

Professional Education Services, LP

Ethics for California CPAs

#4020G
EXAM MATERIAL



PES



Professional Education Services, LP

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ETHICS FOR CALIFORNIA CPAs

(COURSE #4020G)

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, as well as California specific information. No prerequisites. Course level: Basic. Course #4020G - 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 48

Complete the review questions at the end of each chapter

Answer the exam questions 1 to 14

Objectives:

- To recognize the history and function of ethics
- To recognize the rules of the Code of Professional Conduct

ASSIGNMENT 2: SUBJECT

Chapter 3: IRS Circular 230

Chapter 4: California Specific Information

Study the course materials from pages 49 to 94

Complete the review questions at the end of each chapter

Answer the exam questions 15 to 20

Objectives:

- To identify the Internal Revenue Service Requirements as outlined in Circular 230
- 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.

Note: Any case studies or examples relating to any disciplinary actions taken by the Board of Accountancy have been taken directly from a BOA source (e.g. website, newsletters, notices) and were published based on the information available at the time of course development. Subsequent events, actions, withdrawals may have occurred since the publication of this course.

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ETHICS FOR CALIFORNIA CPAs
(COURSE #4020G)
EXAM INFORMATION

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 (#4020G) qualifies for **4** CPE hours.

PROCESSING: 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. When completing your exam online, grading is instantaneous. Upon achieving a passing score, the completion certificate is immediately available in your account under "My Completed CPE." **Please note:** failed exams may be retaken. Per NASBA and AICPA guidelines, missed questions cannot be indicated until after you pass.

GRADING OPTIONS – Please choose only ONE of the following:

GGRADING OPTIONS: Please choose only **ONE** of the following. If mailing or faxing, 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 the course title of the exam you wish to take. Once all answers have been selected, click the "Submit/Grade Answers" button at the bottom of the page for instant grading and certification. **If you do not see the exam listed**, click on "My CPE in Progress." Click on the "Add Exam to Account" button and follow the instructions.
- **MAIL** – Your exam will be graded and your certificate of completion mailed to you within one business day. Your certificate will be dated according to the **postmark date**. Please mail your Answer Sheet to:

Professional Education Services, LP
4208 Douglas Blvd., Ste 50
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. 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 PROFESSIONAL EDUCATION SERVICES.

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ETHICS FOR CALIFORNIA CPAs (COURSE #4020G) – FINAL EXAM

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

1. Which of the following would John Austin classify the AICPA's Code of Professional Conduct as:
 - A. a positive law
 - B. a natural law
 - C. a philosophical model
 - D. a command
2. What is the most important reason CPAs should follow professional ethics:
 - A. to avoid monetary sanctions
 - B. to behave in the most ethical manner
 - C. to avoid losing one's license
 - D. to make the most money
3. The AICPA codified the Code of Professional Conduct into three functional areas, including all of the following except:
 - A. Members in Public Practice
 - B. Members in Business
 - C. Members Employed by the Federal Government
 - D. Other Members
4. Which of the following is not one of the main steps that a member should perform in applying the conceptual framework approach:
 - A. identify and apply safeguards
 - B. eliminate all threats, and if unable to do so, decline the engagement
 - C. identify threats
 - D. evaluate the significance of a threat
5. Which of the following types of threats is exemplified by senior personnel having a long association with a client:
 - A. self-review threat
 - B. self-interest threat
 - C. undue influence threat
 - D. familiarity threat
6. Which of the following is an example of a safeguard implemented by a client that would operate in conjunction with other safeguards:
 - A. implementing professional standards and the threat of discipline
 - B. creating a system of education and training requirements on independence and ethics rules
 - C. creating an active audit committee to ensure appropriate decision making, oversight, and communications regarding a firm's services
 - D. creating competency and experience requirements for professional licensing
7. According to 1.110.010, which of the following situations may be a potential conflict of interest:
 - A. preparing valuations of assets for two clients who are in an adversarial position with respect to the same assets
 - B. advising two clients at the same time who are competing to acquire the same company when the advice may be relevant to the parties' competitive positions
 - C. representing two clients at the same time regarding the same matter who are in a legal dispute with each other
 - D. all of the above

8. The General Standards covered in 1.300.001 include all of the following except:

- A. contingent fees
- B. professional competence
- C. sufficient relevant data
- D. due professional care

9. Which of the following would most likely be a violation of 1.400.001 "Acts Discreditable":

- A. a CPA is convicted of a traffic offense and is fined \$400
- B. a CPA cuts his professional services fee by 80% for a client who is near bankruptcy and prepays the estimated fee
- C. a CPA files a false personal tax return but is not convicted of any crime due to the suppression of evidence that is inadmissible in court
- D. a CPA mistakenly fails to sign his personal tax return but does sign it when requested by the tax authorities

10. 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 charging a contingent fee to prepare an amended tax return
- C. a member is prohibited from offering a 10 percent discount on tax return preparation
- D. a member is prohibited from charging varying fees depending on the complexity of the services rendered

11. Which of the following AICPA members can accept a commission from a client during the period the services identified are performed:

- A. a member who performed a compilation of the financial statements of the client, but disclosed the lack of independence
- B. a member who did not personally participate in the audit of the client associated with the member's firm
- C. a member who performed an examination of prospective financial information, but disclosed the lack of independence
- D. a member who performed a review of the financial statements of the client, but disclosed the lack of independence

12. Which of the following is correct regarding the Confidential Client Information Rule (1.700.001):

- A. the confidential client information rule relieves a member of his or her professional obligations of the Accounting Principles Rule (1.320.001)
- B. a member in public practice shall never disclose confidential client information under any circumstances
- C. 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
- D. this rule prohibits the review of a member's professional practice under AICPA or state CPA society authorization without a client's consent

13. According to 1.800.001, what percentage of CPA owners of a firm must be members of the AICPA in order for the firm to use the designation "Members of the American Institute of Certified Public Accountants":

- A. 25%
- B. 50%
- C. 51%
- D. 100%

14. Non-CPAs are allowed by the AICPA to own up to what percentage of a CPA firm:

- A. 25%
- B. 49%
- C. 66%
- D. 100%

15. Bob Jones, Inc. is a new small business client that has asked you to prepare its current year tax return. Upon interviewing the client, you determine that the client has not filed several prior year tax returns. According to Circular 230, what should you do:

- A. advise the client promptly of the fact of noncompliance
- B. notify the IRS of this failure
- C. advise the client promptly of the fact of noncompliance and notify the IRS if the client refuses to file
- D. ignore the fact of non-filing provided the current year return is filed timely

16. Which of the following is true regarding when a contingent fee is permitted by the IRS:

- A. contingent fees are permitted as long as AICPA standards are followed
- B. contingent fees are allowed on original tax returns
- C. contingent fees are allowed when representing a client under audit
- D. contingent fees are never allowed

17. 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

18. According to Circular 230, Section 10.36, which of the following is correct regarding procedures to ensure compliance:

- A. it places the first layer of responsibility on the individual as part of a "self-regulatory" environment
- B. it provides that only firms, and not individuals of a firm, can be subject to disciplinary action for failing to comply with Circular 230
- C. the provision is ineffective
- D. it makes an individual of a firm into an enforcer of Circular 230

19. 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

20. Which of the following is required every six years in order to renew an active status license:

- A.** a two-hour Board-approved Regulatory Review course
- B.** 80 hours of CPE
- C.** four hours of ethics
- D.** 40 hours of technical CPE

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

**ETHICS FOR CALIFORNIA CPAs #4020G
(4 CPE HOURS) – ANSWER SHEET (9/20)**



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 on the course title of the exam you wish to take. **If you do not see the exam listed**, click on “My CPE in Progress,” then click on the “Add Exam to Account” button 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 ☐ Fax my results (____) _____ ☐ phone my results (____) _____

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

**ETHICS FOR CALIFORNIA CPAs #4020G
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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