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Topic Break Down

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QUESTION NO: 1

Empowering another staff member to act on behalf of the manager is BEST known as:

A. coaching.

B. delegating.

C. staffing.

D. training.

ANSWER: B

Explanation:

Delegating is the management practice of assigning a staff member the authority and responsibility to carry out work or make decisions on the manager's behalf. It is more than simply distributing tasks: effective delegation defines the expected result, the scope of decision-making authority, available resources, deadlines, and appropriate follow-up. The manager remains accountable for the overall outcome, while the employee is empowered to act within the agreed boundaries. In a payroll environment, delegation helps maintain continuity during absences, supports timely processing, and builds team capability by allowing qualified staff to handle defined payroll activities or decisions. It also enables the manager to concentrate on oversight, risk management, compliance, and other responsibilities that cannot appropriately be transferred. The U.S. Office of Personnel Management describes delegation as assigning responsibility and authority to another person while retaining accountability, a principle that aligns directly with empowering a staff member to act for the manager. The management guidance from MindTools likewise emphasizes that delegation gives team members authority to complete assigned work while the manager remains responsible for ensuring the work is properly accomplished. See OPM: Delegating and MindTools: How to Delegate.

QUESTION NO: 2

CC's Construction Company

Employee	Hire Date	Monthly Salary	401(k) % of Salary	125 Cafeteria Elections
David	06/01/09	$5,000.00	3.00%	$100/month medical
Karen	12/19/05	$4,200.00	7.00%	$100/month medical $100/month health care FSA
Alan	03/18/07	$7,300.00	4.00%	$50/month medical
Sue	03/01/09	$3,900.00	0.00%	does not participate
Douglas	12/21/02	$15,000.00	12.00%	$150/month medical $415/month dependent care FSA
Christy	11/01/09	$3,000.00	0.00%	does not participate

What is the total amount reported in box 3, Social Security wages, for these employees?

A. $321,100

B. $362,938

C. $387,520

D. $373,418

ANSWER: A

Explanation:

The total reported in box 3, Social Security wages, is **$321,100**. Box 3 is the aggregate of each employee's wages subject to Social Security tax for the year, not simply a total of gross pay or federal income-taxable wages. Payroll must determine

Social Security-taxable wages separately for every employee, including applicable taxable compensation and excluding amounts that are not Social Security wages under the relevant payroll rules. It must also apply the annual Social Security wage-base limit individually: once an employee reaches that limit, additional wages for that employee do not increase box 3. The employee-level Social Security wage amounts shown in the payroll information are therefore calculated using the appropriate inclusions, exclusions, and wage-base treatment, then added together. That aggregation produces $321,100 for the employees in the question. The IRS states that Form W-2 box 3 reports Social Security wages and that the amount may differ from box 1 because different wage definitions and limits apply. See the IRS's Instructions for Forms W-2 and W-3 and Publication 15 (Circular E), Employer's Tax Guide.

QUESTION NO: 3

Under FLSA, how many hours must be paid at the overtime rate of pay for the following biweekly period assuming the employer is a hospital qualified under the special provisions of the FLSA?

Â

A. 8

B. 4

C. 15

D. 14

E. Cannot be determined from the information provided.

ANSWER: E

Explanation:

Cannot be determined from the information provided is correct because the question does not include the employee's hours worked for the biweekly period or the employer's established 14-day work period. A hospital or residential-care establishment may use the Fair Labor Standards Act's special "8 and 80" overtime arrangement only under an agreement or understanding reached before the work is performed. Under that arrangement, overtime is due for hours worked over 8 in a workday and for hours worked over 80 in the 14-day period. To calculate the number of overtime hours, payroll must have the hours worked on each of the 14 days, then identify daily hours exceeding 8 and total hours exceeding 80, while avoiding duplicate counting of the same hours. The prompt refers to a "following biweekly period," but no schedule, daily time entries, or total hours appear after that reference. Therefore, there is no factual basis for selecting a numeric overtime total. The U.S. Department of Labor describes the hospital 8-and-80 exception in Fact Sheet #53: The Health Care Industry and Hours Worked; the governing statutory provision is 29 U.S.C. § 207(j).

QUESTION NO: 4

When completing Form W-2, allocated tips would be included in:

A. Box 1

B. Box 3

C. Box 7

D. Box 8

ANSWER: D

Explanation:

Allocated tips are reported in **Box 8** of Form W-2. An employer at a large food or beverage establishment may allocate tips to an employee when the employee's reported tips are less than the employee's share of an applicable percentage of the establishment's gross food and beverage sales. The allocated amount is informational reporting that alerts the employee and the IRS that the employee may need to report additional tip income on the employee's individual income-tax return.

Because allocated tips are amounts assigned by the employer rather than tips the employee has reported as received, they generally are not included in the Form W-2 wage and tax-withholding boxes solely by virtue of being allocated. The employee is responsible for determining and reporting all actual tip income, including any amount represented by allocated tips that was in fact received. IRS Form W-2 instructions specifically identify Box 8 as the field used to report allocated tips. For the governing instructions, see the IRS General Instructions for Forms W-2 and W-3 and the IRS Form W-2 resource page.

QUESTION NO: 5

When an employee fails to cash a prior year ' s paycheck, the employer should take all of the following actions EXCEPT:

A. void and reissue the paycheck.

B. identify as abandoned property.

C. attempt to contact the employee.

D. report the information to the state.

ANSWER: A

Explanation:

void and reissue the paycheck. is the correct exception. A paycheck issued for services already performed represents wages that were processed in the original payroll period; it should not routinely be voided and run again merely because the employee did not negotiate the check. The original payroll record, including wage and tax reporting, remains tied to the period in which the wages were paid or constructively paid. Reissuing through payroll can create duplicate-payment, reconciliation, and wage-reporting risks unless a carefully controlled replacement-check process is necessary and supported by the employer's records.

Instead, the uncashed amount should be handled as an outstanding payroll liability and monitored under the applicable state unclaimed-property rules. Those rules generally require the holder to maintain records, perform required due diligence to locate or notify the owner, and report and remit property after the state's applicable dormancy period. The timing and precise reporting process vary by state, so payroll professionals should follow the law of the relevant state rather than treating a prior-year check as a reason to reverse the original payroll. The IRS also explains the payroll treatment of wages and withholding in Publication 15; state unclaimed-property reporting guidance is available through the California State Controller's Office as an example of holder obligations.

QUESTION NO: 6

The BEST reason for tracking pay-related problem statistics is to enable Payroll to:

A. justify more resources to handle more problems

B. apologize to clients in a more professional manner

C. identify root causes and take actions to prevent similar recurrences

D. direct problems to those who caused the problem

ANSWER: C

Explanation:

Tracking pay-related problem statistics enables Payroll to identify recurring error patterns, determine their underlying root causes, and implement corrective or preventive actions. Meaningful measures can show whether issues originate in timekeeping, data entry, system configuration, interfaces, approval workflows, or unclear procedures. Payroll can then focus process-improvement efforts where they will reduce the likelihood of the same issue occurring again, improve accuracy and timeliness, and support reliable service to employees and internal stakeholders. This is consistent with quality-management practice: organizations use data to evaluate performance and drive continual improvement rather than merely reacting to

individual incidents. The U.S. Government Accountability Office describes root-cause analysis as a structured approach for identifying the underlying reasons problems occur, supporting actions that address the cause rather than only the symptoms. The American Payroll Association's professional resources likewise emphasize operational controls, accuracy, and process improvement as core payroll-management concerns. See GAO guidance on root-cause analysis and the American Payroll Association.

QUESTION NO: 7

Under the FLSA, how long are employers required to keep records relating to wages, hours, and conditions of employment?

A. permanently

B. 4 years or until the file is no longer active

C. 3 years

D. 7 years

ANSWER: C

Explanation:

3 years is correct for the core employment and payroll records required under the Fair Labor Standards Act. Covered employers must preserve records such as each employee's identifying information, occupation, hours worked each workday and workweek, the basis on which wages are paid, regular and overtime pay, additions to or deductions from wages, total wages paid, and dates of payment. These records substantiate compliance with the federal minimum-wage, overtime, and child-labor requirements and must be kept for at least three years.

The retention period is measured from the date of the last entry in the record. Employers should maintain the records in a location and format that permits inspection by the U.S. Department of Labor's Wage and Hour Division. Some supporting documents used to calculate wages—such as time cards, work and time schedules, and wage-rate tables—are generally subject to a two-year federal retention requirement. That separate, shorter period does not change the three-year requirement for the principal payroll and employment records described in the question. State wage-and-hour laws, tax rules, benefit-plan obligations, litigation holds, or company policy may require a longer retention period, so employers commonly retain payroll materials longer when appropriate. See the Department of Labor's FLSA Recordkeeping Fact Sheet and the governing regulation at 29 CFR Part 516.

QUESTION NO: 8

The operating rules of the ACH network governing direct deposit are developed and maintained by the:

A. FTC.

B. RDFI.

C. ODFI.

D. NACHA.

ANSWER: D

Explanation:

NACHA is correct because it develops, publishes, and administers the NACHA Operating Rules, the private-sector rules that govern Automated Clearing House payments, including payroll direct deposits. These rules establish the standardized requirements that participating financial institutions and ACH participants use to originate, receive, process, return, and correct ACH entries. For a payroll direct-deposit program, the rules address essential operational matters such as entry formatting, authorization requirements, processing time frames, and the handling of returns, reversals, and notifications of change. NACHA updates the rules through its industry rulemaking process to support consistent, secure, and efficient ACH payments across the United States. Payroll professionals who transmit direct-deposit files, whether directly or through a

bank or payroll service provider, must ensure their practices align with these requirements and with the procedures of their financial institution. NACHA's overview of the ACH Network confirms its role in administering the rules and standards for ACH payments, and its rules resource identifies the NACHA Operating Rules as the governing framework. See NACHA: What Is ACH? and NACHA Operating Rules.

QUESTION NO: 9

Using the percentage method, calculate the net pay for an exempt employee using the following information:

Total YTD wages: $115,000.00

Annual salary: $130,000.00

Pay frequency: Biweekly

2019 Form W-4: Married, 3 allowances

401(k) deferral: 10% of salary

A. $3,477.44

B. $3,729.98

C. $3,740.48

D. $4,144.88

ANSWER: C

Explanation:

The correct net pay is **$3,740.48**. The employee's biweekly gross pay is $5,000.00 ($130,000 ÷ 26). The 10% traditional 401(k) elective deferral is $500.00. A traditional 401(k) deferral reduces wages subject to federal income-tax withholding, so the federal taxable wages are $4,500.00 before applying the withholding allowances. Under the 2019 percentage-method instructions for a married employee claiming three withholding allowances, the applicable allowance amount and married biweekly percentage-method table produce federal income-tax withholding of $377.02.

The 401(k) deferral remains subject to Social Security and Medicare taxes. The employee's year-to-date wages of $115,000 plus current gross wages of $5,000 remain below the 2019 Social Security wage base of $132,900. Therefore, Social Security tax is $310.00 ($5,000 × 6.2%), and Medicare tax is $72.50 ($5,000 × 1.45%). Net pay is $5,000.00 − $500.00 − $377.02 − $310.00 − $72.50 = $3,740.48. The IRS's 2019 withholding tables are available in Publication 15 (2019); the treatment of elective deferrals is also addressed in the IRS Employer's Supplemental Tax Guide.

QUESTION NO: 10

An employer is allowed under deferral law to pay overtime for all hours worked over 80 in a biweekly period. In what type of industry is this employer likely to be engaged?

A. Manufacturing

B. Health care

C. State or local law enforcement

D. Retail

ANSWER: B

Explanation:

Health care is correct because the Fair Labor Standards Act permits a special overtime calculation for qualifying hospitals and residential care establishments. Commonly called the “8-and-80” rule, this provision allows an employer, pursuant to an agreement or understanding established before the work is performed, to use a 14-day work period rather than the usual seven-day workweek. Under this method, covered nonexempt employees must receive overtime pay for hours worked over 8 in a workday and for hours worked over 80 during the 14-day period. The employer cannot simply defer all overtime until the end of the two weeks; daily overtime over 8 hours remains part of the required calculation. This arrangement is particularly relevant to health care operations because hospitals and qualifying residential care facilities frequently use schedules that span long shifts and continuous patient-care coverage. The U.S. Department of Labor describes this as a special overtime rule for hospitals and residential care establishments, and the governing regulation identifies the qualifying institution types and the 14-day calculation requirements. See the U.S. Department of Labor health care fact sheet and 29 C.F.R. § 778.601.

QUESTION NO: 11

Employers MUST submit Form 1096 with all of the following paper forms EXCEPT:

A. Form 1042-T.

B. Form 1098-T.

C. Form 1099-MISC.

D. Form 1099-R.

ANSWER: A

Explanation:

Form 1042-T. is the correct answer because it is not an information return that is transmitted on Form 1096. Form 1042-T, Annual Summary and Transmittal of Forms 1042-S, is specifically designed to accompany paper Forms 1042-S submitted to the IRS. Form 1042-S reports certain U.S.-source income paid to foreign persons and the federal tax withheld, if any. Accordingly, an employer or other withholding agent filing paper Forms 1042-S uses Form 1042-T as the required transmittal document for that filing stream.

Form 1096 serves a different purpose: it is the Annual Summary and Transmittal of U.S. Information Returns for specified paper-filed information returns. IRS instructions identify the return types for which Form 1096 is used, while the Form 1042-T instructions separately establish its role as the transmittal for Forms 1042-S. The distinction is important for payroll and tax-reporting professionals because the required transmittal depends on the underlying return and reporting regime, not simply on whether a form is filed on paper. See the IRS About Form 1042-T page and the About Form 1096 page.

QUESTION NO: 12

A service level agreement with a payroll provider is likely to include all of the following provisions EXCEPT:

A. performance measurements.

B. penalties for non-compliance.

C. projected return on investment.

D. termination requirements clause.

ANSWER: C

Explanation:

projected return on investment. is the correct exception because it is normally part of the customer’s internal business case or procurement analysis, rather than a contractual service-level commitment governing the provider’s ongoing delivery. Before selecting a payroll provider, an organization may estimate expected savings, reduced administrative effort, improved controls, implementation costs, and the financial value of outsourcing. Those estimates help leadership determine whether

the arrangement is justified, but they depend substantially on the organization's own processes, staffing, adoption, and financial assumptions.

In contrast, an SLA is an operational agreement that translates the provider relationship into measurable commitments and governance. It establishes how service performance will be monitored, reported, reviewed, and managed throughout the contract term. For payroll services, this commonly includes measurable standards for timeliness, accuracy, availability, support responsiveness, issue escalation, data security, and remedies or responsibilities when agreed service levels are not achieved. A clear exit and transition framework may also be addressed to support an orderly end to services. IBM describes SLAs as agreements that define expected service levels and the metrics used to measure them: IBM: Service-level agreements. The U.S. General Services Administration likewise describes SLAs as documenting service expectations and performance measures: GSA: Statement of work guidance.

QUESTION NO: 13

A worker meets the definition of an employee under the common law test. Under what condition can the worker be considered exempt from federal payroll tax withholding?

A. The employer has filed a Form SS-8

B. The employer has an IRS published ruling for another company in a similar situation

C. There was a past IRS audit of the employer that resulted in a finding of tax or penalty owed

D. There is a longstanding, recognized practice in a significant segment of the employer's industry

ANSWER: D

Explanation:

There is a longstanding, recognized practice in a significant segment of the employer's industry is correct because it can establish the reasonable-basis requirement for relief under Section 530 of the Revenue Act of 1978. Section 530 may allow an employer to treat a worker as an independent contractor for federal employment-tax purposes even when the worker might otherwise be an employee under common-law classification standards. To rely on this relief, the employer must meet the statutory requirements, including substantive consistency, reporting consistency, and a reasonable basis for the treatment. A longstanding recognized practice in a significant segment of the relevant industry is one of the specific reasonable bases recognized by Section 530. The practice must be more than an isolated employer preference; it must be established and followed by a meaningful portion of similarly situated businesses in that industry. When the other Section 530 requirements are met, this industry-practice basis supports the employer's treatment of the worker as a nonemployee and can protect the employer from federal employment-tax liability attributable to that classification. The IRS describes these requirements and the industry-practice standard in Publication 1976, Do You Qualify for Relief Under Section 530? and in its Section 530 Relief Requirements guidance.

QUESTION NO: 14

Which of the following actions should be taken when an invalid Form W-9 is received?

A. Do not process any payment(s) to payee until a valid form is received.

B. Process payee payment(s) normally.

C. Process payment(s) to payee with backup withholding.

D. Send the payee a " B " notice requesting a valid form and process payment(s) normally.

ANSWER: C

Explanation:

"Process payment(s) to payee with backup withholding." is correct when the payee has not furnished a valid taxpayer identification number in the manner required. A payer that makes reportable payments must solicit the payee's name and

taxpayer identification number, ordinarily using Form W-9. If the payee fails to provide the required number, the payer generally must begin backup withholding immediately on payments subject to the backup-withholding rules. The payer sends the withheld amount to the IRS and reports both the payment and withholding on the applicable information return.

The backup-withholding rate is 24% of the reportable payment. This procedure allows payment processing to continue while ensuring that the required federal tax is withheld when the required taxpayer-identification information has not been properly furnished. The IRS's Form W-9 instructions specifically direct payers to begin backup withholding immediately if a payee does not provide a taxpayer identification number in the required manner. See the IRS Form W-9 resource page and the IRS discussion of backup withholding.

QUESTION NO: 15

In states where multiple worksite reporting is mandatory, an employer must file if it meets all of the following tests EXCEPT having:

A. more than one worksite.

B. a total of at least 10 employees at secondary worksites.

C. an unemployment insurance account active less than one year.

D. one unemployment insurance account number for all employees.

ANSWER: C

Explanation:

The correct exception is *an unemployment insurance account active less than one year.* Multiple Worksite Reporting is based on an employer's current establishment structure and employment, rather than on how long its unemployment insurance account has existed. For mandatory reporting, the key threshold is generally an employer operating more than one worksite under the applicable unemployment insurance account and having a combined total of at least 10 employees at its secondary worksites. These reports enable the Quarterly Census of Employment and Wages program to assign employment and wages to the geographic areas and industries in which the work is actually performed. Consequently, a newly established employer can be subject to Multiple Worksite Reporting as soon as it satisfies the worksite and employee-count requirements; there is no one-year account-age test. The U.S. Bureau of Labor Statistics describes the Multiple Worksite Report as the mechanism used to collect this establishment-level information from qualifying employers and explains its role in producing detailed local employment and wage statistics. See the BLS Multiple Worksite Report overview and the Quarterly Census of Employment and Wages overview.

QUESTION NO: 16

What is the purpose of the payroll accrual entry?

A. to reverse an entry from a previous period

B. to recognize expenses in the period in which they were incurred

C. to reverse an entry made in error

D. to recognize expenses in the period in which they were paid

ANSWER: B

Explanation:

The purpose of a payroll accrual entry is **to recognize expenses in the period in which they were incurred**. Under accrual-basis accounting and the matching principle, an employer records compensation-related costs when employees earn them, rather than waiting until the payroll is processed or cash is disbursed. For example, when employees work during the final days of a month but are not paid until the following month, the employer records accrued wages and applicable employer payroll-tax expense as liabilities at the end of the first month. This ensures that the income statement reports labor

costs in the same reporting period as the work that generated those costs, while the balance sheet reflects the related unpaid obligations, such as wages payable and payroll taxes payable. When the regular payroll is subsequently processed, the accrual is reversed or cleared as appropriate so the expense is not recorded twice. This treatment produces financial statements that more accurately present the organization's expenses and outstanding payroll obligations for each accounting period. The Financial Accounting Standards Board describes accrual accounting as recognizing the effects of transactions in the periods in which they occur; see the FASB Accounting Standards Codification. The matching of expenses with related revenues is also discussed in the AccountingCoach accounting basics overview.

QUESTION NO: 17

The DOL can assess penalties for failing to comply with the following pay components EXCEPT:

A. Overtime

B. Minimum wage

C. Regular rate of pay

D. De minimis fringe benefits

ANSWER: D

Explanation:

De minimis fringe benefits is the correct answer because this term generally describes low-value, infrequently provided benefits for which accounting is unreasonable or administratively impracticable. It is primarily a federal tax concept: the Internal Revenue Code excludes qualifying de minimis fringe benefits from an employee's gross income. Examples can include occasional snacks, limited personal use of employer-provided copying facilities, or infrequent local transportation benefits. The key consideration is the benefit's value and frequency; cash and cash-equivalent benefits generally do not qualify for this treatment.

In contrast to core wage obligations, de minimis fringe benefits are not themselves a Fair Labor Standards Act pay component with a standalone DOL compliance requirement. The U.S. Department of Labor's Wage and Hour Division administers and enforces federal minimum-wage and overtime requirements under the FLSA, including the rules used to determine an employee's regular rate when calculating overtime. Accordingly, the tax exclusion for a qualifying minor fringe benefit does not create an independent DOL wage-payment obligation subject to the type of enforcement contemplated by the question. See the IRS guidance on de minimis fringe benefits and the DOL's Fair Labor Standards Act overview.

QUESTION NO: 18

Assessed penalties for misclassification of a worker may be minimized when the IRS finds evidence of:

A. an initial filing of Form SS-4.

B. Form I-9 verification procedures.

C. statements prepared by the worker declaring status.

D. the timely filing of required Forms 1099 for the worker, generally Form 1099-NEC.

ANSWER: D

Explanation:

the timely filing of required Forms 1099 for the worker, generally Form 1099-NEC is correct because it supports the reporting-consistency requirement for relief under Section 530 of the Revenue Act of 1978. Section 530 can provide relief from federal employment-tax liability when a business had a reasonable basis for treating an individual as an independent contractor, treated similarly situated workers consistently, and met the required tax-return reporting standard. That reporting standard requires the business to have timely filed all required federal information returns for the worker on a basis consistent with nonemployee treatment. For payments for services performed by a nonemployee, the applicable information

return is generally Form 1099-NEC; Form 1099-MISC remains applicable for certain other reportable payments. Evidence that these returns were filed consistently helps establish that the employer did not merely label the worker as an independent contractor, but also reported the relationship to the IRS in accordance with that classification. The IRS describes the Section 530 reporting-consistency requirement in its Section 530 relief guidance. Additional details on worker classification and employment-tax treatment appear in IRS Publication 15-A.

QUESTION NO: 19

Which of the following security measures is LEAST effective when maintaining payroll systems ' confidential records?

A. Storing backups on-site

B. Developing regular audit trails

C. Using multi-factor authentication

D. Updating antivirus software on a regular basis

ANSWER: A

Explanation:

Storing backups on-site is the least effective measure among those listed because it does not adequately protect payroll records from a facility-wide incident. Payroll systems contain highly sensitive information, including employee identifiers, wage data, tax withholding details, and direct-deposit information. If backups remain at the same physical location as the production payroll system, a fire, flood, theft, ransomware event affecting local infrastructure, or other site-level disruption can compromise both the live records and the backup copies at once. A backup strategy that supports confidentiality and continuity should use separate, protected storage locations, with appropriate encryption and access controls, and should be tested regularly for restoration. The National Institute of Standards and Technology's contingency-planning guidance emphasizes maintaining alternate storage and recovery capabilities so that a disruption at a primary site does not eliminate essential data and services. See NIST SP 800-34 Rev. 1, Contingency Planning Guide. CISA likewise recommends maintaining offline, encrypted, and regularly tested backups as part of organizational resilience: CISA Ransomware Guide. Therefore, merely storing backups on-site offers comparatively weak protection for confidential payroll records and recoverability.

QUESTION NO: 20

The components of an income statement include:

A. Assets, cash, and liabilities

B. Gross profit, cash, and other assets

C. Operating income, operating expenses, and liabilities

D. Gross profit, operating income, and operating expenses

ANSWER: D

Explanation:

Gross profit, operating income, and operating expenses is correct because these are key measures and classifications used to present operating performance on an income statement for a reporting period. Revenue less the cost of goods sold produces gross profit, which shows the amount available to cover the costs of running the business and to generate profit. Operating expenses include the ordinary costs of conducting business, such as payroll, rent, utilities, marketing, and administrative costs. Deducting operating expenses from gross profit produces operating income (also called income from operations), which measures profit generated by the company's core business activities before items such as interest and income taxes.

An income statement is designed to summarize revenues, expenses, gains, and losses over a stated period, ultimately

reporting net income or net loss. Accordingly, gross profit, operating expenses, and operating income are commonly presented as linked subtotals or line-item categories that help readers evaluate profitability and operational efficiency. The U.S. Securities and Exchange Commission describes the income statement as reporting how much revenue a company earned during a period and the costs and expenses associated with earning that revenue. See the SEC's guide to reading financial statements and its income statement glossary entry.

QUESTION NO: 21

Which of the following would not be included in the system testing stage of an implementation?

A. Volume testing

B. Functional testing

C. Recruiting tests

D. Stress testing

ANSWER: C

Explanation:

Recruiting tests is the item that would not be included in system testing. System testing evaluates the implemented payroll system as a complete, integrated solution before it is moved toward production use. The test team confirms that configured processes, interfaces, calculations, reports, controls, and expected processing workloads operate correctly under conditions that resemble the organization's real operating environment. Testing may therefore include validation of business functions as well as performance characteristics, including the system's ability to process substantial transaction volumes and continue operating under demanding conditions.

Recruiting is a human-resources business activity concerned with attracting, screening, and hiring applicants. Although implementation planning may involve staffing the project team, training users, and coordinating stakeholders, those activities are not tests of the payroll system's integrated operation. A test described as "Recruiting tests" does not assess payroll-system functionality, capacity, reliability, or performance and is outside the purpose of the system-testing stage. The distinction is consistent with the testing concepts maintained by the ISTQB Glossary, which describes system testing as testing an integrated system to evaluate its compliance with specified requirements. Payroll implementation professionals should also align their testing and deployment practices with the professional resources available through PayrollOrg's Certified Payroll Professional program.

QUESTION NO: 22

Documenting payroll policies and procedures will provide all of the following results EXCEPT:

A. a mechanism for educating payroll partners, suppliers, and customers

B. assurances of payroll personnel competency and performance

C. a tool for assessing internal business controls

D. a vehicle for improving processes

ANSWER: B

Explanation:

assurances of payroll personnel competency and performance is the exception because written payroll policies and procedures, while essential operational-control documentation, cannot by themselves guarantee that an employee is competent or will perform correctly. Competency depends on factors such as appropriate hiring, training, demonstrated knowledge, supervision, access controls, review of work, and ongoing performance management. Documentation gives personnel a consistent source of instructions and standards against which work can be performed and reviewed, but it is only one component of a sound payroll-control environment. Management must also establish and monitor control activities,

communicate responsibilities, and evaluate whether those controls are operating effectively. This distinction is important for payroll professionals: a procedure manual can support accurate, consistent processing and help identify expected responsibilities, but assurance requires evidence that people understand and follow those procedures in actual practice. The CPP body of knowledge emphasizes the importance of payroll operations, internal controls, and compliant processes; certification and continuing education likewise help develop—not automatically assure—professional competency. See PayrollOrg's Certified Payroll Professional information and the U.S. Government Accountability Office's Standards for Internal Control in the Federal Government.

QUESTION NO: 23

When reconciling taxes payable, all of the following steps should be performed EXCEPT:

A. Verifying tax remittances

B. Reviewing taxable wage amounts

C. Validating month-end withholding totals

D. Checking credit entries against the payroll register

ANSWER: D

Explanation:

Checking credit entries against the payroll register is the exception because reconciling taxes payable is primarily a liability, remittance, and filing control. The reconciliation should establish that payroll-created tax liabilities agree with taxable wages and withholding activity, that payments made to tax agencies have been applied to those liabilities, and that the remaining payable balance is reasonable and agrees with required tax returns. Reviewing taxable wage amounts is essential because wage limits, taxable versus nontaxable payments, and adjustments directly affect the calculated tax liability. Similarly, validating withholding totals at month-end provides a control that the amounts withheld through payroll are reflected consistently in the tax-liability records. Verifying remittances confirms that deposits or payments have reduced the appropriate liabilities and supports timely-deposit compliance.

Credit entries are general-ledger posting activity. Although payroll-register information may support accounting entries, comparing credit entries to a payroll register is not, by itself, a standard tax-payable reconciliation procedure. The more direct reconciliation is between payroll tax liabilities, agency payments, and filed tax returns. The IRS describes employers' responsibility to report wages and taxes on Form 941 and to deposit employment taxes, making those records central to the reconciliation process. See IRS, About Form 941 and IRS Publication 15.

QUESTION NO: 24

Under the FLSA, for employers to take advantage of the tip credit, all of the following statements are true EXCEPT:

A. credit card tips must be given to the employee on or before the next payday.

B. overtime hours that are paid at a premium rate can increase the employer tip credit.

C. tipped employees must receive as much in tips as the tip credit taken by the employer.

D. employers may not deduct a portion of its general administrative costs incurred for accepting credit cards.

ANSWER: B

Explanation:

The statement "overtime hours that are paid at a premium rate can increase the employer tip credit" is the exception because the federal tip credit itself does not increase for overtime hours. Under the Fair Labor Standards Act, an employer taking a tip credit may claim no more than the difference between the federal minimum wage of $7.25 per hour and the required direct cash wage of $2.13 per hour—a maximum of $5.12 per hour. That maximum remains the same when a tipped employee works overtime.

Overtime compensation must be based on one and one-half times the applicable minimum wage, not on one and one-half times the reduced direct cash wage paid to a tipped employee. At the federal minimum wage, this produces an overtime rate of $10.88 per hour. The employer may apply the regular maximum tip credit of $5.12 toward that obligation, but must pay the remaining amount in direct wages. Thus, overtime creates a higher total wage obligation; it does not permit a larger per-hour tip credit. The U.S. Department of Labor explains this calculation in its Fact Sheet #15: Tipped Employees Under the FLSA. The governing tip-credit requirements are also codified at 29 C.F.R. § 531.59.

QUESTION NO: 25

In the first monthly accounting period of a company's fiscal year, which of the following occurs?

A. Underpaid debts are "forgiven"

B. Asset and liability accounts reflect prior year ending balance

C. All liability accounts are reset to zero balances

D. Asset account balances are reclassified

ANSWER: B

Explanation:

Asset and liability accounts reflect prior year ending balance is correct because these are permanent, or real, accounts. At the end of an accounting year, their balances are not closed to retained earnings or another equity account. Instead, the ending balances reported on the prior year's balance sheet become the beginning balances for the new fiscal year. Therefore, when the company enters its first monthly accounting period, payroll-related assets and liabilities—such as cash, payroll tax receivables, accrued wages, and payroll tax liabilities—continue from the amounts established at the prior fiscal year-end, subject to any proper opening or adjusting entries.

This carryforward is essential to continuous accounting records and to the balance-sheet equation: assets, liabilities, and equity represent cumulative financial positions at a point in time rather than activity limited to one fiscal year. In contrast, the annual closing process applies to temporary accounts that measure activity for a period, such as revenue and expense accounts. The continuing nature of asset and liability balances is described in the discussion of permanent accounts and closing entries in OpenStax Principles of Financial Accounting. The Internal Revenue Service also distinguishes a taxpayer's annual accounting period, including a fiscal year, in IRS Publication 538, Accounting Periods and Methods.

QUESTION NO: 26

Certain company records must be retained for four years to comply with regulations of which of the following agencies?

A. U.S. Citizenship and Immigration Service

B. Internal Revenue Service

C. Wage and Hour Division, Department of Labor

D. Social Security Administration

ANSWER: B

Explanation:

Internal Revenue Service is correct because federal employment-tax recordkeeping rules generally require employers to retain records of employment taxes for at least four years after the date the tax becomes due or is paid, whichever is later. This retention requirement applies to the records needed to substantiate payroll tax reporting and deposits, including amounts and dates of wage payments, reported tips, the value of noncash remuneration, names and addresses of employees, Social Security numbers, dates of employment, and copies of filed employment tax returns. Maintaining these records enables an employer to support the amounts reported and paid for federal income tax withholding, Social Security tax, and Medicare tax if the Internal Revenue Service examines the returns or requests substantiation. The four-year period

is a core payroll compliance standard and should be incorporated into the organization's record-retention policy, with records stored in a manner that remains accessible and legible throughout the required period. The Internal Revenue Service states this rule in Publication 15, Employer's Tax Guide, and it is also reflected in the federal employment-tax record regulations. See IRS Publication 15, Employer's Tax Guide and 26 CFR § 31.6001-1.

QUESTION NO: 27

If a quarterly 941 filer goes out of business on May 31, Forms W-2 are due to employees no later than:

A. May 31 of the current year.

B. July 31 of the current year.

C. December 31 of the current year.

D. January 31 of the next year.

ANSWER: B

Explanation:

July 31 of the current year is correct. An employer that permanently ceases operations must furnish each employee's Form W-2 by the due date of its final employment tax return. Because the employer is a quarterly Form 941 filer and ceases business on May 31, its final reporting period is the second calendar quarter, which ends June 30. Form 941 for the second quarter is due July 31. Therefore, Forms W-2 must be provided to employees no later than July 31, even though the employer stopped operating before the quarter ended. This accelerated furnishing rule ensures employees receive their wage and withholding information promptly when the business closes rather than waiting for the usual January deadline after year-end. The employer should also mark the final Form 941 as final and follow the applicable filing procedures for Forms W-2 and W-3. IRS Publication 15 states that employers going out of business must give employees their Forms W-2 by the due date of the final Form 941 or Form 944. See IRS Publication 15 (Circular E), Employer's Tax Guide and the Instructions for Form 941.

QUESTION NO: 28

A company pays all executives semimonthly. The FLSA requires all other employees to be paid on:

A. any established cycle

B. a weekly cycle

C. a biweekly cycle

D. a semimonthly cycle

ANSWER: A

Explanation:

any established cycle is correct because the Fair Labor Standards Act does not prescribe a particular pay frequency, such as weekly, biweekly, or semimonthly, for nonexempt employees. An employer may establish its own recurring payroll cycle and regular payday, provided employees receive all wages due—particularly required minimum wage and overtime compensation—in a timely manner. Therefore, paying executives semimonthly does not obligate the employer to use that same cycle for other employees under the FLSA. In practice, the employer must also comply with the wage-payment-frequency and payday rules of the state or states in which employees work; those laws may establish minimum payment intervals or other requirements that are more specific than federal law. The U.S. Department of Labor explains that the FLSA does not require wages to be paid at any particular interval, although it recognizes the importance of payment on the regular payday. See the Department's Regular Rate Under the Fair Labor Standards Act guidance and its Wage and Hour Division resources for federal wage-payment information.

QUESTION NO: 29

An employer originates an ACH payroll credit using an incorrect employee account number. Under the NACHA Rules, an erroneous entry reversal must generally be transmitted within how many banking days following the settlement date of the erroneous entry?

A. 1 banking day

B. 3 banking days

C. 5 banking days

D. 10 banking days

ANSWER: C

Explanation:

5 banking days is correct. An Originator may initiate a reversing entry to correct an erroneous ACH entry when the reversal meets the applicable ACH Rules requirements. The reversing entry generally must be transmitted so that it is available to the receiving financial institution within five banking days following the settlement date of the erroneous entry.

A reversal is not a substitute for appropriate authorization, account-validation, and change-control procedures. Payroll departments should promptly investigate direct-deposit errors, communicate with the ODFI, and follow the financial institution's established procedures. The ACH Network rules are maintained by Nacha, and ACH processing information is available from Federal Reserve Financial Services.

QUESTION NO: 30

Which of the following employees' wages is likely to be exempt from FICA?

A. A parent working for a child

B. A spouse working for a spouse

C. A statutory employee

D. A child under age 18 employed by a parent

ANSWER: D

Explanation:

A child under age 18 employed by a parent is the family-employment situation most likely to be exempt from Social Security and Medicare taxes. Under the Internal Revenue Service family-employee rules, wages paid to a child for services performed in a parent's trade or business are not subject to these taxes if the child is under age 18. The exemption recognizes the special treatment Congress provides for employment within a family and applies when the employing parent operates as a sole proprietor, or when a partnership's only partners are the child's parents. The child's age is measured when the services are performed, so wages for work performed before the child reaches age 18 qualify for this specific Social Security and Medicare tax exclusion. Payroll professionals should also verify the employer's legal form, because the exception does not generally apply when the parent's business is a corporation or a partnership that includes a partner other than the child's parent. The IRS discusses this rule in its family employees guidance and employer tax guide. See IRS Publication 15, Employer's Tax Guide and IRS Family Help.

QUESTION NO: 31

Which form is used to request an employer identification number?

A. SS-5

B. SS-4

C. I-9

D. SS-8

ANSWER: B

Explanation:

Form SS-4, Application for Employer Identification Number, is the IRS form used to apply for an Employer Identification Number (EIN). An EIN is a nine-digit federal tax identification number assigned to business entities and other organizations for federal tax administration. Employers generally need an EIN to report and deposit employment taxes, file required payroll tax returns, and furnish wage statements. The SS-4 collects identifying information about the entity, including its legal name, responsible party, entity type, reason for applying, principal business activity, and anticipated employment-tax details. Although applicants may obtain an EIN online, by fax, mail, or telephone in certain international circumstances, Form SS-4 remains the formal application used to request the number. Payroll professionals should recognize SS-4 as the foundational registration form because an employer must have its EIN before it can properly establish federal payroll-tax reporting and deposit obligations. The IRS provides instructions and filing methods for Form SS-4 on its EIN application page and publishes the current form and instructions in its forms repository. See the IRS Employer Identification Numbers page and IRS information for Form SS-4.

QUESTION NO: 32

If an employer pays $320.00 per month for an employee ' s parking on or near the employer ' s premises, what amount, if any, is included in the employee ' s income?

A. $0.00

B. $5.00

C. $20.00

D. $320.00

ANSWER: B

Explanation:

For the 2024 context indicated by the original explanation, **$5.00** is included in income. Employer-paid parking on or near the employer's business premises can qualify as a qualified transportation fringe benefit under Internal Revenue Code section 132(f). This allows the employee to exclude qualified parking from wages up to the applicable monthly statutory limit, provided the benefit meets the qualified-parking requirements.

The Internal Revenue Service announced that the qualified-parking exclusion for 2024 is **$315 per month**, not $300. Because the employer pays $320 per month, the amount exceeding the monthly exclusion is $5 ($320 − $315). That excess is taxable compensation and should be included in the employee's wages for applicable payroll-tax and income-tax withholding purposes. The annual exclusion amount is indexed for inflation, so payroll professionals must apply the limit for the specific calendar year at issue rather than relying on a prior-year amount. The IRS's 2024 inflation-adjustment guidance is available in Revenue Procedure 2023-34; the qualified transportation fringe rules are summarized in IRS Publication 15-B.

QUESTION NO: 33

The Social Security Administration's Social Security Number Verification System (SSNVS) is available to employers for:

A. Validating Federal Employer Identification Numbers

B. Confirming new hire information on job applications

C. Verifying the amounts of taxes paid by employers

D. Verifying the accuracy of employee's Social Security numbers

ANSWER: D

Explanation:

Verifying the accuracy of employee's Social Security numbers is correct. The Social Security Administration's Social Security Number Verification Service allows registered employers and certain authorized third-party submitters to compare an employee's name and Social Security number against SSA records. Its payroll-focused purpose is to help employers ensure that wage reports submitted on Forms W-2 contain names and Social Security numbers that match SSA's records. Identifying a mismatch before filing can reduce reporting errors, help ensure that workers' earnings are properly credited to their Social Security records, and limit the need for corrected wage statements later.

SSNVS may be used for current or former employees when the verification is connected to wage reporting. Employers access the service through SSA's Business Services Online after registration and authorization. A successful verification confirms only that the submitted name and number combination matches SSA records; it does not establish identity, employment authorization, or immigration status. SSA specifically provides this service as a wage-reporting accuracy tool, making verification of employee Social Security number information its appropriate employer use. See the SSA's Social Security Number Verification Service page and its Business Services Online information.

QUESTION NO: 34

The penalty for failure to withhold wages under a federal tax levy notice is:

A. 75% of the amount not withheld

B. 100% of the amount not withheld

C. 150% of the amount not withheld

D. 50% of the amount not withheld

ANSWER: D

Explanation:

50% of the amount not withheld is correct. When an employer receives an IRS notice of levy for an employee's wages, it must surrender the nonexempt portion of those wages as required by the levy. Under Internal Revenue Code section 6332, a person or entity that fails or refuses to surrender property or rights to property subject to a levy, without reasonable cause, is personally liable to the United States for the amount that should have been surrendered. In addition to that liability, the statute imposes a penalty equal to 50% of the amount recoverable under the levy. Thus, the employer may owe both the amount that was not withheld and remitted and an additional 50% penalty. This rule underscores the importance of promptly processing federal tax levies, determining the employee's exempt amount using the applicable IRS tables and filing-status information, and remitting the remaining levied wages as instructed. The statutory rule appears in 26 U.S.C. § 6332, including the additional 50% liability provision. The IRS also summarizes employer levy responsibilities in IRS levy FAQs.

QUESTION NO: 35

A former employee fails to pick up their final paycheck. According to regulations, what are employers required to do?

A. Void the payment and correct the Form W-2

B. Attempt to contact the former employee and file required reports

C. Return the net pay to the employer's general account after 7 years from date of issue

D. Employers are not required to take action unless the employee requests the wages owed

ANSWER: B

Explanation:

Attempt to contact the former employee and file required reports is correct because an unclaimed final paycheck remains the employee's property; it does not become available for the employer's ordinary use merely because it was not collected. Payroll should retain appropriate records, follow the jurisdiction's required due-diligence process to locate or notify the former employee, and comply with the applicable unclaimed-property reporting and remittance requirements. Uncashed payroll checks are generally treated as wages subject to state unclaimed-property laws after the state-specific dormancy period. The precise timing, notice method, reporting form, and remittance date depend on the state with the legal claim to the property, commonly determined under that state's unclaimed-property rules. For example, California's State Controller explains that holders must review records, perform due diligence when required, report unclaimed property, and remit it to the state. The National Association of Unclaimed Property Administrators also provides official state administrator contacts, which payroll teams can use to identify the relevant state process. Maintaining a documented process for outstanding checks helps an employer meet its custodial obligations while preserving the former employee's ability to claim the wages from the state. See the California State Controller's unclaimed-property reporting guidance and the National Association of Unclaimed Property Administrators' state reporting directory.

QUESTION NO: 36

The employer may classify a worker as an independent contractor if the worker:

A. Signs a contract

B. Furnishes his or her own tools and supplies

C. Passes the common-law test

D. Is retired or over age 65

ANSWER: C

Explanation:

"Passes the common-law test" is correct because worker classification depends on the actual working relationship under common-law rules, rather than on a label selected by the business or worker. The IRS evaluates whether the business has the right to direct and control how the worker performs services. This analysis considers behavioral control, financial control, and the type of relationship between the parties. A worker may properly be treated as an independent contractor when the relevant facts show that the worker is independent under these factors and is not subject to the degree of direction and control characteristic of an employee.

The determination must be based on the full set of facts and circumstances in the individual work arrangement. Employers should document the relationship and periodically reassess it if duties or working practices change. The IRS explains the common-law categories and the distinction between employees and independent contractors in its Independent contractor or employee guidance. Additional details for employers are available in IRS Publication 15-A, Employer's Supplemental Tax Guide.

QUESTION NO: 37

Calculate the net pay due based on the following information:

Total YTD wages: $94,200.00

Pay frequency: Biweekly

Regular salary: $2,250.00

FITW: $115.58

Pretax 401(k): $150.00

Pretax health insurance premium: $74.00

Union dues: $220.00

Charitable contribution: $15.00

No state income tax

A. $1,503.29

B. $1,508.96

C. $1,514.77

D. $1,624.54

ANSWER: B

Explanation:

$1,508.96 is the correct net pay. Begin with gross biweekly salary of $2,250.00. The pretax health insurance premium is treated as a cafeteria-plan benefit and reduces Social Security and Medicare taxable wages, resulting in FICA wages of $2,176.00 ($2,250.00 − $74.00). The employee Social Security and Medicare tax is therefore $166.46 ($2,176.00 × 7.65%, rounded to the nearest cent). The stated year-to-date wages do not indicate that the employee has exceeded the Social Security wage base or reached the Additional Medicare Tax withholding threshold, so the regular combined employee FICA rate applies. The elective pretax 401(k) contribution reduces federal income tax wages but remains subject to FICA; however, FIT withholding has already been supplied as $115.58 and should be deducted as given. Subtracting FICA tax, FIT withholding, the $150.00 401(k) contribution, $74.00 health premium, $220.00 union dues, and $15.00 charitable contribution from gross pay produces $1,508.96. IRS guidance confirms that elective 401(k) deferrals are generally subject to Social Security and Medicare taxes, while qualifying cafeteria-plan salary reductions may be excluded from those wages. See IRS Publication 15 and IRS Publication 15-B.

QUESTION NO: 38

The Employer ' s Tax Guide, Circular E is found in Publication:

A. 15

B. 17

C. 51

D. 80

ANSWER: A

Explanation:

The Employer’s Tax Guide, commonly called Circular E, is IRS Publication 15. This publication is the primary federal employment-tax reference for most employers and payroll professionals. It provides current instructions for withholding federal income tax from wages, calculating and withholding Social Security and Medicare taxes, paying the employer share of applicable payroll taxes, making federal tax deposits, and filing Forms 941 and 940 when required. Publication 15 also addresses core payroll administration topics such as determining employee versus independent-contractor status, taxable and nontaxable payments, fringe benefits, supplemental wages, and employer recordkeeping responsibilities. Because federal employment-tax rules, thresholds, forms, and deposit requirements can change, payroll staff should use the version of Publication 15 for the applicable calendar year rather than relying solely on a prior edition. The IRS publishes the guide online and provides updates through its employment-tax resources. See the IRS page for Publication 15, Employer’s Tax Guide and the IRS’s Employment Taxes resource page for related filing and payment guidance.

QUESTION NO: 39

The popular term used to describe traditional theories and perceptions is":

A. Paradigm

B. Cognizance

C. Presumption

D. Hypothesis

ANSWER: A

Explanation:

Paradigm is the correct term because it describes a broadly accepted framework of ideas, assumptions, theories, and practices that shapes how people understand a subject. In organizational, business, and professional contexts, a paradigm often represents the established or traditional way of viewing situations and making decisions. Thus, when a question refers collectively to traditional theories and perceptions, it is describing the prevailing conceptual model through which those beliefs are interpreted.

The term is especially common in discussions of change management and workplace processes. A “paradigm shift” occurs when an existing, widely held framework is replaced by a substantially different way of thinking or operating. This usage reflects the concept’s origin in describing accepted models that guide a field’s thinking and practice. Merriam-Webster defines a paradigm as a philosophical or theoretical framework, including a set of shared assumptions or methods, while Encyclopaedia Britannica discusses paradigms as models that influence scientific and intellectual inquiry. These definitions support using **Paradigm** for traditional theories and perceptions.

References: Merriam-Webster: paradigm; Encyclopaedia Britannica: paradigm.

QUESTION NO: 40

Which of the following is one of the purposes of a job description?

A. Illustrates the position in relation to others in the organization

B. Outlines individual performance goals for next fiscal year

C. Describes incumbent's obligations to pay appropriate federal, state, and local taxes while holding the position

D. Provides implementation plan for conversion to new system

ANSWER: A

Explanation:

“Illustrates the position in relation to others in the organization” is correct because a job description documents the role’s organizational context as well as its primary duties. It commonly identifies the position’s reporting relationship, such as the supervisor or department to which it reports, and may describe supervisory responsibilities, key internal working relationships, and the role’s level or placement within an organizational structure. This information helps employees, managers, and human resources understand how work is assigned, coordinated, and held accountable across the organization. For payroll departments, clear reporting and responsibility relationships are particularly useful when defining authority for activities such as approving time, reviewing payroll data, authorizing adjustments, and maintaining appropriate internal controls. A well-maintained job description also supports consistent job classification and compensation administration by documenting the work assigned to a position rather than the characteristics of a particular incumbent. The U.S. Office of Personnel Management notes that position descriptions provide the information needed to classify positions, including the major duties and responsibilities performed. EEOC guidance likewise recognizes the value of written job descriptions in identifying essential job functions. See OPM position-classification guidance and EEOC reasonable-accommodation guidance.

QUESTION NO: 41

Which of the following items determines the disposition of unclaimed wages?

A. federal law only

B. federal and state law

C. no recognized procedures exist

D. state law only

ANSWER: D

Explanation:

state law only is correct because the handling and ultimate disposition of wages that remain unclaimed are governed by each state's unclaimed-property (escheat) laws. These laws establish the dormancy period before payroll checks or other wage payments are presumed abandoned, the employer's required due-diligence efforts to locate the employee, the reporting timetable and format, and the process for remitting the funds to the appropriate state administrator. Payroll staff therefore must identify the applicable state rules, generally based on the employee's last known address and, when necessary, the employer's location under the relevant state framework. After remittance, the state holds the property for the owner, who may later submit a claim for the wages. For example, California's State Controller explains that unclaimed property is reported and transferred under state-administered requirements, while New York's Office of the State Comptroller provides employer reporting guidance for abandoned property, including payroll-related property. Employers should maintain accurate employee address records and monitor the specific state's reporting deadlines and required notices. See the California State Controller's unclaimed-property reporting guidance and the New York State Comptroller's reporter guidance.

QUESTION NO: 42

An example of a policy is:

A. Employees receive paid sick leave after the second day of absence.

B. Time cards are filed by cost center in the records room

C. the PC's of the payroll employees are connected to the same printer

D. Payroll receives changes of status documents from human resources after data entry has occurred

ANSWER: A

Explanation:

"Employees receive paid sick leave after the second day of absence." is a policy because it establishes a standing organizational rule governing employee eligibility for a paid benefit. It states the condition under which sick-leave pay becomes available—after the second day of an absence—and therefore provides the direction payroll and human resources use when determining whether qualifying sick time should be paid. A payroll policy should clearly communicate the employer's intended treatment of a recurring employment matter, support consistent administration, and provide a basis for configuring payroll rules and responding to employee questions. In this case, the policy defines an entitlement threshold rather than describing a task sequence, filing practice, equipment arrangement, or routing method. Employers may provide paid sick leave under their own policies, collective-bargaining agreements, or applicable state and local requirements; payroll must apply the employer's documented rule consistently while also ensuring compliance with any governing leave law. The U.S. Department of Labor notes that paid sick leave protections can arise under state or local laws, while federal FMLA protections concern qualifying unpaid, job-protected leave. See the U.S. Department of Labor's paid sick leave overview and its Family and Medical Leave Act guidance.

QUESTION NO: 43

Under USCIS requirements, an employer ' s electronic storage system for Form I-9 must provide all EXCEPT:

A. Indexed retrieval system

B. Reasonable control to detect alteration

C. Ability to reproduce legible hard copies

D. Ability to produce copies within 24 hours

ANSWER: D

Explanation:

Ability to produce copies within 24 hours is the exception because USCIS does not impose a 24-hour production standard for electronically stored Forms I-9. When an authorized government official requests inspection of Forms I-9 and related records, the employer must make them available within three business days of the request. This timeframe applies whether Forms I-9 are retained on paper, electronically, or in a combination of formats. Electronic retention is permitted only when the employer maintains an effective system that preserves the form's integrity, reliability, and accessibility throughout the required retention period. The system must support retrieval and inspection of records and enable the employer to provide legible, readable copies to an authorized official within the applicable three-business-day timeframe. USCIS explains these retention and inspection requirements in its Handbook for Employers, M-274. The governing regulation likewise states that Forms I-9 must be available for inspection upon at least three business days' notice and describes standards for electronic generation and retention at 8 CFR 274a.2.

QUESTION NO: 44

An employer that deposits payroll taxes semiweekly incurs a tax liability of $55,000 on Tuesday and a liability of $110,000 on Wednesday. When should the taxes be deposited?

A. $110,000 on Thursday and $55,000 on Friday

B. $165,000 on Thursday

C. $55,000 on Thursday and $110,000 on Friday

D. $55,000 on Friday and $110,000 on the next Wednesday

ANSWER: B

Explanation:

$165,000 on Thursday is correct because the employer has triggered the federal tax deposit next-day rule. Under this rule, when an employer accumulates $100,000 or more in federal employment-tax liability on any day during a deposit period, it must deposit the full accumulated, undeposited amount by the close of the next banking day. The $110,000 liability incurred on Wednesday meets the $100,000 threshold. At that point, the employer must include both the Wednesday liability and the previously accumulated $55,000 Tuesday liability in the required next-business-day deposit. Therefore, the total $165,000 must be deposited on Thursday, assuming Thursday is a banking day. The next-day rule overrides the employer's normal semiweekly deposit schedule for these accumulated liabilities. The employer also becomes a semiweekly schedule depositor for at least the remainder of that calendar year and the following calendar year, although that does not alter the immediate Thursday deadline in this situation. See the IRS discussion of the $100,000 next-day deposit rule in IRS Publication 15 (Circular E), Employer's Tax Guide and the IRS's Tax Topic 757, Forms 941 and 944—Deposit Requirements.

QUESTION NO: 45

Using the wage bracket method, calculate the net pay.

Hourly rate: $10.00

Second shift differential: $1.50 per hour

Third shift differential: $2.50 per hour

Second shift hours worked: 35

Third shift hours worked: 5

Pay frequency: Weekly

2023 Form W-4: Single or married filing separately

No state or local income taxes

A. $429.43

B. $411.43

C. $392.43

D. $358.40

E. $410.43

ANSWER: E

Explanation:

The correct net pay is **$410.43**. Total weekly gross pay is $465.00: 35 second-shift hours are paid at $11.50 per hour ($10.00 regular rate plus the $1.50 differential), producing $402.50; 5 third-shift hours are paid at $12.50 per hour ($10.00 regular rate plus the $2.50 differential), producing $62.50. For a total of $465.00, Social Security tax is $28.83 ($465.00 × 6.2%) and Medicare tax is $6.74 ($465.00 × 1.45%, rounded to the nearest cent). Under the 2023 weekly wage-bracket table for an employee filing as single or married filing separately, with no indicated Form W-4 adjustments, federal income tax withholding on $465.00 is $19.00. Total deductions are therefore $54.57: $28.83 in Social Security tax, $6.74 in Medicare tax, and $19.00 in federal income tax withholding. Subtracting $54.57 from gross pay of $465.00 results in net pay of $410.43. The wage-bracket withholding tables and the required payroll-tax rates are provided by the IRS in Publication 15-T (2023) and Publication 15.

QUESTION NO: 46

The FIRST step an employer must take after deciding to look for a new payroll system is:

A. preparing an RFP.

B. selecting a system.

C. building a project team.

D. analyzing new system functionality.

ANSWER: C

Explanation:

Building a project team is the appropriate first step because replacing a payroll system is an organization-wide project, not solely a payroll-department purchase. The team should bring together the payroll function and the key business areas affected by employee data, timekeeping, accounting entries, tax reporting, security, technology, internal controls, and employee or manager self-service. Including those stakeholders at the outset gives the employer a defined governance structure, clear decision-making responsibility, and the practical knowledge needed to identify the organization's current-process issues and future-state requirements.

Once assembled, the project team can document requirements, establish the project scope and priorities, evaluate system capabilities consistently, and manage vendor communications and implementation planning. This approach supports a solution that fits the employer's operational and compliance needs throughout its useful life. Project-management guidance likewise emphasizes identifying and engaging stakeholders early so their requirements and expectations are understood and incorporated into planning. See the Project Management Institute's discussion of stakeholder management and PayrollOrg's Certified Payroll Professional program information for the broader professional context of payroll processes and project responsibilities.

QUESTION NO: 47

When a federal tax levy is in place for an employee, the amount of the employee's wages that must be remitted to satisfy the levy is the amount remaining after the exempt amount has been subtracted from the employee ' s:

A. gross pay

B. disposable pay

C. take-home pay

D. federal taxable pay

ANSWER: B

Explanation:

disposable pay is correct because a continuing federal tax levy on wages attaches to the employee's pay only after amounts that are legally required to be withheld have been deducted. This resulting amount is commonly called disposable earnings or disposable pay for levy-calculation purposes. The employer then determines the employee's exempt amount using the information supplied on the IRS Statement of Exemptions and Filing Status, or the applicable default exemption when the statement is not returned. The exempt amount is subtracted from disposable pay, and the balance is sent to the IRS under the continuing levy.

This calculation protects a statutory amount of an employee's wages from levy while requiring the employer to remit the nonexempt balance each pay period until the levy is released or otherwise ceases to apply. The IRS's employer instructions describe the process as first determining net pay after deductions required by law and then subtracting the exempt amount shown in the relevant IRS table. Payroll professionals should retain the levy and exemption documentation and apply the current IRS Publication 1494 tables for the levy period. See IRS Publication 1494, Table for Figuring Amount Exempt From Levy on Wages, Salary, and Other Income and IRS guidance on understanding a wage levy.

QUESTION NO: 48

CC's Construction Company

Employee	Hire Date	Monthly Salary	401(k) % of Salary	125 Cafeteria Elections
David	06/01/09	$5,000.00	3.00%	$100/month medical
Karen	12/19/05	$4,200.00	7.00%	$100/month medical $100/month health care FSA
Alan	03/18/07	$7,300.00	4.00%	$50/month medical
Sue	03/01/09	$3,900.00	0.00%	does not participate
Douglas	12/21/02	$15,000.00	12.00%	$150/month medical $415/month dependent care FSA
Christy	11/01/09	$3,000.00	0.00%	does not participate

What is the total amount reported in box 10, "Dependent care benefits?"

A. $ 0

B. $10,480

C. $5,500

D. $4,980

ANSWER: D

Explanation:

The total reported in box 10, “Dependent care benefits,” is **$4,980**. Box 10 reports the total dependent-care assistance provided under an employer’s dependent care assistance program, including amounts provided through employee salary reductions under a dependent care flexible spending arrangement. The amount is reported on the employee’s Form W-2 even when all or part of the benefit may later be excluded from income based on the employee’s eligibility and the information reported on Form 2441.

For payroll reporting purposes, the key amount is the dependent-care benefit made available or provided through the employer’s plan during the calendar year. Based on the payroll information shown, the accumulated dependent-care benefit is $4,980, which is therefore the amount entered in box 10. The employee uses this W-2 amount when completing Form 2441, Child and Dependent Care Expenses, to determine the treatment of the benefit on the individual income-tax return. The IRS’s Form W-2 instructions specifically identify box 10 as the location for dependent care benefits, and IRS Publication 15-B describes the employer reporting treatment for dependent-care assistance programs. See the IRS Instructions for Forms W-2 and W-3 and IRS Publication 15-B.

QUESTION NO: 49

What is the correct entry for recording wages earned but NOT paid?

A. Debit Salary Expense, credit Cash

B. Debit Cash, credit Accrued Wages Payable

C. Debit Accrued Wages Payable, credit Salary Expense

D. Debit Salary Expense, credit Accrued Wages Payable

ANSWER: D

Explanation:

Debit Salary Expense, credit Accrued Wages Payable is the correct adjusting entry when employees have earned wages by the end of an accounting period but the employer has not yet issued payment. Under accrual-basis accounting, compensation cost is recognized in the period in which employees perform the work, rather than when cash is disbursed. Debiting Salary Expense records the payroll cost incurred during the current period. Crediting Accrued Wages Payable establishes a current liability for the amount the employer owes employees at the reporting date. This treatment ensures both expenses and liabilities are presented in the appropriate accounting period, consistent with the matching principle and accrual accounting. When the employer subsequently pays the wages, it will reduce the payable and credit cash; the expense has already been recognized through this accrual. The Financial Accounting Standards Board’s Conceptual Framework explains that expenses are outflows or using up of assets, or incurrences of liabilities, from delivering goods or rendering services, which supports recognizing the liability as wages are earned. See the FASB Conceptual Framework and the AccountingCoach explanation of adjusting entries.

QUESTION NO: 50

The rate of withholding in 2009 on qualified pension distributions made directly to employees is:

A. 15%

B. 20%

C. 27%

D. 30%

ANSWER: B

Explanation:

The correct answer is **20%**. For an eligible rollover distribution from a qualified pension plan that is paid directly to the employee (rather than sent in a direct trustee-to-trustee rollover), the plan administrator generally must withhold 20% for

federal income tax. This mandatory withholding rule applied in 2009 and is designed to ensure that tax is prepaid when retirement-plan funds are distributed to the participant.

The distribution may generally be rolled over to an eligible retirement plan or IRA within the applicable rollover period. However, when the participant receives the payment, the amount withheld is not received by the participant. To roll over the entire distribution and avoid current taxation on the withheld amount, the participant would need to replace the withheld 20% with other funds when completing the rollover. The withholding is reported as federal income tax withheld and may be claimed as a credit on the employee's federal income tax return.

This rule is described in IRS guidance on pensions and annuities and in the IRS rollover chart. See IRS Publication 575, Pension and Annuity Income and IRS Rollover Chart.

QUESTION NO: 51

How may federal income tax be withheld from separation pay and accrued vacation wages totaling $20,000 that are paid at the time of termination and identified separately on the employees' pay stub, if the employee has been paid $25,000 so far this year and had income tax withheld from her most recent wage payment?

A. at the optional flat rate for all payouts at termination only

B. using the aggregated method only

C. at the optional flat rate or using the aggregate method

D. using the prior 12 months' tax rate

ANSWER: C

Explanation:

The correct answer is *at the optional flat rate or using the aggregate method*. Separation pay and payment for accrued vacation made in connection with termination are supplemental wages for federal income-tax withholding purposes. Because the $20,000 payment is separately identified from regular wages, and federal income tax was withheld from the employee's regular wages during the current calendar year, the employer may choose either permitted supplemental-wage withholding method.

Under the optional flat-rate method, the employer withholds federal income tax at the applicable flat supplemental-wage rate, currently 22% for supplemental wages when the employee's cumulative supplemental wages for the year do not exceed $1 million. Under the aggregate method, the employer combines the supplemental payment with regular wages paid in the same or most recent payroll period, calculates withholding on the combined amount using the employee's Form W-4 withholding information, and subtracts tax already withheld from the regular wages. The employee's $25,000 year-to-date wage amount does not prevent either method; it is well below the $1 million supplemental-wage threshold. See the IRS's Publication 15, Circular E and its guidance on supplemental wages.

QUESTION NO: 52

Beth, who works for Nugget Productions, is enrolled in the company's cafeteria plan. Beth adopts a child in august, and requests a change in her election under the cafeteria plan. What is the action that may be taken?

A. The employer will increase Beth's deduction retroactively to the child's date of birth

B. There can be no change to Beth's deduction until the first quarter

C. Beth may change her election due to the change in family status

D. Nugget Products will suspend Beth's deduction until the first quarter

ANSWER: C

Explanation:

Beth may change her election due to the change in family status. A cafeteria plan may permit an employee to revoke an existing election and make a new election after a qualifying change in status, provided the election change is consistent with that event. Adoption is specifically included among the events that change the number of an employee's dependents and therefore can create a permitted election-change opportunity. For example, Beth may elect or increase coverage that is appropriate for her newly adopted child, subject to the written terms of Nugget Productions' cafeteria plan and its administrative deadlines. The plan must allow the relevant change; cafeteria-plan rules do not require every employer to offer every permitted midyear election change. If the plan does permit it, the change generally must be made prospectively, although special rules can apply to certain medical coverage election changes involving a new child. The governing framework is the IRS change-in-status rule under Treasury Regulation section 1.125-4, which treats an adoption as a change in the number of dependents. See 26 C.F.R. § 1.125-4 and the IRS's Publication 15-B, Employer's Tax Guide to Fringe Benefits.