

# The Ethical Conditioning of Realization of the Image-Creation Accounting Function

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**Abstract:** The main aim of this paper was to present possible ethical dangers as a result of the implementation of image-creation accounting function.

Author showed that modern accounting is fulfilling wide range of functions. As a result of the conducted research, it was found that one of the functions fulfilled by accounting is image-creation accounting function. The nature of the activities associated with this function raises questions about its association with ethics in accounting.

Based on widely used ethical systems, the author has demonstrated that the implementation of the function can generate ethical problems, especially with regard to information dissonance and keeping true and fair view.

**Key words:** accounting functions; image-creation accounting function; ethics of accounting

**JEL codes:** M40, M41

## 1. Introduction

The complexity of the modern economic world means that stakeholders are seeking for help in assessing the economic condition of the entities in which they would like to invest. Attention of stakeholders are often focused on data derived from the company's accounting system. The reason for this is that accounting is one of the key and complex information systems of an entity that generates and aggregates a wide range of data which represents the processes which takes place within an organization, what is making it a natural and accessible source of information about the material and financial situation available for external users.

Such a big importance of accounting system determines the necessity of taking care of appropriate accounting standards of accounting staff. The adopted ethical standards should support the implementation of the overarching accounting principle — the principle of true and fair view. It should be notice, that the continuous development of accounting involves the creation of new accounting functions which may force the persons responsible for preparing the information in the accounting system to make decisions whose effects may not only be ethically questionable but even threatening the implementation of the principle of true and fair view. One of the functions generating ethical hazards is the image-creation function of accounting.

The main aim of the article was to present possible ethical dangers as a result of the implementation of image-creation accounting function. Achieving the main goal required prior realization of specific objectives,

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including the need to present the essence of image-creation accounting function and ethical norms, which allow the implementation of the principle of true and fair view.

The assumed assumptions of the article determined the structure of the article, so in the first part was characterized functions of accounting. Next, the ethical standards that should be implemented by the persons who create information in the accounting system. In the third part, a comparative analysis was carried out to identify the ethical dangers that may arise in the context of the implementation of image-creation accounting function.

In parts covered theoretical considerations on the essence of image-creation accounting function and ethical principles in accounting, a critical analysis of sources has been used. In addition, the first part mentioned the results of a questionnaire survey conducted for the purposes of the doctoral dissertation, related to the contemporary identified accounting functions. The last part focused on comparative analysis using the elements of inductive reasoning.

## **2. Roots and Essence of Image-Creation Accounting Function**

Accounting is a form of human activity carried out since the beginning of economic activities. The shape and scope of activity within the accounting system has changed over the years.

As a consequence, the functions of accounting have also changed. Analysis of this issue allows for distinguishing basic functions, which are most often identified in the literature and others, which are not so often recognized by researchers (Jastrzębowski, 2015).

The group of basic accounting functions includes: (Jastrzębowski, 2015):

- information function,
- control function,
- evidence function,
- reporting function,
- analytical function.

In literature, it is often expressed that the information function is the superior function (Cieciura, 2016). According to Z. Messner (2003), it consists in creating specific information sets, processing them and transferring them to the management of the unit for proper use in the management process. In turn, K. Szymczyk-Madej (2007) specifies that the information function is based on the creation of specific sets of information for the purposes of enterprise management and useful for external users. This approach emphasizes that accounting is a system which is useful for all types of stakeholders (internal and external).

Another one of the aforementioned functions is the control function. According to B. Micherda (2011), this function should be understood as fulfillment of the accounting principles and the external and internal regulations. Information obtained in the accounting system provides the basis for carrying out internal and external audits. In addition, as indicated by S. Sojak and J. Stankiewicz (2004), the control function consists in checking the execution of the plans and the substantive control of the accounting records.

The concept of the evidential function is presented differently by different accounting theorists. For example, W. Gos (1995) identifies the performance of the evidential function using accounting evidence as reliable documents in court and tax proceedings. J. Płóciennik-Napierała (2003) states that this function is an inherent attribute of the accounting system and that its implementation requires formal and correct data capture in the form of various types of documents, which are later archived and protected so that they can be used as an evidence

source in the future.

The reporting function can be defined as periodically and occasionally drawing up statements and data, developed using established rules and patterns. The created information is useful for external and internal users (Jastrzębowski, 2015).

The last function included in the basic category is the analytical function of accounting. According to B. Micherda (2005), the essence of this function lies in the additional interpretation of numerical data through analytical work. I. Olchowicz (2001) identifies the implementation of the analytical function of accounting directly with financial analysis based on financial statements containing data from the accounting system.

The abovementioned functions are most often described in the literature and, as mentioned, they can be classified as basic functions.

Apart from the group of basic functions, other accounting functions can be examined. In questionnaire surveys conducted for the purpose of developing a doctoral dissertation (Jastrzębowski, 2015), other functions, which are listed below, were identified.

**Table 1 Other identified accounting functions**

Name of function	Brief description of the function
Attestation	Undertaking activities to ensure compliance of the accounting system with applicable regulations, standards and generally accepted principles.
Homeostatic	It includes activities which promote economic equilibrium.
Classification	It leads to the recognition of business transactions in the relevant book-keeping accounts in order to correctly assign the effects of these events.
Culture-forming	The influence of the accounting system on cultural formation.
Motivational	Creating a system for evaluating individual business areas.
Optimization	Preparing information for the economic calculation.
Planning	Use of information generated by the accounting system to anticipate the future of the entity.
Tax	Undertaking activities that allow fulfillment of tax obligations.
Settlement	Clearing settlements with external entities.
Stimulation	Impact on the stimulation of business units for more effective action.
Social	It is based on supporting the implementation of the concept of corporate social responsibility.
Statistical	Preparing information for the fulfillment of statistical duties.
Management	Providing information supporting management processes.
Integrating	Integration of economic processes through the accounting system.
Marketing/Image-creation	Building the company's image using the accounting system.
Pro-development	Supporting the establishment and development of business.

From the point of view of this paper, the image-creation accounting function is particularly desirable. This function has been identified as a consequence of obtaining positive answers to the questions (Jastrzębowski, 2015):

- does the business unit deliberately create the accounting policy, taking into account the impact of the implemented changes on the balance sheet positions and the profit of the entity,
- (according to the managers of public companies) are the financial data published by these companies affecting the decisions made by investors,
- do business units deliberately create accounting policies in such a way as to create a definite image of the company seen by external parties.

Further research allowed for developing a definition of the image-creation accounting function, emphasizing that the image-creation function consists in undertaking actions consisting in appropriately modifying the accounting policy (including, in particular, the valuation of assets and sources of founding, and the recognition of income and expenses), creating an image of the entity that is consistent with the particular interests of the governing bodies of the entity, seen by the external entities.

The definition of the image-creation function raises further questions about the relation between the image-creation function and the preservation of ethical standards in accounting.

### **3. Ethical Systems of Accounting**

The above reflections on the image-creation accounting function tend to reflect on the ethical context of its implementation. With regard to past financial scandals, for which accountants are also blamed, it is extremely important to make a thorough assessment of which actions taken in the accounting system can be considered acceptable, and which should be subject to exclusion.

According to the dictionary definition (Merriam-Webster, 2017), ethics should be understood as the discipline which is dealing with what is good and bad, and with moral duty and obligation. In other words, ethics should be regarded as a part of philosophy that focuses on the morality of the undertaken actions. This concept in a direct way is translated into the term of ethics of accounting, i.e., the moral assessment of activities undertaken in the accounting system.

As noted by R. H. Montgomery (Love, 2009), the importance of ethics in accounting results from the fact that it exists as a means of public service. As emphasized in the papers (IFAC, 2006). The accounting profession is a profession of public trust, so stakeholders have the right to expect that the person preparing the information in the accounting system is characterized by a high level of professional culture.

As a consequence, both the scientific community and the accounting professional organizations seek to define universal principles for generating information within the accounting system with generally acceptable moral standards. Ethical rules in accounting are developed internationally, but also at the level of local professional accounting organizations.

An example of global ethical guidelines are the assumptions developed by the IFAC. They were developed by one of IFAC's boards — IESBA (formerly the Ethics Committee). The Board created the Code of Ethics for Professional Accountants (IFAC 2006), which is a set of guidelines concerning:

- general rules for all groups of accountants,
- independent accountants/external auditors,
- accountants engaged in private entities.

As stated in the document (IFAC 2006), the definition of superior ethical principles allows for identifying the moral dangers that arise in the profession of an accountant. In addition, sections B and C show how specific concepts should be applied in specific (described) situations.

The IFAC Board includes in these fundamental principles (IFAC, 2006):

- integrity,
- objectivity,
- professional competence and due care,
- confidentiality,

- professional behavior.

Integrity is understood as being open and honest in all professional and business relationships.

On the other hand, objectivity means making sure that prejudices, conflicts of interest or negative influence of third parties do not affect the accounting.

By professional competence and due care, the board members understand the expertise and knowledge required to ensure that a client or employer receives professional services based on up-to-date knowledge and legal standing in relation to accounting.

Confidentiality means compliance with the principle of non-disclosure of information obtained through trade and business relationships. Such information may not be disclosed to third parties without express authorization (the disclosure required by law is excluded from the prohibition). In addition, the accountant may not use the obtained information for personal purposes.

The last of the listed rules is professional behavior. It means taking action based on the rules and avoiding creating a negative opinion about the profession of an accountant.

It is assumed that accountants who apply the above principles will attach importance to ethical attitudes and promote culture based on these values (Garstka, 2013).

Part B sets out the rules specific to professional accountants, including auditors. The Code includes examples of ethical issues, such as customer engagement, conflict of interest, second opinion, pay and other fees, professional services marketing, customer gifts and hospitality, customer care, objectivity, and independence.

As already mentioned, the second part of the IFAC Code focuses on accountants not directly related to the company, usually the external auditor. As a consequence, the focus is on discussing situations that threaten the independence of professional accountants or on solving conflicts. As emphasized by the literature, attention is paid to the independence, honesty, objectivity, and professionalism of the auditor, as the high quality of audit directly affects the credibility of the financial statements and the evaluation of the management's work (Garstka, 2013).

However, it should be underlined that ensuring the ethical conduct of auditors is not sufficient to maintain a high level of quality of information generated within the accounting system. Equally important is the observance of moral norms by accountants who are booking business operations and preparing financial statements. In addition, part three of the IFAC Code is addressed to accountants working in companies. The topics discussed concern potential conflicts, the preparation and reporting of information, actions based on sufficient competence, ownership of shares of the entity, incentives and pressures.

The Code (IFAC, 2006) underlines a specific risk of not fulfilling ethical standards, resulting from pressure exerted on the accountant on the basis of job dependence. This impact may involve forcing changes in the adopted accounting policy or in the manner of presentation of information from the accounting system in the financial statements. In such circumstances, the overriding application of the rules adopted in the code is entrusted to the accountant.

Additionally (IFAC, 2006), it should be noted that an accountant who has been involved in the preparation of misleading information should take appropriate measures to ensure that the disclosure of the above situation is transparent.

As already mentioned, the above regulations and good practices contained in the IFAC Code are of a global nature, independent of national legal norms. It is therefore important to develop local codes of ethics, which will take into account the specific characteristics of each country. An example of such a group of moral norms is the

code prepared by the Accounting Association in Poland (SKwP). This code was created in 2007 (Garstka, 2013).

The SKwP Code (SKwP, 2007) contains, apart from the IFAC-developed document, a list of good practices that can be used by the accountants in accordance with the generally accepted moral guidelines, taking into account the Polish laws. In particular, the provisions of the Code (SKwP, 2007) stipulate that the work of an accountant can be considered ethical, if it complies with the following rules:

- professional competence,
- high quality of work,
- professional independence,
- responsibility for the preparation and presentation of information in accounting,
- proper conduct in relation to persons, entities and institutions connected with it professionally,
- proper handling of disputes and conflicts of interest,
- proper handling in specific situations of the accounting unit
- professional secrecy,
- offering services in the field of accounting.

Comparison of local guidelines with those developed for global needs (IFAC) shows a clear similarity between the codes. Both systems emphasize the need to have high professional competence and independence, as well as acting in accordance with generally accepted accounting principles and laws.

#### **4. Influence of Image-Creation Accounting Function on Ethical Systems in Accounting**

The above considerations allow for analyzing the proposed moral systems in the context of the implementation of the image-creation accounting function, described in part one.

The presented codes emphasize that the information dissonance between the accountant and the company's stakeholders significantly influences the importance of the accountant's actions in disclosing information from the accounting system. Therefore, actions aimed at building an image of an enterprise through data disclosed from the accounting system, based on the particular interests of the entity's management board or the accountants themselves, should be judged unethical in circumstances where they disrupt the implementation of the principle of true and fair view.

In addition, the process of implementing the image-creation accounting function may involve undermining the principle of accountant independence. These actions may be carried out solely by the members of the management board, with internal opposition of accountant.

Prejudice of a specific image that is not in line with the actual image of the company is also a denial of the high professional competence of the person responsible for generating information in accounting.

In other words, it is considered contrary to the accounting ethics of all actions taken in the process of implementing the image-creation accounting function, if they have the sign of an understatement or even a deception causing the obscuring of the actual image of the company. However, it must be emphasized that it is impossible to perceive the image-creation accounting function as unequivocally unethical. It should be borne in mind that image-creation can (and should) coincide with the real assets and financial condition of an enterprise.

#### **5. Conclusions**

The main aim of the article was to present possible ethical dangers as a result of the implementation of

image-creation accounting function. The image-creation function is one of newly identify accounting function. Lack of researchers focused on this function create questions about influence of image-creation accounting function on ethical systems in accounting. As a result of researches made by author it is possible to state that building an image of an enterprise through data disclosed from the accounting system, based on the particular interests of the entity's management board or the accountants themselves, should be judged unethical in circumstances where they disrupt the implementation of the principle of true and fair view.

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