

Professional Education Services, LP

Ethics for California CPAs

#4020D

EXAM MATERIAL



Professional Education Services, LP

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ETHICS FOR CALIFORNIA CPAS (COURSE #4020D)

COURSE DESCRIPTION

This course is designed to meet the specific ethics requirements for the state of California. It covers the ethical beginnings, the Code of Professional Conduct, the ethical dilemmas of tax professionals and CPAs in industry, as well as California specific information. No prerequisites. Course level: Basic. Course #4020D - 4 CPE hours.

Note: This course was specifically designed to meet the California renewal requirement of four hours of ethics education every two years for CPAs.

Please note that California has an additional requirement that CPAs complete a two-hour regulatory review course once every six years. If you are required to complete the two-hour regulatory review course, it is in addition to the four hours of ethics that this course offers.

LEARNING ASSIGNMENTS AND OBJECTIVES

As a result of studying each assignment, you should be able to meet the objectives listed below each individual assignment.

ASSIGNMENT 1: SUBJECT

Chapter 1: Introduction to the Study of Ethics

Chapter 2: The AICPA Code of Professional Conduct

Study the course materials from pages 1 to 40

Complete the review questions at the end of each chapter

Answer the exam questions 1 to 10

Objectives:

- To recognize the history and function of ethics
- To recall the six guiding principles in the AICPA Code of Professional Conduct
- To recognize the rules of the Code of Professional Conduct

ASSIGNMENT 2: SUBJECT

Chapter 3: IRS Circular 230

Chapter 4: Ethics for Industry CPAs

Chapter 5: California Specific Information

Study the course materials from pages 41 to 109

Complete the review questions at the end of each chapter

Answer the exam questions 11 to 20

Objectives:

- To identify the Internal Revenue Service Requirements as outlined in Circular 230
- To recognize AICPA guidance for Management Accountants
- To identify various requirements specific to California

ASSIGNMENT 3:

- Complete the Answer Sheet and Course Evaluation and submit to PES

NOTICE

This course and test have been adapted from supplemental materials and information contained in the materials entitled *Ethics for California CPAs*. Use of these materials or services provided by Professional Education Services, LP ("PES") is governed by the *Terms and Conditions* on PES' website (www.mypescpe.com). PES provides this course with the understanding that it is not providing any accounting, legal, or other professional advice and assumes no liability whatsoever in connection with its use. PES has used diligent efforts to provide quality information and material to its customers, but does not warrant or guarantee the accuracy, timeliness, completeness, or currency of the information contained herein. Ultimately, the responsibility to comply with applicable legal requirements falls solely on the individual licensee, not PES. PES encourages you to contact your state Board or licensing agency for the latest information and to confirm or clarify any questions or concerns you have regarding your duties or obligations as a licensed professional.

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ETHICS FOR CALIFORNIA CPAS (COURSE #4020D) - EXAM OUTLINE

COURSE EXPIRATION DATE: Per AICPA and NASBA standards, this course must be completed within **ONE YEAR** from the date of purchase.

TEST FORMAT: The following final exam, consisting of 20 multiple choice questions, is based specifically on the material included in this course. The answer sheet must be completed and returned to PES for CPE certification. You will find the answer sheet at the back of this exam packet so that you may easily remove it and use it while taking your test.

LICENSE RENEWAL INFORMATION: The Ethics for California CPAs course (#4020D) qualifies for **4** CPE hours.

PROCESSING: Your exam will be graded promptly. You must score 70% or better to pass. If you mail or fax your exam, when you pass, your certificate of completion will be mailed. If you do not pass, we will give you a courtesy call to inform you of this, and another answer sheet will be sent to you free of charge. If you complete your exam online, your certificate will be available automatically in your account if you achieve a passing grade.

GRADING OPTIONS – Please choose only ONE of the following:

GRADING OPTIONS: Please choose only ONE of the following. There is no additional charge for any of these grading options. Make sure to fill out your answer sheet completely prior to submitting it.

- **ONLINE GRADING** –Visit our website at <http://www.mypescpe.com>. Login to your account (if you are a first-time user, you **must** set up a new user account). Click on “**My CPE**” in the left-hand navigation menu pane, then choose “**My CPE in Progress**,” and then click on “**CPE Exams**.” If your exam is not already located here, click on “**Add Exam Ordered by Phone, Fax, Mail, or Another Person**” and follow the instructions.
- **MAIL** – Your exam will be graded and your certificate of completion mailed to you the same day we receive it. Your certificate will be dated according to the **postmark date**; therefore, you do not need to overnight your exam. Please mail your answer sheet to:

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- **FAX** – Your exam will be graded and you will be contacted either via phone or fax with your results within 4 business hours of receipt. A copy of your graded exam and certificate of completion will be mailed to you the same day we receive it. Your certificate will be dated according to the fax date. If you choose to fax your exam, **please do not mail it**. Your fax will serve as the original. Please refer to the attached answer sheet for further instructions on fax grading. Fax number (916) 791-4099.

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ETHICS FOR CALIFORNIA CPAS (COURSE #4020D) – FINAL EXAM

The following questions are multiple choice. Please indicate your choice on the enclosed Answer Sheet.

1. **Ethics can be defined as any of the following except:**
 - A. the discipline dealing with what is good and bad and with moral duty and obligation
 - B. a set of moral principles or values
 - C. the science of conduct
 - D. doing that which one is legally obligated to do
2. **According to John Austin, the AICPA's Code of Professional Conduct is most properly classified as a:**
 - A. natural law
 - B. philosophical model
 - C. positive law
 - D. command
3. **Why does this course examine the AICPA Code of Professional Conduct when membership in the AICPA is voluntary:**
 - A. although membership in the AICPA is voluntary, federal law requires that all CPAs adhere to the AICPA Code of Professional Conduct
 - B. most state boards of accountancy pattern their laws and regulations after the AICPA Code or refer to it
 - C. membership in the AICPA is not voluntary; membership is required for all CPAs and firms doing attest work
 - D. most state CPA societies pattern their code of conduct after the AICPA Code, and most states require their licensees belong to their state CPA society
4. **The fundamental theme of the six principles of the Code of Professional Conduct is:**
 - A. to be committed to honorable behavior, even at the sacrifice of personal advantage
 - B. to make the most money possible in the least amount of time
 - C. to provide disciplinary actions for improper behavior
 - D. to promote the importance of the AICPA
5. **Integrity and objectivity are essential to the CPA profession. Which of the following is true regarding integrity and objectivity (1.100.001):**
 - A. integrity is easy to judge because any particular error is easily classifiable as either an honest error or due to lack of integrity
 - B. it would be easy to enumerate a comprehensive list of all situations that would impair objectivity
 - C. it would be easy to enumerate a comprehensive list of all situations that would impair integrity
 - D. it would be impractical to define all situations that would lead to an impairment of objectivity or integrity
6. **Which of the following is correct regarding a member's fees under 1.510:**
 - A. a member is prohibited from offering a free one-hour consultation
 - B. a member is prohibited from offering a 10 percent discount on tax return preparation
 - C. a member is prohibited from charging a contingent fee to prepare an amended tax return
 - D. a member is prohibited from charging varying fees depending on the complexity of the services rendered

7. Which of the following AICPA members can accept a commission from a client during the period the services identified are performed:
- A. if the member did not personally participate in the audit of the client associated with the member's firm
 - B. if the member performed a review of the financial statements of the client, but disclosed the lack of independence
 - C. if the member performed a compilation of the financial statements of the client, but disclosed the lack of independence
 - D. if the member performed an examination of prospective financial information, but disclosed the lack of independence
8. Which of the following is correct regarding the Confidential Client Information Rule (1.700.001):
- A. a member in public practice shall never disclose confidential client information under any circumstances
 - B. the confidential client information rule relieves a member of his or her professional obligations of the Accounting Principles Rule (1.320.001)
 - C. this rule prohibits the review of a member's professional practice under AICPA or state CPA society authorization without a client's consent
 - D. a member is required to provide confidential client information without the specific consent of the client if the CPA receives a validly issued and enforceable subpoena or summons
9. Nash, Smith, and Jones is a CPA firm. What percentage of the CPA owners of Nash, Smith, and Jones must be members of the AICPA in order for the firm to designate itself "Members of the American Institute of Certified Public Accountants" (1.800.001):
- A. 100%
 - B. 51%
 - C. 50%
 - D. 25%
10. The AICPA allows a CPA firm to be owned by non-CPAs if the form of ownership is sanctioned by the particular state, and if certain guidelines are observed. Which of the following guidelines must be met:
- A. 51% of the ownership must be held by CPAs
 - B. a non-CPA owner must be actively engaged in providing services to the firm's clients
 - C. a non-CPA owner may not hold him or herself out as a CPA
 - D. all of the above
11. Under Circular 230 Section 10.27, a practitioner is prohibited from charging certain fees. Which of the following fees is prohibited:
- A. fixed fees for specific routine services (e.g., \$300 for a Form 1040A)
 - B. a flat percentage fee based on the amount of refund on a Form 1040
 - C. hourly rates
 - D. a range of fees for particular services with a higher fee charged for more complex situations
12. Which of the following is correct under Section 10.28 regarding returning client records:
- A. a practitioner may withhold a client's current year completed tax return pending payment of fees
 - B. a practitioner may withhold all client records pending payment of fees
 - C. a practitioner must return all client records upon request
 - D. federal law gives a practitioner the right to place a lien on client records

13. Circular 230 Section 10.30 places numerous restrictions on solicitation and advertising. Which of the following is correct:

- A. hourly fee information must be included in all advertisements
- B. although ads may include a fee schedule, rates can be changed at any time
- C. a copy of all direct mail advertisements must be retained for at least 36 months
- D. when accepting a new client, the practitioner must give the client a good faith estimate of the cost of the services contemplated

14. Under which of the following circumstances may a practitioner endorse or otherwise negotiate a client's federal income tax refund check (Circular 230, Section 10.31):

- A. with the client's oral permission
- B. when the client owes the practitioner fees for preparing the return
- C. when the client owes the practitioner fees for preparing the return and the client was notified that the practitioner intended to negotiate the refund check
- D. none of the above; a practitioner may not endorse client refund checks

15. In preparing the tax return for Nash Plumbing, Inc., you notice a large deduction for "consulting services." You ask your client to explain this deduction, and he explains it represents tuition paid for his son to attend college. You know that no 1099 or W-2 was issued for these services nor is any of this income reflected on your client's personal tax return or his son's. Your client states that "everyone" in this industry does this. This deduction is equivalent to 20% of the net income. Which of the following is correct regarding your ability to sign the tax return for Nash Plumbing, Inc. per Circular 230 Section 10.34:

- A. you may sign the return since the return meets the "nonfrivolous standard"
- B. the client's assertion that the deduction is industry practice is frivolous. Accordingly, the position does not meet Section 10.34 and you may not sign the return
- C. you may sign the return only if the deduction is clearly identified on the return as "consulting expense paid to son" or some similar disclosure
- D. you may sign the return since everything on the return is the representation of the client

16. A practitioner may give written advice concerning one or more federal tax matters. All of the following are requirements of such practitioners except:

- A. the practitioner must base the written advice on reasonable factual and legal assumptions
- B. the practitioner must reasonably consider all relevant facts and circumstances that the practitioner knows or reasonably should know
- C. the practitioner must use reasonable efforts to identify and ascertain the facts relevant to written advice on each federal tax matter
- D. the practitioner must provide a reasonable estimate of the cost of the written advice prior to performing any such work

17. Which of the following is correct regarding the conceptual framework for members in business:

- A.** the rules and interpretations of the AICPA Code of Professional Conduct address all threats to a member's compliance
- B.** the Code specifies that in some circumstances, no safeguards can reduce a threat to an acceptable level
- C.** under the conceptual framework approach, members should ignore threats that are not specifically addressed in the Code
- D.** the Code specifies that a member can subordinate the member's professional judgment to others without violating the "Integrity and Objectivity Rule"

18. Under the General Standards Rule, a member must comply with four standards and any interpretations thereof, which include all of the following except:

- A.** professional competence
- B.** due professional care
- C.** sufficient relevant data
- D.** diligence

19. The IMA's Standards of Ethical Conduct includes standards of confidentiality, integrity, credibility, and which of the following:

- A.** accuracy
- B.** reputation
- C.** competence
- D.** training

20. Which of the following is correct regarding peer review:

- A.** the Board eliminated the peer review requirement as of January 1, 2014
- B.** all California CPAs are required to report peer review information at the time of license renewal
- C.** only active California CPAs are required to report peer review information at license renewal
- D.** all peer review information is reported annually as of December 31

Congratulations –

you've completed the exam!

**ETHICS FOR CALIFORNIA CPAS #4020D
(4 CPE HOURS) – ANSWER SHEET (2/16)**



IMPORTANT NOTE: For certification, this answer sheet must be completed and submitted to PES for grading within **ONE YEAR** from the date of purchase. Please use **BLACK INK** and **PRINT** for quicker processing – thank you.

Full Name (as it appears on your license) _____

Address (☐ Home ☐ Work) _____

City _____ State _____ Zip _____

Daytime Phone () _____ E-mail _____

License Number _____ State _____ Exp Date: ____/____/____ Are you a: ☐ CPA ☐ CFP ☐ EA (check all that apply)

PTIN Number (if applicable) _____

If course was ordered by another party, please indicate their name here: _____

GRADING OPTIONS – Please choose only ONE of the following:

ONLINE GRADING – Visit our website at www.mypescpe.com. Login to your account (if you are a first-time user, you **must** set up a new user account). Click “**MY CPE**,” and then choose “**My CPE in Progress**” and click on “**CPE Exams**.” (If your exam is not already located here, click “**Add Exam Ordered by Phone, Fax, Mail, or Another Person**” and follow the instructions.)

Mail – Mail your exam to: PES, 4208 Douglas Blvd., Ste 50, Granite Bay, CA 95746

Fax – Fax your exam to (916) 791-4099 and choose **one** of the following options:

☐ mail my results only or ☐ fax (_____) _____ ☐ phone my results to: (_____) _____

PLEASE INDICATE YOUR ANSWER BY FILLING IN THE APPROPRIATE CIRCLE

	A	B	C	D		A	B	C	D
1.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	11.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	12.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	13.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
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9.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	19.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
10.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	20.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Please complete the attached course evaluation - your opinion is extremely valuable!

**ETHICS FOR CALIFORNIA CPAS #4020D
COURSE EVALUATION**

Rate on a scale of 1-10 with 1 being poor and 10 being excellent.

1. The course met the course objectives described in the promotional material. _____
2. The course was up to date, held my interest, was timely, and effective. _____
3. The course materials were understandable, valuable, and suitable for a correspondence course. _____
4. The amount of advance knowledge and stated prerequisites were appropriate. _____
5. The completion time was appropriate for the number of credits allowed. _____
6. The course met my professional education needs. _____

Please answer the following questions – mark/rate any and all that may apply

1. How would you rate PES's
☐ order desk _____
☐ customer service _____
2. What can PES do to keep you as a valued customer? _____

3. Any other comments regarding this course or our company would be appreciated. _____

4. What other courses/subjects would you like to see PES offer in the future? _____

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