

Payroll Accounting — Practice Study Guide (Sampler)

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Part I — Essay Questions & Model Answers (20)

Essay 1: Payroll Cycle & Controls

Describe the end-to-end payroll cycle and the key internal controls to prevent errors and fraud.

Model answer: Cycle: time capture → approvals → gross pay calc → withholdings → net pay → disbursement → journal entries → reporting/tax deposits → reconciliations. Controls: segregation of duties, manager approvals, change-management logs, exception reports, bank positive pay, reconciling payroll register to GL and tax filings.

Essay 2: Employee vs. Contractor

Explain the main tests for worker classification and accounting consequences.

Model answer: Use IRS common-law/control tests (behavioral, financial, relationship). Employees: withhold FIT/FICA, employer FICA/FUTA/SUTA, benefits eligibility, W-2. Contractors: 1099-NEC, no employer payroll taxes (but 1099 reporting), heightened misclassification risk with penalties.

Essay 3: Taxable Wages

Differentiate taxable vs. nontaxable compensation with examples.

Model answer: Taxable: cash wages, bonuses, most fringe benefits. Pre-tax exclusions: Section 125 cafeteria plans (health premiums), HSA contributions, 401(k) deferrals (FIT exempt but FICA applicable for 401(k)). Post-tax: Roth 401(k), certain fringe thresholds (de minimis).

Essay 4: Overtime Calculations

Compute FLSA overtime for a nonexempt employee with bonuses.

Model answer: Regular rate includes nondiscretionary bonuses and differentials. $OT = 1.5 \times$ regular rate for hours >40 in a workweek (unless state rules more generous). Allocate bonus over hours to adjust regular rate before OT multiplier.

Essay 5: Gross-to-Net Walkthrough

Outline the steps and typical formula components from gross to net pay.

Model answer: Start: gross earnings → pre-tax deductions → taxable wages → FIT/SIT withholding (W-4/Sit forms), FICA (SS up to wage base + Medicare + Additional Medicare if applicable) → post-tax deductions/garnishments → net pay. Employer side: match FICA, add FUTA/SUTA accruals.

Essay 6: FICA, FUTA, SUTA

Summarize rates/bases conceptually and related accounting entries.

Model answer: FICA: SS % up to annual base; Medicare % on all wages (+ add'l Medicare for high earners, employee only). FUTA: federal unemployment up to wage base with credits; SUTA: state rates vary. Record employer taxes as payroll tax expense and liability until remitted.

Essay 7: Withholding & W-4

Explain how Form W-4 affects FIT and how to handle under/over-withholding.

Model answer: Employees specify filing status, dependents, and adjustments. Use IRS tables or percentage method; correct via subsequent payrolls or year-end true-up; avoid giving tax advice—point to IRS estimator.

Essay 8: Forms 941/940 & Deposits

Describe timing and reconciliation for federal payroll deposits and returns.

Model answer: Deposit FICA/FIT semiweekly or monthly per lookback; quarterly Form 941 reconciles wages/taxes; annual Form 940 for FUTA. Reconcile 941 totals to W-2/W-3 and GL; resolve variances promptly.

Essay 9: W-2/W-3 Year-End

List required boxes and common errors to avoid.

Model answer: Boxes include wages, FIT, SS wages/tax, Medicare wages/tax, retirement plan, benefits (DD, C), tips, etc. Avoid SS/Medicare wage limit errors, address/name mismatches, and incorrect state locality codes.

Essay 10: Benefits & Imputed Income

Explain imputed income for fringe benefits and payroll handling.

Model answer: Taxable fringe (e.g., group-term life >\$50k, personal use of company auto) increases taxable wages; withhold taxes even if no cash paid by adjusting net or collecting from employee.

Essay 11: Garnishments

Summarize federal priority rules and calculation basics for wage garnishments.

Model answer: Order: child support/Alimony, federal tax levies, state levies, other creditors; disposable earnings limits under CCPA apply; track multiple orders and state rules; remit by deadlines and retain fees if allowed.

Essay 12: Multi-State & Local Taxes

How do reciprocity and nexus affect payroll?

Model answer: Nexus from employee work location creates SIT/SUI obligations; reciprocity agreements may tax only resident state wages; local taxes (e.g., NYC, school districts) apply by locality rules; maintain work-location tracking for remote staff.

Essay 13: Tipped Employees

Explain tip credit, tip pooling, and overtime interaction.

Model answer: Federal allows tip credit toward minimum wage with disclosure; service charges are wages (not tips); OT uses regular rate including service charges; pooling must follow law and exclude managers.

Essay 14: Leave & Sick Pay

Accounting for paid leave accruals and payouts.

Model answer: Accrue PTO liabilities as earned; expense over service; cash out per policy/state law; track FMLA/paid sick mandates separately and ensure tax treatment and reporting (e.g., COVID-era credits when applicable).

Essay 15: Payroll Journal Entries

Provide example entries for payroll run and tax deposit.

Model answer: At payroll: Dr Wage Expense; Dr Employer Tax Expense; Cr FIT/FICA/Medicare Payable; Cr SUTA/FUTA Payable; Cr Cash/Payroll Clearing. On deposit: Dr liabilities; Cr Cash.

Essay 16: Reconciliations

List monthly/quarterly reconciliations to close payroll accurately.

Model answer: Tie payroll register to GL, bank, 941/940, W-2 year-to-date; reconcile benefit invoices to deductions; investigate out-of-period adjustments; document tie-outs.

Essay 17: Controls & Audits

Design audit tests to detect 'ghost employees' and duplicate payments.

Model answer: Match HR master to payroll, review address/bank duplicates, require ID verification for new hires, run last-activity reports, and implement terminations workflow with access removal.

Essay 18: Equity & RSU Tax Basics

How do supplemental wages apply to bonuses and equity vests?

Model answer: Supplemental rates may apply to bonuses/RSUs; aggregate vs. flat method per IRS; still subject to FICA; coordinate with broker withholding and year-end W-2 codes.

Essay 19: Error Corrections

Outline steps to correct prior-period payroll mistakes.

Model answer: Void/reissue checks, adjust current payroll, or file 941-X/W-2c as needed; communicate to employees; maintain audit trail and update GL and tax deposits accordingly.

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Part II — Multiple-Choice Questions with Explanations (20)

MCQ 1. FICA consists of:

- | |
|---------------------------------------|
| A) Social Security and Medicare taxes |
| B) Federal and state income taxes |
| C) FUTA and SUTA |
| D) Only Social Security |

Explanation: FICA includes both Social Security and Medicare taxes.

MCQ 2. Employer must match which taxes?

- | |
|------------------------------------|
| A) FIT and SIT |
| B) Employee FICA (SS and Medicare) |
| C) Only SS not Medicare |
| D) None |

Explanation: Employers match the employee FICA taxes (SS and Medicare).

MCQ 3. Form 941 is filed:

- | |
|------------------------------|
| A) Annually |
| B) Quarterly |
| C) Monthly |
| D) Only when penalties occur |

Explanation: 941 is the quarterly federal tax return for FIT and FICA.

MCQ 4. Form 940 reports:

- | |
|--------------------------------|
| A) State unemployment |
| B) Federal unemployment (FUTA) |
| C) Local taxes |
| D) Only Medicare |

Explanation: 940 is the annual FUTA return.

MCQ 5. Additional Medicare tax (0.9%) applies to:

- | |
|------------------------------------|
| A) Employers |
| B) Employees above wage thresholds |

- | |
|-----------------------|
| C) All wages |
| D) Self-employed only |

Explanation: The 0.9% is employee-only when wages exceed thresholds.

MCQ 6. The federal tip credit applies to:

- | |
|---|
| A) All salaried staff |
| B) Tipped employees toward minimum wage with conditions |
| C) Independent contractors |
| D) Managers only |

Explanation: It allows credit against minimum wages under rules.

MCQ 7. Disposable earnings for garnishment equal:

- | |
|-----------------------------------|
| A) Gross pay |
| B) Net pay after all deductions |
| C) Pay after mandatory deductions |
| D) Employer-chosen amount |

Explanation: CCPA defines disposable as after legally required deductions.

MCQ 8. A nondiscretionary bonus:

- | |
|--|
| A) Is excluded from regular rate |
| B) Must be included in regular rate for OT |
| C) Has no tax withholding |
| D) Is paid once a year only |

Explanation: It affects regular rate for overtime calculations.

MCQ 9. W-2 Box 1 wages are usually:

- | |
|--|
| A) Gross pay minus pre-tax deductions subject to FIT |
| B) Same as Social Security wages |
| C) Net pay |
| D) Always higher than Medicare wages |

Explanation: Box 1 excludes certain pre-tax deductions.

MCQ 10. SUTA rates are:

- | |
|---|
| A) Fixed nationally |
| B) Set by each state and experience-rated |
| C) Set by IRS |
| D) Based on employee choice |

Explanation: States assign SUI/SUTA rates and wage bases.

MCQ 11. Which compensation is generally FICA-taxable?

- | |
|--|
| A) 401(k) deferrals |
| B) Qualified health premiums under Sec.125 |
| C) HSA contributions via payroll |
| D) All are FICA-exempt |

Explanation: 401(k) deferrals are FIT-exempt but still FICA-taxable.

MCQ 12. A common control to prevent ghost employees is:

- | |
|---|
| A) Manual checks only |
| B) Bank positive pay and HR payroll data matching |
| C) Paying in cash |
| D) Skipping reconciliations |

Explanation: Match HR roster to payroll and use bank controls.

MCQ 13. Quarterly 941 totals should reconcile to:

- | |
|----------------------------|
| A) W-3 only |
| B) W-2 totals and the GL |
| C) Only the bank statement |
| D) Benefit invoices |

Explanation: Tie 941 to W-2/W-3 and to GL balances.

MCQ 14. Overtime under FLSA for nonexempt is triggered at:

- | |
|---------------------------------|
| A) Over 8 hours/day |
| B) Over 40 hours/week (federal) |
| C) Over 50 hours/week |

D) Only for hourly workers

Explanation: Federal standard is >40/week; states may vary.

MCQ 15. Imputed income increases:

A) Taxable wages

B) Only net pay

C) Employer FUTA rate

D) SUTA wage base only

Explanation: Taxable fringe benefits increase taxable wages.

MCQ 16. A reciprocity agreement typically means:

A) Double taxation is required

B) Tax only the resident state wages for commuters
--

C) Only local taxes apply

D) No SIT at all

Explanation: Resident-only taxation per reciprocal states.

MCQ 17. If payroll liabilities are not deposited timely:

A) No effect

B) IRS penalties and interest may apply

C) Only a warning

D) State will pay them

Explanation: Late deposits incur penalties/interest.

MCQ 18. Which is a supplemental wage?

A) Base hourly wages

B) Regular salary

C) Annual bonus

D) Reimbursements under accountable plan
--

Explanation: Bonuses and commissions are supplemental wages.

MCQ 19. Under a cafeteria plan (Sec.125), employee health premiums are generally:

- | |
|----------------------------------|
| A) After-tax for FIT |
| B) Pre-tax for FIT and often SIT |
| C) Always FICA-exempt |
| D) Not reported anywhere |

Explanation: Typically pre-tax for FIT and, in many states, SIT.

MCQ 20. A payroll journal entry at pay date usually credits:

- | |
|---|
| A) Wage expense |
| B) Cash/Payroll clearing and various tax payables |
| C) Accounts receivable |
| D) Inventory |

Explanation: Credit cash (or clearing) and liabilities; debit expenses.

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About This Study Guide

This sampler mirrors the full Payroll Accounting pack: step-by-step gross-to-net examples, compliance highlights, year-end reporting, reconciliations, overtime nuances, garnishments, multi-state issues, and strong internal controls.

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