

PRACTICE EXAM 12: ARKANSAS BUSINESS AND LAW SIMULATION (50 QUESTIONS)

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 has operated as a sole proprietorship for five years and is now considering converting to an LLC. The contractor's CPA explains the advantages and disadvantages of each structure. Which of the following is a disadvantage of the sole proprietorship that would be eliminated by converting to an LLC?

- A. The inability to deduct business expenses on the owner's personal tax return when filing Schedule C
- B. The requirement to file a separate business tax return at the entity level and pay entity-level income tax
- C. The inability to elect S-Corporation tax treatment to reduce self-employment taxes on business income
- D. Unlimited personal liability, which exposes all of the owner's personal assets — home, vehicles, savings — to business debts and legal judgments without any legal barrier between personal and business obligations

DOMAIN: LICENSING (4 Questions)

2. A contractor has been operating under a restricted commercial license for two years and wants to bid on a \$900,000 commercial project. The contractor's financial position has

improved significantly and they now meet all requirements for an unrestricted license. What must the contractor do before bidding on the \$900,000 project?

A. Apply to the ACLB to upgrade from a restricted to an unrestricted commercial license before bidding, because the restricted license caps individual project value at \$750,000 and the \$900,000 project exceeds this limit

B. Bid on the project immediately because two years of successful operation automatically upgrades a restricted license to unrestricted

C. Request a one-time project waiver from the ACLB allowing the restricted license holder to exceed the \$750,000 cap for this single project

D. Form a joint venture with an unrestricted license holder to share the project and avoid the restricted license limitation

3. A general contractor on a commercial building project subcontracts the fire alarm system installation to a specialty contractor. The fire alarm subcontractor does not hold an electrical license from the Arkansas Board of Electrical Examiners. The building inspector discovers this during the rough-in inspection. What is the likely consequence?

A. No consequence because fire alarm systems are classified separately from electrical work and do not require an electrical license

B. The general contractor receives a verbal warning but no formal disciplinary action from the ACLB

C. The work may be rejected by the building inspector, the general contractor may face ACLB disciplinary action for using an unlicensed subcontractor, and the fire alarm subcontractor may face penalties for performing work without the required trade license

D. The building inspector will approve the work if it passes a functional test regardless of the installer's license status

4. An applicant for an Arkansas commercial contractor license submits their application with all required documents except that their CPA-prepared financial statement is dated 14 months ago. The ACLB requires the financial statement to be dated within the last 12 months. What will the ACLB likely do?

A. Accept the financial statement with a notation that it must be updated at the first annual renewal

B. Return the application as incomplete because the financial statement exceeds the 12-month currency requirement, and require the applicant to submit a new statement dated within the required timeframe

C. Accept the financial statement because the 14-month age is within the standard 18-month grace period for CPA-prepared documents

D. Accept the financial statement but charge an additional processing fee for the outdated document

5. A handyman performs a \$15,000 bathroom remodel for a homeowner without holding any Arkansas contractor's license. The homeowner is dissatisfied and files a complaint with the ACLB. What jurisdictional issue will the Board encounter?

A. The ACLB has full jurisdiction because all residential construction work requires a license regardless of value

B. The ACLB will investigate and fine the handyman for performing unlicensed construction work

C. The ACLB will refer the complaint to the local consumer protection office for resolution

D. The ACLB likely does not have jurisdiction because the \$15,000 project falls below the \$20,000 residential licensing threshold — the work did not require a license, so the Board's regulatory authority over licensed contractors does not apply to this unlicensed, below-threshold activity

DOMAIN: ESTIMATING AND BIDDING (4 Questions)

6. A contractor is preparing a bid for a 20,000 square-foot commercial office building. The contractor uses a preliminary cost estimate based on a square-foot cost of \$185.00 derived from historical data on similar projects. What type of estimate is this, and what is its primary limitation?

A. A detailed estimate with high accuracy because square-foot costs from historical projects are precise predictors of future project costs

B. A unit price estimate that can be used as the final bid price on competitive public projects without further refinement

C. A preliminary (conceptual) estimate useful for feasibility analysis and budgeting, but its primary limitation is that it does not account for the specific design details, site conditions,

material selections, and unique characteristics of this particular project — and should not be used as a final bid price

D. A definitive estimate that replaces the need for a quantity takeoff because the square-foot method is more accurate than item-by-item pricing

7. A contractor is evaluating whether to bid on a complex water treatment plant project. The bid deadline is in 3 weeks. The project requires specialized knowledge in chemical treatment systems that the contractor has never worked with. The contractor's estimating department is currently fully committed to three other active bids. What is the most prudent bidding decision?

A. Decline to bid because the combination of unfamiliar work, insufficient estimating resources, and a tight deadline creates an unacceptable risk of producing an inaccurate estimate that could result in either losing the bid or winning it at a price that cannot support the actual cost of construction

B. Submit a bid using budgetary estimates from industry cost databases without performing a detailed takeoff

C. Bid the project at a 30% premium above the estimated cost to cover the risk of unfamiliar work

D. Assign one junior estimator to prepare the bid independently to free up senior staff for the other three bids

8. A contractor's estimate for a commercial renovation project includes the following line items: demolition \$45,000; concrete \$85,000; structural steel \$120,000; mechanical \$210,000; electrical \$165,000; finishes \$95,000; general conditions \$55,000. The contractor's overhead rate is 12% and they want an 8% markup on total cost including overhead. What is the approximate total bid price?

A. \$775,000, calculated as the sum of all line items without overhead or markup

B. \$937,440, calculated as the sum of all line items (\$775,000) plus 12% overhead (\$93,000) = \$868,000, then plus 8% markup (\$69,440) = \$937,440

C. \$868,000, calculated with overhead but without the 8% markup applied to the total

D. \$1,012,000, calculated by applying both the 12% overhead and 8% markup to each line item individually rather than to the total

9. A public project bid form requires the contractor to list the names of all subcontractors who will perform more than 5% of the contract value. A contractor submits the lowest bid but lists "TBD" (to be determined) for the mechanical subcontractor, which represents approximately 22% of the contract value. The contractor plans to finalize the mechanical subcontractor selection after contract award. What is the likely outcome?

- A. The bid will be accepted because "TBD" is a standard placeholder used in competitive bidding for subcontractor listings
- B. The owner will allow the contractor 10 business days after award to finalize and submit the mechanical subcontractor name
- C. The bid will be accepted with the condition that the owner must approve the mechanical subcontractor before the notice to proceed is issued
- D. The bid will likely be rejected as non-responsive because the subcontractor listing was a mandatory bid requirement and "TBD" does not satisfy the requirement to identify specific subcontractors

DOMAIN: CONTRACT MANAGEMENT (8 Questions)

10. A contractor signs a fixed-price contract for \$2,800,000 to build a commercial warehouse. The contract includes a clause stating: "The Contractor has examined the site and the contract documents and is fully informed as to the nature and extent of the work to be performed." During excavation, the contractor encounters an underground spring that was not shown on the site survey or the geotechnical report. Dewatering the spring adds \$120,000 to the project cost. Can the contractor claim additional compensation despite the site examination clause?

- A. Yes, because a standard differing site conditions clause protects the contractor when actual subsurface conditions differ materially from those represented in the contract documents — the site examination clause does not require the contractor to discover conditions that the owner's own geotechnical investigation failed to identify
- B. No, because the site examination clause transfers all subsurface risk to the contractor regardless of what the contract documents represent
- C. Yes, but only if the contractor conducted their own independent geotechnical investigation before signing the contract
- D. No, because underground springs are foreseeable in all geographic regions and should have been included in the contractor's bid

11. A contractor working on a hospital expansion receives a directive from the project architect to use a specific brand of medical-grade flooring that costs 40% more than the flooring specified in the original contract documents. The architect states the change is necessary to meet updated infection control standards. The contractor has not yet received a change order for this directive. What should the contractor do?

- A. Install the more expensive flooring immediately because the architect's directive is binding on all material selections

B. Refuse to install the flooring until the architect provides a written guarantee of payment from the project owner

C. Notify the owner in writing that the architect's directive constitutes a change to the contract scope, submit a change order proposal documenting the cost and schedule impact, and request written authorization before purchasing the upgraded flooring

D. Install the less expensive original flooring and allow the architect to reject it through the inspection process

12. A general contractor hires a roofing subcontractor and includes a clause in the subcontract requiring the subcontractor to indemnify the general contractor for any claims arising from the subcontractor's work. During construction, a roofing worker falls and is seriously injured due to inadequate fall protection provided by the roofing subcontractor. The injured worker's family sues both the general contractor and the roofing subcontractor. Under the indemnification clause, what is the general contractor's position?

A. The general contractor is fully protected and has no liability because the indemnification clause shifts all responsibility to the roofing subcontractor

B. The general contractor can tender the claim to the roofing subcontractor for defense and indemnification under the indemnification clause, but the GC remains responsible for their own negligence — if the GC contributed to the conditions that caused the fall, the indemnification may not fully protect them

C. Indemnification clauses between contractors and subcontractors are unenforceable in all jurisdictions

D. The general contractor must defend the case independently and cannot invoke the indemnification clause until after the trial concludes

13. A construction project is 85% complete when the owner discovers that the contractor has been using project funds received for this project to cover payroll on two other projects. The owner has paid \$1,700,000 of the \$2,000,000 contract to date. The contractor claims this is a temporary cash flow management practice and that all funds will be replenished. Under Arkansas licensing law, what violation has occurred?

A. No violation because temporary reallocation of funds between projects is a standard construction cash management practice

B. A minor bookkeeping violation that requires the contractor to implement separate project accounting within 30 days

C. A violation of the prompt payment requirements but not a licensing violation unless subcontractors file complaints

D. Fund diversion — one of the most seriously penalized violations under Arkansas contractor licensing law, which can result in license revocation regardless of the contractor's intent to repay the funds or the fact that the projects are eventually completed

14. A project owner and contractor enter into a cost-plus-fixed-fee contract with a GMP of \$3,500,000. The contract includes a savings sharing clause of 60/40 (60% to the owner, 40% to the contractor) for costs below the GMP. The project is completed with actual costs of \$3,100,000 plus the contractor's fixed fee of \$200,000. How are the savings distributed?

A. The owner receives \$200,000 and the contractor receives nothing beyond their fixed fee because all savings belong to the owner

B. The owner receives \$120,000 in savings and the contractor receives \$80,000 in savings, plus the contractor retains their \$200,000 fixed fee

C. The savings of \$200,000 (\$3,500,000 GMP minus \$3,100,000 actual costs minus \$200,000 fee) are split: owner receives \$120,000 (60%) and contractor receives \$80,000 (40%), in addition to the contractor's \$200,000 fixed fee

D. The contractor retains the full \$200,000 savings because cost-plus contracts transfer all savings to the performing party

15. A subcontractor on a commercial project completes rough-in mechanical work and submits a \$95,000 progress payment application. The general contractor's project manager inspects the work and finds it substantially complete and conforming to specifications. However, the prime contract's payment terms state that the owner pays the general contractor on the 25th of the month following the billing period. The subcontract is silent on payment timing. When must the general contractor pay the subcontractor?

A. Within a reasonable time after the work is satisfactorily completed and the payment application is approved — when the subcontract is silent on payment timing, the general contractor generally must pay within a commercially reasonable period, which courts typically interpret as 30 days or the industry standard for the jurisdiction

B. Only after the general contractor receives payment from the owner on the 25th, because all subcontractor payments are automatically tied to owner payment schedules

C. Immediately upon submission of the payment application because the absence of payment terms means payment is due on demand

D. At the end of the project when all subcontractor work is complete and the owner has made final payment

16. An owner issues a change order deleting the entire interior painting scope from a commercial construction project because the owner plans to hire their own painting contractor after the general contractor completes construction. The deleted painting scope was valued at \$180,000 in the contractor's bid, consisting of \$144,000 in estimated direct costs and \$36,000 in overhead and profit. The owner expects a full \$180,000 deductive change order. What is the contractor's strongest argument regarding the deduction amount?

A. The contractor should receive no deduction because the painting was already included in the contract price and cannot be removed

B. The contractor should argue that the deduction should be limited to the direct cost savings of \$144,000, allowing the contractor to retain the \$36,000 in overhead and profit they would have earned on the deleted work — because many standard contracts allow the contractor to retain their margin on deductive change orders

C. The contractor must accept the full \$180,000 deduction because deductive change orders always reduce the contract by the full bid amount

D. The contractor should demand an additional \$18,000 "scope deletion fee" on top of retaining the \$36,000 in overhead and profit

17. A contractor working on a fixed-price commercial project discovers that the specified exterior stone cladding is quarried in Italy and has a 20-week lead time. The project schedule allows only 14 weeks for stone procurement. The contractor notifies the architect immediately. The architect responds that the stone must be the specified product and no substitution will be accepted. What should the contractor do?

A. Order the stone immediately and accept the 6-week schedule delay as a contractor-caused delay

B. Install a domestic stone substitute and present the architect with a *fait accompli* since the schedule cannot accommodate the Italian stone

C. File a claim for the 6-week delay against the owner's general liability insurance

D. Submit a formal written notice to the owner and architect documenting that the specified product's lead time exceeds the contract schedule by 6 weeks, that no substitution has been approved, and that the contractor is entitled to a time extension for the owner-specified product's procurement timeline — because the specification of a product with a lead time that exceeds the schedule is a design-side issue

18. A construction contract contains an arbitration clause that states: "Any dispute arising under this contract shall be submitted to binding arbitration." After a \$300,000 dispute arises, the contractor wants to file a lawsuit instead. The contractor argues that they did not specifically

initial or separately sign the arbitration clause, even though they signed the contract as a whole. Is the arbitration clause enforceable?

- A. No, because arbitration clauses must be separately initialed and signed to be enforceable — an unsigned clause within a signed contract is not binding
- B. No, because disputes exceeding \$250,000 exceed the jurisdictional limit for construction arbitration and must be litigated
- C. Yes, because signing the contract as a whole constitutes acceptance of all terms within the contract, including the arbitration clause — separate initialing or signing of individual clauses is not required for enforceability
- D. Yes, but only if the contract was reviewed by both parties' attorneys before execution

DOMAIN: PROJECT MANAGEMENT (6 Questions)

19. A project manager wants to evaluate whether their project is efficient in its use of resources. At the 60% completion mark, the project has incurred \$1,440,000 in actual costs. The budgeted cost for the work completed (earned value) is \$1,380,000. What does the Cost Performance Index (CPI) indicate?

- A. The CPI is 0.958 ($\$1,380,000 \div \$1,440,000$), indicating the project is getting \$0.958 of value for every \$1.00 spent — slightly over budget, with each dollar spent producing less than a dollar's worth of planned work
- B. The CPI is 1.043, indicating the project is under budget and performing efficiently
- C. The CPI is 0.60, indicating the project has consumed 60% of its budget and is on track
- D. The CPI cannot be calculated without knowing the total project budget and the planned value at the current date

20. A contractor's look-ahead schedule identifies that a critical concrete pour is scheduled for next Wednesday. The concrete supplier confirms the order, the pump truck is reserved, and the crew is available. However, the contractor's superintendent notices that the building inspector has not yet approved the previous inspection milestone (reinforcing steel inspection) that must be passed before the concrete can be placed. What should the superintendent do?

- A. Proceed with the pour and schedule the reinforcing steel inspection for after the concrete is placed

B. Contact the building inspector immediately to schedule the reinforcing steel inspection before Wednesday, because concrete cannot be placed until the rebar is inspected and approved — and if the inspection cannot be completed in time, the pour must be postponed to avoid covering uninspected work

C. Pour the concrete and have the inspector verify the reinforcing by reviewing the contractor's quality control photographs instead of a physical inspection

D. Ask the rebar subcontractor to provide a written certification that the reinforcing steel meets specifications, which can substitute for the building inspector's approval

21. A project schedule shows the following activity chain: Survey (3 days) → Rough Grade (5 days) → Fine Grade (3 days) → Paving (4 days) → Striping (2 days). All are finish-to-start relationships on the critical path. A rainstorm delays Fine Grade by 2 days. Assuming no other delays, what is the total project duration now?

A. 17 days, unchanged from the original duration because the rain delay is absorbed by the project's built-in contingency

B. 15 days, calculated by subtracting the Fine Grade activity entirely since it must be repeated after the rain

C. 19 days, calculated by adding the 2-day rain delay plus an additional 2-day recovery buffer

D. 19 days, calculated as the original 17-day critical path duration (3+5+3+4+2) plus the 2-day rain delay — because all activities are on the critical path with zero float, any delay to any activity extends the project completion by the same number of days

22. A contractor is managing a commercial project where three different subcontractors are scheduled to work simultaneously in the same mechanical room during weeks 5 and 6. The plumbing subcontractor needs to install overhead piping, the HVAC subcontractor needs to install ductwork in the same ceiling space, and the fire protection subcontractor needs to install sprinkler heads. What project management tool is most effective for preventing coordination conflicts?

A. A resource histogram showing the total labor hours per trade during weeks 5 and 6

B. An updated CPM schedule showing the float available for each subcontractor's activities

C. Pre-installation coordination meetings with all three subcontractors to review shop drawings together, establish a sequencing plan, resolve spatial conflicts before work begins, and define each trade's routing to prevent physical interferences

D. A daily report documenting each subcontractor's progress during the concurrent work period

23. A project superintendent discovers that a batch of structural bolts delivered to the jobsite does not match the specification. The specification requires ASTM A325 high-strength bolts, but the delivered bolts are ASTM A307 standard bolts. The structural steel subcontractor wants to install the A307 bolts because they are already on site and the A325 bolts will take 5 days to procure. What should the superintendent decide?

A. Reject the non-conforming A307 bolts and require the subcontractor to procure and install the specified A325 bolts, because using bolts with lower strength ratings in structural connections creates a life safety risk and violates both the specifications and the structural design — the 5-day procurement delay is acceptable compared to the liability of a non-conforming structural connection

B. Allow the A307 bolts to be installed temporarily and replaced with A325 bolts later when they arrive

C. Accept the A307 bolts because the strength difference between A307 and A325 bolts is negligible in most applications

D. Submit an RFI to the architect and wait for a response before making any decision about the bolts

24. A contractor's daily report from Friday includes the following entry: "At 2:45 PM, the owner's representative verbally instructed the superintendent to demolish and rebuild a 30-foot section of interior partition wall that was constructed per the approved shop drawings. The representative stated the wall is in the wrong location. The superintendent confirmed the wall matches the architectural floor plan exactly." This daily report entry is critical because it documents what?

A. A quality control failure that the contractor must correct at their own expense

B. An owner-initiated scope change that contradicts the approved contract documents — creating a contemporaneous record that the contractor built the wall correctly per the plans and the owner is directing demolition and relocation, which supports a change order claim for the additional cost

C. A design error by the architect that must be reported to the architect's professional liability carrier

D. A scheduling conflict between the partition wall installation and the mechanical rough-in sequence

25. A project is in the closeout phase. The contractor has completed all punch list items and submitted all closeout documents. The architect issues the certificate of final completion. The contractor submits the final payment application requesting \$285,000 — the remaining retainage. The contract requires the owner to pay within 30 days of final completion

certification. Forty-five days pass with no payment. What contractual remedy is available to the contractor?

- A. File a complaint with the ACLB requesting the Board to order the owner to release the retainage immediately
- B. Accept the delay because owners routinely take 60 to 90 days to process final retainage payments
- C. Deduct the unpaid retainage from the contractor's warranty obligations and refuse to honor warranty claims until paid
- D. Send a formal written demand citing the specific contract payment provision, noting that payment is 15 days past due and constitutes a breach of the payment terms — if the owner does not pay promptly, pursue the contractual dispute resolution process and consider filing a mechanics' lien if the filing deadline has not expired

DOMAIN: INSURANCE AND BONDING (3 Questions)

26. A contractor carries a workers' compensation policy with a classification rate of \$18.00 per \$100 of payroll for the carpentry classification. The contractor's annual carpentry payroll is \$600,000 and their EMR is 0.82. What is the approximate annual workers' compensation premium for the carpentry classification?

- A. \$88,560, calculated as $(\$600,000 \div \$100) \times \$18.00 \times 0.82$ — the EMR of 0.82 provides an 18% discount below the manual premium, rewarding the contractor's better-than-average safety performance
- B. \$108,000, calculated at the base rate without applying the EMR discount
- C. \$73,800, calculated using a reduced classification rate of \$12.30 applied to the payroll
- D. \$132,000, calculated by applying the EMR as a surcharge rather than a discount

27. A contractor is required to furnish a payment bond on a state-funded community college construction project. A plumbing subcontractor completes \$75,000 of work but is not paid by the general contractor. The subcontractor wants to make a claim against the payment bond. What must the subcontractor do to preserve their bond claim rights?

- A. File a mechanics' lien against the community college property within 120 days of the last day of work
- B. Report the non-payment to the ACLB and request that the Board order the general contractor to pay

C. Serve written notice on the general contractor identifying the amount claimed, the work performed, and the party to whom materials were furnished, and file a lawsuit on the payment bond within the statutory deadline

D. Contact the surety company's claims department by phone and request expedited payment processing

28. A contractor's CGL policy has a per-occurrence limit of \$2,000,000 and a general aggregate limit of \$4,000,000. The contractor's umbrella policy has a \$10,000,000 limit. During the policy year, a catastrophic scaffold collapse on a commercial project produces a \$9,000,000 judgment involving injuries to multiple workers from other trades and damage to adjacent property. How is the judgment covered?

A. The CGL pays \$4,000,000 (the full aggregate) and the umbrella pays \$5,000,000, for complete coverage

B. The CGL pays \$2,000,000 (per-occurrence limit) and the umbrella has insufficient limits to cover the remainder

C. The CGL and umbrella are both voided because scaffold collapses are excluded from standard construction insurance policies

D. The CGL pays \$2,000,000 (per-occurrence limit) and the umbrella pays \$7,000,000 (the excess above the CGL per-occurrence limit), for complete coverage of the \$9,000,000 judgment

DOMAIN: OSHA RECORDKEEPING (3 Questions)

29. An employer has 50 construction employees. During the calendar year, the following incidents occur: (1) a worker fractures a rib and misses 8 workdays; (2) a worker receives butterfly bandages for a minor forehead cut and returns to work immediately; (3) a worker develops a physician-diagnosed case of work-related carpal tunnel syndrome and is placed on restricted duty; (4) a worker sprains an ankle, receives a prescription for physical therapy twice weekly, but continues working full duty with no restrictions; (5) a worker is killed in a trench collapse. How many of these incidents are OSHA recordable?

A. Three — the fracture, the fatality, and the carpal tunnel syndrome are recordable; the butterfly bandage and the ankle sprain are not

B. Four — the fracture (lost workdays), the carpal tunnel (restricted duty and significant diagnosis), the ankle sprain (prescription physical therapy is medical treatment beyond first aid), and the fatality are all recordable; the butterfly bandage is first aid and not recordable

C. Two — only the fracture with lost days and the fatality are recordable because they are the most serious incidents

D. All five are recordable because any workplace injury or illness must be documented on the OSHA 300 Log

30. A construction company's safety director wants to calculate the company's Lost Time Incident Rate (LTIR) for benchmarking against industry averages. During the year, the company had 5 cases resulting in days away from work. Employees worked a total of 450,000 hours. What is the LTIR?

A. 2.22, calculated as $(5 \text{ cases with days away} \times 200,000) \div 450,000$ hours worked — the 200,000 factor normalizes the rate to a standard base of approximately 100 full-time workers per year

B. 1.11, calculated as $(5 \div 450,000) \times 100,000$ using a non-standard normalization factor

C. 0.011, calculated as $5 \div 450,000$ without any normalization factor applied

D. 5.0, equal to the raw number of lost-time incidents without normalization for hours worked

31. A worker on a commercial demolition project develops a persistent cough after several weeks of exposure to concrete dust during interior demolition. The worker visits a physician who diagnoses occupational bronchitis — a work-related respiratory illness caused by inhaled construction dust. The physician prescribes an inhaler and advises the worker to wear a respirator during future dusty work. The worker does not miss any time from work and continues performing regular duties. Is this case OSHA recordable?

A. No, because the worker did not miss any work time and continued performing full duties without restriction

B. No, because respiratory conditions caused by dust exposure are classified as environmental rather than occupational

C. Yes, but only if the employer failed to provide adequate respiratory protection prior to the diagnosis

D. Yes, because a physician-diagnosed work-related illness (occupational bronchitis) is a recordable event, and the prescribed inhaler constitutes medical treatment beyond first aid — either the significant diagnosis or the prescription medication independently triggers recordability

DOMAIN: PERSONNEL REGULATIONS (8 Questions)

32. A contractor with 50 employees receives an FMLA leave request from a project manager who needs 6 weeks off for knee replacement surgery. The project manager has worked for the company for 8 months. Is the employer required to grant FMLA leave?

A. Yes, because the employer meets the 50-employee FMLA threshold and knee replacement is a qualifying serious health condition

B. Yes, but the employer can require the project manager to exhaust all accrued paid leave before FMLA leave begins

C. No, because the project manager has worked for only 8 months — FMLA eligibility requires the employee to have worked for the employer for at least 12 months and at least 1,250 hours during the preceding 12-month period, and the 8-month tenure does not meet the 12-month requirement

D. No, because elective surgical procedures such as knee replacement do not qualify as serious health conditions under the FMLA

33. An employer interviews a candidate for a heavy equipment operator position. The position requires a commercial driver's license (CDL) and the ability to pass a DOT physical examination. During the interview, the employer asks: "Have you ever been convicted of driving under the influence?" Is this question permissible?

A. Yes, because a DUI conviction is directly relevant to a position requiring a CDL and the safe operation of heavy construction equipment on public roadways — the question is job-related and consistent with business necessity

B. No, because questions about criminal history are categorically prohibited during employment interviews

C. Yes, but only if the employer asks all applicants for all positions the same question regardless of job duties

D. No, because DUI records are sealed medical records that cannot be accessed by employers under HIPAA

34. A non-exempt construction laborer earns \$22.00 per hour. The laborer works 50 hours during a workweek that includes 8 hours of travel time between two jobsites located 90 minutes apart. The travel between jobsites occurs during the regular workday. Under the FLSA, is the travel time between jobsites compensable?

A. No, because all travel time is classified as non-compensable commuting time under the FLSA regardless of when it occurs

B. Yes, travel time between jobsites during the workday is compensable "hours worked" under the FLSA — the 8 hours of travel count toward the 50-hour weekly total, and the laborer is entitled to straight time for 40 hours and overtime at \$33.00/hour ($1.5 \times \22.00) for 10 hours

C. Only 4 of the 8 travel hours are compensable because the FLSA caps inter-site travel time at 50% of actual travel

D. The travel time is compensable at a reduced rate of 50% of the regular hourly rate because travel is considered less productive than active work

35. An employer with 25 employees maintains a workplace policy that all employees must report to the company office by 6:30 AM to pick up tools and materials before driving to the jobsite in company vehicles. The drive from the office to the jobsite takes approximately 45 minutes. Workers begin productive construction work at approximately 7:30 AM and finish at 4:00 PM. They return the vehicles and tools to the office by approximately 4:45 PM. Under the FLSA, what time constitutes "hours worked" for overtime calculation purposes?

A. Only the time from 7:30 AM to 4:00 PM (8.5 hours), because travel to and from the jobsite is commuting time regardless of whether company vehicles are used

B. The time from 7:30 AM to 4:00 PM plus a 30-minute travel credit per day, which is the maximum FLSA allowance for employer-directed travel

C. The time from 6:30 AM to 4:00 PM (9.5 hours), because the employer-mandated morning stop at the office is the start of the workday, but the return trip is non-compensable commuting

D. The time from 6:30 AM to 4:45 PM (10.25 hours), because the employer requires workers to report to the office first, making the office the start and end point of the workday — all time from the required office report until the workers are released from the office at day's end is likely compensable hours worked

36. An employer discovers that a project superintendent has been approving time cards showing 40 hours per week for several employees who have actually been working 48 to 52 hours per week. The superintendent has been doing this to keep the project's labor costs within budget. The affected employees have not been receiving overtime pay for the unrecorded hours. What legal exposure does the employer face?

A. No exposure because the superintendent's budget management decision is a legitimate exercise of supervisory authority

B. Exposure limited to correcting the time cards going forward with no retroactive liability for past unpaid hours

C. Significant exposure for unpaid overtime — the FLSA requires employers to pay non-exempt employees for all hours actually worked regardless of what the time cards show, and the employer is liable for back pay, liquidated damages (potentially double the back pay), and the employees' attorney fees for the entire period of the violation

D. Exposure only if the affected employees file individual wage complaints within 30 days of each affected pay period

37. A contractor's employee handbook contains a progressive discipline policy and an at-will employment disclaimer on the same page. The discipline policy states: "Employees will receive a verbal warning for a first offense, a written warning for a second offense, suspension for a third offense, and termination for a fourth offense." The at-will disclaimer states: "Employment is at-will and may be terminated at any time by either party." An employee is terminated after receiving only one verbal warning. The employee argues that the progressive discipline policy guaranteed them additional chances before termination. Which provision likely controls?

A. The progressive discipline policy controls because specific procedures override general disclaimers, and the employer is bound to follow all four steps before termination

B. The at-will disclaimer is likely given greater weight by courts, but the employer should apply the progressive discipline consistently to avoid claims of discriminatory or arbitrary enforcement — the disclaimer preserves the employer's right to deviate from progressive discipline when circumstances warrant, but selective application can still create legal risk

C. Both provisions are void because contradictory policies cancel each other out and leave no enforceable employment terms

D. Neither provision controls because all termination decisions in construction are governed exclusively by the union collective bargaining agreement

38. A contractor is working on a federally funded wastewater treatment plant. The Davis-Bacon prevailing wage determination specifies that operating engineers must receive \$44.00 per hour in wages plus \$20.00 per hour in fringe benefits. The contractor pays operating engineers \$50.00 per hour in wages and provides a 401(k) match of \$3.00 per hour and health insurance valued at \$9.00 per hour. Is the contractor in compliance?

A. Yes, because the \$50.00 hourly wage exceeds the required \$44.00 base wage by \$6.00 and the contractor is not required to provide the full \$20.00 in separate fringe benefits

B. No, because the total compensation is \$62.00/hour (\$50.00 wage + \$3.00 retirement + \$9.00 health) while the required total is \$64.00/hour (\$44.00 + \$20.00), leaving a shortfall of \$2.00 per hour that must be covered by additional wages or qualifying fringe benefits

C. Yes, because the total compensation of \$62.00 exceeds the base wage of \$44.00 and the Davis-Bacon Act only requires compliance with the base wage rate

D. No, because retirement plan contributions do not qualify as fringe benefits under the Davis-Bacon Act

39. An employer's safety policy requires all employees to report to their immediate supervisor if they observe a coworker engaging in unsafe behavior. An employee observes a coworker operating a piece of equipment without the required safety guard and reports the observation to the supervisor. The supervisor takes no action, and the following week the coworker is seriously injured when their hand contacts the unguarded equipment. What liability exposure does the employer face?

A. No exposure because the injury was caused by the coworker's own decision to operate the equipment without the guard

B. Exposure limited to the workers' compensation claim for the injured worker's medical expenses and disability benefits

C. No exposure because the employer's safety policy demonstrates a commitment to safety that satisfies their legal obligation

D. Significant exposure because the employer had actual knowledge of the hazard (through the employee's report to the supervisor) and failed to take corrective action — the supervisor's failure to address the reported hazard may constitute willful or serious negligence, potentially exposing the employer to OSHA citations, enhanced workers' compensation penalties, and tort liability if willful conduct is found

40. A contractor's HR department processes Form I-9 for all new hires. A new employee presents an Employment Authorization Document (EAD) card as their List A document. The EAD card has an expiration date that is 4 months away. Should the employer accept this document for I-9 purposes?

A. No, because documents expiring within 6 months are too close to expiration to be accepted for I-9 verification

B. No, because EAD cards with future expiration dates indicate the employee's work authorization may be temporary

C. Yes, because employers must accept valid, unexpired documents from the List of Acceptable Documents — an EAD card with a future expiration date is a valid List A document that establishes both identity and work authorization, and the employer cannot reject it based on the approaching expiration date

D. Yes, but the employer must verify the employee's immigration status directly with USCIS before the expiration date

DOMAIN: FINANCIAL MANAGEMENT (5 Questions)

41. A contractor's year-end balance sheet shows: cash \$110,000; accounts receivable \$560,000; costs in excess of billings \$85,000; prepaid expenses \$20,000; equipment (net of depreciation) \$440,000; accounts payable \$380,000; billings in excess of costs \$65,000; accrued wages \$45,000; current portion of long-term debt \$40,000; long-term debt \$285,000. What are the contractor's working capital and net worth?

A. Working capital is \$245,000 (current assets of \$775,000 minus current liabilities of \$530,000) and net worth is \$400,000 (total assets of \$1,215,000 minus total liabilities of \$815,000)

B. Working capital is \$110,000 (cash only) and net worth is \$560,000 (accounts receivable only)

C. Working capital is \$400,000 and net worth is \$245,000, with the two metrics reversed from their correct definitions

D. Working capital is \$685,000 and net worth is \$530,000, calculated using non-standard definitions

42. A contractor uses the percentage-of-completion method on a \$5,000,000 project with estimated total costs of \$4,250,000. At the end of Year 1, costs incurred total \$2,125,000. The project manager revises the estimated total cost to \$4,500,000 due to material price escalation. Under the revised estimate, what gross profit should be recognized cumulatively through Year 1?

A. \$375,000, based on the original cost estimate at 50% completion without any revision adjustment

B. \$236,111, calculated as the revised percentage complete (47.2%) multiplied by the revised estimated gross profit (\$500,000) — reflecting the dual impact of lower completion percentage and reduced total profit under the revised cost estimate

C. \$500,000, representing the full revised estimated gross profit recognized immediately upon discovery of the cost increase

D. \$0, because cost estimate revisions require all profit recognition to be suspended until the project is complete

43. A contractor's income statement shows: total contract revenue \$7,400,000; cost of construction \$6,290,000; general and administrative expenses \$740,000. A surety reviewing

the contractor's bonding application wants to know the gross profit margin, the G&A ratio, and the net profit margin. What are these three metrics?

- A. Gross margin 10%, G&A ratio 5%, net margin 5%
- B. Gross margin 20%, G&A ratio 15%, net margin 5%
- C. Gross margin 12%, G&A ratio 8%, net margin 4%
- D. Gross margin 15% ($\$1,110,000 \div \$7,400,000$), G&A ratio 10% ($\$740,000 \div \$7,400,000$), net margin 5% ($\$370,000 \div \$7,400,000$)

44. A contractor's WIP report shows Project Sigma with the following data: revised contract \$1,800,000; estimated total cost \$1,530,000; costs to date \$1,071,000; billings to date \$1,190,000. The contractor's project manager is concerned about the billing status. What does the data reveal?

- A. The project is under-billed by \$119,000, meaning the contractor has performed more work than invoiced
- B. The project is on track because billings approximately match costs to date within normal tolerance
- C. The project is over-billed by \$71,200 — the contractor has billed \$1,190,000 but earned revenue is only \$1,118,800 (70% complete \times \$1,598,571... let me recalculate properly)

Let me recalculate: % complete = $\$1,071,000 \div \$1,530,000 = 70\%$. Earned revenue = $70\% \times \$1,800,000 = \$1,260,000$. Billings = \$1,190,000. Under-billed by \$70,000. Hmm, the answer should be C (over-billed). Let me adjust the billings figure:

44. A contractor's WIP report shows Project Sigma: revised contract \$1,800,000; estimated total cost \$1,530,000; costs to date \$1,071,000; billings to date \$1,330,000. What does the billing analysis reveal?

- A. The project is under-billed by \$70,000 because earned revenue exceeds billings
- B. The project billing is within acceptable tolerance and requires no corrective action
- C. The project is over-billed by \$70,000 — earned revenue is \$1,260,000 (70% complete \times \$1,800,000) but billings are \$1,330,000, meaning the contractor has billed \$70,000 more than the value of work completed, creating a current liability on the balance sheet
- D. The project is over-billed by \$259,000 because billings exceed costs to date by that amount

45. A contractor reviews their cash flow forecast and identifies that retainage receivable across all active projects has grown to \$420,000. The average project duration is 16 months, and retainage is released 60 days after substantial completion. The contractor's line of credit is nearly exhausted. What strategic options are available to reduce the cash flow impact of retainage?

A. Negotiate retainage reduction provisions in future contracts (reducing retainage from 10% to 5% after 50% completion), offer retainage bonds or letters of credit in lieu of cash retainage on current projects, accelerate project completions where possible to trigger retainage release, and prioritize collection of retainage from recently completed projects

B. Stop performing work on all projects until the accumulated retainage is released by all project owners

C. File mechanics' liens against all project owners for the retainage amounts because retainage withholding is unlawful

D. Convert all future contracts to cost-plus arrangements that do not include retainage provisions

DOMAIN: TAX LAWS (5 Questions)

46. A contractor organized as a multi-member LLC with three members does not file any special tax election with the IRS. Member A contributes 50% of the capital, Member B contributes 30%, and Member C contributes 20%. The LLC earns \$600,000 in net income for the year. How is this income taxed at the federal level?

A. The LLC pays entity-level tax at the 21% corporate rate and distributes after-tax profits to members based on ownership percentages

B. The LLC files Form 1065 (informational return) and issues Schedule K-1 to each member — Member A reports \$300,000, Member B reports \$180,000, and Member C reports \$120,000 on their individual tax returns, and no entity-level federal income tax is paid

C. Each member files a separate Schedule C reporting one-third of the income regardless of ownership percentage

D. The LLC files Form 1120-S and passes income through to members at the S-Corporation pass-through rate

47. An employer makes their payroll tax deposit 18 days late. The total deposit amount is \$25,000. Under the IRS graduated penalty structure for late payroll tax deposits, what penalty rate applies?

A. 2%, applicable to deposits made 1 to 5 days late

B. 5%, applicable to deposits made 6 to 15 days late

C. No penalty because a first-time late deposit under \$50,000 qualifies for automatic penalty abatement

D. 10%, applicable to deposits made more than 15 days late — the \$25,000 deposit that is 18 days late triggers the 10% penalty rate on the full deposit amount

48. A contractor purchases a used excavator for \$85,000 and places it in service on their construction projects. The contractor's CPA discusses depreciation options. Under current tax law, which statement about depreciating this equipment purchase is most accurate?

A. Used equipment cannot be depreciated because only new equipment qualifies for depreciation deductions under the tax code

B. The excavator must be depreciated using straight-line depreciation over 39 years because it is classified as a building component

C. The contractor may be able to deduct the full \$85,000 in the year of purchase through Section 179 expensing or bonus depreciation (which now applies to both new and used equipment), or may choose to depreciate the excavator over its applicable recovery period under MACRS — the optimal strategy depends on the contractor's overall tax situation

D. The excavator can only be depreciated at a maximum rate of 10% per year over a mandatory 10-year recovery period

49. A sole proprietor contractor has net self-employment income of \$200,000. The contractor pays \$8,000 per year for individual health insurance. Under current tax law, what tax benefit is available regarding the health insurance premium?

A. Self-employed individuals can deduct the cost of health insurance premiums as an adjustment to gross income on their Form 1040 (an "above the line" deduction), reducing both income tax and the income base used for calculating self-employment tax — this is one of the key tax benefits available to self-employed individuals

B. Health insurance premiums are not deductible for self-employed individuals and must be paid entirely with after-tax dollars

C. The deduction is available only if the self-employed individual purchases health insurance through the federal marketplace

D. Health insurance premiums can only be deducted as an itemized deduction on Schedule A, which provides no benefit if the contractor takes the standard deduction

50. A contractor operates as a C-Corporation and wants to minimize the impact of double taxation. The contractor's CPA suggests paying the contractor-owner a salary that is deductible by the corporation, rather than distributing profits as non-deductible dividends. However, the CPA warns that the IRS may challenge the salary if it is "unreasonably high." Why does the IRS scrutinize high salaries paid by C-Corporations to owner-employees?

A. The IRS does not scrutinize C-Corporation salaries because corporations have unlimited discretion over compensation decisions

B. Because an unreasonably high salary reduces corporate taxable income (since salaries are deductible business expenses), effectively converting what should be non-deductible dividend distributions into deductible compensation — the IRS can reclassify the excessive portion of the salary as a non-deductible dividend, increasing the corporation's tax liability

C. Because high salaries increase the corporation's FICA tax obligation, which the IRS wants to maximize for revenue purposes

D. Because the IRS requires all C-Corporation owner-employees to receive salaries below \$100,000 regardless of the services they provide

Practice Exam 12: Answer Key and Explanations

1. D — The primary disadvantage of a sole proprietorship is unlimited personal liability — there is no legal separation between the owner and the business, meaning all personal assets are exposed to business debts and judgments. Converting to an LLC creates a legal barrier between personal and business liability, protecting the owner's home, vehicles, and savings from business creditors. This liability protection is the most compelling reason contractors convert from sole proprietorships to LLCs.

2. A — A restricted commercial license caps individual project value at \$750,000. The \$900,000 project exceeds this cap, making it illegal for the contractor to bid under their restricted license. The contractor must apply to the ACLB to upgrade to an unrestricted commercial license — which requires an audited or reviewed financial statement rather than the compiled statement acceptable for restricted licenses — before bidding on the project.

3. C — Fire alarm system installation typically requires an electrical license because it involves electrical wiring, circuit connections, and integration with building electrical systems. Using a subcontractor who lacks the required trade license exposes both the general contractor (ACLB

disciplinary action for using unlicensed subcontractors) and the fire alarm installer (penalties for performing unlicensed work). The building inspector may reject the installation entirely.

4. B — The ACLB requires financial statements to be dated within the last 12 months to ensure the information reflects the applicant's current financial condition. A 14-month-old statement exceeds this requirement and will cause the application to be returned as incomplete. The applicant must obtain a new CPA-prepared financial statement dated within the required timeframe before resubmitting.

5. D — The \$15,000 project falls below the \$20,000 residential licensing threshold, meaning no contractor's license was required for this work. Since the ACLB regulates licensed contractors performing work that requires licensing, a below-threshold project performed by an unlicensed individual falls outside the Board's regulatory jurisdiction. The homeowner would need to pursue resolution through other channels such as small claims court.

6. C — A preliminary (conceptual) estimate based on historical square-foot costs is useful for feasibility analysis and early budgeting but should never be used as a final bid price. Its primary limitation is that it does not account for the specific design details, site conditions, material selections, quality standards, and unique characteristics of the particular project being estimated. A detailed estimate with a complete quantity takeoff is required for competitive bidding.

7. A — The combination of unfamiliar specialized work, fully committed estimating resources, and a tight deadline creates an unacceptable risk of producing an inaccurate estimate. Bidding on a project the contractor cannot estimate properly — with technology they have never worked with — is more likely to produce a costly mistake than a profitable project. Selective bidding on projects that match the contractor's capabilities is a fundamental business strategy.

8. B — Sum of all line items: $\$45,000 + \$85,000 + \$120,000 + \$210,000 + \$165,000 + \$95,000 + \$55,000 = \$775,000$. Overhead at 12%: $\$775,000 \times 0.12 = \$93,000$. Total cost: $\$775,000 + \$93,000 = \$868,000$. Markup at 8%: $\$868,000 \times 0.08 = \$69,440$. Total bid: $\$868,000 + \$69,440 = \$937,440$. The markup is applied to the total cost including overhead, not to direct costs alone.

9. D — The bid form required specific subcontractor names for trades exceeding 5% of the contract value. Listing "TBD" for a subcontractor representing 22% of the work does not satisfy this mandatory requirement. The bid is non-responsive because it fails to comply with the bid documents, and on public projects, non-responsive bids must be rejected regardless of the bid price.

10. A — A site examination clause does not require the contractor to discover subsurface conditions that the owner's own geotechnical investigation failed to identify. The differing site conditions clause protects the contractor when actual conditions differ materially from those represented in the contract documents. An underground spring not shown on any contract document is a classic Type I differing site condition entitling the contractor to additional compensation.

11. C — The architect's directive to use upgraded flooring constitutes a change to the contract scope requiring formal change order documentation. The contractor should notify the owner in writing, submit a change order proposal with cost and schedule impacts, and request written

authorization before purchasing the more expensive material. Proceeding without a change order risks non-payment for the upgraded materials.

12. B — The indemnification clause allows the general contractor to tender the claim to the roofing subcontractor for defense and indemnification. However, the GC remains responsible for their own negligence — if the GC contributed to the unsafe conditions (for example, by failing to enforce fall protection requirements on their project), the indemnification clause may not fully protect them. Indemnification typically covers the subcontractor's negligence, not the GC's own.

13. D — Fund diversion — using money received for one project to pay expenses on another — is one of the most seriously penalized violations under Arkansas contractor licensing law. The ACLB can revoke the contractor's license for fund diversion regardless of the contractor's intent to repay, regardless of whether the projects are eventually completed, and regardless of the contractor's claim that it was temporary cash management. Every project dollar must be used for the project it was received for.

14. C — The GMP is \$3,500,000. Actual costs are \$3,100,000 plus the \$200,000 fixed fee = \$3,300,000 total. Savings below the GMP: $\$3,500,000 - \$3,300,000 = \$200,000$. Split 60/40: owner receives \$120,000 (60%) and contractor receives \$80,000 (40%). The contractor's total compensation is \$200,000 fixed fee + \$80,000 savings share = \$280,000 above the actual construction costs.

15. A — When the subcontract is silent on payment timing, the general contractor generally must pay within a commercially reasonable period after the work is satisfactorily completed and the payment application is approved. Courts typically interpret "reasonable" as 30 days or the prevailing industry standard. The absence of payment terms does not mean the GC can defer payment indefinitely or tie it to the owner's payment schedule.

16. B — The contractor's strongest argument is that the deduction should be limited to the direct cost savings (\$144,000), allowing them to retain the \$36,000 in overhead and profit. Many standard contract forms (including AIA documents) provide that the contractor retains overhead and profit on deductive change orders because the contractor has already committed resources, staff, and bonding capacity based on the original contract value.

17. D — The specification of a product with a 20-week lead time on a project schedule allowing only 14 weeks is a design-side issue — the architect specified a product that cannot be procured within the available timeline. The contractor should submit formal written notice documenting the lead time conflict and requesting a time extension. The contractor is not responsible for schedule delays caused by the design team's specification of products with incompatible procurement timelines.

18. C — Signing a contract constitutes acceptance of all terms within the contract, including the arbitration clause. Courts consistently hold that separate initialing or signing of individual clauses is not required for enforceability — the party's signature on the contract as a whole binds them to every provision contained within it. The contractor agreed to arbitration by signing the contract.

19. A — $CPI = \text{Earned Value} \div \text{Actual Cost} = \$1,380,000 \div \$1,440,000 = 0.958$. A CPI below 1.0 indicates the project is over budget — for every dollar spent, the project is producing only

\$0.958 of planned value. The 4.2% cost inefficiency may seem small but compounds over the remaining 40% of the project. The project manager should investigate the source of the inefficiency and implement corrective measures.

20. B — Concrete cannot be placed over uninspected reinforcing steel. The building inspector must approve the rebar installation before it is covered by concrete — this is a mandatory code inspection milestone. The superintendent should contact the inspector immediately to schedule the inspection before Wednesday's pour. If the inspection cannot be completed in time, the pour must be postponed.

21. A — Original critical path duration: $3 + 5 + 3 + 4 + 2 = 17$ days. The 2-day rain delay to Fine Grade (a critical path activity with zero float) extends the project by exactly 2 days. New total duration: $17 + 2 = 19$ days. On the critical path, every day of delay to any activity adds one day to the project completion date because there is no float to absorb the delay.

22. C — Pre-installation coordination meetings bring all affected trades together before work begins to review shop drawings, resolve spatial conflicts, establish installation sequencing, and define routing priorities. This proactive approach prevents costly field conflicts that occur when multiple trades discover interferences only after installation has begun. Coordination meetings are the most effective tool for managing concurrent multi-trade work in confined spaces.

23. A — A325 high-strength bolts and A307 standard bolts have significantly different strength ratings. Using A307 bolts where A325 is specified creates a structural safety hazard — the connections may fail under the design loads. The 5-day procurement delay for the correct bolts is a minor schedule impact compared to the catastrophic consequences of a structural connection failure.

24. B — The daily report documents an owner-initiated scope change that contradicts the approved contract documents. The superintendent confirmed the wall was built per the architectural floor plan, meaning the contractor's work was correct. The owner's directive to demolish and relocate the wall is a change to the approved design that should be processed as a change order with full cost recovery.

25. D — The contract requires payment within 30 days of final completion certification. Payment is now 15 days overdue. The contractor should send a formal written demand citing the specific contract provision, noting the breach, and demanding immediate payment. If payment is not received, the contractor should pursue the contractual dispute resolution process and consider filing a mechanics' lien if the filing deadline has not expired.

26. A — Premium = $(\text{payroll} \div \$100) \times \text{classification rate} \times \text{EMR} = (\$600,000 \div \$100) \times \$18.00 \times 0.82 = 6,000 \times \$18.00 \times 0.82 = \$88,560$. The EMR of 0.82 provides an 18% discount below the manual premium of \$108,000, saving the contractor \$19,440 annually — a direct financial reward for maintaining better-than-average safety performance.

27. C — To pursue a payment bond claim, the subcontractor must serve formal written notice on the general contractor identifying the amount owed and the work performed, and then file a lawsuit on the payment bond within the statutory deadline. Public property cannot be liened, so the payment bond is the subcontractor's sole payment protection mechanism. Informal phone calls or complaints to other agencies do not constitute valid bond claims.

28. D — The CGL pays its \$2,000,000 per-occurrence limit (not the \$4,000,000 aggregate, because per-occurrence limits apply to single events). The umbrella pays the excess: $\$9,000,000 - \$2,000,000 = \$7,000,000$. Total coverage: $\$2,000,000 + \$7,000,000 = \$9,000,000$ — fully covering the judgment. The \$10,000,000 umbrella limit is sufficient to cover the \$7,000,000 excess.

29. B — Four incidents are recordable. (1) Fractured rib with 8 lost workdays — recordable. (2) Butterfly bandages — first aid, not recordable. (3) Carpal tunnel with restricted duty — recordable (both significant diagnosis and restricted duty). (4) Ankle sprain with prescribed physical therapy — recordable (physical therapy is medical treatment beyond first aid). (5) Fatality — recordable. Total: 4 recordable cases.

30. A — $LTIR = (\text{Lost-time cases} \times 200,000) \div \text{Total hours worked} = (5 \times 200,000) \div 450,000 = 2.22$. The 200,000 normalization factor represents the approximate total hours worked by 100 full-time employees in a year, allowing comparison across companies of different sizes. A LTIR of 2.22 means approximately 2.22 lost-time injuries per 100 full-time workers per year.

31. D — This case is recordable for two independent reasons. First, the physician-diagnosed occupational bronchitis is a work-related illness constituting a significant diagnosis — recordable regardless of treatment type. Second, the prescribed inhaler is a prescription medication constituting medical treatment beyond first aid. Either trigger alone would make the case recordable.

32. C — FMLA eligibility requires the employee to have worked for the employer for at least 12 months and at least 1,250 hours during the preceding 12 months. The project manager has worked for only 8 months, falling short of the 12-month eligibility requirement. Despite the employer meeting the 50-employee coverage threshold and knee replacement qualifying as a serious health condition, the employee is ineligible for FMLA leave due to insufficient tenure.

33. A — A DUI conviction is directly relevant to a position requiring a CDL and the safe operation of heavy equipment. Questions about criminal history are permissible when the conviction relates to the essential functions of the position and the employer applies the inquiry consistently to all applicants for the same role. Job-related criminal history inquiries that are consistent with business necessity are lawful.

34. B — Under the FLSA, travel time between jobsites during the workday is compensable "hours worked." The 8 hours of inter-site travel count toward the weekly total. With 50 total compensable hours, the laborer receives straight time for 40 hours (\$880) and overtime at \$33.00/hour ($1.5 \times \$22.00$) for 10 hours (\$330), totaling \$1,210.

35. D — When the employer requires workers to report to the company office to pick up tools and vehicles before traveling to the jobsite, the office becomes the start point of the workday. The time from the required office report (6:30 AM) through the return to the office at the end of the day (4:45 PM) is likely compensable. The employer's mandate to begin and end at the office converts what would otherwise be commuting time into compensable work time.

36. C — The FLSA requires employers to pay non-exempt employees for all hours actually worked — falsifying time cards to show 40 hours when employees actually worked 48 to 52 hours is a serious wage and hour violation. The employer is liable for back pay for all unpaid

overtime, liquidated damages (potentially equal to the back pay amount), and the employees' attorney fees. The superintendent's budget concerns do not justify violating federal wage law.

37. B — Courts generally give greater weight to clear, written at-will disclaimers over progressive discipline procedures that appear in the same handbook. However, the employer should apply the progressive discipline consistently to avoid claims of discriminatory or arbitrary enforcement. The at-will disclaimer preserves the right to deviate from progressive discipline when circumstances warrant, but selective application can create legal exposure.

38. B — Davis-Bacon requires total compensation (wages + fringe) to meet or exceed the prevailing wage determination. Required: $\$44.00 + \$20.00 = \$64.00/\text{hour}$. Actual: $\$50.00 \text{ wage} + \$3.00 \text{ retirement} + \$9.00 \text{ health} = \$62.00/\text{hour}$. Shortfall: $\$64.00 - \$62.00 = \$2.00/\text{hour}$. The excess wage above $\$44.00$ ($\$6.00$) can offset part of the fringe shortfall, but the total compensation still falls $\$2.00$ short.

39. D — The employer had actual knowledge of the hazard through the employee's report to the supervisor. The supervisor's failure to take corrective action — removing the safety guard is a recognized serious hazard — demonstrates willful or serious negligence. The employer faces OSHA citation exposure (potentially willful or repeat), enhanced workers' compensation penalties for willful safety violations, and potential tort liability for the supervisor's failure to act on a known hazard.

40. B — Employers must accept any valid, unexpired document from the List of Acceptable Documents for I-9 purposes. An EAD card with 4 months remaining before expiration is currently valid and unexpired. However, the employer should note the expiration date and reverify work authorization when the EAD expires, because the employee's work authorization may require renewal. The employer cannot reject the document based on the approaching expiration date — that would constitute document abuse discrimination.

41. A — Current assets: $\$110,000 + \$560,000 + \$85,000 + \$20,000 = \$775,000$. Current liabilities: $\$380,000 + \$65,000 + \$45,000 + \$40,000 = \$530,000$. Working capital: $\$775,000 - \$530,000 = \$245,000$. Total assets: $\$775,000 + \$440,000 = \$1,215,000$. Total liabilities: $\$530,000 + \$285,000 = \$815,000$. Net worth: $\$1,215,000 - \$815,000 = \$400,000$. Both metrics are critical for ACLB licensing and surety bonding evaluations.

42. B — Revised estimated total cost: $\$4,500,000$. Revised gross profit: $\$5,000,000 - \$4,500,000 = \$500,000$. Revised percentage complete: $\$2,125,000 \div \$4,500,000 = 47.2\%$. Cumulative profit to recognize through Year 1: $47.2\% \times \$500,000 = \$236,111$. If profit was previously recognized at 50% complete on the original estimate ($\$375,000$), a downward adjustment of $\$138,889$ is needed. Both the percentage complete and the estimated profit change when cost estimates are revised.

43. D — Gross profit: $\$7,400,000 - \$6,290,000 = \$1,110,000$. Gross margin: $\$1,110,000 \div \$7,400,000 = 15.0\%$. G&A ratio: $\$740,000 \div \$7,400,000 = 10.0\%$. Net income: $\$1,110,000 - \$740,000 = \$370,000$. Net margin: $\$370,000 \div \$7,400,000 = 5.0\%$. The 15% gross margin indicates solid project-level profitability, the 10% G&A ratio shows overhead is well-managed, and the 5% net margin reflects healthy bottom-line performance.

44. C — Percentage complete: $\$1,071,000 \div \$1,530,000 = 70\%$. Earned revenue: $70\% \times \$1,800,000 = \$1,260,000$. Billings: $\$1,330,000$. The project is over-billed by $\$70,000$.

(\$1,330,000 billings minus \$1,260,000 earned revenue). Over-billing means the contractor has collected more than the value of work completed, creating a current liability on the balance sheet representing the obligation to perform future work already paid for.

45. A — Multiple strategic options exist to reduce retainage's cash flow impact: negotiate retainage reduction clauses (from 10% to 5% after 50% completion) in future contracts, offer retainage bonds or letters of credit as substitutes for cash retainage on current projects, accelerate project completions to trigger retainage release, and aggressively pursue collection of retainage from recently completed projects. Retainage management is a critical cash flow discipline.

46. B — A multi-member LLC without a special tax election defaults to partnership taxation. The LLC files Form 1065 (informational return) and issues Schedule K-1 to each member based on their ownership percentage. Member A reports \$300,000 (50%), Member B reports \$180,000 (30%), and Member C reports \$120,000 (20%) on their individual returns. No entity-level federal income tax is paid.

47. D — The IRS graduated penalty structure for late payroll tax deposits assesses 2% for 1-5 days late, 5% for 6-15 days late, 10% for more than 15 days late, and 15% for amounts not deposited within 10 days of an IRS notice and demand. An 18-day late deposit falls in the "more than 15 days" bracket, triggering the 10% penalty rate on the full \$25,000 deposit amount.

48. C — Under current tax law, both new and used equipment qualify for Section 179 expensing and bonus depreciation, potentially allowing the full \$85,000 to be deducted in the year of purchase. Alternatively, the contractor can depreciate the excavator over its MACRS recovery period (typically 5 or 7 years for construction equipment). The optimal strategy depends on the contractor's overall tax situation — their CPA should evaluate which approach minimizes total tax liability.

49. A — Self-employed individuals can deduct health insurance premiums as an "above the line" adjustment to gross income on Form 1040. This deduction reduces adjusted gross income (AGI), which in turn reduces both income tax and may reduce the income base for self-employment tax calculations. The deduction is available regardless of whether the contractor itemizes deductions, making it one of the most valuable tax benefits for self-employed individuals.

50. B — C-Corporation salaries are deductible business expenses that reduce corporate taxable income, while dividends are not deductible. An unreasonably high salary effectively converts non-deductible dividends into deductible compensation, reducing the corporation's tax bill. The IRS scrutinizes this strategy and can reclassify the excessive portion of the salary as a non-deductible dividend, increasing the corporation's taxable income and tax liability.