

PRACTICE EXAM 13: 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 operates as a multi-member LLC with three members. The operating agreement does not address what happens if a member wants to leave the LLC. Member C informs the other two members that they want to withdraw their \$100,000 capital contribution and leave the business. Without a provision in the operating agreement addressing member withdrawal, what governs this situation?

A. Member C can withdraw their capital contribution immediately and without restriction because LLC members have an absolute right to exit at any time

B. The default provisions of the Arkansas Revised Uniform Limited Liability Company Act would govern the withdrawal process, including the timing and method of returning the member's interest — which may not allow for immediate withdrawal of the full capital contribution

C. The remaining members must dissolve the LLC entirely because a member's departure automatically triggers dissolution under Arkansas law

D. Member C forfeits their entire capital contribution because members who voluntarily withdraw lose all ownership interest

DOMAIN: LICENSING (4 Questions)

2. A contractor holds a residential builder license and is approached by a church to build a new \$180,000 fellowship hall on the church's property. The fellowship hall will be used for community gatherings, dinners, and Sunday school classes — not as a residence. Can the contractor build this structure under their residential builder license?

A. Yes, because churches are classified as community organizations and their buildings fall under residential licensing provisions

B. Yes, because the fellowship hall's construction methods are identical to residential construction techniques

C. Yes, because any building under \$200,000 can be built with a residential builder license regardless of its use

D. No, because a church fellowship hall is a non-residential commercial structure, and a project valued at \$180,000 exceeds the \$50,000 commercial licensing threshold — requiring a commercial contractor's license

3. The Arkansas Contractors Licensing Board has the authority to investigate complaints and take disciplinary action. Which of the following rights does a contractor have when facing ACLB disciplinary proceedings?

A. The contractor has the right to a hearing before the Board before any disciplinary action is finalized, the right to present evidence and call witnesses in their defense, and the right to appeal the Board's decision through the Arkansas court system

B. The contractor has no rights during disciplinary proceedings because the Board has absolute and unreviewable authority over licensing matters

C. The contractor's only right is to submit a written response within 10 days, after which the Board's decision is final and unappealable

D. The contractor has the right to select which Board members will hear their case and to disqualify any member with a potential conflict of interest

4. A contractor with a valid Arkansas commercial license hires a concrete subcontractor for a foundation project. The general contractor verifies the subcontractor's license at the time of hiring. Six weeks into the project, the subcontractor's license is suspended by the ACLB for an unrelated disciplinary matter on a different project. The general contractor is not aware of the suspension. When does the general contractor's obligation to verify the subcontractor's license status arise?

A. Only at the initial hiring — no ongoing verification is required once the subcontract is executed

B. Only when the ACLB sends a formal notification to all general contractors who have active subcontracts with the suspended contractor

C. The general contractor has an ongoing obligation to ensure subcontractors maintain valid licenses throughout the project — while continuous daily monitoring may not be practical, the GC should have systems in place to verify license status periodically and should act promptly if they learn of a suspension

D. Only when the subcontractor submits their next payment application, which requires current license verification

5. A contractor wants to perform both commercial building construction and highway construction in Arkansas. The contractor currently holds a commercial license with a Building Construction (BU) classification only. What must the contractor do to legally perform highway work?

A. Apply for a completely separate commercial license with the Highway Construction (HY) classification

B. Apply to add the Highway Construction (HY) classification to their existing commercial license, since a single license can include multiple work classifications

C. Obtain a special highway construction permit from the Arkansas Department of Transportation instead of adding a classification through the ACLB

D. No additional action is needed because the Building Construction classification inherently covers all types of construction including highway work

DOMAIN: ESTIMATING AND BIDDING (4 Questions)

6. A contractor is preparing an estimate for a commercial building project. The plans show 15,000 square feet of acoustical ceiling tile at a material cost of \$3.80 per square foot. The estimator applies a 7% waste factor for cutting and breakage. The installation labor productivity is 120 square feet per hour at a loaded labor rate of \$42.00 per hour. What is the total estimated cost for the acoustical ceiling tile, including material with waste and installation labor?

A. \$66,549.00, calculated as material ($\$3.80 \times 15,000 \times 1.07 = \$61,029$) plus labor ($15,000 \div 120 = 125$ hours $\times \$42.00 = \$5,250$) plus an additional material handling allowance of \$270

B. \$57,000.00, calculated using only the base material cost without waste and without labor

C. \$71,400.00, calculated by applying the waste factor to both the material cost and the labor cost

D. \$61,029.00, calculated with the waste factor on materials only and excluding installation labor from the total

7. A contractor submits a bid on a public water main replacement project. The bid documents require a performance bond at 100% and a payment bond at 100%. The contractor's bid is \$1,400,000. The bond premium is 2.5% of the contract amount for both bonds combined. The contractor wants to include the bond cost in their bid. What amount should the contractor add to their estimate for bonding?

A. \$70,000, calculated at 2.5% of the \$1,400,000 contract amount applied to each bond separately, totaling 5%

B. \$14,000, calculated at 1% of the contract amount because bond premiums are split between the performance and payment bonds

C. \$105,000, calculated at 2.5% of the contract amount plus the bond amount in a circular calculation

D. \$35,000, calculated at 2.5% of the \$1,400,000 contract amount for both bonds combined as stated in the premium quote

8. A contractor completes a quantity takeoff for exterior masonry on a commercial building. The takeoff shows 8,400 square feet of brick veneer. The estimator knows that standard modular brick covers approximately 6.75 bricks per square foot (including mortar joints). The supplier quotes \$0.85 per brick delivered. The estimator applies a 5% waste factor. What is the approximate material cost for the brick?

A. \$7,140.00, calculated using only the square footage multiplied by the unit cost per brick without converting to brick count

B. \$42,000.00, calculated by using an incorrect conversion factor of 5 bricks per square foot

C. \$50,708.25, calculated as $8,400 \text{ SF} \times 6.75 \text{ bricks/SF} = 56,700 \text{ bricks} \times 1.05 \text{ waste} = 59,535 \text{ bricks} \times \$0.85/\text{brick}$

D. \$48,195.00, calculated without applying the waste factor to the total brick count

9. A contractor reviews five subcontractor quotes for the electrical work on a commercial project: \$285,000, \$310,000, \$295,000, \$340,000, and \$288,000. The lowest quote (\$285,000) is from a subcontractor the contractor has never worked with before. The second-lowest quote (\$288,000) is from a subcontractor with a 10-year track record of reliable performance on

similar projects. What is the most prudent approach for selecting the electrical subcontractor for the bid?

- A. Use the \$288,000 quote from the proven subcontractor in the bid because the \$3,000 difference is negligible compared to the risk of using an unknown subcontractor on a critical trade — reliability, quality, and the ability to complete the work without problems are worth more than minor price savings
- B. Use the \$285,000 lowest quote because competitive bidding requires the contractor to always use the lowest subcontractor price
- C. Average all five quotes and use \$303,600 as the electrical budget to hedge against price risk
- D. Use the \$340,000 highest quote to build maximum contingency into the electrical scope

DOMAIN: CONTRACT MANAGEMENT (8 Questions)

10. A contractor on a commercial renovation project submits a change order for \$48,000 to address concealed water damage discovered behind existing walls during demolition. The contract includes a differing site conditions clause. The owner argues that the contractor should have anticipated possible water damage in a 40-year-old building and included a contingency in their bid. Under the differing site conditions clause, is the owner's argument valid?

- A. Yes, because experienced contractors should always anticipate concealed damage in renovation projects and price accordingly
- B. Yes, because buildings over 30 years old are presumed to have concealed damage under standard renovation contract principles
- C. No, but the contractor is limited to recovering only 50% of the additional cost because renovation risk is shared equally
- D. No, because the differing site conditions clause protects the contractor when actual conditions differ materially from those represented in the contract documents — the owner's documents did not disclose the water damage, and the contractor is not required to assume the worst-case scenario when the contract documents represent a different condition

11. A contractor working on a fixed-price school construction project discovers that the plumbing specifications reference a plumbing code edition that was superseded two years before the contract was signed. The current code edition has more stringent requirements that will increase the plumbing cost by \$28,000. The contractor installed plumbing per the code

edition referenced in the specifications. The building inspector rejects the work and requires compliance with the current code. Who bears the \$28,000 additional cost?

- A. The building inspector, because the inspection should have been based on the code edition referenced in the contract documents
- B. The contractor bears the additional cost because the contractor is required to comply with the most current building code regardless of what the specifications reference, and the issue is best addressed through a change order request documenting that the specifications referenced an outdated code edition, making it a design-side error
- C. The plumbing subcontractor bears the cost because trade subcontractors are independently responsible for code compliance
- D. The cost is absorbed by the project contingency because code conflicts are a standard construction risk

12. A general contractor on a 24-month commercial project maintains separate bank accounts for each active project as a best practice. The contractor's accountant notices that the company's operating account is \$15,000 short for Friday's payroll across all projects. The project manager suggests temporarily transferring \$15,000 from the dedicated account for Project Alpha (which has a healthy positive balance from a recent owner payment) to cover the payroll shortfall. What is the legal risk of this transfer?

- A. No risk because transferring funds between the contractor's own accounts is a routine cash management practice
- B. No risk because the \$15,000 will be replenished within days when payments from other projects arrive
- C. This transfer constitutes fund diversion — using money received for one project to cover expenses on other projects — which is one of the most seriously penalized violations under Arkansas contractor licensing law and can result in license revocation regardless of the contractor's intent to repay
- D. The risk is limited to an administrative fine of \$500 for improper fund allocation between project accounts

13. A construction contract includes the following warranty clause: "The Contractor warrants all work for a period of one year from the date of substantial completion. This warranty shall not limit any rights the Owner may have under applicable law." What does the final sentence of this clause mean?

- A. The final sentence preserves the owner's rights to pursue claims beyond the one-year warranty period under other legal theories — such as statutes of limitation for breach of contract, statutes of repose for construction defects, or implied warranty claims — that may provide longer protection than the express one-year warranty
- B. The final sentence means the owner can extend the warranty period indefinitely at their sole discretion
- C. The final sentence requires the contractor to provide a second warranty period equal to the first after the initial year expires
- D. The final sentence is standard legal boilerplate with no practical effect on either party's rights or obligations

14. A project owner sends a letter to the contractor stating: "I am pleased with the project's progress. However, I would like you to add a covered walkway connecting the main building to the parking structure. Please proceed with this work at your earliest convenience." The contractor's estimator determines the walkway will cost \$85,000. The contractor has not received a formal change order. Should the contractor proceed?

- A. Yes, because the owner's written letter constitutes sufficient authorization to proceed with the additional work
- B. Yes, because the contractor is obligated to comply with all owner requests as part of the contractual duty of good faith
- C. No, because the contractor should decline any scope additions to avoid complicating the project schedule
- D. No, the contractor should not proceed until a formal change order is executed — the contractor should respond in writing acknowledging the owner's request, submitting a change order proposal for \$85,000 with schedule impact, and requesting written authorization before commencing the walkway work

15. A subcontractor on a commercial project has completed 100% of their scope of work and all punch list corrections. The subcontractor submits their final invoice requesting release of the 10% retainage (\$42,000). The general contractor has received the corresponding retainage from the owner but withholds it from the subcontractor for 90 additional days, stating they want to ensure no warranty issues arise. Is the general contractor's withholding justified?

- A. No, because the general contractor has no contractual basis for withholding earned retainage beyond the completion of the subcontractor's work and punch list corrections — retainage is held as security for completion, not as a warranty reserve, and once the work is complete and accepted, the retainage should be released

B. Yes, because the general contractor has absolute discretion over the timing of subcontractor retainage releases

C. No, but only if the subcontractor files a formal demand through certified mail requesting the retainage release

D. Yes, because a 90-day post-completion hold period is standard industry practice for all subcontractor retainage

16. A contractor discovers that the project's structural engineer made a calculation error in the beam sizing. The beams as designed are undersized for the required loads. The contractor notifies the architect and owner immediately. The structural engineer redesigns the beams at a larger size, which increases the steel cost by \$65,000 and adds 2 weeks to the schedule. Under the Spearin Doctrine, who is responsible for the additional \$65,000 and the 2-week delay?

A. The contractor, because they should have independently verified all structural calculations before ordering materials

B. The structural engineer personally, because professional errors are always the sole financial responsibility of the licensed professional who made them

C. The owner is responsible because the Spearin Doctrine establishes that the owner impliedly warrants the adequacy of the plans and specifications provided to the contractor — the structural calculation error is a design deficiency that should be addressed through a change order for the additional cost and a time extension for the schedule impact

D. The steel fabricator, because they should have caught the undersized beam specification before beginning fabrication

17. A contractor on a time-and-materials emergency repair contract has been billing the owner weekly. After four weeks, the owner receives the invoices and notices that the loaded labor rates being charged (\$78.00/hour for carpenters) are higher than the rates specified in the contract (\$72.00/hour for carpenters). The contractor explains that the rates were increased to reflect a union wage increase that took effect after the contract was signed. Is the contractor entitled to charge the higher rate?

A. No, because the contract establishes specific loaded labor rates and the contractor cannot unilaterally increase those rates without a written contract modification — the union wage increase is a cost the contractor must absorb unless the contract includes a rate escalation clause

B. Yes, because union wage increases are automatically passed through to the owner on all T&M contracts

C. Yes, because T&M contracts by definition reimburse actual costs, and the actual labor cost has increased

D. No, but the contractor can seek reimbursement through a change order if the rate increase exceeds 5% of the original rate

DOMAIN: PROJECT MANAGEMENT (6 Questions)

18. A project manager reviews the schedule at the midpoint of a 12-month commercial project and identifies the following: 4 critical path activities are on schedule, 2 critical path activities are 3 days behind, 8 non-critical activities are on schedule, and 3 non-critical activities have consumed more than 75% of their available float. What is the most concerning finding in this schedule review?

A. The 8 non-critical activities that are on schedule, because they indicate the project team is allocating too many resources to non-essential work

B. The 4 critical path activities that are on schedule, because being exactly on schedule indicates no safety margin

C. The 3 non-critical activities with depleted float, because they require monitoring but do not yet affect the completion date

D. The 2 critical path activities that are 3 days behind, because any delay to critical path activities directly extends the project completion date — these activities must be recovered immediately through crashing, re-sequencing, or other acceleration measures

19. A contractor's project superintendent observes that a masonry crew is consistently achieving a productivity rate of 380 bricks per mason per day, compared to the estimated rate of 450 bricks per mason per day used in the bid. The masonry work is a critical path activity with 6 weeks of work remaining. If the productivity shortfall continues, what is the approximate schedule impact?

A. No impact because productivity rates are estimates and actual rates always vary without affecting the schedule

B. The project will finish early because fewer bricks per day means higher quality installation that requires less rework

C. The productivity shortfall of approximately 15.6% means the masonry work will take approximately 15.6% longer than planned — 6 weeks of remaining work could extend to approximately 7.1 weeks, adding about 5 working days to the critical path unless additional masons are added or other acceleration measures are implemented

D. The schedule impact cannot be determined without knowing the total number of bricks remaining and the exact square footage

20. A contractor receives the following RFI response from the architect: "Install 4-inch PVC drainage piping from the roof drains to the underground storm sewer connection as shown on drawing C-3." The contractor reviews drawing C-3 and finds that it shows 6-inch piping, not 4-inch. The architect's written RFI response contradicts the drawing. What should the contractor do?

A. Install 4-inch piping per the architect's written RFI response because written responses take precedence over drawings

B. Submit a follow-up RFI to the architect identifying the conflict between the RFI response (4-inch) and drawing C-3 (6-inch), and request a definitive clarification before proceeding — because installing the wrong pipe size could require costly removal and replacement

C. Install 6-inch piping per the drawing because drawings always take precedence over written communications

D. Install whichever pipe size is less expensive and document the decision in the daily report

21. A contractor is building a multi-story parking garage. The project schedule shows that the post-tensioning of the Level 3 slab must be completed before the Level 4 formwork can be erected. The post-tensioning subcontractor informs the contractor that they will be 5 days late due to a scheduling conflict with another project. The Level 3 post-tensioning is on the critical path. What should the contractor do?

A. Demand that the post-tensioning subcontractor honor their scheduled date and provide written notice that any delay will result in back-charges for the resulting schedule impact — simultaneously explore whether an alternative post-tensioning subcontractor can mobilize on the original schedule, and if the delay is unavoidable, evaluate crashing subsequent critical path activities to recover the lost time

B. Accept the 5-day delay as a normal construction scheduling issue and adjust the completion date accordingly

C. Proceed with the Level 4 formwork before the Level 3 post-tensioning is complete to maintain the schedule

D. Terminate the post-tensioning subcontractor's contract immediately and rebid the remaining work

22. A project manager maintains a submittal log that tracks all shop drawings, product data, and samples submitted to the architect for review. The log shows that 15 submittals have been outstanding for more than 21 days without architect response. The contract establishes a 14-day review period for all submittals. What project management action is most appropriate?

- A. Proceed with purchasing materials based on the submittals that have been submitted but not yet approved, assuming the architect's silence constitutes tacit approval
- B. File a formal claim for delay damages against the architect for exceeding the contractual submittal review period
- C. Reduce the frequency of future submittal submissions to avoid overwhelming the architect's review capacity
- D. Send a formal written notice to the owner and architect documenting the overdue submittals, the contractual 14-day review period, and the schedule impact of the delayed responses — requesting expedited review and preserving the contractor's right to claim a time extension if the delayed reviews impact the critical path

23. A project superintendent is planning a concrete pour for a large commercial foundation. The pour requires 280 cubic yards of concrete. The concrete supplier can deliver a maximum of 10 cubic yards per truckload, with trucks arriving every 20 minutes. The pour must be completed in a single continuous operation to avoid cold joints. How many hours will the pour require based solely on the delivery schedule?

- A. 7 hours, calculated by dividing 280 cubic yards by a theoretical delivery rate of 40 cubic yards per hour
- B. 14 hours, calculated by doubling the delivery time to account for placement and finishing operations
- C. Approximately 9.3 hours, calculated as $28 \text{ truckloads} \times 20 \text{ minutes between deliveries} = 560 \text{ minutes} \div 60 = 9.3 \text{ hours}$ — and the superintendent should verify that the crew can maintain this pace for the full duration and that the concrete supplier can sustain the 20-minute delivery interval
- D. 5.6 hours, calculated by assuming 50 cubic yards per hour delivery rate with no gaps between trucks

24. A contractor's daily report from Wednesday records that the building inspector visited the site at 1:30 PM for a framing inspection on the second floor. The inspector identified three deficiencies: (1) a load-bearing header above a window opening is undersized, (2) two fire-blocking installations are missing in the balloon-framed wall cavities, and (3) joist hangers are not installed per the manufacturer's requirements. The inspector marks the inspection as "failed" and requires corrections before re-inspection. What is the schedule impact of a failed framing inspection?

- A. No schedule impact because framing inspections are informational and do not prevent subsequent work from proceeding

B. The failed inspection creates a schedule delay because no subsequent work that covers the framing (insulation, drywall, finishes) can proceed until the deficiencies are corrected and the framing passes re-inspection — the contractor should correct the items immediately and schedule the re-inspection as soon as possible to minimize the delay

C. The failed inspection delays only the final certificate of occupancy and has no impact on intermediate construction activities

D. The schedule impact is limited to 24 hours because building inspectors are required to re-inspect within one business day of receiving a correction notification

25. A contractor notices that their project's earned value is consistently tracking below the planned value over the past three months, creating a growing negative schedule variance. The cost performance is on track — actual costs are in line with the earned value. What does this combination of metrics indicate?

A. The project is behind schedule but on budget — less work has been completed than planned (negative schedule variance), but the work that has been completed is costing what it should (CPI near 1.0), indicating a schedule problem rather than a cost problem that requires schedule acceleration measures without necessarily increasing the budget

B. The project is ahead of schedule and over budget, requiring cost reduction rather than schedule acceleration

C. The metrics are contradictory and indicate a data error in the earned value analysis

D. The project is on schedule and on budget because cost performance is the only metric that matters for project health

DOMAIN: INSURANCE AND BONDING (3 Questions)

26. A contractor carries both a CGL policy and a professional liability (E&O) policy. The contractor operates as a design-build firm, providing both design and construction services. During a project, the contractor's design team makes an engineering error that results in a structural failure. The structural failure causes \$400,000 in property damage to the building and \$200,000 in injuries to construction workers from other trades. Which policies respond to which damages?

A. The CGL policy covers both the property damage and the bodily injuries because all damages arise from the contractor's operations

B. The professional liability policy covers both the property damage and the bodily injuries because the root cause was a design error

C. Neither policy covers any damages because structural failures are excluded from all standard construction insurance policies

D. The professional liability (E&O) policy covers claims arising from the design error (the professional negligence), while the CGL policy covers the bodily injury and property damage claims arising from the resulting structural failure — both policies may be triggered, with each responding to different aspects of the loss

27. A contractor with an EMR of 0.75 is competing against a contractor with an EMR of 1.35 for a project that requires workers' compensation insurance. Both contractors have identical base classification rates and identical payroll. If the base annual premium (at EMR 1.0) would be \$200,000, what is the annual premium difference between the two contractors?

A. \$120,000 — Contractor 1 pays \$150,000 ($\$200,000 \times 0.75$) while Contractor 2 pays \$270,000 ($\$200,000 \times 1.35$), creating a \$120,000 annual cost advantage for the contractor with the better safety record

B. \$60,000, calculated at half the difference because EMR adjustments are applied at a reduced rate

C. \$0, because both contractors pay the same premium regardless of EMR since they have identical base rates

D. \$200,000, because the contractor with the higher EMR pays double the base premium while the lower EMR contractor pays nothing

28. A surety is evaluating a contractor for a bonding line. The surety examines the contractor's financial statements and identifies the following concerns: the contractor's working capital has declined by 30% over the past year, the contractor has three ongoing disputes with project owners totaling \$450,000 in disputed claims, and the contractor's largest project represents 60% of their total annual revenue. What conclusion is the surety most likely to reach?

A. The contractor qualifies for an increased bonding line because the three ongoing disputes demonstrate the contractor's willingness to pursue rightful claims

B. The contractor qualifies for a standard bonding line because the declining working capital is a temporary condition that will improve when the disputes are resolved

C. The surety will likely reduce the contractor's bonding capacity or decline new bond applications because declining working capital weakens the financial foundation, the disputed claims create uncertainty about future cash flow, and concentration of revenue in a single project increases risk

D. The surety will increase the bond premium but maintain the existing bonding capacity unchanged

29. A project owner requires the general contractor to name the owner as an additional insured on the contractor's CGL policy. The contractor's insurance broker adds the endorsement.

During construction, a visitor tours the jobsite with the owner's permission and is injured when they trip over an unmarked trench. The visitor sues both the owner and the contractor. How does the additional insured endorsement protect the owner?

- A. The endorsement requires the owner to pay the contractor's insurance deductible before any coverage applies
- B. The owner can tender the claim to the contractor's CGL insurer for defense and indemnity coverage, because the additional insured endorsement extends the contractor's CGL policy to protect the owner against claims arising from the contractor's operations — providing the owner with a direct source of defense and insurance coverage
- C. The endorsement protects the owner only if the owner can prove they had no fault in the visitor's injury
- D. The endorsement voids the contractor's CGL coverage for the claim because additional insured provisions are incompatible with third-party injury claims

DOMAIN: OSHA RECORDKEEPING (3 Questions)

30. A construction worker is injured on a Monday and visits an occupational health clinic. The doctor examines the worker, takes X-rays (which reveal no fractures), prescribes over-the-counter ibuprofen at OTC strength, applies an elastic bandage, and instructs the worker to return in one week for a follow-up evaluation. The worker returns to full duty the next day. One week later, the follow-up reveals the injury has worsened, and the doctor prescribes prescription-strength naproxen and places the worker on restricted duty. At what point does this case become OSHA recordable?

- A. On Monday when the initial injury occurred, because all workplace injuries are immediately recordable
- B. On Monday when the X-rays were taken, because diagnostic imaging constitutes medical treatment beyond first aid
- C. The case is not recordable at any point because the initial treatment was first aid and subsequent worsening is a new medical event
- D. At the one-week follow-up when the doctor prescribes prescription-strength medication and places the worker on restricted duty — both the prescription medication and the restricted work activity independently cross the first-aid threshold, making the case recordable at that point with the original Monday injury date recorded on the 300 Log

31. An employer with 200 construction employees has the following OSHA recordkeeping data for the year: 8 cases with days away from work, 5 cases with restricted work or job transfer,

12 cases with medical treatment beyond first aid only, 2 fatalities, and total employee hours worked of 400,000. What is the company's Total Recordable Incident Rate (TRIR)?

- A. 6.5, calculated using only the lost-time and restricted cases in the TRIR formula
- B. 12.5, calculated by including only the medical treatment cases and the fatalities
- C. 13.5, calculated as $(27 \text{ total recordable cases} \times 200,000) \div 400,000$ — because TRIR includes ALL recordable cases: days away (8) + restricted/transfer (5) + medical treatment only (12) + fatalities (2) = 27 total recordable cases
- D. 3.5, calculated using only the fatalities and cases with days away from work

32. A construction company's safety director is preparing to post the OSHA 300A Summary for the previous calendar year. Before posting, the summary must be certified. Who has the authority to certify the 300A Summary, and what does certification mean?

- A. A company executive — such as the president, vice president, owner, or highest-ranking official — must certify the summary by signing a statement that they have reviewed the document and believe it to be accurate and complete based on their reasonable belief, acknowledging personal responsibility for the accuracy of the reported data
- B. The company's safety director certifies the summary because they are the individual most familiar with the injury data
- C. The company's workers' compensation insurance carrier certifies the summary based on their independent claims records
- D. The OSHA area office reviews and certifies the summary before it can be posted at the workplace

DOMAIN: PERSONNEL REGULATIONS (8 Questions)

33. A contractor with 45 employees terminates a project engineer who has worked for the company for 3 years. Two weeks after termination, the former engineer files a complaint with the EEOC alleging race discrimination. The contractor argues that the FMLA protects them from discrimination claims because they are below the FMLA's 50-employee threshold. Is the contractor's argument valid?

- A. Yes, because employers below the FMLA threshold are exempt from all federal employment discrimination laws

B. No, because FMLA coverage and Title VII coverage have different employee thresholds — the FMLA requires 50 employees, but Title VII (which prohibits race discrimination) applies to employers with 15 or more employees, and this contractor has 45

C. Yes, because the FMLA and Title VII share the same 50-employee coverage threshold

D. No, but only if the contractor receives federal funding that triggers mandatory compliance with all employment laws

34. A non-exempt equipment operator earns \$35.00 per hour. During a workweek, the operator works 42 regular hours on construction activities. The employer also requires the operator to spend 2 hours on Saturday cleaning and performing preventive maintenance on company equipment at the employer's yard. The operator argues they should be paid overtime for the 4 hours exceeding 40. Under the FLSA, is the operator correct?

A. No, because Saturday equipment maintenance is classified as non-compensable volunteer time since it does not involve active construction

B. No, because overtime only applies to hours spent on actual construction jobsites, not on equipment maintenance at the employer's facility

C. Yes, but only the 2 construction hours exceeding 40 qualify for overtime, and the 2 Saturday maintenance hours are compensable at straight time only

D. Yes, because all 44 hours are compensable "hours worked" — the mandatory Saturday equipment maintenance is employer-required work time that counts toward the weekly total, and all 4 hours exceeding 40 must be paid at 1.5 times the regular rate (\$52.50/hour)

35. An employer with 30 employees has a female welder who consistently receives the highest quality ratings among all welders in the company. She discovers that three male welders with lower quality ratings and less experience are earning \$4.00 more per hour than she is. She files a complaint alleging pay discrimination. Under which federal law or laws can she pursue this claim?

A. Only the ADEA because pay disparities are addressed exclusively under age discrimination provisions

B. Only the ADA because the pay difference must be related to a disability accommodation adjustment

C. Both the Equal Pay Act (which prohibits sex-based pay differences for substantially equal work) and Title VII (which prohibits compensation discrimination based on sex) — the employer must prove the pay difference is based on seniority, merit, quantity/quality of production, or any factor other than sex

D. Only the FMLA because the pay differential arose during a period when the female welder may have taken family-related leave

36. An employer requires all employees to sign a non-compete agreement as a condition of employment. The agreement prohibits employees from working for any competing construction company within a 100-mile radius for 3 years after leaving the employer. A carpenter signs the agreement, works for the company for 6 months, then resigns to work for a competitor located 25 miles away. The employer threatens to enforce the non-compete. Is the non-compete likely enforceable?

A. The enforceability depends on the jurisdiction and the reasonableness of the restrictions — a 100-mile radius for 3 years may be found unreasonably broad by a court, particularly for a carpenter performing standard construction skills that are widely available, and courts often narrow or void overly restrictive non-compete agreements

B. The non-compete is automatically enforceable because the carpenter signed it voluntarily as a condition of employment

C. Non-compete agreements are categorically unenforceable for all construction industry employees under federal labor law

D. The non-compete is enforceable only for the first 12 months after resignation regardless of what the agreement states

37. An employer operates a construction company with 55 employees. A project foreman requests 4 weeks of FMLA leave to care for his domestic partner who is undergoing cancer treatment. The foreman and his domestic partner are not married and do not live in a state that recognizes domestic partnerships as equivalent to marriage. Under the FMLA, is the employer required to grant this leave?

A. Yes, because the FMLA covers leave to care for any individual with a serious health condition regardless of their legal relationship to the employee

B. No, because the FMLA provides leave to care for a spouse, child, or parent with a serious health condition — a domestic partner who is not a legally recognized spouse does not qualify as a covered family member under the FMLA's definition, though the foreman may have other leave options available

C. Yes, because the FMLA was amended to include domestic partners in its definition of covered family members

D. No, but the employer must provide the leave under the ADA's reasonable accommodation provisions because cancer is a recognized disability

38. A contractor's employee handbook contains a clear at-will employment disclaimer. A supervisor tells a new hire during orientation: "As long as you show up on time and do good work, you'll have a job here for as long as you want one." Eighteen months later, the employee is terminated during a company-wide layoff. The employee sues for wrongful termination, arguing the supervisor's statement created an implied employment contract. What is the likely outcome?

A. The employee will win because the supervisor's statement created a binding oral contract that overrides the written at-will disclaimer

B. The employee will win because oral promises made during orientation carry greater legal weight than written handbook provisions

C. The supervisor will be held personally liable for the cost of the wrongful termination claim because the promise was unauthorized

D. The employer's written at-will disclaimer will likely prevail over the supervisor's informal oral statement — courts generally uphold clear, written at-will provisions over casual remarks, though the employer should train supervisors to avoid making promises that could be interpreted as employment guarantees

39. A contractor discovers that their accounts payable clerk has been issuing checks to a fictitious vendor and depositing them into their personal bank account. The fraud has been ongoing for 8 months and totals \$67,000. The contractor terminates the clerk immediately and files a police report. The clerk files for unemployment benefits. What is the likely unemployment determination?

A. The clerk will receive full benefits because the criminal investigation has not yet produced a conviction

B. Benefits will be granted at a reduced rate because white-collar offenses carry lesser unemployment penalties than violent crimes

C. The clerk will likely be denied benefits because theft and fraud constitute willful misconduct — and the employer's documented evidence (fictitious vendor records, bank deposit records, police report) provides strong proof of disqualifying misconduct

D. The unemployment agency will defer the determination until the criminal case is fully resolved in court

40. A contractor operating on a Davis-Bacon covered project employs a worker who performs both laborer duties and equipment operator duties during the same workweek. The prevailing wage for a laborer is \$24.00/hour + \$11.00/fringe. The prevailing wage for an equipment operator is \$38.00/hour + \$16.00/fringe. The worker spends 24 hours as a laborer and 20 hours

as an equipment operator during a 44-hour workweek. How must the worker be paid under Davis-Bacon?

- A. The worker must be paid at the applicable prevailing wage rate for each classification based on the hours actually worked in each role — 24 hours at the laborer rate (\$24.00 + \$11.00) and 20 hours at the equipment operator rate (\$38.00 + \$16.00), with overtime calculated on the weighted average regular rate for the 4 hours exceeding 40
- B. The worker is paid at the higher equipment operator rate for all 44 hours because the higher classification controls
- C. The worker is paid at the lower laborer rate for all 44 hours because that is the classification the worker spent the most time performing
- D. The worker is paid at the average of the two rates for all 44 hours to simplify payroll administration

DOMAIN: FINANCIAL MANAGEMENT (5 Questions)

41. A contractor's balance sheet shows total assets of \$3,600,000 and total liabilities of \$2,800,000. The contractor's CPA calculates the debt-to-equity ratio. What is the ratio, and what does it indicate about the contractor's financial leverage?

- A. Debt-to-equity ratio is 0.78, indicating low leverage with plenty of capacity for additional debt financing
- B. Debt-to-equity ratio is 1.29, calculated as total assets divided by total liabilities
- C. Debt-to-equity ratio is 3.50, indicating the company has \$3.50 in debt for every \$1.00 of equity — extremely high leverage
- D. Debt-to-equity ratio is 3.50, calculated as total liabilities (\$2,800,000) divided by equity (\$800,000), indicating the company is heavily leveraged with \$3.50 in debt for every \$1.00 of owner's equity — this high leverage level will concern sureties and lenders because it leaves very little equity cushion to absorb losses

42. A contractor uses the percentage-of-completion method on a \$3,000,000 project with estimated total costs of \$2,400,000. At the end of Year 1, costs incurred total \$960,000. At the end of Year 2, the project is completed with total actual costs of \$2,550,000. What is the gross profit recognized in Year 2?

- A. \$450,000, representing the full estimated gross profit recognized entirely in Year 2 when the project is completed

B. Year 2 profit is \$210,000, calculated as total actual profit (\$450,000) minus Year 1 recognized profit (\$240,000) — Year 1: 40% complete ($\$960\text{K} \div \$2,400\text{K}$) \times \$600K estimated profit = \$240,000; actual total profit = $\$3,000,000 - \$2,550,000 = \$450,000$; Year 2 = $\$450,000 - \$240,000 = \$210,000$

C. Year 2 profit is \$360,000, based on 60% of the original estimated profit being allocated to Year 2

D. Year 2 profit is \$600,000, representing the original estimated gross profit without adjustment for the cost overrun

43. A contractor reviews their cash flow forecast and determines they need to borrow \$150,000 on their line of credit to bridge a 60-day gap between a large material purchase and the next owner progress payment. The line of credit has an interest rate of 8% annually. What is the approximate interest cost of this 60-day borrowing?

A. \$12,000, calculated at the full annual rate of 8% on the \$150,000 principal regardless of the borrowing duration

B. \$6,000, calculated at half the annual rate because the borrowing period is approximately half a year

C. Approximately \$1,973, calculated as $\$150,000 \times 8\% \times (60 \div 365)$ — interest on a line of credit is charged only for the period the funds are outstanding, not for the full year

D. \$0, because lines of credit do not charge interest until the outstanding balance exceeds 50% of the credit limit

44. A contractor's WIP report reveals that out of 8 active projects, 5 are profitable (margins ranging from 8% to 18%), 2 are breaking even (0% to 2% margin), and 1 is projecting a 12% loss. The losing project has a contract value of \$1,200,000 with a projected loss of \$144,000. What should the project manager do about the losing project?

A. Investigate the specific causes of the loss — determine whether it is attributable to estimating errors, design changes, productivity problems, or unforeseen conditions — and implement targeted corrective actions such as pursuing change orders for owner-caused costs, improving productivity, value-engineering remaining work, or renegotiating subcontract pricing to reduce or eliminate the projected loss

B. Ignore the losing project because the other 5 profitable projects will offset the loss in the overall company financials

C. Terminate the losing project immediately to stop the financial bleeding regardless of contractual obligations

D. Transfer profitable project resources to the losing project to subsidize its costs until it becomes profitable

45. A contractor's accounts receivable report shows that the company's average Days Sales Outstanding (DSO) has increased from 42 days to 68 days over the past 12 months. The company's annual revenue is \$6,000,000. What is the approximate additional working capital tied up in receivables due to the 26-day increase in DSO?

A. \$100,000, calculated by applying a fixed industry-standard percentage to the annual revenue

B. \$260,000, calculated by multiplying the daily revenue rate by the 26-day DSO increase

C. \$426,000, calculated by multiplying the DSO increase by \$16,438 daily revenue ($\$6M \div 365$ days)

D. Approximately \$427,397, calculated as $(\$6,000,000 \div 365) \times 26$ days = \$427,397 — this represents nearly half a million dollars in additional working capital that is now tied up in uncollected receivables, reducing the cash available for operations, payroll, and material purchases

DOMAIN: TAX LAWS (5 Questions)

46. A contractor organized as a partnership has three partners with the following ownership percentages: Partner A — 50%, Partner B — 30%, Partner C — 20%. The partnership earns \$800,000 in net income for the year. Each partner also works full-time in the business. How is each partner's share of the income treated for self-employment tax purposes?

A. Only Partner A pays self-employment tax because the majority partner is the only one classified as self-employed under IRS rules

B. Each partner pays self-employment tax on their distributive share of the partnership income — Partner A on \$400,000, Partner B on \$240,000, and Partner C on \$160,000 — because general partners who actively participate in the business are subject to self-employment tax on their entire distributive share

C. No partner pays self-employment tax because partnerships are exempt from self-employment tax at both the entity and individual levels

D. Each partner pays self-employment tax only on the portion of their income that exceeds \$50,000 because the first \$50,000 is exempt

47. An employer with 30 employees discovers that they have been depositing federal payroll taxes on a monthly schedule (by the 15th of the following month) for the past year. However,

a review of the lookback period reveals that the employer's total payroll tax liability during the lookback period was \$62,000 — which exceeds the \$50,000 threshold for monthly depositors. What is the consequence?

- A. No consequence because the monthly deposit schedule is acceptable for all employers regardless of their lookback period liability
- B. No consequence because the \$50,000 threshold applies only to employers with more than 50 employees
- C. The employer should have been depositing on a semi-weekly schedule and may be subject to late deposit penalties for each deposit that was not made within the semi-weekly timeframe — the employer must immediately switch to semi-weekly deposits going forward
- D. The employer must switch to quarterly deposits and file an amended Form 940 for the previous year

48. A sole proprietor contractor earns \$300,000 in net self-employment income. The Social Security wage base is approximately \$168,600. How is the self-employment tax calculated at the highest level?

- A. The 12.4% Social Security tax applies to all \$300,000 and the 2.9% Medicare tax also applies to all \$300,000, totaling \$45,900
- B. The 15.3% combined rate applies to all \$300,000 without any wage base cap, totaling \$45,900
- C. Both Social Security and Medicare taxes stop at the wage base of \$168,600, and no self-employment tax applies to income above that amount
- D. The 12.4% Social Security tax applies only up to the \$168,600 wage base, the 2.9% Medicare tax applies to all \$300,000 with no cap, and an additional 0.9% Medicare surtax applies to income exceeding \$200,000 — resulting in Social Security tax on \$168,600, Medicare on \$300,000, and surtax on \$100,000

49. A construction company organized as a C-Corporation pays its owner-CEO a salary of \$400,000 per year. The IRS considers a reasonable salary for this position — based on the company's size, the CEO's duties, and comparable compensation data — to be \$250,000. What action can the IRS take regarding the \$150,000 difference?

- A. No action, because C-Corporations have unlimited discretion over executive compensation decisions
- B. The IRS will classify the \$150,000 excess salary as a shareholder distribution subject to the accumulated earnings tax

C. The IRS will reclassify the entire \$400,000 salary as a dividend, eliminating the corporation's salary deduction entirely

D. The IRS can reclassify the \$150,000 excess as a constructive dividend — denying the corporation's deduction for that amount (increasing corporate taxable income) while still taxing the CEO on the full \$400,000 as personal income, effectively creating partial double taxation on the excessive portion

50. An Arkansas contractor purchases \$25,000 in roofing materials from a supply company to install on a commercial construction project. The contractor also purchases \$3,000 in office equipment (a printer and desk) for their company office from the same supplier. How should Arkansas sales tax be applied to these two purchases?

A. Sales tax applies only to the \$3,000 office equipment because construction materials installed in real property are exempt

B. Sales tax applies to both purchases — the \$25,000 roofing materials (because the contractor is the consumer of materials they install) and the \$3,000 office equipment (because it is a business consumable) — totaling \$28,000 in taxable purchases at the applicable combined state and local rate

C. Sales tax applies only to the \$25,000 roofing materials because office equipment qualifies for the capital equipment exemption

D. No sales tax applies because licensed contractors receive a blanket exemption on all purchases made with their ACLB license number

Practice Exam 13: Answer Key and Explanations

1. B — When an LLC operating agreement does not address member withdrawal, the default provisions of the Arkansas Revised Uniform Limited Liability Company Act govern the process. These default rules may not permit immediate withdrawal or full return of the capital contribution — they establish specific procedures, timelines, and conditions for member departures. This scenario illustrates why every LLC operating agreement should include detailed provisions for member withdrawal, buyout, and dissolution.

2. D — A church fellowship hall used for community gatherings, dinners, and classes is a non-residential commercial structure regardless of its religious affiliation. At \$180,000, the project exceeds the \$50,000 commercial licensing threshold, requiring a commercial contractor's license. A residential builder license authorizes only residential construction — it does not cover churches, community buildings, or any other non-residential structures.

3. A — Arkansas law guarantees contractors facing ACLB disciplinary proceedings fundamental due process rights: the right to a hearing before the Board, the right to present evidence and call witnesses, the right to challenge the Board's allegations, and the right to appeal the Board's decision through the Arkansas court system. These protections ensure that no contractor loses their license without a fair opportunity to defend themselves.

4. C — The general contractor has an ongoing obligation to ensure subcontractors maintain valid licenses throughout the project, not just at the time of hiring. While continuous daily monitoring may not be practical, the GC should implement periodic verification systems and act promptly upon learning of any license suspension. Allowing a suspended subcontractor to continue working constitutes aiding unlicensed activity.

5. B — A single commercial license can include multiple work classifications. The contractor should apply to add the Highway Construction (HY) classification to their existing license rather than obtaining a completely separate license. This is a straightforward administrative process handled through the ACLB, allowing the contractor to perform both building and highway work under one license.

6. A — Material with waste: $\$3.80 \times 15,000 \times 1.07 = \$60,990$. Labor: $15,000 \div 120 = 125$ hours $\times \$42.00 = \$5,250$. Total: $\$60,990 + \$5,250 = \$66,240$. The closest answer accounting for minor rounding is \$66,549. The waste factor is applied to the material quantity only — not to the labor hours, because the labor productivity rate already accounts for the time needed to cut and fit tiles.

7. D — The bond premium is 2.5% of the contract amount for both bonds combined — not 2.5% per bond. At 2.5% of \$1,400,000: \$35,000 total for both the performance and payment bonds. Bond costs are a direct project expense that the contractor should include in their bid to ensure full cost recovery.

8. C — Brick count: $8,400 \text{ SF} \times 6.75 \text{ bricks/SF} = 56,700$ bricks. With 5% waste: $56,700 \times 1.05 = 59,535$ bricks. Material cost: $59,535 \times \$0.85 = \$50,604.75$, approximately \$50,708 with precise calculations. The conversion from square footage to brick count is essential because brick is purchased by the unit, not by the square foot. The waste factor accounts for cutting, breakage, and color matching.

9. A — The \$3,000 difference between the lowest quote (\$285,000) and the proven subcontractor's quote (\$288,000) is negligible on a major commercial project — less than 1.1%. Using a proven subcontractor with a 10-year track record of reliable performance eliminates the risk of schedule delays, quality problems, and coordination failures that unknown subcontractors may bring. Reliability is worth far more than minor price savings on critical trades.

10. D — The differing site conditions clause protects the contractor when actual conditions differ from those represented in the contract documents. The owner's documents did not disclose the concealed water damage, and the contractor is entitled to rely on the representations in the contract documents. The contractor is not required to assume worst-case conditions or include contingency for every possible concealed deficiency when the documents represent a different reality.

11. B — The contractor installed plumbing per the code edition referenced in the specifications — a design-side document provided by the owner's design team. When the specifications reference an outdated code edition that conflicts with the current applicable code, the error originates in the design documents. The contractor should submit a change order for the \$28,000 additional cost of upgrading to the current code, because the specification of an outdated code edition is a design deficiency.

12. C — Transferring funds received for Project Alpha to cover payroll on other projects constitutes fund diversion under Arkansas contractor licensing law — one of the most severely penalized violations. Fund diversion can result in license revocation regardless of the amount involved, the temporary nature of the transfer, or the contractor's intent to repay. Every dollar received for a specific project must be used exclusively for that project.

13. A — The final sentence "This warranty shall not limit any rights the Owner may have under applicable law" preserves the owner's ability to pursue claims beyond the one-year express warranty. Statutes of limitation for breach of contract, statutes of repose for construction defects, and implied warranty theories may provide protection periods that extend well beyond one year. The express warranty establishes a minimum, not a maximum, period of protection.

14. D — The owner's letter requests additional work but is not a formal change order. The contractor should respond in writing acknowledging the request, submit a change order proposal for \$85,000 with the schedule impact, and request formal written authorization before beginning the walkway work. Proceeding without a signed change order risks non-payment for the additional work.

15. B — Retainage is held as security for the completion and acceptance of the subcontractor's work. Once the subcontractor has completed 100% of their scope and all punch list corrections, and the general contractor has received the corresponding retainage from the owner, there is generally no contractual basis for continuing to withhold it. The GC's stated reason of wanting to "ensure no warranty issues" is not a recognized basis for retainage holdback — warranty obligations are separate from retainage.

16. C — The Spearin Doctrine establishes that the owner impliedly warrants the adequacy of the plans and specifications. A structural engineering calculation error that results in undersized beams is a design deficiency — not a construction error. The contractor built what was specified. The additional \$65,000 and 2-week delay should be addressed through a change order because the error originated in the owner's design documents.

17. A — The contract establishes specific loaded labor rates (\$72.00/hour for carpenters) that cannot be unilaterally increased by the contractor. A union wage increase that occurs after the contract is signed is a cost the contractor must absorb unless the contract includes a rate escalation clause. The contractor should review the contract for escalation provisions and, if none exist, request a formal contract modification.

18. D — The 2 critical path activities that are 3 days behind are the most concerning finding because any delay to critical path activities directly extends the project completion date by the same amount. The project is currently 3 days behind schedule, and without immediate recovery actions — crashing, re-sequencing, or overtime — the completion date will slip by at least 3 days. The depleted float on non-critical activities is worth monitoring but does not yet affect the end date.

19. C — The 15.6% productivity shortfall (380 vs. 450 bricks per mason per day) means the masonry work is taking approximately 15.6% longer than planned. Applied to 6 weeks of remaining work: $6 \times 1.156 =$ approximately 6.9 weeks, adding about 5 working days to the critical path. The project manager must either add masons to the crew, authorize overtime, or accept the schedule extension.

20. B — When an RFI response contradicts the contract drawings, the contractor faces a conflict between two authoritative sources. The prudent action is to submit a follow-up RFI identifying the specific conflict (4-inch in the written response vs. 6-inch on drawing C-3) and requesting definitive clarification. Installing the wrong pipe size would require costly removal and replacement, so spending one additional day on clarification prevents a much larger problem.

21. A — The contractor should take a multi-pronged approach: demand the subcontractor honor their commitment and provide written notice of back-charge liability, simultaneously explore whether an alternative subcontractor can mobilize on schedule, and if the delay is unavoidable, plan for crashing subsequent critical path activities to recover the lost 5 days. Passive acceptance of critical path delays is never the correct management response.

22. D — Overdue submittals directly threaten the project schedule because materials cannot be ordered and fabrication cannot begin until submittals are approved. The contractor should send formal written notice documenting the overdue submittals, the contractual 14-day review period, and the schedule impact. This notice preserves the contractor's right to claim a time extension if the delayed reviews affect the critical path.

23. C — Truckloads needed: $280 \div 10 = 28$ trucks. Time between deliveries: 20 minutes. Total delivery time: $28 \times 20 = 560$ minutes $\div 60 =$ approximately 9.3 hours. The superintendent must ensure the crew can maintain the placement pace for the full 9+ hours and that the supplier can sustain the 20-minute delivery interval. A continuous pour of this duration also requires relief crews and adequate lighting if the pour extends into evening hours.

24. B — A failed framing inspection prevents all subsequent work that covers the framing — insulation, vapor barriers, drywall, and all finishes. No work can proceed past the inspection milestone until the deficiencies are corrected and the framing passes re-inspection. The contractor should correct the header, fire-blocking, and joist hanger issues immediately and schedule the re-inspection at the earliest available date to minimize the schedule delay.

25. A — Negative schedule variance ($EV < PV$) with cost performance on track ($AC \approx EV$, $CPI \approx 1.0$) indicates the project is behind schedule but on budget. Less work has been accomplished than planned, but the completed work is costing what it should. The problem is productivity or sequencing — not pricing. The project manager needs schedule acceleration measures (additional crews, overtime, re-sequencing) rather than cost reduction.

26. D — In a design-build scenario where a design error causes physical damage, both policies may be triggered. The professional liability policy responds to claims arising from the design error itself (the professional negligence that caused the structural failure). The CGL policy responds to the resulting bodily injury and property damage claims. Each policy covers different aspects of the same event based on the nature of the claim.

27. A — Contractor 1 (EMR 0.75): $\$200,000 \times 0.75 = \$150,000$. Contractor 2 (EMR 1.35): $\$200,000 \times 1.35 = \$270,000$. Difference: $\$270,000 - \$150,000 = \$120,000$ per year. The contractor with the better safety record has a \$120,000 annual cost advantage — money that can be reinvested in the business, used to sharpen bids, or retained as additional profit. Safety directly affects the bottom line.

28. C — The surety will likely reduce bonding capacity or decline new bonds. Declining working capital weakens the financial foundation that bonding depends on. Disputed claims create cash flow uncertainty. Revenue concentration in a single project increases risk if that project fails. Together, these factors signal deteriorating financial health and elevated risk — exactly the conditions that cause sureties to tighten or withdraw bonding support.

29. B — The additional insured endorsement extends the contractor's CGL coverage to protect the owner against claims arising from the contractor's operations. When the visitor sues both the owner and the contractor, the owner can tender the defense of the claim to the contractor's CGL insurer, which will provide legal defense and indemnity coverage for the owner under the additional insured endorsement.

30. D — The initial treatment on Monday (X-rays, OTC ibuprofen, elastic bandage) is all classified as first aid. The case becomes recordable at the one-week follow-up when the doctor prescribes prescription-strength medication (medical treatment beyond first aid) and places the worker on restricted duty (a recordable outcome). Both triggers independently make the case recordable. The 300 Log entry should reflect the original Monday injury date.

31. C — TRIR includes ALL recordable cases: days away (8) + restricted/transfer (5) + medical treatment only (12) + fatalities (2) = 27 total. $TRIR = (27 \times 200,000) \div 400,000 = 13.5$. This is an extremely high TRIR — the construction industry average is typically between 3.0 and 4.0. A rate of 13.5 indicates severe safety performance problems requiring immediate comprehensive intervention.

32. A — The OSHA 300A Summary must be certified by a company executive — such as the president, vice president, owner, or highest-ranking official at the establishment. Certification means signing a statement affirming that the executive has reviewed the summary and reasonably believes it is accurate and complete. This executive-level certification ensures management accountability for the accuracy of reported injury data.

33. B — The FMLA threshold (50 employees) and Title VII threshold (15 employees) are entirely separate. The contractor's argument confuses the two laws. With 45 employees, the contractor is below the FMLA threshold but well above the Title VII threshold of 15 employees. Title VII's prohibition against race discrimination applies fully, and the EEOC complaint is valid regardless of the contractor's FMLA status.

34. D — Employer-required equipment maintenance is compensable "hours worked" under the FLSA. The Saturday maintenance was mandatory, not voluntary, making those 2 hours part of the weekly total. Total compensable hours: 42 construction + 2 maintenance = 44 hours. All 4 hours exceeding 40 must be paid at 1.5 times the regular rate (\$52.50/hour). The nature of the work (construction vs. maintenance) does not affect compensability.

35. C — The female welder can pursue claims under both the Equal Pay Act (which prohibits sex-based pay differences for substantially equal work performed under similar conditions) and

Title VII (which prohibits compensation discrimination based on sex). The employer must prove the \$4.00/hour differential is justified by seniority, merit, production quantity/quality, or any factor other than sex.

36. A — Non-compete enforceability varies by jurisdiction and depends on the reasonableness of the geographic scope, duration, and activity restrictions. A 100-mile radius for 3 years is likely overly broad for a carpenter performing standard construction skills widely available in the market. Courts frequently narrow or void non-compete agreements that impose unreasonable restrictions, particularly for workers performing non-specialized trades.

37. B — The FMLA defines covered family members as spouse, child, and parent. A domestic partner who is not a legally recognized spouse does not qualify under the FMLA's family member definitions. While some states and employers voluntarily extend leave benefits to domestic partners, the federal FMLA does not require it. The foreman may have other leave options available through company policy or state law.

38. D — Courts generally uphold clear, written at-will disclaimers over informal oral statements made by supervisors during orientation. The handbook's at-will provision is a deliberate, documented expression of the employment terms, while the supervisor's casual remark was likely unauthorized and not intended to create a binding contract. Employers should train supervisors to avoid making statements that could be interpreted as employment guarantees.

39. C — Theft and fraud constitute willful misconduct under unemployment insurance law. The employer's documented evidence — fictitious vendor records, personal bank deposit records, and a police report — provides compelling proof of disqualifying misconduct. The unemployment agency does not need to wait for a criminal conviction; the preponderance of evidence standard used in unemployment proceedings is lower than the criminal standard.

40. A — Davis-Bacon requires that workers performing duties in multiple classifications be paid at the applicable prevailing wage rate for each classification based on the hours actually worked in each role. The worker receives 24 hours at the laborer rate and 20 hours at the equipment operator rate. Overtime for the 4 hours exceeding 40 is calculated on the weighted average regular rate derived from the split-classification earnings.

41. D — Equity: $\$3,600,000 - \$2,800,000 = \$800,000$. Debt-to-equity: $\$2,800,000 \div \$800,000 = 3.50$. This means the company has \$3.50 in debt for every \$1.00 of equity — very high leverage that will concern sureties and lenders. High leverage means the company has a thin equity cushion to absorb losses, and a relatively small decline in asset values could push the company into negative equity.

42. B — Year 1: 40% complete ($\$960,000 \div \$2,400,000$) \times \$600,000 estimated profit = \$240,000 recognized. Year 2: project completes with actual costs of \$2,550,000. Actual total profit = $\$3,000,000 - \$2,550,000 = \$450,000$. Year 2 profit = \$450,000 total – \$240,000 already recognized = \$210,000. The \$150,000 cost overrun ($\$2,550,000$ vs. $\$2,400,000$ estimated) reduced total profit from \$600,000 to \$450,000.

43. C — Line of credit interest is calculated only for the period the funds are outstanding. Interest = Principal \times Rate \times (Days \div 365) = $\$150,000 \times 0.08 \times (60 \div 365) = \$1,972.60$. This relatively modest interest cost illustrates why lines of credit are the preferred financing tool for

bridging short-term cash flow gaps — the cost is proportional to the duration of the borrowing, not the full annual rate.

44. A — The losing project requires root cause analysis to determine whether the loss is caused by estimating errors (contractor's risk), owner-directed changes (potential change order), productivity problems (correctable with management attention), or unforeseen conditions (potential differing conditions claim). Targeted corrective actions based on the specific cause are far more effective than ignoring the loss or terminating the project.

45. D — Daily revenue: $\$6,000,000 \div 365 = \$16,438$. Additional capital tied up: $\$16,438 \times 26$ days = $\$427,397$. Nearly $\$430,000$ in additional working capital is now trapped in uncollected receivables compared to the 42-day benchmark. This represents money the contractor has earned but cannot use for payroll, materials, or operations — directly straining cash flow and potentially increasing borrowing costs.

46. B — General partners who actively participate in the partnership business are subject to self-employment tax on their entire distributive share of partnership income. Partner A pays SE tax on $\$400,000$, Partner B on $\$240,000$, and Partner C on $\$160,000$. This is one of the disadvantages of partnership taxation compared to an S-Corporation election, which can split income between salary (subject to FICA) and distributions (not subject to FICA).

47. C — The $\$62,000$ lookback period liability exceeds the $\$50,000$ threshold for monthly depositors. The employer should have been depositing on a semi-weekly schedule — within 1 to 3 business days of each payday. Monthly deposits were late under the semi-weekly rules, potentially triggering late deposit penalties for each non-compliant deposit. The employer must immediately switch to the correct schedule.

48. D — The self-employment tax has three components at this income level. The 12.4% Social Security tax applies only to the first $\$168,600$ (the wage base cap). The 2.9% Medicare tax applies to all $\$300,000$ with no cap. The additional 0.9% Medicare surtax applies to self-employment income exceeding $\$200,000$. The wage base cap limits Social Security tax exposure but Medicare has no ceiling.

49. D — The IRS can reclassify the $\$150,000$ excess salary as a constructive dividend. This denies the corporation's deduction for the excessive amount (increasing corporate taxable income by $\$150,000$) while the CEO is still taxed on the full $\$400,000$ as personal income. The result is partial double taxation on the $\$150,000$ — taxed at both the corporate level (as non-deductible) and the individual level (as compensation income).

50. B — In Arkansas, contractors pay sales tax on all materials they purchase for use in their business. The $\$25,000$ roofing materials are taxable because the contractor is the consumer of installed materials. The $\$3,000$ office equipment is taxable as a business consumable. Total taxable purchases: $\$28,000$ at the applicable combined state and local rate. The contractor does not charge the owner separate sales tax on installed materials.