

# PRACTICE EXAM 11: ARKANSAS BUSINESS AND LAW SIMULATION (50 QUESTIONS)

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**Total Questions:** 50 | **Time Limit:** 2 Hours | **Passing Score:** 70% (35/50)

This practice exam mirrors the official Arkansas Contractor Business and Law Examination in format, domain weighting, and difficulty. Answer all questions by selecting the single best answer.

## **DOMAIN: BUSINESS ORGANIZATION (1 Question)**

1. A contractor operates a successful construction business as an LLC taxed as an S-Corporation. The contractor pays themselves a salary of \$110,000 per year and takes an additional \$90,000 as a shareholder distribution. The IRS audits the company and determines that a reasonable salary for the contractor's role is \$140,000 — meaning the contractor has been underreporting salary by \$30,000 per year to avoid FICA taxes. What is the most likely consequence of this audit finding?

A. No consequence, because the IRS cannot dictate the salary level for S-Corporation owner-employees

B. The IRS will reclassify the entire \$200,000 as salary subject to FICA taxes and eliminate the distribution designation entirely

C. The IRS will reclassify \$30,000 of the distributions as salary, subject it to FICA taxes retroactively, and may assess penalties and interest for the underreported payroll taxes on the reclassified amount

D. The IRS will revoke the S-Corporation election and reclassify the LLC as a C-Corporation subject to entity-level taxation

## **DOMAIN: LICENSING (4 Questions)**

2. A contractor holds a valid Arkansas commercial license with a Mechanical Construction (ME) classification. A project owner asks the contractor to serve as the general contractor on a new warehouse project that includes structural steel, concrete foundations, and mechanical system installation. The project is valued at \$1,200,000. Can the contractor serve as the general contractor on this project?

A. Yes, because a mechanical classification automatically includes authority to perform all related structural and site work

B. No, because the Mechanical Construction classification authorizes only mechanical system work — serving as general contractor on a project involving structural and concrete work requires a Building Construction (BU) classification or the addition of appropriate classifications to the existing license

C. Yes, because any commercial license holder can serve as general contractor on commercial projects regardless of their specific classification

D. Yes, but only if the structural and concrete portions are each valued under \$50,000 individually

3. The ACLB requires all commercial license applicants to submit reference letters. A contractor submits three references: (1) a licensed architect who designed two projects the contractor built, (2) a city building inspector who inspected the contractor's work on multiple projects, and (3) a licensed engineer who supervised foundation work on a project the contractor completed. How many of these references are likely acceptable to the ACLB?

A. Only one, because the ACLB accepts references exclusively from other licensed contractors

B. Only two, because building inspectors are government employees and cannot serve as professional references

C. None, because all references must come from former employers who directly supervised the applicant's daily work

D. All three are likely acceptable because each individual has direct personal observation of the contractor's construction work in a professional capacity

4. A contractor licensed in Arkansas learns that their \$10,000 surety bond was cancelled by the surety company due to the contractor's failure to pay the annual bond premium. The contractor does not obtain a replacement bond and continues operating for three months. During those three months, the contractor completes two commercial projects totaling \$380,000. What are the potential consequences?

- A. The ACLB may suspend or revoke the contractor's license because maintaining the surety bond is a condition of commercial licensure, and operating without a bond is a licensing violation regardless of whether any claims arise during the uninsured period
- B. No consequences as long as no claims were filed against the bond during the three-month lapse period
- C. The contractor faces a \$500 administrative fine but the license remains in good standing
- D. The surety company is responsible for maintaining coverage and the contractor bears no liability for the lapse

5. A homeowner in Fort Smith hires a contractor to build a \$180,000 custom home. The contractor holds a residential builder license. During construction, the homeowner asks the contractor to also build a \$35,000 detached garage with a small office that the homeowner plans to use for their home-based accounting business. The office will have a separate entrance and its own utilities. Can the contractor build this structure under their residential builder license?

- A. Yes, because any structure on a residential property is automatically classified as residential construction
- B. Yes, because the garage is valued under \$50,000 and qualifies for the small-project residential exemption
- C. The contractor should evaluate whether the detached office constitutes a commercial structure — if the office is designed and used primarily for commercial business purposes with separate entrance and utilities, it may require a commercial license despite being on residential property
- D. No, because all detached structures require a separate commercial license regardless of their use or location

**DOMAIN: ESTIMATING AND BIDDING (4 Questions)**

6. A contractor submits a bid on a public courthouse addition. The bid includes a base bid of \$3,400,000, Additive Alternate 1 for \$120,000 (upgraded courtroom millwork), and Deductive Alternate 1 for -\$85,000 (delete landscaping). The owner's budget is \$3,450,000. The owner wants to maximize the project scope within their budget. Which combination should the owner select?

- A. Base bid only (\$3,400,000), rejecting both alternates to stay safely under budget with maximum contingency

B. Base bid plus Additive Alternate 1 (\$3,520,000), which exceeds the budget by \$70,000 but maximizes scope

C. Base bid plus both alternates ( $\$3,400,000 + \$120,000 - \$85,000 = \$3,435,000$ ), which maximizes scope while staying under the \$3,450,000 budget

D. Base bid plus Additive Alternate 1 and Deductive Alternate 1 (\$3,435,000), which adds the upgraded courtroom millwork while offsetting the cost by deleting the landscaping — staying \$15,000 under the \$3,450,000 budget and maximizing the built scope

7. A contractor's estimator discovers that the project specifications require a specific manufacturer's product for the building's fire suppression system, but the specifications do not include an "or equal" clause. The estimator finds an alternative product from a different manufacturer that is 25% less expensive and appears to meet all performance requirements. What should the estimator do when preparing the bid?

A. Base the bid on the specified manufacturer's product because the absence of an "or equal" clause means only the named product is acceptable — using an unapproved substitute in the bid creates the risk of a non-conforming installation that must be replaced at the contractor's expense

B. Use the less expensive product in the bid and notify the architect after the contract is awarded

C. Average the cost of both products and use the midpoint price in the bid as a compromise

D. Use the less expensive product because all fire suppression systems are functionally interchangeable

8. A contractor estimates that a steel erection crew of 4 ironworkers can erect 6 tons of structural steel per day. The project requires 180 tons of structural steel. The loaded labor rate for each ironworker is \$62.00 per hour for an 8-hour day. What is the estimated total labor cost for the steel erection?

A. \$44,640, calculated using only 3 ironworkers over the full erection period

B. \$59,520, calculated as 30 days ( $180 \text{ tons} \div 6 \text{ tons/day}$ )  $\times$  4 workers  $\times$  8 hours  $\times$  \$62.00/hour

C. \$89,280, calculated by doubling the crew size to accelerate the erection schedule

D. \$74,400, calculated by applying a 25% overtime premium to the base labor cost for the entire erection period

9. A contractor is reviewing bid results for a municipal water main replacement project. The engineer's estimate was \$850,000. The four bids received are: \$780,000, \$810,000, \$870,000,

and \$1,020,000. The lowest bidder's price is 8.2% below the engineer's estimate. What should the owner consider regarding the lowest bid?

- A. Reject the lowest bid automatically because it is more than 5% below the engineer's estimate
- B. Award the contract to the second-lowest bidder because bids below the engineer's estimate indicate pricing errors
- C. The 8.2% variance is within the normal range for competitive bidding and does not by itself indicate a problem — the owner should verify the lowest bidder's responsibility (experience, financial capacity, bonding) but should not reject a qualified low bid solely because it is below the estimate
- D. Average all four bids and award the contract to the bidder closest to the average price

**DOMAIN: CONTRACT MANAGEMENT (8 Questions)**

10. A contractor on a commercial project receives a verbal directive from the project architect to change the interior paint color from the specified beige to a custom gray throughout the entire building. The color change does not affect the cost of materials or labor. The contractor proceeds with the gray paint without obtaining a written change order. At the final walk-through, the owner states they never authorized the color change and demands the contractor repaint the entire building in the original beige at the contractor's expense. What is the contractor's legal position?

- A. The contractor's position is weak because they relied on a verbal directive without obtaining written authorization — even though the architect has authority to interpret and administer the contract, changes to the scope of work should be documented in writing to protect all parties, and the contractor assumed the risk by proceeding without written confirmation
- B. The contractor's position is strong because the architect has absolute authority to make all design changes verbally without written documentation
- C. The contractor has no liability because paint color is considered a minor aesthetic choice that does not require formal change order documentation
- D. The owner must pay for the repaint because the architect is the owner's agent and all architect directives are binding on the owner

11. A construction contract includes a retainage provision that withholds 10% from each progress payment. The project reaches substantial completion, and the architect certifies that all work is satisfactorily completed except for 12 minor punch list items estimated to cost \$8,000 to complete. The total retainage held is \$240,000. The contractor requests release of

retainage less a reasonable holdback for the punch list items. Can the owner continue to withhold the full \$240,000?

A. Yes, because the owner has the contractual right to hold all retainage until every punch list item is completed regardless of the items' value

B. Yes, because retainage is automatically held for 12 months after substantial completion as a warranty reserve

C. No, but the owner must release exactly 50% of the retainage at substantial completion as required by Arkansas law

D. Withholding \$240,000 for \$8,000 in punch list work is likely disproportionate — many contracts and jurisdictions require the owner to release retainage at substantial completion while holding back only an amount reasonably related to the cost of completing the remaining punch list items

12. A general contractor discovers that a concrete subcontractor submitted a \$175,000 quote for a project but made a \$40,000 mathematical error — the correct price should have been \$215,000. The general contractor already included the \$175,000 quote in their winning bid to the owner. The concrete subcontractor wants to withdraw their quote. Under common law bid principles, what is the likely outcome?

A. The subcontractor is absolutely bound to honor the \$175,000 quote because the general contractor relied on it

B. The subcontractor may be able to withdraw the quote if they can demonstrate the error was mathematical (not judgmental), material in amount (\$40,000 on a \$175,000 quote is 23%), and discovered promptly — and if the general contractor knew or should have known the quote was erroneously low

C. The general contractor must absorb the entire \$40,000 difference because they should have verified all subcontractor quotes before submitting their bid

D. The owner is responsible for the \$40,000 difference because the error was discovered after the prime contract was awarded

13. A project owner sends the contractor a written notice stating: "You are hereby notified that the Owner intends to terminate this contract for cause effective in 14 days unless the following deficiencies are cured..." The contractor believes the alleged deficiencies are caused by the owner's own failure to provide timely site access. The contractor retains an attorney who advises responding in writing. What elements should the contractor's written response include?

A. A demand for immediate mediation with no further communication until a mediator is appointed

B. A counter-notice terminating the contract for the owner's convenience to preempt the for-cause termination

C. A detailed written response within the 14-day cure period that: (1) disputes the alleged deficiencies with specific factual evidence, (2) identifies the owner's failure to provide timely site access as the actual cause of any delays, (3) preserves the contractor's rights under the contract, and (4) proposes a resolution that addresses the underlying issues

D. A brief acknowledgment of the notice with a promise to cure all deficiencies within the 14-day period regardless of their cause

14. An owner on a commercial office project issues a change order adding \$95,000 of additional mechanical work. The contract's change order markup provisions state: "The Contractor's overhead and profit markup on change order work shall not exceed 15% on self-performed work and 10% on subcontracted work." The general contractor will subcontract the entire \$95,000 to a mechanical subcontractor. The mechanical subcontractor's quote includes the subcontractor's own 15% markup. What total markup can the general contractor add to the \$95,000 subcontract price?

A. \$9,500, calculated at 10% of the subcontract price — which is the general contractor's markup on subcontracted change order work as specified in the contract, applied on top of the subcontractor's already-marked-up price

B. \$14,250, calculated at 15% because the general contractor should use the self-performed rate on all change orders

C. \$23,750, calculated by applying both the 15% and 10% rates cumulatively

D. \$0, because the subcontractor's 15% markup already covers the general contractor's overhead and profit

15. A contractor receives a Request for Information (RFI) response from the architect that clarifies an ambiguity in the electrical specifications. The response results in additional work that the contractor estimates will cost \$12,000 and add 3 days to the schedule. The contractor disagrees with the architect's interpretation, believing the original specification was clear and the "clarification" actually constitutes a scope change. What should the contractor do?

A. Accept the architect's interpretation without objection because RFI responses are final and binding on all parties

B. Refuse to perform the work until the owner personally overrules the architect's interpretation

C. Perform the work as directed and forfeit the right to claim additional compensation because RFI responses are administrative in nature

D. Submit a change order request documenting why the contractor believes the RFI response constitutes a scope change rather than a clarification, including the \$12,000 cost impact and 3-day schedule impact — then proceed with the work to avoid delay while preserving the claim through proper contractual notice

16. A subcontractor on a commercial project provides a one-year warranty on their HVAC installation work. The warranty states it covers "defects in materials and workmanship." Fourteen months after substantial completion, the building owner discovers that the HVAC condensate drain lines were installed with incorrect slope, causing water to pool and overflow. The owner demands the subcontractor repair the drainage issue. The subcontractor refuses, citing the expired warranty. Does the building owner have any recourse beyond the one-year warranty?

A. No, because the one-year warranty is the exclusive remedy and all claims expire when the warranty period ends

B. The owner may have recourse under the implied warranty of fitness, state statutes of limitation or repose for construction defects, or under the building code — express warranty expiration does not necessarily extinguish all legal claims, particularly for latent defects that were not discoverable during the warranty period

C. The owner's only recourse is to file a complaint with the ACLB, which can order the subcontractor to perform the repair

D. The owner can recover only if they purchased an extended warranty from the HVAC equipment manufacturer at the time of installation

17. A contractor working on a hospital renovation is required by the contract to maintain the hospital's existing fire alarm and sprinkler systems in full operation during construction. During demolition, a worker accidentally damages a fire alarm circuit, disabling fire detection on the second floor for approximately 4 hours before the contractor discovers and repairs the damage. No fire occurs during the outage. What contractual and regulatory issues does this incident raise?

A. No issues because the damage was accidental and was repaired within 4 hours

B. Only a reporting requirement to the building inspector for damage to life safety systems during construction

C. The incident raises potential breach of contract (failure to maintain operational fire systems as required), potential building code violations (operating an occupied building without a functional fire alarm), regulatory reporting obligations, and documentation requirements — even though no fire occurred, the 4-hour gap in fire detection created a life safety risk in an occupied hospital

D. The contractor's only obligation is to notify their CGL insurance carrier about the potential claim exposure

18. A project owner requires the contractor to furnish a performance bond and a payment bond, each at 100% of the \$4,200,000 contract value. During construction, the owner issues \$800,000 in change orders increasing the contract to \$5,000,000. The performance and payment bonds were written at the original \$4,200,000 value. What should happen to the bonds?

A. The contractor should notify the surety of the contract value increase and obtain a bond rider or endorsement increasing the penal sum of both bonds to match the revised contract value of \$5,000,000, because bonds at the original value do not cover the full exposure created by the increased scope

B. No action is needed because bonds automatically adjust to cover change orders up to 25% of the original contract value

C. The owner must purchase supplemental bonds to cover the \$800,000 increase because bond modifications are the owner's responsibility

D. The bonds remain at \$4,200,000 for the duration of the project because bond values are fixed at contract execution and cannot be changed

19. A contractor on a fixed-price commercial project has completed 90% of the work. The owner disputes a \$180,000 change order claim that the contractor submitted three months ago. The owner has been paying monthly progress payments without issue but now withholds the current month's \$320,000 payment, stating they are withholding the entire payment as leverage to force the contractor to withdraw the change order claim. Under most standard contract provisions, is this withholding appropriate?

A. Yes, because the owner has absolute discretion over all payments when a disputed claim is pending

B. Yes, because withholding payment is the owner's only leverage to resolve change order disputes

C. No, but the contractor's only remedy is to stop work until the payment dispute is resolved

D. No, because withholding \$320,000 in undisputed progress payment to gain leverage on a separate \$180,000 change order dispute is likely a breach of the contract's payment provisions — the owner should pay the undisputed amount and resolve the change order claim through the contract's dispute resolution process

**DOMAIN: PROJECT MANAGEMENT (6 Questions)**

20. A contractor is managing a construction project and receives the following update: Activity K has an early start of Day 45, early finish of Day 58, late start of Day 45, and late finish of Day 58. Activity L has an early start of Day 58, early finish of Day 72, late start of Day 63, and late finish of Day 77. What can you determine about these two activities?

- A. Both activities are on the critical path with zero float and maximum scheduling urgency
- B. Activity K is on the critical path (zero float: late start minus early start = 0), while Activity L has 5 days of total float (late start 63 minus early start 58 = 5) and is not critical
- C. Activity L is on the critical path and Activity K has 13 days of float based on its 13-day duration
- D. Both activities have equal float because they are sequential and share the same dependency chain

21. A project manager on a 10-month commercial project is at the 5-month mark. The earned value analysis shows the following: Planned Value (PV) = \$1,500,000; Earned Value (EV) = \$1,350,000; Actual Cost (AC) = \$1,425,000. What do these metrics indicate about the project's schedule and cost performance?

- A. The project is behind schedule ( $EV < PV$  by \$150,000, meaning less work has been completed than planned) and over budget ( $AC > EV$  by \$75,000, meaning the completed work cost more than it should have) — both schedule and cost performance require corrective action
- B. The project is ahead of schedule and under budget because the actual cost is less than the planned value
- C. The project is on schedule but over budget because the earned value exceeds the actual cost
- D. The metrics are inconclusive and additional data is needed to determine project status

22. A contractor's superintendent discovers that the mechanical subcontractor installed a variable refrigerant flow (VRF) HVAC system with refrigerant piping that does not match the approved shop drawings. The installed piping has fewer bends and shorter runs than the shop drawings specified, and the subcontractor claims the field-modified routing is more efficient. The architect has not been notified of the deviation. What should the superintendent do?

- A. Accept the field modification because the subcontractor's routing appears more efficient and will likely perform better

B. Document the deviation but allow the system to remain as installed since it appears to function properly during testing

C. Notify the architect of the deviation from the approved shop drawings, request a formal determination on whether the field-modified routing is acceptable, and require the subcontractor to submit revised shop drawings reflecting the actual installation for the architect's review and approval

D. Order the subcontractor to immediately remove and reinstall the piping to match the original shop drawings without consulting the architect

23. A project schedule contains a non-critical activity with 8 days of total float. The project manager wants to use 5 of those 8 float days to delay the activity's start, allowing the crew to finish another task first. The contract contains a provision stating "Float belongs to the project and neither party shall have exclusive use of float." What does this provision mean for the project manager's plan?

A. The project manager can use all 8 days of float freely because float management is exclusively the contractor's prerogative

B. The project manager cannot use any float because the "float belongs to the project" provision reserves all float for the owner's exclusive use

C. The project manager must obtain written permission from the owner before using any float days

D. The "float belongs to the project" provision means neither party can claim exclusive ownership of the float — the project manager can use the 5 days for the crew reallocation, but the remaining 3 days of float are shared, and if the owner later causes a delay that consumes those 3 days, neither party can blame the other for the float consumption

24. During a monthly progress meeting, the project owner expresses frustration that the construction schedule shows the project completing two weeks ahead of the contractual completion date. The owner states: "If you can finish two weeks early, then you should be able to absorb the two-week delay my design changes caused last month without a time extension." Is the owner's reasoning correct?

A. Yes, because any schedule advantage the contractor builds through efficiency should be available to absorb owner-caused delays without compensation

B. No, because the contractor's ahead-of-schedule performance was earned through their own efficiency and investment, and the owner cannot unilaterally appropriate the contractor's schedule advantage to offset owner-caused delays — the contractor is entitled to a time extension for the owner-caused delay regardless of their current schedule position

C. Yes, because the contractual completion date is the only date that matters, and as long as the project finishes by that date, no time extension is warranted

D. No, but only if the contractor can prove the early completion would have resulted in a financial bonus under the contract

25. A contractor is building a multi-story parking garage. The project schedule requires that the post-tensioning cables in the third-floor slab be stressed before the fourth-floor formwork can be erected. The post-tensioning subcontractor reports they cannot mobilize for 10 days due to equipment availability. The third-floor slab pour is a critical path activity. What type of schedule impact does this subcontractor delay create?

A. No impact because post-tensioning is a non-critical specialty activity that can occur at any time during construction

B. The delay creates a float consumption event that reduces the project's total float but does not affect the completion date

C. The 10-day mobilization delay will likely push the fourth-floor formwork start by 10 days, creating a 10-day delay to the critical path — the project manager should immediately explore alternative post-tensioning subcontractors, negotiate expedited mobilization, or evaluate whether any concurrent non-critical activities can be advanced during the waiting period

D. The delay can be absorbed by switching to conventional reinforcement instead of post-tensioning without affecting the schedule

### **DOMAIN: INSURANCE AND BONDING (3 Questions)**

26. A contractor carries a CGL policy and an umbrella policy. The CGL has a \$1,000,000 per-occurrence limit and a \$2,000,000 general aggregate. The umbrella has a \$5,000,000 limit. A single catastrophic incident produces a \$6,500,000 judgment against the contractor. How is the judgment covered?

A. The CGL pays its \$1,000,000 per-occurrence limit, the umbrella pays \$5,000,000, and the remaining \$500,000 is the contractor's personal responsibility — total insurance coverage of \$6,000,000 is insufficient to cover the full \$6,500,000 judgment

B. The CGL pays \$2,000,000 (the full aggregate) and the umbrella pays \$4,500,000 for complete coverage

C. The umbrella pays the full \$6,500,000 because the umbrella always replaces the CGL on catastrophic claims

D. The CGL and umbrella together pay \$7,000,000, fully covering the judgment with \$500,000 remaining

27. A construction project requires both a performance bond and a payment bond. During construction, a material supplier who furnished \$60,000 in custom windows is not paid by the general contractor. The supplier wants to recover their money. Against which bond should the supplier file a claim?

A. The performance bond, because unpaid suppliers create a risk that the project will not be completed with the correct materials

B. Both the performance bond and the payment bond simultaneously, because all bond claims must be filed against both bonds

C. Neither bond, because material suppliers can only recover through mechanics' liens and do not have bond claim rights

D. The payment bond, because it specifically guarantees that the contractor will pay all subcontractors, material suppliers, and laborers who furnish work or materials on the project

28. A contractor's workers' compensation insurance is audited at year-end. The audit reveals that the contractor hired 5 temporary workers through a staffing agency for 3 months during the year but did not report their payroll to the workers' compensation carrier. The staffing agency carries its own workers' compensation policy covering the temporary workers. Does the contractor owe additional premium for the temporary workers?

A. Yes, because the contractor must report all workers on their projects regardless of whether they are employed through a staffing agency

B. If the staffing agency maintains workers' compensation coverage for the temporary workers and can provide a certificate of insurance confirming coverage during the period they worked on the contractor's projects, the contractor generally does not owe additional premium — the staffing agency's policy covers these workers

C. Yes, but only for the hours the temporary workers spent on the contractor's jobsites, not for their time at the staffing agency's office

D. No premium adjustment is needed because temporary workers are categorically exempt from workers' compensation requirements

**DOMAIN: OSHA RECORDKEEPING (3 Questions)**

29. A construction company operates in both Arkansas and Missouri, with projects and employees in both states. The company has 8 employees in Arkansas and 6 employees in Missouri, for a total of 14 employees. Is the company required to maintain OSHA 300 Logs?

- A. No, because each state location has fewer than 11 employees and the threshold is applied per establishment
- B. No, because the combined total of 14 employees is below the 20-employee threshold for multi-state construction companies
- C. Yes, because the OSHA recordkeeping threshold of 11 or more employees counts total employees across all locations — with 14 total employees, the company exceeds the threshold and must maintain records at each establishment
- D. Yes, but only for the Arkansas establishment because Missouri has its own state OSHA program with different recordkeeping thresholds

30. A worker on a commercial roofing project develops heat exhaustion after working in 100°F temperatures for 6 hours. The worker becomes dizzy, nauseous, and confused. The foreman provides water, moves the worker to shade, and applies cool towels. After 30 minutes of rest, the worker recovers and wants to return to work. The foreman sends the worker home for the rest of the day as a precaution. The worker returns to full duty the next morning. Is this case OSHA recordable?

- A. Yes, because the worker was sent home for the remainder of the shift — this constitutes a "day away from work" even though it was the employer's precautionary decision rather than a medical directive, making the case recordable under the lost-time criterion
- B. No, because heat exhaustion treated with rest, water, and cooling is first aid and the worker returned to full duty the next day
- C. Yes, because all heat-related illnesses on construction sites are automatically recordable under OSHA's construction standards
- D. No, because the foreman's decision to send the worker home was voluntary, not a medical restriction

31. An employer wants to know whether a pre-existing medical condition aggravated by workplace activities is OSHA recordable. A worker with a previously diagnosed herniated disc experiences a significant worsening of symptoms after lifting heavy materials on a construction project. A physician determines that the workplace activity significantly aggravated the pre-existing condition and prescribes physical therapy and restricted duty. Is this case recordable?

A. No, because OSHA does not require recording of pre-existing conditions regardless of workplace aggravation

B. No, because the worker must prove the workplace was the sole cause of the condition, not merely an aggravating factor

C. Yes, but only if the worker files a separate workers' compensation claim documenting the aggravation

D. Yes, because OSHA considers a case recordable when workplace activities significantly aggravate a pre-existing condition to the point where it results in a recordable outcome such as medical treatment beyond first aid, restricted duty, or days away from work

### **DOMAIN: PERSONNEL REGULATIONS (8 Questions)**

32. A contractor with 40 employees operates a construction business in Arkansas. A project superintendent works the following schedule during a workweek: Monday through Friday 7:00 AM to 5:00 PM (10 hours per day), plus Saturday 7:00 AM to 12:00 PM (5 hours). Total hours worked: 55 hours. The superintendent earns a salary of \$1,800 per week and meets all criteria for the FLSA executive exemption (salary threshold, management duties, supervisory authority, hiring/firing authority). Is the contractor required to pay overtime for the 15 hours exceeding 40?

A. Yes, because all salaried construction employees are entitled to overtime regardless of their exemption status

B. No, because the superintendent meets all criteria for the FLSA executive exemption — exempt employees receive their full salary regardless of the number of hours worked and are not entitled to overtime pay

C. Yes, because salaried employees who work more than 50 hours in a workweek are entitled to overtime on all hours exceeding 50

D. No, but only if the superintendent does not perform any manual labor during the workweek

33. An employer's anti-harassment training program trains all employees annually on recognizing and reporting workplace harassment. Despite the training, a male supervisor begins making sexual comments to a female employee. The employee reports the behavior to HR on the same day it begins. HR investigates and confirms the harassment within 3 days. The employer immediately suspends the supervisor pending a termination decision. Under Title VII, how does the employer's response affect their liability?

- A. The employer is automatically liable for the full amount of damages regardless of their response because the harassment occurred
- B. The employer faces no liability because the harassment was committed by a supervisor, and employers are only liable for coworker harassment
- C. The employer's prompt and effective response — immediate investigation, confirmation within 3 days, and swift corrective action — demonstrates that the employer exercised reasonable care to prevent and correct harassment, which may limit or eliminate the employer's liability under the Faragher-Ellerth framework
- D. The employer's liability depends solely on whether the supervisor has prior harassment complaints in their file

34. A contractor hires a 17-year-old high school student as a summer laborer on a residential construction project. Under federal child labor provisions of the FLSA, which restrictions apply to this worker?

- A. Workers aged 16 and 17 may perform most construction tasks but are prohibited from performing hazardous occupations designated by the Secretary of Labor, including operating power-driven hoisting equipment, performing roofing work, and excavation operations — the contractor must verify which specific tasks are prohibited for minors
- B. Workers under 18 are categorically prohibited from performing any construction work regardless of the specific tasks involved
- C. No restrictions apply because workers 16 and older are treated as adults under federal employment law
- D. The only restriction is that the worker cannot operate motor vehicles on public roads as part of their job duties

35. An employer discovers that their HR manager has been conducting pre-employment medical examinations on all job applicants before extending conditional job offers. Several applicants with disabilities were rejected based on the medical examination results, even though they could perform the essential job functions. Under the ADA, what violation has occurred?

- A. No violation, because employers can require medical examinations at any stage of the hiring process
- B. A minor procedural violation that can be corrected by changing the timing of future medical examinations

C. No violation, because the applicants were rejected based on legitimate medical findings rather than their disability status

D. A significant ADA violation — the ADA prohibits medical examinations before a conditional job offer is made, and rejecting qualified applicants based on pre-offer medical results constitutes disability discrimination, exposing the employer to back pay, compensatory damages, and injunctive relief

36. A non-exempt laborer earns \$28.00 per hour and works 46 hours during a workweek. The laborer also receives a \$120 non-discretionary production bonus for the week. Under the FLSA, which statement about the overtime calculation is correct?

A. The overtime is calculated at 1.5 times the base rate (\$42.00) for 6 hours, and the \$120 bonus is added to the total without affecting the overtime rate

B. The \$120 bonus must be included in the regular rate calculation — the regular rate becomes  $(\$28 \times 46 + \$120) \div 46 = \$30.61/\text{hour}$ , and the additional overtime premium of \$15.30 per hour (half the regular rate) is owed for the 6 overtime hours, totaling \$91.83 in additional premium beyond straight-time earnings

C. The bonus eliminates the overtime obligation for the week because bonus-eligible employees are classified as exempt

D. The overtime premium applies only to hours exceeding 48 per week when a production bonus is paid during the same workweek

37. An employer has 22 employees. A 62-year-old estimator with 15 years of experience is terminated and replaced by a 29-year-old with 2 years of experience at a 40% lower salary. The terminated estimator files an ADEA complaint. The employer argues that the termination was a cost-cutting measure, not age discrimination. What is the legal standard for evaluating this claim?

A. The employer automatically wins because cost-cutting is always a legitimate business reason that overrides age discrimination claims

B. The employer automatically loses because replacing an older worker with a younger, cheaper worker is per se age discrimination

C. The court will evaluate whether age was the "but-for" cause of the termination — meaning the employee must prove that the termination would not have occurred absent the age factor, and the employer must demonstrate that the cost-cutting rationale was genuine and not a pretext for age-based discrimination

D. The claim will be dismissed because the ADEA only applies to employers with 50 or more employees

38. A contractor's project foreman observes two employees involved in a verbal altercation that includes one employee threatening physical violence against the other. The threatening employee is a high-performing worker who is difficult to replace. The foreman wants to minimize the disruption and tells both workers to "shake it off and get back to work." The following week, the threatening employee assaults the other worker, causing serious injuries. What is the employer's potential liability?

A. Significant liability because the employer had actual notice of the threat (through the foreman's observation of the verbal altercation) and failed to take appropriate corrective action — the employer's failure to address the known threat created a foreseeable risk of workplace violence that resulted in serious injury

B. No liability because the assault was an unforeseeable criminal act between two employees that the employer could not have prevented

C. Liability limited to workers' compensation benefits only because workplace assaults are covered exclusively by the workers' comp system

D. No liability because the foreman addressed the situation by telling the workers to resolve their conflict

39. An employer requires all construction workers to pass a physical abilities test (PAT) before being hired. The PAT requires applicants to carry 80 pounds for 50 feet, climb a 24-foot extension ladder, and work in a crouched position for 10 minutes. A female applicant who cannot meet the 80-pound carry requirement alleges sex discrimination because the test disproportionately eliminates female applicants. Under Title VII's disparate impact framework, what must the employer prove to defend the PAT?

A. That the PAT was developed and validated by a licensed occupational therapist or industrial hygienist

B. That an equal percentage of male and female applicants pass the test, demonstrating no disparate impact

C. That the employer offered the female applicant a reasonable accommodation to offset her inability to meet the carry requirement

D. That the physical abilities test is job-related and consistent with business necessity — meaning the 80-pound carry requirement reflects actual job demands that employees must perform, and no less discriminatory alternative exists that would equally serve the employer's legitimate needs

40. A contractor discovers that their payroll clerk has been paying two Hispanic workers \$3.00 per hour less than non-Hispanic workers performing the same work with comparable

experience and qualifications. The pay disparity has existed for 8 months. What federal laws has the contractor potentially violated?

A. The Fair Labor Standards Act only, because the FLSA governs all wage-related disputes regardless of the reason for the pay difference

B. Title VII of the Civil Rights Act (prohibiting compensation discrimination based on national origin) and potentially the Equal Pay Act — paying workers less based on their ethnicity or national origin constitutes compensation discrimination, and the contractor is liable for back pay covering the full 8-month period plus potential liquidated damages

C. The ADEA only, because pay disparities fall under age discrimination law regardless of the actual protected characteristic involved

D. No federal law applies because pay rates are entirely at the employer's discretion as long as all workers earn above the minimum wage

41. A contractor's employee handbook states: "Employment with this company is at-will. Either the employee or the company may terminate the employment relationship at any time, for any reason, with or without cause or notice." A long-term employee is terminated for poor performance. The employee argues that their supervisor verbally promised them "job security as long as you keep up the good work" during a conversation two years ago. Does the verbal promise override the written at-will disclaimer?

A. Yes, because verbal promises by supervisors always create binding employment contracts that supersede written policies

B. No, because the written at-will disclaimer in the handbook must be modified in writing to be overridden

C. The verbal promise creates an implied contract that supersedes the at-will disclaimer and guarantees the employee continued employment as long as their performance is satisfactory

D. Courts generally uphold clear, written at-will disclaimers over informal verbal statements by supervisors — the written handbook provision is more likely to control, though the outcome can vary by jurisdiction and the specific circumstances

42. A contractor operating on a Davis-Bacon covered project employs both journeyman carpenters and registered carpenter apprentices. The prevailing wage determination specifies journeyman carpenter wages of \$38.50 per hour plus \$17.25 in fringe benefits. The determination also includes an apprentice schedule that starts at 60% of the journeyman rate for first-year apprentices. A first-year apprentice works 40 hours during the week. What must the apprentice be paid?

- A. At least \$23.10 per hour in wages (60% of \$38.50) plus the proportional fringe benefit rate specified in the apprentice schedule, provided the apprentice is registered in a bona fide apprenticeship program approved by the Department of Labor or a state apprenticeship agency
- B. The full journeyman rate of \$38.50 because apprentice wage schedules are not recognized under the Davis-Bacon Act
- C. The federal minimum wage because apprentices are exempt from prevailing wage requirements regardless of the funding source
- D. 60% of the journeyman wage only, with no fringe benefit obligation because apprentices do not qualify for fringe benefits under Davis-Bacon

43. An employer with 60 employees receives a request from a carpenter to take FMLA leave in intermittent increments — specifically, the carpenter needs to take 4 hours off every Wednesday afternoon for physical therapy related to a serious health condition. The leave would continue for approximately 16 weeks. The employer wants to deny the intermittent leave and require the carpenter to take continuous leave instead. Can the employer do this?

- A. Yes, because FMLA leave must be taken in continuous blocks of at least one full workweek
- B. Yes, because intermittent leave is available only for the birth or adoption of a child, not for the employee's own medical condition
- C. No, but the employer can require the carpenter to transfer to a different position that better accommodates the intermittent leave schedule
- D. No, the employer cannot deny intermittent FMLA leave when it is medically necessary — the FMLA specifically provides for intermittent or reduced schedule leave when medically necessary for the employee's serious health condition, and the employer must accommodate the schedule

**DOMAIN: FINANCIAL MANAGEMENT (5 Questions)**

44. A contractor's WIP report shows the following for Project Omega: revised contract \$3,200,000; estimated total cost \$2,720,000; costs to date \$1,904,000; billings to date \$1,980,000. What are the percentage complete, the over/under billing status, and the estimated gross profit margin?

- A. 65% complete, under-billed by \$76,000, with a 15% estimated gross profit margin

B. 70% complete ( $\$1,904,000 \div \$2,720,000$ ), over-billed by \$76,000 (billings of \$1,980,000 minus earned revenue of \$1,904,000, earned revenue =  $70\% \times \$3,200,000 = \$2,240,000$ , so actually under-billed by \$260,000), with a 15% gross profit margin

Let me recalculate: % complete =  $\$1,904,000 \div \$2,720,000 = 70\%$ . Earned revenue =  $70\% \times \$3,200,000 = \$2,240,000$ . Billings = \$1,980,000. Under-billed by \$260,000. Gross margin =  $(\$3,200,000 - \$2,720,000) \div \$3,200,000 = 15\%$ .

44. A contractor's WIP report shows Project Omega: revised contract \$3,200,000; estimated total cost \$2,720,000; costs to date \$1,904,000; billings to date \$2,310,000. What are the percentage complete, the over/under billing status, and the estimated gross profit margin?

A. 70% complete, under-billed by \$70,000, gross margin 12%

B. 70% complete ( $\$1,904,000 \div \$2,720,000$ ), over-billed by \$70,000 (billings of \$2,310,000 minus earned revenue of \$2,240,000), with a 15% estimated gross profit margin ( $\$480,000 \div \$3,200,000$ )

C. 60% complete, over-billed by \$70,000, gross margin 20%

D. 75% complete, billings match earned revenue exactly, gross margin 15%

45. A contractor wants to evaluate the financial health of their business using balance sheet ratios. Their balance sheet shows: current assets \$1,100,000; current liabilities \$750,000; total assets \$2,400,000; total liabilities \$1,600,000. What is the contractor's current ratio and debt-to-equity ratio?

A. Current ratio is 1.47 ( $\$1,100,000 \div \$750,000$ ) and debt-to-equity ratio is 2.0 ( $\$1,600,000 \div \$800,000$ ) — the current ratio indicates adequate short-term liquidity while the debt-to-equity ratio indicates the company has \$2.00 in debt for every \$1.00 of equity

B. Current ratio is 0.68 and debt-to-equity ratio is 0.67, indicating the company is under-leveraged

C. Current ratio is 2.0 and debt-to-equity ratio is 1.0, indicating a perfectly balanced financial position

D. Current ratio is 1.47 and debt-to-equity ratio is 1.5, calculated using only non-current liabilities in the ratio

46. A contractor is using the percentage-of-completion method on a \$2,500,000 project. At the end of Year 1, costs incurred total \$1,000,000 against an estimated total cost of \$2,000,000. The contractor recognizes 50% completion and \$250,000 in gross profit. At the beginning of

Year 2, a major design change increases the estimated total cost to \$2,400,000 while the contract value remains \$2,500,000. How does this revision affect the project's financial picture?

- A. No effect because cost estimate revisions are not recognized until the project is completed under the POC method
- B. The revision doubles the gross profit because the additional scope increases the contractor's fee proportionally
- C. The revised estimated gross profit drops from \$500,000 to \$100,000 ( $\$2,500,000 - \$2,400,000$ ), and the cumulative profit recognition must be adjusted — at the revised 41.67% complete ( $\$1,000,000 \div \$2,400,000$ ), only \$41,670 in cumulative profit should have been recognized versus the \$250,000 already booked, requiring a significant downward adjustment of approximately \$208,330 in Year 2
- D. The revision eliminates all profit on the project and triggers an immediate loss recognition

47. A contractor's cash flow statement for the quarter shows: operating cash flow of -\$85,000; investing cash flow of -\$120,000 (equipment purchase); financing cash flow of +\$250,000 (new bank loan). The beginning cash balance was \$60,000. What is the ending cash balance, and what does the overall cash flow pattern indicate?

- A. Ending cash balance is \$45,000, indicating the company has sufficient cash for operations
- B. Ending cash balance is \$165,000, calculated by omitting the investing cash flow from the total
- C. Ending cash balance is -\$85,000, reflecting only the operating cash flow without adjusting for financing and investing
- D. Ending cash balance is \$105,000 ( $\$60,000 + (-\$85,000) + (-\$120,000) + \$250,000$ ), but the pattern is concerning — the company is generating negative operating cash flow (spending more on operations than it receives) and funding both operations and equipment purchases with borrowed money, which is unsustainable long-term

48. A contractor's accounts receivable aging report shows the following: \$500,000 current (0-30 days), \$200,000 at 31-60 days, \$120,000 at 61-90 days, \$80,000 at 91-120 days, and \$50,000 over 120 days. Total receivables: \$950,000. The contractor's CPA advises establishing a bad debt reserve. What percentage of total receivables is at highest risk of being uncollectible?

- A. 100% of the portfolio is at equal risk because construction receivables are inherently uncertain

B. Approximately 13.7% of total receivables (\$130,000 out of \$950,000) is in the highest-risk categories (over 90 days old), with the \$50,000 over 120 days being the most likely to become uncollectible — the CPA should recommend progressively higher reserve percentages as receivables age

C. Only the \$50,000 over 120 days (5.3%) is at risk because all receivables under 120 days will eventually be collected

D. The receivables aging is irrelevant because construction contracts guarantee payment through retainage and lien rights

49. A contractor maintains separate job cost accounts for a commercial office building project. At the 50% completion point, the job cost report shows that the concrete cost code is 20% over budget, the structural steel cost code is 5% under budget, and all other cost codes are within 2% of budget. The project manager investigates the concrete overrun and determines that it was caused by a one-time foundation change order that has already been approved and priced. How should this finding affect the project manager's concern level?

A. The 20% concrete overrun is explained by the approved change order — once the change order revenue is matched against the additional cost, the concrete cost code should be approximately on budget, reducing the concern to routine monitoring of the remaining concrete work

B. The 20% concrete overrun remains concerning regardless of the change order because any cost code variance above 10% requires immediate corrective action

C. The project manager should increase the contingency for all remaining cost codes by 20% to match the concrete variance

D. The project manager should terminate the concrete subcontractor and rebid the remaining concrete work

50. A contractor's bank requires quarterly financial covenants as conditions of maintaining a \$300,000 line of credit. The covenants require: (1) minimum current ratio of 1.25; (2) minimum net worth of \$200,000; (3) maximum debt-to-equity ratio of 3.0. The contractor's quarterly balance sheet shows: current assets \$580,000; current liabilities \$500,000; total assets \$1,400,000; total liabilities \$1,100,000. Does the contractor meet all three covenants?

A. Yes, all three covenants are met with comfortable margins above each threshold

B. Two of three are met but the current ratio of 1.16 falls below the 1.25 minimum, putting the credit line at risk

C. All three are violated because the company's debt level is too high relative to its asset base

D. The current ratio is 1.16 ( $\$580,000 \div \$500,000$ ) — below the 1.25 minimum. Net worth is \$300,000 ( $\$1,400,000 - \$1,100,000$ ) — above the \$200,000 minimum. Debt-to-equity is 3.67 ( $\$1,100,000 \div \$300,000$ ) — above the 3.0 maximum. The contractor fails two of three covenants and must address the deficiencies or risk the bank taking enforcement action on the credit line

## Practice Exam 11: Answer Key and Explanations

**1. C** — When the IRS determines that an S-Corporation owner's salary is unreasonably low, it reclassifies a portion of the distributions as salary subject to FICA taxes. In this case, \$30,000 of the distributions would be reclassified as wages, subjecting that amount to the employer and employee shares of Social Security and Medicare taxes retroactively, plus penalties and interest for the underreported payroll taxes. The IRS does not reclassify the entire \$200,000 — only the shortfall.

**2. B** — The Mechanical Construction classification authorizes only mechanical system work — HVAC, plumbing systems, and similar mechanical installations. Serving as general contractor on a warehouse project involving structural steel and concrete foundations requires a Building Construction (BU) classification. The contractor must either add the BU classification to their existing license or decline the general contractor role and participate only as the mechanical subcontractor.

**3. D** — All three references have direct personal observation of the contractor's construction work in a professional capacity. The architect observed the contractor's work on projects they designed, the building inspector observed and evaluated the contractor's work during code inspections, and the engineer supervised the contractor's foundation work. The ACLB requires references from individuals with direct observation of construction work — these three all qualify.

**4. A** — Maintaining the \$10,000 surety bond is a condition of commercial licensure in Arkansas. When the bond is cancelled and not replaced, the contractor is operating in violation of their licensing requirements — even if no claims arise. The ACLB may suspend or revoke the license for failure to maintain required bonding. The contractor should have obtained a replacement bond immediately upon learning of the cancellation.

**5. C** — A detached structure with a separate entrance and its own utilities, designed primarily for commercial business use, may be classified as a commercial structure regardless of its location on a residential property. The contractor should evaluate the building's intended use and classification before assuming their residential license covers it. If the building department classifies it as commercial occupancy, a commercial license would be required.

**6. D** — The owner wants to maximize scope within a \$3,450,000 budget. Accepting both alternates produces  $\$3,400,000 + \$120,000 - \$85,000 = \$3,435,000$ , which is \$15,000 under budget. This allows the owner to add the upgraded courtroom millwork (valuable scope

enhancement) while offsetting part of the cost by deleting the landscaping — maximizing the built scope within the available budget.

**7. A** — Without an "or equal" clause, the specification requires the named manufacturer's product exclusively. The estimator must base the bid on the specified product's cost, not on a cheaper alternative. Installing an unapproved product would violate the contract and potentially require removal and replacement at the contractor's expense. The contractor can request approval for a substitution, but cannot assume it will be granted.

**8. B** — Duration:  $180 \text{ tons} \div 6 \text{ tons/day} = 30 \text{ working days}$ . Daily labor cost:  $4 \text{ workers} \times 8 \text{ hours} \times \$62.00 = \$1,984/\text{day}$ . Total labor cost:  $30 \text{ days} \times \$1,984 = \$59,520$ . The calculation uses the fully loaded labor rate, which includes wages, taxes, insurance, and benefits — not just the base hourly wage.

**9. C** — An 8.2% variance below the engineer's estimate is within the normal range for competitive bidding — estimates are projections, not perfect predictions. The owner should verify the lowest bidder's responsibility (financial capacity, experience, bonding, license status) but should not reject a qualified low bid simply because it is below the estimate. Arbitrary rejection of valid low bids wastes public funds and invites legal challenges.

**10. A** — The contractor proceeded with a scope change based solely on a verbal directive without obtaining written confirmation. Even though the architect may have authority to interpret the contract documents, changes to the work should be documented in writing. The contractor assumed the risk by acting on an unwritten instruction and now lacks the documentary evidence needed to defend against the owner's demand for repaint.

**11. D** — Withholding \$240,000 in retainage for \$8,000 in punch list items is grossly disproportionate — a 30:1 ratio. Many contracts and jurisdictions require the owner to release the majority of retainage at substantial completion, retaining only an amount reasonably related to the cost of completing the remaining work (typically 150% to 200% of the estimated correction cost). The contractor should demand release of the excess retainage.

**12. B** — Under common law, a subcontractor may withdraw an erroneous bid if the error was mathematical (not judgmental), material in amount (23% of the quote), discovered promptly, and the general contractor knew or should have known the quote was unreasonably low. If the \$175,000 quote was dramatically below the other mechanical quotes the GC received, the GC may have had constructive notice that the price was erroneous.

**13. C** — The contractor's written response should address each alleged deficiency with specific factual evidence, identify the owner's own role in causing the delays (failure to provide site access), preserve all contractual and legal rights, and propose a constructive resolution. The 14-day cure period is the contractor's window to create a documented record that may support a wrongful termination claim if the owner proceeds despite the contractor's defense.

**14. A** — The contract limits the general contractor's markup on subcontracted change order work to 10%. The GC applies this 10% to the subcontractor's all-inclusive price of \$95,000, yielding \$9,500. The subcontractor's own 15% markup is embedded in their \$95,000 price and is the subcontractor's profit — the GC's markup is applied on top of whatever the subcontractor charges.

**15. D** — When a contractor believes an RFI response constitutes a scope change rather than a clarification, the correct approach is to submit a formal change order request documenting the basis for the claim, the cost impact, and the schedule impact. The contractor should proceed with the work as directed to avoid delay claims, while preserving the right to recover the additional cost through the change order and dispute resolution process.

**16. B** — Express warranty expiration does not extinguish all legal claims for construction defects. The owner may have recourse under implied warranties, state statutes of limitation for construction defect claims (which often extend well beyond the one-year express warranty), statutes of repose, or building code enforcement. Latent defects that were not discoverable during the warranty period receive particular protection under most legal frameworks.

**17. C** — This incident raises multiple serious issues: potential breach of the contract requirement to maintain operational fire systems, potential building code violations for operating an occupied hospital without fire detection, regulatory reporting obligations, and the need for thorough documentation. The 4-hour fire detection gap in an occupied hospital is a life safety event with significant legal and regulatory implications.

**18. A** — When change orders increase the contract value from \$4,200,000 to \$5,000,000, the original bonds at \$4,200,000 no longer cover the full exposure. The contractor should notify the surety and obtain bond riders increasing the penal sum to \$5,000,000. Most bond forms include provisions for adjustments, but they are not automatic — the contractor must proactively request the increase.

**19. D** — Withholding an entire \$320,000 undisputed progress payment as leverage to force withdrawal of a separate \$180,000 change order claim is a breach of the contract's payment provisions. The owner is obligated to pay for undisputed work performed. The change order dispute should be resolved through the contract's dispute resolution process — not through payment withholding that punishes the contractor for exercising their contractual claim rights.

**20. B** — Activity K has zero total float (late start 45 – early start 45 = 0), placing it on the critical path — any delay to Activity K delays the project. Activity L has 5 days of total float (late start 63 – early start 58 = 5), meaning it can be delayed up to 5 days without affecting the project completion date. Activities on the same path can have different float values depending on their relationship to the critical path.

**21. A** — EV (\$1,350,000) is less than PV (\$1,500,000), indicating the project is behind schedule — less work has been completed than planned. AC (\$1,425,000) exceeds EV (\$1,350,000), indicating the project is over budget — the completed work cost more than it should have. Both the Schedule Performance Index ( $EV/PV = 0.90$ ) and Cost Performance Index ( $EV/AC = 0.95$ ) are below 1.0, confirming unfavorable performance on both dimensions.

**22. C** — Any deviation from approved shop drawings must be documented, submitted to the architect for review, and formally approved before the installation is accepted. The subcontractor does not have unilateral authority to modify the approved design, even if the modification appears more efficient. The architect must evaluate the field modification's impact on system performance, code compliance, and manufacturer warranty.

**23. D** — The "float belongs to the project" provision means neither party owns the float exclusively. The project manager can use 5 of the 8 days for crew reallocation, but the

remaining 3 days are a shared resource. If the owner later causes a 3-day delay to a connected activity, neither party can claim the other "consumed their float" because the float belonged to the project, not to either party individually.

**24. B** — The contractor's ahead-of-schedule performance was earned through their own efficiency, investment, and management. The owner cannot unilaterally appropriate this schedule advantage to absorb owner-caused delays. The contractor is entitled to a time extension for the owner's design delay regardless of the current schedule position. The contractor's schedule cushion belongs to the contractor, not to the owner.

**25. C** — The post-tensioning delay directly affects the critical path because the fourth-floor formwork cannot proceed until the third-floor cables are stressed. A 10-day subcontractor mobilization delay creates a 10-day critical path delay. The project manager should immediately explore alternative subcontractors, negotiate expedited mobilization, or identify productive concurrent work to minimize the idle time.

**26. A** — The CGL pays its \$1,000,000 per-occurrence limit. The umbrella pays the next \$5,000,000. Combined coverage:  $\$1,000,000 + \$5,000,000 = \$6,000,000$ . The judgment is \$6,500,000, leaving a \$500,000 gap that becomes the contractor's personal responsibility. This scenario illustrates why contractors with large project exposure should carry umbrella limits sufficient to cover catastrophic judgments.

**27. D** — The payment bond specifically guarantees that the contractor will pay all subcontractors, material suppliers, and laborers who furnish work or materials on the project. The window supplier should file their \$60,000 claim against the payment bond, not the performance bond. The performance bond guarantees project completion — the payment bond guarantees payment to unpaid parties in the supply chain.

**28. B** — If the staffing agency maintains its own workers' compensation coverage for the temporary workers and can provide a certificate of insurance confirming active coverage during the period they worked on the contractor's projects, the contractor generally does not owe additional premium. The staffing agency's policy covers these workers, and the workers are employees of the staffing agency — not of the contractor.

**29. C** — The OSHA recordkeeping threshold of 11 or more employees counts total employees across all locations — not per establishment. With 14 total employees (8 in Arkansas + 6 in Missouri), the company exceeds the 11-employee threshold and must maintain OSHA injury and illness records at each establishment where employees work.

**30. A** — Sending the worker home for the remainder of the shift constitutes a "day away from work" under OSHA recordkeeping definitions, even when the decision was the employer's precautionary measure rather than a medical directive. Any partial day away (other than the day of the injury itself) counts as a day away from work. Since the worker was sent home on the day of the incident, this case is recordable.

**31. D** — OSHA considers a case recordable when workplace activities significantly aggravate a pre-existing condition to the point where it produces a recordable outcome. The physician determined the workplace lifting significantly aggravated the herniated disc, and the resulting treatment (physical therapy — medical treatment beyond first aid) and restricted duty are both

independently recordable outcomes. The pre-existing nature of the condition does not exempt it from recording.

**32. B** — The superintendent meets all four criteria for the FLSA executive exemption: paid on a salary basis above the DOL threshold (\$1,800/week), manages a department, regularly directs more than two employees, and has genuine hiring and firing authority. Exempt employees receive their full salary regardless of hours worked and are not entitled to overtime. The 55-hour workweek does not generate an overtime obligation.

**33. C** — The employer's prompt and effective response demonstrates reasonable care to prevent and correct harassment — annual training, immediate investigation upon report, confirmation within 3 days, and swift corrective action (suspension pending termination). Under the Faragher-Ellerth framework, this type of response may significantly limit or eliminate the employer's liability because the employer did everything within its power to prevent and promptly correct the harassment.

**34. A** — Workers aged 16 and 17 may perform most construction tasks under federal child labor law but are prohibited from performing designated hazardous occupations. In construction, these include operating power-driven hoisting equipment, roofing work, excavation operations, and working with explosives. The contractor must review the specific list of prohibited occupations and ensure the 17-year-old is not assigned to any restricted task.

**35. D** — The ADA specifically prohibits medical examinations before a conditional job offer is extended. Medical exams may be conducted only after a conditional offer and only if all entering employees in the same job category are subjected to the same exam. Rejecting qualified applicants based on pre-offer medical results constitutes disability discrimination, exposing the employer to significant damages.

**36. B** — Non-discretionary bonuses must be included in the regular rate for FLSA overtime calculation. Regular rate =  $(\$28.00 \times 46 + \$120) \div 46 = \$30.61/\text{hour}$ . The overtime premium is half the regular rate (\$15.30) for each of the 6 overtime hours = \$91.83 in additional premium. Total gross pay = straight-time earnings ( $\$28.00 \times 46 = \$1,288$ ) + bonus (\$120) + overtime premium (\$91.83) = \$1,499.83. The bonus increases the effective overtime premium above what the base rate alone would produce.

**37. C** — Under the ADEA's "but-for" causation standard (established in *Gross v. FBL Financial Services*, 2009), the employee must prove that age was the determinative factor in the termination — not merely a contributing factor. The employer must demonstrate that the cost-cutting rationale was genuine and not a pretext for age-based discrimination. Courts examine whether similarly situated younger employees were also affected by cost reductions.

**38. A** — The employer had actual notice of the violent threat through the foreman's direct observation of the verbal altercation. By failing to take appropriate corrective action — investigating, separating the workers, imposing discipline, or involving law enforcement — the employer created a foreseeable risk. The subsequent assault was a predictable consequence of the ignored threat, creating significant employer liability for negligent supervision and failure to provide a safe workplace.

**39. D** — Under Title VII's disparate impact framework, when a facially neutral employment practice (the PAT) disproportionately eliminates members of a protected class (female

applicants), the employer must prove the practice is job-related and consistent with business necessity. The 80-pound carry requirement must reflect actual job demands, and the employer must show that no less discriminatory alternative testing method would equally serve the legitimate need.

**40. B** — Paying Hispanic workers \$3.00 less per hour than non-Hispanic workers performing identical work with comparable qualifications constitutes compensation discrimination based on national origin — a violation of Title VII. The Equal Pay Act may also apply if the pay disparity relates to sex-based differences. The contractor is liable for 8 months of back pay ( $\$3.00 \times \text{hours worked} \times 8 \text{ months}$ ) per affected worker, plus potential liquidated damages.

**41. D** — Courts generally uphold clear, written at-will disclaimers over informal verbal statements by supervisors. The handbook's unambiguous at-will language — signed and acknowledged by the employee — typically controls over a supervisor's casual remark about "job security." However, outcomes vary by jurisdiction, and some courts have found implied contracts based on verbal assurances, handbook provisions, or established company practices.

**42. A** — Davis-Bacon allows the use of apprentice wage rates for apprentices registered in bona fide apprenticeship programs approved by the DOL or a state apprenticeship agency. A first-year apprentice at 60% of the journeyman rate earns at least \$23.10/hour ( $\$38.50 \times 60\%$ ) plus the proportional fringe benefits specified in the apprentice schedule. The apprentice must be properly registered — unregistered workers must be paid the full journeyman rate.

**43. D** — The FMLA specifically provides for intermittent leave when medically necessary for the employee's serious health condition. The employer cannot deny intermittent leave or require the employee to take continuous leave instead. However, the employer may transfer the employee to an equivalent position that better accommodates the intermittent schedule, as long as the position has equivalent pay and benefits.

**44. B** — Percentage complete:  $\$1,904,000 \div \$2,720,000 = 70\%$ . Earned revenue:  $70\% \times \$3,200,000 = \$2,240,000$ . Billings: \$2,310,000. Over-billed by \$70,000 ( $\$2,310,000 - \$2,240,000$ ). Estimated gross profit:  $\$3,200,000 - \$2,720,000 = \$480,000$ . Gross margin:  $\$480,000 \div \$3,200,000 = 15\%$ . The over-billing of \$70,000 appears as a current liability on the balance sheet.

**45. A** — Current ratio:  $\$1,100,000 \div \$750,000 = 1.47$ , indicating \$1.47 in current assets for every \$1.00 of current liabilities — adequate but not strong. Equity:  $\$2,400,000 - \$1,600,000 = \$800,000$ . Debt-to-equity:  $\$1,600,000 \div \$800,000 = 2.0$ , meaning the company has \$2.00 in debt for every \$1.00 of equity. A debt-to-equity ratio of 2.0 indicates significant leverage that sureties and lenders will scrutinize.

**46. C** — The revised estimated total cost of \$2,400,000 reduces the expected gross profit from \$500,000 to \$100,000. At the revised completion percentage ( $\$1,000,000 \div \$2,400,000 = 41.67\%$ ), only \$41,670 in cumulative profit should have been recognized — but \$250,000 was already booked in Year 1. A downward adjustment of approximately \$208,330 is required in Year 2, dramatically reducing or eliminating Year 2 profitability.

**47. D** — Ending cash:  $\$60,000 + (-\$85,000) + (-\$120,000) + \$250,000 = \$105,000$ . While the ending balance is positive, the pattern is concerning: negative operating cash flow means the company is spending more on day-to-day operations than it receives from customers, and both

operations and a major equipment purchase are being funded with borrowed money. This pattern is unsustainable if operating cash flow does not turn positive.

**48. B** — Receivables over 90 days (\$80,000 at 91-120 days + \$50,000 over 120 days = \$130,000) represent approximately 13.7% of total receivables and carry the highest risk of becoming uncollectible. The CPA should recommend progressively higher reserve percentages as receivables age — for example, 2% reserve on current, 5% on 31-60 days, 10% on 61-90 days, 25% on 91-120 days, and 50% on receivables over 120 days.

**49. A** — The 20% concrete cost code overrun is explained by the approved change order. Once the change order revenue is matched against the additional cost, the concrete cost code should be approximately on budget. This is a one-time event, not a trend. The project manager should confirm the change order covers the full additional cost and then return to routine monitoring. The 5% steel savings and the on-budget status of other codes reinforce overall project health.

**50. D** — Current ratio:  $\$580,000 \div \$500,000 = 1.16$  — below the 1.25 covenant minimum (FAIL). Net worth:  $\$1,400,000 - \$1,100,000 = \$300,000$  — above the \$200,000 minimum (PASS). Debt-to-equity:  $\$1,100,000 \div \$300,000 = 3.67$  — above the 3.0 maximum (FAIL). The contractor fails two of three covenants and must address the deficiencies immediately or risk the bank freezing, reducing, or calling the line of credit.