



California Ethics - Industry Focus

Course #9342A

Ethics

4 Credit Hours

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CALIFORNIA ETHICS - INDUSTRY FOCUS

This course is designed to provide the CPA with an ethical framework that the CPA can use as a guide to sort through ethical dilemmas. It provides detailed guidance on the specific laws, rules, and regulations you will need in the future. Also included is an overview of business responsibilities with internal fraud prevention and management fraud, as well as California specific information.

LEARNING ASSIGNMENTS AND OBJECTIVES

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

SUBJECTS

Ethics for Industry CPAs
Internal Fraud Prevention
Management Fraud
California Specific Information

Study the course materials from pages 1 to 95

Complete the review questions at the end of each chapter

Answer the exam questions 1 to 10

Objectives:

- Recognize AICPA guidance for CPAs in business.
- Identify ethical guidance promulgated by the Institute of Management Accountants (IMA).
- Recognize common frauds in business and how fraud prevention should be implemented.
- Recognize management fraud techniques as they relate to misstated financial statements.
- Recall the rules specific to the practice of public accountancy in California.

NOTICE

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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EXAM OUTLINE

- **TEST FORMAT:** The final exam for this course consists of 20 multiple-choice questions and is based specifically on the information covered in the course materials.
- **ACCESS FINAL EXAM:** Log in to your account and click Take Exam. A copy of the final exam is provided at the end of these course materials for your convenience, however you must submit your answers online to receive credit for the course.
- **LICENSE RENEWAL INFORMATION:** This course qualifies for **4** CPE hours.
- **PROCESSING:** You will receive the score for your final exam immediately after it is submitted. A score of 70% or better is required to pass.
- **CERTIFICATE OF COMPLETION:** Will be available in your account to view online or print. If you do not pass an exam, it can be retaken free of charge.

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CHAPTER 1: ETHICS FOR INDUSTRY CPAs

Chapter Objectives

After completing this chapter, you should be able to:

- Recognize AICPA guidance for CPAs in business.
- Identify ethical guidance promulgated by the Institute of Management Accountants (IMA).

INTRODUCTION

Although many CPAs begin their careers in public practice, many soon migrate to positions in industry. Many will join the Institute of Management Accountants (IMA). Some of those who join the IMA will also get the Certified Management Accountant (CMA) designation. Many will retain their membership in the AICPA. Both the AICPA and IMA are voluntary member organizations – only members are required to follow their respective ethical guidelines. However, these guidelines were designed in furtherance of the CPA's role as trusted business advisers. Accordingly, these guidelines should be followed by members and non-members alike.

AICPA CODE OF PROFESSIONAL CONDUCT

In 2014, the AICPA codified the Code of Professional Conduct to be more logical and user friendly. The code, rules, interpretations and rulings are essentially the same, but they have been grouped into functional areas based on the member's area of practice plus a preface that is applicable to all members. (Note: Throughout the AICPA Code of Professional Conduct you will see the term "Member." This term relates to you, the CPA, whether or not you are a member of the AICPA.) The three functional areas are:

Part 1: Members in Public Practice

Part 2: Members in Business

Part 3: Other Members (retired, unemployed, etc.)

The part number is followed by two sets of three digit numbers to identify the topic and, when applicable, the subtopic. For example, 1.100.001 relates to Part 1 (Members in Public Practice); Topic 100 (Integrity and Objectivity); and Subtopic 001 (the Integrity and Objectivity rule).

By grouping all of the guidance for a particular type of member in one place, the CPA will save much time in researching a situation as well as (hopefully) reach a more accurate conclusion. However, bear in mind that a member may be covered by more than one category. For example, one could work full time for an employer in industry and work part time during busy season preparing tax returns.

This course will focus on Part 2 of the Code of Professional Conduct: Members in Business. Below is a listing of the topics covered in Part 2, followed by a discussion of each topic and selected corresponding interpretations, rulings, and other guidance by topic.

2.0 Conceptual Framework for Members in Business

2.100 Integrity and Objectivity

2.300 General Standards

2.400 Acts Discreditable

Throughout this course, we will attempt to use the actual AICPA code section references whenever possible. This will allow you to conduct further research on topics of interest to you. However, the source material is very voluminous, and in many instances, we have omitted entire sections of the Code. We believe this approach is both appropriate and beneficial for the CPA seeking an overview or refresher course.

Part 2

Members in Business

2.000 Introduction

.01 Part 2 of the Code of Professional Conduct (the code) applies to members in business. Accordingly, when the term member is used in part 2 of the code, the requirements apply only to members in business. When a member in business is also a member in public practice (for example, a member has a part-time tax practice), the member should also consult part 1 of the code, which applies to members in public practice.

2.000.010 Conceptual Framework for Members in Business

Introduction

.01 Members may encounter various relationships or circumstances that create threats to the member's compliance with the rules. The rules and interpretations seek to address many situations; however, they cannot address all relationships or circumstances that may arise. Thus, in the absence of an interpretation that addresses a particular relationship or circumstance, a member should evaluate whether that relationship or circumstance would lead a reasonable and informed third party who is aware of the relevant information to conclude that there is a threat to the member's compliance with the rules that is not at an acceptable level. When making that evaluation, the member should apply the conceptual framework approach as outlined in this interpretation.

.02 The code specifies that in some circumstances, no safeguards can reduce a threat to an acceptable level. For example, the code specifies that a member may not subordinate the member's professional judgment to others without violating the "Integrity and Objectivity Rule" [2.100.001]. A member may not use the conceptual framework to overcome this or any other prohibition or requirement in the code.

Definitions Used in Applying the Conceptual Framework

.03 Acceptable level. A level at which a reasonable and informed third party who is aware of the relevant information would be expected to conclude that a member's compliance with the rules is not compromised.

.04 Safeguards. Actions or other measures that may eliminate a threat or reduce a threat to an acceptable level.

.05 Threat(s). Relationships or circumstances that could compromise a member's compliance with the rules.

Conceptual Framework Approach

.06 Under the conceptual framework approach, members should identify threats to compliance with the rules and evaluate the significance of those threats. Members should evaluate identified threats both individually and in the aggregate because threats can have a cumulative effect on a member's compliance with the rules. Members should perform three main steps in applying the conceptual framework approach:

a. Identify threats. The relationships or circumstances that a member encounters in various engagements and work assignments or positions will often create different threats to complying with the rules. When a member encounters a relationship or circumstance that is not specifically addressed by a rule or an interpretation, under this approach, the member should determine whether the relationship or circumstance creates one or more threats, such as those identified in paragraphs .09–.14 that follow. The existence of a threat does not mean that the member is in violation of the rules; however, the member should evaluate the significance of the threat.

b. Evaluate the significance of a threat. In evaluating the significance of an identified threat, the member should determine whether a threat is at an acceptable level. A threat is at an acceptable level when a reasonable and informed third party who is aware of the relevant information would be expected to conclude that the threat would not compromise the member's compliance with the rules. Members should consider both qualitative and quantitative factors when evaluating the significance of a threat, including the extent to which existing safeguards already reduce the threat to an acceptable level. If the member evaluates the threat and concludes that a reasonable and informed third party who is aware of the relevant information would be expected to conclude that the threat does not compromise a member's compliance with the rules, the threat is at an acceptable level and the member is not required to evaluate the threat any further under this conceptual framework approach.

c. Identify and apply safeguards. If, in evaluating the significance of an identified threat, the member concludes that the threat is not at an acceptable level, the member should apply safeguards to eliminate the threat or reduce it to an acceptable level. The member should apply judgment in determining the nature of the safeguards to be applied because the