

Chapter 02

Payroll System Procedures

True / False Questions

1. The two focuses of payroll procedures are company needs and governmental rules.

True False

2. Employers may choose to omit the employees' Social Security numbers in their employee files.

True False

3. Semimonthly payroll involves a pay cycle in which pay disbursements occur every two weeks.

True False

4. Newly hired employees must be reported to governmental officials within 20 days of starting work for an employer.

True False

5. Foreign workers in the United States are subject to new hire reporting regulations.

True False

6. A worker who sells life insurance on a full-time basis is considered a statutory employee.

True False

7. U.S. workers in foreign subsidiaries are exempt from all income taxes.

True False

8. Pay rate is the first payroll system decision a company must make.

True False

9. Only regular working hours are considered as the worked hours for overtime computation.

True False

10. It is considered a best practice to assign one employee all payroll duties.

True False

Multiple Choice Questions

11. Which of the following are important decisions that an employer must make regarding its payroll procedures (Select all that apply)?

A. How often to pay employees

B. How to handle pay advances

C. How many employees to hire

D. Which employee benefits to offer

12. Which of the following items must exist in every employee's payroll file?

A. Spouse's social security number

B. Employment history

C. Spouse's birth date

D. Occupation

13. Why must pay period information be a part of an employee's payroll file?
- A. As a means of tracking time worked for overtime compensation purposes.
 - B. To ensure that the employee receives all compensation earned.
 - C. As a means of ensuring pay equality among employees.
 - D. To document satisfaction of court-ordered obligations.
14. Which of the following is/are purpose(s) of new hire reporting laws (Select all that apply)?
- A. To ensure payment of court-ordered obligations like garnishments and child support.
 - B. To keep track of workers throughout their careers.
 - C. To ensure that the employee may legally work in the United States.
 - D. To keep track of workers and professionals who are subject to licensing regulations.
15. Which pay frequency has 24 pay periods annually?
- A. Weekly
 - B. Biweekly
 - C. Semimonthly
 - D. Semiweekly

16. Which pay frequency has 26 pay periods per year?

- A. Bimonthly
- B. Biweekly
- C. Semimonthly
- D. Semiweekly

17. Which pay frequency has 12 pay periods?

- A. Daily
- B. Weekly
- C. Monthly
- D. Semimonthly

18. What forms are required when an employee is hired (Select all that apply)?

- A. W-4
- B. I-9
- C. SS-4
- D. W-2

19. Ibrahim is the payroll accountant for a firm. He notes that the firm has hired a new employee. What forms must he collect from the new employee?
- A. W-2 and I-9
 - B. W-4 and I-9
 - C. W-4 and I-8
 - D. W-3 and I-9
20. If a firm pays its employees biweekly, how often does it disburse employee compensation?
- A. Twice per week
 - B. Every week
 - C. Every two weeks
 - D. Every three weeks
21. Why is it important for an employer to classify a worker as either an employee or an independent contractor?
- A. For tax reporting purposes
 - B. For child support obligations purposes
 - C. For government tracking purposes
 - D. For reimbursement purposes

22. Which of the following is a purpose of new hire reporting (Select all that apply)?
- A. Immigration agency tracking
 - B. COBRA benefits administration
 - C. Communications of ethics violations for clerical workers
 - D. Child support obligations tracking
23. An employer must have an employee complete Form W-4:
- A. Before each pay disbursement.
 - B. Each year, upon the employee's anniversary with the firm.
 - C. Every January 1.
 - D. At the time of hire.
24. Josh, who is 21 years of age, is a new employee of XYZ Company. To establish his identity and employment authorization, he could present:
- A. His current United States passport.
 - B. His library card and birth certificate.
 - C. His driver's license and ATM card.
 - D. His college transcript and driver's license.

25. Which items must be contained in every hiring packet issued by an employer?
- A. Forms W-4 and I-9
 - B. Employment contract with start date and pay agreement
 - C. Descriptions of benefits and enrollment forms
 - D. No items are mandated for issuance in a hiring packet
26. The _____ mandated that new hires must be reported within _____ days to state authorities.
- A. Fair Labor Standards Act, 30.
 - B. Immigration Reform and Control Act, 20.
 - C. Civil Rights Act, 25.
 - D. Davis-Bacon Act, 28.
27. Multistate employers must not do which of the following for new hire reporting:
- A. File a report with the state offices for the employee's state of residence
 - B. File a report with the IRS since they have employees in multiple states
 - C. Designate which state will receive their new hire reporting
 - D. File a new-hire report with both the state that contains the firm's headquarters and the state that is the employee's primary residence

28. Which entity bears the responsibility for gaining approval for a foreign worker visa so a foreign employee may work legally in the United States?
- A. The employer
 - B. The employee
 - C. The U.S. State Department
 - D. The employer's home country
29. Abigail is a full-time worker whose primary occupation involves extensive overnight travel to visit wholesaler sites on the behalf of a single company. Which of the following classifications most accurately describes Abigail's employment status?
- A. Independent contractor
 - B. Exempt employee
 - C. Nonexempt employee
 - D. Statutory employee
30. Allen is an employee of the foreign subsidiary of a United States based company who lives and work in the United Kingdom. According to FATCA, how much of his wages may Allen exclude from United States' taxes, according to 2016 guidelines?
- A. \$46,500
 - B. \$79,850
 - C. \$101,300
 - D. None

31. Which of the following factors assist employers in determining employee pay rates (Select all that apply)?
- A. Employee skill
 - B. Company location
 - C. Employee age
 - D. Industry benchmarks
32. Georgeanne works in a company for which her primary job function is the sale of company products to consumers. She receives a percentage of each sale as part of her compensation. Her compensation contains a _____ element.
- A. Piece-rate
 - B. Commission
 - C. Pay-for-performance
 - D. Nonexempt
33. Stan works for a bakery for which part of his compensation is based on the decoration of wedding and other specialty cakes. His compensation has a _____ element.
- A. Performance incentive
 - B. Commission
 - C. Piece-rate
 - D. Nonexempt

34. Which of the following is subject to overtime in the process of hourly computations, according to FLSA?
- A. Time worked in excess of eight hours per day
 - B. Holiday, sick time, and paid time off
 - C. Time worked in excess of 40 hours per week
 - D. Nonexempt employee weekend work
35. Which of the following is a necessary element in an accounting system (Select all that apply)?
- A. Internal review
 - B. Audit control
 - C. Internal control
 - D. Audit review
36. A payroll review process increases in complexity when:
- A. The company is has few departments and few employees.
 - B. The company is not geographically dispersed.
 - C. The company is centralized and uses one location.
 - D. The company has multiple departments and many employees.

37. Outsourcing the payroll process:
- A. Relieves the company of the task completion and the review process.
 - B. Relieves the company of certain task completion but not the review process.
 - C. Relieves the company of all liability for payroll completion and accuracy.
 - D. Relieves the company of the review process but not the task completion.
38. A company should assign _____ employee(s) the responsibility for signing payroll checks and disbursements.
- A. A limited number of
 - B. Only one
 - C. Its most responsible
 - D. None of the
39. Which of the following is a potential consequence of incorrect calculation of employee time for payroll purposes (Select all that apply)?
- A. Federal penalties for not remitting all taxes due
 - B. Erosion of available cash because of overpayments to employees
 - C. Increased stakeholder approval due to employee overpayments
 - D. An increase in legal proceedings initiated by employees

40. For payroll documentation purposes, when an employee needs time away from work:
- A. The supervisor should authorize it verbally.
 - B. The employee should email only department colleagues.
 - C. Upper management must approve the request.
 - D. The request should be documented and forwarded to the payroll clerk.
41. When a payroll clerk receives an approved request for an employee's time away from work, he or she should:
- A. Immediately place it in the employee's file.
 - B. Attach it to the employee's time collection report for the pay period.
 - C. Destroy the document in accordance with privacy laws.
 - D. Contact the employee to verify the request.
42. A company should restrict access to payroll files (paper and/or electronic) as a part of _____.
- A. File security internal controls
 - B. Audit trail requirements
 - C. Compliance with company policy
 - D. FATCA requirements

43. Which aspect of internal controls for payroll relates to the Sarbanes-Oxley Act?

- A. Protecting employee retirement funds
- B. Limiting the number of employees authorized to disburse payroll
- C. Cross-training employees and altering duties
- D. Ensuring the complexity of the audit trail

44. Explain Pay Records and Employee File Maintenance is the responsibility of the:

- A. Employee.
- B. Employer.
- C. Payroll vendor.
- D. State government.

45. Computerized payroll records are considered a(n):

- A. Open system.
- B. Open access.
- C. Closed system.
- D. Closed access.

46. When developing the internal controls and record retention for a payroll system, a company should:
- A. Involve all company employees to promote transparency.
 - B. Develop a closed system and alternate employee duties.
 - C. Designate a single employee with the responsibility for pay disbursements.
 - D. Train accounting personnel on a single payroll task.
47. The retention period for payroll documents commences:
- A. At the time an employee is hired.
 - B. When an employee's first pay is disbursed.
 - C. Once the employee completes one year of service.
 - D. When an employee terminates employment.
48. Which of the following parties does not legally have access to a firm's payroll records?
- A. The IRS
 - B. State revenue department employees
 - C. All employees of the firm
 - D. The Department of Homeland Security

49. Which of the following is true about document retention requirement per the IRS statute of limitations (Select all that apply)?
- A. Federal legislation requires documents to be retained for two years after the employee's termination.
 - B. Payroll records must be maintained for three years after termination.
 - C. Union employees' records must be retained for five years after termination.
 - D. State legislation requires records to be retained for a minimum of eight years after termination.
50. Mako was an employee of the Jaeger Corporation. After she voluntarily terminated employment, auditors discovered evidence of fraudulent activity that they traced to her. Mako's records must be retained:
- A. For 10 years.
 - B. For 15 years.
 - C. For 20 years.
 - D. Indefinitely.
51. Max Johnson was terminated from a company in South Carolina because of a reduction in workforce. Which statement best describes the state's requirements for disbursement of his final pay?
- A. Within 48 hours..
 - B. At the next scheduled pay date..
 - C. On the next business day..
 - D. Within two weeks.

52. Natalie is involuntarily terminated by a company in Alabama. According to state regulations, when must she receive her final pay?
- A. On the next business day
 - B. No standardized state guidelines exist
 - C. Within seven business days
 - D. At the next schedule payday
53. A firm needs to destroy paper payroll records after the end of the retention period. Which of the following is an option for destruction purposes (Select all that apply)?
- A. Shredding
 - B. Discarding
 - C. Pulping
 - D. Burning
- 54 Geoff is the payroll clerk for a firm that maintains its payroll through computerized records on a centralized server. One of his responsibilities is Explain Pay Records and Employee File Maintenance, including the destruction of records after the retention time has elapsed. His method of purging employee records is to delete the file from the database. What other record destruction procedures should Geoff follow?
- A. None. His method is acceptable.
 - B. He should check all other employees' computers to ensure that the record is deleted.
 - C. He should purge the record from the server and all backups.
 - D. He should send an interoffice request to have someone in the information technology department remove the record from the server.

55. What is the difference between termination and resignation, as far as final pay is concerned?
- A. Resignation pay may be paid at the next regular pay date, but termination pay is subject to state law.
 - B. Resignation and termination pay are subject to state regulations.
 - C. Resignation pay must be paid within one week and termination pay must be the next business day.
 - D. Resignation pay must be paid on the next business day and termination pay is due immediately.
56. Upon termination, which of the following must be included in an employee's final pay?
- A. Hours worked
 - B. Vacation previously paid.
 - C. Severance pay
 - D. Sick time accrued but not used.
- 57 A payroll accountant is preparing the final pay for a commission-based salesperson who has been terminated from the firm. What will happen to the salesperson's commission that have been earned but not paid?
- A. The salesperson must receive termination pay immediately and forfeits all unpaid commissions.
 - B. The salesperson's final pay is delayed to allow for computation of commissions.
 - C. The final pay must include all commissions earned, in accordance with any pay agreement.
 - D. The employee must receive final non-commission pay immediately, but any commission pay will be delayed.

58. What types of records does IRS Regulation 26 CFR 1.6001 cover (Select all that apply)?

- A. Manual pay records
- B. Computerized pay records
- C. Outsourced payroll records
- D. Independent contractor remittance

59. Well-designed internal controls promote (Select all that apply):

- A. Legal compliance and file integrity.
- B. Opportunities for defalcation.
- C. Protection against embezzlement.
- D. Audit trail support.

60. All executive compensation must be:

- A. Maintained in a file and purged annually.
- B. Available for inspection by any interested party.
- C. Annotated as to derivation and benchmarks.
- D. Reported with the company's financial statements.

61. Individuals classified as _____ are processed as vendors of a firm.

- A. Exempt employees.
- B. Nonexempt employees.
- C. Government contract employees.
- D. Independent contractors.

62. _____ payroll is processed every two weeks and will usually result in a lower gross pay per pay period than _____ payroll.

- A. Weekly; monthly.
- B. Semimonthly; biweekly.
- C. Biweekly; semimonthly.
- D. Daily; biweekly.

63. Form I-9 is issued by the _____ to verify employment eligibility in the United States.

- A. Internal Revenue Service
- B. Department of Homeland Security
- C. Federal Bureau of Investigation
- D. Department of Labor

64. Personnel in certain full-time occupations are classified as _____ instead of independent contractors.

A. Contract employees

B. Executive workers

C. Statutory employees

D. Non-statutory
workers

65. FATCA enforcement has been difficult because the Internal Revenue Service relies on _____ for reporting purposes.

A. Intermediaries (e.g., banks)

B. Employers and employees

C. Foreign countries

D. Personal income tax returns

66. _____ pay is based on sales revenue, while _____ pay is based on manufacturing.

A. Exempt; nonexempt

B. Commission; overtime

C. Piece-rate; commission

D. Commission; piece-rate

67. Verification of hours worked and pay accuracy is part of the _____.
- A. Disbursement cycle.
 - B. Accounts payable reconciliation.
 - C. CEO's responsibility.
 - D. Payroll review process.
68. IRS Regulation 26 CFR 1.6001 mandates _____ procedures as they pertain to payroll records, noting that it is the responsibility of the _____.
- A. File maintenance; employer.
 - B. Payroll review; payroll supervisor.
 - C. Check authorization; controller.
 - D. Employee time review; department manager.

69. Upon termination from a firm, employer must disburse the former employee's final pay _____.

- A. Immediately.
- B. Within 24 hours.
- C. At the next scheduled payday.
- D. In accordance with state law.

70. Payroll records that contain evidence of fraud or other illegal action must be _____.

- A. retained for two years.
- B. destroyed immediately.
- C. retained indefinitely.
- D. released to law enforcement officials.

Chapter 02 Payroll System Procedures **Answer Key**

True / False Questions

1. The two focuses of payroll procedures are company needs and governmental rules.

TRUE

AACSB: Analytic

AICPA: BB Industry

AICPA: FN Reporting

Blooms: Understand

Difficulty: Easy

Learning Objective: 02-01 Identify Important Payroll Procedures and Pay Cycles

Topic: Identify Important Payroll Procedures and Pay Cycles

2. Employers may choose to omit the employees' Social Security numbers in their employee files.

FALSE

Explanation: Social Security numbers must be included in all employee files

AACSB: Analytic

AICPA: BB Resource Management

AICPA: FN Decision Making

Blooms: Understand

Difficulty: Easy

Learning Objective: 02-01 Identify Important Payroll Procedures and Pay Cycles

Topic: Identify Important Payroll Procedures and Pay Cycles

3. Semimonthly payroll involves a pay cycle in which pay disbursements occur every two weeks.

FALSE

Explanation: Semimonthly payroll disbursements occur twice per month.

AACSB: Analytic

AICPA: BB Industry

AICPA: FN Measurement

Blooms: Apply

Difficulty: Easy

Learning Objective: 02-01 Identify Important Payroll Procedures and Pay Cycles

Topic: Identify Important Payroll Procedures and Pay Cycles

4. Newly hired employees must be reported to governmental officials within 20 days of starting work for an employer.

TRUE

AACSB: Communication

AICPA: BB Legal

AICPA: FN Reporting

Blooms: Understand

Difficulty: Easy

Learning Objective: 02-02 Prepare Required Employee Documentation

Topic: Prepare Required Employee Documentation

5. Foreign workers in the United States are subject to new hire reporting regulations.

TRUE

AACSB: Diversity

AICPA: BB Legal

AICPA: FN Reporting

Blooms: Apply

Difficulty: Medium

Learning Objective: 02-02 Prepare Required Employee Documentation

Topic: Prepare Required Employee Documentation

6. A worker who sells life insurance on a full-time basis is considered a statutory employee.

TRUE

AACSB: Reflective Thinking

AICPA: BB Industry

AICPA: FN Decision Making

Blooms: Apply

Difficulty: Easy

Learning Objective: 02-02 Prepare Required Employee Documentation

Topic: Prepare Required Employee Documentation

7. U.S. workers in foreign subsidiaries are exempt from all income taxes.

FALSE

Explanation: Under FATCA, U.S. workers in foreign subsidiaries are only tax-exempt on the first \$101,300 of annual income (2016 figure)

AACSB: Diversity

AICPA: BB Critical Thinking

AICPA: FN Reporting

Blooms: Apply

Difficulty: Medium

Learning Objective: 02-02 Prepare Required Employee Documentation

Topic: Prepare Required Employee Documentation

8. Pay rate is the first payroll system decision a company must make.

FALSE

Explanation: The first payroll system decision is the pay frequency.

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Difficulty: Medium

Learning Objective: 02-03 Explain Pay Records and Employee File Maintenance

Topic: Explain Pay Records and Employee File Maintenance

9. Only regular working hours are considered as the worked hours for overtime computation.

TRUE

AACSB: Analytic

AICPA: BB Industry

AICPA: FN Decision Making

Blooms: Analyze

Difficulty: Medium

Learning Objective: 02-03 Explain Pay Records and Employee File Maintenance

Topic: Explain Pay Records and Employee File Maintenance

10. It is considered a best practice to assign one employee all payroll duties.

FALSE

Explanation: A best practice in payroll accounting is the separation of duties among multiple employees.

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Decision Making

Blooms: Evaluate

Difficulty: Medium

Learning Objective: 02-04 Describe Internal Controls and Record Retention for a Payroll System

Topic: Describe Internal Controls and Record Retention for a Payroll System

Multiple Choice Questions

11. Which of the following are important decisions that an employer must make regarding its payroll procedures (Select all that apply)?

- A. How often to pay employees
- B. How to handle pay advances
- C. How many employees to hire
- D. Which employee benefits to offer

AACSB: Reflective Thinking

AICPA: BB Resource Management

AICPA: FN Decision Making

Blooms: Evaluate

Difficulty: Medium

Learning Objective: 02-01 Identify Important Payroll Procedures and Pay Cycles

Topic: Identify Important Payroll Procedures and Pay Cycles

12. Which of the following items must exist in every employee's payroll file?

- A. Spouse's social security number
- B. Employment history
- C. Spouse's birth date
- D. Occupation

AACSB: Communication

AICPA: BB Legal

AICPA: FN Reporting

Blooms: Analyze

Difficulty: Medium

Learning Objective: 02-01 Identify Important Payroll Procedures and Pay Cycles

Topic: Identify Important Payroll Procedures and Pay Cycles

13. Why must pay period information be a part of an employee's payroll file?

- A. As a means of tracking time worked for overtime compensation purposes.
- B. To ensure that the employee receives all compensation earned.
- C. As a means of ensuring pay equality among employees.
- D. To document satisfaction of court-ordered obligations.

AACSB: Communication

AICPA: BB Legal

AICPA: FN Reporting

Blooms: Analyze

Difficulty: Medium

Learning Objective: 02-01 Identify Important Payroll Procedures and Pay Cycles

Topic: Identify Important Payroll Procedures and Pay Cycles

14. Which of the following is/are purpose(s) of new hire reporting laws (Select all that apply)?

- A. To ensure payment of court-ordered obligations like garnishments and child support.
- B. To keep track of workers throughout their careers.
- C. To ensure that the employee may legally work in the United States.
- D. To keep track of workers and professionals who are subject to licensing regulations.

AACSB: Analytic

AICPA: BB Legal

AICPA: FN Research

Blooms: Evaluate

Difficulty: Medium

Learning Objective: 02-02 Prepare Required Employee Documentation

Topic: Prepare Required Employee Documentation

15. Which pay frequency has 24 pay periods annually?

- A. Weekly
- B. Biweekly
- C.** Semimonthly
- D. Semi-weekly

*AACSB: Analytic
AICPA: BB Industry
AICPA: FN Reporting
Blooms: Remember
Difficulty: Easy*

*Learning Objective: 02-01 Identify Important Payroll Procedures and Pay Cycles
Topic: Identify Important Payroll Procedures and Pay Cycles*

16. Which pay frequency has 26 pay periods per year?

- A. Bimonthly
- B.** Biweekly
- C. Semimonthly
- D. Semi-weekly

*AACSB: Analytic
AICPA: BB Industry
AICPA: FN Reporting
Blooms: Remember
Difficulty: Easy*

*Learning Objective: 02-01 Identify Important Payroll Procedures and Pay Cycles
Topic: Identify Important Payroll Procedures and Pay Cycles*

17. Which pay frequency has 12 pay periods?

- A. Daily
- B. Weekly
- C. Monthly
- D. Semimonthly

*AACSB: Analytic
AICPA: BB Industry
AICPA: FN Reporting
Blooms: Evaluate
Difficulty: Medium*

*Learning Objective: 02-01 Identify Important Payroll Procedures and Pay Cycles
Topic: Identify Important Payroll Procedures and Pay Cycles*

18. What forms are required when an employee is hired (Select all that apply)?

- A. W-4
- B. I-9
- C. SS-4
- D. W-2

*AACSB: Reflective Thinking
AICPA: BB Legal
AICPA: FN Reporting
Blooms: Apply
Difficulty: Medium*

*Learning Objective: 02-02 Prepare Required Employee Documentation
Topic: Prepare Required Employee Documentation*

19. Ibrahim is the payroll accountant for a firm. He notes that the firm has hired a new employee. What forms must he collect from the new employee?

- A. W-2 and I-9
- B.** W-4 and I-9
- C. W-4 and I-8
- D. W-3 and I-9

AACSB: Communication

AICPA: BB Legal

AICPA: FN Reporting

Blooms: Apply

Difficulty: Easy

Learning Objective: 02-02 Prepare Required Employee Documentation

Topic: Prepare Required Employee Documentation

20. If a firm pays its employees biweekly, how often does it disburse employee compensation?

- A. Twice per week
- B. Every week
- C.** Every two weeks
- D. Every three weeks

AACSB: Reflective Thinking

AICPA: BB Resource Management

AICPA: FN Decision Making

Blooms: Apply

Difficulty: Easy

Learning Objective: 02-01 Identify Important Payroll Procedures and Pay Cycles

Topic: Identify Important Payroll Procedures and Pay Cycles

21. Why is it important for an employer to classify a worker as either an employee or an independent contractor?

- A. For tax reporting purposes
- B. For child support obligations purposes
- C. For government tracking purposes
- D. For reimbursement purposes

AACSB: Reflective Thinking

AICPA: BB Legal

AICPA: FN Reporting

Blooms: Evaluate

Difficulty: Medium

Learning Objective: 02-02 Prepare Required Employee Documentation

Topic: Prepare Required Employee Documentation

22. Which of the following is a purpose of new hire reporting (Select all that apply)?

- A. Immigration agency tracking
- B. COBRA benefits administration
- C. Communications of ethics violations for clerical workers
- D. Child support obligations tracking

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Reporting

Blooms: Evaluate

Difficulty: Medium

Learning Objective: 02-02 Prepare Required Employee Documentation

Topic: Prepare Required Employee Documentation

23. An employer must have an employee complete Form W-4:
- A. Before each pay disbursement.
 - B. Each year, upon the employee's anniversary with the firm.
 - C. Every January 1.
 - D.** At the time of hire.

AACSB: Communication

AICPA: BB Legal

AICPA: FN Reporting

Blooms: Evaluate

Difficulty: Medium

Learning Objective: 02-02 Prepare Required Employee Documentation

Topic: Prepare Required Employee Documentation

24. Josh, who is 21 years of age, is a new employee of XYZ Company. To establish his identity and employment authorization, he could present:
- A.** His current United States passport.
 - B. His library card and birth certificate.
 - C. His driver's license and ATM card.
 - D. His college transcript and driver's license.

AACSB: Communication

AICPA: BB Legal

AICPA: FN Reporting

Blooms: Apply

Difficulty: Medium

Learning Objective: 02-02 Prepare Required Employee Documentation

Topic: Prepare Required Employee Documentation

25. Which items must be contained in every hiring packet issued by an employer?

- A. Forms W-4 and I-9
- B. Employment contract with start date and pay agreement
- C. Descriptions of benefits and enrollment forms
- D.** No items are mandated for issuance in a hiring packet

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Decision Making

Blooms: Evaluate

Difficulty: Medium

Learning Objective: 02-02 Prepare Required Employee Documentation

Topic: Prepare Required Employee Documentation

26. The _____ mandated that new hires must be reported within _____ days to state authorities.

- A. Fair Labor Standards Act, 30.
- B.** Immigration Reform and Control Act, 20.
- C. Civil Rights Act, 25.
- D. Davis-Bacon Act, 28.

AACSB: Reflective Thinking

AICPA: BB Legal

AICPA: FN Research

Blooms: Analyze

Difficulty: Medium

Learning Objective: 02-02 Prepare Required Employee Documentation

Topic: Prepare Required Employee Documentation

27. Multistate employers must do which of the following for new hire reporting (Select all that apply)?

- A. File a report with the state offices for the employee's state of residence
- B. File a report with the IRS since they have employees in multiple states
- C. Designate which state will receive their new hire reporting
- D. File a new-hire report with both the state that contains the firm's headquarters and the state that is the employee's primary residence

AACSB: Communication

AICPA: BB Legal

AICPA: FN Reporting

Blooms: Analyze

Difficulty: Medium

Learning Objective: 02-02 Prepare Required Employee Documentation

Topic: Prepare Required Employee Documentation

28. Which entity bears the responsibility for gaining approval for a foreign worker visa so a foreign employee may work legally in the United States?

- A. The employer
- B. The employee
- C. The U.S. State Department
- D. The employer's home country

AACSB: Diversity

AICPA: BB Resource Management

AICPA: FN Research

Blooms: Analyze

Difficulty: Medium

Learning Objective: 02-02 Prepare Required Employee Documentation

Topic: Prepare Required Employee Documentation

29. Abigail is a full-time worker whose primary occupation involves extensive overnight travel to visit wholesaler sites on the behalf of a single company. Which of the following classifications most accurately describes Abigail's employment status?

- A. Independent contractor
- B. Exempt employee
- C. Nonexempt employee
- D. Statutory employee

AACSB: Reflective Thinking

AICPA: BB Industry

AICPA: FN Decision Making

Blooms: Analyze

Difficulty: Hard

Learning Objective: 02-02 Prepare Required Employee Documentation

Topic: Prepare Required Employee Documentation

30. Allen is an employee of the foreign subsidiary of a United States based company who lives and work in the United Kingdom. According to FATCA, how much of his wages may Allen exclude from United States' taxes, according to 2016 guidelines?

- A. \$46,500
- B. \$79,850
- C. \$101,300
- D. None

AACSB: Diversity

AICPA: BB Legal

AICPA: FN Reporting

Blooms: Understand

Difficulty: Easy

Learning Objective: 02-02 Prepare Required Employee Documentation

Topic: Prepare Required Employee Documentation

31. Which of the following factors assist employers in determining employee pay rates (Select all that apply)?

- A. Employee skill
- B. Company location
- C. Employee age
- D. Industry benchmarks

AACSB: Reflective Thinking

AICPA: BB Legal

AICPA: FN Research

Blooms: Apply

Difficulty: Hard

Learning Objective: 02-03 Explain Pay Records and Employee File Maintenance

Topic: Explain Pay Records and Employee File Maintenance

32. Georgeanne works in a company for which her primary job function is the sale of company products to consumers. She receives a percentage of each sale as part of her compensation. Her compensation contains a _____ element.

- A. Piece-rate
- B. Commission
- C. Pay-for-performance
- D. Nonexempt

AACSB: Analytic

AICPA: BB Resource Management

AICPA: FN Research

Blooms: Analyze

Difficulty: Easy

Learning Objective: 02-03 Explain Pay Records and Employee File Maintenance

Topic: Explain Pay Records and Employee File Maintenance

33. Stan works for a bakery for which part of his compensation is based on the decoration of wedding and other specialty cakes. His compensation has a _____ element.

- A. Performance incentive
- B. Commission
- C. Piece-rate
- D. Nonexempt

AACSB: Analytic

AICPA: BB Resource Management

AICPA: FN Research

Blooms: Analyze

Difficulty: Medium

Learning Objective: 02-03 Explain Pay Records and Employee File Maintenance

Topic: Explain Pay Records and Employee File Maintenance

34. Which of the following is subject to overtime in the process of hourly computations, according to FLSA?

- A. Time worked in excess of eight hours per day
- B. Holiday, sick time, and paid time off
- C. Time worked in excess of 40 hours per week
- D. Nonexempt employee weekend work

AACSB: Analytic

AICPA: BB Legal

AICPA: FN Decision Making

Blooms: Analyze

Difficulty: Medium

Learning Objective: 02-03 Explain Pay Records and Employee File Maintenance

Topic: Explain Pay Records and Employee File Maintenance

35. Which of the following is a necessary element in an accounting system (Select all that apply)?

- A. Internal review
- B. Audit control
- C. Internal control
- D. Audit review

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Decision Making

Blooms: Apply

Difficulty: Hard

Learning Objective: 02-04 Describe Internal Controls and Record Retention for a Payroll System

Topic: Describe Internal Controls and Record Retention for a Payroll System

36. A payroll review process increases in complexity when:

- A. The company is has few departments and few employees.
- B. The company is not geographically dispersed.
- C. The company is centralized and uses one location.
- D. The company has multiple departments and many employees.

AACSB: Analytic

AICPA: BB Resource Management

AICPA: FN Measurement

Blooms: Analyze

Difficulty: Medium

Learning Objective: 02-04 Describe Internal Controls and Record Retention for a Payroll System

Topic: Describe Internal Controls and Record Retention for a Payroll System

37. Outsourcing the payroll process:

- A. Relieves the company of the task completion and the review process.
- B.** Relieves the company of certain completion but not the review process.
- C. Relieves the company of all liability for payroll completion and accuracy.
- D. Relieves the company of the review process but not the task completion.

AACSB: Reflective Thinking

AICPA: BB Leveraging Technology

AICPA: FN Decision Making

Blooms: Evaluate

Difficulty: Hard

Learning Objective: 02-04 Describe Internal Controls and Record Retention for a Payroll System

Topic: Describe Internal Controls and Record Retention for a Payroll System

38. A company should assign _____ employee(s) the responsibility for signing payroll checks and disbursements.

- A.** A limited number of
- B. Only one
- C. Its most responsible
- D. None of the

AACSB: Reflective Thinking

AICPA: BB Resource Management

AICPA: FN Decision Making

Blooms: Apply

Difficulty: Medium

Learning Objective: 02-04 Describe Internal Controls and Record Retention for a Payroll System

Topic: Describe Internal Controls and Record Retention for a Payroll System

39. Which of the following is a potential consequence of incorrect calculation of employee time for payroll purposes (Select all that apply)?

- A. Federal penalties for not remitting all taxes due
- B. Erosion of available cash because of overpayments to employees
- C. Increased stakeholder approval due to employee overpayments
- D. An increase in legal proceedings initiated by employees

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Reporting

Blooms: Evaluate

Difficulty: Hard

Learning Objective: 02-04 Describe Internal Controls and Record Retention for a Payroll System

Topic: Describe Internal Controls and Record Retention for a Payroll System

40. For payroll documentation purposes, when an employee needs time away from work:

- A. The supervisor should authorize it verbally.
- B. The employee should email only department colleagues.
- C. Upper management must approve the request.
- D. The request should be documented and forwarded to the payroll clerk.

AACSB: Communication

AICPA: BB Resource Management

AICPA: FN Reporting

Blooms: Apply

Difficulty: Medium

Learning Objective: 02-04 Describe Internal Controls and Record Retention for a Payroll System

Topic: Describe Internal Controls and Record Retention for a Payroll System

41. When a payroll clerk receives an approved request for an employee's time away from work, he or she should:

- A. Immediately place it in the employee's file.
- B.** Attach it to the employee's time collection report for the pay period.
- C. Destroy the document in accordance with privacy laws.
- D. Contact the employee to verify the request.

AACSB: Communication

AICPA: BB Resource Management

AICPA: FN Reporting

Blooms: Apply

Difficulty: Medium

Learning Objective: 02-04 Describe Internal Controls and Record Retention for a Payroll System

Topic: Describe Internal Controls and Record Retention for a Payroll System

42. A company should restrict access to payroll files (paper and/or electronic) as a part of _____.

- A.** File security internal controls
- B. Audit trail requirements
- C. Compliance with company policy
- D. FATCA requirements

AACSB: Ethics

AICPA: BB Industry

AICPA: FN Risk Analysis

Blooms: Apply

Difficulty: Medium

Learning Objective: 02-04 Describe Internal Controls and Record Retention for a Payroll System

Topic: Describe Internal Controls and Record Retention for a Payroll System

43. Which aspect of internal controls for payroll relates to the Sarbanes-Oxley Act?

- A. Protecting employee retirement funds
- B. Limiting the number of employees authorized to disburse payroll
- C.** Cross-training employees and altering duties
- D. Ensuring the complexity of the audit trail

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Research

Blooms: Analyze

Difficulty: Medium

Learning Objective: 02-04 Describe Internal Controls and Record Retention for a Payroll System

Topic: Describe Internal Controls and Record Retention for a Payroll System

44. Employee file maintenance is the responsibility of the:

- A. Employee.
- B.** Employer.
- C. Payroll vendor.
- D. State government.

AACSB: Reflective Thinking

AICPA: BB Resource Management

AICPA: FN Decision Making

Blooms: Evaluate

Difficulty: Hard

Learning Objective: 02-04 Describe Internal Controls and Record Retention for a Payroll System

Topic: Describe Internal Controls and Record Retention for a Payroll System

45. Computerized payroll records are considered a(n):

- A. Open system.
- B. Open access.
- C.** Closed system.
- D. Closed access.

AACSB: Technology

AICPA: BB Leveraging Technology

AICPA: FN Leveraging Technology

Blooms: Understand

Difficulty: Easy

Learning Objective: 02-04 Describe Internal Controls and Record Retention for a Payroll System

Topic: Describe Internal Controls and Record Retention for a Payroll System

46. When developing the internal controls and record retention for a payroll system, a company should:

- A. Involve all company employees to promote transparency.
- B.** Develop a closed system and alternate employee duties.
- C. Designate a single employee with the responsibility for pay disbursements.
- D. Train accounting personnel on a single payroll task.

AACSB: Reflective Thinking

AICPA: BB Resource Management

AICPA: FN Decision Making

Blooms: Create

Difficulty: Hard

Learning Objective: 02-04 Describe Internal Controls and Record Retention for a Payroll System

Topic: Describe Internal Controls and Record Retention for a Payroll System

47. The retention period for payroll documents commences:

- A. At the time an employee is hired.
- B. When an employee's first pay is disbursed.
- C. Once the employee completes one year of service.
- D. When an employee terminates employment.

AACSB: Analytic

AICPA: BB Resource Management

AICPA: FN Risk Analysis

Blooms: Analyze

Difficulty: Hard

Learning Objective: 02-04 Describe Internal Controls and Record Retention for a Payroll System

Topic: Describe Internal Controls and Record Retention for a Payroll System

48. Which of the following parties does not legally have access to a firm's payroll records?

- A. The IRS
- B. State revenue department employees
- C. All employees of the firm
- D. The Department of Homeland Security

AACSB: Communication

AICPA: BB Resource Management

AICPA: FN Risk Analysis

Blooms: Evaluate

Difficulty: Medium

Learning Objective: 02-05 Discuss Employee Termination and Document Destruction Procedures

Topic: Discuss Employee Termination and Document Destruction Procedures

49. Which of the following is true about document retention requirement per the IRS statute of limitations (Select all that apply)?

- A. Federal legislation requires documents to be retained for two years after the employee's termination.
- B.** Payroll records must be maintained for three years after termination.
- C. Union employees' records must be retained for five years after termination.
- D. State legislation requires records to be retained for a minimum of eight years after termination.

AACSB: Analytic

AICPA: BB Legal

AICPA: FN Risk Analysis

Blooms: Evaluate

Difficulty: Hard

Learning Objective: 02-05 Discuss Employee Termination and Document Destruction Procedures

Topic: Discuss Employee Termination and Document Destruction Procedures

50. Mako was an employee of the Jaeger Corporation. After she voluntarily terminated employment, auditors discovered evidence of fraudulent activity that they traced to her. Mako's records must be retained:

- A. For 10 years.
- B. For 15 years.
- C. For 20 years.
- D.** Indefinitely.

AACSB: Reflective Thinking

AICPA: BB Legal

AICPA: FN Risk Analysis

Blooms: Analyze

Difficulty: Medium

Learning Objective: 02-04 Describe Internal Controls and Record Retention for a Payroll System

Topic: Describe Internal Controls and Record Retention for a Payroll System

51. Max Johnson was terminated from a company in South Carolina because of a reduction in workforce. Which statement best describes the state's requirements for disbursement of his final pay?

- A. Within 48 hours.
- B. At the next scheduled pay date.
- C. On the next business day..
- D. Within two weeks.

*AACSB: Analytic
AICPA: BB Resource Management
AICPA: FN Research
Blooms: Analyze
Difficulty: Medium*

*Learning Objective: 02-05 Discuss Employee Termination and Document Destruction Procedures
Topic: Discuss Employee Termination and Document Destruction Procedures*

52. Natalie is involuntarily terminated by a company in Alabama. According to state regulations, when must she receive her final pay?

- A. On the next business day
- B. No standardized state guidelines exist
- C. Within seven business days
- D. At the next schedule payday

*AACSB: Analytic
AICPA: BB Legal
AICPA: FN Decision Making
Blooms: Apply
Difficulty: Medium*

*Learning Objective: 02-05 Discuss Employee Termination and Document Destruction Procedures
Topic: Discuss Employee Termination and Document Destruction Procedures*

53. A firm needs to destroy paper payroll records after the end of the retention period. Which of the following is an option for destruction purposes (Select all that apply)?

- A. Shredding
- B. Discarding
- C. Pulping
- D. Burning

AACSB: Reflective Thinking

AICPA: BB Resource Management

AICPA: FN Risk Analysis

Blooms: Understand

Difficulty: Easy

Learning Objective: 02-05 Discuss Employee Termination and Document Destruction Procedures

Topic: Discuss Employee Termination and Document Destruction Procedures

54. Geoff is the payroll clerk for a firm that maintains its payroll through computerized records on a centralized server. One of his responsibilities is employee file maintenance, including the destruction of records after the retention time has elapsed. His method of purging employee records is to delete the file from the database. What other record destruction procedures should Geoff follow?

- A. None. His method is acceptable.
- B. He should check all other employees' computers to ensure that the record is deleted.
- C. He should purge the record from the server.
- D. He should send an interoffice request to have someone in the information technology department remove the record from the server.

AACSB: Technology

AICPA: BB Leveraging Technology

AICPA: FN Leveraging Technology

Blooms: Evaluate

Difficulty: Hard

Learning Objective: 02-05 Discuss Employee Termination and Document Destruction Procedures

Topic: Discuss Employee Termination and Document Destruction Procedures

55. What is the difference between termination and resignation, as far as final pay is concerned?

- A. Resignation pay may be paid at the next regular pay date, but termination pay is subject to state law.
- B. Resignation and termination pay are subject to state regulations.
- C. Resignation pay must be paid within one week and termination pay must be the next business day.
- D. Resignation pay must be paid on the next business day and termination pay is due immediately.

AACSB: Analytic

AICPA: BB Industry

AICPA: FN Decision Making

Blooms: Apply

Difficulty: Medium

Learning Objective: 02-05 Discuss Employee Termination and Document Destruction Procedures

Topic: Discuss Employee Termination and Document Destruction Procedures

56. Upon termination, which of the following must be included in an employee's final pay?

- A. Hours worked
- B. Vacation previously paid.
- C. Severance pay
- D. Sick time accrued but not used.

AACSB: Analytic

AICPA: BB Legal

AICPA: FN Reporting

Blooms: Analyze

Difficulty: Medium

Learning Objective: 02-05 Discuss Employee Termination and Document Destruction Procedures

Topic: Discuss Employee Termination and Document Destruction Procedures

57. A payroll accountant is preparing the final pay for a commission-based salesperson who has been terminated from the firm. What will happen to the salesperson's commission that have been earned but not paid?
- A. The salesperson must receive termination pay immediately and forfeits all unpaid commissions.
 - B. The salesperson's final pay is delayed to allow for computation of commissions.
 - C. The final pay must include all commissions earned, in accordance with any pay agreement.
 - D. The employee must receive final non-commission pay immediately, but any commission pay will be delayed.

AACSB: Analytic

AICPA: BB Critical Thinking

AICPA: FN Decision Making

Blooms: Evaluate

Difficulty: Hard

Learning Objective: 02-05 Discuss Employee Termination and Document Destruction Procedures

Topic: Discuss Employee Termination and Document Destruction Procedures

58. What types of records does IRS Regulation 26 CFR 1.6001 cover (Select all that apply)?
- A. Manual pay records
 - B. Computerized pay records
 - C. Outsourced payroll records
 - D. Independent contractor remittance

AACSB: Analytic

AICPA: BB Legal

AICPA: FN Research

Blooms: Analyze

Difficulty: Hard

Learning Objective: 02-04 Describe Internal Controls and Record Retention for a Payroll System

Topic: Describe Internal Controls and Record Retention for a Payroll System

59. Well-designed internal controls promote (Select all that apply):

- A. Legal compliance and file integrity.
- B. Opportunities for defalcation.
- C. Protection against embezzlement.
- D. Audit trail support.

AACSB: Analytic
AICPA: BB Critical Thinking
AICPA: FN Research
Blooms: Evaluate
Difficulty: Hard

Learning Objective: 02-04 Describe Internal Controls and Record Retention for a Payroll System
Topic: Describe Internal Controls and Record Retention for a Payroll System

60. All executive compensation must be:

- A. Maintained in a file and purged annually.
- B. Available for inspection by any interested party.
- C. Annotated as to derivation and benchmarks.
- D. Reported with the company's financial statements.

AACSB: Communication
AICPA: BB Resource Management
AICPA: FN Reporting
Blooms: Apply
Blooms: Evaluate
Difficulty: Medium

Learning Objective: 02-04 Describe Internal Controls and Record Retention for a Payroll System
Topic: Describe Internal Controls and Record Retention for a Payroll System

61. Individuals classified as _____ are processed as vendors of a firm.

- A. Exempt employees.
- B. Nonexempt employees.
- C. Government contract employees.
- D. Independent contractors.

AACSB: Reflective Thinking

AICPA: BB Industry

AICPA: FN Reporting

Blooms: Understand

Difficulty: Easy

Learning Objective: 02-01 Identify Important Payroll Procedures and Pay Cycles

Learning Objective: 02-02 Prepare Required Employee Documentation

Topic: Identify Important Payroll Procedures and Pay Cycles

62. _____ payroll is processed every two weeks and will usually result in a lower gross pay per pay period than _____ payroll.

- A. Weekly; monthly.
- B. Semimonthly; biweekly.
- C. Biweekly; semimonthly.
- D. Daily; biweekly.

AACSB: Reflective Thinking

AICPA: BB Critical Thinking

AICPA: FN Measurement

Blooms: Analyze

Difficulty: Medium

Learning Objective: 02-01 Identify Important Payroll Procedures and Pay Cycles

Topic: Identify Important Payroll Procedures and Pay Cycles

63. Form I-9 is issued by the _____ to verify employment eligibility in the United States.

- A. Internal Revenue Service
- B.** Department of Homeland Security
- C. Federal Bureau of Investigation
- D. Department of Labor

AACSB: Communication

AICPA: BB Legal

AICPA: FN Reporting

Blooms: Remember

Difficulty: Easy

Learning Objective: 02-02 Prepare Required Employee Documentation

Topic: Prepare Required Employee Documentation

64. Personnel in certain full-time occupations are classified as _____ instead of independent contractors.

- A. Contract employees
- B. Executive workers
- C.** Statutory employees
- D. Non-statutory workers

AACSB: Analytic

AICPA: BB Industry

AICPA: FN Reporting

Blooms: Understand

Difficulty: Easy

Learning Objective: 02-02 Prepare Required Employee Documentation

Topic: Prepare Required Employee Documentation

65. FATCA enforcement has been difficult because the Internal Revenue Service relies on _____ for reporting purposes.

- A. Intermediaries (e.g., banks)
- B. Employers and employees
- C. Foreign countries
- D. Personal income tax returns

*AACSB: Diversity
AICPA: BB Global
AICPA: FN Reporting
Blooms: Analyze
Difficulty: Medium*

*Learning Objective: 02-02 Prepare Required Employee Documentation
Topic: Prepare Required Employee Documentation*

66. _____ pay is based on sales revenue, while _____ pay is based on manufacturing.

- A. Exempt; nonexempt
- B. Commission; overtime
- C. Piece-rate; commission
- D. Commission; piece-rate

*AACSB: Reflective Thinking
AICPA: BB Industry
AICPA: FN Measurement
Blooms: Understand
Difficulty: Easy*

*Learning Objective: 02-03 Explain Pay Records and Employee File Maintenance
Topic: Explain Pay Records and Employee File Maintenance*

67. Verification of hours worked and pay accuracy is part of the _____.

- A. Disbursement cycle.
- B. Accounts payable reconciliation.
- C. CEO's responsibility.
- D. Payroll review process.

AACSB: Analytic

AICPA: BB Critical Thinking

AICPA: FN Risk Analysis

Blooms: Apply

Difficulty: Medium

Learning Objective: 02-04 Describe Internal Controls and Record Retention for a Payroll System

Topic: Describe Internal Controls and Record Retention for a Payroll System

68. IRS Regulation 26 CFR 1.6001 mandates _____ procedures as they pertain to payroll records, noting that it is the responsibility of the _____.

- A. File maintenance; employer.
- B. Payroll review; payroll supervisor.
- C. Check authorization; controller.
- D. Employee time review; department manager.

AACSB: Reflective Thinking

AICPA: BB Resource Management

AICPA: FN Risk Analysis

Blooms: Apply

Difficulty: Medium

Learning Objective: 02-04 Describe Internal Controls and Record Retention for a Payroll System

Topic: Describe Internal Controls and Record Retention for a Payroll System

69. Upon termination from a firm, employer must disburse the former employee's final pay _____.

- A. Immediately.
- B. Within 24 hours.
- C. At the next scheduled payday.
- D. In accordance with state law.

AACSB: Communication

AICPA: BB Legal

AICPA: FN Research

Blooms: Apply

Difficulty: Medium

Learning Objective: 02-05 Discuss Employee Termination and Document Destruction Procedures

Topic: Discuss Employee Termination and Document Destruction Procedures

70. Payroll records that contain evidence of fraud or other illegal action must be _____.

- A. retained for two years.
- B. destroyed immediately.
- C. retained indefinitely.
- D. released to law enforcement officials.

AACSB: Reflective Thinking

AICPA: BB Legal

AICPA: FN Research

Blooms: Analyze

Difficulty: Medium

Learning Objective: 02-04 Describe Internal Controls and Record Retention for a Payroll System

Topic: Describe Internal Controls and Record Retention for a Payroll System