Payroll Accounting 2023 33rd edition Bieg Solutions Manual

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CHAPTER 2

Learning Objectives

After studying this chapter, students should be able to:

1. Explain the major provisions of the Fair Labor Standards Act.
2. Define *hours worked*.
3. Describe the main types of records used to collect payroll data.
4. Calculate regular and overtime pay.
5. Identify distinctive compensation plans.

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Chapter 2 outline:

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Matching Quiz (p. 2–35)

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2.	G	**7.**	J
3.	F	**8.**	B
4.	E	**9.**	I
5.	H	**10.**	A

Questions for Review (p. 2–35)

1. The two bases of coverage provided by the FLSA are enterprise coverage and individual employee coverage. Under *enterprise coverage*, all the employees of an enterprise are covered if the enterprise has at least two employees who engage in interstate commerce or produce goods for interstate commerce and if the enterprise has annual gross sales of at least $500,000.

Under *individual employee coverage*, the FLSA covers a worker if the employee either engages in interstate commerce or produces goods for such commerce. Employment in a fringe occupation closely related and directly essential to the production of goods for interstate commerce constitutes engagement in the production of goods for interstate commerce.

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2. The U.S. Department of Labor has reinstituted a new six-factor economic reality test:
   1. Nature and degree of the employer's control.
   2. Permanency of the worker's relationship with the employer.
   3. Whether the worker, or the employer, provides the means and instrumentalities of the work, such as investment in facilities, equipment, or assistants.
   4. Amount of skill, initiative, judgment, or foresight required for the worker's services.
   5. Whether the worker is at risk or benefit of profit or loss.
   6. Degree of integration of the worker's services into the employer's business.
3. Retail or service establishments, farms, and institutions of higher education may employ full-time students at 85 percent of the minimum wage.
4. The living wage in Miami is $14.03 per hour (if the employer provides health insurance) or $17.62 per hour without insurance.
5. A tipped employee engages in an occupation in which tips of more than $30 a month are customarily and regularly received. An employer can credit up to $5.12 of a tipped employee's minimum wage as coming from tips actually received.
6. State employees working in the area of public safety may accumulate compensatory time off up to 480 hours. (The 480-hour limit represents 320 hours of overtime actually worked at the one and one-half overtime rate.) The employees may "bank" their hours and use them later as time off at time and one-half during the course of their employment.

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7. An employee would be paid for compensatory time off in the following two cases:
   (1) At termination of employment.
   (2) Upon reaching the "bank" maximum of 480 or 240 hours.
8. The following employees are exempt from some of the requirements of the FLSA:
   a. Amusement park employees are exempt from the minimum wage, equal pay, and overtime provisions.
   b. Taxicab drivers are exempt from only the overtime provision.
   c. Casual baby sitters are exempt from the minimum wage, equal pay, and overtime provisions.
   d. Elementary school teachers are exempt from the minimum wage and overtime provisions.
   e. Outside salespersons are exempt from the minimum wage and overtime provisions.
9. The types of exempt white-collar employees are executives, administrators, professionals, highly compensated employees, computer professionals, creative professionals, and outside salespersons.
10. To be classified as a highly compensated employee, he or she must:
    (1) Earn $107,432 or more.
    (2) Perform nonmanual work.
    (3) Regularly perform one of the exempt duties of an executive, administrator, or professional employee.

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11. The following conditions must be met:

(1) All work must be performed outside school hours.
(2) There is a maximum 3-hour day and 18-hour week when school is in session (8 and 40, respectively, when not in session).
(3) Work must be performed between 7 A.M. and 7 P.M. (9 P.M. in summer).

12. The principal activities of employees are those they must perform and include any work of consequence performed for the employer. Principal activities include those that are indispensable to the performance of productive work and those that are an integral part of a principal activity.

13. The time spent by employees in traveling to and from work counts as time worked only if contract, custom, or practice so requires. In some instances, however, travel time between home and work counts as time worked. For example, when an employee receives an emergency call outside the regular working hours and must travel a substantial distance to perform a job away from the usual work site for one of the employer's customers, the travel time counts as time worked.

14. "Engaged to wait" is considered working time. An example would be workers required to be at a car wash at a scheduled time waiting for cars to be washed. "Waiting to be engaged" is not working time. This involves waiting for the start of the working hours.

15. Nonexempt employees must be paid for all hours worked, even those outside the regular workplace. This also applies when employees take work home even if expressly told not to do so.

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16. The time spent by employees in attending lectures or training sessions does not count as working time when all of the following conditions are met:

a. Attendance by the employee is voluntary.
b. The employee does not produce any goods or perform any other productive work during the meeting or lecture.
c. The meeting or lecture takes place outside regular working hours.
d. The meeting or lecture is not directly related to the employee's work.

17. Preliminary and postliminary activities are compensated if one of the following conditions is met:

- There is a prior agreement between the employer and employee.
- It is customary in the industry.
- It is an integral and indispensable part of the employee's principal activity.

Under the Portal-to-Portal Act, unless one of the above conditions is met, these activities are not compensated.

18. A biometric time clock identifies an employee's unique fingerprint, handprint, voice, iris, or whole face.

19. The Wage and Hour Division allows employers to round off employees' work time to the nearest 5, 6, or 15 minutes. This process must be applied consistently to all employees.

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20. The overtime premium pay is calculated by multiplying the overtime hours by an overtime premium rate of one-half the regular hourly rate.

21. To calculate the overtime hourly rate for employees who are paid biweekly, divide by 2 to arrive at the weekly salary. Divide the weekly salary by the regular number of hours worked to obtain the hourly rate. Multiply this rate by one and one-half to obtain the overtime rate.

22. The regular rate of pay for a salaried nonexempt employee is found by dividing the number of hours expected to be worked each week into the weekly salary.

23. In the case of a salaried employee with fluctuating workweeks, overtime pay is found by dividing the normal salary by the total hours worked, and then dividing in half to get the extra half-rate which is paid for all the overtime hours.

An alternative method would be to divide the fixed salary by 40 hours to determine a fixed hourly rate of pay, and then divide this in half to get the fixed extra half-rate.

24. Commissions are considered to be payments for hours worked and must be included in determining the regular hourly rate.

25. Bonuses that are known in advance or that are set up as inducement to achieve goals are nondiscretionary bonuses. This type of bonus is part of the employees' wage rates.

Questions for Discussion (p. 2–36)

1. The FLSA requires overtime pay for hours physically worked over 40 in a workweek. Hours that are paid for, but not actually worked, do not count toward the 40 hours. In addition, the hourly rate of pay is determined by dividing the total regular pay actually earned by the total number of hours actually worked.

2. No. Sanchez Printers, like other employers, may be inadvertently violating the FLSA by giving employees a four-day Thanksgiving weekend and then expecting them to make up the lost time later. Although there is no problem when an employer grants Thanksgiving Day and the following Friday as holidays, either with or without pay, a violation arises if the employees are asked to work extra hours without proper compensation in some other workweek to make up for the time lost. Such an arrangement could violate payment of time and one-half for hours over 40 in any workweek.

3. Under the Fair Labor Standards Act, if the correct amount of overtime compensation cannot be determined until after the regular pay period, the company may make the overtime payment as soon as is practicable but no later than the next payday.

4. In a case similar to the one described (69 LA 573), it was noted that the employer was more diligent in trying to correct paycheck errors that involved more than $30. It was decided that there is no sufficient business reason why an error in a small amount cannot be corrected as promptly as an error in a large amount. It was ruled that the employer should look into the matter and inspect its records at the earliest practicable moment. Further, it was concluded that errors should be attended to as soon as feasible, irrespective of the amount due.

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5. First of all, the company pays Banta at two different wage rates based on the hours worked at each separate job. As far as the overtime pay, there are three options: (1) pay him one and one-half the higher rate for the overtime hours, (2) calculate an average overtime rate based on the total time worked, or (3) if agreed in advance, base the overtime rate on the job actually worked during the overtime hours.

Problem Sets (p. 2–37)

The principles and practices of payroll accounting discussed in Chapter 2 are applied in the Problem Sets as shown below.

	Principle or Practice	Problem Set No. (A and B)
1.	*Paying less than the minimum wage* (exception to the FLSA)	2–1
2.	Computing the *tip credit*	2–2, 2–5
3.	Computing *gross earnings*	2–3
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10.	*Piece-rate systems*	2–17, 2–18
11.	*Commissions*	2–19, 2–20
12.	*Bonuses*	2–21

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Solutions—Problem Set A

2–1A. (a) 37 hours × $4.20 = $155.40

(b) Yes. Beck, a full-time student in a university, may be employed by a retail establishment for at least 85 percent of the minimum wage, or $6.17 (85% × $7.25 = $6.1625, which the government rounds to $6.17). Since Beck is being paid a rate less than $6.17, the wage rate violates the FLSA.

(c) 37 hours × $6.17 = $228.29

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2–2A. (a) $2.13 × 40 = $85.20* minimum weekly wages.

(b)
$85.20	minimum weekly wages
– 80.00	weekly wage regularly paid
$5.20	additional weekly wage due

*In order to be able to pay just the minimum ($85.20) for a 40-hour week, the employee must receive at least $204.80 in tips ($290.00 – $85.20).

2–3A.

Employee	(a) Gross Earnings
Darley, R.	$444.60
Waxman, B.	494.00
Isaac, J.	481.00
Bruner, H.	430.00
Kellogg, P.	403.00
(b) Total gross earnings	$2,252.60

2–4A.

Employee	Regular Earnings	Overtime Rate	Overtime Earnings	(a) Total Gross Earnings
Carman, T.	$498.00	$18.68	$130.76	$628.76
Galasso, A.	476.00	17.85	35.70	511.70
Jones, B.	434.00	16.28	130.24	564.24
Rodna, G.	450.00	16.88	67.52	517.52
Lee, W.	536.00	20.10	110.55	646.55
(b) Total gross earnings				$2,868.77

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2–5A. (a) 40-hour pay (40 hours × $2.13) $85.20

(b) Overtime pay {2 hours × $5.76 [($7.25 × 1.5) – $5.12]} $11.52

2–6A. $80,000 ÷ 52 weeks = $1,538.46 × 2/5 = $615.38

2–7A. (a) Overtime earnings: $37.20 ($24.80 × 1.5) × 7 hours = $260.40

(b) Total earnings: ($24.80 × 40 hours) + $260.40 = $1,252.40

2–8A.

(a)	Regular pay (46 × $12.96)	$596.16
(b)	Overtime premium pay (6 × $6.48)	38.88
(c)	Gross pay	$635.04

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2–9A. (a) Hours worked each day:

Monday	8	hours
Tuesday	7 9/10	hours
Wednesday	7 6/10	hours
Thursday	7 6/10	hours
Friday	7 8/10	hours
(b) Total hours worked	38 9/10	hours

(c) Gross earnings for the week:
38 9/10 hours × $12.15 ..... $472.64

2–10A. (a) Daily total hours:

Tuesday	10	hours
Wednesday	10	hours
Thursday	9 3/4	hours
Friday	10	hours
Saturday	4	hours
(b) Total hours for the week	43 3/4	hours

(c) Regular weekly earnings = 40 hours × $10.45 ..... $418.00

(d) Overtime earnings = 3 3/4 hours × $15.675 ..... 58.78

(e) Total weekly earnings $476.78

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2–11A. (a)

Earnings, Job I: 40 × $14.00	=	$560.00
Earnings, Job II: 7 × $11.80	=	82.60

One-half overtime rate:
($560.00 + $82.60) ÷ 47 hours × 1/2 = $6.84

Extra overtime pay: 7 × $6.84	=	47.88
Gross pay		$690.48

(b)

40 × $14.00	=	$560.00
7 × ($11.80 × 1.5)	=	123.90
Gross pay	=	$683.90

OR

40 × $14.00	=	$560.00
7 × $11.80	=	82.60
7 × $5.90	=	41.30
Gross pay	=	$683.90

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2–12A. $695 ÷ 40 = $17.38 hourly rate

$17.38 × 1.5 = $26.07 overtime rate

(a)	Regular earnings	$695.00
(b)	Overtime earnings (5 hours × $26.07)	130.35
(c)	Total earnings	$825.35

2–13A. Yearly earnings: $2,875 × 12 = $34,500

Weekly earnings: $34,500 ÷ 52 = $663.46

(a) Hourly rate: $663.46 ÷ 40 = $16.59

(b) Overtime rate: $16.59 × 1.5 = $24.89

2–14A. Yearly earnings: $3,575 × 12 = $42,900

Weekly earnings: $42,900 ÷ 52 = $825.00

Hourly rate: $825.00 ÷ 35 = $23.57

Overtime rate: $23.57 × 1.5 = $35.36

(a)	Regular semimonthly earnings		$1,787.50
(b)	Overtime earnings:		
	Up to 40 hrs. (8 × $23.57)	$188.56	
	Over 40 hrs. (2 × $35.36)	70.72	259.28
(c)	Total earnings		$2,046.78

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2–15A. Gross pay = $675 + [2 hours × ($18.00* × 1.5)] = $729.00

*$675 ÷ 37 1/2 hours

2–16A. (a)	Overtime earnings: $1,050 ÷ 48 = $21.88 × 0.5 = $10.94 × 8	$87.52
(b)	Total earnings: $1,050.00 + $87.52	$1,137.52
(c)	BELO pay: [($22.00 × 53 hours) + (13 hours × $22.00 × 0.5)]	$1,309.00

2–17A. (a)	Piecework earnings = 1,275 units × $0.45	$573.75
(b)	Regular hourly rate: $573.75 ÷ 45.5 hours = $12.61 Overtime hourly rate: 1/2 of $12.61 = $6.31	
(c)	Overtime earnings = 5.5 hours × $6.31	34.71
(d)	Total earnings	$608.46

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2–18A. (a) Piecework earnings = 1,075 units × $0.45 ..... $483.75

(b) Overtime earnings = 200 units × $0.68 ($0.45 × 1.5) 136.00

(c) Total earnings $619.75

2–19A. (a) Regular annual salary $29,500

(b) Commission:

Commission on sales of $50,000 in excess of $150,000 ($50,000 @ 8.5%)	$4,250	
Commission on sales in excess of $200,000 ($95,000 @ 10%)	9,500	
Commission		13,750

(c) Total annual earnings $43,250

2–20A. (a) Weekly base salary $440.00

Weekly gross sales	$2,215.00	
Less customer returns	187.00	
Weekly net sales	$2,028.00	

(b) Commission: $2,028.00 × 2% 40.56

Weekly gross sales of cashmere sweaters	$995.00	
Less customer returns	75.00	
Weekly net sales of cashmere sweaters	$920.00	

(c) PM: $920.00 × 2% 18.40

(d) Total weekly earnings $498.96

2–21A. $975 ÷ 13 weeks = $75/week
$75 ÷ 43 hours = $1.74 bonus per hour
$1.74 × 0.5 = $0.87 extra overtime rate
$0.87 × 3 overtime hours/week × 13 weeks = $33.93

Solutions—Problem Set B

2–1B. (a) 33 1/4 hours × $5.25 = $174.56

(b) Yes. Cross, a full-time student in a university, may be employed by a retail establishment for at least 85 percent of the minimum wage, or $6.17 (85% × $7.25 = $6.1625, which the government rounds to $6.17). Since Cross is being paid a rate less than $6.17, the wage rate violates the FLSA.

(c) 33 1/4 hours × $6.17 = $205.15

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2–2B. (a) $2.13 × 40 = $85.20* minimum weekly wages.

(b)
$85.20 minimum weekly wages
– 75.00 weekly wage regularly paid
$10.20 additional weekly wage due

*In order to be able to pay just the minimum ($85.20) for a 40-hour week, the employee must receive at least $204.80 in tips ($290.00 – $85.20).

2–3B.

Employee	(a) Gross Earnings
Campillo, M.	$416.50
Hazelton, G.	396.20
Inman, T.	430.55
Palmer, C.	401.80
Diaz, O.	399.90
(b) Total gross earnings	$2,044.95

2–4B.

Employee	Regular Earnings	Overtime Rate	Overtime Earnings	(a) Total Gross Earnings
Kawamura, H.	$476.00	$17.85	$ 53.55	$529.55
Aha, C.	568.00	21.30	42.60	610.60
Shoup, K.	556.00	20.85	145.95	701.95
Carlyn, D.	428.00	16.05	24.08	452.08
McMurray, J.	684.00	25.65	128.25	812.25
(b) Total gross earnings				$3,106.43

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2–5B. (a) 40-hour pay (40 hours × $2.13) $85.20

(b) Overtime pay {3 1/2 hours × $5.76 [($7.25 × 1.5) – $5.12]} $20.16

2–6B. $77,000 ÷ 52 weeks = $1,480.77 × 2/5 = $592.31

2–7B. (a) Overtime earnings: $40.35 ($26.90 × 1.5) × 7 hours = $282.45

(b) Total earnings: ($26.90 × 40 hours) + $282.45 = $1,358.45

2–8B.

(a)	Regular pay (44 × $13.76)	$605.44
(b)	Overtime premium pay (4 × $6.88)	27.52
(c)	Gross pay	$632.96

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2–9B. (a) Hours worked each day:

Monday	7 6/10	hours
Tuesday	7 9/10	hours
Wednesday	7 7/10	hours
Thursday	7 9/10	hours
Friday	7 7/10	hours
(b) Total hours worked	38 8/10	hours

(c) Gross earnings for the week:
38 8/10 hours × $12.95 ..... $502.46

2–10B. (a) Daily total hours:

Tuesday	10	hours
Wednesday	10	hours
Thursday	9 1/2	hours
Friday	10	hours
Saturday	4	hours
(b) Total hours for the week	43 1/2	hours

(c) Regular weekly earnings = 40 hours × $13.85 ..... $554.00

(d) Overtime earnings = 3 1/2 hours × $20.775 ..... 72.71

(e) Total weekly earnings $626.71

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2–11B. (a)

Earnings, Job I: 40 × $15.00	=	$600.00
Earnings, Job II: 9 × $13.10	=	117.90
One-half overtime rate: ($600.00 + $117.90) ÷ 49 hours × 1/2 = $7.33		
Extra overtime pay: 9 × $7.33	=	65.97
Gross pay		$783.87

(b)

40 × $15.00	=	$600.00
9 × ($13.10 × 1.5)	=	176.85
Gross pay	=	$776.85

OR

40 × $15.00	=	$600.00
9 × $13.10	=	117.90
9 × $6.55	=	58.95
Gross pay	=	$776.85

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2–12B. $725 ÷ 40 = $18.13 hourly rate

$18.13 × 1.5 = $27.20 overtime rate

(a)	Regular earnings	$725.00
(b)	Overtime earnings (4 hours × $27.20)	108.80
(c)	Total earnings	$833.80

2–13B.

Yearly earnings:		$3,875 × 12	= $46,500
Weekly earnings:		$46,500 ÷ 52	= $894.23
(a)	Hourly rate:	$894.23 ÷ 40	= $22.36
(b)	Overtime rate:	$22.36 × 1.5	= $33.54

2–14B.

Yearly earnings:		$3,650 × 12	= $43,800
Weekly earnings:		$43,800 ÷ 52	= $842.31
Hourly rate:		$842.31 ÷ 37.5	= $22.46
Overtime rate:		$22.46 × 1.5	= $33.69

(a)	Regular semimonthly earnings			$1,825.00
(b)	Overtime earnings:			
	Up to 40 hrs. (4 × $22.46)		$89.84	
	Over 40 hrs. (2 × $33.69)		67.38	157.22
(c)	Total earnings			$1,982.22

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2–15B. Gross pay = $735 + [2 hours × ($21.00* × 1.5)] = $798.00

*$735 ÷ 35 hours

2–16B. (a)	Overtime earnings: $920 ÷ 42 = $21.90 × 0.5 = $10.95 × 2	$21.90
(b)	Total earnings: $920.00 + $21.90	$941.90
(c)	BELO pay: [($21.00 × 45 hours) + (5 hours × $21.00 × 0.5)]	$997.50

2–17B. (a)	Piecework earnings = 1,450 units × $0.38	$551.00
(b)	Regular hourly rate: $551.00 ÷ 46 hours = $11.98 Overtime hourly rate: 1/2 of $11.98 = $5.99	
(c)	Overtime earnings = 6 hours × $5.99	35.94
(d)	Total earnings	$586.94

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2–18B.

(a)	Piecework earnings = 1,120 units × $0.38		$425.60
(b)	Overtime earnings = 330 units × $0.57 ($0.38 × 1.5)		188.10
(c)	Total earnings		$613.70

2–19B.

(a)	Regular annual salary		$34,500
(b)	Commission:		
	Commission on sales of $50,000 in excess of $150,000 ($50,000 @ 9.5%)	$4,750	
	Commission on sales in excess of $200,000 ($115,000 @ 12%)	13,800	
	Commission		18,550
(c)	Total annual earnings		$53,050

2–20B.

(a)	Weekly base salary		$400.00
	Weekly gross sales	$2,715.00	
	Less customer returns	217.00	
	Weekly net sales	$2,498.00	
(b)	Commission: $2,498.00 × 1%		24.98
	Weekly gross sales of cashmere sweaters	$895.00	
	Less customer returns	75.00	
	Weekly net sales of cashmere sweaters	$820.00	
(c)	PM: $820.00 × 3%		24.60
(d)	Total weekly earnings		$449.58

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2–21B. $2,000 ÷ 52 weeks = $38.46/week
$38.46 ÷ 44 hours = $0.87 bonus per hour
$0.87 × 0.5 = $0.44 extra overtime rate
$0.44 × 4 overtime hours/week × 52 weeks = $91.52

Continuing Payroll Problems (p. 2–51)

See the completed payroll registers on pages CPP–1 through CPP–6.

Case Problems (p. 2–54)

Case 2–1

Some potential solutions that Delgado should consider are:

1. Limit vacation accruals to a maximum, such as two or three weeks. This move would reduce the current cost of payouts for earlier vacations granted at lower wage rates.
2. Combine sick leave and vacation leave into one category called “annual leave.” This practice enables a worker to use the leave time for any purpose—sick leave, vacation time, child care, parental care, etc.

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3. Adopt flexible time scheduling to enable workers to handle personal business, such as medical and dental appointments, while they are flexing during the workday.

Case 2–2

John should be made aware of the fact that the FLSA requires overtime pay for hours physically worked over 40 in a workweek. Time paid for but not worked because of holidays, vacations, sickness, jury duty, etc., is not included in the employee's regular rate of pay and does not count toward 40 hours *worked*.

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2023 edition PAYROLL ACCOUNTING

Bieg/Toland

TEST 2

Student _____

Chapter 2 Date _____

SCORING RECORD

Section	Total Points	Deductions	Score
A	40		
B	60		
Total	100		

Section A—DIRECTIONS: Each of the following statements is either true or false. Unless directed otherwise by your instructor, indicate your choice in the Answers column by writing "T" for a true answer or "F" for a false answer. (2 points for each correct answer)

		Answers	For Scoring
1.	An enterprise is covered under the FLSA if there are at least two employees engaged in interstate commerce and if the enterprise has a gross annual sales volume of at least $100,000.	____	**1.** ____
2.	Under the FLSA, "mom and pop stores" are excluded from enterprise coverage.	____	**2.** ____
3.	If a small amount of tips is turned over to the employer, the tip credit can still be applied against the minimum wage.	____	**3.** ____
4.	Employers must pay employees for working overtime hours even if the overtime was not authorized or approved.	____	**4.** ____
5.	Employees who regularly work less than 20 hours a week are not covered by the minimum wage requirements.	____	**5.** ____
6.	A full-time student may be employed by a retail shop at 85 percent of the minimum wage.	____	**6.** ____
7.	An employer may only credit up to half of a tipped employee's minimum wage as coming from the tips actually received.	____	**7.** ____
8.	There are some states that have a higher minimum wage rate than the federal minimum.	____	**8.** ____
9.	The FLSA provides for the payment of "double time" for any hours worked on holidays.	____	**9.** ____
10.	Wage differentials between sexes would be allowed if the different wage rates were based on a seniority system.	____	**10.** ____
11.	Blue-collar workers do not have to be paid for overtime if they have earned more than $90,000 for the year.	____	**11.** ____
12.	The FLSA requires employees to be paid for a rest period of 30 minutes or less.	____	**12.** ____
13.	Employers are not required to pay an employee for hours not worked because of illness.	____	**13.** ____
14.	Time spent in training sessions is never counted as working time.	____	**14.** ____
15.	"Engaged to wait" and "waiting to be engaged" are both considered work time	____	**15.** ____
16.	A worker who is regularly paid on a biweekly basis should receive 24 paychecks each year.	____	**16.** ____
17.	In order to qualify for the "white-collar" exemption as outside salespeople, the employees must be paid a minimum salary of at least $1,000/week.	____	**17.** ____
18.	Commissions are considered to be payments for hours worked and must be included in determining the regular hourly rate.	____	**18.** ____
19.	In calculating the overtime premium pay, the overtime hours are multiplied by one-half the regular hourly rate.	____	**19.** ____
20.	A nondiscretionary bonus is one that is either known in advance or is set up as an inducement to achieve certain goals.	____	**20.** ____

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Section B—DIRECTIONS: Solve the following problems and record the answers in the Answers column. Carry each hourly rate and each overtime rate to 3 decimal places and then round off to 2 decimal places. (6 points for each correct answer)

		Answers	For Scoring
1.	Diane Duke works a standard 40-hour workweek. She is paid time and one-half for all hours over 40 in each workweek. Her regular hourly wage rate is $10.90. One week, Duke worked 49 hours. Her total gross earnings for the week are.....	$_____	**1.** ____
2.	Charles Rollins earns $2,400 each month and works 35 hours each week.		
	(a) His hourly rate is	$_____ (3 pts.)	**2a.** ____
	(b) His overtime rate is	$_____ (3 pts.)	**2b.** ____
3.	Ken Gorman is paid $810.00 for a 37½-hour workweek. Overtime is paid at time and one-half for hours beyond 40 in each workweek. One week, Gorman works 48 hours. If he is paid his regular hourly rate for the first 40 hours, Gorman's gross pay is	$_____	**3.** ____
4.	Susan Cejka receives an hourly wage of $11.25 for a 40-hour week of 5 days, 8 hours daily. For Saturday work, she is paid 1½ times the regular rate. For Sunday work, she is paid 2 times the regular rate. One week, she worked 50 hours—4 hours of which were on Saturday and 6 hours on Sunday. Her total earnings for the week are.....	$_____	**4.** ____
5.	Ronald Dowd receives an annual base salary of $87,500 as a salesman in the Southern region, which has an annual sales quota of $450,000. For all sales over this quota, Dowd receives a commission of 4½ percent. For the current year, sales in the Southern region total $698,000. The amount of salary and commissions due to Dowd is.....	$_____	**5.** ____
6.	Charles Geiger is a salaried employee who works fluctuating workweeks. He is paid $1,520 per workweek. This week, he worked 50 hours. Determine Geiger's total gross pay if his employer uses the special half-rate (based on total hours worked) for overtime pay.	$_____	**6.** ____
7.	Ron Morris earns $11.80 per hour and worked 44 hours this week. In addition, he earned a production bonus of $35.20 for the week. His gross pay for the week is	$_____	**7.** ____
8.	Bob Knox is paid on a piece-rate basis. He is paid 30 cents for each unit he produces. For overtime work, he receives in addition to his piece-rate earnings a sum equal to one-half the regular hourly pay multiplied by the hours worked in excess of 40 in a week. During a particular week, Knox worked 45 hours and produced 1,890 units. His total earnings for the week are	$_____	**8.** ____
9.	Carson Jimenez worked two separate jobs for Horwath Company during the week. Job A consisted of 36 hours at $16.00 per hour; Job B entailed 14 hours at $17.50 per hour. Determine his gross pay for that week if the employer uses the average rate basis for the overtime pay.	$_____	**9.** ____
10.	Kirit Jaidee is a waiter who regularly receives $90 each week in tips and works 40 hours each week. Jaidee's employer claims the maximum weekly tip credit that is allowed in this case. The gross weekly pay, excluding tips, that the restaurant should pay Jaidee without violating the FLSA is	$_____	**10.** ____

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PAYROLL ACCOUNTING

Bieg/Toland

TEST 2

Student **INSTRUCTOR'S COPY**

Chapter 2 Date _____

SCORING RECORD

Section	Total Points	Deductions	Score
A	40		
B	60		
Total	100		

Section A—DIRECTIONS: Each of the following statements is either true or false. Unless directed otherwise by your instructor, indicate your choice in the Answers column by writing "T" for a true answer or "F" for a false answer. (2 points for each correct answer)

		Answers	For Scoring
1.	An enterprise is covered under the FLSA if there are at least two employees engaged in interstate commerce and if the enterprise has a gross annual sales volume of at least $100,000.	**F**	**1.** ___
2.	Under the FLSA, "mom and pop stores" are excluded from enterprise coverage.	**T**	**2.** ___
3.	If a small amount of tips is turned over to the employer, the tip credit can still be applied against the minimum wage.	**F**	**3.** ___
4.	Employers must pay employees for working overtime hours even if the overtime was not authorized or approved.	**T**	**4.** ___
5.	Employees who regularly work less than 20 hours a week are not covered by the minimum wage requirements.	**F**	**5.** ___
6.	A full-time student may be employed by a retail shop at 85 percent of the minimum wage.	**T**	**6.** ___
7.	An employer may only credit up to half of a tipped employee's minimum wage as coming from the tips actually received.	**F**	**7.** ___
8.	There are some states that have a higher minimum wage rate than the federal minimum.	**T**	**8.** ___
9.	The FLSA provides for the payment of "double time" for any hours worked on holidays.	**F**	**9.** ___
10.	Wage differentials between sexes would be allowed if the different wage rates were based on a seniority system.	**T**	**10.** ___
11.	Blue-collar workers do not have to be paid for overtime if they have earned more than $90,000 for the year.	**F**	**11.** ___
12.	The FLSA requires employees to be paid for a rest period of 30 minutes or less.	**F**	**12.** ___
13.	Employers are not required to pay an employee for hours not worked because of illness.	**T**	**13.** ___
14.	Time spent in training sessions is never counted as working time.	**F**	**14.** ___
15.	"Engaged to wait" and "waiting to be engaged" are both considered work time.	**F**	**15.** ___
16.	A worker who is regularly paid on a biweekly basis should receive 24 paychecks each year.	**F**	**16.** ___
17.	In order to qualify for the "white-collar" exemption as outside salespeople, the employees must be paid a minimum salary of at least $1,000/week.	**F**	**17.** ___
18.	Commissions are considered to be payments for hours worked and must be included in determining the regular hourly rate.	**T**	**18.** ___
19.	In calculating the overtime premium pay, the overtime hours are multiplied by one-half the regular hourly rate.	**T**	**19.** ___
20.	A nondiscretionary bonus is one that is either known in advance or is set up as an inducement to achieve certain goals.	**T**	**20.**

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Section B—DIRECTIONS: Solve the following problems and record the answers in the Answers column. Carry each hourly rate and each overtime rate to 3 decimal places and then round off to 2 decimal places. (6 points for each correct answer)

		Answers	For Scoring
1.	Diane Duke works a standard 40-hour workweek. She is paid time and one-half for all hours over 40 in each workweek. Her regular hourly wage rate is $10.90. One week, Duke worked 49 hours. Her total gross earnings for the week are [(40 × $10.90) + (9 × $10.90 × 1.5)]	$ **583.15**	**1.**
2.	Charles Rollins earns $2,400 each month and works 35 hours each week.		
	(a) His hourly rate is [($2,400 × 12) ÷ 52 ÷ 35]	$ **15.82** (3 pts.)	**2a.**
	(b) His overtime rate is ($15.82 × 1.5)	$ **23.73** (3 pts.)	**2b.**
3.	Ken Gorman is paid $810.00 for a 37½-hour workweek. Overtime is paid at time and one-half for hours beyond 40 in each workweek. One week, Gorman works 48 hours. If he is paid his regular hourly rate for the first 40 hours, Gorman's gross pay is $810 ÷ 37½ = $21.60/hour; [$810 + (2.5 × $21.60) + (8 × $32.40)]	$ **1,123.20**	**3.**
4.	Susan Cejka receives an hourly wage of $11.25 for a 40-hour week of 5 days, 8 hours daily. For Saturday work, she is paid 1½ times the regular rate. For Sunday work, she is paid 2 times the regular rate. One week, she worked 50 hours—4 hours of which were on Saturday and 6 hours on Sunday. Her total earnings for the week are [(40 × $11.25) + (4 × $16.88) + (6 × $22.50)]	$ **652.52**	**4.**
5.	Ronald Dowd receives an annual base salary of $87,500 as a salesman in the Southern region, which has an annual sales quota of $450,000. For all sales over this quota, Dowd receives a commission of 4½ percent. For the current year, sales in the Southern region total $698,000. The amount of salary and commissions due to Dowd is [$87,500 + ($248,000 × 0.045)]	$ **98,660**	**5.**
6.	Charles Geiger is a salaried employee who works fluctuating workweeks. He is paid $1,520 per workweek. This week, he worked 50 hours. Determine Geiger's total gross pay if his employer uses the special half-rate (based on total hours worked) for overtime pay. ($1,520 ÷ 50 = $30.40 × 0.5 = $15.20 × 10 = $152.00 + $1,520)	$ **1,672.00**	**6.**
7.	Ron Morris earns $11.80 per hour and worked 44 hours this week. In addition, he earned a production bonus of $35.20 for the week. His gross pay for the week is (44 × $11.80 = $519.20 + $35.20 = $554.40 ÷ 44 = $12.60 × 0.5 = $6.30 × 4 = $25.20 + $554.40)	$ **579.60**	**7.**
8.	Bob Knox is paid on a piece-rate basis. He is paid 30 cents for each unit he produces. For overtime work, he receives in addition to his piece-rate earnings a sum equal to one-half the regular hourly pay multiplied by the hours worked in excess of 40 in a week. During a particular week, Knox worked 45 hours and produced 1,890 units. His total earnings for the week are (1,890 × $0.30 = $567.00 ÷ 45 = $12.60 × 0.5 = $6.30 × 5 = $31.50 + $567.00)	$ **598.50**	**8.**
9.	Carson Jimenez worked two separate jobs for Horwath Company during the week. Job A consisted of 36 hours at $16.00 per hour; Job B entailed 14 hours at $17.50 per hour. Determine his gross pay for that week if the employer uses the average rate basis for the overtime pay. [(36 × $16.00) + (14 × $17.50) = $821 ÷ 50 = $16.42 × 0.5 = $8.21 × 10 = $82.10 + $821.00]	$ **903.10**	**9.**
10.	Kirit Jaidee is a waiter who regularly receives $90 each week in tips and works 40 hours each week. Jaidee's employer claims the maximum weekly tip credit that is allowed in this case. The gross weekly pay, excluding tips, that the restaurant should pay Jaidee without violating the FLSA is (40 × $7.25 = $290.00 – $90.00)	$ **200.00**	**10.**

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Instructor Manual

Bieg/Toland, Payroll Accounting 2023, 9780357722275; Chapter 2: Computing Wages and Salaries

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PURPOSE AND PERSPECTIVE OF THE CHAPTER

The purpose of this chapter is to examine the major provisions of the Fair Labor Standards Act (FLSA), how to determine hours worked by employees, commonly used methods to record time worked, and major methods of computing salaries and wages.

LIST OF STUDENT DOWNLOADS

Students should download the following items from the Student Companion Center to complete the activities and assignments related to this chapter. Not every item listed below is specific to this chapter, but all items listed are beneficial, regardless of the chapter.

- As We Go to Press.
- Check Figures.*
- Annotated EOC Excel Templates.*
- Continuing Payroll Problems A and B.
- Federal Payroll Taxes Calendar.
- Free Access to Microsoft Excel for Students.
- PowerPoints (PPTs).*
- Tax Tables.

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*Items specific to this individual chapter.

CHAPTER OBJECTIVES

The following objectives are addressed in this chapter:

02.01. Explain the major provisions of the Fair Labor Standards Act.

02.02. Define *hours worked*.

02.03. Describe the main types of records used to collect payroll data.

02.04. Calculate regular and overtime pay.

02.05. Identify distinctive compensation plans.

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KEY TERMS

Biweekly: every two weeks.

Commission: stated percentage of revenue paid an employee who transacts a piece of business or performs a service.

Common-law relationship: the state existing when the employer has the right to control both what work will be done and how it will be done.

Continental system: method of recording time on time cards in which the day is divided into one 24-hour period, with time running from 12 midnight to 12 midnight.

Discretionary bonus: a bonus not agreed on, announced, or promised before payment.

Domestic service: services of a household nature performed in or about a private home of the person who employs the domestic.

Employee: any individual performing services for an employer in the legal relationship of employer and employee.

Enterprise coverage: applied to determine if employees of an enterprise are covered under the provisions of the FLSA. The test criteria are at least two employees engaged in interstate commerce and an annual gross sales volume of at least $500,000.

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Exempt employees: workers exempt from some, or all, of the FLSA requirements such as minimum wages, equal pay, and overtime pay.

Gross earnings: total regular earnings and total overtime earnings, also known as gross pay.

Individual employee coverage: applied to determine if the FLSA covers an employee. The test is that the employee either engages in interstate commerce or produces goods for such commerce.

Nondiscretionary bonus: a bonus normally based on hours worked, units produced, production efficiency, or work quality.

Overtime premium: method of calculating overtime pay by multiplying the total hours worked (including overtime hours) by the regular rate of pay and then multiplying the overtime hours by one-half the regular hourly rate.

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Piece-rate system: compensation plan under which workers are paid according to their output (units or pieces produced).

Principal activities: those tasks employees must perform for the employer.

Profit-sharing plans: compensation plans in which employer shares with employees a portion of the profits of the business.

Salary: remuneration paid on a monthly, biweekly, semimonthly, or yearly basis.

Semimonthly: twice a month.

Time card: form on which employee's time worked is recorded manually by the worker or automatically by a time clock.

Time sheet: form that indicates an employee's time of arrival and time of departure.

Tip: gift or gratuity given by a customer in recognition of service performed for him or her.

Tipped employee: one engaged in an occupation in which tips of more than $30 a month are customarily and regularly received.

Wage(s): remuneration paid on an hourly, weekly, or piece-work basis; total compensation paid to employees for services.

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Wage theft: a term that refers to situations when employers do not pay employees in accordance with statutory or contract requirements.

Workweek: fixed and regularly recurring period of 168 hours—7 consecutive 24-hour periods.

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WHAT'S NEW IN THIS CHAPTER

The following elements are improvements in this chapter from the previous edition:

- *Revised and updated chapter materials as needed for the changes in years and the related amounts.*

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CHAPTER OUTLINE

The following outline organizes activities (including any existing discussion questions in PPTs or other supplements) and assessments by chapter (and therefore by topic) so that you can see how all of the content relates to the topics covered in the text.

I. The Fair Labor Standards Act (02.01, PPT Slide 3)

a. The Fair Labor Standards Act (FLSA), commonly known as the Federal Wage and Hour Law, contains provisions and standards concerning minimum wages, equal pay for equal work regardless of sex, overtime pay, recordkeeping, and child labor.
b. Enterprise coverage includes all employees of an enterprise if:
   1. At least two employees engage in interstate commerce or produce goods for interstate commerce. Interstate commerce refers to the trade, transportation, or communication among several states or between a state and any place outside that state. The law also covers employees if they handle, sell, or otherwise work on goods or materials that have been moved in or produced for interstate commerce.
   2. The business has annual gross sales of at least $500,000.
c. Under individual employee coverage, the FLSA covers a worker if the employee either engages in interstate commerce or produces goods for such commerce. Coverage also includes employment in a fringe occupation closely related and directly essential to the production of goods for interstate commerce.
d. Employer: The FLSA defines an employer as “any person acting directly or indirectly in the interest of an employer” in relation to an employee. In order to protect employees, courts have defined “employers” in the broadest sense.
e. Employee: An individual is an employee if the individual performs services in a covered employment.
f. Domestic service consists of services of a household nature performed in or about a private home of the person who employs the domestic. Some typical domestics include cooks, butlers, maids, caretakers, gardeners, and chauffeurs.
g. The Fair Minimum Wage Act of 2007 increased the minimum wage to $7.25 at the beginning of July 24, 2009. Included in the regular rate of pay is all remuneration for employment paid to or on behalf of the employee.
h. A discretionary bonus, which is a bonus not agreed upon, announced, or promised before payment, is not included in an employee’s regular rate of pay.

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i. Under certain conditions, wages lower than the minimum wage may be paid to some employees. Over 100 cities have enacted local ordinances to require employers who do business with the government to pay a "living wage" to their low-wage workers.
j. A tipped employee is one who engages in an occupation in which tips of more than $30 a month are customarily and regularly received.
k. In 2022, the minimum wage for tipped employees of federal contractors was set at $10.50 per hour. Through a combination of tips and wages, these tipped employees must earn at least $15.00 per hour.
l. The FLSA requires overtime pay for all hours worked in excess of 40 in a workweek. The FLSA requires no overtime pay for daily hours worked in excess of any given number or for work on Saturdays, Sundays, holidays, or other special days.
m. Employees in retail or service industries are exempt from overtime provisions as long as their regular weekly rate of pay, including commissions, is at least one and one-half times the federal minimum wage rate ($10.88) and more than half of their pay over a monthly period comes from commissions. The overtime exemption is lost for any week in which the pay drops below $10.88 per hour.
n. A state, a political subdivision of a state, or an interstate governmental agency may grant employees (not covered by a collective bargaining agreement) compensatory time off in lieu of overtime compensation.
o. Exempt employees are those workers exempt from some, or all, of the FLSA requirements, such as minimum wages, equal pay, and overtime pay.
p. The FLSA exempts some workers, such as executives, administrators, professional employees, highly compensated employees, computer professionals, and outside salespersons, from the minimum wage and overtime pay provisions if they satisfy certain tests.
q. The exemption from overtime pay based on the duties and salary tests does not apply to blue-collar workers (manual workers).
r. The Equal Pay Act amended the FLSA to require that men and women performing equal work must receive equal pay. The Equal Pay Law prohibits an employer from discriminating by paying wages to employees of one sex at a lower rate than those paid to the opposite sex for equal work on jobs that require equal skill, effort, and responsibility and that are performed under similar working conditions.
s. The FLSA prohibits a business from the interstate shipment of its goods or services if it employs child labor unlawfully. Under the FLSA, the secretary of labor issues regulations that restrict the employment of individuals under the age of 18.
t. Wage theft is a term that refers to situations when employers do not pay employees in accordance with statutory or contract requirements.

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u. Penalties can result from:
    1. Misclassifying workers, willfully violating wage and hour provisions, or providing false data.
    2. Repeated violations and child-labor provision violations.

v. The FLSA does not require employers to:
    1. Pay extra wages for work on Saturdays, Sundays, or holidays.
    2. Pay for holidays, vacations, or severance.
    3. Limit the number of hours or work for persons 16 years of age or over.
    4. Give holidays off.
    5. Grant vacation time.
    6. Grant sick leave.

w. Discussion Activity 1: 30 minutes total. The scenario is given in PPT Slide 26, and the related discussion questions are below.

Indigine Systems follows the rules and regulations laid by the FLSA of 1938 and makes the wage payment as per the Fair Minimum Wage Act of 2007. The company is facing an exceptionally high workload, and this requires its workers to work for more than 40 hours in a workweek. The management of the company is seeking advice on overtime hours and overtime pay, and it wants to know if there are any exceptions to overtime provisions.

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- Help the management of the company by explaining the rules laid out for overtime pay in FLSA.

II. Determining Employee's Work Time (02.02, PPT Slides 29-30)

a. Generally, the hours counted as working time include all the time that employees actually work or must be on duty. A distinction must be made between an employee's principal activities and the preliminary and postliminary activities.
b. The principal activities of employees include those tasks employees must perform and include any work of consequence performed for the employer. Principal activities include those indispensable to the performance of productive work and those that are an integral part of a principal activity.
c. Preliminary and postliminary activities are compensated if one of the following conditions is met:
    1. There is a prior agreement between the employer and employee.
    2. It is customary in the industry.

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3. It is an integral and indispensable part of the employee's principal activity.

d. **Polling Activity 1: 10 minutes total. Answer the multiple-choice question given in PPT Slide 32.**

George, an employee of an information technology company, undergoes on-the-job training during regular working hours. Some additional training sessions are scheduled outside regular working hours.

Which of the following can be considered part of George's working time?

a. On-the-job training
b. Additional training sessions
c. Both a and b
d. Neither a nor b

III. Records Used for Timekeeping (02.03, PPT Slide 34)

a. The FLSA requires employers subject to the law to keep certain time and pay records.
b. A time sheet provides the information required by law and the data used to compute the payroll.
c. Time cards record the hours worked, the rate of pay, deductions, and net pay.
d. The main kinds of computerized time and attendance recording systems include card-generated systems, badge systems, cardless and badgeless systems, and personal computer-based systems.
e. Many companies have been forced to acquire more automated systems. These systems allow for:
    1. quicker and more accurate data assembly.
    2. elimination of calculation errors.
    3. easier tracking of labor cost to projects.
    4. faster and more reliable scheduling.
f. The new generation systems can communicate key messages to employees, for example, touch-screen technology, internet, biometrics, Interactive Voice Response (IVR), and cloud-based.
g. **Discussion Activity 2: 30 minutes total. The scenario is given in PPT Slide 35, and the related discussion questions are below.**

Transcript Solutions, a software company, uses time cards in which the time worked is recorded manually by the employee. However, most employees of the company take their work home; hence, the Payroll Department is not able to keep track of the working hours

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accurately. You work as a payroll manager in Transcript Solutions, and you have suggested that the company use automated systems for time and attendance recording. The management of the company is skeptical about the idea and wants to know the benefits and various options available under the new generation systems.

- Briefly explain to the management the benefits and various technologies available under the new generation systems.

IV. Methods of Computing Wages and Salaries (02.04, PPT Slide 38)

a. Most common pay periods are as follows:
   1. Weekly (52): 40 hours each pay period.
   2. Biweekly (26): 80 hours each pay period.
   3. Semimonthly (24): different hours each pay period.
   4. Monthly (12): different hours each pay period.

   By adding the total regular earnings and the total overtime earnings, we obtain the gross earnings. In calculating the gross pay of an employee who worked overtime, one of two methods can be used, both of which will result in the same total gross pay.

b. **Polling Activity 2: 10 minutes total. Answer the multiple-choice question given in PPT Slide 47.**

   Jennifer worked at two different pay rates during the past week. Her main job paid $25 per hour, while the extra job rate was $20 per hour. She worked for 35 hours at the main job and 10 hours at the extra job.

   What is the overtime rate that needs to be paid to Jennifer?
   a. The higher rate, that is, half of $25
   b. The average wage rate, that is, half of $23.88
   c. The rate for the job performed after the 40th hour, that is, half of $20
   d. All of the above
   e. None of the above

V. Salaried Nonexempt Employees (02.05, PPT Slide 49)

a. In order to cut administrative costs, salaries can be paid to nonexempt employees; however, these employees are still subject to the FLSA's overtime rules. The employee's regular rate of pay is found by dividing the number of hours expected to be worked each week into the weekly salary. The employee is then entitled to be paid at the regular rate of pay for the first 40 hours and at one and one-half times the regular rate of pay for the hours over 40.

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b. Employers may pay employees who work fluctuating schedules a fixed salary, regardless of the number of hours worked.
c. BELO plan: An alternative salary method to compensate employees working fluctuating schedules is the BELO plan. It is more restrictive than the fluctuating workweek method.
d. Under the piece-rate system, the employer pays workers according to their output, such as an amount for each unit or piece produced. Thus, the wages increase as production increases. The employer keeps production records for each employee so that these records will be available when computing the wages earned by each employee.
e. Special incentive plans are modifications of piece-rate plans that are used to entice workers to produce more.
f. The entire remuneration, or at least part of the remuneration, of certain employees may be on a commission basis. A commission is a stated percentage of revenue paid to an employee who transacts a piece of business or performs a service.
g. Nondiscretionary bonuses: A bonus that is part of employees' wage rates must be allocated to the wages for the period covered by the bonus. Bonuses that are known in advance, or that are set up as inducements to achieve goals, would fit into this category.
h. Profit-sharing plans: Many businesses have developed profit-sharing plans whereby the employer shares with the employees a portion of the profits of the business. Generally, profit-sharing plans include the following three types:

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    1. Cash payments based upon the earnings of a specified period.
    2. Profits placed in a special fund or account to be drawn upon by employees at some future time. This plan may be in the form of a savings account, a pension fund, or an annuity.
    3. Profits distributed to employees in the form of capital stock.

i. **Knowledge Check Activity 1: 10 minutes total. Answer the multiple-choice question given in PPT Slide 59.**

    Catherine is a nonexempt employee and has an agreement with her employer to work for 36 hours in a week. In the previous week, Catherine worked for 45 hours. How many hours of work are considered overtime hours for the overtime pay calculation?

    a. 4 hours
    b. 5 hours
    c. 9 hours
    d. 12 hours

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ADDITIONAL DISCUSSION QUESTIONS

The following are discussion questions that do not appear in the text, PPTs, or courseware (if courseware exists)—they are for you to use as you wish. You can assign these questions several ways: in a discussion forum in your LMS, as whole-class discussions in person, or as a partner or group activity in class.

1. Discussion: Living Wage versus Minimum Wage (duration: 30 minutes).
    a. The living wage without health insurance coverage in some states is around $17, whereas the federal minimum wage for covered nonexempt employees was raised to $7.25 per hour. However, states like California and New York have raised the federal minimum wage to $15.
    b. Should the minimum wage be adjusted for inflation instead of relying on Congressional action for increases?
        i. Answer: Though inflation is one of the main factors deciding the living standards, it is not the sole factor for maintaining an income above the federal poverty line. Further, the inflation rates may be highly volatile over months, whereas the average annual inflation rate may be steady. Nevertheless, since there is no periodic mandatory review mechanism to check the necessity of raising the living wage and minimum wages, inflation-adjusted wage rates are desirable. For instance, there was no change in the federal minimum wage rate of $7.25 since 2009. In this situation, an inflation-adjusted one is desirable.
    c. If the minimum wage is inflation adjusted, can it replace the living wage?
        i. Answer: An inflation-adjusted minimum wage cannot replace a living wage. Living wage is the income needed to support individuals to lead a satisfactory standard of living. This amount can vary as per the living costs in various locations. On the other hand, the purpose of the minimum wage is to ensure individuals earn a floor price on hourly wages.

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ADDITIONAL RESOURCES

CENGAGE VIDEO RESOURCES

- CNOW Videos:
  - Tell Me More LO4: Tipped Employee with Overtime
  - Tell Me More LO4: Converting Monthly Salary to Hourly Rates
  - Show Me How Problem CPP-1A
  - Show Me How Problem 2-4A
  - Show Me How Problem 2-7A
  - Show Me How Problem 2-11A
  - Show Me How Problem 2-13A
  - Show Me How Problem 2-14A
  - Show Me How Problem 2-16A

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