

California CPAs: Regulatory Review

Get up to speed on the rules and regulations that govern California CPAs. This course walks through the California Accountancy Act, key Board of Accountancy rules, and the Enforcement Division's structure and authority. You'll explore practical topics like confidentiality, advertising standards, outsourcing considerations, fictitious firm names, and disciplinary proceedings. Whether you're refreshing your knowledge or filling in gaps, this course gives you a solid foundation in the regulatory framework that shapes your professional responsibilities in California. PLEASE NOTE: Per Board regulations, a score of 90% or higher is required to pass this course.

CREDIT HOURS 2 | FIELD OF STUDY ETHICS | EXAM QUESTIONS 10

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LEARNING ASSIGNMENTS AND OBJECTIVES

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 90% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Recall disciplinary actions by the Board of Accountancy for violations of the accountancy statutes.
- Recognize the types of disciplinary issues often encountered by CPAs practicing public accountancy in California.
- Recognize the top three violations that led to citations from the CBA for fiscal year 2024-2025.

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Publication Date: July 2026

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Chapter 1: CALIFORNIA ACCOUNTANCY ACT

Chapter Objective

After completing this chapter, you should be able to:

- Recall disciplinary actions by the Board of Accountancy for violations of the accountancy statutes.

BUSINESS AND PROFESSIONS CODE (B & PC)

DIVISION 3, Chapter 1, SECTIONS 5000 - 5158

INTRODUCTION

California CPAs are licensed by the California Board of Accountancy (CBA). As licensed professionals, CPAs have numerous ethical and legal responsibilities. Paramount among these is the requirement to follow the law. The Accountancy Act is primarily intended to protect the public interest.

One would think that it would be fairly easy for a CPA to maintain compliance with the law. However, every edition of the Board publication Update includes numerous examples of real life CPAs who ran afoul of the law. It is doubtful that all of these CPAs set out to break the law. Perhaps many of them could have avoided trouble if they had a clear understanding of what the law demands of them. This course provides the CPA with practical knowledge regarding the laws and rules of practicing public accountancy in California with examples of current and historic disciplinary actions taken by the Board. The examples will highlight the misconduct that lead to the licensees being disciplined.

The law relating to CPAs can be divided into two parts. This chapter will discuss the law as passed by the legislature known as the California Accountancy Act. The next chapter will cover the administrative law as promulgated by the Board of Accountancy as regulations.

Where to Find the Law

The California Accountancy Act can be found in the Business and Professions Code beginning at Section 5000. The sections are grouped based on topic and called articles. Fortunately the articles are in Section number order for ease of use. Below is a listing of the articles in the Act.

Note

The most current version of The Business and Professions code and accountancy regulations are available on the Board's website at www.dca.ca.gov/cba. The Board's website also has a convenient "what's new" section. You are encouraged to visit and explore the Board's website frequently. A full copy of the California Accountancy Act, as well as the California Board of Accountancy Regulations, is included at the back of this course material.

		California Accountancy Act
Article	Sections	Contents
1	5000-5025.3	Administration
1.5	5026-5028	Continuing Education
2	5030-5040	General Powers and Definitions
3	5050-5058.4	Application of Chapter
3.5	5060-5063.10	Standards of Professional Conduct
4	5070-5079	Applications, Registrations, Permits Generally
5	5080-5095	Certificates, Information and Records
5.1	5096-5096.22	Practice Privileges
5.5	5097-5098	Audit Documentation
6	5100-5115	Disciplinary Proceedings
6.5	5116-5116.6	Administrative Penalties
7	5120-5122	Prohibitions and Offenses Against the Chapter Generally
8	5130-5134	Revenue
9	5150-5158	Accountancy Corporations

For your convenience, the entire California Accountancy Act is reprinted at the end of this course. You can use it to help research the answers to ethical and legal questions. Later in this chapter, we will discuss some of the more relevant sections.

HOW TO GET THE MOST FROM THIS CHAPTER:

You are not required to read the entire Accountancy Act. The following pages contain selected sections of the Act that you are required to read in order to complete this course, as well as observations and analysis of those sections.

ARTICLE 1

ADMINISTRATION

BUSINESS AND PROFESSIONS CODE SECTION 5000-5025.3

Rules and Standards of Professional Conduct

5018. The board may by regulation, prescribe, amend, or repeal rules of professional conduct appropriate to the establishment and maintenance of a high standard of integrity and dignity in the profession. In addition to the requirements contained in Chapter 4 (commencing with Section 11370) of Part 1 of Division 3 of Title 2 of the Government Code, a copy of the rules shall be provided to every holder of a license under this chapter at least 30 days prior to a date named for a public hearing held for the purpose of receiving and considering objections to any of the proposed provisions. Every licensee of the California Board of Accountancy in this state shall be governed and controlled by the rules and standards adopted by the board.

Observation

Board regulation changes are included in the Board publication “Update” mailed periodically to each licensee.

ARTICLE 1.5

CONTINUING EDUCATION

BUSINESS AND PROFESSIONS CODE SECTION 5026-5028

Continuing Education Requirement 5026. The Legislature has determined it is in the public interest to require that certified public accountants and public accountants licensed under provisions of this chapter comply with continuing education requirements adopted by the board as a prerequisite to the renewal of public accountancy licenses on and after December 31, 1974.

Rules Concerning Continuing Education; Standards Established

5027. The board shall by regulation prescribe, amend, or repeal rules including, but not limited to, all of the following:

- (a) A definition of basic requirements for continuing education.
- (b) A licensee who plans, directs, or approves any financial or compliance audit report on any governmental agency shall complete a minimum of 24 hours of qualifying continuing education in the area of governmental accounting and auditing or related subjects during the two-year license renewal period.
- (c) A licensee who provides audit, review, other attestation services, or issues compiled financial statement reports shall, during the two-year license renewal period, complete a minimum of 24 hours of qualifying continuing education in the area of accounting and auditing related to reporting on financial statements.
- (d) A licensee with a valid permit to practice public accountancy shall, within a six-year period, complete a continuing education course on the provisions of this chapter and the rules of professional conduct.
- (e) A licensee on inactive status shall complete the continuing education course required by subdivision (d) prior to reentering public practice.
- (f) A delineation of qualifying programs for maintaining competency.
- (g) A system of control and compliance reporting.

In exercising its power under this section for the interests of consumer protection, the board shall establish standards which will assure reasonable currency of knowledge as a basis for a high standard of practice by licensees. The standards shall be established in a manner to assure that a variety of alternatives are available to licensees to comply with the continuing education requirements for renewal of licenses and taking cognizance of specialized areas of practice.

Exceptions from Continuing Education Requirements

5028. The board may, in accordance with the intent of this article, make exceptions from continuing education requirements for licensees not engaged in public practice, or for reasons of health, military service, or other good cause. If the licensee returns to the practice of public accounting, they shall meet continuing education requirements as the board may determine.

ARTICLE 2

GENERAL POWERS AND DEFINITIONS

BUSINESS AND PROFESSIONS CODE

SECTION 5030-5040

“Firm”

5035.1. Firm means a sole proprietorship, a corporation, or a partnership.

“Client”

5035.2. Client, as used in any context in this chapter, means any person for whom public accountancy services are performed or to whom financial products, financial services, or securities are sold or provided at the licensee’s public accountancy practice or through referral to any other location or business in which the certified public accountant has a material interest.

Statements and Other Records as Property of Accountant; Access by Client

5037.

(a) All statements, records, schedules, working papers and memoranda made by a licensee or a partner, shareholder, officer, director, or employee of a licensee, incident to, or in the course of, rendering services to a client in the practice of public accountancy, except the reports submitted by the licensee to the client and except for records that are part of the client’s records, shall be and remain the property of the licensee in the absence of an express agreement between the licensee and the client to the contrary. No such statement, record, schedule, working paper, or memoranda shall be sold, transferred, or bequeathed, without the consent of the client or their personal representative or assignee, to anyone other than one or more surviving partners or stockholders or new partners or stockholders of the licensee, or any combined or merged firm or successor in interest to the licensee.

(b) A licensee shall furnish to their client or former client, upon request and reasonable notice:

(1) A copy of the licensee’s working papers, to the extent that those working papers include records that would ordinarily constitute part of the client’s records and are not otherwise available to the client.

(2) Any accounting or other records belonging to, or obtained from or on behalf of, the client that the licensee removed from the client’s premises or received for the client’s account. The licensee may make and retain copies of documents of the client when they form the basis for work done by them.

Enforcement FAQ

Question: I prepared income tax returns for a former client and provided him the original returns for filing with the taxing agencies and a copy for his records. He is now requesting an additional copy of the returns. Assuming that I still have copies, am I required to provide this former client with an additional copy of the income tax returns?

Answer: No. A licensee who was engaged and prepared income tax returns for a client and provided the client with a copy of the income tax returns, as defined under Internal Revenue Code Section 6107(a), is not required to provide additional copies under applicable BPC and California Code of Regulations (CCR). Licensees are, however, required to return tax records

provided by the client and provide a copy of the licensee's working papers that support information on the tax returns.

Author Note

In the event that copies were not available from the IRS or another source, the CPA would likely be required to provide copies of the tax returns. A CPA could require that the former client pay a fee for copying the returns prior to providing the copies.

Note

One of the most common complaints to the Board is that a licensee failed to return client records. Often, the client records were being held as part of a fee dispute. In other instances, the licensee was overextended, missed a deadline, and then compounded the problem by insisting he be given the chance to make things right. Whatever the justification, the statute is clear. Client records must be returned to the client upon request and without conditions.

ARTICLE 3

APPLICATION OF CHAPTER

BUSINESS AND PROFESSIONS CODE

SECTION 5050-5058.4

Public Accountancy Not to be Practiced without Permit; Temporary Practice

5050.

(a) Except as provided in subdivision (b) of this section, in subdivision (a) of Section 5054, and in Section 5096.12, no person shall engage in the practice of public accountancy in this state unless the person is the holder of a valid permit to practice public accountancy issued by the board or a holder of a practice privilege pursuant to Article 5.1 (commencing with Section 5096).

(b) Nothing in this chapter shall prohibit a person who holds a valid and current license, registration, certificate, permit, or other authority to practice public accountancy from a foreign country, and lawfully practicing therein, from temporarily engaging in the practice of public accountancy in this state incident to an engagement in that country, provided that:

- (1) The temporary practice is regulated by the foreign country and is performed under accounting or auditing standards of that country.

(2) The person does not hold themselves out as being the holder of a valid California permit to practice public accountancy or the holder of a practice privilege pursuant to Article 5.1 (commencing with Section 5096).

CBA Enforcement Action: RLB (January, 2025)

Cause for Discipline:

The accusation contains the following allegations: (1) Repeated Negligent Acts; (2) Dishonesty in the Practice of Public Accountancy; (3) Report Not Conforming to Professional Standards; (4) Compliance with Standards; (5) Failure to Respond to Board Inquiry; (6) Practice without Permit; (7) Obtaining Money by Fraudulent Means or False Pretenses; (8) General Unprofessional Conduct; (9) Fiscal Dishonesty or Breach of Fiduciary Responsibility; (10) Failure to Apply for Fictitious Name Permit.

In part, RLB is subject to disciplinary action in that he has operated under the name RB Consultancy since in or around 1981, and has never applied for a fictitious name permit required by the CBA.

Violations Charged:

Business and Professions Code, Division 3, Chapter 1, §§ 5050, 5051, 5060, 5062, 5100, and 5100(c), (g), (i), and (k).

Board Action:

Revocation of CPA license

Note

One of the most basic concepts of practicing public accountancy is that a CPA holds the legal right to practice. When one's permit to practice lapses, the licensee may not practice unless and until the permit to practice is restored.

Designation of Recipient of Certificate and Permit as Certified Public Accountant

5055. Any person who has received from the board a certificate of certified public accountant, or who is authorized to practice public accountancy in this state pursuant to Article 5.1 (commencing with Section 5096) may, subject to Section 5051, be styled and known as a "certified public accountant" and may also use the abbreviation "C.P.A." No other person, except a firm registered under this chapter, shall assume or use that title, designation, or abbreviation or any other title, designation, sign, card, or device tending to indicate that the person using it is a certified public accountant.