Ethical dimensions of financial accounting assignment

Business

Among the various stakeholders with varying interests are management and tax authorities. Management has a fiduciary duty to its shareholders in maximizing profits as they are the appointed “ steward” of the organization’s resources and affairs. Management use financial accounting to assist them in making business decisions. Tax authorities on the other hand use financial reports prepared by the management, as a basis for computing taxes due to the government to foster its initiatives.

If the management has a duty to maximize the profits to its shareholders, then it should be seen as unethical to consider the interests of anyone else. Chi] Paying higher taxes could be seen as something that is in breach of management’s duty to the shareholders if the organization could have the opportunity to pay lower or zero tax through effective tax management. Lower performance result means lower taxes payable to tax authorities and higher shareholder’s return.

While paying correct taxes will benefit the general public, the management has neither duty nor legal obligation to foster the interest of parties not privy to its affairs. In this pursuit, management is inclined to keep two sets of records, one that present accurate performance result and another record that support lower performance results. It should also be seen as unethical for the tax authorities to “ use” the financial reports prepared by management in fostering tax authorities’ interest (I . . To use as a basis for computing taxes). If parties external to the organization, such as tax authorities need to foster self-interest objective like tax collection, then it should have its own means to gather the necessary information. It could be seen that organizations are compelled by tax authorities to give evidence”

that will likely self-incriminate these organizations on a tax case or providing useful information which will ultimately be used against these organizations.

It is also seen as unethical to report information that are bias or that caters only to the specific needs of certain group of stakeholders (I. E. Stockholders) at the disadvantage of other stakeholders (I. E. Tax authorities), therefore supporting the conclusion that organizations should not keep two sets of records. However, the counter argument is that the basis Of accounting used for taxation and internal reporting are different, thus keeping two sets of cords is paramount.

The basis of accounting used by tax authorities are based primarily of the provisions on National Internal Revenue Code (NRC) while the basis of accounting used for internal reports in the Philippines is primarily based from Philippine Financial Reporting Standards (PARS) and there are a number of conflicting measurement basis between NRC and PARS that affect financial information. More importantly, it is unethical and legally unacceptable to maintain two sets of records if the primary objective is to deliberately evade taxes.

Evading axes has negative legal, moral and social implications and thus can be construed as unethical. While the management is the “ agent” of its shareholders, management is legally bound to report accurate financial information as the stakeholder of financial information also encompasses the general public (I. E. Customer, suppliers, communities, etc.). On the basis of the above mentioned ethical considerations, it is not us reprising why there are organizations that are pro and against preparing two sets of records as

there are strong arguments against and in support of using woo sets of records.

Different set of books are kept because there are different accounting bases. Moreover, different users have different and conflicting interests; therefore keeping two sets of records might be essential. In the contrary, financial information are suppose to be intended for use of the general users whether it is internal or external to the organization, therefore it should be reasonably fair and not biased.