Payroll Accounting 2017 3rd edition Landin Solutions Manual

SKU: 9781259572180-SOLUTIONS

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SOLUTIONS MANUAL: CHAPTER 2 END OF CHAPTER ANSWERS

ANSWERS TO STOP AND CHECK EXERCISES

What's in the File?

1. a,b,d,e

Match the pay frequencies:

2. b

3. d

4. a

5. c

Who Are You?

1. Student answers will vary. One possible way to prove both identity and employment is a current U.S. passport. Alternatively, a current state-issued driver's license and a social security card will work for the purposes of the I-9.

2. Student answers will vary. Many students may underestimate their estimated exemptions.

3. Drivers for a single company or is paid on commission; full-time life insurance or annuity sales staff; home worker on goods to be returned to the company; full time traveling salesperson

Worker Facts

1. Nonexempt

2. Exempt workers receive a fixed amount of money regardless of the number of hours worked; nonexempt workers are eligible for overtime.

3. Commission workers are typically tied to sales completed by the individual; piece-rate pay is determined by the number of pieces the employee completes during a shift or period.

Who Does Which Job?

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Student answers will vary. The answer should reflect a clear separation of duties, cross-training, rotation of tasks, and security protocols.

Internal Controls and Audits

1. b

2. c

Destroy and Terminate

1. Paper payroll records should be shredded or burned. Computer records should be purged from the server and all other storage devices.

2. Charlie should receive his final pay on October 12, and not later than October 13. His employer is not required to provide him with a severance package, although he may be eligible for his accrued vacation pay.

ANSWERS TO END-OF-CHAPTER MATERIALS

REVIEW QUESTIONS

1. What constitutes internal controls for a payroll department?
    1. Payroll system design, authorized signers, documentation, and review of the process
2. Why should more than one person prepare/verify payroll processing?
    1. Internal controls and verification to avoid fraud or theft
3. What documents are required in all new hire packets?
    1. I-9 and W-4
4. Why are new hires required to be reported to the state's employment department?
    1. The enforcement of child support and legal withholdings, ensuring immigrants are still eligible to work, verification of professional licensing/qualifications, administration of COBRA benefits

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5. For the state in which you live, when must a terminated employee be paid his or her final paycheck?

    1. Student answers will vary, this is a state specific regulation time ranging from the point of discharge to no time requirements.

6. What are the five main payroll frequencies?

    1. Daily, weekly, biweekly, monthly, semi-monthly

7. What are some of the best practices in establishing a payroll system?

    1. Keep any requests for leave with the related paystubs, file retention schedule, have more than one person responsible for the duties/verification, and separation of duties

8. What are the important considerations in setting up a payroll system?

    1. Pay frequency, pay types, method of payment, benefits, manual/computerized/outsourced payroll processing, file security system

9. What are the different tasks involved in payroll accounting?

    1. Entering the employees, entering the hours, calculation of gross wages, preparation of paychecks, payment of taxes, reporting requirements

10. When does a payroll record retention period begin?

    1. Disbursement of pay

11. What agencies or organizations can audit a company's payroll records?

    1. The Internal Revenue Service (IRS)
    2. Federal and State Departments of Labor
    3. Department of Homeland Security
    4. Other state and local agencies
    5. Labor unions

12. How long must employers keep terminated employee records?

    1. Seven years from the date of termination

13. Are independent contractors included in company payroll? Why or why not?

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1. It depends; some independent contractors are not included in the company's payroll, but are treated as vendors. Some independent contractors are considered statutory employees and would be included in the company's payroll.

14. What is the difference between termination and resignation?

    1. An employee is terminated by the employer; when the employee initiates the separation it is a resignation. Employees who resign will receive their final paycheck in the normal payroll cycle, whereas terminated employees may be required to receive theirs sooner.

15. What is the difference between weekly, biweekly, semi-monthly, and monthly pay periods?

    1. A weekly pay period is for one week, biweekly pay period is two weeks long, semi-monthly pay period is twice a month, and monthly pay period is once a month.

EXERCISES SET A

E2-1A. Amanda, a nonexempt employee at Old Tyme Soda Distributing, works a standard 8:00–5:00 schedule with an hour for lunch. Amanda works in a state requiring overtime for hours in excess of 40 in a week. During the week she worked the following schedule:

4. 2.25

E2-2A. Carlie receives her pay twice per month. Which of the following choices describes her pay frequency?

b. Semimonthly

E2-3A. Roberto is a new employee for McGee's Windows. Which Federal forms must he complete as part of the hiring process?

1. W-4

4. I-9

E2-4A. Angela, a resident of Texas, ended her employment on December 8, 2016. The next pay date for the company is December, 20. By what date should she receive her final pay?

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3. December 20

E2-5A. Corey is a new nonexempt sales clerk for Cohen Real Estate. He completes his time card for the pay period. To ensure proper internal control, what is the next step in the payroll review process?

3. Submit the time card to his manager for review

E2-6A. Jacob needs additional filing space at the end of the year in the company's offsite, secured storage. He sees several boxes marked for the current year's destruction. What methods can Jacob use to dispose of the payroll records? What steps should he take to ensure the company is not under obligation to retain these records further?

1. Contact an offsite record destruction service.

3. Shred the records, then dispose of the shredded paper

4. Incinerate the payroll records marked for destruction

E2-7A. Rachael is verifying the accuracy and amount of information contained in the employee records for her company. Which of the following items should be present in the employee information? (Select all that apply)

1. Job title
2. Social Security number
3. Birth date (if under 19)

E2-8A. Camber is the payroll clerk for Multisound Speakers. A colleague who is classified as an independent contractor requests to be classified as an employee. What factors should Camber consider? (Select all that apply.)

1. Relationship of the Parties

2. Behavioral Control

4. Financial Control

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E2-9A. What are the forms of identification that establish identity for the I-9? How long does a company retain copies of an employee's I-9?

1. Driver's License
2. Native American Tribal document
3. Voter Registration card

E2-10A. What are the forms of identification that establish employment authorization for the I-9? (Select all that apply.)

1. U.S. Citizen I.D. Card.
2. U.S. Passport
4. Certified copy of the birth certificate.

PROBLEM SET A

(NOTE: The textbook presentation of Problems 2 to 10 allows for open-ended student responses. For solutions to the Connect versions of the Set A Problems, refer to Page 38.)

P2-1A. Jason is a salaried employee earning $75,000 per year. Calculate the standard gross salary per pay period under each of the following payroll frequencies:

a.	Biweekly	75,000/26 = $2,884.62
b.	Semimonthly	75,000/24 = $3,125.00
c.	Weekly	75,000/52 = $1,442.31
d.	Monthly	75,000/12 = $6,250.00

P2-2A. Jonathan is in the payroll accounting department of Moran Industries. An independent contractor of the company requests that Social Security and Medicare taxes be withheld from future compensation. What advice should Jonathan offer?

a. As an independent contractor they would be responsible for their own payments and these would not be withheld by the company

P2-3A. You are the new payroll supervisor for your company. Which payroll documentation control procedures are now your responsibility?

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a. Payroll system security, Maintenance of paid time off (i.e., vacation, sick, etc.), Access to payroll data, Separation of duties, Training of payroll staff

P2-4A. Naia is a new employee in the payroll department of Redtap Inc. After working at the company for one week, she asks you why it is so important to submit new hire documentation. What guidance will you offer her?

a. Reporting creates a registry to monitor child support obligations, tracks immigration to ensure individuals are legal to work in the United States, ensures that individuals in professions that can have sanctions are legally able to continue to work, finally to enable the tracking of COBRA benefits.

P2-5A. You are the payroll accounting clerk for your company, which has 50 employees. The controller has asked for assistance in determining which accounting software package is best suited to the company's payroll needs. What factors should you consider in your decision?

a. Key points that need to be included: ease of update for changes in tax laws, tax tables, and payroll regulations; ease of reporting; confidentiality

P2-6A. Sue is a citizen of the Northern Pomo Indian Nation. She provides her social security card along with an official Northern Pomo Nation birth certificate as proof of employment eligibility for her I-9. Is this sufficient documentation?

a. Yes, these are acceptable since this would fulfill the requirements of items from type B and type C of the acceptable documents.

P2-7A. The controller has requested your assistance to price various accounting software programs available for document retention, payroll preparation, and financial reporting. What requirements should you ensure are present in the computer program?

a. Availability of handling various payroll types, processing timelines, updates of tax tables, maintaining confidentiality, and options for retention schedule implementation.

P2-8A. Large Laptops, a California corporation, has internal corporate requirements that stipulate a three-year payroll document retention period. They enter into a contract with an international company that mandates a six-year payroll document retention requirement. How should Large Laptops balance these requirements?

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a. The longer retention period would be appropriate since the benefits and records may be called to evidence up to 8 years depending upon the circumstances.

P2-9A. Manju is a full-time life insurance agent with a small insurance company. The company has classified her as an employee, and she feels that she should be classified as an independent contractor because she receives no company benefits and sets her own office hours. Should she be reclassified as an independent contractor? Why or why not?

a. Of the three tests, Manju does not meet the relationship of the parties

P2-10A. Genevieve is an employee of Lux Lights, a company with headquarters in Providence, Rhode Island. She lives and works in Tillicoultry, Scotland, and earns an annual salary of $85,300. The company has been withholding U.S. federal income taxes from her pay, but Genevieve believes that she should be exempt because she is an expatriate. What course of action should Genevieve take?

a. Genevieve would need to file IRS Foreign Earned Income Exclusion

P2-11A. Complete the W-4 for employment at Bernie's Bar and Grill

Kierstan Amber Winter-Casey

542 Sole Point Road

Sitka, Alaska 99835

SSN: 988-65-3124

Single, head of household

2 dependents

She is eligible for the child tax credit because of her two allowances and her annual salary of $36,000. She is not claiming an additional amount to be withheld, nor is she claiming

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exemption from withholding. She has $1,500 annually in child care expenses.

Form W-4 (2016)

Purpose. Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay. Consider completing a new Form W-4 each year and when your personal or financial situation changes.

Exemption from withholding. If you are exempt, complete **only** lines 1, 2, 3, 4, and 7 and sign the form to validate it. Your exemption for 2016 expires February 15, 2017. See Pub. 505, Tax Withholding and Estimated Tax.

Note: If another person can claim you as a dependent on his or her tax return, you cannot claim exemption from withholding if your income exceeds $1,050 and includes more than $350 of unearned income (for example, interest and dividends).

Exceptions. An employee may be able to claim exemption from withholding even if the employee is a dependent, if the employee:

- Is age 65 or older,
- Is blind, or
- Will claim adjustments to income; tax credits; or itemized deductions, on his or her tax return.

The exceptions do not apply to supplemental wages greater than $1,000,000.

Basic instructions. If you are not exempt, complete the **Personal Allowances Worksheet** below. The worksheets on page 2 further adjust your withholding allowances based on itemized deductions, certain credits, adjustments to income, or two-earners/multiple jobs situations.

Complete all worksheets that apply. However, you may claim fewer (or zero) allowances. For regular wages, withholding must be based on allowances you claimed and may not be a flat amount or percentage of wages.

Head of household. Generally, you can claim head of household filing status on your tax return only if you are unmarried and pay more than 50% of the costs of keeping up a home for yourself and your dependent(s) or other qualifying individuals. See Pub. 501, Exemptions, Standard Deduction, and Filing Information, for information.

Tax credits. You can take projected tax credits into account in figuring your allowable number of withholding allowances. Credits for child or dependent care expenses and the child tax credit may be claimed using the **Personal Allowances Worksheet** below. See Pub. 505 for information on converting your other credits into withholding allowances.

Nonwage income. If you have a large amount of nonwage income, such as interest or dividends, consider making estimated tax payments using Form 1040-ES, Estimated Tax for Individuals. Otherwise, you may owe additional tax. If you have pension or annuity income, see Pub. 505 to find out if you should adjust your withholding on Form W-4 or W-4P.

Two earners or multiple jobs. If you have a working spouse or more than one job, figure the total number of allowances you are entitled to claim on all jobs using worksheets from only one Form W-4. Your withholding usually will be most accurate when all allowances are claimed on the Form W-4 for the highest paying job and zero allowances are claimed on the others. See Pub. 505 for details.

Nonresident alien. If you are a nonresident alien, see Notice 1392, Supplemental Form W-4 Instructions for Nonresident Aliens, before completing this form.

Check your withholding. After your Form W-4 takes effect, use Pub. 505 to see how the amount you are having withheld compares to your projected total tax for 2016. See Pub. 505, especially if your earnings exceed $130,000 (Single) or $180,000 (Married).

Future developments. Information about any future developments affecting Form W-4 (such as legislation enacted after we release it) will be posted at *www.irs.gov/w4*.

Personal Allowances Worksheet (Keep for your records.)

A	Enter "1" for **yourself** if no one else can claim you as a dependent	A	1
B	Enter "1" if: • You are single and have only one job; or • You are married, have only one job, and your spouse does not work; or • Your wages from a second job or your spouse's wages (or the total of both) are $1,500 or less.	B	1
C	Enter "1" for your **spouse.** But, you may choose to enter "-0-" if you are married and have either a working spouse or more than one job. (Entering "-0-" may help you avoid having too little tax withheld.)	C	
D	Enter number of **dependents** (other than your spouse or yourself) you will claim on your tax return	D	2
E	Enter "1" if you will file as **head of household** on your tax return (see conditions under **Head of household** above)	E	1
F	Enter "1" if you have at least $2,000 of **child or dependent care expenses** for which you plan to claim a credit (**Note:** Do **not** include child support payments. See Pub. 503, Child and Dependent Care Expenses, for details.)	F	
G	**Child Tax Credit** (including additional child tax credit). See Pub. 972, Child Tax Credit, for more information. • If your total income will be less than $70,000 ($100,000 if married), enter "2" for each eligible child; then **less** "1" if you have two to four eligible children or **less** "2" if you have five or more eligible children. • If your total income will be between $70,000 and $84,000 ($100,000 and $119,000 if married), enter "1" for each eligible child	G	3
H	Add lines A through G and enter total here. (**Note:** This may be different from the number of exemptions you claim on your tax return.) ▶	H	8

For accuracy, **complete all worksheets that apply.**

- If you plan to **itemize** or **claim adjustments to income** and want to reduce your withholding, see the **Deductions and Adjustments Worksheet** on page 2.
- If you are **single and have more than one job** or are **married and you and your spouse both work** and the combined earnings from all jobs exceed $50,000 ($20,000 if married), see the **Two-Earners/Multiple Jobs Worksheet** on page 2 to avoid having too little tax withheld.
- If **neither** of the above situations applies, **stop here** and enter the number from line H on line 5 of Form W-4 below.

Separate here and give Form W-4 to your employer. Keep the top part for your records.

Form **W-4** Department of the Treasury Internal Revenue Service

Employee's Withholding Allowance Certificate

▶ **Whether you are entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS.**

OMB No. 1545-0074 **2016**

1 Your first name and middle initial: Kierstan A	Last name: Winter-Casey	2 Your social security number: 988-65-3124
Home address (number and street or rural route): 542 Sole Point Road	3 ☑ Single ☐ Married ☐ Married, but withhold at higher Single rate. Note: If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.	
City or town, state, and ZIP code: Sitka, Alaska 99835	4 If your last name differs from that shown on your social security card, check here. You must call 1-800-772-1213 for a replacement card. ▶ ☐	

5	Total number of allowances you are claiming (from line H above **or** from the applicable worksheet on page 2)	5	8
6	Additional amount, if any, you want withheld from each paycheck	6	$
7	I claim exemption from withholding for 2016, and I certify that I meet **both** of the following conditions for exemption. • Last year I had a right to a refund of **all** federal income tax withheld because I had **no** tax liability, **and** • This year I expect a refund of **all** federal income tax withheld because I expect to have **no** tax liability. If you meet both conditions, write "Exempt" here ▶	7	

Under penalties of perjury, I declare that I have examined this certificate and, to the best of my knowledge and belief, it is true, correct, and complete.

Employee's signature (This form is not valid unless you sign it.) ▶ **Date** ▶

8 Employer's name and address (Employer: Complete lines 8 and 10 only if sending to the IRS.)	9 Office code (optional)	10 Employer identification number (EIN)

For Privacy Act and Paperwork Reduction Act Notice, see page 2. Cat. No. 10220Q Form **W-4** (2016)

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P2-12A. Complete the I-9 for employment at Excelsior College. Be sure to complete the "preparer" section.

Meaghan Ariel Lambert

Maiden name: Smith

Social Security number: 123-45-6789

Date of Birth: 7-1-1984

552 Coddington Road

Rio Nido, California 95555

U.S. Citizen

Meaghan presented her passport for her employer to review. Passport number 5397816, issued by the United States State Department, expires 10/31/2018

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Employment Eligibility Verification

Department of Homeland Security
U.S. Citizenship and Immigration Services

USCIS
Form I-9
OMB No. 1615-0047
Expires 03/31/2016

▶**START HERE.** **Read instructions carefully before completing this form. The instructions must be available during completion of this form.**
ANTI-DISCRIMINATION NOTICE: It is illegal to discriminate against work-authorized individuals. Employers **CANNOT** specify which document(s) they will accept from an employee. The refusal to hire an individual because the documentation presented has a future expiration date may also constitute illegal discrimination.

Section 1. Employee Information and Attestation *(Employees must complete and sign Section 1 of Form I-9 no later than the **first day of employment**, but not before accepting a job offer.)*

Last Name (*Family Name*)	First Name (*Given Name*)	Middle Initial	Other Names Used (*if any*)
Lambert	Meaghan	A	Meaghan Smith

Address (*Street Number and Name*)	Apt. Number	City or Town	State	Zip Code
552 Coddington Road		Rio Nido	CA	95555

Date of Birth (*mm/dd/yyyy*)	U.S. Social Security Number	E-mail Address	Telephone Number
07/01/1984	123-45-6789		

I am aware that federal law provides for imprisonment and/or fines for false statements or use of false documents in connection with the completion of this form.

I attest, under penalty of perjury, that I am (check one of the following):

☒ A citizen of the United States

☐ A noncitizen national of the United States *(See instructions)*

☐ A lawful permanent resident (Alien Registration Number/USCIS Number): _____

☐ An alien authorized to work until (expiration date, if applicable, mm/dd/yyyy) _____. Some aliens may write "N/A" in this field. *(See instructions)*

*For aliens authorized to work, provide your Alien Registration Number/USCIS Number **OR** Form I-94 Admission Number:*

1. Alien Registration Number/USCIS Number: _____

OR

2. Form I-94 Admission Number: _____

If you obtained your admission number from CBP in connection with your arrival in the United States, include the following:

Foreign Passport Number: _____

Country of Issuance: _____

Some aliens may write "N/A" on the Foreign Passport Number and Country of Issuance fields. (*See instructions*)

3-D Barcode
Do Not Write in This Space

Signature of Employee:	Date (*mm/dd/yyyy*):

Preparer and/or Translator Certification *(To be completed and signed if Section 1 is prepared by a person other than the employee.)*

I attest, under penalty of perjury, that I have assisted in the completion of this form and that to the best of my knowledge the information is true and correct.

Signature of Preparer or Translator:			Date (*mm/dd/yyyy*):
Last Name (*Family Name*)	First Name (*Given Name*)		
Address (*Street Number and Name*)	City or Town	State	Zip Code

STOP *Employer Completes Next Page* STOP

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Section 2. Employer or Authorized Representative Review and Verification

(Employers or their authorized representative must complete and sign Section 2 within 3 business days of the employee's first day of employment. You must physically examine one document from List A OR examine a combination of one document from List B and one document from List C as listed on the "Lists of Acceptable Documents" on the next page of this form. For each document you review, record the following information: document title, issuing authority, document number, and expiration date, if any.)

Employee Last Name, First Name and Middle Initial from Section 1: Lambert, Meaghan A

List A Identity and Employment Authorization	OR	List B Identity	AND	List C Employment Authorization
Document Title: U.S. Passport		Document Title:		Document Title:
Issuing Authority: United States State Department		Issuing Authority:		Issuing Authority:
Document Number: 5397816		Document Number:		Document Number:
Expiration Date *(if any)(mm/dd/yyyy)*: 10/31/2018		Expiration Date *(if any)(mm/dd/yyyy)*:		Expiration Date *(if any)(mm/dd/yyyy)*:
Document Title:				
Issuing Authority:				
Document Number:				
Expiration Date *(if any)(mm/dd/yyyy)*:				
Document Title:				
Issuing Authority:				
Document Number:				
Expiration Date *(if any)(mm/dd/yyyy)*:				

3-D Barcode
Do Not Write in This Space

Certification

I attest, under penalty of perjury, that (1) I have examined the document(s) presented by the above-named employee, (2) the above-listed document(s) appear to be genuine and to relate to the employee named, and (3) to the best of my knowledge the employee is authorized to work in the United States.

The employee's first day of employment *(mm/dd/yyyy)*: _____ (*See instructions for exemptions.*)

Signature of Employer or Authorized Representative	Date *(mm/dd/yyyy)*	Title of Employer or Authorized Representative	
Last Name *(Family Name)*	First Name *(Given Name)*	Employer's Business or Organization Name	
Employer's Business or Organization Address *(Street Number and Name)*	City or Town	State	Zip Code

Section 3. Reverification and Rehires *(To be completed and signed by employer or authorized representative.)*

A. New Name *(if applicable)* Last Name *(Family Name)*	First Name *(Given Name)*	Middle Initial	**B.** Date of Rehire *(if applicable) (mm/dd/yyyy)*:

C. If employee's previous grant of employment authorization has expired, provide the information for the document from List A or List C the employee presented that establishes current employment authorization in the space provided below.

Document Title:	Document Number:	Expiration Date *(if any)(mm/dd/yyyy)*:

I attest, under penalty of perjury, that to the best of my knowledge, this employee is authorized to work in the United States, and if the employee presented document(s), the document(s) I have examined appear to be genuine and to relate to the individual.

Signature of Employer or Authorized Representative:	Date *(mm/dd/yyyy)*:	Print Name of Employer or Authorized Representative:

Form I-9 03/08/13 N Page 8 of 9

EXERCISE SET B

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E2-1B. Connie, a nonexempt employee of Westside Motel, works a standard 6:00–3:00 p.m. schedule with an hour for lunch. Connie works in a state requiring overtime for hours over 8 per day and for those over 40 in a week. During the week, she worked the following schedule:

Monday	6:00–10:30	11:15–3:00	8.25
Tuesday	6:15–10:45	11:45–3:15	8.00
Wednesday	5:45–10:00	11:00–3:30	8.75
Thursday	7:00–12:00	1:00–3:00	7.00
Friday	6:00–3:00	(no lunch)	9.00

Based on a 40-hour work week, does she qualify for overtime under FLSA regulations? If so, how many hours of regular time and overtime did she work?

1. 2 hours

E2-2B. Paolo is a salaried employee earning $84,000 per year who receives pay every two weeks. Which of the following best describes the pay frequency?

a. Biweekly

E2-3B. On October 31, 2016, Terri quit her job after four years with Aspen Tree Service in Colorado. Aspen Tree Service pays employees weekly on Fridays. Upon quitting, Terri had 38.5 hours of vacation accrued that she had not used, and she had worked 45 hours, 5 hours of which was subject to overtime. When must she receive her final paycheck?

1. On the next pay date.

E2-4B. Brad terminated his employment with Whiz Records on December 15, 2016. When is the earliest that Whiz Records may destroy his payroll records?

3. December 15, 2019

E2-5B. Zachary is a new payroll clerk at RC Imports, a company with 250 employees. He has completed entering all time card data for the pay period. What should Zachary's next step in the payroll review process be?

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3. Ask his supervisor to verify the accuracy of the payroll data.

E2-6B. Martin needs additional filing space at the end of the year in the company's office and chooses to use offsite, secured storage. Upon arriving at the storage facility, he discovers that the unit is nearly full and sees several boxes marked for destruction at the end of the next calendar year. What are Martin's options regarding the destruction of the payroll records marked for destruction? (Select all that apply.)

2. He should make arrangements to pulp or burn the payroll records marked for destruction.

3. He should arrange to have a document destruction service pick up the boxes marked for destruction.

4. He should bring a shredding machine to the storage facility and prepare to shred the records marked for destruction.

E2-7B. Monika is conducting a review of the payroll files for each employee. Which of the following items must be present in the file? (Select all that apply.)

1. Basis upon which compensation is paid.

2. Overtime pay earned during each pay period.

3. Hours worked during each pay period.

E2-8B. Kevin is preparing to compute employee pay and needs to determine the amount of employee federal income taxes to be withheld. Which of the following should he consult?

2. IRS Publication 15

E2-9B. Embry is a new employee of the Peak House restaurant. Which of the following will provide proof of identity for the completion of the I-9? (Select all that apply.)

1. U.S. Passport

2. U.S. Military Identification Card.

4. Oklahoma driver's license.

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E2-10B. Stephanie is completing the I-9 for her new employment at Pass Time Driving School. Which of the following provides proof of her employment authorization? (Select all that apply.)

1. U.S. Passport
2. Social Security Card.
3. Certificate of birth abroad, issued by the U.S. Department of State.

PROBLEM SET B

(NOTE: The textbook presentation of Problems 1 to 10 allows for open-ended student responses. For solutions to the Connect versions of the Set B Problems, refer to Page 41.)

P2-1B. Sandy is an independent contractor who is new to your company. Should you assign her compensation to the payroll clerk or to the accounts payable department? Explain.

a. Independent contractors are most frequently treated as a vendor and would be sent to accounts payable. However, depending upon specific requirements, Sandy could be classified as a statutory employee.

P2-2B. Frank was terminated for cause from Pineland Industries in Georgia, on August 21, 2016. As of the date of his termination, he had accrued 22 hours of regular time. Employees at Pineland are paid semimonthly on the 15th and last day of the month. Frank would like to know when he will be paid for the accrued hours. What will you tell him?

a. Georgia does not have specific termination requirements for the processing; the company will probably choose to issue the check with standard payroll. Depending upon the company policy and employee agreement, the vacation and sick time may be included.

P2-3B. Quinn, a member of the Menominee Indian nation, is a new employee at Raven Enterprises. During the process of completing his I-9, his only means of identity is a Menominee Nation identification document. Is this document sufficient to verify his employment eligibility? Explain.

a. The Menominee Nation identification card would only be one part of the qualifications (falling under type C). A secondary form (from type B) would be necessary.

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P2-4B. Carol is a new employee of Eartheon Batteries. She is curious about the purpose of the requirements for new hire documentation to be forwarded to government agencies. What should you tell her?

a. Reporting creates a registry to monitor child support obligations, tracks immigration to ensure individuals are legal to work in the United States, ensures that individuals in professions that can have sanctions are legally able to continue to work, finally to enable the tracking of COBRA benefits.

P2-5B. Levon wants to start his own company. As a seasoned payroll professional, he approaches you for guidance about the differences between weekly, biweekly, and semimonthly pay periods. What would you tell him?

a. Weekly payroll is where individuals will receive 52 paychecks per year and are suited for companies that are small – construction or professional entities. Biweekly payroll is where individuals will receive 26 paychecks per year processed every two weeks and is one of the more common pay periods, occasionally this method may result in 27 pay periods. Semimonthly is where employees will receive 24 paychecks per year

P2-6B. Helena is a new payroll clerk for Hope Sinks and Drains. She is curious about the purpose of the different steps in the payroll review process and asks you, her supervisor, for guidance. What would you tell her?

a. The payroll review process is designed to verify the information so that employees are paid correctly and the data is correct. Starting with the employee completing their time card, the information is then verified by the manager. After the manager has agreed that the employee has accurately portrayed the hours worked, the payroll clerk will prepare the information for the manager to review and approve. Once the information has been approved, the payroll checks can be issued to the employees.

P2-7B. Pierre started as a payroll accountant at a company with 70 employees. He soon notices that the former payroll accountant had been processing payroll manually, and suggests that the company immediately switch to cloud-based payroll. Although the company is switching to an electronic payroll processing system, what types of paper documentation must be maintained in employee records?

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a. Employers retain physical copies of employees' time records, pay advice, and any other documentation processed with the paycheck. Some other types of documentation include: Request for a day off; reports of tardiness or absenteeism; detailed records of work completed during that day's shift.

P2-8B. Jiana, a payroll clerk, has received a promotion and is now the payroll supervisor for her company. What document control items could now become her responsibility?

a. Payroll system security, Maintenance of paid time off (i.e., vacation, sick, etc.), Access to payroll data, Separation of duties, Training of payroll staff

P2-9B. You are in the payroll department of Yinkeng Imports, a multistate company. The company has historically been filing employee information with each state. What alternative exists for multistate employers?

a. Multistate Employer Notification Form allows centralized reporting from the Office of Management and Budget

P2-10B. Christianne is the payroll supervisor for PSN Freight. Her company is preparing to merge with another distribution company that has a different pay cycle. The president of the company wants to know the difference between biweekly and semimonthly pay cycles as far as pay dates and pay amounts. What should Christianne tell him?

a. Moving between biweekly (26 pay periods per year with the possibility of 27) to a semimonthly system (24 pay periods per year) would cause individual to see increases per pay period since there are more days being covered on the pay period under semimonthly than on biweekly. This would also result in higher taxes per pay period.

P2-11B. Complete the W-4 for employment at Dark Forest Ranch:

Madeline Emma Jenkins

203 County Road 4

Douglas, Wyoming 82036

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SSN: 545-02-1987

Married filing jointly

Three dependents. She has no child care expenses but is able to claim the child tax credit and does not wish to withhold additional amounts.

She has a second job as a waitress at the Douglas Café, where she earns $12,000/year.

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Form W-4 (2016)

Purpose. Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay. Consider completing a new Form W-4 each year and when your personal or financial situation changes.

Exemption from withholding. If you are exempt, complete **only** lines 1, 2, 3, 4, and 7 and sign the form to validate it. Your exemption for 2016 expires February 15, 2017. See Pub. 505, Tax Withholding and Estimated Tax.

Note: If another person can claim you as a dependent on his or her tax return, you cannot claim exemption from withholding if your income exceeds $1,050 and includes more than $350 of unearned income (for example, interest and dividends).

Exceptions. An employee may be able to claim exemption from withholding even if the employee is a dependent, if the employee:

- Is age 65 or older,
- Is blind, or
- Will claim adjustments to income; tax credits; or itemized deductions, on his or her tax return.

The exceptions do not apply to supplemental wages greater than $1,000,000.

Basic instructions. If you are not exempt, complete the **Personal Allowances Worksheet** below. The worksheets on page 2 further adjust your withholding allowances based on itemized deductions, certain credits, adjustments to income, or two-earners/multiple jobs situations.

Complete all worksheets that apply. However, you may claim fewer (or zero) allowances. For regular wages, withholding must be based on allowances you claimed and may not be a flat amount or percentage of wages.

Head of household. Generally, you can claim head of household filing status on your tax return only if you are unmarried and pay more than 50% of the costs of keeping up a home for yourself and your dependent(s) or other qualifying individuals. See Pub. 501, Exemptions, Standard Deduction, and Filing Information, for information.

Tax credits. You can take projected tax credits into account in figuring your allowable number of withholding allowances. Credits for child or dependent care expenses and the child tax credit may be claimed using the **Personal Allowances Worksheet** below. See Pub. 505 for information on converting your other credits into withholding allowances.

Nonwage income. If you have a large amount of nonwage income, such as interest or dividends, consider making estimated tax payments using Form 1040-ES, Estimated Tax for Individuals. Otherwise, you may owe additional tax. If you have pension or annuity income, see Pub. 505 to find out if you should adjust your withholding on Form W-4 or W-4P.

Two earners or multiple jobs. If you have a working spouse or more than one job, figure the total number of allowances you are entitled to claim on all jobs using worksheets from only one Form W-4. Your withholding usually will be most accurate when all allowances are claimed on the Form W-4 for the highest paying job and zero allowances are claimed on the others. See Pub. 505 for details.

Nonresident alien. If you are a nonresident alien, see Notice 1392, Supplemental Form W-4 Instructions for Nonresident Aliens, before completing this form.

Check your withholding. After your Form W-4 takes effect, use Pub. 505 to see how the amount you are having withheld compares to your projected total tax for 2016. See Pub. 505, especially if your earnings exceed $130,000 (Single) or $180,000 (Married).

Future developments. Information about any future developments affecting Form W-4 (such as legislation enacted after we release it) will be posted at *www.irs.gov/w4*.

Personal Allowances Worksheet (Keep for your records.)

A	Enter "1" for **yourself** if no one else can claim you as a dependent	A	1
B	Enter "1" if: • You are single and have only one job; or • You are married, have only one job, and your spouse does not work; or • Your wages from a second job or your spouse's wages (or the total of both) are $1,500 or less.	B	
C	Enter "1" for your **spouse.** But, you may choose to enter "-0-" if you are married and have either a working spouse or more than one job. (Entering "-0-" may help you avoid having too little tax withheld.)	C	
D	Enter number of **dependents** (other than your spouse or yourself) you will claim on your tax return	D	3
E	Enter "1" if you will file as **head of household** on your tax return (see conditions under **Head of household** above)	E	
F	Enter "1" if you have at least $2,000 of **child or dependent care expenses** for which you plan to claim a credit (**Note:** Do **not** include child support payments. See Pub. 503, Child and Dependent Care Expenses, for details.)	F	
G	**Child Tax Credit** (including additional child tax credit). See Pub. 972, Child Tax Credit, for more information. • If your total income will be less than $70,000 ($100,000 if married), enter "2" for each eligible child; then **less** "1" if you have two to four eligible children or **less** "2" if you have five or more eligible children. • If your total income will be between $70,000 and $84,000 ($100,000 and $119,000 if married), enter "1" for each eligible child	G	5
H	Add lines A through G and enter total here. (**Note:** This may be different from the number of exemptions you claim on your tax return.) ▶	H	9

For accuracy, **complete all worksheets that apply.**

- If you plan to **itemize** or **claim adjustments to income** and want to reduce your withholding, see the **Deductions and Adjustments Worksheet** on page 2.
- If you are **single and have more than one job** or are **married and you and your spouse both work** and the combined earnings from all jobs exceed $50,000 ($20,000 if married), see the **Two-Earners/Multiple Jobs Worksheet** on page 2 to avoid having too little tax withheld.
- If **neither** of the above situations applies, **stop here** and enter the number from line H on line 5 of Form W-4 below.

Separate here and give Form W-4 to your employer. Keep the top part for your records.

Form **W-4** Department of the Treasury Internal Revenue Service

Employee's Withholding Allowance Certificate

▶ **Whether you are entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS.**

OMB No. 1545-0074 **2016**

1 Your first name and middle initial: Madeline E.	Last name: Jenkins	2 Your social security number: 545-02-1987
Home address (number and street or rural route): 203 County Road 4	3 ☐ Single ☑ Married ☐ Married, but withhold at higher Single rate. **Note:** If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.	
City or town, state, and ZIP code: Douglas, Wyoming 82036	4 **If your last name differs from that shown on your social security card, check here. You must call 1-800-772-1213 for a replacement card.** ▶ ☐	

5	Total number of allowances you are claiming (from line **H** above **or** from the applicable worksheet on page 2)	5	9
6	Additional amount, if any, you want withheld from each paycheck	6	$
7	I claim exemption from withholding for 2016, and I certify that I meet **both** of the following conditions for exemption. • Last year I had a right to a refund of **all** federal income tax withheld because I had **no** tax liability, **and** • This year I expect a refund of **all** federal income tax withheld because I expect to have **no** tax liability. If you meet both conditions, write "Exempt" here ▶	7	

Under penalties of perjury, I declare that I have examined this certificate and, to the best of my knowledge and belief, it is true, correct, and complete.

Employee's signature (This form is not valid unless you sign it.) ▶ **Date** ▶

8 Employer's name and address (Employer: Complete lines 8 and 10 only if sending to the IRS.)	9 Office code (optional)	10 Employer identification number (EIN)

For Privacy Act and Paperwork Reduction Act Notice, see page 2. Cat. No. 10220Q Form **W-4** (2016)

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P2-12B. Complete the I-9 for employment with the Tennessee Department of Corrections. Be sure to complete the "preparer" section.

Martin Allan Davis

Social Security number: 987-65-4312

Date of Birth: 5-29-1975

5923 Bunker Hill Road

Clarksville, Tennessee 38205

U.S. Citizen

Martin presented his driver's license and social security card for his employer to review. Tennessee Driver's License #U30290688, Expires, 5/29/2018

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Employment Eligibility Verification

Department of Homeland Security
U.S. Citizenship and Immigration Services

USCIS
Form I-9
OMB No. 1615-0047
Expires 03/31/2016

►START HERE. Read instructions carefully before completing this form. The instructions must be available during completion of this form.
ANTI-DISCRIMINATION NOTICE: It is illegal to discriminate against work-authorized individuals. Employers **CANNOT** specify which document(s) they will accept from an employee. The refusal to hire an individual because the documentation presented has a future expiration date may also constitute illegal discrimination.

Section 1. Employee Information and Attestation *(Employees must complete and sign Section 1 of Form I-9 no later than the **first day of employment**, but not before accepting a job offer.)*

Last Name *(Family Name)*	First Name *(Given Name)*	Middle Initial	Other Names Used *(if any)*
Davis	Martin	A	

Address *(Street Number and Name)*	Apt. Number	City or Town	State	Zip Code
5923 Bunker Hill Rd		Clarksville	TN	38205

Date of Birth *(mm/dd/yyyy)*	U.S. Social Security Number	E-mail Address	Telephone Number
05/29/1975	987-65-4312		

I am aware that federal law provides for imprisonment and/or fines for false statements or use of false documents in connection with the completion of this form.

I attest, under penalty of perjury, that I am (check one of the following):

☒ A citizen of the United States

☐ A noncitizen national of the United States *(See instructions)*

☐ A lawful permanent resident (Alien Registration Number/USCIS Number): _____

☐ An alien authorized to work until (expiration date, if applicable, mm/dd/yyyy) _____. Some aliens may write "N/A" in this field. *(See instructions)*

*For aliens authorized to work, provide your Alien Registration Number/USCIS Number **OR** Form I-94 Admission Number:*

1. Alien Registration Number/USCIS Number: _____

OR

2. Form I-94 Admission Number: _____

If you obtained your admission number from CBP in connection with your arrival in the United States, include the following:

Foreign Passport Number: _____

Country of Issuance: _____

Some aliens may write "N/A" on the Foreign Passport Number and Country of Issuance fields. (*See instructions*)

3-D Barcode
Do Not Write in This Space

Signature of Employee:	Date *(mm/dd/yyyy)*:

Preparer and/or Translator Certification *(To be completed and signed if Section 1 is prepared by a person other than the employee.)*

I attest, under penalty of perjury, that I have assisted in the completion of this form and that to the best of my knowledge the information is true and correct.

Signature of Preparer or Translator:			Date *(mm/dd/yyyy)*:
Last Name *(Family Name)*	First Name *(Given Name)*		
Address *(Street Number and Name)*	City or Town	State	Zip Code

STOP *Employer Completes Next Page* STOP

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Section 2. Employer or Authorized Representative Review and Verification

(Employers or their authorized representative must complete and sign Section 2 within 3 business days of the employee's first day of employment. You must physically examine one document from List A OR examine a combination of one document from List B and one document from List C as listed on the "Lists of Acceptable Documents" on the next page of this form. For each document you review, record the following information: document title, issuing authority, document number, and expiration date, if any.)

Employee Last Name, First Name and Middle Initial from Section 1: Davis, Martin A

List A Identity and Employment Authorization	OR	List B Identity	AND	List C Employment Authorization
Document Title:		Document Title: Tennessee Drivers License		Document Title: Social Security Card
Issuing Authority:		Issuing Authority: Tennessee Motor Vehicles Divis		Issuing Authority: Social Security Administration
Document Number:		Document Number: U30290688		Document Number: 987-65-4321
Expiration Date *(if any)(mm/dd/yyyy)*:		Expiration Date *(if any)(mm/dd/yyyy)*: 5/29/2018		Expiration Date *(if any)(mm/dd/yyyy)*:
Document Title:				
Issuing Authority:				
Document Number:				
Expiration Date *(if any)(mm/dd/yyyy)*:				
Document Title:				
Issuing Authority:				
Document Number:				
Expiration Date *(if any)(mm/dd/yyyy)*:				

3-D Barcode
Do Not Write in This Space

Certification

I attest, under penalty of perjury, that (1) I have examined the document(s) presented by the above-named employee, (2) the above-listed document(s) appear to be genuine and to relate to the employee named, and (3) to the best of my knowledge the employee is authorized to work in the United States.

The employee's first day of employment *(mm/dd/yyyy)*: _____ **(*See instructions for exemptions.*)**

Signature of Employer or Authorized Representative	Date *(mm/dd/yyyy)*	Title of Employer or Authorized Representative	
Last Name *(Family Name)*	First Name *(Given Name)*	Employer's Business or Organization Name	
Employer's Business or Organization Address *(Street Number and Name)*	City or Town	State	Zip Code

Section 3. Reverification and Rehires *(To be completed and signed by employer or authorized representative.)*

A. New Name *(if applicable)* Last Name *(Family Name)*	First Name *(Given Name)*	Middle Initial	**B.** Date of Rehire *(if applicable) (mm/dd/yyyy)*:

C. If employee's previous grant of employment authorization has expired, provide the information for the document from List A or List C the employee presented that establishes current employment authorization in the space provided below.

Document Title:	Document Number:	Expiration Date *(if any)(mm/dd/yyyy)*:

I attest, under penalty of perjury, that to the best of my knowledge, this employee is authorized to work in the United States, and if the employee presented document(s), the document(s) I have examined appear to be genuine and to relate to the individual.

Signature of Employer or Authorized Representative:	Date *(mm/dd/yyyy)*:	Print Name of Employer or Authorized Representative:

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CRITICAL THINKING

2-1. When BirMax was looking to implement a payroll accounting system, the manufacturing firm had several options. With only 40 employees, the manual preparation of payroll through spreadsheets and handwritten time cards was a comfortable option for the firm. Another option is to sell the senior management of BirMax on implementing a software program for payroll processing. What are the key points to consider? If the company has more than one department, how can this transition be accomplished?

1. Key points that need to be included: ease of update for changes in tax laws, tax tables, and payroll regulations; ease of reporting; whether the employee self-service option would be eligible; confidentiality

2-2. 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. Since the IRS audit is imminent, documenting the date of the find and attempts to rectify the error would be advisable. Depending upon the nature of the anomalies, the company or payroll employees may have made some serious errors.

IN THE REAL WORLD: CASE FOR DISCUSSION

Student response will vary.

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CONTINUING PAYROLL PROJECT: PREVOSTI FARMS AND SUGARHOUSE

Prevosti Farms and Sugarhouse pays its employees according to their job classification. The following employees make up Sugarhouse's staff:

Employee Number	Name and Address	Payroll information
A-Mille	Thomas Millen 1022 Forest School Rd Woodstock, VT 05001 802-478-5055 SSN:031-11-3456 401(k) deduction: 3%	Hire Date: 2-1-2016 DOB: 12-16-1982 Position: Production Manager PT/FT: FT, exempt No. of Exemptions: 4 M/S: M Pay Rate: $35,000/year
A-Towle	Avery Towle 4011 Route 100 Plymouth, VT 05102 802-967-5873 SSN:089-74-0974	Hire Date: 2-1-2016 DOB: 7-14-1991 Position: Production Worker PT/FT: FT, nonexempt No. of Exemptions: 1 M/S: S Pay Rate: $12.00/hour
A-Long	Charlie Long 242 Benedict Road S. Woodstock, VT 05002 802-429-3846 SSN: 056-23-4593	Hire Date: 2-1-2016 DOB: 3-16-1987 Position: Production Worker PT/FT: FT, nonexempt No. of Exemptions: 2

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		M/S: M Pay Rate: $12.50/hour
B-Shang	Mary Shangraw 1901 Main Street #2 Bridgewater, VT 05520 802-575-5423 SSN: 075-28-8945	Hire Date: 2-1-2016 DOB: 8-20-1994 Position: Administrative Assistant PT/FT: PT, nonexempt No. of Exemptions: 1 M/S: S Pay Rate: $10.50/hour
B-Lewis	Kristen Lewis 840 Daily Hollow Road Bridgewater, VT 05523 802-390-5572 SSN: 076-39-5673	Hire Date: 2-1-2016 DOB: 4-6-1950 Position: Office Manager PT/FT: FT, exempt No. of Exemptions: 3 M/S: M Pay Rate: $32,000/year
B-Schwa	Joel Schwartz 55 Maple Farm Way Woodstock, VT 05534 802-463-9985 SSN: 021-34-9876	Hire Date: 2-1-2016 DOB: 5-23-1985 Position: Sales PT/FT: FT, exempt No. of Exemptions: 2 M/S: M Pay Rate: $24,000/year base plus 3% commission per case sold
B-Prevo	Toni Prevosti	Hire Date: 2-1-2016

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	10520 Cox Hill Road Bridgewater, VT 05521 802-673-2636 SSN: 055-22-0443	DOB: 9-18-1967 Position: Owner/President PT/FT: FT, exempt No. of Exemptions: 5 M/S: M Pay Rate: $45,000/year

The Departments are as follows:

Department A: Agricultural Workers

Department B: Office Workers

1. You have been hired as of February 1, 2016, as the new accounting clerk. Your employee number is B-XXXXX, where "B" denotes that you are an office worker and "XXXXX" is the first five letters of your last name. If your last name is fewer than five letters, use the first few letters of your first name to complete the employee number. Your social security number is 555-55-5555, and you are full-time, nonexempt, and paid at a rate of $34,000 per year. You are single with only one job (claiming 2 exemptions). You live at 1644 Smittin Road, Woodstock, VT 05001. Your phone number is 555-555-5555. Your date of birth is 1/1/1991 and your Social Security number is 555-55-5555 for the project. You are a citizen of the United States and provide a Vermont driver's license #88110009 expiring 1/1/2018 in addition to your Social Security card for verification of your identity. Complete the W-4 and the I-9 to start your own employee file.

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Form W-4 (2016)

Purpose. Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay. Consider completing a new Form W-4 each year and when your personal or financial situation changes.

Exemption from withholding. If you are exempt, complete **only** lines 1, 2, 3, 4, and 7 and sign the form to validate it. Your exemption for 2016 expires February 15, 2017. See Pub. 505, Tax Withholding and Estimated Tax.

Note: If another person can claim you as a dependent on his or her tax return, you cannot claim exemption from withholding if your income exceeds $1,050 and includes more than $350 of unearned income (for example, interest and dividends).

Exceptions. An employee may be able to claim exemption from withholding even if the employee is a dependent, if the employee:

- Is age 65 or older,
- Is blind, or
- Will claim adjustments to income; tax credits; or itemized deductions, on his or her tax return.

The exceptions do not apply to supplemental wages greater than $1,000,000.

Basic instructions. If you are not exempt, complete the **Personal Allowances Worksheet** below. The worksheets on page 2 further adjust your withholding allowances based on itemized deductions, certain credits, adjustments to income, or two-earners/multiple jobs situations.

Complete all worksheets that apply. However, you may claim fewer (or zero) allowances. For regular wages, withholding must be based on allowances you claimed and may not be a flat amount or percentage of wages.

Head of household. Generally, you can claim head of household filing status on your tax return only if you are unmarried and pay more than 50% of the costs of keeping up a home for yourself and your dependent(s) or other qualifying individuals. See Pub. 501, Exemptions, Standard Deduction, and Filing Information, for information.

Tax credits. You can take projected tax credits into account in figuring your allowable number of withholding allowances. Credits for child or dependent care expenses and the child tax credit may be claimed using the **Personal Allowances Worksheet** below. See Pub. 505 for information on converting your other credits into withholding allowances.

Nonwage income. If you have a large amount of nonwage income, such as interest or dividends, consider making estimated tax payments using Form 1040-ES, Estimated Tax for Individuals. Otherwise, you may owe additional tax. If you have pension or annuity income, see Pub. 505 to find out if you should adjust your withholding on Form W-4 or W-4P.

Two earners or multiple jobs. If you have a working spouse or more than one job, figure the total number of allowances you are entitled to claim on all jobs using worksheets from only one Form W-4. Your withholding usually will be most accurate when all allowances are claimed on the Form W-4 for the highest paying job and zero allowances are claimed on the others. See Pub. 505 for details.

Nonresident alien. If you are a nonresident alien, see Notice 1392, Supplemental Form W-4 Instructions for Nonresident Aliens, before completing this form.

Check your withholding. After your Form W-4 takes effect, use Pub. 505 to see how the amount you are having withheld compares to your projected total tax for 2016. See Pub. 505, especially if your earnings exceed $130,000 (Single) or $180,000 (Married).

Future developments. Information about any future developments affecting Form W-4 (such as legislation enacted after we release it) will be posted at *www.irs.gov/w4*.

Personal Allowances Worksheet (Keep for your records.)

A	Enter "1" for **yourself** if no one else can claim you as a dependent	A	1
B	Enter "1" if: • You are single and have only one job; or • You are married, have only one job, and your spouse does not work; or • Your wages from a second job or your spouse's wages (or the total of both) are $1,500 or less.	B	1
C	Enter "1" for your **spouse.** But, you may choose to enter "-0-" if you are married and have either a working spouse or more than one job. (Entering "-0-" may help you avoid having too little tax withheld.)	C	
D	Enter number of **dependents** (other than your spouse or yourself) you will claim on your tax return	D	
E	Enter "1" if you will file as **head of household** on your tax return (see conditions under **Head of household** above)	E	
F	Enter "1" if you have at least $2,000 of **child or dependent care expenses** for which you plan to claim a credit (**Note:** Do **not** include child support payments. See Pub. 503, Child and Dependent Care Expenses, for details.)	F	
G	**Child Tax Credit** (including additional child tax credit). See Pub. 972, Child Tax Credit, for more information. • If your total income will be less than $70,000 ($100,000 if married), enter "2" for each eligible child; then **less** "1" if you have two to four eligible children or **less** "2" if you have five or more eligible children. • If your total income will be between $70,000 and $84,000 ($100,000 and $119,000 if married), enter "1" for each eligible child	G	
H	Add lines A through G and enter total here. (**Note:** This may be different from the number of exemptions you claim on your tax return.) ►	H	2

For accuracy, **complete all worksheets that apply.**

- If you plan to **itemize** or **claim adjustments to income** and want to reduce your withholding, see the **Deductions and Adjustments Worksheet** on page 2.
- If you are **single and have more than one job** or are **married and you and your spouse both work** and the combined earnings from all jobs exceed $50,000 ($20,000 if married), see the **Two-Earners/Multiple Jobs Worksheet** on page 2 to avoid having too little tax withheld.
- If **neither** of the above situations applies, **stop here** and enter the number from line H on line 5 of Form W-4 below.

---------- **Separate here and give Form W-4 to your employer. Keep the top part for your records.** ----------

Form **W-4** Department of the Treasury Internal Revenue Service

Employee's Withholding Allowance Certificate

► **Whether you are entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS.**

OMB No. 1545-0074 **2016**

1 Your first name and middle initial: Student F	Last name: Success	2 Your social security number: 555-55-5555
Home address (number and street or rural route): 1644 Smitten Road	3 ☑ Single ☐ Married ☐ Married, but withhold at higher Single rate. **Note:** If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.	
City or town, state, and ZIP code: Woodstock, VT 05001	4 **If your last name differs from that shown on your social security card, check here. You must call 1-800-772-1213 for a replacement card.** ► ☐	

5	Total number of allowances you are claiming (from line H above **or** from the applicable worksheet on page 2)	5	2
6	Additional amount, if any, you want withheld from each paycheck	6	$
7	I claim exemption from withholding for 2016, and I certify that I meet **both** of the following conditions for exemption. • Last year I had a right to a refund of **all** federal income tax withheld because I had **no** tax liability, **and** • This year I expect a refund of **all** federal income tax withheld because I expect to have **no** tax liability. If you meet both conditions, write "Exempt" here ►	7	

Under penalties of perjury, I declare that I have examined this certificate and, to the best of my knowledge and belief, it is true, correct, and complete.

Employee's signature (This form is not valid unless you sign it.) ► *Student F Success* **Date** ► 2/9/2016

8 Employer's name and address (Employer: Complete lines 8 and 10 only if sending to the IRS.)	9 Office code (optional)	10 Employer identification number (EIN)

For Privacy Act and Paperwork Reduction Act Notice, see page 2. Cat. No. 10220Q Form **W-4** (2016)

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Employment Eligibility Verification

Department of Homeland Security
U.S. Citizenship and Immigration Services

USCIS
Form I-9
OMB No. 1615-0047
Expires 03/31/2016

►START HERE. **Read instructions carefully before completing this form. The instructions must be available during completion of this form.**
ANTI-DISCRIMINATION NOTICE: It is illegal to discriminate against work-authorized individuals. Employers **CANNOT** specify which document(s) they will accept from an employee. The refusal to hire an individual because the documentation presented has a future expiration date may also constitute illegal discrimination.

Section 1. Employee Information and Attestation *(Employees must complete and sign Section 1 of Form I-9 no later than the **first day of employment**, but not before accepting a job offer.)*

Last Name *(Family Name)*	First Name *(Given Name)*	Middle Initial	Other Names Used *(if any)*
Success	Student	F	

Address *(Street Number and Name)*	Apt. Number	City or Town	State	Zip Code
1644 Smittin Rd		Woodstock	VT	05001

Date of Birth *(mm/dd/yyyy)*	U.S. Social Security Number	E-mail Address	Telephone Number
01/01/1991	555-55-5555		

I am aware that federal law provides for imprisonment and/or fines for false statements or use of false documents in connection with the completion of this form.

I attest, under penalty of perjury, that I am (check one of the following):

☒ A citizen of the United States

☐ A noncitizen national of the United States *(See instructions)*

☐ A lawful permanent resident (Alien Registration Number/USCIS Number): _____

☐ An alien authorized to work until (expiration date, if applicable, mm/dd/yyyy) _____. Some aliens may write "N/A" in this field. *(See instructions)*

*For aliens authorized to work, provide your Alien Registration Number/USCIS Number **OR** Form I-94 Admission Number:*

1. Alien Registration Number/USCIS Number: _____

OR

2. Form I-94 Admission Number: _____

If you obtained your admission number from CBP in connection with your arrival in the United States, include the following:

Foreign Passport Number: _____

Country of Issuance: _____

Some aliens may write "N/A" on the Foreign Passport Number and Country of Issuance fields. (*See instructions*)

3-D Barcode
Do Not Write in This Space

Signature of Employee:	Date *(mm/dd/yyyy)*:

Preparer and/or Translator Certification *(To be completed and signed if Section 1 is prepared by a person other than the employee.)*

I attest, under penalty of perjury, that I have assisted in the completion of this form and that to the best of my knowledge the information is true and correct.

Signature of Preparer or Translator:			Date *(mm/dd/yyyy)*:
Last Name *(Family Name)*	First Name *(Given Name)*		
Address *(Street Number and Name)*	City or Town	State	Zip Code

STOP *Employer Completes Next Page* STOP

Form I-9 03/08/13 N

Page 7 of 9

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Section 2. Employer or Authorized Representative Review and Verification

(Employers or their authorized representative must complete and sign Section 2 within 3 business days of the employee's first day of employment. You must physically examine one document from List A OR examine a combination of one document from List B and one document from List C as listed on the "Lists of Acceptable Documents" on the next page of this form. For each document you review, record the following information: document title, issuing authority, document number, and expiration date, if any.)

Employee Last Name, First Name and Middle Initial from Section 1:

List A Identity and Employment Authorization	OR	List B Identity	AND	List C Employment Authorization
Document Title:		Document Title: Vermont Drivers' License		Document Title: Social Security Card
Issuing Authority:		Issuing Authority: Department of Motor Vehicles		Issuing Authority: Social Security Administration
Document Number:		Document Number: 8811009		Document Number: 555-55-5555
Expiration Date *(if any)(mm/dd/yyyy)*:		Expiration Date *(if any)(mm/dd/yyyy)*: 01/01/2018		Expiration Date *(if any)(mm/dd/yyyy)*:
Document Title:				
Issuing Authority:				
Document Number:				
Expiration Date *(if any)(mm/dd/yyyy)*:				
Document Title:				
Issuing Authority:				
Document Number:				
Expiration Date *(if any)(mm/dd/yyyy)*:				

3-D Barcode
Do Not Write in This Space

Certification

I attest, under penalty of perjury, that (1) I have examined the document(s) presented by the above-named employee, (2) the above-listed document(s) appear to be genuine and to relate to the employee named, and (3) to the best of my knowledge the employee is authorized to work in the United States.

The employee's first day of employment *(mm/dd/yyyy)*: _____ *(See instructions for exemptions.)*

Signature of Employer or Authorized Representative	Date *(mm/dd/yyyy)*	Title of Employer or Authorized Representative	
Last Name *(Family Name)*	First Name *(Given Name)*	Employer's Business or Organization Name	
Employer's Business or Organization Address *(Street Number and Name)*	City or Town	State	Zip Code

Section 3. Reverification and Rehires *(To be completed and signed by employer or authorized representative.)*

A. New Name *(if applicable)* Last Name *(Family Name)*	First Name *(Given Name)*	Middle Initial	**B.** Date of Rehire *(if applicable) (mm/dd/yyyy)*:

C. If employee's previous grant of employment authorization has expired, provide the information for the document from List A or List C the employee presented that establishes current employment authorization in the space provided below.

Document Title:	Document Number:	Expiration Date *(if any)(mm/dd/yyyy)*:

I attest, under penalty of perjury, that to the best of my knowledge, this employee is authorized to work in the United States, and if the employee presented document(s), the document(s) I have examined appear to be genuine and to relate to the individual.

Signature of Employer or Authorized Representative:	Date *(mm/dd/yyyy)*:	Print Name of Employer or Authorized Representative:

Form I-9 03/08/13 N Page 8 of 9

2. Complete the headers of the employee earnings register for each employee. Enter the pay rate for each employee.

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EMPLOYEE EARNING RECORD

Name	Thomas Millen	Hire Date	2/1/2016
Address	1022 Forest School Rd	Date of Birth	12/16/1982
City/State/Zip	Woodstock/VT/05001	Exempt/Nonexempt	Exempt
Telephone	802-478-5055	Married/Single	M
Social Security Number	031-11-3456	No. of exemptions	4
Position	Production Manager	Pay Rate	$35,000/year

Period Ended	Hrs Worked	Reg Pay	OT Pay	Holiday	Comm	Gross Pay	Ins	401(k)	Taxable Pay for Federal	Taxable Pay for FICA

Taxable Pay for Federal	Taxable Pay for FICA	Fed Inc. Tax	Social Sec. Tax	Medicare	State Inc. Tax	Total Deduc	Net pay	YTD Net Pay	YTD Gross Pay

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EMPLOYEE EARNING RECORD

Name	Avery Towle	Hire Date	2/1/2016
Address	4011 Route 100	Date of Birth	7/14/1991
City/State/Zip	Plymouth/VT/05102	Exempt/Nonexempt	Nonexempt
Telephone	802-967-5873	Married/Single	S
Social Security Number	089-74-0974	No. of exemptions	1
Position	Production Worker	Pay Rate	$12.00/hour

Period Ended	Hrs Worked	Reg Pay	OT Pay	Holiday	Comm	Gross Pay	Ins	401(k)	Taxable Pay for Federal	Taxable Pay for FICA

Taxable Pay for Federal	Taxable Pay for FICA	Fed Inc. Tax	Social Sec. Tax	Medicare	State Inc. Tax	Total Deduc	Net pay	YTD Net Pay	YTD Gross Pay

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EMPLOYEE EARNING RECORD

Name	Charlie Long	Hire Date	2/1/2016
Address	242 Benedict Rd	Date of Birth	3/16/1987
City/State/Zip	S. Woodstock/VT/05002	Exempt/Nonexempt	Nonexempt
Telephone	802-429-3846	Married/Single	M
Social Security Number	056-23-4593	No. of exemptions	2
Position	Production Worker	Pay Rate	$12.50/hour

Period Ended	Hrs Worked	Reg Pay	OT Pay	Holiday	Comm	Gross Pay	Ins	401(k)	Taxable Pay for Federal	Taxable Pay for FICA

Taxable Pay for Federal	Taxable Pay for FICA	Fed Inc. Tax	Social Sec. Tax	Medicare	State Inc. Tax	Total Deduc	Net pay	YTD Net Pay	YTD Gross Pay

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EMPLOYEE EARNING RECORD

Name	Mary Shangraw	Hire Date	2/1/2016
Address	1901 Main St #2	Date of Birth	8/20/1994
City/State/Zip	Bridgewater/VT/05520	Exempt/Nonexempt	Exempt
Telephone	802-575-5423	Married/Single	S
Social Security Number	075-28-8945	No. of exemptions	1
Position	Administrative Assistant	Pay Rate	$10.50/hour

Period Ended	Hrs Worked	Reg Pay	OT Pay	Holiday	Comm	Gross Pay	Ins	401(k)	Taxable Pay for Federal	Taxable Pay for FICA

Taxable Pay for Federal	Taxable Pay for FICA	Fed Inc. Tax	Social Sec. Tax	Medicare	State Inc. Tax	Total Deduc	Net pay	YTD Net Pay	YTD Gross Pay

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EMPLOYEE EARNING RECORD

Name	Kristen Lewis	Hire Date	2/1/2016
Address	840 Daily Hollow Rd	Date of Birth	4/6/1950
City/State/Zip	Bridgewater/VT/05523	Exempt/Nonexempt	Exemtpt
Telephone	802-390-5572	Married/Single	M
Social Security Number	076-39-5673	No. of exemptions	3
Position	Office Manager	Pay Rate	$32,000/year

Period Ended	Hrs Worked	Reg Pay	OT Pay	Holiday	Comm	Gross Pay	Ins	401(k)	Taxable Pay for Federal	Taxable Pay for FICA

Taxable Pay for Federal	Taxable Pay for FICA	Fed Inc. Tax	Social Sec. Tax	Medicare	State Inc. Tax	Total Deduc	Net pay	YTD Net Pay	YTD Gross Pay

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EMPLOYEE EARNING RECORD

Name	Joel Schwartz	Hire Date	2/1/2016
Address	55 Maple Farm Wy	Date of Birth	5/23/1985
City/State/Zip	Woodstock/VT/05534	Exempt/Nonexempt	Exempt
Telephone	802-463-9985	Married/Single	M
Social Security Number	021-34-9876	No. of exemptions	2
Position	Sales	Pay Rate	$24,000/year + commission

Period Ended	Hrs Worked	Reg Pay	OT Pay	Holiday	Comm	Gross Pay	Ins	401(k)	Taxable Pay for Federal	Taxable Pay for FICA

Taxable Pay for Federal	Taxable Pay for FICA	Fed Inc. Tax	Social Sec. Tax	Medicare	State Inc. Tax	Total Deduc	Net pay	YTD Net Pay	YTD Gross Pay

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EMPLOYEE EARNING RECORD

Name	Toni Prevosti	Hire Date	2/1/2016
Address	10520 Cox Hill Rd	Date of Birth	9/18/1967
City/State/Zip	Bridgewater/VT/05521	Exempt/Nonexempt	Exempt
Telephone	802-673-2636	Married/Single	M
Social Security Number	055-22-0443	No. of exemptions	5
Position	Owner/President	Pay Rate	$45,000/year

Period Ended	Hrs Worked	Reg Pay	OT Pay	Holiday	Comm	Gross Pay	Ins	401(k)	Taxable Pay for Federal	Taxable Pay for FICA

Taxable Pay for Federal	Taxable Pay for FICA	Fed Inc. Tax	Social Sec. Tax	Medicare	State Inc. Tax	Total Deduc	Net pay	YTD Net Pay	YTD Gross Pay

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EMPLOYEE EARNING RECORD

Name	Student F Success	Hire Date	2/1/2016
Address	1644 Smittin Rd	Date of Birth	1/1/1991
City/State/Zip	Woodstock/VT/05001	Exempt/Nonexempt	Nonexempt
Telephone	(555)555-5555	Married/Single	S
Social Security Number	555-55-5555	No. of exemptions	2
Position		Pay Rate	$34,000/year

Period Ended	Hrs Worked	Reg Pay	OT Pay	Holiday	Comm	Gross Pay	Ins	401(k)	Taxable Pay for Federal	Taxable Pay for FICA

Taxable Pay for Federal	Taxable Pay for FICA	Fed Inc. Tax	Social Sec. Tax	Medicare	State Inc. Tax	Total Deduc	Net pay	YTD Net Pay	YTD Gross Pay

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

P2-2A. Jonathan is in the payroll accounting department of Moran Industries. An independent contractor of the company requests that Social Security and Medicare taxes be withheld from future compensation. What advice should Jonathan offer? (Select all that apply)

- **As an independent contractor they would be responsible for their own payments**
- **These would not be withheld by the company**
- The independent contractor should complete Form W-4 to authorize FICA tax withholding

P2-3A. You are the new payroll supervisor for your company. Which payroll documentation control procedures are now your responsibility?

- **Payroll system security**
- **Maintenance of paid time off (i.e., vacation, sick, etc.)**
- **Access to payroll data**
- **Separation of duties**
- **Training of payroll staff**
- Publication of employee wage and salary information
- Notification of individual employee payroll discrepancies to all company managers

P2-4A. Naia is a new employee in the payroll department of Redtap Inc. After working at the company for one week, she asks you why it is so important to submit new hire documentation. What guidance will you offer her? (Select all that apply)

- **Reporting creates a registry to monitor child support obligations**
- **Tracking immigration to ensure individuals are legal to work in the United States**
- **Ensuring that individuals in professions that can have sanctions are legally able to continue to work**
- **Enabling the tracking of COBRA benefits**
- Monitoring the filing of individual income tax returns
- Tracking student loan payments

P2-5A. You are the payroll accounting clerk for your company, which has 50 employees. The controller has asked for assistance in determining which accounting software package is best

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suited to the company's payroll needs. Which of the following factors should you consider in your decision?

- **Ease of update for changes in tax laws, tables, and payroll regulations**
- **Ease of reporting**
- **Confidentiality**
- Responsibility for information accuracy

P2-6A – **Not applicable for Connect**.

P2-7A. The controller has requested your assistance to price various accounting software programs available for document retention, payroll preparation, and financial reporting. What requirements should you ensure are present in the computer program? (Select all that apply)

- **Availability of handling various payroll types**
- **Processing timelines**
- **Updates of tax tables**
- **Maintaining confidentiality**
- **Options for retention schedule implementation**
- Single-user accessibility

P2-8A. Large Laptops, a California corporation, has internal corporate requirements that stipulate a three-year payroll document retention period. They enter into a contract with an international company that mandates a six-year payroll document retention requirement. In this situation, the longer retention period would be appropriate because: (Select all that apply)

- **the benefits and records may be called to evidence**
- **the period for retention could be up to 8 years depending upon the circumstances.**
- the shorter period is more cost effective

P2-9A. Manju is a full-time life insurance agent with a small insurance company. The company has classified her as an employee, and she feels that she should be classified as an independent contractor because she controls her own time and financial resources. Should she be reclassified as an independent contractor?

- **Of the three tests, Manju does not meet the relationship of the parties**

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- She should be classified as independent contractor because of her time and resource control

P2-10A. Genevieve is an employee of Lux Lights, a company with headquarters in Providence, Rhode Island. She lives and works in Tillicoultry, Scotland, and earns an annual salary of $85,300. The company has been withholding U.S. federal income taxes from her pay, but Genevieve believes that she should be exempt because she is an expatriate. What course of action should Genevieve take?

- **Genevieve would need to file IRS Foreign Earned Income Exclusion**
- Genevieve would be automatically be exempt and would not need to take any further action

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

P2-1B. Sandy is an independent contractor who is new to your company. Should you assign her compensation to the payroll clerk or to the accounts payable department? Which of the following statements are true?

- **Independent contractors are most frequently treated as a vendor and would be sent to accounts payable.**
- **Depending upon specific requirements, Sandy could be classified as a statutory employee.**
- Sandy's compensation should be handled by the payroll department because she is a human resource.

P2-2B. Frank was terminated for cause from Pineland Industries in Georgia, on August 21, 2016. As of the date of his termination, he had accrued 22 hours of regular time. Employees at Pineland are paid semimonthly on the 15th and last day of the month. Frank would like to know when he will be paid for the accrued hours. Which of the following will you tell him?

- **Georgia does not have specific termination requirements for the processing**
- **The company will probably choose to issue the check with standard payroll.**
- **Depending upon the company policy and employee agreement, the vacation and sick time may be included.**
- Frank would need to be paid within 24 hours of termination
- The check would need to be issued immediately
- Vacation time accrued must be included under Federal law

P2-3B. Quinn, a member of the Menominee Indian nation, is a new employee at Raven Enterprises. During the process of completing his I-9, his only means of identity is a Menominee Nation identification document. Is this document sufficient to verify his employment eligibility? Which of the following statements are true?

- **The Menominee Nation identification card would only be one part of the qualifications (falling under type C).**
- **A secondary form (from type B) would be necessary.**
- The Menominee Nation identification card would be sufficient to meet the requirements of type A

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P2-4B. Carol is a new employee of Eartheon Batteries. She is curious about the purpose of the requirements for new hire documentation to be forwarded to government agencies. What should you tell her? (Select all that apply)

- **Reporting creates a registry to monitor child support obligations**
- **tracks immigration to ensure individuals are legal to work in the United States**
- **ensures that individuals in professions that can have sanctions are legally able to continue to work**
- **Enables the tracking of COBRA benefits.**
- Maintains HIPAA record privacy
- Ends all unemployment insurance claims

P2-5B. Levon wants to start his own company. As a seasoned payroll professional, he approaches you for guidance about the differences between weekly, biweekly, and semimonthly pay periods. What would you tell him? (Select all that apply)

- **Weekly payroll is where individuals will receive 52 paychecks per year and are suited for companies that are small – construction or professional entities.**
- **Biweekly payroll is where individuals will receive 26 paychecks per year processed every two weeks and is one of the more common pay periods, occasionally this method may result in 27 pay periods.**
- **Semimonthly is where employees will receive 24 paychecks per year**
- Semimonthly is where employees receive 6 paychecks per year
- Biweekly employees receive two paychecks per month

P2-6B. Helena is a new payroll clerk for Hope Sinks and Drains. She is curious about the purpose of the different steps in the payroll review process and asks you, her supervisor, for guidance. What would you tell her? (Select all that apply)

- **The payroll review process is designed to verify the information so that employees are paid correctly and the data is correct.**
- **Starting with the employee completing their time card, the information is then verified by the manager.**
- **After the manager has agreed that the employee has accurately portrayed the hours worked, the payroll clerk will prepare the information for the manager to review and approve.**
- **Once the information has been approved, the payroll checks can be issued to the employees.**

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- Upon approval, the information contained on each employee's paycheck is placed in a report and distributed upon demand to company employees

P2-7B. Pierre started as a payroll accountant at a company with 70 employees. He soon notices that the former payroll accountant had been processing payroll manually, and suggests that the company immediately switch to cloud-based payroll. Although the company is switching to an electronic payroll processing system, what types of paper documentation must be maintained in employee records? (Select all that apply)

- **time records**
- **pay advice**
- **any other documentation processed with the paycheck**
- **request for a day off**
- **reports of tardiness or absenteeism**
- **detailed records of work completed during that day's shift**
- credit scores
- spousal employment

P2-8B. Jiana, a payroll clerk, has received a promotion and is now the payroll supervisor for her company. What document control items could now become her responsibility? (Select all that apply)

- **Payroll system security**
- **Maintenance of paid time off (i.e., vacation, sick, etc.)**
- **Access to payroll data**
- **Separation of duties**
- **Training of payroll staff**
- Wage report publication to company newsletters
- Notification of employee pay raises to other employees

P2-9B. You are in the payroll department of Yinkeng Imports, a multistate company. The company has historically been filing employee information with each state. What alternative exists for multistate employers?

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- **Multistate Employer Notification Form allows centralized reporting from the Office of Management and Budget**
- Form SS-4 allows employers to choose which state will receive employment reports

P2-10B. Christianne is the payroll supervisor for PSN Freight. Her company is preparing to merge with another distribution company that has a different pay cycle. The president of the company wants to know the difference between biweekly and semimonthly pay cycles as far as pay dates and pay amounts. What should Christianne tell him? (Select all that apply)

- **Moving between biweekly (26 pay periods per year with the possibility of 27) to a semimonthly system (24 pay periods per year) would cause individual to see increases per pay period**
- **There are more days being covered on the pay period under semimonthly than on biweekly**
- **This would also result in higher taxes per pay period.**
- The difference between biweekly and semimonthly pay periods causes a higher payroll tax liability for the employer

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Payroll Accounting 2017
3nd ed.

Jeanette M. Landin, Ed.D.

Paulette Schirmer, D.B.A.

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Chapter 2

Payroll System Procedures

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Employer Payroll Concerns

- Pay Frequency
- Pay Types
  - Direct Deposit, Paycards, or Paper Checks
- Employee Benefits
- Pay Advances
- Confidentiality
- Fraud protection

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LO 2-1: Identify Important Payroll Procedures and Pay Cycles

- Reporting requirements
- Deadlines
- Other compliance issues related to the firm's industry

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EIN Purposes – Company Related

- Identifies companies who file tax returns
- Required for partnerships and corporations
- Required if a firm
  - Has employees
  - Acts as a fiduciary
  - Is in the alcohol, tobacco, or firearm industry

The EIN will be canceled if the principal officer's name and SSN do not match IRS records

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More EIN Purposes – Tax Related

- EIN is the permanent federal identifier for the company

Must accompany

- Tax Deposits
- Payroll Tax Returns
  - Forms 940, 941, 944
  - Forms W-2 and W-3
  - Any 1099s (independent contractors)

- States may issue a different identifying number

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Non-Confidential Company Documents

- Expense Receipts
- Vendor Invoices
- Check copies

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Confidential Company Documents

Privacy Act of 1974

- Personnel information
- Payroll documents

Note: Fraud-related documents may be subpoenaed at any time and must be accessible to government authorities.

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Payroll File Requirements– Employee

- Employee full name
- Social Security number
- Complete address
- Birth date (if younger than 19)
- Sex
- Occupation

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Payroll File Requirements– Compensation

- Time/day when workweek begins
- Hours/pay and total hours/workweek
- Basis of wages
- Hourly rate
- Total straight-time earnings
- Total overtime earnings
- Additions/deductions
- Total Wages
- Date Paid

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Employee Earnings Record example

EMPLOYEE EARNING RECORD

Name		Hire Date	
Address		Date of Birth	
City/State/Zip		Exempt/Nonexempt	
Telephone		Married/Single	
Social Security Number		No. of exemptions	
Position		Pay Rate	

Period Ended	Hrs Worked	Reg Pay	OT Pay	Holiday	Comm	Gross Pay	Ins	401(k)	Taxable Pay for Federal	Taxable Pay for FICA

Taxable Pay for Federal	Taxable Pay for FICA	Fed Inc. Tax	Social Sec. Tax	Medicare	State Inc. Tax	Total Deduc	Net pay	YTD Net Pay	YTD Gross Pay

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Payroll Cycle Options

- Daily
  - Usually used in a day-labor situation
  - Often paid at end of day or next day

- Weekly
  - Usually paid Friday of following week
  - 52 pay periods/year

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Payroll Cycle Options (continued)

- Biweekly
  - Paid every other week
  - 26 pay periods/year
- Semimonthly
  - Paid twice/month
  - 24 pay periods/year
- Monthly
  - Paid once/month
  - 12 pay periods/year

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Payroll Frequency: Example

Payroll frequency	Pay periods/year	$50,000/year gross salary per pay period
Daily	365	$136.99
Weekly	52	$961.54
Biweekly	26	$1,923.08
Semimonthly	24	$2,083.33
Monthly	12	$4,166.67

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LO 2-2: Prepare Required Employee Documentation

- Form W-4
- I-9
  - Filed within 20 days of employee hire
  - $25 fine for non-reporting per employee
  - $500 fine for intentional non-reporting

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W-4 Example

Form **W-4**
Department of the Treasury
Internal Revenue Service

Employee's Withholding Allowance Certificate

▶ **Whether you are entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS.**

OMB No. 1545-0074
2016

1 Your first name and middle initial	Last name	2 Your social security number
Jonathan A.	Doe	987-65-4321

Home address (number and street or rural route)
123 Main Street

3 ☑ Single ☐ Married ☐ Married, but withhold at higher Single rate.
Note: If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.

City or town, state, and ZIP code
Anytown, KS 54932

4 If your last name differs from that shown on your social security card, check here. You must call 1-800-772-1213 for a replacement card. ▶ ☐

5	Total number of allowances you are claiming (from line **H** above **or** from the applicable worksheet on page 2)	5	2
6	Additional amount, if any, you want withheld from each paycheck	6	$
7	I claim exemption from withholding for 2016, and I certify that I meet **both** of the following conditions for exemption. • Last year I had a right to a refund of **all** federal income tax withheld because I had **no** tax liability, **and** • This year I expect a refund of **all** federal income tax withheld because I expect to have **no** tax liability. If you meet both conditions, write "Exempt" here	7	

Under penalties of perjury, I declare that I have examined this certificate and, to the best of my knowledge and belief, it is true, correct, and complete.

Employee's signature
(This form is not valid unless you sign it.) ▶ *Jonathan A. Doe* **Date** ▶ 1/2/2016

8 Employer's name and address (Employer: Complete lines 8 and 10 only if sending to the IRS.)	9 Office code (optional)	10 Employer identification number (EIN)

For Privacy Act and Paperwork Reduction Act Notice, see page 2. Cat. No. 10220Q Form **W-4** (2016)

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Form I-9 Example

Employee Last Name, First Name and Middle Initial from Section 1: Doe, Jonathan A.

List A Identity and Employment Authorization	OR	List B Identity	AND	List C Employment Authorization
Document Title:		Document Title: Driver's License		Document Title: Social Security Card
Issuing Authority:		Issuing Authority: State of Kansas		Issuing Authority: Social Security Administration
Document Number:		Document Number: G93847562		Document Number: 987-65-4321
Expiration Date *(if any)(mm/dd/yyyy)*:		Expiration Date *(if any)(mm/dd/yyyy)*: 05/17/2017		Expiration Date *(if any)(mm/dd/yyyy)*:
Document Title:				
Issuing Authority:				
Document Number:				
Expiration Date *(if any)(mm/dd/yyyy)*:				
Document Title:				
Issuing Authority:				
Document Number:				

3-D Barcode
Do Not Write in This Space

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New Hire Reporting: Why?

- Child support tracking
- Employment eligibility verification
- Permanent resident alien tracking
- Other garnishments
  - Credit card debt
  - Court judgments

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Child Support

- As of the 2010 U.S. census, the estimated amount of child support transferred between parents in the United Stated exceeded $41.7 billion.

- As of March 2015, outstanding unpaid child support:

$14.3 Billion

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Statutory Employees

- A driver who is a single company's agent or is paid on commission
- A full-time life insurance sales agent for one life insurance company
- A home-worker who works on a company's provided materials
- A full-time traveling or city salesperson who works on a single company's behalf

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U.S. Workers in Foreign Subsidiaries

- Known as *expatriate* workers
- Foreign Account Tax Compliance Act (FATCA)
  - Report wages of earners in foreign locations
  - Ensures appropriate taxation
  - Workers may exclude first $101,300 of wages (2016 figure)
- Enforcement can be difficult due to foreign banks compliance with U.S. law

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Entering New Employees into a Database

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LO 2-3: Explain Pay Records and Employee File Maintenance

Pay Records include:

- Pay period
- Pay date
- Pay rate
- All deductions

Employer Retains:

- Copy of time card
- Copy of pay stub
- Any other documentation included with pay check
- Time off documentation

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Pay Rate Determination

Employee

- Experience
- Education
- Certifications
- Governmental Regulations
- Hours Worked
- Job Performed

Employer

- Salary
- Hourly
- Commission
- Piece Rate
- Exempt
- Nonexempt

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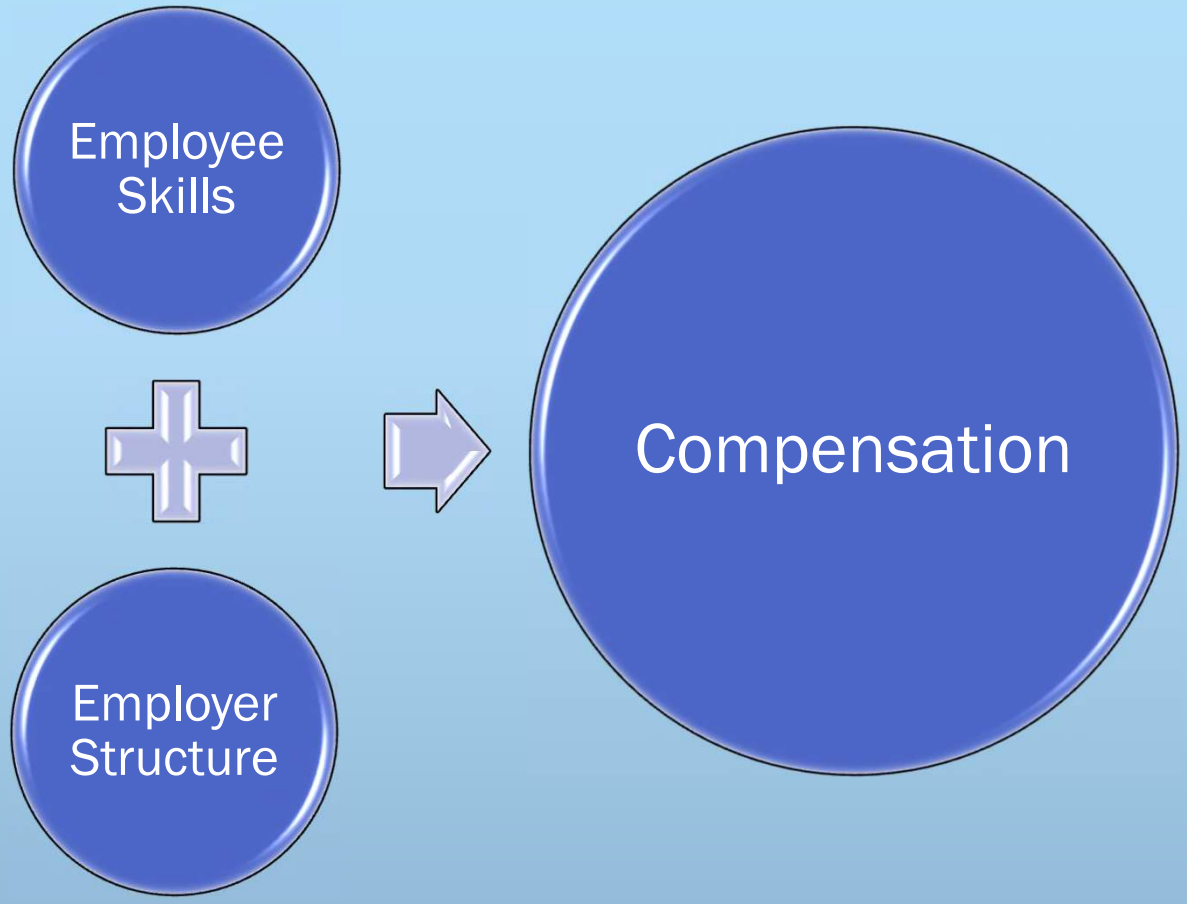
Compensation considerations



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Calculations of Time: Exempt Employee

- Juan is a manager for a textiles firm. He earns $52,000 per year and is classified as an exempt employee, and is paid biweekly.
- He normally works 40 hours per week.
- In June, he worked 85 hours during one pay period and 78 hours during the next.
- He would receive his salary of $2,000 ($52,000/26 periods) for each pay period, no matter how many hours he worked because he is classified as an exempt employee.

- Total pay = <u>$2,000</u>

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Calculations of Time: Nonexempt Employee

- Monique works as an administrator at a busy hospital.
- She is paid $52,000 on a weekly basis and is classified as nonexempt.
- During one week, she worked 50 hours.
- She would earn her regular weekly wage of $1,000 ($52,000/52 period) ***plus*** time and a half for the overtime hours.
- Based on a 40-hour workweek, her hourly wage is $25 ($52,000/(52x40)), so her overtime pay would be $375 (10 hours x 1.5 x $25).

- Total Pay = $1,000 + $375 = <u>$1,375</u>

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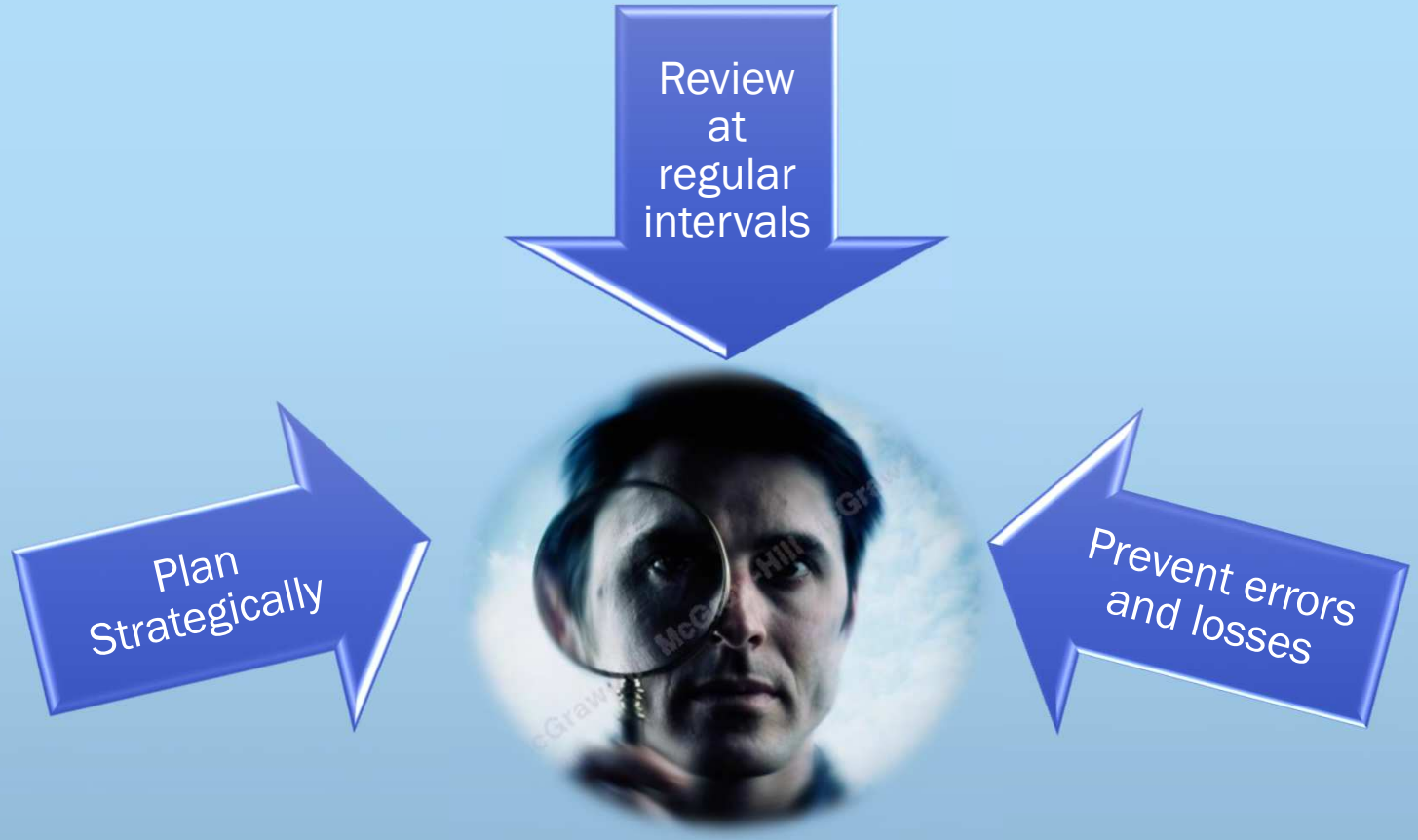
LO 2-4: Describe Internal Controls and Record Retention for a Payroll System



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Review Process Elements

- Managerial Verification of Time Cards
- Verification of Payroll Computations
- Approval of Pay Amounts
- Preparation of Pay Disbursement
- Approval of Pay Disbursement

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File Security

- Important part of internal control
- Safeguards governmental obligations
- Involves
  - Multiple passwords
  - Personnel cross-training
  - Electronic encryption
  - Restricted access
  - Duty rotation

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Payroll fraud occurrence example

A payroll specialist in Florida was HIV-positive, and was afraid to reveal his illness to employers. Instead, he took the money from his employer to pay for expensive medications.

- He would memorize his coworkers' usernames and passwords to create "ghost" employees.
- These ghosts' pay would go to the payroll specialist's bank account.
- He would falsify the payroll summaries he submitted for approval.
- The payroll specialist was found guilty of embezzling $112,000 before his termination.

Source: Journal of Accountancy

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Best Practices: Employee File Maintenance

- IRS Regulation 26 CFR 1.6001
  - Employer responsible for file maintenance
  - Recommends labeling and storage of backups
  - Employer must guarantee auditor access
- IRS Revenue Procedure 98-25
  - Record keeping duration for employers
  - Must include payroll transaction detail
  - Record derivation of executive pay
  - All pay must be benchmarked and justified

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Best Practices: Electronic Records

- Closed system
  - Access granted only to specific employees
- Record identifiers and logging
  - Marks who accessed which record and when
- Employers must monitor records for hacker activity

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Best Practices: Non-Solo Effort

- More than one person involved in the generation and maintenance of payroll records
- Separation of duties
  - No single person could generate paychecks
- Documentation of employee duties
  - Provides verification of completed tasks
  - Protects employer against fraud

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What a Non-Solo Payroll Department Prevents

- Terminated employees could continue to be paid via the payroll system or the funds could be subverted to someone else perpetrating the fraud.
- Sales commission plans, employee bonus plans, incentive programs are all subject to employees' and management's manipulation.
- The payroll checks distributed to employees could be stolen individually or en masse prior to their distribution.

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Best Practices: Document Retention

- Regulation 26 CFR 1.6001
  - Pertains to manual and computerized records
  - Guideline is 7 years
  - Retention period begins upon final pay disbursement

    In the event of payroll fraud, all records must be accessible indefinitely
  - Records for terminated employees must be kept for 7 years following separation
- Employer is responsible for all records, even when payroll is outsourced

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Document retention and the U.S. Supreme Court

In 2012, the U.S. Supreme Court issued specific guidelines to the IRS about the statute of limitations for audits. In *U.S. v. Home Concrete Supply, LLC*, the Court directed the following guidelines about records audits:

- 3 years to assess a taxpayer's deficiency
- 6 years if the taxpayer's gross assets were understated by more than 25%
- Unlimited time if intent to commit fraud exists

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LO 2-5: Discuss Employee Termination and Document Destruction Procedures

- Paper records
  - Incineration
  - Shredding
  - Pulping

- Electronic records
  - Must be purged from company servers
  - All backup copies must be destroyed

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Termination Pay Regulations

- Termination type
  - Involuntary termination ("firing" or "layoff")
  - Voluntary resignation ("quitting")

- Final pay
  - Must contain all hours worked
  - Vacation and sick time owed
  - Any other compensation owed or due

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Final Pay Regulations: Selected States

AR	Within 7 days of discharge	NV	Immediately upon discharge
CA	At time of discharge	NH	Within 72 hours
CO	Immediately upon discharge	NJ	By the next regular payday
CT	No later than the next business day	NM	Within 5 days when wages are definite, otherwise within 10 days if wages are indefinite

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Final Pay Regulations: Selected States (continued)

GA	No termination pay guidelines	OK	Next regular payday for the pay period
ID	Within 10 days, excluding weekends and holidays	PA	Next regular payday
IL	No later than the next payday, immediately if possible	RI	Next regular payday

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Summary of Payroll System Procedures

- Payroll system requires careful planning
- Allow room for company growth
- Best practices promote accuracy and prevent fraud
- Records may be paper, computerized, or outsourced
- Records must be maintained securely and allow auditor access
- Final pay for terminated employees must reflect all amounts due

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