Fundamental Payroll Certification

APA FPC-Remote

Version Demo

Total Demo Questions: 16

Total Premium Questions: 169

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Topic Break Down

Topic	No. of Questions
Topic 1, Core Payroll Concepts	41
Topic 2, Compliance/Analysis	82
Topic 3, Payroll Processing	46
Total	169

QUESTION NO: 1

During open enrollment, the employee elects the following deductions. What is the total of the Section 125 Cafeteria Plan deductions?

Deduction Type	Amount
Charitable Organization	$5.00
457(b) Deferral	$100.00
Pre-tax Health Insurance Premiums	$50.00
Pre-tax Dental Insurance Premiums	$20.00

A. $70.00

B. $75.00

C. $100.00

D. $175.00

ANSWER: A

Explanation:

$70.00 is the total Section 125 Cafeteria Plan deduction amount. The employee's health insurance premium of $50.00 and dental insurance premium of $20.00 are elected qualified benefits that may be provided through a Section 125 cafeteria plan. When these employee contributions are properly made under the plan's salary-reduction arrangement, they are generally excluded from the employee's wages for federal income tax withholding, Social Security, and Medicare tax purposes. Adding the two qualified insurance deductions produces a total of $70.00 per deduction period.

A cafeteria plan is a written employer plan that allows employees to choose between cash compensation and qualified benefits without the election itself causing taxable wages. Group health-plan coverage, including medical and dental coverage, is among the benefit types commonly offered through such plans. Payroll professionals should identify the deductions designated as qualified Section 125 benefit elections and total only those amounts when determining the employee's cafeteria-plan deduction. The Internal Revenue Service describes cafeteria plans and their tax treatment in Publication 15-B, Employer's Tax Guide to Fringe Benefits. Additional IRS guidance on cafeteria plans is available at Section 125 Cafeteria Plans.

QUESTION NO: 2

On June 1st, the Payroll Department received an SUI rate change notice indicating a new rate effective January 1st of the current year. The system was not updated with the new rate until October 1st. SUI contribution recalculation will need to be done for:

A. 2nd quarter only.

B. 3rd quarter only.

C. 2nd and 3rd quarters only.

D. 1st, 2nd, and 3rd quarters only.

ANSWER: D

Explanation:

1st, 2nd, and 3rd quarters only. is correct because the state unemployment insurance rate notice makes the new employer contribution rate effective retroactively to January 1. Therefore, the payroll department must apply that rate to taxable wages paid from January 1 through the date the payroll system was corrected on October 1. Those wages fall within the first, second, and third calendar quarters. Recalculating the employer's SUI liability for each affected quarter identifies the additional contribution due or any overpayment resulting from the revised rate, subject to the state's taxable wage base for each employee. Payroll should also ensure that quarter-specific state unemployment returns, payments, or adjustments are completed according to the applicable state agency's procedures. The October 1 update means future payrolls use the new rate prospectively, so no recalculation is needed for wages first processed under the corrected rate. Although SUI is administered by individual states, federal payroll guidance recognizes state unemployment contributions as part of the unemployment-tax framework and employers must maintain accurate payroll tax records. See the IRS's Publication 15, Employer's Tax Guide and the U.S. Department of Labor's Unemployment Insurance resources.

QUESTION NO: 3

Which activity does NOT indicate a data breach has occurred?

A. Employee personal data change in the self-service portal

B. Activity in the payroll system outside normal work times

C. Excessive requests received for certain files or information

D. Employee accounts have been locked without explanation

ANSWER: A

Explanation:

Employee personal data change in the self-service portal is the correct answer because employee self-service systems are specifically designed to let authorized employees review and update information such as their address, tax-withholding elections, direct-deposit details, and personal contact information. Therefore, a data change by itself is an expected payroll-system transaction and does not establish that protected information has been accessed, disclosed, altered, or acquired without authorization. Payroll staff should still ensure that the portal uses appropriate access controls, authentication, audit logging, and review procedures. A change can become a security concern when surrounding facts suggest it was unauthorized—for example, when the employee denies making it, credentials may have been compromised, or audit records show anomalous access. The IRS advises organizations handling taxpayer information to maintain security controls and incident-response processes that protect sensitive data and identify suspicious events. These safeguards help distinguish ordinary authorized self-service activity from an event requiring investigation as a potential incident or breach. See the IRS guidance in Publication 4557, Safeguarding Taxpayer Data and PayrollOrg's payroll compliance and professional resources.

QUESTION NO: 4

All of the following employee information is required when reporting unclaimed wages EXCEPT:

A. Last Known Address

B. Employee's Full Name

C. Employee's Date of Birth

D. Payment Amount and Date

ANSWER: C

Explanation:

Employee's Date of Birth is the correct exception. When an employer reports unclaimed wages to the appropriate state unclaimed-property program, the report must contain enough owner and property information to identify the employee and accurately account for the wages being remitted. Core report information generally includes the employee's name, last known address, the amount due, and the date associated with the reportable property, such as the date the wages became payable or became dormant under the state's rules. These data allow the state to create an owner record, process the remittance, and help the employee locate and claim the funds later.

A date of birth may be collected or accepted as supplemental identifying information in some states or reporting systems when it is available, but it is not a standard required element for reporting unclaimed payroll wages. Employers should retain payroll and payment records and follow the instructions of the particular state receiving the report, because dormancy periods, due-diligence notices, and electronic-file specifications are state-specific. For examples of state holder-reporting requirements, see the Texas Comptroller's holder reporting guidance and the New York State Office of the State Comptroller's reporter guidance.

QUESTION NO: 5

Workersâ€™ compensation payments are excluded from gross income and employment taxes EXCEPT when the amounts received:

A. Are related to injuries suffered on the job.

B. Are not related to illnesses suffered on the job.

C. Do not exceed the benefits provided under the state workers' compensation law.

D. Do not exceed the benefits provided under the federal workers' compensation law.

ANSWER: B

Explanation:

Are not related to illnesses suffered on the job is correct because the federal income-tax exclusion for workers' compensation applies to amounts paid under a workers' compensation act or statute for an occupational injury or sickness. The essential connection is that the payment compensates an employee for a condition arising from employment. Therefore, payments attributable to an illness that was not suffered on the job do not qualify as tax-exempt workers' compensation benefits under this rule. In payroll administration, this distinction matters when reviewing the nature and source of a payment before determining whether it should be included in taxable wages. The exclusion is not based merely on the employer calling a payment "workers' compensation"; the payment must meet the statutory requirements for compensation related to an employment-connected injury or illness. The Internal Revenue Code excludes amounts received under workers' compensation acts as compensation for personal injuries or sickness, and IRS guidance specifically describes the exclusion in the context of occupational sickness or injury. See IRS Publication 525, Taxable and Nontaxable Income and 26 U.S.C. § 104.

QUESTION NO: 6 - (SIMULATION)

Which of the following simulations would NOT be performed when testing a disaster recovery plan?

ANSWER: See the explanation for the answer

Explanation:

Answer: Do **not** perform a simulation that creates a real emergency or endangers employees, such as an unannounced shutdown of live payroll processing or an actual evacuation/fire event.

Disaster-recovery testing should use controlled exercises (for example, tabletop walkthroughs, restoring backup files, testing alternate processing arrangements, or approved parallel tests). The purpose is to validate that payroll can be recovered without risking employee safety, damaging production data, or preventing timely payment of employees.

QUESTION NO: 7

Which of the following plans may be treated as a nonqualified plan?

A. 401(k)

B. 403(b)

C. 408(p)

D. 457(b)

ANSWER: D

Explanation:

457(b) is correct because its treatment depends on the type of employer sponsoring it. A governmental employer's 457(b) arrangement is an eligible deferred-compensation plan subject to the special rules in Internal Revenue Code section 457. In contrast, a 457(b) plan sponsored by a tax-exempt organization that is not a governmental entity is generally an unfunded, nonqualified deferred-compensation arrangement. Amounts under that type of plan generally remain the employer's property and are available to the employer's general creditors until paid or made available to the participant. This differs from the funding and trust requirements commonly associated with qualified retirement-plan arrangements. The IRS explains that section 457 plans may be established by state and local governments and tax-exempt organizations, and distinguishes governmental 457(b) plans from those maintained by tax-exempt organizations. See the IRS overview of IRC 457(b) deferred compensation plans and the statutory rules in 26 U.S.C. § 457.

QUESTION NO: 8

The withholding of federal income tax is regulated by the:

A. ACA

B. IRC

C. FICA

D. FUTA

ANSWER: B

Explanation:

IRC is correct because federal income-tax withholding is governed by the Internal Revenue Code, specifically the provisions in Subtitle C concerning employment taxes. Internal Revenue Code section 3402 establishes the general requirement that employers deduct and withhold federal income tax from employees' wages. It also provides the statutory framework for determining the amount to withhold, including use of withholding tables and employee withholding information. The Internal Revenue Service administers and enforces these IRC requirements and publishes operational guidance for employers in Publication 15, *Employer's Tax Guide*. Payroll professionals use this guidance along with the current-year withholding tables and employees' Forms W-4 to calculate and remit the required federal income-tax withholding. The legal source remains the IRC, while IRS publications explain how employers should apply those legal requirements in payroll operations. See 26 U.S.C. § 3402, Income tax collected at source and the IRS's Publication 15 (Circular E), Employer's Tax Guide.

QUESTION NO: 9

Under the FLSA, all of the following categories are defined as " white-collar " exemptions EXCEPT:

A. Executive

B. Administrative

C. Outside Sales

D. Computer Hardware Operators

ANSWER: D

Explanation:

Computer Hardware Operators is the correct exception because it is not an exemption category defined by the Fair Labor Standards Act's white-collar exemption regulations. The FLSA recognizes an exemption for certain qualifying computer employees, but eligibility depends on the employee's actual primary duties and applicable compensation requirements—not merely on working with computer hardware or holding a hardware-operator job title. Qualifying computer duties generally involve systems analysis, software engineering, programming, or similarly skilled work requiring the consistent exercise of discretion and judgment. Routine operation, monitoring, repair, manufacture, or maintenance of computer hardware does not itself establish exempt computer-employee status. For payroll purposes, an employer must evaluate the worker's specific job duties and method and level of pay before classifying the employee as exempt; job titles alone never determine exempt status. The U.S. Department of Labor describes the computer employee exemption and its duties criteria in Fact Sheet #17E: Exemption for Employees in Computer-Related Occupations. The Department's overview of the FLSA white-collar exemptions is also available at White Collar Exemptions Under the FLSA.

QUESTION NO: 10

When resolving late deposits, the payroll staff should take all of the following steps EXCEPT:

A. Check to see if the financial institution is having an internal problem.

B. Tell the employee the deposit is not considered late until midnight the day of payday.

C. Verify the employee provided the correct routing and account numbers for any direct deposits.

D. Ask the employee if they checked the deposit via an ATM, spoke with an actual bank representative, or checked online banking.

ANSWER: B

Explanation:

"Tell the employee the deposit is not considered late until midnight the day of payday." is the exception because payroll staff should not defer investigation merely because the calendar day has not ended. When an employee reports that pay is unavailable on payday, prompt communication and fact-finding are essential to determine whether the issue involves the receiving financial institution, employee account information, transmission timing, or another payment-processing matter. The employee's practical ability to access earned wages on the scheduled payday is the concern; waiting until midnight can unnecessarily delay correction, escalation, or an alternate-payment decision.

For direct deposits made through the ACH Network, payroll professionals must understand applicable payment timing and work with their financial institution or payment provider when a deposit may not have posted as expected. NACHA's Rules framework governs ACH participants' obligations and processing requirements, while employer payroll practices should focus on timely wage availability and responsive issue resolution. A report of an unavailable deposit therefore warrants immediate attention rather than a blanket statement that no issue exists until the end of payday. See Nacha Operating Rules & Guidelines and PayrollOrg's Fundamental Payroll Certification information.

QUESTION NO: 11

The IRS has issued an employer a lock-in letter requiring a specified federal income tax withholding status and additional withholding amount for an employee. The employee later submits a new Form W-4 that would reduce withholding. What should the employer do?

A. Apply the new Form W-4 immediately because it is the employee's most recent form.

B. Continue withholding under the lock-in letter unless the IRS authorizes a change.

C. Stop federal income tax withholding until the employee resolves the matter with the IRS.

D. Use the new Form W-4 only after the end of the calendar year.

ANSWER: B

Explanation:

Continue withholding under the lock-in letter unless the IRS authorizes a change is correct. A lock-in letter limits the employer's ability to reduce the employee's federal income tax withholding based on a later Form W-4.

The employer may generally accept a new Form W-4 that results in greater withholding, but it must not implement an employee election that lowers withholding below the requirements in the IRS notice. The employer should follow the specific effective-date and response instructions provided in the lock-in letter.

QUESTION NO: 12

All of the following statements are correct regarding independent contractors EXCEPT that they:

A. Receive a salary

B. Risk profit or loss

C. Can hire assistants

D. Can end the relationship at any time

ANSWER: A

Explanation:

Receive a salary is the exception because a salary is generally a form of employee compensation paid through the employer's payroll system for services performed as an employee. An independent contractor instead operates an independently established business and is paid for contracted services under the terms of a business arrangement, commonly by submitting an invoice or receiving payment according to a project, fee, commission, or other agreed service rate. The distinction is important for payroll administration because payments to a properly classified independent contractor generally are not processed as employee wages subject to federal income-tax withholding, Social Security tax withholding, Medicare tax withholding, or unemployment taxes. Rather, the business generally reports qualifying nonemployee compensation on Form 1099-NEC, while the contractor is responsible for reporting income and paying applicable income and self-employment taxes. The Internal Revenue Service emphasizes that worker status depends on the overall relationship, including behavioral control, financial control, and the type of relationship; a payment label alone does not establish classification. Nevertheless, receiving a salary describes the customary employer-employee wage relationship and is not a characteristic of an independent contractor. See the IRS guidance on employee versus contractor designation and Form 1099-NEC.

QUESTION NO: 13

An employee receives a $600.00 business-expense advance under an accountable plan. The employee timely substantiates $500.00 of allowable expenses and timely returns the remaining $100.00. How should the payment be treated for payroll tax purposes?

A. Exclude the substantiated reimbursement from wages, and do not treat the returned excess as wages.

B. Include the full $600.00 advance in wages when it is paid.

C. Include only the $500.00 substantiated amount in wages.

D. Include only the $100.00 returned excess in wages.

ANSWER: A

Explanation:

Exclude the substantiated reimbursement from wages, and do not treat the returned excess as wages is correct. An accountable plan requires a business connection, timely substantiation, and return of amounts that exceed substantiated expenses. Those requirements are met in this situation.

The $500.00 substantiated amount is a business-expense reimbursement rather than taxable wages. The employee returned the $100.00 excess advance, so that amount also is not taxable compensation. Had the employee failed to substantiate the expense or return the excess timely, the unaccounted-for amount generally would be treated as wages.

QUESTION NO: 14

Which of the following forms is used by an employer to file an annual return of withheld FIT from nonwage payments?

A. Form 940

B. Form 941

C. Form 944

D. Form 945

ANSWER: D

Explanation:

Form 945 is the annual federal tax return used to report federal income tax withheld from nonpayroll, or nonwage, payments. Employers and other withholding agents use it when they withhold federal income tax from payments such as certain pensions, annuities, gambling winnings, backup withholding, and some payments to nonemployees. The form reports the total federal income tax withheld during the calendar year and reconciles that liability with deposits made to the IRS. It is generally due by January 31 following the calendar year being reported; when all required deposits were made on time, the filing deadline may be extended to February 10. This filing is distinct from the employment tax returns used for wages because Form 945 specifically addresses federal income tax withholding on nonpayroll payments. The IRS's About Form 945 page identifies it as the Annual Return of Withheld Federal Income Tax. Additional filing instructions, including the types of payments reportable on the form and deposit requirements, are provided in the official Instructions for Form 945.

QUESTION NO: 15

An employee reports to the regular worksite, clocks in, and is then directed to drive 90 minutes to a customer location. After completing the assignment, the employee drives 90 minutes back to the regular worksite before clocking out. How should the travel time be treated?

A. Count all three hours of travel time as hours worked.

B. Count only the travel time to the customer location as hours worked.

C. Count only the travel time from the customer location as hours worked.

D. Exclude all travel time as ordinary commuting time.

ANSWER: A

Explanation:

Count all three hours of travel time as hours worked is correct. Travel from the regular worksite to a customer location and travel back to the regular worksite are part of the employee's principal work activities during the workday.

This time is different from ordinary home-to-work commuting, which generally is not compensable. Because the employee had already reported to work and was traveling between work locations at the employer's direction, the travel time must be included when determining compensable hours worked.

QUESTION NO: 16

Which of the following factors is NOT used to determine a SUTA state?

A. Base of Operations

B. Employeeâ€™s Residency State

C. Place of Direction or Control

D. State of Incorporation

ANSWER: D

Explanation:

State of Incorporation is not a factor used to determine the appropriate state for State Unemployment Tax Act (SUTA) reporting. When an employee performs services in more than one state, payroll professionals apply the unemployment-insurance localization rules to identify the state to which the employee’s services are assigned. The analysis first considers whether the services are localized in one state. If they are not localized, it considers the employee’s base of operations; if there is no base of operations, or the employee performs no services there, it considers the place from which direction and control are exercised. If those tests do not establish a state, the employee’s residence may determine coverage. These rules focus on the employee’s work relationship and the operational location connected to the services—not on the employer’s corporate formation or registration jurisdiction. A business may be incorporated in one state while employing an individual whose services, base of operations, direction, and residence establish unemployment-insurance coverage in another state. This approach supports proper SUTA wage reporting and contribution payments under the applicable state unemployment program. See the federal definition of covered employment and localization principles in 26 U.S.C. § 3306 and the U.S. Department of Labor’s Comparison of State Unemployment Insurance Laws.