legal penalties	Fines, imprisonment, or loss of licence.
Financial loss	Fraud and poor decisions reduce profit.
Low employee morale	Honest staff feel demotivated.
Loss of opportunities	Banks and partners avoid dishonest firms.

✅ **Key Takeaways**

- Ethics = long-term success.
- Unethical behaviour leads to **financial, legal, and image damage.**
- Once reputation is lost, it is **very hard to rebuild.**

1.5.8 Summary / Quick Revision

Topic	Key Point
Meaning	Ethics = doing what is right, fair, and honest.
Importance	Builds trust, ensures reliability, protects reputation.
Principles	Integrity, Objectivity, Confidentiality, Competence, Behaviour.
Common Issues	Manipulation, conflicts of interest, data misuse.
Consequences	Legal trouble, financial loss, damaged reputation.

✅ **Final Key Takeaways**

- Ethics is the **heart of Management Accounting.**
- Always act with **truth, fairness, and professionalism.**
- Ethical accountants build **trustworthy and sustainable organisations.**
- Remember:

"Being ethical may not make you rich overnight —
but being unethical can make you lose everything in one night."