PacificCPE

COURSE
90521A

California CPAs: Ethics for Industry Professionals

Designed specifically for CPAs working in business and industry, this course covers the ethical standards that matter most in your day-to-day role. You'll explore AICPA guidance on integrity and objectivity, examine real-world case studies, and dig into the risks of internal and management fraud. California-specific requirements are also addressed, making this a practical and relevant ethics update for industry professionals who need to meet their state CPE obligations while strengthening their ethical decision-making skills.

CREDIT HOURS 4 | FIELD OF STUDY ETHICS | EXAM QUESTIONS 20

Start Course ↓

Final Exam Copy ↓

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 20 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course 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.

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Publication Date: March 2026

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Chapter 1: ETHICS FOR INDUSTRY CPAs

Chapter Objective

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 effectiveness of safeguards will vary depending on the circumstances. When identifying appropriate safeguards to apply, one safeguard may eliminate or reduce multiple threats. In some cases, the member should apply multiple safeguards to eliminate or reduce one threat to an acceptable level. In other cases, an identified threat may be so significant that no safeguards will eliminate the threat or reduce it to an acceptable level, or the member will be unable to implement effective safeguards. Under such circumstances, providing the specific professional services would compromise the member's compliance with the rules, and the member should determine whether to decline or discontinue the professional services or resign from the employing organization.

Threats

.07 Many threats fall into one or more of the following six broad categories: adverse interest, advocacy, familiarity, self-interest, self-review, and undue influence.

.08 Examples of threats associated with a specific relationship or circumstance are identified in the interpretations of the code. Paragraphs. 09–.14 of this section define and provide examples, which are not all inclusive, of each of these threat categories.

.09 Adverse interest threat. The threat that a member will not act with objectivity because the member's interests are opposed to the interests of the employing organization. Examples of adverse interest threats include the following:

a. A member has charged, or expressed an intention to charge, the employing organization with violations of law.

b. A member or the member's immediate family or close relative has a financial or another relationship with a vendor, customer, competitor, or potential acquisition of the employing organization.

c. A member has sued or expressed an intention to sue the employing organization or its officers, directors, or employees.

.10 Advocacy threat. The threat that a member will promote an employing organization's interests or position to the point that his or her objectivity is compromised. Examples of advocacy threats include the following:

a. Obtaining favorable financing or additional capital is dependent upon the information that the member includes in, or excludes from, a prospectus, an offering, a business plan, a financing application, or a regulatory filing.

b. The member gives or fails to give information that the member knows will unduly influence the conclusions reached by an external service provider or other third party.

.11 Familiarity threat. The threat that, due to a long or close relationship with a person or an employing organization, a member will become too sympathetic to their interests or too accepting of the person's work or employing organization's product or service. Examples of familiarity threats include the following:

a. A member uses an immediate family's or a close relative's company as a supplier to the employing organization.

b. A member may accept an individual's work product with little or no review because the individual has been producing an acceptable work product for an extended period of time.

c. A member's immediate family or close relative is employed as a member's subordinate.

d. A member regularly accepts gifts or entertainment from a vendor or customer of the employing organization.

.12 Self-interest threat. The threat that a member could benefit, financially or otherwise, from an interest in, or relationship with, the employing organization or persons associated with the employing organization. Examples of self-interest threats include the following:

a. A member's immediate family or close relative has a financial interest in the employing organization.

b. A member holds a financial interest (for example, shares or share options) in the employing organization, and the value of that financial interest is directly affected by the member's decisions.

c. A member is eligible for a profit or other performance-related bonus, and the value of that bonus is directly affected by the member's decisions.

.13 Self-review threat. The threat that a member will not appropriately evaluate the results of a previous judgment made or service performed or supervised by the member, or an individual in the employing organization and that the member will rely on that service in forming a judgment as part of another service. Examples of self-review threats include the following: