Payroll Accounting 2022 8th edition Landin Solutions Manual

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SOLUTIONS MANUAL: CHAPTER 1 END OF CHAPTER ANSWERS

ANSWERS TO STOP AND CHECK EXERCISES

Which Law?

1. K
2. H
3. B
4. F
5. I
6. J
7. A
8. D
9. G
10. C
11. E
12. L

Which Payroll Law?

1. D
2. A
3. F
4. C
5. G
6. J
7. B
8. I
9. E
10. H

What's Ethical?

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

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

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Confidential Records

As the payroll clerk, your task is to protect the privacy and confidentiality of the information you maintain for the company. If a student group—or any personnel aside from the company's payroll employees and officers—wishes to review confidential records, you should deny their request. If needed, you should refer the group to your department's manager to discuss the matter in more depth. The laws that apply to this situation are the Privacy Act of 1974, U.S. Department of Labor OCHO-1, and potentially HIPAA.

Large vs. Small

1. Large companies face issues with multiple departments, employee access to online personnel portals, employee data security, and timekeeping accuracy.
2. For small companies, the cost of outsourcing the payroll function needs to be considered. On one hand, a small company may not have personnel who are proficient with payroll regulations and tax reporting requirements, which leaves a company vulnerable to legal actions and stringent fines. However, engaging a payroll service company may be cost prohibitive. The decision to outsource the payroll for a small company should consider the number of personnel, locations, and types of operations in which the company engages.

What Is the Difference?

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

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b. Computerized payroll systems can be used by any company, regardless of size. Examples of computerized systems include, QuickBooks, Sage 100, and Microsoft Dynamics GP. These computer packages range in price, depending on the company size and operational scope.

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

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

ANSWERS TO END-OF-CHAPTER MATERIALS

REVIEW QUESTIONS

1. What is the purpose of a payroll system?

a. Provide for internal and external reporting of employee wages and associated taxes, payment of employee compensation, and monitoring of benefits to employees. It also serves as a means of tracking labor costs that managers use for decision-making, budgeting, and planning.

2. What are two differences between large- and small-company payroll practices?

a. Small companies would have fewer employees and reporting requirements and would be less likely to be required to have automated payroll systems.

b. Large companies have more employees and greater departmentalization. This increase in employees leads to a higher level of complexity in payroll accounting, disbursements, and

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reporting. Larger companies may also provide Intranet portals for employee self-service options. Additionally, larger companies may need additional accuracy checks.

3. What is certified payroll? Which companies must use it?

a. Certified payroll is a reporting requirement for companies that work with federal contracts that are subject to Davis-Bacon wages. Only those companies that have these types of employees would be required to complete a certified payroll.

4. Why might it be a good idea to let employees manage their pay records? What are some of the pitfalls?

a. An advantage of allowing individuals to self-manage their payroll records would be the employee would be able to answer some simple questions on their own without having to come to the payroll accountant for answers. If employees have access to their payroll records, there would be the need to allow multiple access points to the confidential information. These open channels would require security settings to ensure the requirements of confidentiality are maintained.

5. What are two ways a payroll system may protect a company in the event of a visit from a government auditor?

Answers may vary, but should contain:

a. Through the establishment and maintenance of an accurate payroll system. Through timely and accurately reporting wages and withholdings.

6. What is payroll outsourcing? When might a company consider outsourcing its payroll?

a. Payroll outsourcing is the process of contracting another company for the preparation, reporting, and filing of employee payroll. Companies may consider this option if the company sees a benefit to the company that outweighs the cost of outsourcing.

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7. What are three examples of federal laws that are essential to ensure legal, fair hiring practices?

   Answers should contain three the following:

a. American with Disabilities Act

b. Age Discrimination in Employment Act

c. Fair Labor Standards Act

d. Civil Rights Act

8. What are the major types of payroll processing methods?

a. Manual

b. Computerized

c. Outsourced

d. Certified

9. What are two laws governing the taxes that employers must withhold from employees?

a. 16th Amendment of the U.S. Constitution

b. Social Security Insurance Act

10. What are the guidelines for FLSA, in terms of overtime and pay rate?

a. Maximum hours that covered individuals can work

b. Minimum pay for covered individuals

c. Minimum age for workers

d. Mandatory break times for covered employees

11. Why was the Social Security Act of 1935 created? What were its provisions?

a. The Social Security Act of 1935 was designed to create a contribution-driven fund to achieve a level of financial stability for the worker when he or she became too old or infirm to work.

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12. What are two of the advantages of a computerized payroll system over a manual system?

a. A computerized payroll system can meet the tax and regulatory requirements efficiently and can typically be set to automatically update for tax law changes. Web portals can streamline overtime reporting and other functions. A recent trend in computerized processing is the issuance of employee paycards.

13. Which Act created the term “Full-Time Equivalents”?

a. The Affordable Care Act created the term full time equivalents to determine the number of employees that should be offered health care coverage under the act.

14. How has cloud-based payroll processing affected contemporary payroll practices?

a. Cloud-based payroll processing allows a company the scale of larger corporations without the additional licensing or responsibilities for updates. Cloud-based services can contain security comparable with on-site accounting software.

15. What are two differences between the completion of the I-9 and E-Verify systems?

Answers may vary, but could contain the following:

a. I-9 is mandatory while E-Verify is voluntary.

b. I-9 does not require a Social Security number while E-Verify does.

c. I-9 does not require a photo identification (List B) while E-Verify does.

d. I-9 must be used to reverify expired employment authority while E-Verify may not be used for this purpose.

16. What was the purpose of the SECURE Act?

a. The SECURE Act provided tax incentives for small employers to create automatic retirement plans for their employees.

17. What are two of the challenges that arise from the use of outsourced payroll systems?

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Answers may vary, but should contain:

a. Late penalties

b. Loss of credibility

c. Flawed payroll

d. Security breaches of personnel information

18. What distinguishes a "living wage" from the minimum wage?

a. The federal labor standards act depicts the federal minimum wage. While several states may have a rate over this, the living wage would need to exceed the poverty level for the family size and geographic region.

19. How does the Equal Pay Act of 1963 differ from the Lilly Ledbetter Fair Pay Act of 2009?

a. While the Equal Pay Act of 1963 mandated that men and women receive equal compensation for comparable work, Lilly Ledbetter Fair Pay Act of 2009 removed the statutory timeframe for filing the allocation of unfair pay practices.

EXERCISES – SET A

E1-1A. Lupore Fabrics obtained a contract in Watts Mills, South Carolina, which involves the production of materials for military uniforms, a project contracted with the federal government for $2,800,000. What laws govern the wages Lupore Fabrics pays to its workers for this project? (Select all that may apply.)

1. Davis-Bacon Act

3. Walsh-Healey Act

4. FLSA – Fair Labor Standards Act

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E1-2A. Martine Piccirillo works as the payroll clerk for Centinix, a security company that hires many part-time and temporary workers paid hourly. What law governs the hiring or documenting of these workers?

2. FLSA

3. IRCA

E1-3A. Jackson Wyman was dismissed from his employment at Precision Dynamics because of an incident regarding his race. Mr. Wyman sued Precision Dynamics for $150,000 because of the discrimination. Which of the following laws provides for monetary awards during discrimination lawsuits?

4. Civil Rights Act of 1991

E1-4A. Overnet Inc. is a qualified private-sector company that provides health insurance to its employees. The company is self-insured. Which of the following forms should the company provide its employees to comply with the Affordable Care Act?

2. 1095-B

E1-5A. Rubin Schaub is a payroll accountant who works for a private firm. He completed his most recent professional development course in 2005. Which of the following ethical issues has he violated?

3. Professional competence and due care

E1-6A. Merlin Anson owns Uninix Computers, a company with five employees. As a small business owner, he has several options for payroll processing. What factors should he consider

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when deciding on which payroll processing option is best for Uninix Computers? (Select all that apply.)

3. The amount of money he has to spend on payroll processing.

4. The computer technology used by the business

MATCH THE FOLLOWING TERMS WITH THEIR DEFINITIONS:

E1-7A: Manual payroll	h. Payroll administration using a paper payroll register
E1-8A: Timecard	e. A record of the time worked during a period for an individual employee
E1-9A: Paycard	a. A pre-loaded credit card is used to pay employees
E1-10A: Employee Internet portal	c. A web-based application wherein employees can modify certain payroll-related information
E1-11A: Certified Payroll	k. A way for governmental agencies to track the payroll associated with a government contract
E1-12A: Outsourced payroll	i. The use of an external company to track time and benefits and pay employees
E1-13A: Auditor	j. A person or group who examines a company's accounting records for accuracy

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E1-14A: ADP and Paychex®	f. Examples of companies used for outsourcing payroll processing
E1-15A: Time collection	b. The process of gathering information about hours worked for one or more employees
E1-16A: Davis-Bacon Act	d. Governs accounting for firms with federal government contracts in excess of $2,000
E1-17A: Consolidated Appropriations Act	g. Provided funding for the E-Verify program

PROBLEM SET A

P1-1A: Hayim Accardi is the accounting manager for a small, local firm with full- and part-time staff. How do FLSA guidelines regarding working hours apply to Hayim's employees?

a. Minimum wage considerations for both salaried and hourly workers, whether the company is required to abide by the FLSA (no interstate commerce), maximum hours, minimum age, pay rates, and mandatory break periods.

P1-2A: Micah Sherman works in the payroll department at Radiance Windows. The employer has determined that the payroll functions should be moved to a cloud-based platform that can support its 500 employees, be used remotely, and have requested recommendations. What options could Micah propose?

a. When examining online services, employee security and confidentiality is important. There are online options with mobile access that can enable employees to submit time, check pay histories, make updates to address or personal contact information. It is important that there are layers of security in place. This could include SSL, VPN, and CAPTCHA tools.

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

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

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

a. The 16th Amendment to the U.S. Constitution created the legislation to support the collection of taxes from the employees. Additional Social Security Insurance Act was created to provide funding through tax withholdings.

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

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

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take unpaid leave if she does not have leave available, but her employment and medical benefits would be guaranteed.

P1-6A: Kevin Magnus is a payroll accountant for Mama Bear Trading Co. A coworker from the packaging department contacts Kevin via electronic communication and requests to see all employees' payroll records for a specific payroll date. How should Kevin respond?

a. Ethically, Kevin should not provide the information. The Privacy Act of 1974 would protect the individual's information from being disclosed. Additionally, an email request should be subject to additional scrutiny as the sender may be false.

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

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

P1-8A: At Denniston Industries, employees have the option of choosing employer-sponsored health insurance. What responsibilities does the employer have according to COBRA upon the termination of an employee?

a. The company must offer terminated employees COBRA coverage upon termination. The employee would be required to pay the health insurance premiums.

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P1-9A: Katelijn Preston is a new manager at Resterra Inc. She is looking at using the E-Verify process for new hires. What recommendations can you give her about the differences between having an employee complete the I-9 and the E-Verify process?

a. The E-Verify process allows employers to utilize the Internet to verify if the employees are eligible to work in the United States. This does not eliminate the need for employees to complete the I-9 since the E-Verify is a voluntary process and could require additional documentation from the employee.

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

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

EXERCISES SET B

E1-1B. Emmett Colquhoun is a military veteran who requires many absences for medical reasons. His boss at Betri Farms has demanded that he reduce the number of sick days unless he provides his medical history. Which law(s) protect Emmett? (Select all that apply.)

3. USERRA

4. HIPAA

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E1-2B. Gale Rana is a production worker at Gexo Manufacturing, which produces air conditioning systems. After working there for 10 years, she discovers through conversations with a colleague with the same title and similar seniority that her wage is 20 percent lower than his wage. She feels that she has been a victim of discrimination. Which law(s) govern her situation?

1. FLSA

2. Civil Rights Act of 1964

4. Lilly Ledbetter Fair Pay Act of 2009

E1-3B. Mathias Acker is the new bookkeeper for Meganyx Enterprises, a small business consulting firm, and was hired to replace a long-time employee who retired. Upon starting the position, Mathias notices that the prior bookkeeper used a purely manual system. The company owner has said that Matias may update the payroll system. What options are available?

a. Student answers may vary but should include outsourcing payroll through sources like myPay Solutions, ADP or programs like QuickBooks, Sage 100, or Microsoft Dynamics GP, and spreadsheets.

E1-4B. Gina Harris is a payroll accountant at Sucre Foods. She works remotely from her home office, communicates with colleagues via Zoom, and has a VPN to prevent her computer data from hackers. Which privacy law(s) require her to protect the information on her computer, even from her family members? (Select all that apply.)

2. Common-Law Privacy Act.

3. Privacy Act of 1974.

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E1-5B. Michael Marrioni is in the payroll department Seven Wonders International Foods. He is part of a social organization, along with several coworkers. Which of the following ethical standards could become compromised in social situations?

4. Confidentiality

E1-6B. Khaled Watson is the payroll accountant for Antizio Electronic, a company that engages in federal contracts. He wants to ensure that the company is compliant with the provisions of the Davis-Bacon Act. What is the name for process used to monitor payroll compliance in this situation?

3. Certified Payroll

MATCH THE FOLLOWING TERMS WITH THEIR DEFINITIONS:

E1-7B: USERRA	e. Legislation that governs the treatment of military service personnel.
E1-8B: *U.S. v. Windsor*	i. The case responsible for the U.S. Supreme Court's repeal of DOMA.
E1-9B: Internal controls documentation	a. A provision of the Sarbanes–Oxley Act.
E1-10B: HIPAA	j. Protects the confidentiality of employee medical records.
E1-11B: Lilly Ledbetter Fair Pay Act	g. Repealed the 180-day statute of limitations on equal pay complaints.

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E1-12B: Sixteenth Amendment	b. Instituted a tiered income tax on workers.
E1-13B: Walsh-Healey Public Contracts Act	c. Prohibited employment of individuals younger than 16 years of age.
E1-14B: Independent Contractor	f. A worker who is not subject to a company's direction or its payroll laws.
E1-15B: Personal Responsibility, Work and Family Promotion Act of 2002	d. Strengthened the child support provisions of PRWOR
E1-16B: IRCA	k. Mandates completion of form I-9
E1-17B: Tax Cuts and Jobs Act	h. Reframing federal employee income tax computation

PROBLEM SET 1B

P1-1B: Maura Hatton is a payroll accountant with Scottish Traders Inc. One of her colleagues poses a question about the deduction for Social Security tax from her pay. What should Maura tell her colleague?

a. The Social Security Act in 1935 created a contribution-driven fund that enforced the collection of Social Security tax for younger workers for when they retire or become too infirm to work.

P1-2B: Jolana Thomas is the payroll clerk for Telemba Communications. One of the company employees, Darijo Boon, informs Jolana that he feels he was the victim of unequal pay three years prior. What law(s) guide about Darijo's complaint?

a. FLSA, Civil Rights Act of 1964, Equal Pay Act

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

a. Clara should use the ethical guidelines from the AICPA to use Professional competence and due care in the proper preparation of the payroll and verify externally with the supervisor or manager the actual hours worked. Professionalism to the company and ensuring that there is honest and true representation to the costs of the business. Where Integrity could make her an accomplice by allowing the transactions to continue overstated.

P1-4B: Alene Meyers works in the payroll department for Racine Traders. The company has experienced a decline in revenue over the past six months. The company president asks her to delay the remittance of payroll taxes to make more cash available to the company. Which act would be violated if Alene complies with the company president’s request?

a. Current Tax Payment Act of 1943.

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

a. Under the Equal Pay Act of 1963, Osvaldo should first gather the information that shows the differences in pay based on sex of the employee. Secondly, she should go to the

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manager or supervisor to discuss these differentials. Finally, if this has not been successful, she should go to the supervisor of the individual spoken to previously. If all channels fail, then she may have a claim under the Equal Pay Act with or without the extension provided by the Lilly Ledbetter Fair Pay Act of 2009.

P1-6B: Samuel Alescio is an accountant for Diado, a large, multinational firm. He notices that the new state payroll tax updates have not been installed in the firm's software during payroll procesing. What ethical guidelines govern his behavior in this situation?

a. Under the Professional Competence and Due Care ethical standard, Samuel would need to notify his supervisor of the discrepancy and ensure the tax withholding and remittance are correct with the new state payroll rates.

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

a. As a governmental contract this position would fall under Walsh-Healey Public Contracts Act and would require minimum wage for all hours worked under 40 per week and wages at 1.5 times the regular hourly wage for those worked over 40 hours per week.

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

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

P1-9B: Larissa Abiodun is a senior payroll administrator for Falcive Landscape Design. The company has 15 employees and annual revenues of $10 million. She has been using and maintaining manual payroll records for the last 20 years of her career. The president of Falcive Landscape Design wants to explore options for computerized payroll processing. Which payroll option is the most suitable for both Larissa and Falcive Landscape Design? Why?

a. Given the size of the company, a computerized accounting system (QuickBooks or Sage100) would be good options for internal processing of the company's payroll.

P1-10B: Alfredo Bellini is the payroll accountant for Pyrodono Fireworks and he has been asked for information about employees and independent contractors. What are the key differences between employees and independent contractors?

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

CRITICAL THINKING

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1-1. You have been hired as a Dynozz Medical Software consultant, which is 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?

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

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

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

IN THE REAL WORLD: SCENARIO FOR DISCUSSION

Student answers will vary.

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CONTINUING PAYROLL PROJECT: PREVOSTI FARMS AND SUGARHOUSE

Form **SS-4** (Rev. December 2019)
Department of the Treasury Internal Revenue Service

Application for Employer Identification Number
(For use by employers, corporations, partnerships, trusts, estates, churches, government agencies, Indian tribal entities, certain individuals, and others.)
▶ Go to *www.irs.gov/FormSS4* for instructions and the latest information.
▶ See separate instructions for each line. ▶ Keep a copy for your records.

OMB No. 1545-0003
EIN

Type or print clearly.

1 Legal name of entity (or individual) for whom the EIN is being requested
Prevosti Farms and Sugarhouse

2 Trade name of business (if different from name on line 1)

3 Executor, administrator, trustee, "care of" name

4a Mailing address (room, apt., suite no. and street, or P.O. box)
820 Westminster Road

5a Street address (if different) (Don't enter a P.O. box.)

4b City, state, and ZIP code (if foreign, see instructions)
Bridgewater, VT 05520

5b City, state, and ZIP code (if foreign, see instructions)

6 County and state where principal business is located
Windsor County, VT

7a Name of responsible party
Toni Prevosti

7b SSN, ITIN, or EIN
055-22-0443

8a Is this application for a limited liability company (LLC) (or a foreign equivalent)? ☑ Yes ☐ No

8b If 8a is "Yes," enter the number of LLC members ▶ 1

8c If 8a is "Yes," was the LLC organized in the United States? ☑ Yes ☐ No

9a **Type of entity** (check only one box). **Caution:** If 8a is "Yes," see the instructions for the correct box to check.
- ☐ Sole proprietor (SSN) _____
- ☐ Partnership
- ☐ Corporation (enter form number to be filed) ▶ _____
- ☐ Personal service corporation
- ☐ Church or church-controlled organization
- ☐ Other nonprofit organization (specify) ▶ _____
- ☑ Other (specify) ▶ Disregarded entity
- ☐ Estate (SSN of decedent) _____
- ☐ Plan administrator (TIN) _____
- ☐ Trust (TIN of grantor) _____
- ☐ Military/National Guard ☐ State/local government
- ☐ Farmers' cooperative ☐ Federal government
- ☐ REMIC ☐ Indian tribal governments/enterprises

Group Exemption Number (GEN) if any ▶

9b If a corporation, name the state or foreign country (if applicable) where incorporated — State: VT — Foreign country:

10 **Reason for applying** (check only one box)
- ☐ Started new business (specify type) ▶ _____
- ☑ Hired employees (Check the box and see line 13.)
- ☐ Compliance with IRS withholding regulations
- ☐ Other (specify) ▶
- ☐ Banking purpose (specify purpose) ▶ _____
- ☐ Changed type of organization (specify new type) ▶ _____
- ☐ Purchased going business
- ☐ Created a trust (specify type) ▶ _____
- ☐ Created a pension plan (specify type) ▶ _____

11 Date business started or acquired (month, day, year). See instructions.
02/01/20XX

12 Closing month of accounting year December

13 Highest number of employees expected in the next 12 months (enter -0- if none). If no employees expected, skip line 14.

Agricultural	Household	Other
3		3

14 If you expect your employment tax liability to be $1,000 or less in a full calendar year **and** want to file Form 944 annually instead of Forms 941 quarterly, check here. (Your employment tax liability generally will be $1,000 or less if you expect to pay $5,000 or less in total wages.) If you don't check this box, you must file Form 941 for every quarter. ☐

15 First date wages or annuities were paid (month, day, year). **Note:** If applicant is a withholding agent, enter date income will first be paid to nonresident alien (month, day, year) ▶ 02/01/20XX

16 Check **one** box that best describes the principal activity of your business.
☐ Construction ☐ Rental & leasing ☐ Transportation & warehousing ☐ Health care & social assistance ☐ Accommodation & food service ☐ Wholesale-agent/broker ☐ Wholesale-other ☐ Retail ☐ Real estate ☐ Manufacturing ☐ Finance & insurance ☑ Other (specify) ▶ Harvesting, refining, and selling maple items

17 Indicate principal line of merchandise sold, specific construction work done, products produced, or services provided.
Harvesting, refining, and selling maple items

18 Has the applicant entity shown on line 1 ever applied for and received an EIN? ☐ Yes ☑ No
If "Yes," write previous EIN here ▶

Third Party Designee
Complete this section **only** if you want to authorize the named individual to receive the entity's EIN and answer questions about the completion of this form.
Designee's name — Designee's telephone number (include area code)
Address and ZIP code — Designee's fax number (include area code)

Under penalties of perjury, I declare that I have examined this application, and to the best of my knowledge and belief, it is true, correct, and complete.
Name and title (type or print clearly) ▶ Toni Prevosti, Owner
Applicant's telephone number (include area code): 802-555-3456
Signature ▶ *Toni Prevosti* Date ▶ 2/1/20XX
Applicant's fax number (include area code)

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Chapter 1: Payroll Practices and System Fundamentals

Instructor notes

This chapter provides an overview of contemporary payroll practices. The emphasis is on understanding the foundations of the payroll system within the GAAP framework of the United States. Students will explore the evolution of the payroll system over time, legal framework of payroll-related legislation, best practices, and employee classifications. The difference between employees and independent contractors is covered.

When you start this chapter, it would be a good idea to check students' background knowledge and to stimulate initial discussions. Some sample questions include the following:

- How many students have held a job outside the home?
- What laws affect the workplace?
- What is the purpose of income tax?
- What laws protect employees?

Sample Syllabus

CLASS NUMBER AND NAME:	PAYROLL ACCOUNTING
TOTAL CLOCK HOURS / UNITS:	XX Hours/ X Units
PREREQUISITES:	
TEXTS AND MATERIALS:	Landin, J. & Schirmer, P. (2022). *Payroll Accounting* (8th ed.). New York, NY: McGraw-Hill.
CLASS DESCRIPTION:	Basic theory of payroll accounting for a professional enterprise.
STUDENT LEARNING OBJECTIVES:	1. To understand the foundations of U.S. payroll accounting. 2. To calculate employees' earnings and deductions. 3. To calculate employer payroll taxes. 4. To understand the role of accounting within the framework of a business 5. To explain the role of fringe benefits as a part of employee compensation 6. To complete the payroll process of accounting for employee earnings and employer taxes on the appropriate state and federal tax returns.

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7. To complete the accounting entries for the payroll cycle.

CLASS FORMAT OVERVIEW:

The material will be presented in a lecture-discussion format. Assigned work will be completed through Connect Accounting.

REQUIREMENTS:

All assigned work must be turned in on the designated day. The student will be given credit for satisfactorily completing work. A numerical grade will be given for work turned in.

TESTING AND FINAL GRADE:

Tests must be taken on the scheduled day. If the student misses the regularly scheduled test, a make-up test will be administered with a penalty assessed. Exceptions may be made at the instructor's discretion.

The final grade for the class will be the average of the chapter tests, homework submissions, and the comprehensive project.

GRADING POLICIES:

Grade	A	A-	B+	B	B-	C+	C	C-	D+	D	D-	F
Percentage	95+	90-94	87-89	84-86	80-83	77-79	74-76	70-73	67-69	64-66	60-63	<60

ANTICIPATED LEARNING OUTCOMES:

1. Calculate employee earnings based on an hourly, piece-rate, or commission basis.
2. Determine the payroll deductions for FICA taxes and Federal and State income taxes.
3. Complete a payroll register.
4. Journalize the payroll entries from a payroll register.
5. Maintain employees' individual earnings records.
6. Compute the monetary value of fringe benefits
7. Calculate the amount of employer's payroll tax expense and journalize the related entries.
8. Complete employer-related Federal tax forms.
9. Complete a comprehensive project that demonstrates the student's knowledge of the payroll cycle.
10. Explain the role of payroll accounting within the scope of a firm's operations.

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Vocabulary Definitions	
ACA	The Affordable Care Act of 2010
ADA	The Americans with Disabilities Act of 1990
ADAAA	The Americans with Disabilities Act Amendments Act of 2008, which extended the definition of disabilities.
ADEA	The Age Discrimination in Employment Act of 1967
ARRA	The American Reinvestment and Recovery Act of 2009
ATRA	The American Taxpayer Relief Act of 2012.
Certified Payroll	A way that the Federal government keeps track of the money spent as part of government contracts, facilitates governmental internal accountability, and verifies requirements under Davis-Bacon are met
Circular E	See Publication 15
Civil Rights Act of 1964	Federal legislation that protects employees from discrimination based on race, color, religion, sex, or national origin.
Civil Rights Act of 1991	Federal law that instituted monetary penalties for companies found guilty of discrimination as described under the Civil Rights Act of 1964.
COBRA	The Consolidated Omnibus Budget Reformation Act of 1986
Consolidated Appropriations Act of 2018	Signed into law in March 2018, this act increased the funding for the E-Verify program, which is an Internet-based system that offers employers instant verification of an employee's eligibility to work in the United States. It is important to note that the E-Verify program does not replace the need for the completion of Form I-9 upon employee hire because it is a voluntary service.
Copeland Anti-Kickback Act	Protected taxpayers from unethical pay practices for construction projects
Coronavirus Aid, Relief, and Economic Stimulus (CARES) Act of 2020	Provided economic support and payroll tax relief during the Sars Cov-2 (COVID-19) pandemic to encourage employers to retain their employees and tax relief for businesses.
Current Tax Payment Act (CTPA) of 1943	Created the requirement for the submission of estimated taxes on wages earned during the year of earning
Davis-Bacon Act of 1931	Created a standard of wages for governmental contracts over $2,000
DOMA	The Defense of Marriage Act of 1996, which was repealed in 2013.
Due Care	The caution that a reasonable person would exercise to avoid being charged with negligence.
EEOC	Equal Employment Opportunity Commission
Employer Identification Number (EIN)	A number assigned to employers by the IRS for tax reporting.
Enterprise Coverage	Firms explicitly covered under FLSA.
Equal Pay Act of 1963	Federal legislation mandating that males and females receive equal compensation for comparable work.
ERISA	The Employee Retirement Income Security Act of 1974
Ethics	An individual's definition of right and wrong.

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FICA	Federal Insurance Contribution Act
FLSA	Fair Labor Standards Act
FMLA	The Family and Medical Leave Act of 1993
FUTA	Federal Unemployment Tax Act
HIPAA	The Health Insurance Portability and Accountability Act of 1996
Independence	The ability of an accountant to act professionally without external pressures that would cause a third party to question the integrity of actions and decisions.
Independent Contractor	An individual who contracts to do work for a firm using his or her own tools and processes without being subject to direction by a firm's management.
Individual Coverage	FLSA coverage for employees whose firms do not meet the requirements for enterprise coverage.
Integrity	Possessing honesty and high moral principles.
IRCA	The Immigration Reform and Control Act of 1986
Lilly Ledbetter Fair Pay Act of 2009	Removed the statute of limitations on claims of unequal pay for work that is substantially the same.
Living Wage	The minimum amount that a family would need to live comfortably for a normal standard of living.
Medicare tax	A government-mandated health insurance for individuals over 62 years of age
Minimum Wage	The minimum hourly amount that employers may legally pay to employees.
OASDI	Old-Age, Survivors, and Disability Insurance; synonymous with Social Security.
Objectivity	Making decisions that are free from bias or subjectivity.
OSHA	The Occupational Safety and Health Act of 1970
Personal Responsibility, Work and Family Promotion Act of 2002	Strengthened child support provisions of PRWOR.
Privacy Act of 1974	Protected sensitive information like personnel records containing information about an individual's marital status, children, other dependents, and legal residence
Protecting Americans from Tax Hikes (PATH) Act	An act to prevent tax fraud that extended the Work Opportunity Tax Credit.
PRWOR	The Personal Responsibility and Work Opportunity Reconciliation Act of 1996
Professional competence	The continuing capability to perform professional duties with an agreed-upon standard of quality.
Professionalism	A process reflecting the transparency and public accountability of accounting records.
Publication 15	The Employer's Tax Guide published by the Internal Revenue Service; also known as *Circular E*
Publication 15-T	The Federal Income Tax Withholding Methods.
Sixteenth Amendment to the U.S. Constitution	Allowed the United States government to levy and collect income taxes on individuals.

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Social Security Act (SSA)	An Act that was passed to promote social welfare for old-age workers and surviving families of workers who had been disabled or deceased in the course of their employment.
SOX	The Sarbanes-Oxley Act of 2002
SUTA	State Unemployment Tax Act
Tax Cuts and Jobs Act	An Act to provide budget resolution that represented changes to individual and business tax rates.
USERRA	The Uniformed Services Employment and Reemployment Rights Act of 1994.
VPN	Virtual private network
Walsh-Healey Public Contracts Act	Affected governmental contractors providing goods or services over $10,000
Worker's Compensation	An insurance policy carried by employers to provide wage continuation and to pay for medical services for workers injured in the course of doing business

Answers to Review Questions
1. To ensure that a firm maintains compliance with payroll laws
2. Large companies may have more internal layers and geographic locations than small companies, may have large employee pools, will have more complex payroll system than small companies.
3. Certified payroll is a way that the Federal government keeps track of the money spent as part of government contracts, facilitates governmental internal accountability, and verifies requirements under Davis-Bacon are met. Not all companies use it because not all companies are subject to Davis-Bacon regulation
4. Employees can manage their own W-4 changes, view payroll records, and obtain a copy of their W-2. A pitfall is that an electronic system is vulnerable to computer hacking.
5. Company oversight and verification of payroll activities, maintenance of accurate payroll records, security of sensitive information
6. Payroll outsourcing involves the use of an external company to maintain payroll activities. A company may consider outsourcing if they do not have a dedicated payroll accountant or have a complex payroll structure
7. FLSA, FICA, FUTA, SUTA, Civil Rights Acts, etc.
8. Computerized payroll and manual payroll
9. 16th Amendment and FICA
10. Wage and hour provisions, overtime provisions
11. It was important because was a social care program. It provided insurance for families of workers.
12. Security, accuracy, timeliness of payroll, timeliness and accuracy in governmental reporting
13. The Affordable Care Act of 2010
14. Employee access to their payroll records, automatic updating of payroll tax rates and computations, employer access to payroll records.
15. The I-9 is a mandatory form to confirm an employee's eligibility to work in the United State. E-Verify is a voluntary internet-based system that allows employers to obtain information rapidly about an employee's right to work in the United States. The I-9 does not require the use

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of the employee's Social Security number, while the E-Verify system does.
16. The SECURE Act incentivized small employers to offer retirement plans, either alone or collectively with other small employers, to improve retirement security for U.S. workers.
17. Challenges include data privacy and accuracy of employee payments.
18. The federal labor standards act depicts the federal minimum wage. While several states may have a rate over this, the living wage would need to exceed the poverty level for the family size and geographic region.
19. While the Equal Pay Act of 1963 mandated that men and women receive equal compensation for comparable work, Lilly Ledbetter Fair Pay Act of 2009 removed the statutory timeframe for filing the allocation of unfair pay practices.

Additional Exercises for Class Discussion
1. Chloe is the costume director for a theater production company. She does not supervise employees and is expected to work 40 hours each week. She determines her own hours and consults with the production manager about her work. Should she be considered an exempt or nonexempt employee? Why? Answer: Exempt. She controls the scope of her work and her working hours, and oversight is done in consultation with the production manager. 2. Eduardo is a departmental manager at a local amusement park. He hires high school students to work during the summer. What are some legalities that he must observe for these seasonal workers? Answer: He needs to consider the amount of hours worked per day because of full-time and part-time FLSA guidance, he needs to ensure that employees are taking appropriate breaks, and he needs to make sure that health insurance offerings are in line with the Affordable Care Act legislation. 3. Ya-Ya is the payroll accountant for a firm that has recently opened locations in additional states. With the addition of the new locations, the firm will have approximately 50 employees. Should she outsource her payroll? What are some payroll concerns that she should consider? Answer: She should consider outsourcing her payroll. Expanding to other states means that she will have additional state tax regulations and new Federal forms to file. She will also have more employees on her payroll, which means increased complexity in her payroll responsibilities.

Critical Thinking Answers
1. Document each instance of the incorrect payments and submit your findings to the firm. Student rationale may vary. 2. The costs involved with outsourcing versus the costs of maintaining the payroll internally.

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In the Real World—Guidelines for Discussion
Students should discuss the employer's responsibility for payroll software in terms of privacy of personal and confidential information. The idea of being a joint employer could lead to a discussion of shared information and privacy laws. The concepts of minimum wage and other pay issues mentioned in the case as they relate to federal and state laws would also be an important consideration. A discussion of payroll software and legal compliance with privacy laws could lead to enhanced student learning.

Activities
Assign students to work individually or in small groups to explore the following websites: www.americanpayroll.org www.dol.gov/whd www.taxhistory.com/1943.html www.workerscompensationinsurance.com www.Kronos.com www.adp.com www.paychex.com What were the references to payroll legislation that they found? What did they learn about outsourcing payroll? What did they notice about workers compensation? Other classroom activities: • Using the information found in Appendix F, invite students to investigate state payroll tax requirements for their home state and for one other state. What are some similarities and differences between the two states? • Have students form teams of 2-4 people. Tell them that they have formed a new business. What form(s) do they need to file immediately before hiring employees? What other decisions should they consider? A video to assist in the explanation of FLSA coverage is located at https://www.dol.gov/whd/flsa/videos.htm The U.S. Department of Labor Office of Compliance at www.worker.gov contains information about compliance, deadlines, required posters, and other materials employers need regarding payroll.

Continuing Payroll Project
Completion instructions: Line 1: Enter the legal name of the business, Prevosti Farms and Sugarhouse

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Line 2: Leave blank
Line 3: Leave blank
Line 4a: Enter mailing address for the business, 820 Westminster Road
Line 4b: Enter the city/state/zip, Bridgewater, VT 05520
Lines 5a and 5b: Leave blank
Line 6: Enter the county and state, Windsor County VT
Line 7a: Name of the responsible party, Toni Prevosti
Line 7b: Responsible party's SSN, ITIN, or EIN, 055-22-0443
Line 8a: Is the application for an LLC, check Yes
Line 8b: Leave blank
Line 8c: Check Yes
Line 9a: Type of entity, check the box next to Other and enter LLC
Line 9b: Leave blank
Line 10: Reason for applying, check the box next to Hired Employees
Line 11: Date business started, 2/1/20XX
Line 12: Closing month of accounting year, December
Line 13: Highest number of employees in the next 12 months, Agricultural – 3, Other – 3
Line 14: leave blank
Line 15: First date wages or annuities were paid, enter 02/14/20XX
Line 16: Principal activity of business, check Other and enter Harvesting, refining, and selling maple items
Line 17: Principal line of merchandise sold, Harvesting, refining, and selling maple syrup
Line 18: Has the applicant shown on line 1 ever applied for and received an EIN, check No
Enter name of owner (Toni Prevosti) and phone number, 802-555-3456

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Form **SS-4** (Rev. December 2019)
Department of the Treasury
Internal Revenue Service

Application for Employer Identification Number

(For use by employers, corporations, partnerships, trusts, estates, churches, government agencies, Indian tribal entities, certain individuals, and others.)
▶ **Go to *www.irs.gov/FormSS4* for instructions and the latest information.**
▶ **See separate instructions for each line.** ▶ **Keep a copy for your records.**

OMB No. 1545-0003

EIN

Type or print clearly.

1 Legal name of entity (or individual) for whom the EIN is being requested
Prevosti Farms and Sugarhouse

2 Trade name of business (if different from name on line 1)

3 Executor, administrator, trustee, "care of" name

4a Mailing address (room, apt., suite no. and street, or P.O. box)
820 Westminster Road

5a Street address (if different) (Don't enter a P.O. box.)

4b City, state, and ZIP code (if foreign, see instructions)
Bridgewater, VT 05520

5b City, state, and ZIP code (if foreign, see instructions)

6 County and state where principal business is located
Windsor County, VT

7a Name of responsible party
Toni Prevosti

7b SSN, ITIN, or EIN
055-22-0443

8a Is this application for a limited liability company (LLC) (or a foreign equivalent)? ☑ Yes ☐ No

8b If 8a is "Yes," enter the number of LLC members ▶ 1

8c If 8a is "Yes," was the LLC organized in the United States? ☐ Yes ☐ No

9a **Type of entity** (check only one box). **Caution:** If 8a is "Yes," see the instructions for the correct box to check.

- ☐ Sole proprietor (SSN) _____
- ☐ Partnership
- ☐ Corporation (enter form number to be filed) ▶ _____
- ☐ Personal service corporation
- ☐ Church or church-controlled organization
- ☐ Other nonprofit organization (specify) ▶ _____
- ☑ Other (specify) ▶ Disregarded Entity
- ☐ Estate (SSN of decedent) _____
- ☐ Plan administrator (TIN) _____
- ☐ Trust (TIN of grantor) _____
- ☐ Military/National Guard ☐ State/local government
- ☐ Farmers' cooperative ☐ Federal government
- ☐ REMIC ☐ Indian tribal governments/enterprises

Group Exemption Number (GEN) if any ▶

9b If a corporation, name the state or foreign country (if applicable) where incorporated — State: VT — Foreign country:

10 **Reason for applying** (check only one box)

- ☐ Started new business (specify type) ▶ _____
- ☑ Hired employees (Check the box and see line 13.)
- ☐ Compliance with IRS withholding regulations
- ☐ Other (specify) ▶
- ☐ Banking purpose (specify purpose) ▶ _____
- ☐ Changed type of organization (specify new type) ▶ _____
- ☐ Purchased going business
- ☐ Created a trust (specify type) ▶ _____
- ☐ Created a pension plan (specify type) ▶ _____

11 Date business started or acquired (month, day, year). See instructions.
02/01/20XX

12 Closing month of accounting year **December**

13 Highest number of employees expected in the next 12 months (enter -0- if none). If no employees expected, skip line 14.

Agricultural	Household	Other
3		3

14 If you expect your employment tax liability to be $1,000 or less in a full calendar year **and** want to file Form 944 annually instead of Forms 941 quarterly, check here. (Your employment tax liability generally will be $1,000 or less if you expect to pay $5,000 or less in total wages.) If you don't check this box, you must file Form 941 for every quarter. ☐

15 First date wages or annuities were paid (month, day, year). **Note:** If applicant is a withholding agent, enter date income will first be paid to nonresident alien (month, day, year) ▶ 02/14/20XX

16 Check **one** box that best describes the principal activity of your business.

- ☐ Construction ☐ Rental & leasing ☐ Transportation & warehousing ☐ Health care & social assistance ☐ Accommodation & food service ☐ Wholesale-agent/broker ☐ Wholesale-other ☐ Retail
- ☐ Real estate ☐ Manufacturing ☐ Finance & insurance ☑ Other (specify) ▶ Harvesting, refining, and selling maple items

17 Indicate principal line of merchandise sold, specific construction work done, products produced, or services provided.
Harvesting, refining, and selling maple items

18 Has the applicant entity shown on line 1 ever applied for and received an EIN? ☐ Yes ☑ No
If "Yes," write previous EIN here ▶

Third Party Designee

Complete this section **only** if you want to authorize the named individual to receive the entity's EIN and answer questions about the completion of this form.

Designee's name — Designee's telephone number (include area code)

Address and ZIP code — Designee's fax number (include area code)

Under penalties of perjury, I declare that I have examined this application, and to the best of my knowledge and belief, it is true, correct, and complete.
Name and title (type or print clearly) ▶ Toni Prevosti, Owner

Applicant's telephone number (include area code)
802-555-3456

Signature ▶ Toni Prevosti Date ▶ 02/01/20XX

Applicant's fax number (include area code)

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