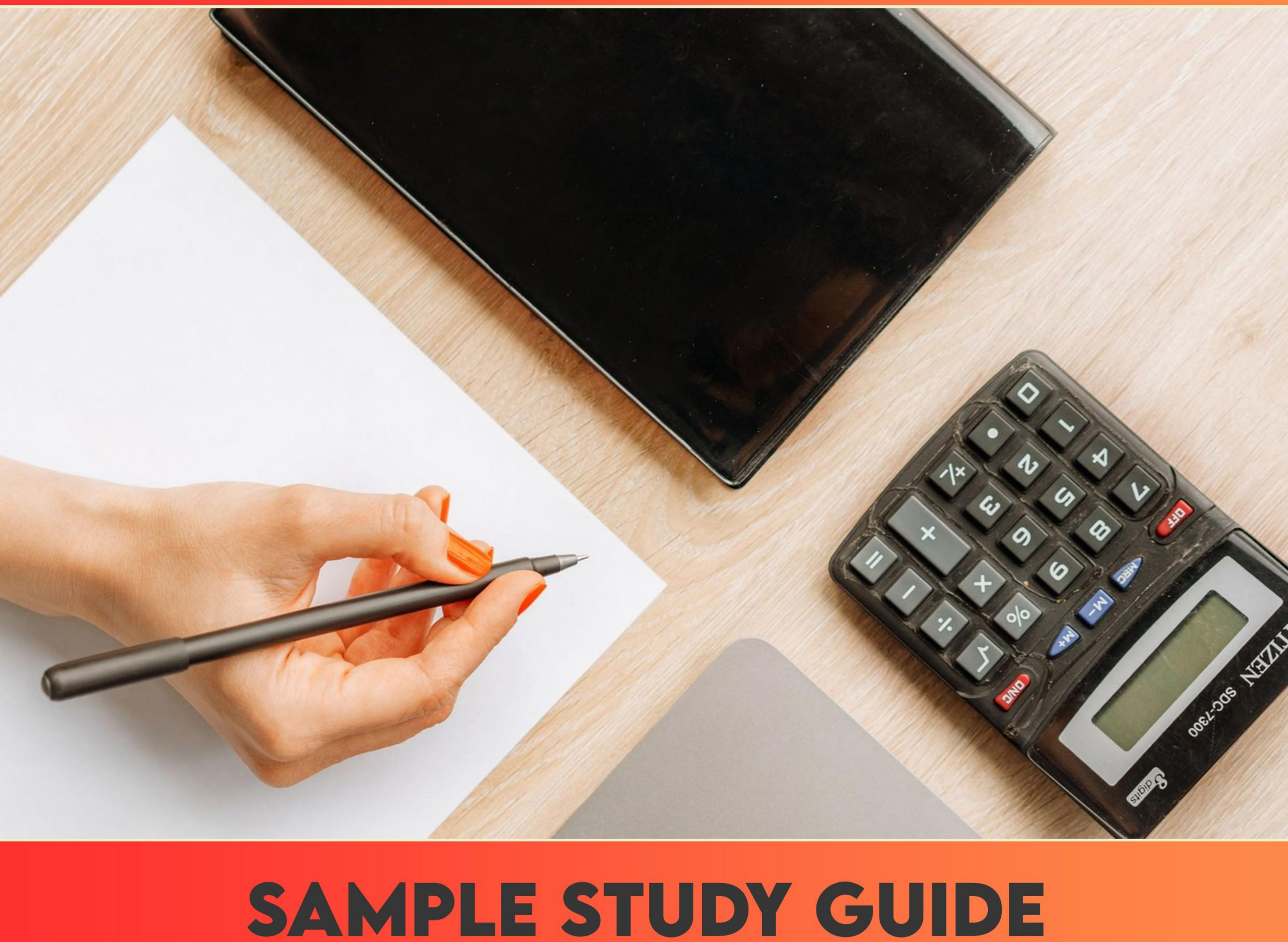
# CERTIFIED PUBLIC ACCOUNTANTS (CPA) ETHICS PRACTICE EXAM (SAMPLE)

## STUDY GUIDE



## SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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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 Continuing Professional Education (CPE) requirements does Albers, a CPA, have to fulfill?**
   A. 80 hours solely on tax-related topics
   B. 80 hours, including 4 hours of ethics
   C. 40 hours in any area of practice
   D. No specific requirements exist for her practice

2. **In a one-office CPA firm, if a partner has a brother who owns 26% of a company's stock, how does this affect independence?**
   A. The firm is independent
   B. The firm is not independent
   C. Independence is subject to materiality
   D. It only affects independence if the stock is material

3. **In the scenario where a partner's brother is on the board of directors of a client, how is the firm's independence affected?**
   A. It is impaired
   B. It is not impaired
   C. Only if the brother holds a significant financial interest
   D. Independence is subject to approval from external auditors

4. **A sole practitioner wishes to invest in a corporation where their client owns 40% but the investment is not material to either party. Does this impact independence?**
   A. Yes, it will impair independence
   B. No, it will not impair independence
   C. Independence is dependent on the amount invested
   D. Independence is affected if the client can control the corporation

5. **If financial statements do not conform with generally accepted accounting principles, auditors may:**
   A. Remain silent and accept the audit
   B. Describe the departure and its effects
   C. Decide not to provide any report
   D. Reproduce financial statements in conformity

**6. If a client wants to take a tax position that was previously rejected by a court, what should the tax preparer do?**

A. Insist that the earlier court decision must be followed.

B. Advise the client that they can take the same position again if circumstances have changed.

C. Ignore the previous ruling and proceed without discussion.

D. Consult another tax advisor before proceeding.

**7. Which document is essential for CPAs to review during audit planning to maintain ethical standards?**

A. The IRS Tax Code

B. The AICPA Code of Professional Conduct

C. The client's financial statements

D. Industry-specific regulations

**8. If a partner has a credit card from a bank while also auditing that bank, does this impact the firm's independence?**

A. The card will impair independence

B. The card will not impair independence

C. Only if the balance exceeds a certain amount

D. Independence is not impaired if paid in full each month

**9. What should a member do if they find a material error in a prior year's income tax return during an audit?**

A. Report the error to the IRS immediately.

B. Discuss the error confidentially with the tax preparer.

C. Advise management about the error and recommend further discussion with the tax preparer.

D. Stay silent to protect the tax preparer's reputation.

**10. When is a CPA's independence considered impaired due to stock ownership by a family member?**

A. Always if the family member is immediate family

B. Only if the stock is material

C. Independence is never impaired due to family stock ownership

D. Independence is only impaired for close relatives

# Answers

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

# Explanations

## 1. What Continuing Professional Education (CPE) requirements does Albers, a CPA, have to fulfill?

A. 80 hours solely on tax-related topics

B. 80 hours, including 4 hours of ethics

C. 40 hours in any area of practice

D. No specific requirements exist for her practice

*The requirement for Albers, as a CPA, to complete 80 hours of Continuing Professional Education (CPE), including 4 hours specifically dedicated to ethics, aligns with the standards set by many state boards of accountancy and professional organizations. This structure is essential for ensuring that CPAs remain informed about current laws, regulations, and ethical practice. The inclusion of ethics training is particularly critical, as it reinforces the responsibility of CPAs to maintain integrity and professionalism in their work, which is vital in a profession that relies heavily on public trust. Continuing education helps CPAs stay current with changes in their field, ensuring they possess the knowledge and skills necessary to provide high-quality services to clients. This comprehensive approach to education promotes competency and ethical behavior, thus safeguarding the profession's reputation and the interests of the public.*

## 2. In a one-office CPA firm, if a partner has a brother who owns 26% of a company's stock, how does this affect independence?

A. The firm is independent

B. The firm is not independent

C. Independence is subject to materiality

D. It only affects independence if the stock is material

*Independence is a key principle for CPAs, particularly when providing audit and assurance services. In the situation described, the ownership of 26% of a company's stock by the partner's brother represents a significant financial interest. According to the AICPA Code of Professional Conduct and related independence rules, a CPA firm must maintain independence in both fact and appearance when engaged in an audit or similar services. When a partner's immediate family member, such as a brother, holds a substantial ownership percentage (in this case, 26%), it poses a potential threat to independence. This is because the financial interests of a close family member can influence the partner's objectivity and professional judgment. The threshold of 5% ownership is often cited as a materiality guideline in many independence contexts, but a 26% interest is clearly material and significant enough to impact the CPA firm's independence. Therefore, the presence of this ownership interest means that the firm would not be considered independent in regard to the audit of that company. This conclusion aligns with the fundamental ethical requirement that CPAs must avoid any circumstances that might impair their objectivity and integrity when performing professional services. Hence, the firm is not independent.*

## 3. In the scenario where a partner's brother is on the board of directors of a client, how is the firm's independence affected?

A. It is impaired

B. It is not impaired

C. Only if the brother holds a significant financial interest

D. Independence is subject to approval from external auditors

*When considering the implications of a partner's immediate family member, such as a brother, being on the board of directors of a client, the independence of the audit firm is indeed impaired. This is due to the close familial relationship which creates a potential conflict of interest. CPA independence is a fundamental principle that ensures that the firm's judgment is free from any influence that could arise from personal relationships. In this scenario, the partner's brother being in a position of influence over the client's financial decisions could lead to perceptions of bias or favoritism, thereby undermining the objectivity required for an auditor. Independence is not only about the absence of direct financial interests but also considers relationships that could give rise to potential conflicts. The correct answer highlights the importance of maintaining a clear boundary between audit practices and personal relationships to uphold the integrity of the audit process. By recognizing that the partner's brother has a role in the client's governance, it is clear that this situation introduces risks to the impartiality of the audit team, thus impairing the firm's independence.*

## 4. A sole practitioner wishes to invest in a corporation where their client owns 40% but the investment is not material to either party. Does this impact independence?

A. Yes, it will impair independence

B. No, it will not impair independence

C. Independence is dependent on the amount invested

D. Independence is affected if the client can control the corporation

*Independence in the context of Certified Public Accountants is primarily concerned with the appearance and reality of objectivity and impartiality in professional judgment. When considering investment relationships between a CPA and a client, the key factors usually include the nature of the investment, the level of control or influence over the entity, and the materiality of the investment to both the practitioner and the client. In this scenario, although the practitioner is investing in a corporation where their client owns 40%, the investment is considered not material to either party. Materiality is a significant determinant because if the investment is small enough not to affect the financial statements or the decision-making of either the CPA or the client, it typically does not compromise independence. This means that the relationship does not present a threat to the impartiality expected from the CPA, as the investment does not provide the CPA with excessive influence or control over the client's affairs, nor does it create a financial interest that could impair objectivity. Therefore, under these circumstances, independence is maintained because the investment is not substantial enough to influence the CPA's professional behavior or judgement regarding the client's financial matters. As a result, the conclusion that independence is not impaired is supported by the concept of materiality, which indicates that a non*

## 5. If financial statements do not conform with generally accepted accounting principles, auditors may:

A. Remain silent and accept the audit

B. Describe the departure and its effects

C. Decide not to provide any report

D. Reproduce financial statements in conformity

*When financial statements do not conform with generally accepted accounting principles (GAAP), the appropriate response from auditors is to describe the departure and its effects. This is crucial because transparency is a fundamental principle in the auditing profession. By outlining the nature of the departure from GAAP and its implications, auditors provide users of the financial statements with a clearer understanding of how these deviations might affect the reliability and comparability of the reported information. This approach not only maintains the integrity of the audit process but also assists stakeholders in making informed decisions based on the financial statements. It allows users to assess the potential risks associated with relying on the financial information presented, ensuring that they are aware of any limitations or discrepancies. Additionally, documenting the departure is essential for maintaining professional standards and compliance with regulatory requirements. It reflects a commitment to ethical conduct and the provision of quality assurance in financial reporting. In summary, describing the departure and its effects aligns with the auditors' responsibility to report fairly and accurately, ensuring that all material issues are communicated effectively to the users of the financial statements.*

## 6. If a client wants to take a tax position that was previously rejected by a court, what should the tax preparer do?

A. Insist that the earlier court decision must be followed.

B. Advise the client that they can take the same position again if circumstances have changed.

C. Ignore the previous ruling and proceed without discussion.

D. Consult another tax advisor before proceeding.

*The correct approach for a tax preparer when a client wishes to take a tax position previously rejected by a court is to advise the client that they can potentially take the same position again if there have been changes in circumstances. Tax law is dynamic, and new developments, amendments, or improvements in the facts of the situation can justify revisiting previously adjudicated positions. This recognition acknowledges the fluid nature of legal interpretations, and it permits clients to pursue arguments that may have merit under current conditions. Advising the client in this manner allows for a thorough consideration of whether new evidence or shifts in the legal landscape may support the previously overturned argument. It also emphasizes that while prior court decisions carry weight, they are not absolute in every context, and ongoing evaluation is a necessary part of tax practice. This approach encourages the tax preparer to engage in analytical deliberation concerning the specifics of the client's current situation, thus fostering a responsible and informed strategy for handling their tax affairs, rather than blindly adhering to past decisions.*

## 7. Which document is essential for CPAs to review during audit planning to maintain ethical standards?

A. The IRS Tax Code

B. The AICPA Code of Professional Conduct

C. The client's financial statements

D. Industry-specific regulations

*The AICPA Code of Professional Conduct is essential for CPAs to review during audit planning to maintain ethical standards because it provides the framework for ethical behavior and professional responsibility for accountants. This code outlines principles such as integrity, objectivity, professional competence, confidentiality, and due care—elements crucial for maintaining public trust and ensuring high-quality audits. Understanding these ethical standards helps CPAs navigate complex situations during the audit process and reinforces their commitment to professionalism. The code serves as a guide for decision-making, particularly when faced with potential conflicts of interest or ethical dilemmas. Adhering to these standards is critical for CPAs to uphold their reputation and the integrity of the profession. While the IRS Tax Code, the client's financial statements, and industry-specific regulations are important documents in the auditing process, they do not specifically address the ethical responsibilities of CPAs in the same way that the AICPA Code of Professional Conduct does. Therefore, reviewing the code is foundational for ensuring that CPAs conduct their audits in an ethically sound manner.*

## 8. If a partner has a credit card from a bank while also auditing that bank, does this impact the firm's independence?

A. The card will impair independence

B. The card will not impair independence

C. Only if the balance exceeds a certain amount

D. Independence is not impaired if paid in full each month

*In the context of CPA ethics and independence, having a credit card from a bank that is being audited does have implications for the firm's independence. Generally, the correct answer emphasizes that the mere possession of a credit card does not inherently impair independence. This is because a credit card represents a standard consumer credit arrangement, which is typically not viewed as a significant financial interest in the bank. Independence is more critically affected by direct financial interests such as ownership stakes or loans that could lead to a conflict of interest or bias in judgment. Since the credit card arrangement is usually considered a routine aspect of banking and does not confer significant financial leverage or a vested interest in the bank's fortunes, it does not impair the firm's independence as long as there are no outstanding balances that could represent a financial obligation. Additionally, ethical standards often draw a distinction between ordinary transactions that a consumer might have with a bank versus those that arise from a professional relationship where the accountant is providing audit services. Therefore, the belief that such a card does not impact independence, provided it is used like a typical consumer account, aligns with those ethical considerations. Your answer reflects the understanding that merely holding a credit card does not equate to a financial relationship that would compromise objectivity while performing an*

## 9. What should a member do if they find a material error in a prior year's income tax return during an audit?

A. Report the error to the IRS immediately.

B. Discuss the error confidentially with the tax preparer.

C. Advise management about the error and recommend further discussion with the tax preparer.

D. Stay silent to protect the tax preparer's reputation.

*When a member discovers a material error in a prior year's income tax return during an audit, advising management about the error is the appropriate course of action. This approach aligns with the ethical and professional responsibility of a CPA to act in the best interest of their client while adhering to the relevant laws and regulations. Notifying management allows for transparency within the organization and provides an opportunity for the management to correct the error proactively. This collaboration facilitates the necessary discussions regarding how to address the mistake, such as assessing its impact on the financial statements or considering whether amendments to prior tax returns are needed. Taking this route ensures that the member is upholding their duty of care and due diligence, as well as maintaining integrity in the audit process. Following up with recommendations for discussions with the tax preparer ensures that the situation is managed properly and that all parties involved can work together to resolve the issue in accordance with ethical guidelines.*

## 10. When is a CPA's independence considered impaired due to stock ownership by a family member?

A. Always if the family member is immediate family

B. Only if the stock is material

C. Independence is never impaired due to family stock ownership

D. Independence is only impaired for close relatives

*A CPA's independence is considered impaired due to stock ownership by a family member when that family member is classified as immediate family, which includes a spouse, dependent, or any relative living in the same household. The rationale behind this principle is that immediate family members can have a significant influence over the CPA's decisions and professional judgment, leading to a potential conflict of interest. In the context of professional ethics, the profession demands that CPAs maintain an objective and impartial stance, and immediate family members are closely linked to a CPA through personal relationships that may bias their decisions. This close connection creates a perception of lack of objectivity, which is why the mere presence of stock ownership by an immediate family member is enough to impair independence, regardless of the amount or materiality of the stock. Other scenarios, such as ownership by non-immediate family members or limited stock ownership within specific thresholds, do not automatically compromise independence in the same way. The rules are designed to uphold the integrity of the profession and ensure that CPAs can conduct audits and provide assurances without any influence or biases stemming from familial relationships.*

# 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!