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
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C. Communications of ethics violations for clerical workers
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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.
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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.

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
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C. The U.S. State Department
D. The employer’s home country

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A. Independent contractor
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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
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   A. Employee skill
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   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
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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.

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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
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Blooms: Evaluate
Difficulty: Medium

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

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AACSB: Communication
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Blooms: Analyze
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13. Why must pay period information be a part of an employee’s payroll file?

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AACSB: Communication
AICPA: BB Legal
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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  
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C. Semimonthly
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Blooms: Apply
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Topic: Prepare Required Employee Documentation

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B. Every week

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

   A. Immigration agency tracking
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C. His driver’s license and ATM card.
D. His college transcript and driver’s license.
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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
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Blooms: Analyze
Difficulty: Medium

Learning Objective: 02-02 Prepare Required Employee Documentation
Topic: Prepare Required Employee Documentation
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C. Nonexempt employee
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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?

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D. None

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Blooms: Understand
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B. Commission  
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D. Nonexempt

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AICPA: BB Resource Management  
AICPA: FN Research  
Blooms: Analyze  
Difficulty: Medium

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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?

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

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

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.

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

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.

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

44. 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.

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.

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.

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.

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.

AACSB: Analytic
AICPA: BB Critical Thinking
AICPA: FN Research
Bloom's: 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
Bloom's: Apply
Bloom's: 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.

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

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

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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