



Ethics For New Mexico CPAs

Course #9601A

Ethics

4 Credit Hours

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ETHICS FOR NEW MEXICO CPAS

This course is designed to provide the New Mexico 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.

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

Chapter 1: Introduction to the Study of Ethics

Chapter 2: The AICPA Code of Professional Conduct

Chapter 3: Ethics and the Tax Professional

Chapter 4: New Mexico Public Accountancy Board

Study the course materials from pages 1 to 94

Complete the review questions at the end of each chapter

Answer the exam questions 1 to 20

Objectives:

- To recognize the history and function of ethics
- To recognize the rules of the Code of Professional Conduct
- To identify the Internal Revenue Service Requirements as outlined in Circular 230
- To identify responsibilities of the New Mexico Board as it relates to the licensee

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.

TABLE OF CONTENTS

Chapter 1: Introduction to the Study of Ethics	1
Chapter 1: Test Your Knowledge	4
Chapter 1: Solutions and Suggested Responses	5
Chapter 2: The AICPA Code of Professional Conduct	6
Chapter 2: Test Your Knowledge	41
Chapter 2: Solutions and Suggested Responses	43
Chapter 3: Ethics and the Tax Professional	45
Chapter 3: Test Your Knowledge	76
Chapter 3: Solutions and Suggested Responses	78
Chapter 4: New Mexico Public Accountancy Board	80
Chapter 4: Test Your Knowledge	86
Chapter 4: Solutions and Suggested Responses	87
Glossary	88
Index	90
Final Exam Copy	91

CHAPTER 1: INTRODUCTION TO THE STUDY OF ETHICS

Chapter Objective

After completing this chapter, you should be able to:

- Recognize the history and function of ethics.

Ethics has a number of functions or goals. The primary function is to develop formulas or logical constructs that can be used in choosing between various courses of action. The “moral” or “ethical” thing to do is considered the right thing to do. But it is not always easy to know what the moral course of action is. Ethical constructs and theories, such as utilitarianism, are designed to be used as tools of thought in selecting an appropriate, ethical course of action. It does not matter if your goal is to be the best CPA or the best spouse or friend; the principles that guide one’s actions will theoretically be the same.

Webster’s Dictionary defines “ethics” as “the discipline dealing with what is good and bad and with moral duty and obligation” and as “a set of moral principles or values.” The word “moral” is defined as “of or relating to principles of right and wrong in behavior.” Ethics has also been defined as the “science of conduct.” First and foremost, ethics is a philosophy. The study of ethics has a long and rich history in Western civilization, beginning with the early Greek philosophers such as Plato and Aristotle, emerging along with early Christian thought in the medieval period and continuing into modern European scholarship. Throughout the centuries, the great philosophers have attempted to develop normative constructs to use in defining behavior. Many schools of thought have developed that have been used not only to define conduct, but to establish norms. These theories have been used variously to justify different courses of conduct as ethical and to promote different modes of behavior.

Observation



Nowhere in the dictionary will you find the definition of ethics as doing that which one is legally obligated to do. Ethical responsibilities exceed legal obligations.

The modern professional rules of conduct that govern CPAs – like those governing attorneys and other professionals – have developed out of those schools of thought with an eye toward establishing a set of norms that benefit and promote the profession while protecting consumers. A general understanding of some of the background of this field of study is helpful to more fully understand the goal of the rules of professional conduct governing CPAs. This type of understanding is also useful in analyzing situations that may arise that do not fall squarely within the parameters of one of the specific professional rules. The ethical CPA should be able to determine the appropriate course of action regardless of the circumstances

in which he or she finds himself or herself. We will begin our discussion with a brief overview of a few of the major philosophical ethical constructs and then examine how those constructs can be used as models in guiding the behavior of CPAs.

Most societies attempt to compel ethical behavior by requiring adherence to a series of laws (in this way, the rules of professional conduct governing CPAs can be viewed as laws designed to ensure that CPAs act ethically). English philosopher John Austin wrote that “a law, in the most general and comprehensive acceptation in which the term, in its literal meaning, is employed, may be said to be a rule laid down for the guidance of an intelligent being by an intelligent being having power over him.” This definition is taken from Austin’s “The Providence of Jurisprudence Determined,” first published in 1832. Austin defines several types of laws. First, according to Austin, are laws laid down by God to govern the behavior of man. These are referred to as “natural laws.”

Next are laws established by men, which are termed “positive laws,” or laws that exist by position. Every law, according to Austin, is a “command”:

Summary: Philosopher John Austin believed there are 2 types of laws:

- 1) Natural Laws – Laws laid down by God to govern the behavior of man;
- 2) Positive Laws – Laws that are established by men.

Viewed according to this philosophical model, the AICPA’s Code of Professional Conduct is most properly characterized as a set of commands. As they are commands laid down by man to govern the conduct of man, philosopher John Austin would classify the AICPA’s Code of Professional Conduct as a “positive law.” And as the result of a failure to follow or abide by a rule of professional conduct can lead to the imposition of a punishment or a sanction, that rule of professional conduct can again, according to Austin’s philosophical model, properly be referred to as a positive law. Even though the purpose of the rule is to achieve a certain good, the rule is defined by the sanction that is threatened when there is non-compliance:

I am determined or inclined to comply with the wish of another, by the fear of disadvantage or evil. I am also determined or inclined to comply with the wish of another, by the hope of advantage or good. But it is only by the chance of incurring evil, that I am bound or obliged to compliance. It is only by conditional evil, that duties are sanctioned or enforced. It is the power and purpose of inflicting eventual evil, and not the power and purpose of imparting eventual good, which gives to the expression of a wish the name of a command.

Thus, the AICPA Code requirement that CPAs “maintain objectivity and be free of conflicts of interest in discharging professional responsibilities” (Article IV) takes the form of a “command” over CPAs through the risk that a CPA who fails to act with objectivity in discharging his or her obligations could be sanctioned by the AICPA. It is through knowledge that a sanction is possible that the CPA follows the “commands” of the rules of professional conduct.

It is through the fact that the members of the group, in this case CPAs, follow the same set of commands, that a “society” is established: “In order that a given society may form a society political, the generality or bulk of its members must habitually obey a superior determinate as well as common.” Thus, accountants, while they do not form a “society” within the traditional meaning of the term, defined as a political entity, do form a society in the broader definition as a group of individuals who voluntarily submit themselves to the same set of rules under the threat that non-compliance with any particular positive law can lead to the imposition of a sanction.

THE VALUE OF PROFESSIONAL CODES OF ETHICS

It is easy to say that professional ethical codes have been developed to protect consumers and to promote the business whose ethics are being regulated. Stated in the abstract, however, this is of limited value. To truly understand the ethical rules governing CPAs, it is important to have a better understanding of the value that the rules provide. The field of ethics is involved in defining behavior as good or bad. People in business generally have as their primary motivation increasing profits. If we assume, contrary to some philosophical theories, that people will not behave ethically simply because it is the right thing to do, then there must be some additional incentive or motivation for people to act in an ethical manner. One obvious motivation is the fear of sanction or punishment that can come with non-compliance. No CPA would reasonably do something that he knew could result in the loss of his license to practice because such action would threaten the person’s livelihood. But there are other reasons that the CPA should be concerned about following ethical rules. First, being ethical is the right thing to do. Second, being ethical will often lead to greater professional success.

Ethical rules governing CPAs and other professionals therefore have a joint purpose. On the one hand, as we said earlier, the rules protect consumers. This is true regardless of what motivates the individual CPA to follow them. The rules also help to promote the profession by providing a consistency in the way that problems are approached. But since not all problems or predicaments are predictable, and therefore there is no rule to govern every potential contingency, the truly ethical accountant is one who understands the value of the rules and the basis behind them. That accountant is therefore better situated to determine the ethical course of action when faced with a difficult situation. The most important reason for CPAs to follow professional ethics is simply to behave in the most ethical manner.