

CHAPTER 1

Note: Working space and special forms are provided for the Practical Problems and the Continuing Payroll Problem only. If students are required to prepare written answers to the Questions for Review, Questions for Discussion, and Case Problems, blank paper should be provided.

Learning Objectives

After studying this chapter, students should be able to:

1. Identify the various laws that affect employers in their payroll operations.
2. Examine the recordkeeping requirements of these laws.
3. Describe the employment procedures generally followed in a Human Resources Department.
4. Identify the various personnel records used by businesses and the type of information shown on each form.
5. Identify the *payroll register* and the *employee's earnings record*.

Contents

Chapter 1 outline:

LEARNING OBJECTIVES

THE PAYROLL PROFESSION

FAIR LABOR STANDARDS ACT

FEDERAL INSURANCE CONTRIBUTIONS ACT

INCOME TAX WITHHOLDING LAWS

UNEMPLOYMENT TAX ACTS

RECORDKEEPING REQUIREMENTS

FAIR EMPLOYMENT LAWS

Civil Rights Act of 1964

Executive Orders

Age Discrimination in Employment Act

Americans with Disabilities Act

OTHER FEDERAL LAWS AFFECTING THE NEED FOR PAYROLL AND PERSONNEL RECORDS

Federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996

Immigration Reform and Control Act of 1986

E-Verify

Family and Medical Leave Act of 1993

Uniformed Services Employment and Reemployment Rights Act of 1994

Employee Retirement Income Security Act of 1974

Disclosure Requirements

Affordable Care Act of 2010 (ACA)

Applicable Large Employers (ALEs)

Small Employers

OTHER STATE LAWS AFFECTING THE NEED FOR PAYROLL AND PERSONNEL RECORDS

Workers' Compensation Laws

State Disability Benefit Laws

HUMAN RESOURCES AND PAYROLL ACCOUNTING SYSTEMS

HUMAN RESOURCES SYSTEM

Job Descriptions

Requisition for Personnel

Application for Employment

Reference Inquiry

Hiring Notice

Employee History Record

Change in Payroll Rate

Terminating an Employee

RECORDKEEPING SYSTEM

Employee Access—Personnel Files

PAYROLL ACCOUNTING SYSTEM

Payroll Register

Employee's Earnings Record

Paycheck

Outsourcing Payroll

KEY TERMS

KEY POINTS SUMMARY

Matching Quiz (p. 1-27)

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

Questions for Review (p. 1-27)

1. The Fair Labor Standards Act sets the minimum wage rate, and the current minimum wage rate is \$7.25 an hour.
2. To meet the requirements of the FLSA, the employer must keep records providing the following information with respect to each employee's wages earned:
 - a. Day and time of day when workweek begins
 - b. Regular hourly rate of pay
 - c. Basis of wage payments
 - d. Hours worked each day
 - e. Hours worked each week
 - f. Daily or weekly straight-time pay
 - g. Amount and nature of exempt pay
 - h. Weekly overtime pay
 - i. Total additions to or deductions from wages
 - j. Total remuneration for payroll period
 - k. Date of payment
 - l. Payroll period
3. FICA levies taxes on employers and employees to finance the Federal Old-Age and Survivors' Trust Fund, the Federal Disability Insurance Trust Fund, and the Health Insurance Plan—Medicare. SECA also imposes taxes on the net earnings of the self-employed individual.
4. The taxes paid to the federal government (FUTA tax) are used to pay the state and federal administrative expenses incurred in operating the overall unemployment insurance program. The taxes paid to the various state governments (SUTA tax) are used to pay the unemployment compensation benefits to the qualified unemployed workers.
5. The unfair employment practices prohibited by the Civil Rights Act of 1964, as amended, include:
 - a. Discriminating in hiring, firing, promoting, compensating, or in any other condition of employment on the basis of race, color, religion, gender, or national origin.
 - b. Unions may not include or segregate union members on these bases.
 - c. Employment agencies may not refer or refuse to refer applicants for employment on the basis of race, color, religion, gender, or national origin.
6. The purpose of the Age Discrimination in Employment Act (ADEA) is to prohibit discrimination on the basis of age in the employment practices of employers, employment agencies, and labor unions that are engaged in an industry affecting interstate commerce.

7. A key exception is executives who are 65 or older and who have held high policy-making positions during the two-year period prior to retirement. If such an employee is entitled to an annual retirement benefit from the employer of at least \$44,000, he or she can be forcibly retired.
8. The Walsh-Healey Public Contracts Act covers laborers for contractors who furnish materials, supplies, articles, and equipment to any agency of the United States, provided the minimum contract amount is \$15,000.
9. The employer is required to offer the employee as many as 12 weeks of unpaid leave. The leave may be used all at once, or in separate weeks, days, or hours.
10. ERISA was designed primarily to ensure that workers covered by private pension plans receive benefits from those plans in accordance with their credited years of service with their employers.
11. *Vesting* conveys to employees the right to share in a retirement fund in the event they are terminated before the normal retirement age. The vesting process is linked to the number of years needed for workers to earn equity in their retirement plans and to become entitled to full or partial benefits at some future date if they leave the company before retirement. Once vested, a worker has the right to receive a pension at retirement age, based on years of covered service, even though the worker may not be working for the firm at that time.
12. The administrator must furnish a statement, not more than once in a 12-month period, of the total benefits accrued and accrued benefits that are vested, if any, or the earliest date on which these accrued benefits will become vested.
13. Employers with 50 or more full-time employees during the previous year (applicable large employers) are required to provide insurance coverage for all full-time employees and their dependents.
14. The procedure that may be followed by the Human Resources Department in hiring new employees is:
 - a. Receive request for new employee.
 - b. Examine applications.
 - c. Interview applicants.
 - d. Administer tests.
 - e. Check references.
 - f. Select and notify successful applicant.
 - g. Send information to Payroll Department.
 - h. Prepare personnel file.

15. The application for employment form may provide information such as the following:
 - a. Personal information, including name, address, telephone number, and social security number.
 - b. Educational background, including a summary of the schools attended, whether the applicant graduated, and degrees conferred.
 - c. Employment and experience record.
 - d. Type of employment desired.
 - e. References.
16. The employer who is subject to the Civil Rights Act of 1964 and the Age Discrimination in Employment Act must make certain that all aspects of the pre-hire inquiries are free of discrimination on the basis of race, color, religion, gender, national origin, and age.
17. The Fair Credit Reporting Act of 1968 subjects employers to certain disclosure obligations when they seek an investigative report from a consumer reporting agency on a job applicant or, in certain instances, on present employees. Generally, these steps must be followed:
 - a. Notify the applicant in writing that the information obtained will be used in the employment decision.
 - b. Have the applicant sign the notification.
 - c. Give the applicant a notice and a copy of the report at least five days before making an adverse employment decision.
 - d. Provide a copy of the government document "A Summary of Your Rights Under the FCRA."
18. A typical payroll accounting system includes the following procedures:
 - a. Record hours worked or units produced.
 - b. Compute gross pay, deductions, and net pay.
 - c. Complete payroll register.
 - d. Maintain payroll deduction records.
 - e. Update employees' earnings records.
 - f. Make payments to employees.
 - g. Record payroll in accounting books.
 - h. Prepare various payroll reports.
19. The two basic records generated in a payroll accounting system are the payroll register and the employee's earnings record.
20. The earnings record provides the information needed to prepare periodic reports required by the various laws and to complete Form W-2 for each employee.

Questions for Discussion (p. 1-28)

1. A small retailer with only three employees would not need very detailed personnel records. There should be, however, an application form or some other record providing the employee's name, address, telephone number, social security number, date of employment, regular working hours, and information about wages.

2. Many employers do not check job applicants' references because former employers, who are afraid of lawsuits, tend to be less than candid in their comments about ex-workers. Some companies will not make any comment about former workers unless they have the written consent of those workers. Other companies have found that even a good recommendation can create a "potential liability."
3. Use of this approach in staffing an office may pose too great an opportunity for the development of cliques in the office. The applicant recommended may not be desirable, and this will cause some embarrassment or disappointment to the person who recommended the applicant. The advantages in most instances, however, outweigh these disadvantages. The advantages realized from the use of in-house referrals include the added prestige among present employees and a positive psychological effect. Firms may offer incentives, such as cash payments, U.S. savings bonds, and company merchandise, for referrals after the newly employed worker has been on the job for a stipulated period of time. Some firms estimate the recruiting and advertising cost of a new hire to be \$5,000.
4. Sources of potential employees include employment agencies, both public and private; newspaper advertisements (Help Wanted and Jobs Wanted); employment bureaus in schools and in social and philanthropic institutions; friends and relatives secured through present employees; and "through the gate" and unsolicited applications. Past national surveys have found that for employees without a college degree, the leading recruiting sources were (1) walk-in, (2) newspaper advertisements, (3) in-house referrals, (4) employment agencies, (5) requests to high schools, (6) high school career conferences, and (7) unions.
5.
 - a. and b. Illegally. Answers to these two questions could reveal the national origin, race, religion, or color of the applicant. One exception to this is when information of this nature is required as a bona fide occupational qualification for reasons of national or state security.
 - c. Legally. Companies subject to Title VII of the Civil Rights Act of 1964 must ask applicants if they are U.S. citizens. Companies are also permitted to ask the applicant if he or she intends to become a U.S. citizen and if the applicant has legal sanction to remain in the United States.
 - d. Legally. A company is within legal sanction to ask the applicant *what* languages he or she is capable of reading, writing, or speaking. These abilities can be acquired through study and thus do not necessarily reveal race, religion, color, or national origin. However, the company may be proceeding illegally in its pre-employment practices if it inquires *how* the applicant acquired the language abilities, for this could easily determine ethnic background. Thus, the interviewer must be aware of the *what* and *how* aspects of this question when making pre-hire inquiries that could directly or indirectly establish ethnic background characteristics of the applicant.

Case Problem (p. 1-28)**Case 1-1**

Even though it was the company's mistake, legally it was entitled to reimbursement from Ken. However, the cost of legal fees to follow through on the proceedings needed to reclaim the paychecks would probably exceed the total of the four paychecks. The company would be better off to absorb this loss and to solve the problems it has in interdepartmental communication.

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.

Contents

Chapter 2 outline:

LEARNING OBJECTIVES

THE FAIR LABOR STANDARDS ACT

Coverage

Enterprise Coverage

Individual Employee Coverage

Employer

Employee

Employees of a Corporation

Partnerships

Domestics

Statutory Employees

Statutory Nonemployees

Interns

Wages

The Minimum Wage

Paying Less Than the Minimum Wage

Paying More Than the Minimum Wage

State Laws

Paying a “Living Wage”

Tips

Workweek

Overtime Hours and Overtime Pay

Exceptions to Overtime Hours and Overtime Pay Provisions

Compensatory Time Off

Exemptions from FLSA Requirements

*White-Collar Workers**Test of Exemption**Salary Basis**Blue-Collar Workers*

Equal Pay Act

Child-Labor Restrictions

*Nonfarm Occupations**Agricultural Occupations**Certificate of Age*

Wage Theft

Penalties

*Misclassified Workers**Wage and Hour Provisions (Willful Violations)**Providing False Data**Repeated Violations**Child-Labor Provisions Violations*

Areas Not Covered by the FLSA

DETERMINING EMPLOYEE'S WORK TIME

Principal Activities

*Clothes-Changing Time and Wash-Up**Travel Time**Idle Time**Waiting Time**Rest Periods and Coffee Breaks**Meal Periods**Taking Work Home**Sleep Time**Training Sessions**Doctor's Appointments*

Preliminary and Postliminary Activities

Fractional Parts of an Hour

Absences

Tardiness

RECORDS USED FOR TIMEKEEPING

Time Sheets

Time Cards

Computerized Time and Attendance Recording Systems

Next Generation

*Touch-Screen Technology**Internet**Biometrics**IVR*

METHODS OF COMPUTING WAGES AND SALARIES

Time Rate

*Calculating Overtime Pay**Converting Weekly Wage Rates to Hourly Rates**Converting Biweekly Wage Rates to Hourly Rates**Converting Monthly Salary Rates to Hourly Rates**Converting Semimonthly Salary Rates to Hourly Rates**Salaried Nonexempt Employees**Salaried with Fluctuating Workweek**BELO Plan*

Piece Rate

*Overtime Earnings for Pieceworkers—Method A**Overtime Earnings for Pieceworkers—Method B*

Special Incentive Plans

Commissions

Nondiscretionary Bonuses

Profit-Sharing Plans

KEY TERMS

ANSWERS TO SELF-STUDY QUIZZES

KEY POINTS SUMMARY

Matching Quiz (p. 2-32)

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

Questions for Review (p. 2-32)

- 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.

2. The U.S. Department of Labor has reinstated an old six-factor economic reality test:
 1. Extent to which the services are an integral part of the employer's business.
 2. Permanency of the relationship between employer and worker.
 3. Investment in facilities and equipment by the worker.
 4. Employer's degree of control over the worker.
 5. Worker's opportunity for profit and loss.
 6. Amount of initiative, judgment, or foresight required for the worker's success.
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 \$13.23 per hour (if the employer provides health insurance) or \$16.40 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.
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 \$100,000 or more.
 - (2) Perform nonmanual work.

- (3) Regularly perform one of the exempt duties of an executive, administrator, or professional employee.
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 car wash service volume. "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.
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 would be counted as time worked if required by custom or contract. In addition, if these activities are integral or indispensable to the employee's main activities, compensation is required for this time. These times can also be excluded from time worked and be considered clothes changing under a collective agreement between the employer and the unionized workforce.
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.

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. 2-33)

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.

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. 2–35)

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. <i>Paying less than the minimum wage</i> (exception to the FLSA)	2–1
2. Computing the <i>tip credit</i>	2–2, 2–5
3. Computing <i>gross earnings</i>	2–3
4. Computing <i>regular earnings, overtime earnings, and total gross earnings</i>	2–4 through 2–21
5. Computing salary— <i>exempt employee</i>	2–6
6. Reading <i>time cards</i> to determine hours worked	2–9, 2–10 (continental system)
7. <i>4/40 workweek</i>	2–10
8. <i>Converting monthly and annual salary rates</i> to hourly rates	2–13, 2–14
9. Using the <i>decimal system</i> for “docking”	2–9
10. <i>Piece-rate systems</i>	2–17, 2–18
11. <i>Commissions</i>	2–19, 2–20
12. <i>Bonuses</i>	2–21

Solutions—Problem Set A

- 2–1A.** (a) $37 \text{ hours} \times \$4.20 = \$155.40$
- (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\% \times \$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) $37 \text{ hours} \times \$6.17 = \$228.29$