

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.

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Questions for Review (p. 2–30)

- 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.
- The IRS groups the items of evidence into behavioral control, financial control, and the relationship of the parties.
- Retail or service establishments, farms, and institutions of higher education may employ full-time students at 85 percent of the minimum wage.
- The living wage in Miami is \$10.16 per hour (if the employer provides health insurance) or \$11.41 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 on their own.
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.
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' worktime to the nearest five, six, or fifteen 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. 2-30)

- 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.

Practical Problems (p. 2-31)

The principles and practices of payroll accounting discussed in Chapter 2 are applied in the Practical Problems as shown below.

Principle or Practice	Practical Problem 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
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11. <i>Commissions</i>	2-20, 2-21

Solutions—Series A Problems

- 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% 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) $37 \text{ hours} \times \$6.17 = \$228.29$

2-2A. (a) $\$2.13 \times 40 = \85.20^* minimum weekly wages.

(b) $\$85.20$ minimum weekly wages
 $\underline{- 80.00}$ weekly wage regularly paid
 $\$5.20$ additional weekly wage due

*In order to be able to pay just the minimum (\$85.20) for a 40-hour week, the employee must receive at least \$204.80 in tips (\$290.00 – \$85.20).

2-3A.

(a)

Employee	Gross Earnings
Darley, R.	\$ 368.60
Waxman, B.	334.00
Isaac, J.	333.00
Bruner, H.	310.00
Kellogg, P.	<u>273.00</u>
(b) Total gross earnings	<u><u>\$1,618.60</u></u>

2-4A.

(a)

Employee	Regular Earnings	Overtime Rate	Overtime Earnings	Total Gross Earnings
Carman, T.	\$378.00	\$14.18	\$ 99.26	\$ 477.26
Galasso, A.	476.00	17.85	35.70	511.70
Jones, B.	354.00	13.28	106.24	460.24
Rodna, G.	330.00	12.38	49.52	379.52
Wilmon, W.	296.00	11.10	61.05	<u>357.05</u>
(b) Total gross earnings				<u><u>\$2,185.77</u></u>

2-5A. (a) 40-hour pay (40 hours \times \$2.13)..... \$85.20

(b) Overtime pay {2 hours \times \$5.76 [(\$7.25 \times 1.5) – \$5.12]} \$11.52

2-6A. $\$80,000 \div 52 \text{ weeks} = \$1,538.46 \times 2/5 = \underline{\underline{\$615.38}}$

2-7A. (a) Overtime earnings: $\$22.20 (\$14.80 \times 1.5) \times 7 \text{ hours} = \155.40

(b) Total earnings: $\$592.00 + \$155.40 = \$747.40$

2-8A. (a) Regular pay (46 \times \$12.96) \$596.16

(b) Overtime premium pay (6 \times \$6.48)..... 38.88

(c) Gross pay..... \$635.04

2-9A. (a) Hours worked each day:

Monday.....	8	hours
Tuesday.....	10	hours
Wednesday	8	hours
Thursday	10 1/2	hours
Friday	9 1/2	hours
Saturday	4	hours
Sunday	<u>4</u>	hours

(b) Total hours worked 54 hours

(c) Regular earnings = 40 hours × \$13.50..... \$540.00

(d) Overtime earnings:

Overtime earnings for hours beyond 8 daily and
for Saturday:

10 hours × \$20.25 (\$13.50 × 1.5)..... \$202.50

Overtime earnings for Sunday:

4 hours × \$27.00 (\$13.50 × 2)..... 108.00 310.50(e) Total earnings \$850.50**2-10A.** (a) Hours worked each day:

Monday.....	8	hours
Tuesday.....	7 9/10	hours
Wednesday	7 6/10	hours
Thursday	7 6/10	hours
Friday	<u>7 8/10</u>	hours

(b) Total hours worked 38 9/10 hours

(c) Gross earnings for the week:

38 9/10 hours × \$12.15 \$472.64**2-11A.** (a) Daily total hours:

Tuesday.....	10	hours
Wednesday	10	hours
Thursday	9 3/4	hours
Friday	10	hours
Saturday	<u>4</u>	hours

(b) Total hours for the week 43 3/4 hours

(c) Regular weekly earnings = 40 hours × \$8.45..... \$338.00

(d) Overtime earnings = 3 3/4 hours × \$12.675..... 47.53(e) Total weekly earnings \$385.53

2-12A.	(a)	Earnings, Job I: $40 \times \$14.00$	=	\$560.00
		Earnings, Job II: $7 \times \$11.80$	=	82.60
		One-half overtime rate: $(\$560.00 + \$82.60) \div 47 \text{ hours} \times 1/2 = \6.84		
		Extra overtime pay: $7 \times \$6.84$	=	<u>47.88</u>
		Gross pay		<u>\$690.48</u>
	(b)	$40 \times \$14.00$	=	\$560.00
		$7 \times (\$11.80 \times 1.5)$	=	<u>123.90</u>
		Gross pay	=	<u>\$683.90</u>
		OR		
		$40 \times \$14.00$	=	\$560.00
		$7 \times \$11.80$	=	82.60
		$7 \times \$5.90$	=	<u>41.30</u>
		Gross pay	=	<u>\$683.90</u>

2-13A. $\$695 \div 40 = \17.38 hourly rate
 $\$17.38 \times 1.5 = \26.07 overtime rate

(a)	Regular earnings.....	\$695.00
(b)	Overtime earnings (5 hours \times \$26.07).....	<u>130.35</u>
(c)	Total earnings	<u>\$825.35</u>

2-14A. Yearly earnings: $\$2,875 \times 12 = \$34,500$
 Weekly earnings: $\$34,500 \div 52 = \663.46
 (a) Hourly rate: $\$663.46 \div 40 = \16.59
 (b) Overtime rate: $\$16.59 \times 1.5 = \24.89

2-15A. Yearly earnings: $\$2,575 \times 12 = \$30,900$
 Weekly earnings: $\$30,900 \div 52 = \594.23
 Hourly rate: $\$594.23 \div 35 = \16.98
 Overtime rate: $\$16.98 \times 1.5 = \25.47

(a)	Regular semimonthly earnings.....	\$1,287.50
(b)	Overtime earnings:	
	Up to 40 hrs. (8 \times \$16.98).....	\$135.84
	Over 40 hrs. (2 \times \$25.47)	<u>50.94</u>
		<u>186.78</u>
(c)	Total earnings	<u>\$1,474.28</u>

2-16A. Gross pay = \$675 + [2 hours × (\$18.00* × 1.5)] = \$729.00

*\$675 ÷ 37 1/2 hours

2-17A.	(a)	Overtime earnings: $\$1,050 \div 48 = \$21.88 \div 2 = \$10.94 \times 8$.	\$87.52
	(b)	Total earnings: $\$1,050.00 + \87.52	\$1,137.52
	(c)	BELO pay: $[(\$22.00 \times 53 \text{ hours}) + (13 \text{ hours} \times \$22.00 \times 0.5)]$	\$1,309.00
2-18A.	(a)	Piecework earnings = $1,275 \text{ units} \times \0.35	\$446.25
	(b)	Regular hourly rate: $\$446.25 \div 45.5 \text{ hours} = \9.81 Overtime hourly rate: $1/2 \text{ of } \$9.81 = \4.91	
	(c)	Overtime earnings = $5.5 \text{ hours} \times \4.91	<u>27.01</u>
	(d)	Total earnings	<u>\$473.26</u>
2-19A.	(a)	Piecework earnings = $1,075 \text{ units} \times \0.35	\$376.25
	(b)	Overtime earnings = $200 \text{ units} \times \$0.53 (\$0.35 \times 1.5)$	<u>106.00</u>
	(c)	Total earnings	<u>\$482.25</u>
2-20A.	(a)	Regular annual salary	\$29,500
	(b)	Commission: Commission on sales of \$50,000 in excess of \$150,000 ($\$50,000 @ 8.5\%$)	\$4,250
		Commission on sales in excess of \$200,000 ($\$95,000 @ 10\%$)	<u>9,500</u>
		Commission	<u>13,750</u>
	(c)	Total annual earnings	<u>\$43,250</u>
2-21A.	(a)	Weekly base salary	\$340.00
		Weekly gross sales	\$2,215.00
		Less customer returns	<u>187.00</u>
		Weekly net sales	\$2,028.00
	(b)	Commission: $\$2,028.00 \times 2\%$	40.56
		Weekly gross sales of cashmere sweaters	\$ 995.00
		Less customer returns	<u>75.00</u>
		Weekly net sales of cashmere sweaters	\$ 920.00
	(c)	PM: $\$920.00 \times 2\%$	<u>18.40</u>
	(d)	Total weekly earnings	<u>\$398.96</u>

Solutions—Series B Problems

- 2-1B.** (a) $33 \frac{1}{4} \text{ hours} \times \$5.25 = \$174.56$
- (b) Yes. Cross, a full-time student in a university, may be employed by a retail establishment for at least 85% of the minimum wage, or \$6.17 ($85\% \times \$7.25 = \6.1625 , which the government rounds to \$6.17). Since Cross is being paid a rate less than \$6.17, the wage rate violates the FLSA.
- (c) $33 \frac{1}{4} \text{ hours} \times \$6.17 = \$205.15$

- 2-2B.** (a) $\$2.13 \times 40 = \85.20^* minimum weekly wages.

- (b) $\$85.20$ minimum weekly wages
 $\underline{- 75.00}$ weekly wage regularly paid
 $\$10.20$ additional weekly wage due

*In order to be able to pay just the minimum (\$85.20) for a 40-hour week, the employee must receive at least \$204.80 in tips ($\$290.00 - \85.20).

2-3B.

(a)

Employee	Gross Earnings
Duffy, M.	\$ 416.50
Hazelton, G.	396.20
Inman, T.	430.55
Palmer, C.	401.80
Diaz, O.	399.90
(b) Total gross earnings	<u>\$2,044.95</u>

2-4B.

(a)

Employee	Regular Earnings	Overtime Rate	Overtime Earnings	Total Gross Earnings
Wilson, H.	\$476.00	\$17.85	\$ 53.55	\$ 529.55
Aha, C.	568.00	21.30	42.60	610.60
Shoup, K.	396.00	14.85	103.95	499.95
Carlyn, D.	428.00	16.05	24.08	452.08
McMurray, J.	684.00	25.65	128.25	812.25
(b) Total gross earnings				<u>\$2,904.43</u>

- 2-5B.** (a) 40-hour pay ($40 \text{ hours} \times \2.13)..... \$85.20
- (b) Overtime pay $\{3 \frac{1}{2} \text{ hours} \times \$5.76 [(\$7.25 \times 1.5) - \$5.12]\}$ \$20.16

- 2-6B.** $\$77,000 \div 52 \text{ weeks} = \$1,480.77 \times 2/5 = \underline{\underline{\$592.31}}$

2-7B. (a) Overtime earnings: $\$25.35 (\$16.90 \times 1.5) \times 7 \text{ hours} = \177.45

(b) Total earnings: $\$676.00 + \$177.45 = \$853.45$

2-8B. (a) Regular pay ($44 \times \$13.76$) \$605.44

(b) Overtime premium pay ($4 \times \$6.88$) 27.52

(c) Gross pay \$632.96

2-9B. (a) Hours worked each day:

Monday.....	8	hours
Tuesday.....	11	hours
Wednesday	7 3/4	hours
Thursday	10	hours
Friday	10	hours
Saturday	4	hours
Sunday	4	hours

(b) Total hours worked 54 3/4 hours

(c) Regular earnings = 39.75 hours \times \$14.10..... \$560.48

(d) Overtime earnings:

Overtime earnings for hours beyond 8 daily and
for Saturday:

11 hours \times \$21.15 ($\14.10×1.5)..... \$232.65

Overtime earnings for Sunday:

4 hours \times \$28.20 ($\14.10×2)..... 112.80 345.45

(e) Total earnings \$905.93

2-10B. (a) Hours worked each day:

Monday.....	7 6/10	hours
Tuesday.....	7 9/10	hours
Wednesday	7 7/10	hours
Thursday	7 9/10	hours
Friday	7 7/10	hours

(b) Total hours worked 38 8/10 hours

(c) Gross earnings for the week:

38 8/10 hours \times \$12.95 \$502.46

2-11B. (a) Daily total hours:

Tuesday	10	hours
Wednesday	10	hours
Thursday	9 1/2	hours
Friday	10	hours
Saturday	<u>4</u>	hours

(b) Total hours for the week 43 1/2 hours

(c) Regular weekly earnings = 40 hours × \$9.35 \$374.00

(d) Overtime earnings = 3 1/2 hours × \$14.025 49.09

(e) Total weekly earnings \$423.09

2-12B. (a) Earnings, Job I: 40 × \$15.00 = \$600.00

Earnings, Job II: 9 × \$13.10 = 117.90

One-half overtime rate:

$(\$600.00 + \$117.90) \div 49 \text{ hours} \times 1/2 = \7.33

Extra overtime pay: 9 × \$7.33 = 65.97

Gross pay \$783.87

(b) 40 × \$15.00 = \$600.00

9 × (\$13.10 × 1.5) = 176.85

Gross pay = \$776.85

OR

40 × \$15.00 = \$600.00

9 × \$13.10 = 117.90

9 × \$6.55 = 58.95

Gross pay = \$776.85

2-13B. \$725 ÷ 40 = \$18.13 hourly rate

\$18.13 × 1.5 = \$27.20 overtime rate

(a) Regular earnings \$725.00

(b) Overtime earnings (4 hours × \$27.20) 108.80

(c) Total earnings \$833.80

2-14B. Yearly earnings: $\$3,875 \times 12 = \$46,500$

Weekly earnings: $\$46,500 \div 52 = \894.23

(a) Hourly rate: $\$894.23 \div 40 = \22.36

(b) Overtime rate: $\$22.36 \times 1.5 = \33.54

2-15B. Yearly earnings: $\$2,650 \times 12 = \$31,800$

Weekly earnings: $\$31,800 \div 52 = \611.54

Hourly rate: $\$611.54 \div 37.5 = \16.31

Overtime rate: $\$16.31 \times 1.5 = \24.47

(a) Regular semimonthly earnings \$1,325.00

(b) Overtime earnings:

Up to 40 hrs. (4 × \$16.31)..... \$65.24

Over 40 hrs. (2 × \$24.47) 48.94 114.18

(c) Total earnings \$1,439.18

2-16B. Gross pay = $\$735 + [2 \text{ hours} \times (\$21.00^* \times 1.5)] = \$798.00$

* $\$735 \div 35 \text{ hours}$

2-17B. (a) Overtime earnings: $\$920 \div 42 = \$21.90 \div 2 = \$10.95 \times 2 \dots$ \$21.90

(b) Total earnings: $\$920.00 + \$21.90 \dots$ \$941.90

(c) BELO pay: $[(\$21.00 \times 45 \text{ hours}) + (5 \text{ hours} \times \$21.00 \times 0.5)]$ \$997.50

2-18B. (a) Piecework earnings = $1,450 \text{ units} \times \$0.38 \dots$ \$551.00

(b) Regular hourly rate:

$\$551.00 \div 46 \text{ hours} = \11.98

Overtime hourly rate:

$1/2 \text{ of } \$11.98 = \5.99

(c) Overtime earnings = $6 \text{ hours} \times \$5.99 \dots$ 35.94

(d) Total earnings \$586.94

2-19B. (a) Piecework earnings = $1,120 \text{ units} \times \$0.38 \dots$ \$425.60

(b) Overtime earnings = $330 \text{ units} \times \$0.57 (\$0.38 \times 1.5) \dots$ 188.10

(c) Total earnings \$613.70

2-20B.	(a)	Regular annual salary	\$34,500
	(b)	Commission:	
		Commission on sales of \$50,000 in	
		excess of \$150,000 (\$50,000 @ 9.5%)	\$ 4,750
		Commission on sales in excess of	
		\$200,000 (\$115,000 @ 12%)	<u>13,800</u>
		Commission	<u>18,550</u>
	(c)	Total annual earnings	<u>\$53,050</u>
2-21B.	(a)	Weekly base salary	\$400.00
		Weekly gross sales	\$2,715.00
		Less customer returns	<u>217.00</u>
		Weekly net sales	\$2,498.00
	(b)	Commission: \$2,498.00 × 1%	24.98
		Weekly gross sales of cashmere sweaters	\$ 895.00
		Less customer returns	<u>75.00</u>
		Weekly net sales of cashmere sweaters	\$ 820.00
	(c)	PM: \$820.00 × 3%	<u>24.60</u>
	(d)	Total weekly earnings	<u>\$449.58</u>

Continuing Payroll Problems (p. 2-43)

See the completed payroll registers on pages CPP-1 through CPP-6.

Case Problems (p. 2-45)

Case 2-1

Some potential solutions that Delgado should consider are:

1. Limit vacation accruals to a maximum, such as two or three weeks. This move would reduce the current cost of payouts for earlier vacations granted at lower wage rates.
2. Combine sick leave and vacation leave into one category called “annual leave.” This practice enables a worker to use the leave time for any purpose—sick leave, vacation time, child care, parental care, etc.
3. Adopt flexible time scheduling to enable workers to handle personal business, such as medical and dental appointments, while they are flexing during the workday.

Case 2-2

John should be made aware of the fact that the FLSA requires overtime pay for hours physically worked over 40 in a workweek. Time paid for but not worked because of holidays, vacations, sickness, jury duty, etc., is not included in the employee’s regular rate of pay and does not count toward 40 hours *worked*.