Ethical and legal financial reporting

Business

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Ethical and Legal Obligations in Accounting Background Accounting is the " process of identifying, measuring, and communicating economic information about an organization for the purpose of making decisions and informed judgments. " (Marshall et al, 2003) The use of this information has widespread application to company managers, investors, creditors, employees and government agencies. For sound decisions to be made based on this information, the profession of accounting has created several agencies to establish, monitor and maintain ethical codes of standards.

Because of the widespread applicability of the information contained in the accounting process, honest reporting is critical. History has proven repeatedly that the temptation exists to manipulate figures for personal gains and corporate malfeasance.

This paper will identify agencies that regulate accounting practices and briefly discuss the basic concepts and principles of accounting. Regulatory Agencies The Public Company Accounting Oversight Board is a five-member, SEC-appointed board, created as a result of the Sarbanes Oxley Act.

This group serves as the audit process' regulatory agency. As stated on its website, its primary mission is to oversee the auditors of public companies in order to protect the interests of investors and further the public interest in preparation of informative, fair, and independent audit reports. (2009) Like the SEC, the PCAOB is further divided into sub divisions including enforcement and investigations, registration and inspections, international affairs, chief auditor, research and analysis, internal oversight and performance assurance, administration and communications.

The rules that these agencies have created and enforce govern the securities and accounting practices within the United States.

Their primary goals are to ensure the investors, employees, government and the public have access to free and fair information so that decisions can be made with confidence. In order to accomplish this, they must hold tight reigns on corporate American when concerning financial reporting. Accounting Concepts and Principles According to Marshall et al (2003), four documents exist to deliver the nformation required by accounting principles. They are: Balance sheet: a record of an entitie’s assets, liabilities and owners’ net worth at a given point in time. Income statement: a document that provides data highlighting the profit or loss of an entity for a period in time.

Statement of cash flows: shows the cash flows for an entity during a period of time Statement of changes in owners’ equity: shows a summary of the changes that occurred in the entity during a period of time that affects the components of the owners’ equity.

Accounting principles require that financial statements report: (Marshall et al, 2003) Financial position at the end of the period Earnings for the period Cash flows during the period Investments by and distributions to owners during the period The final component in accounting is the decision to use one accounting theory over another. This is the accrual versus cash accounting methods. Both have their benefits and drawbacks. The accrual based method of accounting recognizes transactions when they occur, regardless of if cash has changed hands.

This is a good method to use when wanting to have an overall picture of net worth. The cash based method of accounting recognizes transactions when money exchanges hands. This method provides the owner a better picture of the entities cash on hand. According to the GAAP, an entity should use one or the other methods of accounting and not vary between the two. Should that occur, the potential for manipulation of numbers exists and with that, legal, ethical, financial and social implications as well