

Chapter 01 - Ethical Reasoning Implications for Accounting

**Chapter 01**  
**Ethical Reasoning Implications for Accounting**

**Multiple Choice Questions**

1. Each of the following characteristics describes the importance of integrity in decision making except for:
  - A. Acting out of moral principle
  - B. Being loyal to one's superior
  - C. Having the courage to do the right thing
  - D. Not subordinating professional judgment to others
  
2. Each of the following describes the behavior of Cynthia Cooper in the WorldCom fraud except for:
  - A. Persistence
  - B. Competence
  - C. Integrity
  - D. Hesitance
  
3. The ancient Greeks thought of the virtues as characteristics of behavior that:
  - A. Could lead to a good life
  - B. Make up the "six pillars of character"
  - C. Support the rights theory
  - D. All of the above
  
4. Each of the following elements make up an integral part of what is meant by "ethics" except for:
  - A. Accepted standards of behavior
  - B. Knowing the difference between right and wrong
  - C. Always following the law
  - D. The moral point of view

5. Ethical relativism can best be described as a:

- A. Point of view that morality is relative to the norms of one's culture.
- B. Concept that holds that integrity should be maintained in the face of pressure by others.
- C. An ethical reasoning method that holds one should always act out of self-interest.
- D. An ethical reasoning method that holds one should always consider the effect of one's actions on others.

6. Each of the following is a pillar of character according to the Josephson Institute except for:

- A. Caring
- B. Citizenship
- C. Respect
- D. Judgmental

7. Each of the following is an element of honesty according to the Josephson Institute except for:

- A. Reliability
- B. Loyalty
- C. Fairness
- D. Integrity

8. An accountant who blows the whistle on financial wrongdoing by his/her employer by going outside the entity violates:

- A. The due care principle
- B. Confidentiality
- C. One's reliability obligation
- D. All of the above

9. When is it appropriate to contact the audit committee about a difference of opinion with the CFO over an accounting or financial reporting manner?

- A. If the CFO does not agree to correct the financial statements
- B. The CEO supports the CFO and does not agree to correct the financial statements
- C. The external auditors support the CEO and do not agree to correct the financial statements
- D. The audit committee should always be the first to be informed about such a difference of opinion

10. An internal accountant should always take the following step after exhausting all avenues of appeal within the organization when there is a difference of opinion with top management on an accounting or financial reporting matter:

- A. Inform the SEC
- B. Terminate employment with the entity
- C. Seek legal advice before taking any action
- D. All of the above

11. Respect is an important character of behavior because:

- A. It entails a loyalty obligation to one's superior
- B. It enables one to perform professional services competently
- C. It is critical to maintaining one's integrity
- D. It encompasses attributes of how we should treat others

12. Responsibility goes hand in hand with:

- A. Respect
- B. Loyalty
- C. Courage
- D. Accountability

13. "Treating others fairly" encompasses treating them:

- A. Equally, impartially, and responsibly
- B. Equally, responsibly, and openly
- C. Impartially, openly, and diligently
- D. Equally, impartially, and openly

14. Empathy entails all of the following characteristics of behavior except for:

- A. Being loyal to one's friends
- B. Being understanding of one's friends
- C. Being sensitive to the feelings of one's friends
- D. All of the above

15. If one's reputation is tainted it may create a:

- A. Conflict of interests
- B. Loss of independence
- C. Lack of trust
- D. All of the above

16. The Public Interest Principle in the AICPA Code of Professional Conduct recognizes:

- A. The importance of integrity in decision making
- B. The primacy of stakeholder groups
- C. The need to be independent of the client
- D. The importance of exercising objectivity in decision making

17. Objectivity requires that a CPA should:

- A. Maintain a mental attitude of impartiality
- B. Maintain a mental attitude of intellectual honesty
- C. Be free of conflicts of interest
- D. All of the above

18. The Independence Principle in the AICPA Code applies to:

- A. All accountants and auditors
- B. All CPAs regardless of professional services
- C. All CPAs who render attestation services
- D. All members of the audit committee

19. A CPA would violate the Due Care Principle if he/she:

- A. Undertook a professional engagement without having the requisite background, knowledge and experience.
- B. Discloses confidential information about a client.
- C. Violates the Public Interest Principle.
- D. Performs tax services for an audit client without audit committee approval.

20. Aristotle believed that \_\_\_\_\_ always preceded the choice of action.

- A. Empathy
- B. Due Care
- C. Deliberation
- D. Loyalty

21. The method of ethical reasoning that deals with making decisions after considering the interests of others is:

- A. Egoism
- B. Enlightened Egoism
- C. Utilitarianism
- D. Rights Theory

22. The method of ethical reasoning that evaluates actions in terms of harms and benefits is:

- A. Act Utilitarianism
- B. Rights Theory
- C. Justice
- D. Virtue

23. The method of ethical reasoning that requires selecting the correct moral rule that produces the greatest benefits over harms is:

- A. Act Utilitarianism
- B. Rule Utilitarianism
- C. Rights Theory
- D. Justice

24. The Rights Theory incorporates all of the following elements except for:

- A. Act based on the consequences of one's actions on others
- B. Treat people as an end and not merely as a means to an end
- C. Act in a way you would want others to act in similar situations
- D. All of the above

25. The ethical reasoning method that is based on treating equals, equally and unequals, unequally is:

- A. Enlightened egoism
- B. Act utilitarianism
- C. Justice
- D. Virtue

26. Teleology deals with

- A. Consequences of actions
- B. Fairness to others
- C. Respecting the rights of others
- D. Following prescribed virtue characteristics

27. Deontology deals with

- A. Emphasizes rights of others
- B. Consequences of actions
- C. Following prescribed virtue characteristics
- D. Following the law as an element of ethical behavior

28. The biggest problem in implementing an utilitarian approach to decision making is:

- A. The interests of others may be subservient to self-interests
- B. It fails to consider the interests of others
- C. It can be difficult to evaluate the consequences of actions
- D. It relies on moral absolutes

29. The biggest problem in implementing a rights approach to decision making is:

- A. The interests of others may be subservient to self-interests
- B. It is difficult to weigh harms and benefits
- C. It relies on moral absolutes
- D. It can be difficult to determine criteria to distinguish equals from unequal claims

30. The biggest problem in applying virtue theory to decision making is:

- A. It can be difficult to evaluate the effect of virtues on others in decision making
- B. It relies on moral absolutes in decision making
- C. It can be difficult to determine virtues to distinguish equals from unequal claims in decision making
- D. Conflicts between virtues may make decision making more difficult

31. The credibility standard in the Statement of Ethical Professional Practice of the IMA requires that an accounting professional should:

- A. Communicate information fairly and objectively
- B. Disclose all relevant information that might affect the intended user's understanding of the reports, analyses or recommendations
- C. Disclose delays or deficiencies in information, timeliness, processing or internal controls in conformance with organization policy and the law
- D. All of the above

32. Under the IMA's standards of ethical practice, an accounting professional can consider informing authorities or individuals not employed by the organization when an ethical dilemma occurs about an accounting or financial reporting matter if he/she:

- A. Believes there is a clear violation of the law.
- B. Contacts his/her immediate superior who says to forget about the matter.
- C. Informs the external auditors who tell him/her to inform the appropriate authorities.
- D. Believes there has been an ethical violation.

33. Eddie paid an \$8 restaurant check with a \$10 bill. The waitress gave him \$12 back. The most ethical action for Eddie is to:

- A. Keep the extra \$10
- B. Inform the waitress of her overpayment
- C. Inform the manager of the restaurant of the overpayment
- D. Leave a larger tip for the waitress

34. Sally is the only student from a foreign country in an Auditing class. On the day of the midterm exam, Sally asks the teacher whether she could use a dictionary to translate English words to her native tongue so she can better understand the questions. What do you think the instructor should do if she follows the ethical principle of justice?

- A. Allow Sally to use the dictionary since she is at a disadvantage
- B. Not allow Sally to use the dictionary because she should know enough English to get by
- C. Allow the other students to bring in some tool to give them an advantage
- D. None of the above

35. George is in the middle of a high stakes poker game when he notices what he thinks is cheating by another player. It appears to George that this player took a card from his lap and switched it with a card that he was dealt. If George is a utilitarian thinker, he should:

- A. Accuse the alleged cheater of cheating in front of all the other players
- B. Consider what might happen if he accuses the player of cheating and he is wrong
- C. Speak to the alleged cheater during a regularly scheduled break and tell him not to do it again
- D. Forget about the whole matter

36. Janice is a staff accountant in the accounting firm of Obama and Biden. She is assigned to the audit of HealthCare Associates. On the very first day Janice noticed that the accounting manager of the client took money out of the petty cash fund and put it in his pocket. The best action for Janice to take is:

- A. Ignore the situation because Janice doesn't know why the manager pocketed the money
- B. Inform her immediate supervisor of what she observed
- C. Tell another staff accountant who is a friend and ask for her advice
- D. Tell Obama or Biden



37. Kelly is the controller of a small company. One day the CFO comes in and tells her to lower the estimate of uncollectible accounts receivable. Kelly insists her numbers are correct as is. The CFO tells her it will mean her job at the company if she doesn't go along with the smaller estimate. The primary virtue that would enable Kelly to resist the pressure to manipulate the number is:

- A. Loyalty
- B. Integrity
- C. Caring
- D. Civic responsibility

38. Jason is the fastest worker on the audit of a company for the firm Zits LLP. Other Zits workers take twice as long to complete the equivalent amount of work as Jason. One day Jason is approached by the other workers and is asked to slow down "You are exceeding the time budget for the audit and making the rest of us look bad," said one staff member. The best thing for Jason to do is:

- A. Tell the other staff members that he will use the time he saves on his budget to help them to meet their budget by picking up their slack
- B. Approach his supervisor to discuss the matter
- C. Ignore what is being asked and go about his work as he has always done
- D. Tell the other staff members to mind their own business

39. Steve is deep in debt due to a gambling problem. He is the bookkeeper for a family-owned business, Cal Poly Greenery. The company has only three employees - Steve, the husband, and the wife. All three have been friends for many years. One day the loan shark who lent Steve \$20,000 comes knocking at his door asking for repayment of the loan. Steve convinces the loan shark to give him another day. The following day Steve writes a check on the company's books to himself for \$20,000. Since he reconciles the bank accounts and prepares the financial statements, Steve knows it's unlikely the owners will ever know about what he has done. From an ethical perspective, Steve has

- A. Violated the trust placed in him by the owners
- B. Risked his reputation if the owners find out
- C. Compromised his integrity
- D. All of the above

40. Ty is a rising star at Texas State Country & Western Stores. He is the controller of the company. His wife, Rosie, is the lead auditor of the CPA firm that examines Country & Western's financial statements and issues an audit opinion. Given the nature of the relationships, Rosie would violate what ethical standard if she is allowed to conduct the audit:

- A. Integrity
- B. Due care
- C. Independence
- D. Responsibility

41. The most important duty of public accounting is to the:

- A. Securities Exchange Commission
- B. Current stockholders
- C. Management
- D. Investing public

42. The best restatement of Kant's categorical imperative is:

- A. Do to others as you would have everyone do unto you.
- B. Consider others needs before you act.
- C. That those with a smaller stake should have a smaller say compared to those with a bigger stake.
- D. Don't be cruel until someone is cruel to you.

43. What is the number one virtue that people should want in a boss?

- A. Diligence
- B. Commitment
- C. Honesty
- D. Sense of humor

44. Adam Smith's philosophy was that the pursuit of one's own interest led by the invisible hand of a free marketplace leads to promoting the interests of society. Which of the following does not help the invisible hand mechanism work efficiently?

- A. Prohibitions against theft and fraud.
- B. Principles of honesty and integrity.
- C. Strong property rights.
- D. Rights of compensation.

45. Virtue ethics emphasize development of good habits of character. What should be the greatest reward of practicing good habits of character, according to MacIntyre?

- A. External rewards
- B. Money
- C. Internal rewards
- D. Authority of rules

46. Many critics say the biggest fault with utilitarianism is that it:

- A. Does not work in the real world
- B. Makes people appear helpless
- C. Makes everyone on equal footing
- D. It's impossible to foresee and measure all consequences

47. Michael Josephson, founder of the Josephson Institute of Ethics, is credited for:

- A. Book of virtues
- B. Care and response orientation
- C. Six Pillars of Character
- D. Rights theory

48. Kant's categorical imperative principle suggests that:

- A. Only equals should be treated equally
- B. Everyone should be treated as a free and equal person
- C. Everyone should be treated unequally
- D. Only the elite are treated equally

49. Utilitarian philosophers are divided into two types: act utilitarian and

- A. Rule utilitarian
- B. Individual utilitarian
- C. Ethical utilitarian
- D. Benefit utilitarian

50. Greatest good for the greatest number of people is the theory of \_\_\_\_\_.

- A. Rights
- B. Deontology
- C. Utilitarianism
- D. Justice

51. The motive of "duty" is most associated with \_\_\_\_\_.

- A. Rights
- B. Deontology
- C. Utilitarianism
- D. Justice

52. Virtue ethics is

- A. Doing what is right
- B. One's duty to act in a socially acceptable manner
- C. One's ability to meet or exceed their potential
- D. What one ought to do when presented with an ethical dilemma

53. The philosophical belief that you should judge the result, not the action (end justifies the means) is?

- A. Utilitarianism
- B. Deontology
- C. Justice
- D. Virtue ethics

54. When making a donation at the local Goodwill, Martha tells the clerk that her old computer is worth \$400 when she knows it is only worth \$100, just so she can deduct more on her taxes. Which theory best describes Martha's behavior?

- A. Utilitarianism
- B. Deontology
- C. Egoism
- D. Justice

55. Egoists maintain a general principle of the following sort:

- A. "One ought to always act in others' interest"
- B. "One ought always act in one's and others' interests"
- C. "One ought to always act in peer group's interest"
- D. "One ought to always act in one's own interest"

56. Which theory is based on doing what is right despite the consequences?

- A. Deontology
- B. Virtue ethics
- C. Teleology
- D. Egoism

57. When applying Utilitarianism to judge actions, what is the only thing that matters?

- A. Motives
- B. History
- C. Consequences
- D. Rights

58. An important modern contributor to the theory of justice is:

- A. Plato
- B. John Rawls
- C. Immanuel Kant
- D. Jeremy Bentham

59. Aristotle defined \_\_\_\_\_ as a trait of character manifested in habitual action.

- A. Virtue
- B. Ethics
- C. Morals
- D. None of these

60. According to this theory, each person is so constituted that they will look out only for their own interests.

- A. Ethical Egoism
- B. Altruism
- C. Psychological Egoism
- D. Utilitarianism

61. Choosing the action with the best overall consequences for everyone concerned is an example of:

- A. the principle of egoism
- B. the principle of ethics
- C. the principle of deontology
- D. the principle of utility

62. According to Kant, humans may be treated as:

- A. means to an end
- B. an end and never as a means only
- C. other mammals since we are all equal
- D. an end and never as a means, in some circumstances

63. The least immoral way to break promises:

- A. gives the best excuse
- B. denies there was a promise
- C. tells the least lies
- D. does the least harm

64. The ethical principle "Act only as you would want everyone to act in the same situation" is stated by:

- A. Kohlberg's justice orientation
- B. Kant's categorical imperative
- C. Gilligan's care and response orientation
- D. Plato's virtue manifest

65. Assume you are taking an exam and you see that your friend is cheating. Your professor does not notice it. What should you do if you are ethical person?

- A. You pretend not to know it.
- B. You tell your professor immediately.
- C. You also cheat the exam because your friend does.
- D. You talk to the friend and advise him or her to confess.

66. Your manager asks you to "cook the books" to make the company look better for a bank that your company is trying to get a loan through. The manager stresses that nothing and no one will be harmed because the company will come out on top, the shareholders will be happy, and the bank will get their money back with interest. Which theory is the manager employing?

- A. Egoism
- B. Utilitarianism
- C. Fairness
- D. Virtue

67. Which philosopher believed, "the ends do not justify the means?"

- A. Plato
- B. Immanuel Kant
- C. Socrates
- D. Stuart Mill

68. Thomas Jefferson's writings in the preamble of the Declarations of Independence is a perfect example of what theory?

- A. Rights Theory
- B. Virtue Theories
- C. Consequentialist Theories
- D. Applied Ethics

69. "Do that action which will bring about the greatest good for the greatest number of people," is the basic concept of which ethical theory?

- A. egoism
- B. deontology
- C. utilitarianism
- D. virtue ethics

70. A difficult choice between two moral principles that are in conflict with one another is known as a/an:

- A. ethical behavior
- B. gray area
- C. ethical dilemma
- D. pragmatism

71. The rights theory emphasizes:

- A. Equity, fairness, and impartiality as the three major components
- B. Looking beyond self-interest to consider impartially the interests of all persons affected by an action
- C. Virtues are the standards of excellence that characterize relationships
- D. Individuals are entitled to certain rights such as freedom of speech, conscience, consent, and due process

72. The relationship between legal and ethical is

- A. Legal requires more than ethical
- B. Ethical requires more than legal
- C. Legal and ethical are the same thing
- D. Ethical does more than required by the law



73. The Golden Rule requires we treat

- A. each situation and person differently
- B. others as we would like to be treated
- C. others in a way to advances ourselves
- D. equals unequally

74. Many critics say the biggest fault with deontological theories is

- A. no clear way to resolve conflicts between moral duties
- B. the separation of consequences from duties
- C. the requirement to respect people as human beings
- D. not being able to treat people as only a means

75. When an employee is given a job evaluation, he has a right to expect

- A. Fair, but honest evaluations
- B. Glowing reports
- C. 360 degree evaluations from everyone in the firm
- D. Evaluations of technical, not personal skills

76. In the Student's Dilemma case, the main ethical issue for Helen is whether:

- A. She should use the copy of the final exam given to her by her friend to maximize her grade in the course.
- B. She should give a copy of the final exam she found in the Accounting department to her friend.
- C. She should steal the final exam from the instructor's mailbox.
- D. She should tell the instructor that her friend stole the final exam.

77. In the Giles and Regas case, the primary ethical issue can be stated as:

- A. Whether a subordinate should blow the whistle on a superior who has violated ethical policy
- B. Whether two staff members of the same rank should be allowed to date
- C. Whether a superior should become involved in a dating relationship with a subordinate
- D. Whether a student should renege on the acceptance of an offer from one firm after receiving an offer from a second firm

78. In the Jason Tybell case, the moral of the story can best be expressed as:

- A. Don't accept an offer and then renege on it to accept a more preferable offer
- B. Be diplomatic and courteous toward client personnel
- C. Don't date a subordinate whose performance you evaluate
- D. Be careful in carrying out professional responsibilities on the job

79. In the Lone Star School District case, the auditors were mostly concerned about:

- A. The behavior of a staff member toward client personnel
- B. The falsification of the financial statements
- C. The lack of independence of the audit team
- D. The lack of documentation for travel and entertainment expenses

80. The main issue in the Reneging on a Promise case is:

- A. Should the student who accepted an offer from one CPA firm back off from that promise in order to accept the offer of another firm deemed more preferable to the student.
- B. Should Regas back off from the dating relationship she developed with Giles
- C. Should the CPA firm renege on its offer of employment to a student after realizing it made one offer too many to student candidates for staff positions
- D. Should Tybell quit the firm because of conflicts with his superiors

81. In the Serena Williams case the main ethical issue is whether

- A. Williams cheated in a tennis match
- B. Williams behaved badly on the tennis court
- C. Williams was treated unfairly by the line judge
- D. All of the above

82. Cheating on the GMAT test raises which of the following ethical issues?

- A. Is it fair to honest test takers to allow cheaters to have a competitive advantage
- B. Is it cheating when one student pays money to access a website that provides possible answers to the GMAT exam
- C. Is it right to prevent students who post answers to the GMAT right after taking the exam from taking the exam for a period of time
- D. All of the above

83. In the Faulty Budget case, the primary ethical issue can be stated as:

- A. Whether an accountant should admit to a mistake once he has discovered it
- B. Whether an accountant should cover-up a mistake that has occurred
- C. Whether an accountant should follow the advice of a friend in resolving an ethical dilemma
- D. Whether an accountant should inform the external auditors about a problem with the budget

84. In the Cleveland Custom Cabinets case, the owner of the company thought it was all right to manipulate the financial statement numbers primarily because

- A. He wanted to improve earnings to increase the share price of company stock.
- B. The treatment recommended by the owner for estimating overhead conformed to GAAP.
- C. He was the sole owner of the company and controlled the board of directors.
- D. All of the above.

85. The ethical issue in the Telecommunications case can best be described as:

- A. Is a payment to a foreign government official to grease the wheels for the delivery of imported goods a violation of the Foreign Corrupt Practices Act
- B. Is a bribe to a foreign government official to win a competitively bid contract a violation of the Foreign Corrupt Practices Act
- C. Is it a conflict of interests for employees to accept payments or other gifts when they are involved in the decision or execution of a contract for the party making the payment or gift
- D. Is it a conflict of interest for a member of management to make a decision on awarding a contract to one company when that person has a relative working for the company

#### **Essay Questions**

86. How would you evaluate whether laissez-faire capitalism is a moral economic system?

87. Why do ethicists consider integrity to be the foundation of ethical behavior?

88. Moral philosophy deals with questions such as "How should I live my life?" and "What sort of person should I strive to be?" How should a person evaluate these questions and come to a conclusion?

89. Describe a situation you have encountered in your personal life where you did not follow the law because you judged another alternative to be more ethical? If you can't think of a personal example, make one up but don't use the example in the text of driving on a two-lane divided roadway. Why did you decide to do that act?

90. Evaluate Tiger Woods' behavior towards his wife given his multiple affairs with other women from the perspective of the "Six Pillars of Character."

91. Why is it important to be a reliable person?

92. Explain the steps that should be taken by an internal accountant when there is a difference of opinion with one's supervisor on an accounting or financial reporting manner.

93. Explain what is meant by the phrase: "An error doesn't become a mistake until you refuse to correct it."

94. Distinguish between the bases for making ethical judgments under each of the ethical reasoning methods discussed in the chapter.

95. What is the role of a code of professional conduct and standards of ethical behavior for accountants and auditors?

96. The school board has received a bomb threat claiming that a bomb would be detonated at noon on Monday at the high school. The threat was received by the school board at 8 pm on Sunday night. The school met and tried to decide how to handle the threat, keeping in mind the obligations to students, parents, and the public. The school board came up with three alternative solutions.

- 1) Do nothing as a majority of the time bomb threats to schools are a hoax.
- 2) Call off school at the high school on Monday. Have an announcement made on the 10 pm Sunday news announcing that a water main is broken. (Some members of the board feel that such an announcement of the breaking water main will prevent copycat threats.)
- 3) Call off school at the high school on Monday. Have an announcement made on the 10 pm Sunday news announcing that a bomb threat had been received.

Discuss which ethical theory supports each alternative. Which would you choose and why?

97. Susie, a newly graduated BBA in accounting, has started job with the state budgeting office. Susie has been placed over expense accounts. The state has a travel policy stating that a state employee may be reimbursed up to \$90 per night for a hotel room and up to \$40 per day for meals, as long as the employee turns in food receipts. On the first expense account Susie works on the employee has a hotel receipt for \$130 a night but no food expenses. Susie processes the reimbursement for \$90. The employee becomes irate as his reading of the travel policy is that he can be reimbursed for \$130 a night for hotel and food with a receipt. The employee claims this has never been a problem in the past and has always been reimbursed \$130 a night whether for hotel only or both hotel and food.

Discuss which ethical theory supports Susie and the employee's take on the travel policy. Which would you choose and why?

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**A.** Could lead to a good life  
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- B. Equally, responsibly, and openly
- C. Impartially, openly, and diligently
- D.** Equally, impartially, and openly

14. Empathy entails all of the following characteristics of behavior except for:

- A. Being loyal to one's friends
- B. Being understanding of one's friends
- C. Being sensitive to the feelings of one's friends
- D. All of the above

15. If one's reputation is tainted it may create a:

- A. Conflict of interests
- B. Loss of independence
- C. Lack of trust
- D. All of the above

16. The Public Interest Principle in the AICPA Code of Professional Conduct recognizes:

- A. The importance of integrity in decision making
- B. The primacy of stakeholder groups
- C. The need to be independent of the client
- D. The importance of exercising objectivity in decision making

17. Objectivity requires that a CPA should:

- A. Maintain a mental attitude of impartiality
- B. Maintain a mental attitude of intellectual honesty
- C. Be free of conflicts of interest
- D. All of the above

18. The Independence Principle in the AICPA Code applies to:

- A. All accountants and auditors
- B. All CPAs regardless of professional services
- C. All CPAs who render attestation services
- D. All members of the audit committee

19. A CPA would violate the Due Care Principle if he/she:

- A.** Undertook a professional engagement without having the requisite background, knowledge and experience.
- B. Discloses confidential information about a client.
- C. Violates the Public Interest Principle.
- D. Performs tax services for an audit client without audit committee approval.

20. Aristotle believed that \_\_\_\_\_ always preceded the choice of action.

- A. Empathy
- B. Due Care
- C.** Deliberation
- D. Loyalty

21. The method of ethical reasoning that deals with making decisions after considering the interests of others is:

- A. Egoism
- B.** Enlightened Egoism
- C. Utilitarianism
- D. Rights Theory

22. The method of ethical reasoning that evaluates actions in terms of harms and benefits is:

- A.** Act Utilitarianism
- B. Rights Theory
- C. Justice
- D. Virtue

23. The method of ethical reasoning that requires selecting the correct moral rule that produces the greatest benefits over harms is:

- A. Act Utilitarianism
- B.** Rule Utilitarianism
- C. Rights Theory
- D. Justice

24. The Rights Theory incorporates all of the following elements except for:

- A. Act based on the consequences of one's actions on others
- B. Treat people as an end and not merely as a means to an end
- C. Act in a way you would want others to act in similar situations
- D. All of the above

25. The ethical reasoning method that is based on treating equals, equally and unequals, unequally is:

- A. Enlightened egoism
- B. Act utilitarianism
- C. Justice
- D. Virtue

26. Teleology deals with

- A. Consequences of actions
- B. Fairness to others
- C. Respecting the rights of others
- D. Following prescribed virtue characteristics

27. Deontology deals with

- A. Emphasizes rights of others
- B. Consequences of actions
- C. Following prescribed virtue characteristics
- D. Following the law as an element of ethical behavior

28. The biggest problem in implementing an utilitarian approach to decision making is:

- A. The interests of others may be subservient to self-interests
- B. It fails to consider the interests of others
- C. It can be difficult to evaluate the consequences of actions
- D. It relies on moral absolutes

29. The biggest problem in implementing a rights approach to decision making is:

- A. The interests of others may be subservient to self-interests
- B. It is difficult to weigh harms and benefits
- C. It relies on moral absolutes
- D. It can be difficult to determine criteria to distinguish equals from unequal claims

30. The biggest problem in applying virtue theory to decision making is:

- A. It can be difficult to evaluate the effect of virtues on others in decision making
- B. It relies on moral absolutes in decision making
- C. It can be difficult to determine virtues to distinguish equals from unequal claims in decision making
- D. Conflicts between virtues may make decision making more difficult

31. The credibility standard in the Statement of Ethical Professional Practice of the IMA requires that an accounting professional should:

- A. Communicate information fairly and objectively
- B. Disclose all relevant information that might affect the intended user's understanding of the reports, analyses or recommendations
- C. Disclose delays or deficiencies in information, timeliness, processing or internal controls in conformance with organization policy and the law
- D. All of the above

32. Under the IMA's standards of ethical practice, an accounting professional can consider informing authorities or individuals not employed by the organization when an ethical dilemma occurs about an accounting or financial reporting matter if he/she:

- A. Believes there is a clear violation of the law.
- B. Contacts his/her immediate superior who says to forget about the matter.
- C. Informs the external auditors who tell him/her to inform the appropriate authorities.
- D. Believes there has been an ethical violation.

33. Eddie paid an \$8 restaurant check with a \$10 bill. The waitress gave him \$12 back. The most ethical action for Eddie is to:

- A. Keep the extra \$10
- B. Inform the waitress of her overpayment**
- C. Inform the manager of the restaurant of the overpayment
- D. Leave a larger tip for the waitress

34. Sally is the only student from a foreign country in an Auditing class. On the day of the midterm exam, Sally asks the teacher whether she could use a dictionary to translate English words to her native tongue so she can better understand the questions. What do you think the instructor should do if she follows the ethical principle of justice?

- A. Allow Sally to use the dictionary since she is at a disadvantage**
- B. Not allow Sally to use the dictionary because she should know enough English to get by
- C. Allow the other students to bring in some tool to give them an advantage
- D. None of the above

35. George is in the middle of a high stakes poker game when he notices what he thinks is cheating by another player. It appears to George that this player took a card from his lap and switched it with a card that he was dealt. If George is a utilitarian thinker, he should:

- A. Accuse the alleged cheater of cheating in front of all the other players
- B. Consider what might happen if he accuses the player of cheating and he is wrong**
- C. Speak to the alleged cheater during a regularly scheduled break and tell him not to do it again
- D. Forget about the whole matter

36. Janice is a staff accountant in the accounting firm of Obama and Biden. She is assigned to the audit of HealthCare Associates. On the very first day Janice noticed that the accounting manager of the client took money out of the petty cash fund and put it in his pocket. The best action for Janice to take is:

- A. Ignore the situation because Janice doesn't know why the manager pocketed the money
- B. Inform her immediate supervisor of what she observed**
- C. Tell another staff accountant who is a friend and ask for her advice
- D. Tell Obama or Biden

37. Kelly is the controller of a small company. One day the CFO comes in and tells her to lower the estimate of uncollectible accounts receivable. Kelly insists her numbers are correct as is. The CFO tells her it will mean her job at the company if she doesn't go along with the smaller estimate. The primary virtue that would enable Kelly to resist the pressure to manipulate the number is:

- A. Loyalty
- B.** Integrity
- C. Caring
- D. Civic responsibility

38. Jason is the fastest worker on the audit of a company for the firm Zits LLP. Other Zits workers take twice as long to complete the equivalent amount of work as Jason. One day Jason is approached by the other workers and is asked to slow down "You are exceeding the time budget for the audit and making the rest of us look bad," said one staff member. The best thing for Jason to do is:

- A. Tell the other staff members that he will use the time he saves on his budget to help them to meet their budget by picking up their slack
- B. Approach his supervisor to discuss the matter
- C.** Ignore what is being asked and go about his work as he has always done
- D. Tell the other staff members to mind their own business

39. Steve is deep in debt due to a gambling problem. He is the bookkeeper for a family-owned business, Cal Poly Greenery. The company has only three employees - Steve, the husband, and the wife. All three have been friends for many years. One day the loan shark who lent Steve \$20,000 comes knocking at his door asking for repayment of the loan. Steve convinces the loan shark to give him another day. The following day Steve writes a check on the company's books to himself for \$20,000. Since he reconciles the bank accounts and prepares the financial statements, Steve knows it's unlikely the owners will ever know about what he has done. From an ethical perspective, Steve has

- A. Violated the trust placed in him by the owners
- B. Risked his reputation if the owners find out
- C. Compromised his integrity
- D.** All of the above



40. Ty is a rising star at Texas State Country & Western Stores. He is the controller of the company. His wife, Rosie, is the lead auditor of the CPA firm that examines Country & Western's financial statements and issues an audit opinion. Given the nature of the relationships, Rosie would violate what ethical standard if she is allowed to conduct the audit:

- A. Integrity
- B. Due care
- C. Independence
- D. Responsibility

41. The most important duty of public accounting is to the:

- A. Securities Exchange Commission
- B. Current stockholders
- C. Management
- D. Investing public

42. The best restatement of Kant's categorical imperative is:

- A. Do to others as you would have everyone do unto you.
- B. Consider others needs before you act.
- C. That those with a smaller stake should have a smaller say compared to those with a bigger stake.
- D. Don't be cruel until someone is cruel to you.

43. What is the number one virtue that people should want in a boss?

- A. Diligence
- B. Commitment
- C. Honesty
- D. Sense of humor

44. Adam Smith's philosophy was that the pursuit of one's own interest led by the invisible hand of a free marketplace leads to promoting the interests of society. Which of the following does not help the invisible hand mechanism work efficiently?

- A. Prohibitions against theft and fraud.
- B. Principles of honesty and integrity.
- C. Strong property rights.
- D.** Rights of compensation.

45. Virtue ethics emphasize development of good habits of character. What should be the greatest reward of practicing good habits of character, according to MacIntyre?

- A. External rewards
- B. Money
- C.** Internal rewards
- D. Authority of rules

46. Many critics say the biggest fault with utilitarianism is that it:

- A. Does not work in the real world
- B. Makes people appear helpless
- C. Makes everyone on equal footing
- D.** It's impossible to foresee and measure all consequences

47. Michael Josephson, founder of the Josephson Institute of Ethics, is credited for:

- A. Book of virtues
- B. Care and response orientation
- C.** Six Pillars of Character
- D. Rights theory

48. Kant's categorical imperative principle suggests that:

- A. Only equals should be treated equally
- B.** Everyone should be treated as a free and equal person
- C. Everyone should be treated unequally
- D. Only the elite are treated equally

49. Utilitarian philosophers are divided into two types: act utilitarian and

- A. Rule utilitarian
- B. Individual utilitarian
- C. Ethical utilitarian
- D. Benefit utilitarian

50. Greatest good for the greatest number of people is the theory of \_\_\_\_\_.

- A. Rights
- B. Deontology
- C. Utilitarianism
- D. Justice

51. The motive of "duty" is most associated with \_\_\_\_\_.

- A. Rights
- B. Deontology
- C. Utilitarianism
- D. Justice

52. Virtue ethics is

- A. Doing what is right
- B. One's duty to act in a socially acceptable manner
- C. One's ability to meet or exceed their potential
- D. What one ought to do when presented with an ethical dilemma

53. The philosophical belief that you should judge the result, not the action (end justifies the means) is?

- A. Utilitarianism
- B. Deontology
- C. Justice
- D. Virtue ethics

54. When making a donation at the local Goodwill, Martha tells the clerk that her old computer is worth \$400 when she knows it is only worth \$100, just so she can deduct more on her taxes. Which theory best describes Martha's behavior?

- A. Utilitarianism
- B. Deontology
- C.** Egoism
- D. Justice

55. Egoists maintain a general principle of the following sort:

- A. "One ought to always act in others' interest"
- B. "One ought always act in one's and others' interests"
- C. "One ought to always act in peer group's interest"
- D.** "One ought to always act in one's own interest"

56. Which theory is based on doing what is right despite the consequences?

- A. Deontology
- B.** Virtue ethics
- C. Teleology
- D. Egoism

57. When applying Utilitarianism to judge actions, what is the only thing that matters?

- A. Motives
- B. History
- C.** Consequences
- D. Rights

58. An important modern contributor to the theory of justice is:

- A. Plato
- B. John Rawls
- C. Immanuel Kant
- D.** Jeremy Bentham

59. Aristotle defined \_\_\_\_\_ as a trait of character manifested in habitual action.

- A.** Virtue
- B. Ethics
- C. Morals
- D. None of these

60. According to this theory, each person is so constituted that they will look out only for their own interests.

- A.** Ethical Egoism
- B. Altruism
- C. Psychological Egoism
- D. Utilitarianism

61. Choosing the action with the best overall consequences for everyone concerned is an example of:

- A. the principle of egoism
- B. the principle of ethics
- C. the principle of deontology
- D.** the principle of utility

62. According to Kant, humans may be treated as:

- A. means to an end
- B.** an end and never as a means only
- C. other mammals since we are all equal
- D. an end and never as a means, in some circumstances

63. The least immoral way to break promises:

- A. gives the best excuse
- B. denies there was a promise
- C. tells the least lies
- D.** does the least harm

64. The ethical principle "Act only as you would want everyone to act in the same situation" is stated by:

- A. Kohlberg's justice orientation
- B. Kant's categorical imperative**
- C. Gilligan's care and response orientation
- D. Plato's virtue manifest

65. Assume you are taking an exam and you see that your friend is cheating. Your professor does not notice it. What should you do if you are ethical person?

- A. You pretend not to know it.
- B. You tell your professor immediately.**
- C. You also cheat the exam because your friend does.
- D. You talk to the friend and advise him or her to confess.

66. Your manager asks you to "cook the books" to make the company look better for a bank that your company is trying to get a loan through. The manager stresses that nothing and no one will be harmed because the company will come out on top, the shareholders will be happy, and the bank will get their money back with interest. Which theory is the manager employing?

- A. Egoism
- B. Utilitarianism**
- C. Fairness
- D. Virtue

67. Which philosopher believed, "the ends do not justify the means?"

- A. Plato
- B. Immanuel Kant**
- C. Socrates
- D. Stuart Mill

68. Thomas Jefferson's writings in the preamble of the Declaration of Independence is a perfect example of what theory?

- A. Rights Theory
- B. Virtue Theories
- C. Consequentialist Theories
- D. Applied Ethics

69. "Do that action which will bring about the greatest good for the greatest number of people," is the basic concept of which ethical theory?

- A. egoism
- B. deontology
- C. utilitarianism
- D. virtue ethics

70. A difficult choice between two moral principles that are in conflict with one another is known as a/an:

- A. ethical behavior
- B. gray area
- C. ethical dilemma
- D. pragmatism

71. The rights theory emphasizes:

- A. Equity, fairness, and impartiality as the three major components
- B. Looking beyond self-interest to consider impartially the interests of all persons affected by an action
- C. Virtues are the standards of excellence that characterize relationships
- D. Individuals are entitled to certain rights such as freedom of speech, conscience, consent, and due process

72. The relationship between legal and ethical is

- A. Legal requires more than ethical
- B. Ethical requires more than legal
- C. Legal and ethical are the same thing
- D. Ethical does more than required by the law

73. The Golden Rule requires we treat

- A. each situation and person differently
- B.** others as we would like to be treated
- C. others in a way to advances ourselves
- D. equals unequally

74. Many critics say the biggest fault with deontological theories is

- A.** no clear way to resolve conflicts between moral duties
- B. the separation of consequences from duties
- C. the requirement to respect people as human beings
- D. not being able to treat people as only a means

75. When an employee is given a job evaluation, he has a right to expect

- A.** Fair, but honest evaluations
- B. Glowing reports
- C. 360 degree evaluations from everyone in the firm
- D. Evaluations of technical, not personal skills

76. In the Student's Dilemma case, the main ethical issue for Helen is whether:

- A.** She should use the copy of the final exam given to her by her friend to maximize her grade in the course.
- B. She should give a copy of the final exam she found in the Accounting department to her friend.
- C. She should steal the final exam from the instructor's mailbox.
- D. She should tell the instructor that her friend stole the final exam.

77. In the Giles and Regas case, the primary ethical issue can be stated as:

- A. Whether a subordinate should blow the whistle on a superior who has violated ethical policy
- B. Whether two staff members of the same rank should be allowed to date
- C.** Whether a superior should become involved in a dating relationship with a subordinate
- D. Whether a student should renege on the acceptance of an offer from one firm after receiving an offer from a second firm



78. In the Jason Tybell case, the moral of the story can best be expressed as:

- A. Don't accept an offer and then renege on it to accept a more preferable offer
- B.** Be diplomatic and courteous toward client personnel
- C. Don't date a subordinate whose performance you evaluate
- D. Be careful in carrying out professional responsibilities on the job

79. In the Lone Star School District case, the auditors were mostly concerned about:

- A. The behavior of a staff member toward client personnel
- B. The falsification of the financial statements
- C. The lack of independence of the audit team
- D.** The lack of documentation for travel and entertainment expenses

80. The main issue in the Reneging on a Promise case is:

- A.** Should the student who accepted an offer from one CPA firm back off from that promise in order to accept the offer of another firm deemed more preferable to the student.
- B. Should Regas back off from the dating relationship she developed with Giles
- C. Should the CPA firm renege on its offer of employment to a student after realizing it made one offer too many to student candidates for staff positions
- D. Should Tybell quit the firm because of conflicts with his superiors

81. In the Serena Williams case the main ethical issue is whether

- A.** Williams cheated in a tennis match
- B. Williams behaved badly on the tennis court
- C. Williams was treated unfairly by the line judge
- D. All of the above

82. Cheating on the GMAT test raises which of the following ethical issues?

- A. Is it fair to honest test takers to allow cheaters to have a competitive advantage
- B. Is it cheating when one student pays money to access a website that provides possible answers to the GMAT exam
- C. Is it right to prevent students who post answers to the GMAT right after taking the exam from taking the exam for a period of time
- D.** All of the above

83. In the Faulty Budget case, the primary ethical issue can be stated as:

- A. Whether an accountant should admit to a mistake once he has discovered it
- B. Whether an accountant should cover-up a mistake that has occurred
- C. Whether an accountant should follow the advice of a friend in resolving an ethical dilemma
- D. Whether an accountant should inform the external auditors about a problem with the budget

84. In the Cleveland Custom Cabinets case, the owner of the company thought it was all right to manipulate the financial statement numbers primarily because

- A. He wanted to improve earnings to increase the share price of company stock.
- B. The treatment recommended by the owner for estimating overhead conformed to GAAP.
- C. He was the sole owner of the company and controlled the board of directors.
- D. All of the above.

85. The ethical issue in the Telecommunications case can best be described as:

- A. Is a payment to a foreign government official to grease the wheels for the delivery of imported goods a violation of the Foreign Corrupt Practices Act
- B. Is a bribe to a foreign government official to win a competitively bid contract a violation of the Foreign Corrupt Practices Act
- C. Is it a conflict of interests for employees to accept payments or other gifts when they are involved in the decision or execution of a contract for the party making the payment or gift
- D. Is it a conflict of interest for a member of management to make a decision on awarding a contract to one company when that person has a relative working for the company

#### Essay Questions

86. How would you evaluate whether laissez-faire capitalism is a moral economic system?

Answer will vary

87. Why do ethicists consider integrity to be the foundation of ethical behavior?

Answer will vary

88. Moral philosophy deals with questions such as "How should I live my life?" and "What sort of person should I strive to be?" How should a person evaluate these questions and come to a conclusion?

Answer will vary

89. Describe a situation you have encountered in your personal life where you did not follow the law because you judged another alternative to be more ethical? If you can't think of a personal example, make one up but don't use the example in the text of driving on a two-lane divided roadway. Why did you decide to do that act?

Answer will vary

90. Evaluate Tiger Woods' behavior towards his wife given his multiple affairs with other women from the perspective of the "Six Pillars of Character."

Answer will vary

91. Why is it important to be a reliable person?

Answer will vary

92. Explain the steps that should be taken by an internal accountant when there is a difference of opinion with one's supervisor on an accounting or financial reporting manner.

Answer will vary

93. Explain what is meant by the phrase: "An error doesn't become a mistake until you refuse to correct it."

Answer will vary

94. Distinguish between the bases for making ethical judgments under each of the ethical reasoning methods discussed in the chapter.

Answer will vary

95. What is the role of a code of professional conduct and standards of ethical behavior for accountants and auditors?

Answer will vary

96. The school board has received a bomb threat claiming that a bomb would be detonated at noon on Monday at the high school. The threat was received by the school board at 8 pm on Sunday night. The school met and tried to decide how to handle the threat, keeping in mind the obligations to students, parents, and the public. The school board came up with three alternative solutions.

- 1) Do nothing as a majority of the time bomb threats to schools are a hoax.
- 2) Call off school at the high school on Monday. Have an announcement made on the 10 pm Sunday news announcing that a water main is broken. (Some members of the board feel that such an announcement of the breaking water main will prevent copycat threats.)
- 3) Call off school at the high school on Monday. Have an announcement made on the 10 pm Sunday news announcing that a bomb threat had been received.

Discuss which ethical theory supports each alternative. Which would you choose and why?

The essay was written to have no right answer: but rather for the student to display understanding of theories and critical thinking skills.

- 1) This may not require a theory. It is business as usual. Students may discuss the rights of students and parents for safety.
- 2) This is protecting the public and students' interest but is telling a lie to achieve this end. Thus students should mention Kant on the duty to not tell a lie and Utilitarianism on the least harm to all. Rights might also be mentioned as to whether the public, parents, and students have a right to know the truth.
- 3) This is protecting the public and students' interest and is telling the truth. Thus students should mention Kant on the duty to not tell a lie, utilitarianism on the least harm to all, and rights of the public, parents, and students have a right to know the truth. One consequence that students might consider is whether the public, parent, and students are better served when all know the truth (what if there are copycat threats).

Chapter 01 - Ethical Reasoning Implications for Accounting

97. Susie, a newly graduated BBA in accounting, has started job with the state budgeting office. Susie has been placed over expense accounts. The state has a travel policy stating that a state employee may be reimbursed up to \$90 per night for a hotel room and up to \$40 per day for meals, as long as the employee turns in food receipts. On the first expense account Susie works on the employee has a hotel receipt for \$130 a night but no food expenses. Susie processes the reimbursement for \$90. The employee becomes irate as his reading of the travel policy is that he can be reimbursed for \$130 a night for hotel and food with a receipt. The employee claims this has never been a problem in the past and has always been reimbursed \$130 a night whether for hotel only or both hotel and food.

Discuss which ethical theory supports Susie and the employee's take on the travel policy. Which would you choose and why?

This is written to have no right answer, but rather to have the student display his grasp of the theory and critical thinking skills. The employee is using egoism to try to justify his position. Susie is using Kant to justify following the rules of the state. Some students may mention that using utilitarianism the state and employees will all be better off if the rule is \$130 per night on travel. Could the student give any examples where that might cause problems?