**SOLUTIONS MANUAL: CHAPTER 1 END OF CHAPTER ANSWERS**

**ANSWERS TO STOP AND CHECK EXERCISES**

**Which Law?**

1. k

2. h

3. b

4. f

5. i

6. j

7. a

8. d

9. g

10. c

11. e

**Which Payroll Law?**

1. d

2. a

3. f

4. c

5. g

6. h

7. b

8. e

**What’s Ethical?**

1. Answers will vary. Some concerns include data privacy and integrity in the software switchover, tax and employee pay integrity on the new software, and employee pay methods.

2. Answers will vary. Liza could choose to ignore her sorority sister’s request, claiming professional responsibility. She could also discontinue active participation in the sorority. In any case, Liza must not consent to her sorority sister’s request for confidential information.

**Confidential Records**

As a payroll clerk, your task is to protect the privacy and confidentiality of the information you maintain for the company. If a student group—or any personnel aside from the company’s payroll employees and officers—wishes to review confidential records, you should deny their request. If needed, you should refer the group to your department’s manager to discuss the matter in more depth. The laws that apply to this situation are the Privacy Act of 1974, the Freedom of Information Act, and potentially HIPAA.

**Large vs. Small**

Large companies have computer-based accounting packages like QuickBooks, Sage 50, and Great Plains available. Additionally, they may consider outsourcing their payroll functions to companies like ADP and Paychex, which provide companies with comprehensive payroll services and tax reporting.

For small companies, the cost of outsourcing the payroll function needs to be considered. On one hand, a small company may not have personnel who are proficient with payroll regulations and tax reporting requirements, which leaves a company vulnerable to legal actions and stringent fines. However, engaging a payroll service company may be cost prohibitive. The decision to outsource the payroll for a small company should take into account the number of personnel, locations, and types of operations in which the company engages.

**What Is the Difference?**

a. Manual payroll systems involve the use of paper and pencil recordkeeping or a spreadsheet program, such as Microsoft Excel. This is most appropriate for very small firms.

b. Computerized payroll systems can be used by any company, regardless of size. Examples of computerized systems include, QuickBooks, Sage 50, and Great Plains. These computer packages range in price, depending on the company size and operational scope.

c. Outsourced payroll involves the engagement of a third party to manage a company’s payroll data, issue employee compensation, and prepare tax forms.

d. Certified payroll pertains to companies with employees who work on federal government contracts. Certified payroll ensures that a company reports payroll expenditures of contractually allocated money.

**Exempt vs. Nonexempt**

1. Exempt workers are exempt from the overtime provisions of FLSA. Exempt workers tend to be employees in a company’s managerial or other leadership functions, in which they may need to work more than 40 hours per week to complete their tasks. Exempt workers usually receive a fixed salary per period that is not based on the number of hours worked. Nonexempt workers tend to be compensated on an hourly basis and often do not have managerial or leadership responsibilities. It should be noted that some nonexempt workers do have managerial or leadership responsibilities and may receive a fixed salary; however, these particular employees are covered by the overtime provisions of FLSA.

2. An employee is defined as a person whose work is solely for a company. Most or all work-related materials are provided by the company. Employee payroll taxes are paid by the company, and the employee may be eligible for fringe benefits. In contrast, an independent contractor may have more than one company as a client. Independent contractors provide their own tools and materials, pay their own income taxes, and generally establish their working hours. An employee of a company is considered to be part of the payroll expense, whereas an independent contractor is a vendor of the company who submits invoices for payment.

**ANSWERS TO END-OF-CHAPTER MATERIALS**

**REVIEW QUESTIONS**

1. What is the purpose of a payroll system?
   1. Provide for internal and external reporting of employee wages and associated taxes, payment of employee compensation, and monitoring of benefits to employees. It also serves as a means of tracking labor costs that managers use for decision-making, budgeting, and planning.
2. What are some differences between large- and small-company payroll practices?
   1. Small companies would have fewer employees and reporting requirements, and would be less likely to be required to have automated payroll systems.
   2. Large companies have more employees and greater departmentalization. This increase in employees leads to a higher level of complexity in payroll accounting, disbursements, and reporting. Larger companies may also provide Intranet portals for employee self-service options. Additionally, larger companies may need additional accuracy checks.
3. What is certified payroll? Which companies must use it?
   1. Certified payroll is a reporting requirement for companies that work with federal contracts that are subject to Davis-Bacon wages. Only those companies that have these types of employees would be required to complete a certified payroll.
4. Why might it be a good idea to let employees manage their pay records? What are some of the pitfalls?
   1. If employees have access to their payroll records, there would be the need to allow multiple access points to the confidential information. These open channels would require security settings to ensure the requirements of confidentiality are maintained. An advantage of allowing individuals to self-manage their payroll records would be the employee would be able to answer some simple questions on their own without having to come to the payroll accountant for answers.
5. What are some ways that a payroll system may protect a company in the event of a visit from a government auditor?
   1. Through the establishment and maintenance of an accurate payroll system.
6. What is payroll outsourcing? When might a company consider outsourcing its payroll?
   1. Payroll outsourcing is the process of contracting another company for the preparation, reporting, and filing of employee payroll. Companies may consider this option if the company sees a benefit to the company that outweighs the cost of outsourcing.
7. Give three examples of federal laws that are essential to ensure legal, fair hiring practices.
   1. American with Disabilities Act
   2. Age Discrimination in Employment Act
   3. Fair Labor Standards Act
   4. Civil Rights Act
8. What are the major types of payroll processing methods?
   1. Manual
   2. Computerized
   3. Outsourced
   4. Certified
9. What are two laws governing the taxes that employers must withhold from employees?
   1. 16th Amendment of the U.S. Constitution
   2. Social Security Insurance Act
10. What are two of the main provisions of FLSA?
    1. Maximum hours that covered individuals can work
    2. Minimum pay for covered individuals
    3. Minimum age for workers
    4. Mandatory break times for covered employees
11. Why was the Social Security Act of 1935 important? What did it provide?
    1. The Social Security Act of 1935 was designed to create a contribution-driven fund to achieve a level of financial stability for the worker when he or she became too old or infirm to work.
12. What are the advantages of a computerized payroll system over a manual system?
    1. A computerized payroll system can meet the tax and regulatory requirements efficiently and can typically be set to automatically update for tax law changes. Web portals can streamline overtime reporting and other functions. A recent trend in computerized processing is the issuance of employee paycards.
13. Which Act created the term “Full-Time Equivalents”? What are these employee types used for?
    1. The Affordable Care Act created the term full time equivalents to determine the number of employees that should be offered health care coverage under the act.

**EXERCISES – SET A**

E1-1A. Anya is a candidate for the position of sales manager with the footwear department of a major retail outlet. She is going to be required to supervise several employees and can determine the direction in which she will complete the assignments given to her. Which law appears to be the most applicable in regards to classifying her as an exempt or nonexempt employee?

1. FLSA – Fair Labor Standards Act

E1-2A. John is the office manager for a small mortgage brokerage. Because it is a small office, he is required to keep track of all employee records and pay both employees and contractors. Which of the following are legal factors that will differentiate between exempt and nonexempt employees (select all that apply)?

1. Number of hours worked;
2. Type of work performed;
3. Amount of supervisor-given direction

E1-3A. Consolidated Construction obtained a job working for a nearby international airport, a project contracted with the federal government for $500,000, welding the support structures for the new extension of the terminal. What laws govern the wages Consolidated Construction pays to their welders for this project (Select all that may apply)?

1. Davis-Bacon Act

3 Walsh-Healey Act

E1-4A. Roxie works as the payroll clerk for an agricultural firm that hires many temporary and immigrant workers on an hourly basis. What law governs the hiring or documenting of these workers?

1. IRCA

E1-5A. Kim-Ly is a member of the hiring board for her company. As they review candidates for a position, one of the other board members wants to exclude Eric, a man in his 50s, because his age might pose an insurance risk for the company. What law protects Eric against this practice?

1. ADEA

E1-6A. Ovenet Inc. is a company that provides health insurance to its employees. The company is self-insured. Which of the following forms should they provide their employees to comply with the Affordable Care Act?

2 Form 1095-B

E1-7A. Ashlee is the new payroll accountant for a company. While she was exercising at the gym, she encountered Madison, the president of the company. Madison explained that he was under pressure to report certain levels of profit and asked her to meet with him about payroll expenses. What ethical guidelines should Ashlee consider before agreeing to meet (Select all that apply)?

2 Objectivity and Independence

4 Integrity

E1-8A. Kevin owns a new golf pro shop. As a small business owner, he has several options for payroll processing. What factors should he consider when deciding on payroll processing (Select all that apply)?

1 The number and type of employees

1. The amount of money he has to spend on payroll processing
2. The computer technology used by the business

**MATCH THE FOLLOWING TERMS WITH THEIR DEFINITIONS:**

|  |  |
| --- | --- |
| E1-9A: Manual payroll | Payroll administration using a paper payroll register |
| E1-10A: Time card | A record of the time worked during a period for an individual employee |
| E1-11A: Paycard | A pre-loaded credit card used to pay employees |
| E1-12A: Employee Internet portal | A web-based application wherein employees can modify certain payroll-related information |
| E1-13A: Certified Payroll | A way for governmental agencies to track the payroll associated with a government contract |
| E1-14A: Outsourced payroll | The use of an external company to track time and benefits and pay employees |
| E1-15A: Auditor | A person or group who examines a company’s accounting records for accuracy |
| E1-16A: ADP and Paychex® | Examples of companies used for outsourcing payroll processing |
| E1-17A: Time collection | The process of gathering information about hours worked for one or more employees |
| E1-18A: Davis-Bacon Act | Governs accounting for firms with federal government contracts in excess of $2,000 |

**PROBLEM SET A**

**(NOTE: The textbook presentation of these problems allows for open-ended student responses. For solutions to the Connect versions of the Set A Problems, refer to Page 24.)**

P1-1A: Kristina is the accounting manager for a small, local firm that has full- and part-time staff. What must Kristina consider when classifying employees as exempt or nonexempt?

1. Student answers may vary and should include: Fair Labor Standards Act (FLSA); job duties; level of supervision; professional/educational experience.

P1-2A: Jeff is an accountant for his firm, a medium-sized company with 125 employees. The firm has traditionally maintained the administration of its payroll. His co-worker, the only other accountant in the firm, retires. Because of budget concerns, the firm chooses not to refill the position. What options does Jeff have regarding administration of the payroll?

1. The company can outsource the task to any of a number of qualified, certified payroll preparation firms or Jeff could obtain a software program to fill the need.

P1-3A: Juan is the office manager and payroll clerk for his company, which is composed of 12 employees. An employee, Joe, stops by Juan's office and wants to view his payroll record. What privacy regulations must Juan consider before granting his co-worker access?

1. The Privacy Act of 1974 allows an employee access to their payroll records.

P1-4A: A group of employees, who read on a website that income tax collection is illegal, approach Tarik, the controller for a large company. They request that he stop withholding income taxes from their pay unless he can explain what laws govern income tax collection. What should Tarik tell them?

1. The 16th Amendment to the U.S. Constitution created the legislation to support the collection of taxes from the employees.

P1-5A: Sheri is a warehouse worker for a small grocery market. As she was moving some merchandise, the loading dock door unexpectedly fell and injured her. How does OSHA apply to Sheri for this type of injury?

1. In this type of situation, there would be an OSHA inspection to ensure that the working environment was not the cause of the injury. Workers compensation insurance will provide for the coverage of wage compensation for the employee and covered medical expenses should the company’s work environment, and not employee error, be found at fault. Another legal provision is that she may be protected under FMLA; she may have to take unpaid leave if she does not have leave available, but her employment and medical benefits would be guaranteed.

P1-6A: Ben is a new payroll accountant at his company. In his review of previous manual payroll records, he noted several errors that required the issuance of additional checks to employees for unpaid payroll amounts. What are his options to avoid similar problems in the future?

1. By switching to an automated system or by review and verification of a standardized payroll system, the potential for error would be reduced.

P1-7A: Charli and Sarah are friends who work for the same company. Charli manages a manufacturing department and Sarah supervises the payroll clerks. Which ethical guidelines or rules would these friends need to remember when discussing work?

1. Both employees would have the responsibility for non-disclosure of confidential information they have over the employees in their areas of responsibility. Exercising personal integrity to avoid any apparent conflicts of interest would also be appropriate for these individuals.

P1-8A: At Denniston Industries, employees have the option of choosing employer-sponsored health insurance at no additional cost or receiving additional pay so that they may purchase medical insurance elsewhere. What responsibilities does the employer have according to COBRA upon termination of an employer who opts to receive the additional pay to purchase medical insurance?

1. At the employee’s expense, the company must offer terminated employees COBRA coverage upon termination.

P1-9A: RaeLeene is a new manager at Resterra Inc. She is reviewing the FLSA classification of each employee, and approaches you for clarification about differences between exempt and nonexempt employees. What are three differences between exempt and nonexempt employees?

1. Exempt employees are not subject to the restrictions of the Fair Labor Standards Act; exempt employees will not receive overtime; workers are typically highly skilled

P1-10A: Mahala is a new employee in the payroll department for Winhook Industries. She has had several employees approach her with questions, but is unsure how privacy regulations could affect her response. What advice would you give her about privacy laws and payroll?

1. The Privacy Act of 1974 allows an employee access to their payroll records. The employee’s privacy is an important consideration and payroll workers need to be aware of updated information as it becomes available, for example U.S. Department of Labor OCFO-1 or the U.S. Department of Health and Human Services Privacy Act 09-40-0006.

**EXERCISES SET B**

E1-1B. Hunter is a candidate for the position of marketing clerk with the promotions department of a film production company earning $10.25 per hour. He will work occasional overtime in his new position and will not have managerial or supervisory duties as a regular part of his job description. Why should Hunter be classified as a nonexempt employee (select all that apply)?

2 He has no supervisory or managerial duties

~~4 He will work occasional overtime~~

E1-2B. Bernie manages a ski resort that has year-round and seasonal employees. Assuming that the ski resort engages in interstate commerce, which are FLSA requirement(s) that Bernie should consider?

1 Hourly wages paid to employees

3 Number of hours worked per week

4 Employee age and weekly work schedule

E1-3B. Carl is a military veteran who requires many absences for medical reasons. His boss has demanded that he reduce the number of sick days unless he provides his medical history. Which law(s) protect Carl (select all that apply)?

3 USERRA

4 HIPPA

E1-4B. Valerie is a production worker at a large automobile manufacturing plant. After working there for 10 years, she discovers through conversations with a colleague with the same title and similar seniority that her wage is 20% lower than his wage. She feels that she has been a victim of discrimination. Which law(s) govern her situation?

4 Equal Pay Act

E1-5B. Skylar is the new bookkeeper for a small company and was hired to replace a long-time employee who retired. Upon starting the position, Skylar notices that the prior bookkeeper used a purely manual system. The company owner has said that Skylar may update the payroll system. What options are available?

1. Computerized accounting system (QuickBooks, Sage50)
2. Spreadsheets

E1-6B. Jeffrey is the accounting manager for a company that provides computer-consulting services. The computer-consulting company has a staff that includes five full-time employees and eight on-call workers who independently determine the number of hours and their work location.. The on-call consultants claim that they should be classified as employees. What criteria should Jeffrey use to determine the workers' employment status (select all that apply)?

1. With the independence of when they will work and how the consultants will perform their duties, they are more appropriately classified as independent contractors and would not be employees of the company.

E1-7B. Paola is the payroll accountant for an import-export firm. Her most recent experience with accounting educational courses was when she was in college, which was eight years ago. What ethical guideline(s) govern her professional development?

1. AICPA

E1-8B. Harris is the payroll accountant for a company that engages in work on Federal contracts. He wants to ensure that the company is compliant with the provisions of the Davis-Bacon Act. What is the name for process used to monitor payroll compliance in this situation?

3 Certified Payroll

**MATCH THE FOLLOWING TERMS WITH THEIR DEFINITIONS:**

|  |  |
| --- | --- |
| E1-9B: USERRA | Legislation that governs the treatment of military service personnel |
| E1-10B: *U.S. v. Windsor* | The case responsible for the U.S. Supreme Court’s repeal of DOMA |
| E1-11B: Mandatory auditor rotation | A provision of the Sarbanes–Oxley Act |
| E1-12B: HIPPA | Protects the confidentiality of employee medical records |
| E1-13B: Lilly Ledbetter Fair Pay Act | Repealed the 180-day statute of limitations on equal pay complaints |
| E1-14B: Sixteenth Amendment | Instituted a tiered income tax on workers |
| E1-15B: Walsh-Healey Public Contracts Act | Prohibited employment of individuals younger than 16 years of age |
| E1-16B: Independent Contractor | A worker who is not subject to a company’s direction or its payroll laws |
| E1-17B: Personal Responsibility, Work and Family Promotion Act of 2002 | Strengthened the child support provisions of PRWOR |
| E1-18B: IRCA | Mandates completion of form I-9 |

**PROBLEM SET B**

**(NOTE: The textbook presentation of these problems allows for open-ended student responses. For solutions to the Connect versions of the Set B Problems, refer to Page 29.)**

P1-1B: Roxie is the payroll administrator for a small company. Because of economic conditions, her boss has assigned her the additional duties of office management, and Roxie is considering outsourcing her payroll duties. What are the pros and cons of outsourcing the company’s payroll?

Pros: flexibility, advanced data analysis, assistance with strategic planning, and compliance with complicated payroll regulations.

Cons: reliance on another party to maintain confidentiality of the records and compliance with tax laws; costs may outweigh benefits received.

P1-2B: Jim is the payroll clerk for a company based in a state where same-sex marriage is legal. One of the company’s employees informs Jim that he has been in a same-sex marriage since January 2011. What actions does Jim need to take regarding prior-year taxes?

1. Withholding allowances need to be recalculated to determine the taxes based upon married status compared to the higher single rate. This can cause personal and business taxes to be restated for up to a three-year amendment.

P1-3B: Rosita is STB Incorporated's payroll accountant. During a casual conversation with coworkers, she learns that another co-worker is deliberately overstating the number of hours worked during each pay period because of a personal economic situation. Which ethical guidelines pertain to this situation? What should Rosita do with this knowledge?

1. Rosita should use the ethical guidelines from the AICPA to use Responsibility in the proper preparation of the payroll and verify externally with the supervisor or manager the actual hours worked. Public Interest to the company and ensuring that there is honest and true representation to the costs of the business. Where Integrity could make her an accomplice by allowing the transactions to continue overstated.

P1-4B: Michaela is a payroll accountant for Top Table Industries. She is asked to explain the differences between exempt and nonexempt employees. What job elements should she highlight as the difference between exempt and nonexempt employees?

1. Employees who would qualify must meet all requirements under one of the exemptions listed for executive responsibilities, administrative responsibilities, and professional responsibilities.

P1-5B: During a review of payroll records, LaTieya notices that a female employee in Department A is receiving a significantly lower salary than similarly skilled male employees in the same department. What actions should LaTieya take in this situation?

1. Under the Equal Pay Act of 1963, LaTieya should first gather the information that shows the differences in pay based on sex of the employee. Secondly, she should go to the manager or supervisor to discuss these differentials. Finally, if this has not been successful, she should go to the supervisor of the individual spoken to previously. If all channels fail, then she may have a claim under the Equal Pay Act with or without the extension provided by the Lilly Ledbetter Fair Pay Act of 2009.

P1-6B: Nic is an accountant for a large, multinational firm. During payroll processing, he notices that the new state payroll tax updates have not been installed in the firm’s software. What ethical guidelines govern his behavior in this situation?

1. Under the Due Care ethical standard of the AICPA’s Code of Ethics Nic would need to notify his supervisor of the discrepancy and ensure the tax withholding and remittance are correct with the new state payroll rates.

P1-7B: Hector is an employee of a contractor that provides governmental construction services in Washington, D.C. The current contract is for $250,000. Hector is 22 and is paid $9.50 per hour. How does the Walsh-Healey Public Contracts Act affect Hector?

1. As a governmental contract this position would fall under Walsh-Healey Public Contracts Act and would require minimum wage for all hours worked under 40 per week and wages at 1.5 times for time worked in excess of 40 hours per week.

P1-8B: Sean works as a payroll clerk at Drink Pocket Inc. He shares an office with three other co-workers and must examine documents containing personal information as a regular part of his duties. Based on the provisions of the Privacy Act of 1974, what responsibilities does Sean have regarding the payroll records he handles?

* Sean must ensure that he does not leave any sensitive information as disclosed by the Privacy Act of 1974 where individuals cannot access them. This would include, but is not limited to addresses, dependents, compensation, payroll deductions, social security number or garnishment information.

P1-9B: Jaelle is a senior payroll administrator for Jericho Home Design. The company has 15 employees and annual revenues of $50 million. She has been using and maintaining manual payroll records for the last 20 years of her career, and the president of Jericho Home Design wants to explore options for computerized payroll processing. Which payroll option is the most suitable for both Jaelle and Jericho Home Design? Why?

1. Given the size of the company, a computerized accounting system (QuickBooks or Sage90) would be good options for internal processing of the company’s payroll.

P1-10B: You are the payroll accountant for your company and have been asked for information about employees and independent contractors. What are three key differences between employees and independent contractors?

1. For the classification of an independent contractor, there is analysis of the extent the employee’s work, management, decisions, investment and control the company has over the employee. Additionally, if a skilled worker and the individual provides their own tools, there could be a case made for an independent contractor.

**CRITICAL THINKING**

1-1. You have been hired as a consultant for a company facing an IRS audit of their accounting records. During your review, you notice anomalies in the payroll system involving overpayments of labor and payments to terminated employees. What would you do?

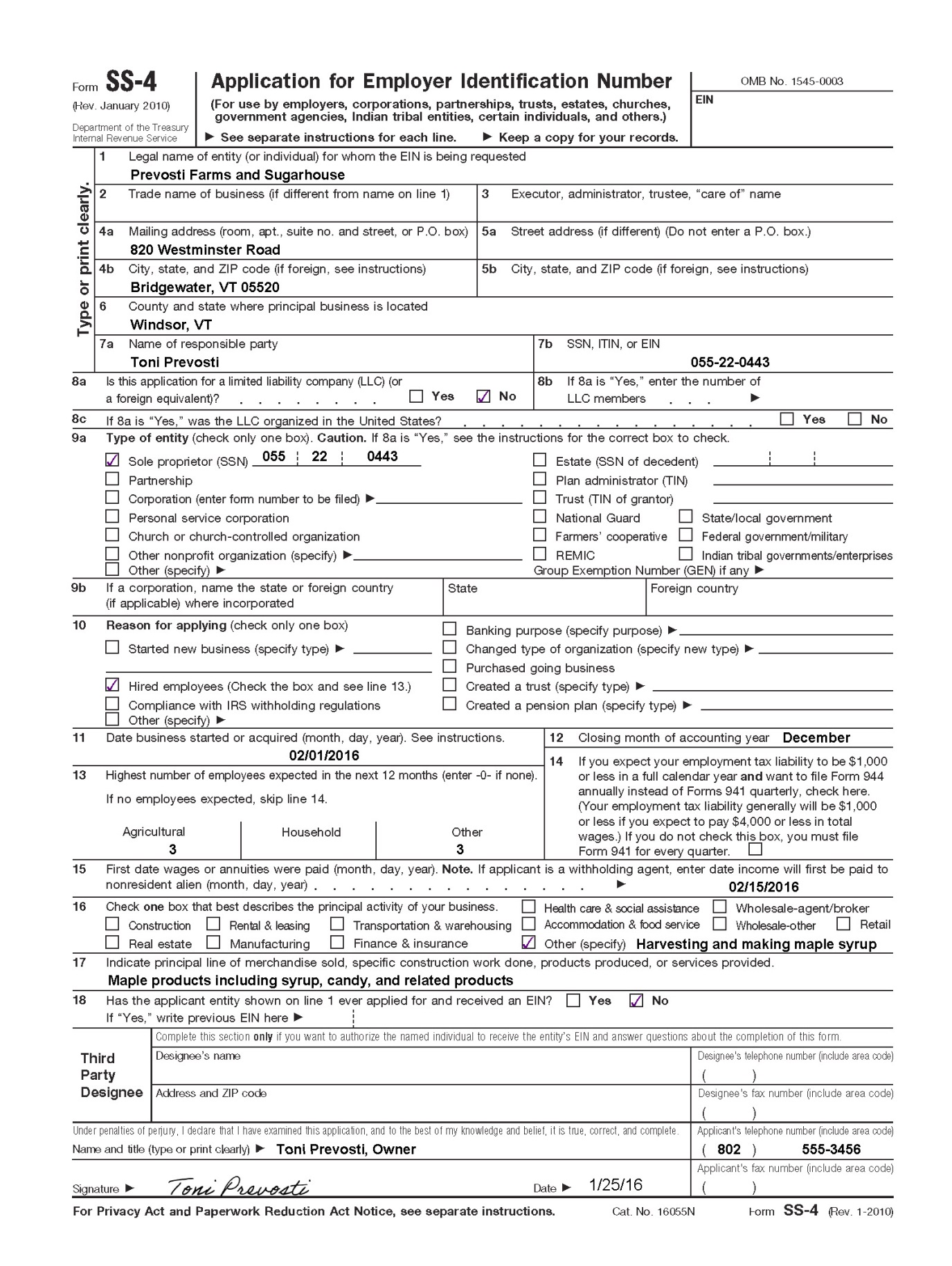
1. When the abnormalities are discovered, the management of the company should be made aware of the situation and documented attempts at collection of any material overpayments should be attempted. Since the IRS audit is imminent, documenting the date of the find and attempts to rectify the error would be advisable. If the anomalies are a result of a programming or computerized glitch, there is the possibility that discussing this with the software company could reduce the liability for the company.

1-2. Lee Chen is the accountant for a local nonprofit organization. He has been tasked with managing the costs of the payroll so that staffing levels may remain the same even if funding levels change. He considers outsourcing the payroll to a payroll processing company. What are some factors that Lee should consider in his decision?

1. Lee needs to consider records retention, confidentiality, compliance, timeliness, and thoroughness. Lee will also need to determine if the costs associated with outsourcing outweigh the benefits or the other way around.

**IN THE REAL WORLD: SCENARIO FOR DISCUSSION**

Student answers will vary.

**CONTINUING PAYROLL PROJECT: PREVOSTI FARMS AND SUGARHOUSE**

**PROBLEM SET A – CONNECT VERSION (Correct answers are bolded – other options are the distractor choices.)**

P1-1A: Kristina is the accounting manager for a small, local firm that has full- and part-time staff. Which of the following factors must Kristina consider when classifying employees as exempt or nonexempt?

* + **Fair Labor Standards Act (FLSA)**
  + **job duties**
  + **level of supervision**
  + **professional/educational experience**
  + Candidate age
  + Number of hours worked
  + Salary level

P1-2A: Jeff is an accountant for his firm, a medium-sized company with 125 employees. The firm has traditionally maintained the administration of its payroll. His co-worker, the only other accountant in the firm, retires. Because of budget concerns, the firm chooses not to refill the position. What options does Jeff have regarding administration of the payroll? (Select all that apply)

* **The company can outsource the task to any of a number of qualified, certified payroll preparation firms**
* **Jeff could obtain a software program to fill the need.**
* The company could opt to process payroll manually

P1-3A: Juan is the office manager and payroll clerk for his company, which is composed of 12 employees. An employee, Joe, stops by Juan's office and wants to view his payroll record. What privacy regulation(s) must Juan consider before granting his co-worker access?

* **The Privacy Act of 1974 allows an employee access to their payroll records.**
* HIPAA protects employees against payroll record access
* The Civil Rights Act of 1991 imposes monetary penalties for unlawful access to employee records

P1-4A: A group of employees, who read on a website that income tax collection is illegal, approach Tarik, the controller for a large company. They request that he stop withholding income taxes from their pay unless he can explain what laws govern income tax collection. What should Tarik tell them?

* **The 16th Amendment to the U.S. Constitution created the legislation to support the collection of taxes from the employees.**
* The Current Tax Payment Act mandated employee income taxes
* The Federal Income Contributions Act mandated tiered tax system

P1-5A: Sheri is a warehouse worker for a small grocery market. As she was moving some merchandise, the loading dock door unexpectedly fell and injured her. How does OSHA apply to Sheri for this type of injury? (Select all that apply)

* **In this type of situation, there would be an OSHA inspection to ensure that the working environment was not the cause of the injury.**
* OSHA provides monetary benefits for injuries that Sheri sustained.
* **Workers compensation insurance will provide for the coverage of wage compensation for the employee and covered medical expenses should the company’s work environment, and not employee error, be found at fault.**
* **Another legal provision is that she may be protected under FMLA; she may have to take unpaid leave if she does not have leave available, but her employment and medical benefits would be guaranteed.**

P1-6A: Ben is a new payroll accountant at his company. In his review of previous manual payroll records, he noted several errors that required the issuance of additional checks to employees for unpaid payroll amounts. What are his options to avoid similar problems in the future? (Select all that apply)

* **Switch to an automated system**
* **Include additional review and verification of a standardized payroll system**
* Notify employees that payroll disbursement may be delayed on occasion because of the error-checking process

P1-7A: Charli and Sarah are friends who work for the same company. Charli manages a manufacturing department and Sarah supervises the payroll clerks. Which ethical guidelines or rules would these friends need to remember when discussing work? (Select all that apply)

* + **Non-disclosure of confidential information they have over the employees in their areas of responsibility**
  + **Exercising personal integrity to avoid any apparent conflicts of interest would also be appropriate for these individuals.**
  + Avoid all contact with each other outside of professional settings
  + Digitally recording all conversations, with or without each other’s consent

P1-8A: At Denniston Industries, employees have the option of choosing employer-sponsored health insurance at no additional cost or receiving additional pay so that they may purchase medical insurance elsewhere. What responsibility(ies) does the employer have according to COBRA upon termination of an employer who opts to receive the additional pay to purchase medical insurance?

* **At the employee’s expense, the company must offer terminated employees COBRA coverage upon termination.**
* The company must continue coverage at the same level without additional charge to the employee
* The company must ensure that the terminated employee has health insurance from a certified provider within 60 days of termination.

P1-9A: RaeLeene is a new manager at Resterra Inc. She is reviewing the FLSA classification of each employee, and approaches you for clarification about differences between exempt and nonexempt employees. What are three differences between exempt and nonexempt employees?

Exempt employees are: (Select all that apply)

* + **not subject to the restrictions of the Fair Labor Standards Act**
  + **will not receive overtime**
  + **typically highly skilled**
  + college graduates
  + over age 40
  + highly experienced in company or industry procedures

P1-10A: Mahala is a new employee in the payroll department for Winhook Industries. She has had several employees approach her with questions, but is unsure how privacy regulations could affect her response. What advice would you give her about privacy laws and payroll? (Select all that apply)

* **The Privacy Act of 1974 allows an employee access to their payroll records**
* **The employee’s privacy is an important consideration and payroll workers need to be aware of updated information as it becomes available**
* **Review U.S. Department of Labor OCFO-1 or the U.S. Department of Health and Human Services Privacy Act 09-40-0006.**
* Employees of publicly owned companies may have access to each other’s payroll records

**PROBLEM SET B – CONNECT VERSION (Correct answers are bolded – other options are the distractor choices.)**

P1-1B: Roxie is the payroll administrator for a small company. Because of economic conditions, her boss has assigned her the additional duties of office management, and Roxie is considering outsourcing her payroll duties. What are the pros and cons of outsourcing the company’s payroll? (Select all that apply for both lists)

* Pros consist of:
  + **flexibility**
  + **advanced data analysis**
  + **assistance with strategic planning**
  + **compliance with complicated payroll regulations**
  + decreased responsibility for payroll accuracy
  + guaranteed reduction in time associated with payroll processing
* Cons consist of:
  + **reliance on another party to maintain confidentiality of the records**
  + **compliance with tax laws**
  + **costs may outweigh benefits received**
  + lack of control over payroll records

P1-2B: Jim is the payroll clerk for a company based in a state where same-sex marriage is legal. One of the company’s employees informs Jim that he has been in a same-sex marriage since January 2011. What actions does Jim need to take regarding prior-year taxes? (Select all that apply)

* **Withholding allowances need to be recalculated to determine the taxes based upon married status compared to the higher single rate.**
* **This can cause personal and business taxes to be restated for up to a three-year amendment.**
* Discard all prior-year tax records because they contain inaccuracies

P1-3B: Rosita is STB Incorporated's payroll accountant. During a casual conversation with coworkers, she learns that another co-worker is deliberately overstating the number of hours worked during each pay period because of a personal economic situation. Considering the situation, Rosita should use the ethical guidelines from the AICPA to use: (Select all that apply)

* + **responsibility in the proper preparation of the payroll and verify externally with the supervisor or manager the actual hours worked**
  + **public interest of the company and ensuring that there is honest and true representation to the costs of the business**
  + **a lack of Integrity could make her an accomplice by allowing the transactions to continue overstated**
  + encourage the employee to continue taking care of family needs as they have been

P1-4B: Michaela is a payroll accountant for Top Table Industries. She is asked to explain the differences between exempt and nonexempt employees. Employees who would qualify must meet all requirements under one of the exemptions listed for: (Select all that apply)

* + **executive responsibilities**
  + **administrative responsibilities**
  + **professional responsibilities**
  + managerial responsibilities
  + supervisory responsibilities

P1-5B: During a review of payroll records, LaTieya notices that a female employee in Department A is receiving a significantly lower salary than similarly skilled male employees in the same department. Under the Equal Pay Act of 1963, what actions should LaTieya take in this situation? (Select all that apply)

* + **Gather the information that shows the differences in pay based on sex of the employee.**
  + **Go to the manager or supervisor to discuss these differentials**
  + **Go to the supervisor of the individual spoken to previously**
  + **If all channels fail, then she may have a claim under the Equal Pay Act with or without the extension provided by the Lilly Ledbetter Fair Pay Act of 2009.**
  + Inform the employee about the pay discrepancy
  + Publish her findings in the next company newsletter

P1-6B: Nic is an accountant for a large, multinational firm. During payroll processing, he notices that the new state payroll tax updates have not been installed in the firm’s software. Under the Due Care ethical standard of the AICPA’s Code of Ethics, Nic would need to: (Select all that apply)

* + **notify his supervisor of the discrepancy**
  + **ensure the tax withholding and remittance are correct with the new state payroll rates**
  + avoid professional conferences that may cause confusion to his skills
  + use the existing software without updates to avoid disruptions in payroll distribution

P1-7B: Hector is an employee of a contractor that provides governmental construction services in Washington, D.C. The current contract is for $250,000. Hector is 22 and is paid $9.50 per hour. As a governmental contract, this position: (Select all that apply)

* + **would fall under Walsh-Healey Public Contracts Act**
  + **would require minimum wage for all hours worked under 40 per week**
  + **wages at 1.5 times the hourly rate for those worked over 40 hours per week**
  + would automatically be classified as exempt from FLSA regulations

P1-8B: Sean works as a payroll clerk at Drink Pocket Inc. He shares an office with three other co-workers and must examine documents containing personal information as a regular part of his duties. Based on the provisions of the Privacy Act of 1974, what responsibilities does Sean have regarding the payroll records he handles? (Select all that apply)

* **Sean must ensure that he does not leave any sensitive information as disclosed by the Privacy Act of 1974 where individuals can access them.**
* Record payroll-related security measures (i.e., passwords, keys, etc.) for location by other employees.
* **Sean is responsible for keeping employee information such as addresses, compensation, payroll deductions secure.**

P1-9B: Jaelle is a senior payroll administrator for Jericho Home Design. The company has 15 employees and annual revenues of $50 million. She has been using and maintaining manual payroll records for the last 20 years of her career, and the president of Jericho Home Design wants to explore options for computerized payroll processing. Given the size of the company, a computerized accounting system would be good options for internal processing of the company’s payroll. Which of the following are computerized accounting systems that Jaelle could implement?

* + **QuickBooks**
  + **Sage50**
  + **FreshBooks**
  + Quicken
  + Microsoft Excel

P1-10B: You are the payroll accountant for your company and have been asked for information about employees and independent contractors. What are the key differences between employees and independent contractors? (Select all that apply)

* + **the extent the employee’s work**
  + **management**
  + **decisions**
  + **investment**
  + **control the company has over the employee**
  + **Ownership of any tools**
  + number of hours worked
  + educational level