Certified Public Accountants (CPA) Ethics Practice Exam (Sample)

Study Guide

BY EXAMZIFY

Everything you need from our exam experts!

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- **Practice answering questions under realistic conditions,**
- **Improve accuracy and speed,**
- **Review explanations to strengthen weak areas, and**
- **Approach the exam with greater confidence.**

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here’s how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don’t just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There’s no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

1. **What should a CPA do if a client insists on a position that the CPA does not agree with on a tax return?**
   - A. Finish preparing the return and refuse to sign it
   - B. Prepare and sign the return regardless of disagreement
   - C. Withdraw from the engagement entirely
   - D. Prepare the return and seek legal advice

2. **What did Miller suggest Joe do with the distribution he received?**
   - A. Invest in real estate
   - B. Consult with a registered investment adviser
   - C. Open a savings account
   - D. Participate in stock trading

3. **Which of the following is a core responsibility of a CPA regarding ethical behavior?**
   - A. Maximizing personal gain
   - B. Ensuring accuracy and reliability of financial information
   - C. Taking on as many clients as possible
   - D. Avoiding confrontation with clients

4. **If a CPA firm has knowingly prepared misleading financial statements for a second time, what is the maximum administrative penalty?**
   - A. $50,000
   - B. $1,000,000
   - C. $5,000,000
   - D. $100,000

5. **What must a CPA do if they discover a significant error in a financial report after it has been issued?**
   - A. Notify only upper management
   - B. Disclose the error and take corrective action
   - C. Wait for client feedback
   - D. Ignore the error

6. **Do any states allow privileged communications between members and their clients?**
   - A. No
   - B. Yes
   - C. Only for tax clients
   - D. Only for legal advice

7. **When considering independence, what is the outcome if a CPA partner pays off a credit card fully every month?**
   - A. Independence is impaired due to the ongoing relationship with the bank
   - B. Independence is not impaired given the circumstances
   - C. Independence can be restored through proper disclosures
   - D. Independence is only affected if the credit limit is exceeded

8. **What can the Ethics Division do if a CPA is acquitted in a bribery case based on a legal technicality?**
   - A. Drop the investigation
   - B. Proceed with its own investigation
   - C. Turn the case over to another agency
   - D. Ignore the legal technicality

9. **What does the principle of professional behavior emphasize for CPAs?**
   - A. Avoiding conflicts of interest
   - B. Adhering to strict deadlines
   - C. Avoiding conduct that discredits the profession
   - D. Maximizing the firm's revenue

10. **In what scenario might a CPA's independence be compromised due to family relationships with a client?**
   - A. When a relative is a key executive in the client company
   - B. When a relative has any financial investment in the client
   - C. Only if the family member is part of the audit team
   - D. When the family member serves in a non-executive capacity

Answers

1. B
2. B
3. B
4. C
5. B
6. B
7. B
8. B
9. C
10. A

Explanations

1. What should a CPA do if a client insists on a position that the CPA does not agree with on a tax return?

A. Finish preparing the return and refuse to sign it

B. Prepare and sign the return regardless of disagreement

C. Withdraw from the engagement entirely

D. Prepare the return and seek legal advice

In a situation where a client is insisting on a tax return position that the CPA disagrees with, the most ethical and professional action aligns with option A: finishing the preparation of the return but refusing to sign it. This maintains the integrity of the CPA's professional judgment while respecting the client's wishes. The CPA has a duty to act in accordance with applicable tax laws and regulations. If the CPA has a strong belief that the client's position is not supportable based on the tax law, preparing and signing the return (as option B suggests) may expose the CPA to potential personal liability and disciplinary action, as it implies that the CPA endorses a position they do not believe is justified. Option C, withdrawing entirely from the engagement, could be a consideration in some circumstances, especially if the disagreement is significant and irreconcilable. However, rather than walking away, the CPA has the opportunity to communicate clearly with the client about their concerns and advise them on the possible consequences of the position they wish to take. Option D, which involves preparing the return and seeking legal advice, might be appropriate in certain complex situations, but it is typically seen as unnecessary unless there are unusual legal implications involved. Generally, a clearer practice is for the CPA to complete

2. What did Miller suggest Joe do with the distribution he received?

A. Invest in real estate

B. Consult with a registered investment adviser

C. Open a savings account

D. Participate in stock trading

The recommendation for Joe to consult with a registered investment adviser is grounded in the importance of seeking professional guidance when making financial decisions, especially regarding distributions or investments. A registered investment adviser is a qualified professional who can provide tailored advice, taking into account Joe's specific financial situation, goals, risk tolerance, and investment knowledge. This kind of personalized advice can help Joe make informed decisions and potentially enhance his financial security. Investing in real estate, opening a savings account, or participating in stock trading are actions that may carry varying levels of risk and complexity. Without the expertise of a professional, Joe may not fully understand the implications of these choices or how they align with his overall financial objectives. Thus, consulting a registered investment adviser becomes the most prudent course of action, ensuring that his decisions are well-informed and strategically sound.

3. Which of the following is a core responsibility of a CPA regarding ethical behavior?

- A. Maximizing personal gain
- B. Ensuring accuracy and reliability of financial information
- C. Taking on as many clients as possible
- D. Avoiding confrontation with clients

Ensuring accuracy and reliability of financial information is a fundamental ethical responsibility for a CPA. This obligation is critical because CPAs play a key role in preparing, auditing, and providing assurance for financial statements, which stakeholders rely upon for making informed decisions. It is essential for maintaining trust in the financial markets and upholding the integrity of the profession. When CPAs ensure the accuracy and reliability of financial information, they help uphold the principles of transparency and accountability. This includes applying due diligence in verifying data, adhering to generally accepted accounting principles (GAAP), and exercising professional skepticism. By fulfilling this responsibility, CPAs contribute to the overall ethical framework of the profession, ensuring that their work upholds the public interest and the standards set forth by regulatory bodies. The other options do not align with the core ethical responsibilities of a CPA. Maximizing personal gain undermines professional integrity and can lead to conflicts of interest. Taking on as many clients as possible can dilute the quality of service and attention provided, potentially compromising ethical standards. Avoiding confrontation with clients may prevent necessary discussions around ethical challenges or discrepancies, which is contrary to the CPA's duty to uphold ethical principles.

4. If a CPA firm has knowingly prepared misleading financial statements for a second time, what is the maximum administrative penalty?

- A. $50,000
- B. $1,000,000
- C. $5,000,000
- D. $100,000

The maximum administrative penalty for a CPA firm that knowingly prepares misleading financial statements for a second time is indeed $5,000,000. This high penalty reflects the serious nature of misleading financial reporting, as it undermines the trust and integrity essential in the field of accounting and impacts stakeholders relying on accurate financial information. When a CPA firm engages in unethical behavior, especially repeatedly, regulatory bodies impose substantial penalties to deter such conduct and maintain public confidence in the accounting profession. The significant financial repercussions underscore the CFA's commitment to upholding ethical standards and ensuring accountability among firms in the industry. Consequently, the substantial maximum administrative penalty serves both as a punitive measure for the wrongdoing and as a warning to others in the profession about the consequences of unethical practices.

5. What must a CPA do if they discover a significant error in a financial report after it has been issued?

A. Notify only upper management

B. Disclose the error and take corrective action

C. Wait for client feedback

D. Ignore the error

When a CPA discovers a significant error in a financial report after it has been issued, the professional responsibility is to disclose the error and take corrective action. This is rooted in the ethical obligation to ensure transparency and integrity in financial reporting. Failing to address the error can mislead stakeholders and is contrary to the principles of honesty and accountability that CPA professionals adhere to. By choosing to disclose the error and take corrective action, the CPA upholds their duty to protect the interests of users of the financial statements, including investors, creditors, and the public. This often involves informing the appropriate parties, such as management or the governing body, and may also necessitate restating the financial statements to reflect accurate information. In contrast, simply notifying upper management would not suffice, as it may not lead to the necessary corrective actions being communicated to all relevant stakeholders. Waiting for client feedback could result in prolonged misinformation and potential harm to stakeholders relying on those financial reports. Ignoring the error altogether undermines the CPA's ethical obligations and can have serious repercussions for both the CPA and the organization involved. Thus, disclosing the error and correcting it is the only appropriate course of action to maintain professional standards and ethical conduct.

6. Do any states allow privileged communications between members and their clients?

A. No

B. Yes

C. Only for tax clients

D. Only for legal advice

In many states, privileged communications are indeed recognized between members of the profession, such as CPAs, and their clients. This privilege typically pertains to communications made in the course of providing professional services and is intended to foster open and honest discussions between clients and their accountants. The premise is grounded in the notion that clients should feel free to disclose all necessary information without fear that it will be disclosed to third parties, thereby promoting transparency and trust in the professional relationship. The legal context of this privilege can vary from state to state, as different jurisdictions may have specific rules governing the extent of confidentiality. Some may extend this privilege under statutes that outline professional responsibilities or client rights, while others may have more limited interpretations. Importantly, this is especially relevant when CPAs provide certain services, such as tax advice or financial consulting, where the confidential nature of the information discussed is imperative to the client's interests. Given that many states do recognize some form of privileged communication within a CPA-client relationship, affirmatively stating that "yes," states do allow for such communication, aligns with the ethical foundations advocated in accounting ethics and professional conduct guidelines.

7. When considering independence, what is the outcome if a CPA partner pays off a credit card fully every month?

A. Independence is impaired due to the ongoing relationship with the bank

B. Independence is not impaired given the circumstances

C. Independence can be restored through proper disclosures

D. Independence is only affected if the credit limit is exceeded

When assessing independence, a CPA's financial relationships must be evaluated carefully to determine if they could impair objectivity or introduce bias. In this scenario, if a CPA partner pays off a credit card fully every month, it demonstrates responsible financial management and a lack of ongoing debt, which mitigates concerns about financial dependence on the creditor. Independence is generally considered intact in situations like this, where there is no outstanding balance that could create a financial obligation or conflict of interest. The key factor is the relationship with the bank; maintaining a credit card account without carrying a balance does not constitute a substantial economic stake in the bank that could threaten the independence of the CPA. Thus, because the partner is managing the credit responsibly by ensuring that no debt is outstanding, independence remains intact, supporting the conclusion that under these circumstances, the CPA's independence is not impaired.

8. What can the Ethics Division do if a CPA is acquitted in a bribery case based on a legal technicality?

A. Drop the investigation

B. Proceed with its own investigation

C. Turn the case over to another agency

D. Ignore the legal technicality

The Ethics Division, responsible for upholding the ethical standards in the accountancy profession, can proceed with its own investigation even if a CPA is acquitted of bribery charges due to a legal technicality. This is because the legal system and ethical standards operated by the Ethics Division are separate entities. An acquittal does not necessarily imply that the CPA acted ethically or adhered to the professional standards expected of them. The Ethics Division's mandate is to ensure that all CPAs conduct themselves in a manner that upholds the integrity of the profession, independent of the outcomes of criminal trials. Therefore, if a legal technicality contributed to an acquittal, the Division may still find grounds to investigate the CPA's behavior under their professional code of conduct. This process allows the Ethics Division to maintain accountability and ensure that ethical violations are addressed, irrespective of the outcomes in the legal framework. Such investigations could lead to disciplinary actions, even when criminal charges are not substantiated.

9. What does the principle of professional behavior emphasize for CPAs?

A. Avoiding conflicts of interest

B. Adhering to strict deadlines

C. Avoiding conduct that discredits the profession

D. Maximizing the firm's revenue

The principle of professional behavior emphasizes the importance of CPAs conducting themselves in a manner that upholds the integrity and reputation of the profession. Specifically, it requires CPAs to avoid any actions or conduct that could discredit themselves or the profession as a whole. This includes maintaining a standard of professionalism in their practices, communications, and interactions within the industry and with clients. By adhering to this principle, CPAs help to ensure public confidence in the reliability and credibility of financial reporting and advice. This focus on behavior is essential because the actions of CPAs can significantly impact public trust. A failure to exhibit professional behavior can lead to a loss of credibility not just for the individual but for the profession as a whole, potentially causing harm to clients and the public interest. The other choices, while relevant to the broader ethical responsibilities CPAs may face, do not encapsulate the essence of the principle of professional behavior. For example, avoiding conflicts of interest is a key ethical consideration, but it is more specific to managing relationships rather than overall conduct. Adhering to strict deadlines is part of professional diligence but does not directly pertain to the reputation-related aspects of the profession. Maximizing the firm's revenue, while a business imperative, can sometimes conflict with ethical considerations and

10. In what scenario might a CPA's independence be compromised due to family relationships with a client?

A. When a relative is a key executive in the client company

B. When a relative has any financial investment in the client

C. Only if the family member is part of the audit team

D. When the family member serves in a non-executive capacity

A CPA's independence is considered compromised when a relative is a key executive in the client company because this relationship creates a direct threat to objectivity and impartiality. The presence of a close family member in a significant role within the client's organization can influence the CPA's ability to make impartial judgments and decisions regarding the audit or financial reporting. The potential for bias increases significantly when a relative holds a position of authority, especially one that impacts financial decisions, which could undermine the credibility of the CPA's work. This scenario highlights the importance of maintaining professional boundaries and independence in the practice of accounting. Ethical guidelines require CPAs to be vigilant about any relationships that could affect their objectivity, ensuring that they avoid situations where conflicts of interest may arise, especially with key personnel at a client firm who are in positions to make significant management or operational decisions.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we’d love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

https://cpaethics.examzify.com

We wish you the very best on your exam journey. You've got this!