**PRINCIPLES-BASED ACCOUNTING ETHICS**

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If principles-based accounting is superior to rules-based accounting, as professed by so many in the profession, then this proposition ought to apply to other areas as well, including accounting ethics. The profession could set up accounting ethics as a principles-based system or as a rules-based codification, and which direction the profession chooses will speak volumes about the presumed superiority of principles-based accounting over rules-based structures.

The AICPA’s view on ethics is easily found in its [Code of Professional Conduct](http://www.aicpa.org/Research/Standards/CodeofConduct/Pages/default.aspx). The introduction to this code says,

*The Code of Professional Conduct of the American Institute of Certified Public Accountants consists of two sections—(1) the Principles and (2) the Rules. The Principles provide the framework for the Rules, which govern the performance of professional services by members. The Council of the American Institute of CPAs is authorized to designate bodies to promulgate technical standards under the Rules, and the* [*Bylaws*](http://www.aicpa.org/About/Governance/Bylaws/Pages/index.aspx) *require adherence to those Rules and standards.*

The principles are laid out in six articles, which deal with responsibilities, the public interest, integrity, objectivity and independence, due care, and the scope and nature of services. As stated in the preamble, these principles call for “unswerving commitment to honorable behavior” by members of the AICPA.

The AIPCA could have stopped there. This is a fine set of principles that do indeed call for honorable behavior to the profession and to the public interest, but the AICPA does not bind its members to these principles. It does not enforce this part of the code. Maybe it should; if it did, maybe there would be more honorable behavior by all its members.

The AICPA disseminates its ethics rules in five sections. Section 100 pertains to independence, integrity, and objectivity. Section 200 narrates the general standards and a commitment to comply with financial reporting standards. Section 300 deals with responsibilities to clients, while section 400 details the responsibilities to colleagues. Section 500 discusses other responsibilities and practices.

What is of most interest to us is that the bylaws of the AICPA “require that members adhere to the Rules of the Code of Professional Conduct.” If principles are so hot, why have rules? If principles are superior to rules, why enforce the rules but refuse to insist on the principles?

From this observation and from reading the various ethics rulings published by the AICPA, we think the organization takes its stand for several good reasons. First, principles are too broad for enforcement purposes. The ideals stated in these principles are so general that they defy precise implementation. The purpose of the rules is to add details to the aspirations—to specify what accountants mean by such things as the public interest and independence. These details shore up the meaning within the code, resolve ambiguities, and clarify what the principles imply about human behavior.

A second reason for the stand it takes arises from a consideration of a world that specified ethical principles without spelling out rules. When outsiders perceived an injustice or a dishonorable act that the AICPA did not reprimand, they would seek to redress the wrong by appeals to regulators or to the courts. If left to principles only, the regulators and the courts would implement the details in their own rulings. By laying out specific rules, the AICPA has attempted to retain control over members and what is considered ethical behavior.

This same logic is why principles-based accounting will flop if ever actively pursued and implemented. Firm managers will do whatever they opt for because such accounting principles will be too general and will invite many interpretations and scads of abuses. Further, the task of determining what such principles mean would be hashed out at the SEC and other regulators and in courts instead of by accounting standards setters.

*This essay reflects the opinion of the authors and not necessarily the opinions of The Pennsylvania State University, The American College, or Villanova University.*