



## Moral Hazard, Virtue Ethics, and Accounting Education in Corporate Financial Reporting: A Systematic Review

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### Abstract

The main objective of this study is to explore the relationship between moral hazard, virtue ethics and accounting education in the context of financial statement preparation practices. The literature search process was conducted using seven keyword combinations: Virtue Ethics AND Accounting Education, Virtue Ethics AND Financial Reporting, Moral Hazard AND Accounting Ethics, Accounting Education AND Ethics Integration, Financial Reporting AND Virtue Ethics, Ethical Decision Making AND Accounting Profession, Accounting Education AND Integrity in Financial Reporting. From this search, 1 article was found in Web of Science journals, 2 articles in Elsevier journals, 3 articles in Springer journals, 1 article in Willey-Blackweell journals, 2 articles in Taylor & Francis journals, 1 article in SAGE Publications journals, 4 articles in Emerald journals, 2 articles in ProQuest journals, 1 article in Ebsco journals and 2 articles in MDPI journals. The literature review results indicate that moral hazard in the accounting world can be minimized with an approach based on Aristotle's virtue ethics, which encourages accountants to develop personal virtues such as honesty, courage, and wisdom. Accounting education focusing on these ethical values is expected to create accountants who are not only technically competent, but also have high moral awareness, so that the financial statements produced are more trustworthy and reflect the company's true financial condition.

**Keywords:** Moral Hazard, Aristotle's Virtue Ethics, Accounting Education, Financial Statements

### 1. Introduction

Preparing accurate and transparent financial statements is one of the most important tasks accounting professionals face in the business world. Financial statements serve as a tool to measure the company's financial performance and condition and as a communication that connects the company with various stakeholders, including investors, creditors, regulators, and the public (Julia & Kassim, 2020). However, in practice, preparing financial statements is often affected by more complex factors, including ethical dimensions, moral hazard, and professional decisions made by accountants (Fu & Trigilia, 2024).

As a profession that is expected to perform its duties with integrity and objectivity, accountants must face great challenges in maintaining the quality and accuracy of financial statements amid various temptations to manipulate or avoid undisclosed risks. Moral hazard is one of the phenomena that can affect the integrity of financial statements. It occurs when decision-making parties (such as managers or accountants) have an incentive to act in a way that is dishonest or detrimental to others, because they will

not bear the full consequences of their actions. In the context of accounting, moral hazard often arises when companies or individuals responsible for financial statements have information that is not shared transparently or deliberately obscure the true financial condition for personal or organizational gain. This phenomenon can negatively impact the quality of the financial statements produced and undermine stakeholder trust in the company. Aristotle's principles of virtue ethics can provide relevant guidance to address the issue of moral hazard in preparing financial statements. Aristotle's virtue ethics emphasizes the importance of moral character and virtue in decision-making. According to Aristotle, ethical action is not just a matter of complying with rules or norms, but also a matter of developing virtue and goodwill in every action. In the context of accounting, virtue ethics leads to decision-making that aims to achieve the common good, focusing on integrity, transparency and accountability. Accountants who are principled in virtue ethics not only follow professional standards or codes of conduct, but also act with full moral responsibility towards stakeholders. The importance of accounting education in equipping accounting professionals with a deep understanding of ethics is increasingly

recognized in academic and industry practice. Accounting education that focuses on developing ethical values and an understanding of moral hazard can help shape accountants who are technically competent and have a high ethical awareness in preparing honest and transparent financial statements. This study aims to systematically review the existing literature on moral hazard, Aristotle's virtue ethics, and accounting education in the context of preparing corporate financial statements. By reviewing various existing studies, it is expected to find a clear relationship between these three concepts and their contribution to the development of more ethical and trustworthy accounting practices. In addition, this review also aims to provide recommendations on how accounting education can further emphasize the integration of ethical values in teaching in order to reduce the potential for moral hazard in the world of accounting practice.

### **Moral Hazard in Accounting**

Moral hazard is a phenomenon that occurs when one party to a transaction has an incentive to take greater risks or act in a way that harms the other party because they do not bear the full consequences of their actions. In accounting, moral hazard often occurs when those responsible for preparing financial statements—such as managers or accountants—have an incentive to cover up poor financial conditions or manipulate numbers to make them look better than they are. Several studies show that moral hazard can increase the risk of poor decision making, for example when companies hide debt or manipulate earnings to increase short-term profits or meet market expectations (Lederman, 2019). This can lead to misinformation that harms investors, creditors, and other stakeholders (Wahyudiono, 2014).

In accounting, moral hazard can be exacerbated by information asymmetry, where managers or parties who manage financial statements have better information than outsiders who rely on these reports. This can lead to distrust of the company's financial statements and potentially create economic instability (Lin et al., 2017). One way to reduce moral hazard is to increase transparency through rigorous auditing and the application of firmer accounting standards (Kholis, 2020).

### **Aristotle's Virtue Ethics**

Aristotle's virtue ethics offers a different approach to understanding ethics compared to theories of deontology or utilitarianism. In Aristotle's view, ethics is not just a matter of following rules, but rather the formation of good character and deep virtue. For Aristotle, ethical action is the result of the habit of developing virtue in daily life. In the context of accounting, virtue ethics leads to the development of moral character that prioritizes transparency, integrity, and fairness in preparing financial statements. Some studies emphasize that accountants need to follow

existing accounting standards and be oriented towards deep moral values in every decision they make (Owusu et al., 2022). Aristotle's virtue ethics teaches that accountants must act with good intentions and be responsible to all interested parties, not just follow existing rules or pursue short-term profits (Hermawan & Hanun, 2018). In this case, accounting education should focus on developing moral character and virtue in addition to technical accounting skills. Virtue ethics also puts forward the idea of the "golden mean" or middle way, which teaches to avoid extremes. In accounting, this could mean balancing the need to report accurate numbers and maintain the company's credibility. With this approach, accountants will strive to find a balance between stakeholder interests and the company's self-interest, leading to more ethical and sustainable decision-making (Septiani et al., 2023).

### **Accounting Education**

Accounting education has a very important role in shaping accountants who are not only technically competent, but also have a strong ethical understanding. Some studies emphasize that current accounting education often focuses more on technical skills and pays less attention to the development of moral character (Hopong & Sudaryati, 2024). In fact, accountants who are not only skilled in technical matters but also understand ethics in preparing financial statements will be able to reduce the possibility of moral hazard.

Research by (Yuliani, 2019) shows that accounting education needs to integrate ethical values more in the curriculum so that future accountants can compile financial statements that are not only mathematically correct, but also fair and transparent. Education emphasizing Aristotle's virtue ethics can help accounting students focus more on developing virtue and integrity in their practice. In addition, the delivery of case studies and discussions on ethical dilemmas in financial statements can help students to understand the importance of ethical decision-making in their profession (Gustriana & Usman, 2017).

## **2. Methods**

This research uses the Systematic Literature Review (SLR) method to identify, analyze, and synthesize relevant literature related to Moral Hazard, Aristotle's Virtue Ethics, and Accounting Education in the context of Corporate Financial Reporting. The purpose of this study is to provide a deeper understanding of the effect of moral hazard on the preparation of financial statements and how Aristotle's virtue ethics and accounting education can play a role in reducing the risk of moral hazard.

The method used in this research is Systematic Literature Review (SLR), which aims to comprehensively assess and summarize existing research results. SLR is a research approach that

allows researchers to identify and evaluate relevant literature objectively and systematically, following clear and transparent procedures. With this approach, this research seeks to provide a comprehensive overview of how moral hazard, Aristotle's virtue ethics, and accounting education interact in the accounting context.

After collecting relevant literature, the data obtained will be processed by conducting content analysis. The researcher will conduct a content analysis of the selected articles to identify key findings, theories used, and relevant results regarding moral hazard, Aristotle's virtue ethics, and accounting education in the preparation of financial statements. Each selected article will be analyzed to find the relationship between moral hazard and virtue ethics in the context of accounting education and corporate financial statements.

### Source of Information

By searching using specific title keywords, a total of 19 relevant academic articles were found through the Summon platform. Summon was chosen as the search base because it can access a comprehensive range of journals. The search results revealed a number of journals and papers that were closely related to the topic researched by the author. The relevant journals were Web of Science, Elsevier, Springer, Wiley-Blackwell, Taylor & Francis, SAGE Publications, Emerald, ProQuest, Ebsco, and MDPI.

### Criteria

This research focuses on moral hazards, Aristotle's virtue ethics, and accounting education in the process of preparing corporate financial statements. Journal articles, newsletters, books and papers were the sources of information used. The main purpose of this research is to provide access to research in English available worldwide through searches in various databases, so there are no geographical or disciplinary boundaries.

### Search Results and Keyword Filtering

Several keywords were selected to ensure relevance to the established research questions. The seven keywords used include Virtue Ethics AND Accounting Education, Virtue Ethics AND Financial Reporting, Moral Hazard AND Accounting Ethics, Accounting Education AND Ethics Integration, Financial Reporting AND Virtue Ethics, and Ethical Decision Making AND Accounting Profession. To make the filter process effective, the literature found was first evaluated based on its title and abstract. After that, a full review of the articles was conducted to evaluate their relevance. Relevance was determined through the professional judgment of the authors, which was based on how close the literature was to the research question. Based on the results of the title keyword search, 1,598 articles were obtained with details of

Virtue Ethics AND Accounting Education as many as 186 articles, Virtue Ethics AND Financial Reporting 255 articles, Moral Hazard AND Accounting Ethics as many as 352 articles, Accounting Education AND Ethics Integration as many as 220, Financial Reporting AND Virtue Ethics as many as 136 articles, Ethical Decision Making AND Accounting Profession as many as 186 articles, Accounting Education AND Integrity in Financial Reporting as many as 263 articles. After further screening, there were 19 articles that met the criteria.

## 3. Results and Discussion

### Result

The results of the Systematic Literature Review (SLR) show that there are 19 articles and papers that discuss moral hazard, virtue ethics, and accounting education in the process of preparing corporate financial statements. Keyword searches resulted in 1 article in Web of Science journals, 2 articles in Elsevier journals, 3 articles in Springer journals, 1 article in Willey-Blackweell journals, 2 articles in Taylor & Francis journals, 1 article in SAGE Publications journals, 4 articles in Emerald journals, 2 articles in ProQuest journals, 1 article in Ebsco journals and 2 articles in MDPI journals. The distribution of articles on *moral hazard*, Aristotle's virtue ethics and Accounting Education in the Preparation of Corporate Financial Statements is in table 1 below:

**Table 1. Distribution of articles on Moral Hazard, Aristotle's Virtue Ethics and Accounting Education in the Preparation of Corporate Financial Statements**

Journal/Book/Paper Name	Number of Articles
Web of Science	1
Elsevier	2
Springer	3
Wiley-Blackwell	1
Taylor & Francis	2
SAGE Publications	1
Emerald	4
ProQuest	2
Ebsco	1
MDPI	2

Source: *Data obtained by researchers, 2024*

The distribution of the year of publication of articles relevant to this research topic shows fluctuations in the number of publications throughout the observed time period. In 2007, only one article was published, followed by two articles each in 2011 and 2014. In 2017, there was an increase with three articles published, which was then followed by two articles each year in 2018, 2019, and 2021. Furthermore, in 2022 and 2023, the number of published articles returned to two, with one article published in 2023. In 2024, the number of publications slightly increased again to two articles. This distribution indicates a stable trend with certain fluctuations in the number of publications related to this topic over a wider time span. The distribution of the year of publication of the articles is shown in table 2 below:

**Table 2. Distribution of years of publication on Moral Hazard, Aristotle's Virtue Ethics and Accounting Education in the Preparation of Corporate Financial Statements**

Year of Publication	Number of Articles
2007	1
2011	2
2014	2
2017	3
2018	2
2019	2
2021	2
2022	2
2023	1
2024	2

Source: Data obtained by researchers, 2024

Furthermore, the process of identifying the affiliation of the article's author, because recently one article can come from different authors, is only carried out on the first author. The country of origin distribution of articles relevant to this research topic shows varied contributions from different countries. The United States and Australia each listed three articles, indicating a significant contribution from these two countries in the field under study. Belgium and Scotland contributed two articles each, indicating their considerable interest in the topic. Other countries, such as South Africa, the Netherlands, China, the UK, Malaysia, Spain, Taiwan, Uganda, and Jordan, contributed one article each, showing a wider spread of research albeit with smaller numbers. Although these articles are spread across different countries, the United States and Australia appear to be the main contributors to the growing literature on this topic. This information is provided in table 2 below:

**Distribution of First Author Affiliations on Moral Hazard, Aristotle's Virtue Ethics and Accounting Education in the Preparation of Corporate Financial Statements**

Country	Number of Articles
South Africa	1
United States of America	3
Australia	3
Belgium	2
Netherlands	1
China	1
English	1
Malaysia	1
Scotland	2
Spain	1
Taiwan	1
Uganda	1
Jordan	1

Source: Data obtained by researchers, 2024

Furthermore, the country used as the object of research is the same as the country of affiliation of the first author in the article.

## Discussion

### Moral Hazard in the Preparation of Corporate Financial Statements

Moral hazard refers to a situation in which a person or group feels free to take risks or make risky decisions because they will not bear the full consequences of such actions (Schwarcz, 2017). In accounting, moral

hazard arises when those who prepare financial statements (such as managers or accountants) have an incentive to manage the statements to appear better than reality (Duran & Lozano-Vivas, 2015). They can do this by means such as financial statement manipulation (e.g. earlier revenue recognition, expense write-offs, or delayed loss recognition) to improve the company's appearance in the eyes of stakeholders.

### Aristotle's Virtue Ethics in the Preparation of Corporate Financial Statements

The majority of articles show that Aristotle's virtue ethics has significant relevance in improving the quality of *sustainability* in accounting practices (West, 2017). Virtue ethics emphasizes the importance of building good character, which encourages accountants to act in line with established moral values. Ethical practices in making financial statements depend on traits such as altruism, honesty, responsibility, independence, transparency, reliability and trustworthiness (Lail et al., 2017). Accountants who use virtue ethics can cope with pressures from different sources and make decisions according to firm moral principles (West, 2018). For example, honesty will allow accountants to provide *reliable* and open company financial information. Integrity accounting will make accountants act in line with good attitudes and uphold high moral values even in conditions of a lot of pressure or conflicts of interest. The application of virtue ethics by accountants can ensure that the financial statements presented show real financial conditions.

Virtue ethics plays an important role in encouraging more ethical behavior and integrity in companies. It can help reduce the influence of managers or employees who have excessive self-interest and create an ethical culture that supports compliance with laws and ethical standards (Nicolaidis & Dlundla, 2023). Better decisions are made by applying virtue ethics. It also boosts the morale and spirit of the decision-makers to make better moral judgments. Although virtue ethics has many advantages, there are some problems when using it in accounting. Not all accountants embrace or value virtue principles, which is a major obstacle. Some may find these principles too idealistic or difficult to implement in day-to-day business operations. In addition, pressure from outside sources may influence accountants to ignore the ethics of financial statements, especially in cases where there is no strong moral basis. This may offer short-term benefits to some, but it can negatively impact the business in the long run.

Virtue ethics emphasizes the use of practical wisdom (phronesis) to make the right decisions, in contrast to rule-based or consequence-based ethical approaches. One criticism of the virtue ethics approach is that it does not always provide concrete guidelines or rules that can be applied in every situation (Nicolaidis &

Dludla, 2023). This can be especially difficult in complicated situations or when facing unclear moral dilemmas. As a result, virtue ethics may not provide clear enough guidelines for daily operations for some accountants (Longan et al., 2020).

#### **Accounting education in the preparation of company financial statements**

Accounting education is vital in shaping the character of accountants responsible for preparing the company's financial statements. Based on previous research, the principle-based ethics approach, which emphasizes moral virtues, provides a stronger basis for financial reporting practices than the rule-based approach, which is often too mechanical and inflexible (Hanifah et al., 2020). To improve the financial reporting system, reforms should focus on restoring accountants' professional identity by applying virtue ethics (Morris et al., 2015). This means re-establishing a professional nature characterized by virtues such as honesty, integrity, and practical wisdom (phronesis). Public trust in the accounting profession increased due to these reforms, which also improved financial reporting.

This meant re-establishing a professional nature characterized by virtues such as honesty, integrity, and practical wisdom (phronesis). Public trust in the accounting profession increased due to these reforms, which also improved financial reporting (Boyce et al., 2015). This cooperation aims to improve ethics education that helps accountants deal with ethical issues as they create financial reports in a moral and responsible manner. Phronesis, or practical wisdom, in Aristotle's virtue ethics is a trait that enables people to make wise and appropriate decisions in complex situations. The accounting profession faces the challenge of reflecting back on how they have promoted accounting education and practice and their role in meeting public needs. This happens because of virtue ethics. Education centered on developing practical wisdom helps accountants deal with moral dilemmas and make morally and technically sound decisions (Boyce et al., 2015).

Accounting education that emphasizes virtue ethics teaches accountants to comply with technical standards and internalizes deep moral values that help them make ethical and responsible choices in financial reporting.

#### **4. Conclusions**

This research reveals that the concepts of Moral Hazard, Aristotle's Virtue Ethics, and Accounting Education play an important role in the preparation of corporate financial statements, albeit with different perspectives. Moral hazard, as a risk phenomenon that arises due to information imbalance between the parties involved, can affect the transparency and accuracy of financial statements. This practice indicates the potential misuse of information by

management for personal gain, which impacts the integrity of financial statements. Aristotle's virtue ethics provides a more in-depth perspective on the development of moral character in decision-making, including in the field of accounting. Aristotle emphasized the importance of virtue and practical wisdom (phronesis) in living a moral life, which is very relevant to the ethics of the accounting profession. The application of these virtues can reduce the risk of moral hazard in accounting practices by increasing professional awareness, responsibility, and transparency. In the context of Accounting Education, strengthening ethics education based on Aristotle's virtues can be one of the efforts to minimize moral hazard in the preparation of financial statements. Education that emphasizes the development of good ethical and professional character is very important to producing accountants who are technically competent and responsible in carrying out their duties. Thus, an approach that combines moral hazard, Aristotle's virtue ethics, and accounting education can significantly improve the quality of financial statements and strengthen integrity in accounting practices.

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