ABSTRACT

The primary role of accounting information is to provide information for decision-making purposes. Both financial and managerial accounting rely on the same basic accounting database. However, there are important differences between the two disciplines. Neither financial nor managerial accounting is a subset of the other. They each have a distinct purpose and audience.

Financial accounting is defined as measuring and recording business transactions and providing financial statements that are based on generally accepted accounting principles (Matteson, 2004). Financial accounting is concerned with external reports to owners, creditors, and shareholders. One objective of financial accounting is to provide information that is useful in making investment and credit decisions; in assessing the amount, timing, and uncertainty of future cash flows; and in learning about the enterprise's economic resources, claims to resources, and changes in claims to resources. The object of financial accounting is to assist accountants in their stewardship function: the safeguarding of the organization's assets. The central outputs of financial accounting are auditing financial statements such as balance sheets and income statements.

By contrast, managerial accounting "measures and reports financial and non-financial information that helps managers make decisions to fulfill the goals of an organization (White, 2004). It focuses on internal reporting. The tools used by managerial accountants to achieve their goal of decision support are such things as budgets, activity-based costing (ABC) and financial planning (Engel, Gordon, and Hayes, 2002). Since these are internal reports, there is no requirement that management accounting reports conform to GAAP. Management accounting information is useful to the enterprise in achieving its goals, objectives, and mission; assessing past performance and future directions; and evaluating and rewarding decision-making performance. Some

of the important characteristics of management accounting information are its timeliness, its relationship to decision-making authority, its future orientation, its relationship to measuring efficiency and effectiveness, and the fact that it is a means to an end (Kellner, 2004).

Costing is another major area of difference between financial and managerial accounting. Accurate costing all the way down to the product, unit, service, or activity level is a prerequisite for effective decision-making and efficient resource allocation. But in aggregate financial reporting, only the totality of expenses is needed to calculate net income and so accuracy at the product or activity level is irrelevant.

The Certified Public Accountant (CPA) exam has a very limited emphasis on managerial accounting. According to the Web site of the American Institute of Certified Public Accountants, only about 10 percent of the CPA exam deals with managerial accounting (ADM Report, 2002).

Given this background, the purposes of the CFO Act encompass both financial and managerial accounting. At the same time, the Title III stipulations of the Act focus disproportionately on financial accounting statements (balance sheets, cash flows, reconciliations).

Some students tend to equate legal and ethical behavior. That is, if an action is legal, they consider it to be ethical. Ethical standards are necessary for the smooth functioning of an advanced market economy. One advantage of approaching ethical issues in the management accounting and financial management is that there is a code of ethics by a professional body (the Institute of Management Accountants) that can be used as a framework.

According to the IMA website, individuals in both management and financial management face constant ethical dilemmas (2005) Ethics deals with human conduct in relationship to moral rights and wrongs. Managers must predict the outcome of a situation or decision and take responsibility for the results. This is true in most areas of company management. IMA members have set criteria for analyzing and reporting any ethical issues and misconducts from managers, companies and employers. To help management in assessing these situations, the Institute of Management Accountants has developed the following five "*Standards of Ethical Conduct for Practitioners of Management Accounting and Financial Management*." (http://www.imanet.org, 2005)

COMPETENCE

- Maintain professional competency by ongoing development of knowledge and skills.
- Perform professional duties in accordance with laws, regulations, and standards.
- Prepare complete and clear reports and recommendations after analyses of information.

CONFIDENTIALITY

- Refrain from disclosing confidential information except when authorized, unless legally obligated to do so.
- Inform subordinates regarding the confidentiality of information acquired in the course of work and monitor activities to assure confidentiality.
- Refrain from using confidential information for unethical or illegal advantage either personally or through third parties.

INTEGRITY

- Avoid conflicts of interest and advise all appropriate parties of any potential conflict.
- Refrain from engaging in any activity that would prejudice the ability to carry out duties ethically.
- Refuse any gift, favor, or hospitality that would influence actions.
- Refrain from subverting the attainment of the organization's legitimate and ethical objectives.
- Recognize and communicate professional limitations that preclude responsible judgment.
- Communicate unfavorable and favorable information and professional judgments or opinions.

- Refrain from engaging in or supporting any activity that would discredit the profession.

OBJECTIVITY

- Communicate information fairly and objectively.
- Disclose fully all relevant information that could reasonably be expected to influence an intended user's understanding of reports, comments, and recommendations.

RESOLUTION OF ETHICAL CONFLICT

- Apply the standards of ethical conduct in identifying unethical behavior or in resolving an ethical conflict.
- When faced with significant ethical issues, follow the established policies of the organization bearing on the resolution of such conflict.
- If these policies do not resolve the ethical conflict, members should consider communication of such problems to authorities or individuals not employed or engaged by the organization is not considered appropriate.
- If the ethical conflict still exits after exhausting all levels of internal review, there may be no other recourse on significant matters than to resign from the organization and to submit an informative memorandum to an appropriate representative of the organization.

Often there is a perception that unethical behavior is normal in the business community. A solid ethics program can be very useful in defending a company and individuals against criminal penalties. Good ethics is also simply sound business. Too often, business ethics is portrayed as a matter of resolving conflicts in which one option appears to be the clear choice. However, ethical dilemmas faced by managers are often more real-to-life and highly complex with no clear guidelines, whether in law or often in religion. Ethical conflict exists when there is a presence of a) significant value conflicts among differing interests, b) real alternatives that are equality justifiable, and c) significant consequences on "stakeholders" in the situation (Wallin, 2004). An ethical dilemma exists when one is faced with having to make a choice among these alternatives.

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