

Professional Education Services, LP

A CPA's Guidebook to Ethical Behavior for Texas CPAs

#4160

EXAM MATERIAL



Professional Education Services, LP

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A CPA's GUIDEBOOK TO ETHICAL BEHAVIOR FOR TEXAS CPAs (COURSE #4160)

COURSE DESCRIPTION

This course is designed to meet the specific 4 hour ethics CPE requirement for Texas and has been formally reviewed and approved by the Texas Board of Accountancy as required. It addresses the foundation of ethical thought, core values for the CPA profession including integrity, objectivity, independence, and responsibility to the public, as well as the Texas Board's Rules of Professional Conduct. No prerequisites. Course level: Basic. Course #4160 - 4 CPE hours.

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

Part I: Values - A Straight and Narrow Path or a Minefield?

Part II: Codes of Conduct for CPAs

Part III: Behaving Ethically: Putting the Rules Into Action

Study the course materials from pages 1 to 70

Complete the review questions at the end of each part

Answer the exam questions 1 to 20

Objectives:

- To educate licensees in the ethics of professional accounting as Texas CPAs
- To convey the intent of the Rules of Professional Conduct in the performance of professional accounting services/work
- To assist the Texas CPA in applying ethical judgment in interpreting the rules and determining public interest
- To review and discuss the Rules of Professional Conduct and their implications for persons in a variety of practices, including:
 - CPAs in client practice of public accountancy who perform attest and non-attest services per § 501.52
 - CPAs employed in industry who provide internal accounting and auditing services
 - CPAs employed in education or in government accounting or auditing

ASSIGNMENT 2:

- 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 *A CPA's Guidebook to Ethical Behavior for Texas 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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Program Publication Date 2/15/2017

A CPA's GUIDEBOOK TO ETHICAL BEHAVIOR FOR TEXAS CPAs (COURSE #4160) - 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 A CPA's Guidebook to Ethical Behavior for Texas CPAs course (#4160) 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 “**Exam Grading.**” 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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A CPA's GUIDEBOOK TO ETHICAL BEHAVIOR FOR TEXAS CPAs

(COURSE #4160) – FINAL EXAM

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

1. Deeba is the newest CPA hired on by the Tax Department of Feel Better Surgical Center, L.P. Her supervisor has asked her to take an extraordinary position in reporting a transaction on the tax return. Even though Deeba is a recent graduate and has very little accounting experience, she feels certain based on some research she has done that the position is unsupported by the Internal Revenue Code, Treasury Regulations and case law. Deeba must:
 - A. cave in to her boss's demands since her boss has more experience than Deeba
 - B. do what her supervisor says since Deeba is being paid only to fill out the tax return, not to use independent judgment
 - C. not sign off on a position for which the CPA cannot find proper support
 - D. take the extraordinary position since she is protected from liability as she is just obeying orders
2. Blake and Miranda are in the middle of bitter divorce proceedings. Jeremy, CPA, agrees to prepare net worth statements for both individuals and has promised an arbitrator that he will present numbers which Jeremy believes is a fair property split and alimony payment. Jeremy's actions constitute:
 - A. maximizing client fees
 - B. a good idea
 - C. a conflict of interest
 - D. none of the above
3. Taylor, CPA, is a supervising CPA in the accounting department of Cheep-a-Lot Wholesale Flooring and Handbag Emporium. She becomes aware that a significant transaction was incorrectly booked to a different account, causing the income statement to appear far rosier than it actually is. Taylor has the ability and authority to immediately correct the error, but opts to wait until the following fiscal year since her bonus will be much larger as a result. Taylor has violated which of the following rules:
 - A. The Rule of Ten
 - B. Matching
 - C. Conservatism
 - D. Knowing Misrepresentation in the Preparation of Financial Statements or Records
4. Shantall Smith, a solo CPA practitioner, decides to call her new firm Smith and Associates, CPAs, in order to make it appear to potential clients that her CPA practice is much larger than it actually is. Her action can best be described as:
 - A. good marketing
 - B. acceptable, since Shantall has hired a part-time intern who is an accounting student
 - C. a violation of the Rules of Professional Conduct which states that a CPA firm cannot have a name that is misleading
 - D. none of the above

5. **LuAnn, CPA, specializes in forensic accounting but finds herself in need of additional revenue. She therefore posts flyers in her area and puts on her websites/social media accounts that she is highly experienced in individual tax matters and will obtain higher refunds than recognized franchise S & H Circle Tax Preparers. LuAnn has never worked in the tax field in her entire career. Has LuAnn violated any rules of professional conduct:**
- A. no, because LuAnn should be able to advertise in any way that would garner her more clients
 - B. yes, because ET § 1.400.090 states that false, misleading, or deceptive acts in promoting or marketing professional services constitutes an "Acts Discreditable" under ET § 1.400.001
 - C. yes, because TX RPC § 501.82 does not permit a CPA to advertise or solicit in a way that is false, misleading, or deceptive
 - D. both B and C above
6. **Sonja, CPA, has been approached by retailer Oklahoma Furniture Mart to perform an external audit on the company's financial statements. Sonja has only audited financial institutions and is wholly unfamiliar with the retail industry. She does not have any CPAs in her practice that have ever audited any retail clients, and Sonja is doubtful that she will be able to obtain the requisite knowledge before or during the audit. Sonja must under these circumstances:**
- A. decline the engagement since she cannot obtain the necessary competence or enlist the services of another CPA experienced in retail auditing
 - B. accept the engagement since this is a plum client and will lead to lucrative fees
 - C. accept the engagement since she should be able to fake her way through the audit
 - D. none of the above
7. **Bruce, CPA, billed his client Jane's Sporting Goods 14 months ago for auditing services rendered. Jane's has not paid the bill. Bruce's independence with respect to his client is:**
- A. not compromised since Jane issued him a note for the outstanding fees
 - B. not compromised since Bruce is a patient person and does not mind that the bill has not been paid yet
 - C. compromised
 - D. none of the above
8. **Jose, CPA, serves as the partner-in-charge of the external audit of Get 'em Going Travel Agency, which is publicly traded on the New York Stock Exchange. Jose's friend, Ralph, is going through financial difficulties. Jose becomes aware of crucial information about Get 'em Going which he passes on to Ralph. Ralph uses the insider tips to make profitable trades on the travel agency's stock, resulting in \$1.2 million in profits. He gives Jose a solid gold Rolex watch as a thank-you, but otherwise Jose does not personally profit from the insider information:**
- A. Jose has not violated the Code of Conduct since he did not personally profit from trade on his client's stock
 - B. Jose has violated the Rules of Professional Conduct since he did not maintain client confidentiality
 - C. both of the above
 - D. none of the above

9. Mark is preparing the annual tax return for Yummy Catering Company and accidentally discovers through a third party that the owners of Yummy are charging personal expenses such as vacations, home renovation, college tuition and cars for their children through their business. The expenditures have been hidden in a variety of capital asset accounts. Mark withdraws from the engagement, but then is later contacted by one of his friends, Chris, CPA, who is the successor tax preparer on the Yummy account. Mark should:

- A. spill the beans on Yummy and tell Chris to resign from the engagement as quickly as possible
- B. suggest to Chris that he ask Yummy for permission so that Mark can discuss all matters freely with him
- C. stay silent even if Chris receives permission from Yummy
- D. none of the above

10. Shawn, a self-employed CPA, has experienced financial difficulties recently due to a gambling addiction and has not filed her tax return or paid estimated taxes for the past three years. She does not qualify for any "reasonable cause" exceptions under the Internal Revenue Code. Shawn has:

- A. not violated the Code of Conduct since she intends to get around to her personal tax returns eventually
- B. committed an "Acts Discreditable" to the profession for failing to file her taxes and make estimated payment in a timely manner
- C. has a valid excuse since the only reason she hasn't paid her taxes is because of her financial difficulties
- D. none of the above

11. Which of the following statements is true:

- A. CPAs should exercise sensitive professional and moral judgment while carrying out their responsibilities as professionals
- B. a CPA who has exhausted her final appeal in a case where she was accused of violating antidiscrimination laws has committed an Acts Discreditable
- C. both A and B above
- D. none of the above

12. Klutzy Ski School and Orthopedic Clinic has plans to go public in the near future but does not have sufficient funds to hire an external auditor. Klutzy asks Donald, CPA, if he would be willing to perform the audit in exchange for a 10% ownership stake in Klutzy and free snow ski lessons to Donald's six children:

- A. Donald can accept the engagement since the ownership stake and the value of the lessons would approximate what he would bill for the audit work
- B. Donald can accept the engagement as long as he has experience in the resort and medical clinic industry
- C. Donald should decline the engagement since the ownership stake would constitute a conflict of interest
- D. both A and B above

13. Oscar worked as a manager at Shoot 'em Up Gun and Doughnut Shop while he was completing his accounting degree. In the course of his duties, he was exposed to sensitive proprietary information regarding suppliers, pricing, and recipes. Oscar is now an in-house staff accountant at one of Shoot 'em Up's direct competitors. Which of the following is true:

- A. Oscar may not divulge the proprietary information to his current employer
- B. Oscar is permitted to utilize the general industry knowledge he obtained in his prior post in carrying out his current duties
- C. both A and B above
- D. none of the above

14. Roy is the CFO of Duct Tape R Us, Inc. He is also a principal of Pikachu Technologies, LP. Roy convinces the management of Duct Tape R Us to hire Pikachu to upgrade the accounting systems. Roy directs Susan, the controller of Duct Tape R Us, to pay Pikachu's inflated bills even though there have been almost no technology services rendered. Roy orders Susan to incorrectly charge the expenditure to Prepaid Capacity:

- A. Roy has a conflict of interest**
- B. Roy has committed an Acts Discreditable since he directed a subordinate to make a false and misleading entry**
- C. Roy has done nothing wrong, since all he is trying to do is make a living**
- D. both A and B above**

15. Velma, CPA, works in the Tax Department of Scooby Pharmaceuticals, Inc., which is located in Honolulu, HI. Fred, who is a partner in a public accounting firm, is anxious to win some business from Velma, who is a key decision-maker on hiring outside consultants. Fred knows that Velma is fond of NASCAR racing and offers to sponsor an all-expense paid weeklong trip for Velma to meet with other members of Fred's firm at their hospitality suite at the Indianapolis Motor Speedway. The meeting coincides with the Indianapolis 500 race being held. The firm will provide to Velma free of charge an all-access pass to the event. The business matters that Velma and Fred's firm need to discuss is scheduled to take about one hour. Velma will be free to spend the rest of the week however she would like. If Velma were to accept Fred's offer of the trip, this would be an example of what type of threat to independence:

- A. undue influence**
- B. adverse interest**
- C. self-review threat**
- D. none of the above**

16. Teri, CPA, works for the Internal Revenue Service as a field auditor. Which of the following statements is false:

- A. The Rules of Professional Conduct apply to CPAs working in government**
- B. Teri is not bound by the Rules of Professional Conduct since she works for the IRS and, therefore, needs only adhere to rules issued by the Treasury Department**
- C. Teri is subject to license suspension and/or expulsion if she commits an Acts Discreditable**
- D. Teri must discharge her professional responsibilities with due care – meaning that she must demonstrate competence and diligence – even though she is not working in public accounting**

17. Daphne, CPA, is preparing a joint tax return for a married couple, Ben and Jennifer, who are in the process of a divorce. The clients live and work in a community property state. There are no pre- or post-nuptial agreements overriding the community nature of wages earned during the marriage. Jennifer has secretly started a successful online business selling sports apparel. When Daphne questions Jennifer about the Forms 1099 she received from the online business, Jennifer requests that Daphne not report the income on the joint tax return and to make it "our little secret":

- A. Daphne is unable to inform Ben about Jennifer's income due to client confidentiality rules**
- B. Daphne could keep the information from Ben if the couple were filing separately**
- C. Daphne can and should disclose Jennifer's income to Ben. Daphne will not violate the "Confidential Client Information Rule" under TX RPC § 501.75 if she does so. Daphne should also, at a minimum, consider withdrawing from the engagement**
- D. none of the above**

18. Shaggy, a partner in a public accounting firm, allowed his CPA license to lapse a couple of years ago. He, however, has continued to hold himself out as a CPA this entire time. Which of the following statements is true:

- A. Shaggy has committed an Acts Discreditable since he used the CPA credential during a period when his license was not current
- B. Shaggy has done nothing wrong
- C. Shaggy has a three year grace period to get his license reinstated and, meanwhile, is permitted to hold himself out as a CPA
- D. both B and C above

19. When the public interest of transparency in financial reporting or fair administration of the tax law is in conflict with the agenda of the CPA's employer/client, the CPA must:

- A. subordinate the public interest since loyalty to the employer/client is more important
- B. try to resolve the conflict. If the conflict cannot be resolved, the CPA may need to resign
- C. place public interest over the employer's/client's agenda even if it means loss of job or the client
- D. both B and C above

20. Rubeena serves as a forensic accounting expert witness. Which one of the following situations describes when she can take a contingent fee for her services:

- A. Rubeena and her client have agreed to a contingent fee in their signed engagement letter
- B. under no situation, as expert witnesses cannot ever take contingent fees
- C. she can take a contingent fee only if she and her client don't tell anyone
- D. only when the client does not have ready cash and can pay only if they win the lawsuit

Congratulations –

you've completed the exam!

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**A CPA's GUIDEBOOK TO ETHICAL BEHAVIOR FOR TEXAS CPAs #4160
(4 CPE HOURS) – ANSWER SHEET (2/17)**



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: _____

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

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☐ 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"/>
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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!

A CPA's GUIDEBOOK TO ETHICAL BEHAVIOR FOR TEXAS CPAs #4160
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
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