

Fundamental Payroll Certification (FPC) Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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Questions

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- 1. What is indicated by form 668-W?**
 - A. Request for Federal Income Tax Withholding**
 - B. Notice of Levy on Wages, Salary, and Other Income**
 - C. Employer's Quarterly Federal Tax Return**
 - D. Statement of Employee Earnings**
- 2. Which of the following is NOT typically included in supplemental wages?**
 - A. Bonuses**
 - B. Overtime pay**
 - C. Commissions**
 - D. Severance pay**
- 3. What does the form 941 report?**
 - A. Employer's Annual Tax Liability**
 - B. Employer's Quarterly Federal Tax Return**
 - C. Employee Income Tax Information**
 - D. Year-End Payroll Summary**
- 4. What is the minimum age for employment under the Fair Labor Standards Act?**
 - A. 12 years old**
 - B. 14 years old**
 - C. 16 years old**
 - D. 18 years old**
- 5. What does OFDI stand for in the context of payroll?**
 - A. Original Financial Data Investigation**
 - B. Originating Depository Financial Institution**
 - C. Official Fund Deposit Instruction**
 - D. Online Federal Depository Finances Interface**
- 6. What is the main function of payroll software?**
 - A. To hire new employees**
 - B. To process employee pay and maintain payroll records**
 - C. To create job descriptions**
 - D. To manage employee benefits**

- 7. What is considered an asset for a business?**
- A. A debt owed to creditors**
 - B. A fixed cost of doing business**
 - C. A resource consumed by the business**
 - D. The revenue from product sales**
- 8. What does the acronym 'FMLA' refer to in relation to employee leave?**
- A. Family Medical Leave Act**
 - B. Financial Management in Labor Associations**
 - C. Federally Mandated Leave Act**
 - D. Family Medical Logistics Arrangement**
- 9. In the context of payroll, what is garnishment?**
- A. Voluntary deduction for retirement savings**
 - B. A tax incentive for employees**
 - C. A legal process to transfer wages to creditors**
 - D. An involuntary savings plan for employees**
- 10. How is the Look Back Period defined?**
- A. A 6-month period used to determine an employer's tax status**
 - B. A 12-month period determining an employer's payroll tax liability**
 - C. A 24-month tracking period for employee hours worked**
 - D. A fiscal year period for assessing employer contributions**

Answers

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1. B
2. B
3. B
4. B
5. B
6. B
7. C
8. A
9. C
10. B

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Explanations

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1. What is indicated by form 668-W?

- A. Request for Federal Income Tax Withholding
- B. Notice of Levy on Wages, Salary, and Other Income**
- C. Employer's Quarterly Federal Tax Return
- D. Statement of Employee Earnings

Form 668-W is specifically used as a Notice of Levy on Wages, Salary, and Other Income. This form is issued by the IRS to inform the payer (such as an employer) that they must withhold a portion of an employee's wages to satisfy a tax obligation of the employee to the IRS. When an employee has unpaid taxes, the IRS can place a levy on their wages, which mandates the employer to redirect a specified amount directly to the IRS, thereby facilitating the collection of the owed taxes. This form is critical for compliance with federal tax laws and for ensuring that the IRS can collect debts owed by the taxpayer. It outlines the details of the levy, including the amount to be withheld, which the employer is obligated to follow. Understanding the implications of Form 668-W is essential for payroll professionals, as it directly affects payroll processing and can impact an employee's take-home pay. The other options pertain to different forms used within payroll and tax administration but do not represent the functions of Form 668-W. For instance, a request for federal income tax withholding would typically involve a different form (like the W-4), while the employer's quarterly federal tax return relates to tax reporting (Form 941). A statement of employee

2. Which of the following is NOT typically included in supplemental wages?

- A. Bonuses
- B. Overtime pay**
- C. Commissions
- D. Severance pay

Supplemental wages refer to compensation paid to employees outside of their regular earnings, which typically means additional pay on top of the standard salary or hourly wages. Common forms of supplemental wages include bonuses, commissions, and severance pay, as these payments are not regular earnings and can be variable in amount. Overtime pay, however, is not classified as supplemental wages. It is paid to employees for hours worked beyond their normal working hours, as defined by the Fair Labor Standards Act (FLSA). Because it is part of the regular compensation structure for many employees and is calculated based on the employee's standard hourly rate, it does not fit the definition of supplemental wages. Therefore, the correct answer identifies overtime pay as something not included in the category of supplemental wages, while all the other choices provided—bonuses, commissions, and severance pay—are considered supplemental.

3. What does the form 941 report?

- A. Employer's Annual Tax Liability
- B. Employer's Quarterly Federal Tax Return**
- C. Employee Income Tax Information
- D. Year-End Payroll Summary

The form 941 serves as the Employer's Quarterly Federal Tax Return, which is essential for reporting the federal income taxes withheld from employees' wages, as well as both the employer's and employees' shares of Social Security and Medicare taxes. This form is used by employers to report their payroll taxes on a quarterly basis, ensuring compliance with federal tax requirements. The importance of form 941 lies in its role in providing the IRS with accurate and timely information about an employer's tax liability throughout the year. It allows the IRS to track the amount of taxes that are being withheld and submitted, enabling them to assess the tax obligations of the employer. In contrast, the other options do not accurately reflect the purpose of form 941. The employer's annual tax liability is more fittingly reported on form 940, which summarizes annual unemployment taxes. Employee income tax information is typically reported on forms such as W-2 and W-4. Finally, a year-end payroll summary would encompass a broader collection of information, which is not specifically encapsulated by form 941. The specificity and quarterly reporting nature of form 941 distinctly define its primary function in the payroll process.

4. What is the minimum age for employment under the Fair Labor Standards Act?

- A. 12 years old
- B. 14 years old**
- C. 16 years old
- D. 18 years old

The Fair Labor Standards Act (FLSA) establishes rules regarding the minimum age for employment. According to the FLSA, the minimum age for most non-agricultural employment is 14 years old. This regulation is in place to ensure that younger individuals are not exploited in the workforce and that they are able to prioritize education while still having opportunities for limited work. At 14, minors may work in certain jobs that are considered to be non-hazardous and have restrictions on the number of hours they can work and when they can work. The law then becomes more lenient as individuals age, allowing more hours and types of work as they approach adulthood. The other age options, while relevant to certain contexts within labor laws, do not reflect the general minimum age for most types of employment under the FLSA.

5. What does OFDI stand for in the context of payroll?

- A. Original Financial Data Investigation**
- B. Originating Depository Financial Institution**
- C. Official Fund Deposit Instruction**
- D. Online Federal Depository Finances Interface**

OFDI stands for Originating Depository Financial Institution. This term is crucial in the context of payroll because it refers to the financial institution that initiates electronic funds transfers as part of payroll processing. In payroll, this is particularly relevant when discussing direct deposits where employees' wages are electronically deposited into their bank accounts. Understanding the role of the originating depository financial institution helps ensure accurate and timely payments to employees, as it is responsible for initiating these transactions securely and effectively. This concept is foundational in payroll management, especially in relation to adhering to regulations and ensuring smooth operations within the payroll cycle.

6. What is the main function of payroll software?

- A. To hire new employees**
- B. To process employee pay and maintain payroll records**
- C. To create job descriptions**
- D. To manage employee benefits**

The primary function of payroll software is to process employee pay and maintain payroll records. This encompasses calculating wages based on hours worked or salaries, applying tax withholdings, and ensuring compliance with various regulations related to payroll. Payroll software streamlines these processes by automating calculations, which reduces the risk of errors and saves time. Additionally, it helps maintain accurate payroll records, including historical data for audits and reporting purposes. While hiring new employees, creating job descriptions, and managing employee benefits are all important human resources functions, they are not central to what payroll software is designed to do. Instead, payroll software focuses specifically on the financial and record-keeping aspects of employee compensation, making option B the most appropriate choice.

7. What is considered an asset for a business?

- A. A debt owed to creditors**
- B. A fixed cost of doing business**
- C. A resource consumed by the business**
- D. The revenue from product sales**

An asset for a business is defined as a resource that has economic value and can be owned or controlled to produce value. This encompasses things like cash, inventory, equipment, and property. The correct choice highlights that an asset is a resource consumed by the business, as it implies ownership of something that contributes to the generation of revenue and can support the operations and growth of the company. In contrast, the other options do not meet the definition of an asset. A debt owed to creditors represents a liability, which is an obligation that a business must settle in the future. A fixed cost of doing business refers to ongoing expenses that do not change with the level of production or sales, and while important for financial planning, they are not tangible resources. Revenue from product sales is the income generated from operations but does not represent a resource owned or controlled by the business. Thus, the understanding of assets is crucial for assessing a company's financial health, as they play a vital role in its ability to generate revenue and sustain operations.

8. What does the acronym 'FMLA' refer to in relation to employee leave?

- A. Family Medical Leave Act**
- B. Financial Management in Labor Associations**
- C. Federally Mandated Leave Act**
- D. Family Medical Logistics Arrangement**

The acronym 'FMLA' stands for the Family Medical Leave Act. This federal law was enacted to provide eligible employees with unpaid, job-protected leave for specific family and medical reasons. It allows employees to take up to 12 weeks of leave in a 12-month period for events such as the birth or adoption of a child, to care for a family member with a serious health condition, or to address their own serious health condition. The act's purpose is to help employees balance their work and family responsibilities and ensure they can take necessary time off without losing their job security or health benefits. The law applies to public agencies, public and private elementary and secondary schools, and companies with 50 or more employees, thereby impacting a considerable segment of the workforce. Overall, understanding FMLA is essential for grasping employee rights regarding leave in the context of family and medical necessities.

9. In the context of payroll, what is garnishment?

- A. Voluntary deduction for retirement savings**
- B. A tax incentive for employees**
- C. A legal process to transfer wages to creditors**
- D. An involuntary savings plan for employees**

Garnishment refers to a legal process through which a portion of an individual's earnings is withheld to pay off a debt owed to creditors. This typically happens when a court order is issued, allowing creditors to claim a portion of an employee's wages directly from their employer. The process generally applies to various debts, including child support, student loans, and tax obligations, among others. In this context, it is important to distinguish garnishment from other financial deductions. Voluntary deductions for retirement savings represent employee choices to save and invest for future retirement. A tax incentive, on the other hand, provides benefits to employees related to their income taxes rather than addressing debt obligations. Lastly, an involuntary savings plan suggests a mechanism that is not directly associated with repaying debts and does not involve legal proceedings. Therefore, the correct definition of garnishment highlights its role as a method for creditors to collect debts through a court-sanctioned process.

10. How is the Look Back Period defined?

- A. A 6-month period used to determine an employer's tax status**
- B. A 12-month period determining an employer's payroll tax liability**
- C. A 24-month tracking period for employee hours worked**
- D. A fiscal year period for assessing employer contributions**

The Look Back Period is specifically defined as a 12-month span that is critical for determining an employer's payroll tax liability. This period is used to assess various tax-related positions, including whether an employer qualifies as a large or small employer under the Affordable Care Act (ACA) and their specific payroll tax obligations. By evaluating the data within this defined timeframe, employers can appropriately gauge their liabilities for federal payroll taxes like income tax withholding, Social Security, and Medicare. Understanding the nuances of this period allows payroll professionals to effectively manage compliance with tax obligations and possibly adjust their withholding practices as necessary based on their payroll activity over the past year. The Look Back Period is a pivotal concept for ensuring accurate reporting and adherence to federal requirements, which directly influences the accuracy of payroll processing and tax remittance.