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Ethics and Professional Conduct for Maryland CPAs

Course #4705E

Exam Packet



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ETHICS AND PROFESSIONAL CONDUCT FOR MARYLAND CPAS **(COURSE #4705E)**

COURSE DESCRIPTION

This course is designed to meet the specific ethics requirements for the state of Maryland, including the Code of Professional Conduct, various rulings on ethics, and ethical guidance that affects both tax professionals and CPAs in industry. Uses the materials entitled *Ethics and Professional Conduct for Maryland CPAs*. No prerequisites. Course level: Basic. Course #4705E - 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

SUBJECT

1

Chapter 1: Maryland Specific Information
Chapter 2: The Code of Professional Conduct
Chapter 3: Understanding the Code of Professional Conduct

Study the course materials from pages 1-1 to 3-23
Complete the review questions at the end of each chapter
Answer the final exam questions 1 to 9

Objectives:

- To discuss the requirements specific to Maryland CPAs
- To differentiate between the six guiding principles in the AICPA Code of Professional Conduct and the rules
- To explain how rule interpretations apply to the rules themselves

ASSIGNMENT**SUBJECT****2**

Chapter 4: Rulings on Ethics
Chapter 5: Ethics and the Tax Professional
Chapter 6: Ethics for Industry CPAs

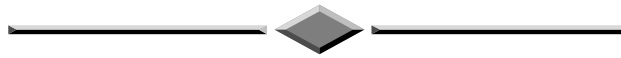
Study the course materials from pages 4-1 to 6-14
Complete the review questions at the end of each chapter
Answer the final exam questions 10 to 20

Objectives:

- To relate the rulings on ethics to the applicable principle
- To apply the AICPA standards and the IRS rules to common ethical dilemmas faced by CPAs in tax practice
- To discuss the AICPA guidance for Management Accountants

ASSIGNMENT**3**

Complete the Answer Sheet and Course Evaluation and mail to PES for credit

**NOTICE**

This course and test have been adapted from materials and information contained in materials entitled *Ethics and Professional Conduct for Maryland CPAs* and any supplemental material provided. This course is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional advice and assumes no liability whatsoever in connection with its use. Since laws are constantly changing, and are subject to differing interpretations, we urge you to do additional research and consult appropriate experts before relying on the information contained in this course to render professional advice.

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ETHICS AND PROFESSIONAL CONDUCT FOR MARYLAND CPAS (COURSE #4705E) – 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 true/false and/or 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 and Professional Conduct for Maryland CPAs course (#4705E) qualifies for 4 CPE hours.

PROCESSING: Your exam will be graded promptly. You must score 70% or better to pass. 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 then another answer sheet will be sent to you free of charge.

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). Go to the “**MY CPE**” tab and click the “**My CPE Exams in Progress**” folder. If your exam is not already located in this folder, click “**Add Exam Previously Purchased**” 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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Granite Bay, CA 95746**

- **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.



***Thank you for using
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ETHICS AND PROFESSIONAL CONDUCT FOR MARYLAND CPAS (COURSE #4705E) – FINAL EXAM

The following questions are either true or false and/or multiple choice. Please indicate your choice on the enclosed Answer Sheet.

1. Which of the following peer review programs is required when a licensee or permit holder performs engagements governed by the Statements on Auditing Standards of the AICPA:
 - a) a system review
 - b) a report review
 - c) an engagement review
 - d) any of the above
2. Which of the following is not one of the Principles of the AICPA Code of Professional Conduct:
 - a) honesty
 - b) integrity
 - c) responsibilities
 - d) due care
3. Which of the following is not one of the bodies designated by the AICPA Council to promulgate accounting principles:
 - a) FASB
 - b) IASB
 - c) IRS
 - d) GASB
4. Rule 302 prohibits certain contingent fees. Which of the following is not considered a contingent fee:
 - a) performing a review where the CPA receives a fee based on 1% of gross sales
 - b) performing an audit under a five-year contract where the CPA receives an audit fee of 10% of net income
 - c) charging \$5,000 for a review of a new client's financial statements when existing clients are charged only \$3,000 for a similar review, since a first time review is generally more time consuming than a review in subsequent years
 - d) preparing an original income tax return for 20% of the refund, if any
5. 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" (Rule 505-Form of Organization and Name):
 - a) 100%
 - b) 51%
 - c) 50%
 - d) 25%
6. Nash, CPA has been the auditor for XYZ Industries for several years. The client subsequently discovered a deficiency that has been going on for most of that time. The client has indicated that Nash, CPA may be named by XYZ Industries in a lawsuit resulting from the deficiencies in audit work. Nash, CPA believes that the present management of XYZ Industries will file suit within the next month. Which of the following is true (Interpretation 101-6):
 - a) threatened or actual litigation alleging deficiencies in audit work are considered to impair independence
 - b) independence would be impaired only if/when the suit is filed
 - c) independence would be impaired only if the suit were filed and the damages claimed exceeded the firm's annual gross billings
 - d) the workings of the legal system are a fact of life for the CPA today. Accordingly, Nash, CPA would not have to alter or adjust his services in any manner

7. Integrity and objectivity are essential to the CPA profession. Which of the following is true regarding integrity and objectivity (Rule 102):
- a) it would be impractical to define all situations that would lead to an impairment of objectivity or integrity
 - b) integrity is easy to judge because any particular error is easily classifiable as either an honest error or due to lack of integrity
 - c) it would be easy to enumerate a comprehensive list of all situations that would impair objectivity
 - d) it would be easy to enumerate a comprehensive list of all situations that would impair integrity
8. Rule 302 generally prohibits contingent fees. Which of the following is a prohibited contingent fee (Interpretation 302-1):
- a) filing an amended return for a client whereby a tax refund is claimed based on an issue that is the subject of a test case (not involving the client)
 - b) charging a contingent fee for preparing an amended return that is based on an obvious omission of a deduction
 - c) offering a new client the choice of one hour free tax consultation or a 10% discount on tax return preparation
 - d) representing the client before the IRS where the IRS is auditing the client's return
9. According to the AICPA, a CPA or CPA firm in public practice may use which of the following forms of practice (Rule 505):
- a) any form of organization permitted by law or regulation whose characteristics conform to resolutions of council
 - b) only a sole proprietorship, general partnership, or limited liability partnership
 - c) only a sole proprietorship, general partnership or professional corporation
 - d) only a sole proprietorship or general partnership
10. A member's client has not paid fees for previously rendered professional services. Would the independence of the member's firm be considered to be impaired with respect to the client for the current year (Rule 101-Ruling 52):
- a) unpaid fees will only impair independence if the unpaid fees exceed 10% of the firm's annual revenue
 - b) no, unpaid fees never impair independence
 - c) yes, independence is impaired if an invoice is more than 30 days delinquent
 - d) independence of the member's firm is considered to be impaired if, when the report on the client's current year is issued, fees remain unpaid, whether billed or unbilled, for any professional services provided more than one year prior to the date of the report. Such amounts assume the characteristics of a loan within the meaning of Rule 101 and its interpretations
11. An AICPA member wants to use the CPA designation along with employment title on business cards. Is this permissible (Rule 102-Ruling 65):
- a) yes, any CPA may always use the CPA designation in any way he or she sees fit, regardless of how it is perceived by anyone receiving the business card
 - b) yes, however, if the member uses the CPA designation in a manner to imply that he or she is independent of the employer, the member would be knowingly misrepresenting facts in violation of Rule 102
 - c) no, members not in public practice may never use the CPA designation
 - d) no, members not in public practice may not even display their CPA certificate

12. A member withdrew from an engagement upon discovering irregularities in the client's tax return. May he reveal to the successor accountant why the relationship was terminated (Rule 301-Ruling 3):
- a) no, he may not talk to the successor CPA under any circumstances
 - b) no, however, if the member is contacted by the successor, he should ask the successor to obtain permission from the client for him to speak freely with the successor
 - c) yes, he is obligated to contact the successor and disclose all the relevant facts
 - d) yes, he should also notify the former client that the tax authorities will be notified
13. May a member in public practice disclose the name of the client for whom the member or the member's firm performed professional services (Rule 301-Ruling 7):
- a) no, client names are always confidential information under Rule 301
 - b) yes, a CPA may disclose the name of any client under any and all circumstances
 - c) yes, but only if the client is publicly held
 - d) yes, it is permissible under Rule 301 for a member to disclose the name of a client, whether publicly or privately owned, without the client's specific consent unless the disclosure of the client's name constitutes the release of confidential information
14. May an AICPA member purchase a product from a third party supplier and resell the product to a client without violating the rules on receiving commissions (Rule 503-Ruling 185):
- a) yes, as long as the sales price of the product is less than \$100
 - b) yes, if a member purchases a product and resells it to a client, any profit on the sale would not constitute a commission. Purchasing entails taking title to the product and having all the associated risks of ownership
 - c) no, this would be a prohibited commission
 - d) no, this would be a prohibited referral fee
15. Circular 230 prescribes regulations governing the practice before the Internal Revenue Service. Which of the following is considered "practicing before the IRS":
- a) representing a member of your immediate family
 - b) a general partner representing the partnership
 - c) participating in rulemaking by submitting comments on the fairness of proposed regulations
 - d) none of the above
16. According to Circular 230, a practitioner may generally determine the rate and fee structure to charge clients. Which of the following methods is not permitted under Circular 230:
- a) fixed fees for specific routine services (e.g., \$150 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
17. According to Circular 230, a practitioner who prepares tax returns may do which of the following related to a check issued to a client by the government in respect of a federal tax liability:
- a) receive and endorse the check under any circumstances
 - b) receive and endorse the check if the taxpayer completes Form 2848, Power of Attorney and Declaration of Representative
 - c) receive, but not endorse the check if the taxpayer completes Form 2848, Power of Attorney and Declaration of Representative
 - d) neither receive nor endorse the check, even if the taxpayer completes Form 2848, Power of Attorney and Declaration of Representative

18. 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 “not frivolous 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

19. The IMA’s Standards of Ethical Conduct include standards related to all of the following except:

- a) competence
- b) accuracy
- c) confidentiality
- d) integrity

20. According to the Foreign Corrupt Practices Act, a public company is required to have a control system which has all of the following attributes except:

- a) transactions must occur under the authorization of management
- b) transactions must be properly recorded
- c) transactions must be authorized by U.S. citizens and made in a timely manner
- d) there must be periodic reconciliations of recorded to actual assets, with an investigation of any differences

***Congratulations –
you’ve completed the exam!***

ETHICS AND PROFESSIONAL CONDUCT FOR MARYLAND CPAS #4705E
(4 CPE hours) – ANSWER SHEET (7/11)

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.

Name (as it appears on your license) _____
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City _____ State _____ Zip _____ Home ☐ Work ☐
Daytime Phone (____) _____ E-mail address (for online grading) _____
License Number _____ State _____ Expiration Date _____ CPA, CFP, EA (circle one)
If course was ordered by another party, please indicate name here: _____

GRADING OPTIONS – Please choose only ONE of the following:

- **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).
 - Go to the “**MY CPE**” tab and click the “**My CPE Exams in Progress**” folder.
 - If your exam is not already located in this folder, click “**Add Exam Previously Purchased**” 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:
Please: ☐ 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.

Ethics and Professional Conduct for Maryland CPAs #4705E - 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. _____
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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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