

SESSION 2: ACCOUNTING, BEHAVIOR AND ORGANIZATIONS

DATE: SATURDAY, FEBRUARY 24

TIME: 8:30 – 10:00 AM

**Ethical Standards:
Legislate or Rely on a Principles-Based Accounting System**

Regan W. Garey
West Chester University

ABSTRACT: This paper examines whether or not formalized ethical standards need to be legislated to ensure proper financial reporting. The proposed alternative is to focus more on principles than rules in order to accomplish what Sarbanes-Oxley has set forth for the accounting profession. Another facet of this issue is whether Sarbanes-Oxley can mandate ethics or just make more rules that lead to possible loopholes. Substance over form is analyzed as a component of this argument of whether accountants should focus more on principles than rules. An example set forth in this paper is Enron's use of Special Purpose Entities (SPEs), which would not have successfully circumvented the goal of financial transparency if principles were adhered to instead of rules.