

PRACTICE EXAM 13: MISSISSIPPI LAW AND BUSINESS MANAGEMENT SIMULATION (50 QUESTIONS)

Time Allowed: 2 Hours | 50 Questions | **Passing Score:** 70% (35 Correct)

This is an openbook examination. You may use the NASCLA Contractors Guide to Business, Law and Project Management, Mississippi 6th Edition and a silent, nonprinting, nonprogrammable calculator.

1. A contractor's project has a contract price of \$2,100,000 and an original estimated total cost of \$1,785,000. At yearend, actual costs incurred are \$1,428,000 and the revised estimated cost to complete is \$740,000. The contractor's CPA uses the percentageofcompletion method. What is the projected profit, and should the CPA recognize a loss provision?

A. Projected profit is \$315,000, identical to the original estimate, and no loss provision is needed because the project is performing on budget

B. Projected profit is \$672,000 and no loss provision is needed because the project is ahead of schedule and under budget

C. Projected total cost is \$2,168,000 ($\$1,428,000 + \$740,000$), which exceeds the contract price of \$2,100,000 by \$68,000 — the CPA must recognize the full \$68,000 projected loss immediately, because GAAP requires immediate recognition of the entire anticipated loss as soon as a loss is projected, regardless of completion percentage

D. The projected loss cannot be determined until the project is 100% complete because the percentageofcompletion method does not permit interim loss recognition

2. A contractor operating as a sole proprietor earns \$280,000 in net business income. The contractor's accountant calculates the selfemployment tax. What are the two components of selfemployment tax, and on what base is the tax calculated?

A. Selfemployment tax consists of Social Security tax (12.4% up to the wage base) and Medicare tax (2.9% on all earnings), calculated on 92.35% of net selfemployment income — the 92.35% factor represents a deduction equivalent to the employer's share of FICA, mirroring the treatment of W2 employees

B. Selfemployment tax consists of federal income tax (21%) and state income tax (5%), calculated on 100% of gross business revenue before any deductions

C. Selfemployment tax consists of only the Medicare component (2.9%) calculated on the first \$160,000 of income, because sole proprietors are exempt from the Social Security portion

D. Selfemployment tax consists of FUTA (6.0%) and SUTA (2.7%), calculated on the first \$7,000 of net income per calendar quarter

3. A contractor signs a subcontract with a roofing company for \$220,000. The subcontract requires the roofer to name the general contractor as an additional insured on the roofer's CGL policy. The roofer provides a certificate of insurance showing the GC as additional insured, but the actual policy does not include the additional insured endorsement — the certificate was issued in error by the insurance agent. During the project, a roofing worker drops a bundle of shingles that injures a pedestrian. The pedestrian sues both the roofer and the general contractor. When the GC tenders the claim to the roofer's insurer, the insurer denies coverage for the GC because no additional insured endorsement exists on the policy. What lesson does this scenario illustrate?

A. Certificates of insurance are legally binding contracts that create coverage regardless of the underlying policy terms

B. The roofer's insurance agent is personally liable for the full amount of the pedestrian's claim because the agent issued the erroneous certificate

C. The general contractor's own CGL policy is void because the contractor relied on the roofer's coverage instead of maintaining their own

D. A certificate of insurance is not a substitute for the actual policy endorsement — certificates are informational documents that summarize coverage but do not create, modify, or extend coverage; the general contractor should verify that the actual additional insured endorsement has been added to the subcontractor's policy, not just rely on the certificate

4. A contractor's project involves installing a guardrail system at the perimeter of a commercial roof. The contractor's safety director specifies that the guardrail top rail must be installed

between 39 and 45 inches above the walking surface. A worker installs the top rail at 36 inches, claiming it "looks about right." Under OSHA standards, does this guardrail comply?

A. Yes, because OSHA allows guardrail top rails to be installed at any height between 30 and 48 inches above the walking surface

B. No, because OSHA requires the top rail to be approximately 42 inches above the walking surface (with a range of 39 to 45 inches for general construction guardrails) — the 36inch installation falls below the minimum and does not provide adequate fall protection

C. Yes, because a 36inch guardrail meets the minimum height requirement for construction guardrails under OSHA Subpart M

D. No, but only because the guardrail is on a commercial roof — if the same guardrail were on a scaffold, the 36inch height would be compliant

5. A contractor completes a \$175,000 residential remodeling project. The homeowner refuses to pay the final \$22,000, claiming dissatisfaction with the paint color in two bedrooms — even though the paint matches the color specified in the contract. The contractor wants to file a construction lien. Before filing, what must the contractor verify regarding the lien deadline?

A. The contractor must verify that the lien is filed within 30 days of substantial completion, because Mississippi imposes a universal 30day deadline for all residential construction liens

B. The contractor must verify that the total project value exceeds \$200,000, because Mississippi liens are only available for projects above this threshold

C. The contractor must verify the applicable statutory filing deadline under Mississippi lien law — the lien must be filed with the Chancery Clerk of the county where the property is located within the time period prescribed by statute from the last date labor or materials were furnished; missing this deadline permanently extinguishes the lien right regardless of the merits of the claim

D. The contractor must verify that the homeowner has been given a 90day written cure period before any lien can be filed, because Mississippi residential liens require mandatory prefiling mediation

6. A contractor is estimating a project and needs to calculate the selling price that will produce a 14% profit margin on selling price. The total estimated cost is \$830,000. The estimator uses two methods: Method 1 multiplies \$830,000 by 1.14. Method 2 divides \$830,000 by 0.86. Which method is correct?

A. Method 2 is correct — dividing by 0.86 (which is $1 - 0.14$) produces a selling price where profit represents exactly 14% of selling price; Method 1 produces only a 14% markup on cost, which yields approximately 12.3% margin on selling price

B. Method 1 is correct because multiplying by 1.14 directly adds 14% to the cost base, which is mathematically identical to achieving a 14% margin on selling price

C. Both methods are correct and produce identical selling prices because markup and margin calculations always converge at percentages below 15%

D. Neither method is correct — the proper calculation multiplies cost by 0.86 and then adds the result to the original cost

7. A contractor's project involves a 20-foot-deep excavation for a building basement in an urban area. The competent person classifies the soil as Type C — the least stable classification. Adjacent to the excavation is a 3-story occupied office building with a foundation that extends 8 feet below grade. What additional factor must the competent person consider beyond the standard Type C protective system requirements?

A. The color and texture of the soil, because darker soils require steeper slopes than lighter soils under OSHA's visual classification protocol

B. The ambient air temperature, because OSHA requires enhanced protective systems when temperatures exceed 90°F

C. The depth of the water table only, because groundwater is the sole factor that modifies Type C protective system requirements

D. The surcharge loading from the adjacent building — the weight of the 3-story building and its foundation creates additional lateral pressure on the excavation walls, which the competent person must account for when designing the protective system, potentially requiring even more conservative measures than standard Type C protection

8. A contractor operating as an LLC with S corporation tax election has two shareholder-employees. Shareholder A receives a salary of \$120,000 and Shareholder B receives a salary of \$80,000. The company's net income after salaries is \$200,000, distributed 50/50. What is each shareholder's total income from the company, and how is it taxed?

A. Shareholder A: \$220,000 total, all subject to self-employment tax; Shareholder B: \$180,000 total, all subject to self-employment tax

B. Shareholder A receives \$120,000 salary (subject to payroll taxes) plus \$100,000 distribution (subject to income tax but not payroll or selfemployment taxes); Shareholder B receives \$80,000 salary (subject to payroll taxes) plus \$100,000 distribution (subject to income tax but not payroll or selfemployment taxes)

C. Both shareholders receive \$200,000 each because S corporation income is always divided equally regardless of the salary differential

D. Shareholder A: \$320,000 total; Shareholder B: \$80,000 total, because the higher-salaried shareholder receives all distributions under S corporation priority rules

9. A contractor's project has been substantially completed and the architect has issued the certificate of substantial completion. The owner begins occupying the building. Three weeks after occupancy, a severe rainstorm reveals multiple roof leaks that damage the owner's newly installed furniture and equipment. The owner demands the contractor repair the roof and pay for the damaged furniture. What are the contractor's obligations?

A. The contractor has no obligation because substantial completion transfers all risk to the owner, and any damage after that point is the owner's responsibility

B. The contractor is obligated to repair the roof and pay for the furniture because substantial completion does not relieve the contractor of liability for any postcompletion damage

C. The contractor is obligated to repair the roof leaks under the warranty because defective workmanship is covered — but the damaged furniture is likely the owner's responsibility to claim under the owner's own property insurance, because the contractor's warranty covers repair of defective work, not consequential damages to the owner's property unless the contract specifically provides otherwise

D. The contractor is obligated to pay for the furniture only but not to repair the roof because the warranty covers only consequential damages, not the defective work itself

10. A contractor purchases \$200,000 worth of lumber from an out-of-state supplier in Alabama. Alabama does not charge sales tax because the materials are shipped to Mississippi. The contractor uses the lumber on a Mississippi commercial project. What is the contractor's Mississippi tax obligation?

A. The contractor owes Mississippi use tax of 7% (\$14,000) on the \$200,000 purchase because materials purchased out-of-state and used in Mississippi are subject to use tax at the same rate as the state sales tax, with credit given for any sales tax actually paid to the originating state

B. No Mississippi tax is owed because the purchase was made in Alabama and Alabama's tax laws exclusively govern the transaction

C. The contractor owes Mississippi income tax of 5% on the \$200,000 because outofstate material purchases are classified as taxable business income

D. The contractor owes Mississippi use tax of 3.5% (half the standard rate) because outofstate purchases are taxed at a reduced rate to encourage interstate commerce

11. A contractor's project is governed by a contract with a specific document hierarchy: (1) change orders, (2) agreement, (3) supplementary conditions, (4) general conditions, (5) specifications, (6) drawings. The specifications state that all interior doors shall be solid core. The drawings show hollow core doors on the door schedule. Which document controls, and what should the contractor install?

A. The drawings control because the door schedule is a detailed representation that overrides the general specification language

B. The contractor should install the less expensive option (hollow core) because cost efficiency takes precedence when documents conflict

C. The contractor should submit an RFI but is not required to follow the hierarchy because document precedence clauses are advisory only

D. The specifications control because they rank higher than drawings in the stated order of precedence — the contractor should install solid core doors as specified and submit an RFI documenting the conflict for the architect's records

12. A contractor's project involves a \$3,200,000 commercial building. The contract requires a performance bond at 100% of the contract value. Midway through construction, the contractor encounters severe financial difficulties and notifies the surety that they may be unable to complete the project. The surety investigates and determines the contractor cannot finish. What are the surety's primary options?

A. The surety's only option is to pay the owner the full bond amount of \$3,200,000 and walk away from the project

B. The surety can finance the defaulting contractor to help them complete the work, tender a replacement contractor to finish the project, or negotiate a settlement with the owner to pay the cost of completion up to the bond amount — the surety will choose the option that minimizes its financial exposure while ensuring the owner receives the completed project

C. The surety can cancel the bond and refund the premium to the contractor because the contractor's financial difficulties constitute a force majeure event

D. The surety must take over the project as the general contractor and complete the work using the surety's own construction forces

13. A contractor's employee is working on a commercial roof at 32 feet above grade. The employee is wearing a personal fall arrest system with a 6foot lanyard and no deceleration device. If the employee falls, what is the potential problem with this system configuration?

A. The 6foot lanyard without a deceleration device may allow the employee to fall a total distance that exceeds the available clearance below the working surface — the fall distance includes the lanyard length (6 feet), the deceleration distance (up to 3.5 feet with a shock absorber, but without one the arrest forces are much higher), and the worker's height, potentially resulting in the worker striking the ground or a lower level before the system arrests the fall

B. There is no problem because a 6foot lanyard is the standard configuration for all personal fall arrest systems regardless of the height above grade

C. The only problem is that the lanyard color does not match the harness color, which violates OSHA's PPE coordination requirements

D. The problem is that the employee should be using a guardrail system instead of a PFAS at heights above 30 feet because PFAS are only approved for heights between 6 and 30 feet

14. A contractor's project manager receives a verbal directive from the project owner to install additional electrical outlets in a conference room — 8 duplex outlets beyond what the drawings show. The additional outlets will cost approximately \$4,800 for materials, labor, and the electrical subcontractor's work. The project manager directs the electrician to install the outlets without preparing a change order. At project closeout, the owner disputes the \$4,800 charge, claiming they never authorized the additional cost. What contract administration failure occurred?

A. The electrical subcontractor should have refused to install the outlets without a written purchase order from the general contractor

B. The project manager failed to follow the change order process — no written change order was prepared documenting the scope, cost, and authorization before the work was performed, leaving the contractor without documentation to support the \$4,800 charge when the owner disputes it

C. The project owner should have submitted a formal RFI requesting the additional outlets rather than providing a verbal directive

D. The architect should have been present to witness the verbal directive and provide thirdparty verification of the owner's authorization

15. A contractor operating as a Ccorporation retains \$500,000 in aftertax corporate profits over several years. The IRS examines the company and questions whether the accumulated earnings are being retained for a legitimate business purpose. Under the accumulated earnings tax provisions, what risk does the contractor face?

A. No risk because Ccorporations can retain unlimited earnings without any tax consequences regardless of the business purpose

B. No risk because the accumulated earnings tax applies only to corporations with more than 100 shareholders

C. The risk of a 10% flat penalty on all retained earnings exceeding \$100,000, applied retroactively to all prior years of accumulation

D. The IRS may impose an accumulated earnings tax on retained earnings that exceed the reasonable needs of the business — if the contractor cannot demonstrate that the accumulated profits are being retained for specific, legitimate business purposes (such as equipment purchases, facility expansion, or working capital requirements), an additional penalty tax may be assessed

16. A contractor's project involves work on a commercial building adjacent to a public sidewalk. The contractor installs a temporary pedestrian protection canopy over the sidewalk to shield pedestrians from falling debris. During a windstorm, the canopy partially detaches and a piece of plywood from the canopy strikes and injures a pedestrian. What insurance responds, and who is likely liable?

A. The building owner's property insurance responds because the canopy was attached to the owner's building, making it the building owner's responsibility

B. No insurance responds because windstorm damage to temporary structures is classified as an act of God excluded from all construction policies

C. The contractor's CGL policy responds — the injured pedestrian is a third party who suffered bodily injury from the contractor's temporary protection structure, which is a Coverage A claim; the contractor is likely liable because they installed and maintained the canopy and had a duty to ensure it was adequately secured against foreseeable weather conditions

D. The contractor's builder's risk policy responds because the canopy is a temporary construction structure covered under the builder's risk policy

17. A contractor discovers that their annual overhead rate has been significantly underestimated. The actual overhead for the year is \$408,000, but the rate used in bidding was based on projected overhead of \$350,000. The annual direct cost volume is \$2,000,000. What is the actual overhead rate versus the applied rate, and what is the annual unrecovered overhead?

A. Actual rate is 20.4% ($\$408,000 \div \$2,000,000$) versus the applied rate of 17.5% ($\$350,000 \div \$2,000,000$) — the 2.9% difference multiplied by \$2,000,000 in direct cost volume produces \$58,000 in unrecovered overhead that comes directly out of the company's profit

B. Actual rate is 17.5% and applied rate is 20.4%, meaning the company overcharged overhead by \$58,000 during the year

C. The difference is \$58,000 but this amount is automatically recovered through the yearend accounting adjustment process

D. The rates are identical because overhead rates are fixed at the beginning of each year and cannot change regardless of actual expenses

18. A contractor's project schedule shows that the concrete foundation must be poured before the structural steel can be erected, and the steel must be erected before the roofing can begin. The foundation pour takes 10 days, steel erection takes 15 days, and roofing takes 8 days. All relationships are finish-to-start with zero lag. The project owner requests that the contractor add a 5-day lag between the foundation pour and steel erection to allow for concrete curing. What is the impact on the total project duration for these three activities?

A. No impact because the lag occurs between activities and does not add to any individual activity's duration

B. The total duration increases from 33 days to 38 days — the 5-day lag adds 5 days to the overall sequence because the steel erection cannot begin until 5 days after the foundation pour is complete, making the total: 10 (foundation) + 5 (lag) + 15 (steel) + 8 (roofing) = 38 days

C. The total duration decreases to 28 days because the lag allows overlapping of foundation and steel activities

D. The total duration increases to 43 days because the lag is added to both the foundation and steel activity durations

19. A contractor's project involves installing a commercial fire suppression system. The fire suppression subcontractor completes the installation and the system passes the required fire marshal inspection. Two months after project completion, the fire suppression system fails

during an actual fire event, resulting in \$400,000 in fire damage to the building. Investigation reveals the system failed because of a defective pipe fitting that was not detectable during the preoccupancy inspection. Who bears financial responsibility?

- A. The building inspector who performed the preoccupancy inspection bears sole responsibility because the inspection should have identified the defective fitting
- B. The project owner bears sole responsibility because they accepted the system at substantial completion and assumed all risk of system failure
- C. The fire marshal bears financial responsibility because the system passed their inspection, and an approved inspection creates a guarantee of system performance
- D. The fire suppression subcontractor likely bears primary responsibility for the defective installation — passing an inspection does not absolve the installer of liability for defective workmanship, and the contractor's warranty obligation covers defects that manifest during the warranty period regardless of whether they were detectable at the time of inspection

20. A contractor's financial statements are being prepared by a CPA. The CPA identifies \$65,000 in retainage receivable on a project that was completed 18 months ago but the retainage has never been collected. The contractor says "the owner just keeps delaying." How should this retainage be classified on the financial statements?

- A. As a longterm asset because the 18month collection history suggests it will not be collected within the normal operating cycle
- B. As revenue because retainage is earned income that should be recognized on the income statement regardless of collection status
- C. The CPA should evaluate the collectibility of the retainage — if collection is uncertain, the receivable may need to be reclassified from current to longterm, an allowance for doubtful accounts may need to be established, or the amount may need to be partially or fully written off, because a receivable that has been outstanding for 18 months with no progress toward collection may not meet the criteria for classification as a current asset
- D. As a current asset with no adjustment because retainage receivables are always classified as current regardless of their age

21. A contractor's employee is classified as exempt from FLSA overtime requirements under the executive exemption. To qualify for this exemption, which criteria must the employee meet?

A. The employee must receive a salary of at least the minimum threshold established by the DOL (\$684/week as of the last major update), must have as their primary duty managing the enterprise or a recognized department, must regularly direct the work of at least two fulltime employees, and must have authority to hire and fire or have their recommendations given particular weight

B. The employee must simply hold a title that includes the word "manager" or "supervisor" regardless of their actual duties or salary level

C. The employee must earn more than \$100,000 per year in total compensation, which is the sole criterion for the executive exemption

D. The employee must have a college degree and more than 10 years of construction industry experience to qualify for the executive exemption

22. A contractor's project involves installing a new elevator system in a 6story commercial building. The elevator subcontractor needs to create a floor opening on each level for the elevator shaft. OSHA requires that all floor openings be protected. What protection must be provided for these openings during the construction period before the elevator is installed?

A. No protection is required because floor openings for elevator shafts are exempt from OSHA fall protection requirements during the construction phase

B. Only a single warning sign posted on each floor is sufficient because elevator shaft openings are classified as controlled access zones

C. Temporary covers strong enough to support anticipated loads are sufficient, and no guardrails are needed because the openings will eventually be enclosed by the elevator shaft walls

D. Guardrail systems or temporary covers (or both) must be installed around all floor openings to prevent workers from falling into the shaft — the protection must be in place at all times when the openings are not actively being used for installation work, and any covers must be secured and marked to prevent displacement

23. A contractor's project manager discovers that the company has been inconsistently classifying workers as employees and independent contractors. Two workers perform identical tasks under identical working conditions, but one is classified as an employee (W2) and the other as an independent contractor (1099NEC). What risk does this inconsistency create?

A. No risk because employers have absolute discretion to classify workers differently even when they perform identical work under identical conditions

B. The inconsistency is strong evidence of misclassification — if two workers perform the same work under the same conditions, they should have the same classification; the IRS, DOL,

and state agencies use inconsistent classification of similar workers as a significant indicator that the independent contractor classification may be incorrect, exposing the company to back taxes, penalties, and reclassification of all similarly situated workers

C. The risk is limited to a \$500 IRS penalty for inconsistent recordkeeping, with no reclassification consequences

D. The inconsistency only creates risk if the company has more than 50 employees, because smaller companies are exempt from classification consistency requirements

24. A contractor's project is governed by a GMP contract at \$2,400,000. The contract includes a savings sharing provision: 70% to the owner, 30% to the contractor. Actual costs total \$2,100,000 and the contractor's fee is \$180,000. What does the owner pay?

A. \$2,400,000 because the GMP is the guaranteed amount paid regardless of actual costs

B. \$2,100,000 because the owner pays only actual costs and the fee is absorbed within the GMP

C. Total cost plus fee is \$2,280,000. Savings below GMP: $\$2,400,000 - \$2,280,000 = \$120,000$. Owner receives 70% (\$84,000 credit), contractor receives 30% (\$36,000 bonus). Owner pays: $\$2,280,000 + \$36,000 = \$2,316,000$

D. \$2,400,000 minus a flat 30% discount because the savings sharing replaces the fee structure

25. A contractor's employee sustains a serious hand injury requiring amputation of two fingers while operating a table saw on a commercial jobsite. The incident occurs at 10:00 AM on a Wednesday. Under OSHA reporting requirements, by what time must the contractor report this injury to OSHA?

A. By 10:00 AM on Thursday — amputations are one of three severe injury categories (along with inpatient hospitalizations and losses of an eye) that must be reported to OSHA within 24 hours of the employer learning of the injury

B. By 6:00 PM on Wednesday — all severe injuries must be reported within 8 hours, the same timeframe as fatalities

C. By 10:00 AM the following Wednesday — OSHA allows 7 calendar days for reporting nonfatal injuries including amputations

D. No OSHA reporting is required because the injury was caused by the employee's own operation of equipment rather than by an employercreated hazard

26. A contractor is developing the project estimate for a commercial renovation. The estimator calculates direct costs of \$440,000. The company's overhead rate is 16%. Project indirect costs are \$24,000. The contractor wants to achieve a 12% profit margin on selling price. The estimator calculates: overhead = \$70,400, total cost = \$534,400, selling price = $\$534,400 \div 0.88 = \$607,273$. A competing contractor bids \$580,000 on the same project. Should the contractor lower their bid to \$580,000 to win the project?

A. Yes, because winning work is always more important than maintaining profit margins, and the \$27,273 reduction can be absorbed through construction efficiencies

B. The contractor should evaluate whether the reduced selling price of \$580,000 still produces acceptable profit — at \$580,000, the profit would be $\$580,000 - \$534,400 = \$45,600$ (7.9% margin), which is below the target 12% but still positive; the decision depends on the contractor's workload, cash flow needs, and strategic considerations for this particular project and client relationship

C. No, because reducing the bid below the calculated selling price always results in a loss and is never a sound business decision

D. Yes, but only if the contractor reduces the overhead rate from 16% to 10% to make the lower bid work, because overhead rates should be adjusted downward to win competitive projects

27. A contractor's project involves constructing a commercial building in a flood zone. The project specifications require the first floor elevation to be 2 feet above the base flood elevation (BFE). The contractor constructs the building with the first floor at the BFE rather than 2 feet above it. After construction, a flood damages the ground floor. The owner sues the contractor for the flood damage, claiming the building was constructed below the specified elevation. What is the contractor's liability exposure?

A. The contractor is likely liable because they failed to build to the specified elevation — constructing the first floor at the BFE rather than 2 feet above it violated the contract specifications, and the resulting flood damage is a foreseeable consequence of that noncompliance

B. The contractor has no liability because floods are acts of God that cannot be attributed to construction deficiencies

C. The contractor is liable only for the cost of raising the building to the correct elevation, not for any flood damage to the building contents

D. The contractor has no liability because the owner should have verified the elevation independently before accepting the building at substantial completion

28. A contractor's project requires the contractor to submit a schedule of values with the first progress payment application. What is the purpose of the schedule of values, and why is it important?

A. The schedule of values lists the names and contact information of all subcontractors and suppliers, enabling the owner to verify their licensing status

B. The schedule of values is a marketing document that showcases the contractor's experience on similar projects to reassure the owner about the contractor's qualifications

C. The schedule of values breaks the total contract price into component line items representing each major scope of work — it establishes the basis for all progress payment applications by assigning a dollar value to each work category, enabling the architect to verify that the amount billed each month corresponds to the actual work completed in each category

D. The schedule of values is a simplified version of the project schedule that shows milestone dates without activity durations or dependencies

29. A contractor's project superintendent discovers that the HVAC subcontractor has installed ductwork using sheet metal that is a lighter gauge than specified. The specification calls for 22gauge sheet metal, but the installed ductwork is 26gauge. The subcontractor claims the lighter gauge is "just as good" and saves the contractor money. What should the superintendent do?

A. Accept the lighter gauge because the cost savings benefit the overall project budget and the subcontractor has more expertise in ductwork fabrication than the general contractor

B. Stop the installation and require the subcontractor to remove the nonconforming 26gauge ductwork and replace it with the specified 22gauge material — the contract documents require 22gauge, and the subcontractor cannot unilaterally substitute a lighter gauge regardless of their assessment of adequacy

C. Accept the 26gauge ductwork but deduct the cost difference from the subcontractor's payment as a material downgrade credit

D. Forward the subcontractor's claim to the architect and allow the installation to continue while awaiting the architect's response, because ongoing work should never be stopped for specification questions

30. A contractor's project involves a deep foundation system requiring driven piles. The pile driving operation generates significant noise and vibration that affects adjacent residential properties. Several homeowners file complaints about cracked drywall and foundation damage

they attribute to the pile driving vibrations. What proactive measure should the contractor have taken before beginning pile driving?

- A. No proactive measures are necessary because pile driving vibration damage is always classified as an act of God that exempts the contractor from liability
- B. The contractor should have obtained a blanket waiver from all adjacent property owners releasing the contractor from vibration damage liability before beginning pile driving operations
- C. The contractor should have notified the adjacent homeowners that pile driving would occur and provided earplugs to mitigate the noise impact
- D. The contractor should have conducted a preconstruction survey of adjacent properties documenting the existing condition of each structure before pile driving began — photographs, videos, and written reports of preexisting cracks and conditions create a baseline that distinguishes preexisting damage from construction-related damage, protecting the contractor from false claims

31. A contractor's project has been awarded and the preconstruction phase is underway. The contractor identifies that certain specified materials have long lead times — 16 weeks for custom structural steel and 14 weeks for specialized curtain wall components. The construction schedule shows these materials are needed in Month 4 of a 12-month project. What preconstruction action is critical?

- A. Delay ordering the materials until Month 3 to take advantage of potential price reductions and to allow the design to be finalized before committing to material purchases
- B. Order generic alternatives to the specified materials because custom materials always cause schedule delays and should be avoided
- C. Place orders for both longlead items immediately during the preconstruction phase — a 16-week lead time means the structural steel must be ordered at least 4 months before it is needed, and since it is needed in Month 4, the order must be placed before construction begins or the project will be delayed by the difference between the lead time and the available procurement window
- D. Wait until the shop drawings are approved before ordering because placing orders before shop drawing approval risks ordering incorrect materials

32. A contractor operates as a general partnership with two equal partners. The partnership earns \$500,000 in net ordinary business income. Neither partner receives a guaranteed payment. What is each partner's selfemployment tax base, and how is it calculated?

A. Each partner's SE tax base is \$250,000 ($50\% \times \$500,000$), reduced to \$230,875 (92.35% of \$250,000) — the 92.35% factor mirrors the employer FICA deduction that W2 employees receive, and each partner then pays 15.3% SE tax on the adjusted amount up to the Social Security wage base, plus 2.9% Medicare on all earnings

B. Each partner's SE tax base is \$500,000 because both partners are jointly and severally liable for the full partnership income

C. Neither partner owes selfemployment tax because partnership income is classified as passive investment income

D. Each partner's SE tax base is \$125,000 because partnership SE tax is calculated at 25% of each partner's distributive share

33. A contractor's project involves a renovation of a commercial kitchen where the existing equipment includes a walkin cooler with R22 refrigerant. The project scope includes removing the existing cooler and installing a new one. The contractor's demolition crew begins cutting the refrigerant lines to remove the cooler. What violation has occurred?

A. Only an OSHA violation for using cutting tools on pressurized refrigerant lines without proper lockout/tagout procedures

B. An EPA violation under Section 608 of the Clean Air Act — R22 refrigerant must be recovered by a certified technician using approved equipment before any refrigerant lines are cut, and venting refrigerant to the atmosphere is a federal violation carrying significant penalties

C. No violation because R22 is an older refrigerant that has been deregulated and can be freely vented during equipment removal

D. A Mississippi Department of Environmental Quality violation only, because EPA regulations do not apply to commercial kitchen refrigeration equipment

34. A contractor's project has the following situation: the owner has been consistently late with progress payments — averaging 25 days beyond the contractual due date for 6 consecutive months. The contractor has sent written notices documenting each late payment. The contractor's cash flow is severely strained, and the contractor is considering suspending work. Under what circumstances can the contractor legally suspend performance?

- A. The contractor can suspend work at any time for any reason as long as written notice is provided 48 hours in advance
- B. The contractor can suspend work immediately without notice because any late payment automatically constitutes a material breach
- C. The contractor can never suspend work regardless of payment delays because the contractor's obligation to perform is independent of the owner's obligation to pay
- D. The contractor may have grounds to suspend work if the owner's persistent late payments constitute a material breach of the payment obligation — the contractor should review the contract for suspension provisions, send formal written notice identifying the breach and stating that work will be suspended if timely payment is not restored, and allow a reasonable cure period before suspending performance

35. A contractor's project involves installing a fire alarm system in a new commercial building. The fire alarm specification requires the contractor to provide 24-month extended warranty coverage — double the standard 12-month warranty. The contractor's subcontract with the fire alarm installer includes only the standard 12-month warranty. What risk does this gap create?

- A. No risk because the fire alarm manufacturer's standard warranty automatically extends to match whatever the contract specifications require
- B. No risk because the contractor can negotiate the warranty extension with the fire alarm installer after the project is complete
- C. The contractor is exposed to 12 months of uninsured warranty risk — if the fire alarm system fails between Month 13 and Month 24, the contractor must repair it under the contract warranty but cannot recover the cost from the fire alarm subcontractor, whose 12-month warranty has expired; the contractor should have negotiated a 24-month warranty in the subcontract to match the prime contract requirement
- D. The risk falls entirely on the project owner because warranty durations are determined by the subcontractor's standard terms regardless of the prime contract specifications

36. A contractor is reviewing the Mississippi 811 notification process before beginning excavation on a new project. The project site is in a rural area with limited underground utility infrastructure. The contractor assumes there are no underground utilities and decides to skip the 811 notification. During excavation, the contractor's backhoe strikes and ruptures a natural gas pipeline. Who is liable for the damage and the resulting repair costs?

- A. The contractor is liable because Mississippi law requires 811 notification before any excavation regardless of the contractor's assumption about the presence or absence of

underground utilities — the notification requirement is absolute and the contractor's failure to call 811 creates direct liability for all damage to underground facilities

B. The utility company is solely liable because they failed to adequately mark the pipeline even though no notification was made

C. The property owner is liable because they should have informed the contractor about the pipeline before construction began

D. No party is liable because gas pipeline strikes in rural areas are classified as unavoidable incidents

37. A contractor's project has the following WIP data for three active projects at yearend. Project 1: earned revenue \$450,000, billings \$500,000. Project 2: earned revenue \$680,000, billings \$620,000. Project 3: earned revenue \$310,000, billings \$310,000. How are these reported on the balance sheet?

A. All three projects are combined into a single WIP line showing total earned revenue of \$1,440,000 and total billings of \$1,430,000

B. Project 1 is overbilled by \$50,000 (current liability). Project 2 is underbilled by \$60,000 (current asset). Project 3 is properly billed with no balance sheet entry needed. The overbilling and underbilling are reported separately and not netted — even though the net difference is only \$10,000, the \$50,000 liability and \$60,000 asset must appear independently

C. All three projects are reported as current assets because the total earned revenue exceeds total billings

D. Only projects with overbillings are reported on the balance sheet because underbillings and properly billed projects have no balance sheet impact

38. A contractor's project involves constructing a detention basin as part of a stormwater management system for a commercial development. The NPDES Construction General Permit requires the contractor to conduct regular inspections of all Best Management Practices. During an inspection, the contractor discovers that the silt fence around the detention basin has been damaged by construction equipment and is no longer functional. A rainstorm is forecast for the following day. What must the contractor do?

A. Schedule a silt fence repair for the end of the week during the next planned maintenance cycle because BMP repairs are performed on a scheduled basis

B. Document the damage in the inspection log and schedule repair for after the rainstorm passes because repairing BMPs during wet weather is impractical

C. No action is required because detention basins themselves serve as the primary sediment control and the silt fence is a redundant secondary measure

D. Repair or replace the damaged silt fence immediately before the forecasted rainstorm — the NPDES permit requires BMPs to be maintained in functional condition at all times, and allowing a nonfunctional silt fence to remain during a rain event could result in uncontrolled sediment discharge to receiving waters, triggering permit violations and potential enforcement action

39. A contractor's project involves working in an occupied commercial building where tenants are present on the floors below the renovation work. The contractor is performing concrete cutting on the 4th floor using a gaspowered saw. Tenants on the 3rd floor complain about exhaust fumes infiltrating their office space. What OSHA hazard is present?

A. Only a noise hazard because gaspowered saws generate noise levels exceeding 90 dB that affect the tenants below

B. Only a fire hazard because gaspowered equipment should not be operated inside commercial buildings under any circumstances

C. A carbon monoxide (CO) exposure hazard — gaspowered equipment operated indoors generates CO exhaust that can accumulate and flow to occupied areas below, creating a potentially lethal atmosphere; the contractor must either use electricpowered cutting equipment, ensure adequate ventilation to prevent CO accumulation, or implement CO monitoring in both the work area and occupied spaces

D. Only a dust hazard from the concrete cutting that requires HEPA filtration but no exhaust ventilation

40. A contractor's project involves a \$1,500,000 commercial tenant improvement. The lease requires the building owner to approve all construction. The tenant (who hired the contractor) has approved all design and construction decisions, but the building owner has not been involved in any approvals. During construction, the building owner inspects the work and discovers that the contractor removed a loadbearing wall without the structural engineer's approval. The building owner orders all work stopped. Can the building owner stop the contractor's work?

- A. No, because only the tenant who hired the contractor has authority to direct construction activities
- B. No, because the building owner waived their approval rights by not participating in the construction process
- C. Yes, but only if the building owner files a formal complaint with MSBOC requesting a workstop order
- D. Yes, because the building owner has authority over the property and the lease requires owner approval — removing a loadbearing wall without structural engineering approval is a serious safety violation that gives the building owner legitimate grounds to stop work and require remediation before construction resumes

41. A contractor's CPA is preparing the annual CPA reviewed financial statement for MSBOC license renewal. The financial statement must present the company's financial position fairly. The contractor asks the CPA to exclude a \$120,000 loan from the liabilities section to make the net worth appear higher. What is the CPA's obligation?

- A. The CPA should comply with the contractor's request because the client has final authority over the content of their own financial statements
- B. The CPA must refuse because excluding a known liability would be a material misrepresentation — the CPA has a professional and legal obligation to present financial information fairly, and deliberately omitting a \$120,000 loan from the balance sheet would overstate net worth, mislead MSBOC, and potentially expose the CPA to professional sanctions
- C. The CPA should exclude the loan but add a footnote disclosing the omission, which satisfies both the contractor's request and the CPA's professional obligations
- D. The CPA should reclassify the loan as revenue rather than excluding it, which keeps it on the financial statements without reducing net worth

42. A contractor's project involves installing structural concrete that requires specific rebar spacing. The structural drawings show #5 rebar at 12 inches on center in both directions. The contractor's crew installs #5 rebar at 18 inches on center to save time and material. The concrete is poured before anyone identifies the incorrect spacing. What are the potential consequences?

- A. The concrete may be structurally deficient because the rebar spacing directly affects the slab's loadcarrying capacity — the wider spacing reduces the amount of reinforcement by approximately 33%, which may mean the concrete cannot support the design loads; the

structural engineer must evaluate whether the asbuilt condition is adequate, and if not, the concrete may need to be removed and replaced at the contractor's expense

B. No consequences because rebar spacing variations of 6 inches or less are within acceptable construction tolerances

C. The only consequence is a documentation issue — the contractor must update the asbuilt drawings to reflect the 18inch spacing

D. The consequences are limited to a punch list notation because rebar spacing is classified as a cosmetic detail that does not affect structural performance

43. A contractor is reviewing a project contract that includes a "time is of the essence" clause. What does this clause mean, and how does it affect the contractor's obligations?

A. The clause is a standard boilerplate provision with no practical legal effect that is included in contracts for historical reasons only

B. The clause allows the owner to accelerate the project schedule at any time without additional compensation to the contractor

C. The clause elevates timely performance to a material contract obligation — any delay beyond the contractual completion date, even by a single day, may constitute a material breach of contract, giving the owner the right to terminate, assess liquidated damages from the first day of delay, and potentially recover consequential damages, making schedule management critically important

D. The clause requires the contractor to work 7 days per week to ensure the fastest possible completion regardless of the contractual completion date

44. A contractor's employee works 50 hours in a workweek. The employee is a nonexempt worker paid \$40.00 per hour. The employer pays the employee 50 hours at the straighttime rate ($\$40.00 \times 50 = \$2,000$) and does not pay any overtime premium. The employer argues that the \$40.00 rate already includes compensation for overtime. Is this arrangement FLSA compliant?

A. Yes, because the \$40.00 rate is above the minimum wage and all hours are compensated, which satisfies the FLSA's requirements

B. No, because the FLSA requires the employer to pay 1.5 times the regular rate for hours over 40 — 40 hours at \$40.00 (\$1,600) plus 10 hours at \$60.00 (\$600) = \$2,200; the employer underpaid by \$200 and the "builtin overtime" argument does not satisfy the FLSA without a specific and properly structured Belo contract or fluctuating workweek arrangement

C. Yes, because the total weekly pay of \$2,000 exceeds the FLSA's weekly minimum of \$1,500 for construction workers

D. Yes, because the employer can designate any hourly rate as "overtimeinclusive" simply by stating so in the employment agreement

45. A contractor discovers that their project is generating significantly more construction waste than anticipated. The original estimate included 10 rolloff dumpster loads, but the project has already consumed 18 loads with work still remaining. The additional dumpster costs total \$14,000 beyond the estimate. On a fixedprice contract, who bears this additional cost?

A. The project owner bears the cost because waste disposal is classified as a reimbursable expense on all construction contracts regardless of the contract type

B. The cost is shared equally between the contractor and the owner because Mississippi law mandates 50/50 cost sharing for waste disposal overruns

C. The waste hauling company bears the cost because they should have provided a fixedprice disposal contract that covers unlimited loads

D. The contractor bears the additional \$14,000 cost because the fixedprice contract places the risk of cost overruns — including underestimated waste disposal quantities — on the contractor; the contract price does not change because the contractor generated more waste than they estimated

46. A contractor operating as a Ccorporation decides to distribute \$200,000 in dividends to its three shareholders. Before the distribution, the corporation paid \$42,000 in federal corporate income tax on the \$200,000 (at the 21% rate). The shareholders will pay personal income tax on the dividends at their applicable qualified dividend rate. What is the fundamental tax issue this scenario illustrates?

A. Double taxation — the same \$200,000 in corporate earnings is taxed first at the corporate level (\$42,000 at 21%) and again at the shareholder level when distributed as dividends, resulting in a combined tax burden that exceeds what would be paid if the income were earned through a passthrough entity such as an S corporation or LLC

B. Tax avoidance, because the Ccorporation structure allows the shareholders to defer personal income tax on dividends indefinitely

C. Tax efficiency, because the combined corporate and dividend tax rates produce a lower total tax burden than personal income tax rates on the same amount

D. Tax neutrality, because the corporate tax paid is fully credited against the shareholders' personal dividend tax liability, resulting in no double taxation

47. A contractor's project involves the demolition of an existing commercial building before new construction begins. The building was constructed in 1962. Before demolition, what environmental survey must the contractor conduct?

A. Only a noise impact study to evaluate the effect of demolition noise on adjacent properties and establish permitted working hours

B. Only a traffic impact study to evaluate the effect of demolition truck traffic on surrounding roadways

C. A hazardous materials survey to identify asbestos-containing materials, lead-based paint, and other regulated substances commonly found in pre-1980 commercial buildings — these materials must be properly abated or removed before demolition begins to protect workers, the public, and the environment from hazardous exposure

D. Only a structural stability assessment to verify the building can be safely demolished without collapsing onto adjacent properties

48. A contractor's project has the following financial status: contract price \$900,000, total estimated cost \$765,000, actual costs incurred \$459,000, billings to date \$550,000. Using the percentage-of-completion method, what is the earned revenue and the over/under billing status?

A. Earned revenue is \$459,000 and the project is overbilled by \$91,000 because billings exceed costs

B. Earned revenue is \$540,000 (60% completion × \$900,000 contract), and the project is overbilled by \$10,000 because billings of \$550,000 exceed earned revenue of \$540,000 — the \$10,000 overbilling is classified as a current liability on the balance sheet

C. Earned revenue is \$900,000 and the project is underbilled by \$350,000 because the full contract should be recognized at 60% completion

D. Earned revenue is \$550,000 and the project is properly billed because revenue always equals billings under GAAP

49. A contractor's project involves installing a temporary power system for a construction site. The temporary electrical panel is installed by a licensed electrician and inspected by the local building inspector. Three months later, a worker receives a serious electrical shock from an exposed wire at a temporary outlet box that was damaged by construction activity. What OSHA obligations did the employer fail to fulfill?

- A. Only the obligation to hire a licensed electrician for the initial installation, which was actually fulfilled
- B. Only the obligation to obtain the initial electrical inspection, which was also fulfilled
- C. No obligations were failed because the initial installation was proper and the subsequent damage was caused by construction activities beyond the employer's control
- D. The employer failed to ensure the ongoing safety of the temporary electrical system — OSHA requires employers to maintain temporary wiring in safe condition throughout the construction period, including regular inspections for damage, prompt repair of damaged components, and protection of electrical equipment from physical damage by construction activities

50. A contractor is preparing to take the Mississippi Law and Business Management exam for the first time. The contractor has completed a comprehensive study guide, practiced with multiple simulation exams, and scored consistently above 80%. The exam is tomorrow. What final preparation step is most important?

- A. Study all night to review every chapter one more time because maximum study time directly correlates with exam performance
- B. Take three more practice exams tonight to build additional exam confidence through volume repetition
- C. Verify examday logistics — confirm the testing center location and arrival time, ensure a valid photo ID is ready, verify the NASCLA Contractors Guide is properly tabbed and the calculator is silent and nonprogrammable, review the exam format (50 questions, 2 hours, 70% passing), get adequate rest, and arrive at the testing center early and composed
- D. Memorize the glossary of terms because the exam consists primarily of vocabulary definitions that can be answered through rote memorization

Practice Exam 13: Answer Key and Explanations

1. C — Revised total cost: $\$1,428,000 + \$740,000 = \$2,168,000$, which exceeds the $\$2,100,000$ contract price by $\$68,000$. GAAP requires immediate recognition of the full anticipated loss as soon as a loss is projected — not proportionally based on completion percentage. The CPA must record the entire $\$68,000$ projected loss in the current period regardless of the project's completion stage.

2. A — Selfemployment tax has two components: Social Security (12.4% up to the annual wage base) and Medicare (2.9% on all earnings). The tax is calculated on 92.35% of net

selfemployment income — not the full amount. The 92.35% factor provides sole proprietors with a deduction equivalent to the employer's half of FICA, mirroring the tax treatment that W2 employees receive when their employer pays the matching 7.65%.

3. D — A certificate of insurance is an informational summary — it does not create, extend, or modify coverage. If the actual policy does not include the additional insured endorsement, the certificate is meaningless for coverage purposes. The general contractor should always verify that the actual endorsement has been added to the subcontractor's policy by requesting a copy of the endorsement itself, not just relying on the certificate.

4. B — OSHA requires guardrail top rails at approximately 42 inches above the walking surface, with an acceptable range of 39 to 45 inches for general construction. At 36 inches, the guardrail falls below the minimum and does not provide adequate fall protection. A guardrail that is too low may give workers a false sense of security while failing to prevent falls over the top rail.

5. C — The contractor must verify the applicable statutory filing deadline under Mississippi lien law. The lien must be filed with the Chancery Clerk within the prescribed timeframe from the last date labor or materials were furnished. Missing this deadline permanently extinguishes the lien right regardless of the merits of the payment claim — the lien statute is strictly enforced and the deadline is jurisdictional.

6. A — Method 2 (dividing by 0.86) is correct because $1 - 0.14 = 0.86$, and the formula $\text{Selling Price} = \text{Cost} \div (1 - \text{Margin}\%)$ produces a selling price where profit represents exactly 14% of selling price. Method 1 (multiplying by 1.14) produces a 14% markup on cost, which yields only approximately 12.3% margin on selling price. This distinction between markup and margin is one of the most commonly tested and most frequently confused concepts.

7. D — The adjacent 3-story building creates surcharge loading — the weight of the building and its foundation exerts lateral pressure on the excavation walls, increasing the risk of cavein beyond what the soil classification alone would indicate. The competent person must account for this additional loading when selecting or designing the protective system. Standard Type C protective measures may be insufficient without modifications to address the surcharge from the adjacent structure.

8. B — Shareholder A receives \$120,000 salary (subject to income tax and payroll taxes) plus \$100,000 distribution (subject to income tax only, not payroll or SE tax). Shareholder B receives \$80,000 salary (subject to income tax and payroll taxes) plus \$100,000 distribution (subject to income tax only). The distributions avoid the 15.3% SE/payroll tax — this is the S-corporation's fundamental tax advantage when salaries are set at reasonable levels.

9. C — The contractor must repair the roof leaks under the warranty because defective flashing installation is a workmanship deficiency — exactly what the warranty covers. However, the damaged furniture is typically the owner's responsibility to claim under their own property insurance, because the contractor's warranty covers repair of defective work, not consequential damages to the owner's personal property, unless the contract specifically provides for consequential damage recovery.

10. A — Mississippi use tax of 7% applies to materials purchased outofstate and used in Mississippi. Since Alabama did not charge sales tax on the shipment, no credit offsets the

Mississippi obligation. The full 7% applies: $\$200,000 \times 7\% = \$14,000$. If Alabama had charged sales tax, Mississippi would allow a credit for the amount paid, reducing the use tax to only the differential.

11. D — The specifications rank higher than drawings in the stated order of precedence. When specifications require solid core doors and drawings show hollow core, the specifications control. The contractor should install solid core doors and submit an RFI documenting the conflict. The order of precedence clause exists to resolve exactly these types of interdocument conflicts without ambiguity or guesswork.

12. B — The surety has three primary options when a contractor defaults: finance the defaulting contractor to complete the work, tender a replacement contractor, or negotiate a payment to the owner for the cost of completion. The surety selects the option that minimizes its financial exposure while fulfilling the bond obligation. Unlike insurance, the surety retains the right to recover all costs from the defaulting contractor.

13. A — A 6foot lanyard without a deceleration device creates two problems: the total fall distance (lanyard length plus harness stretch plus worker height below the D-ring) may exceed available clearance, and the arrest forces without a shock absorber can exceed the 1,800pound maximum arresting force, potentially causing serious injury. A deceleration device (shock absorber) extends the stopping distance, reducing peak arrest forces and protecting the worker's body.

14. B — The project manager failed to follow the change order process. No written documentation was prepared before the work was performed — no scope description, no cost estimate, and no written authorization from the owner. When the owner disputes the \$4,800 charge at closeout, the contractor has no documentation to support the claim. The cardinal rule: never perform changed work without written authorization, regardless of the amount.

15. D — The IRS may impose an accumulated earnings tax on Ccorporations that retain profits beyond the reasonable needs of the business. If the contractor cannot demonstrate legitimate business purposes for the \$500,000 accumulation — such as planned equipment purchases, facility expansion, working capital for growth, or specific project requirements — an additional penalty tax may be assessed. The first \$250,000 of accumulation is generally considered a safe harbor for operating companies.

16. C — The injured pedestrian is a third party who suffered bodily injury from the contractor's temporary structure. This is a standard CGL Coverage A claim. The contractor installed and maintained the canopy and had a duty to ensure it was adequately secured against foreseeable weather conditions — a windstorm in a construction area is foreseeable. The contractor's CGL policy defends and indemnifies the contractor for this type of thirdparty injury claim.

17. A — Actual overhead rate: $\$408,000 \div \$2,000,000 = 20.4\%$. Applied rate: $\$350,000 \div \$2,000,000 = 17.5\%$. Difference: 2.9%. Unrecovered overhead: $2.9\% \times \$2,000,000 = \$58,000$. This \$58,000 came directly out of the company's profit — every project bid during the year carried 2.9% less overhead allocation than the company actually needed, systematically underpricing every bid.

18. B — The 5day lag adds 5 days to the overall sequence because the steel erection cannot begin until 5 days after the foundation is complete. Original duration: $10 + 15 + 8 = 33$ days.

With lag: 10 (foundation) + 5 (lag for curing) + 15 (steel) + 8 (roofing) = 38 days. Lag time between activities extends the critical path duration by the full lag amount when the activities are sequential.

19. D — Passing an inspection does not absolve the installer of liability for defective workmanship. The defective pipe fitting was not detectable during the preoccupancy inspection, but it was nevertheless a defect in the installation. The fire suppression subcontractor is responsible for providing a properly functioning system, and their warranty covers defects that manifest during the warranty period regardless of whether they were discoverable at the time of inspection.

20. C — A retainage receivable outstanding for 18 months with no progress toward collection raises serious collectibility concerns. The CPA must evaluate whether the receivable meets the criteria for current asset classification, consider whether an allowance for doubtful accounts is needed, and potentially reclassify or write off the amount. Presenting \$65,000 as a current collectible asset when collection is uncertain overstates the company's financial position.

21. A — The executive exemption requires meeting all criteria: salary at or above the DOL threshold (\$684/week as of the last major update), primary duty of managing the enterprise or a recognized department, customarily directing the work of at least two fulltime employees, and authority to hire and fire (or recommendations given particular weight). Simply holding a "manager" title without meeting all four criteria does not qualify for the exemption.

22. D — OSHA requires all floor openings to be protected by guardrail systems, covers, or both to prevent workers from falling through. Elevator shaft openings are not exempt — they must be guarded whenever workers are on that floor. Covers must be strong enough to support anticipated loads, secured to prevent displacement, and clearly marked. The protection must remain in place whenever the openings are not actively being used for installation work.

23. B — Inconsistent classification of workers performing identical tasks under identical conditions is one of the strongest indicators of misclassification. If the working relationship for both workers involves the same level of control, tools, schedule, and economic dependence, they should have the same classification. The IRS and DOL use this inconsistency as evidence that the independent contractor classification is incorrect, potentially triggering reclassification of all similarly situated workers.

24. C — Costs plus fee: $\$2,100,000 + \$180,000 = \$2,280,000$. Savings below GMP: $\$2,400,000 - \$2,280,000 = \$120,000$. Owner's 70% share: \$84,000 credit. Contractor's 30% share: \$36,000 bonus. Owner pays: $\$2,280,000 + \$36,000 = \$2,316,000$. Equivalently: $\$2,400,000 - \$84,000 = \$2,316,000$. The savings sharing incentivizes cost control while giving both parties a financial benefit from efficient construction.

25. A — Amputations are one of three severe injury categories — along with inpatient hospitalizations and loss of an eye — that must be reported to OSHA within 24 hours. The 24hour clock begins when the employer learns of the reportable injury. Fatalities require 8hour reporting. Failure to report within the required timeframe is a citable violation. The contractor must report the twofinger amputation by 10:00 AM Thursday.

26. B — The contractor should evaluate whether the reduced price still produces acceptable profit. At \$580,000, profit is \$45,600 (7.9% margin) — below the 12% target but still positive.

The decision is strategic: winning the project at reduced margin may be worthwhile if the contractor needs work, values the client relationship, or sees future opportunities. Blindly chasing the lowest competitor or rigidly maintaining target margins without strategic evaluation are both poor business practices.

27. A — The contractor failed to build to the specified elevation. The specifications required the first floor to be 2 feet above the BFE, and the contractor built it at the BFE — a clear specification violation. The resulting flood damage is a foreseeable consequence of constructing below the specified elevation. The contractor is likely liable for the damage because they did not build what the contract required.

28. C — The schedule of values breaks the total contract price into component line items representing each major work category. It establishes the basis for all monthly progress payment applications by assigning dollar values to each scope element. The architect uses the schedule of values to verify that the amount billed each month corresponds to the actual work completed in each category, preventing frontloading and ensuring payment accuracy.

29. B — The specification requires 22gauge sheet metal. The subcontractor installed 26gauge — significantly lighter. The lighter gauge may not provide adequate structural rigidity, noise attenuation, or pressure resistance for the duct system. The superintendent must stop the installation and require replacement with the specified 22gauge material. Unauthorized material substitutions that reduce quality must be corrected at the subcontractor's expense.

30. D — A preconstruction condition survey of adjacent properties documents the existing state of each structure before vibration-producing work begins. Photographs, videos, and written reports create a baseline that objectively distinguishes preexisting damage from construction-caused damage. Without this documentation, the contractor cannot defend against claims that preexisting cracks were caused by pile driving.

31. C — Longlead items must be ordered during preconstruction to avoid schedule delays. A 16week lead time for structural steel needed in Month 4 means the order must be placed at or before the project start. Waiting until construction is underway shortens the available procurement window below the required lead time, guaranteeing a schedule delay. Preconstruction procurement planning is one of the most critical earlyphase activities.

32. A — Each partner's distributive share is \$250,000 ($50\% \times \$500,000$). The selfemployment tax base is 92.35% of the distributive share: $\$250,000 \times 0.9235 = \$230,875$. Each partner pays 15.3% SE tax on this amount (12.4% Social Security up to the wage base plus 2.9% Medicare on all earnings). The 92.35% factor mirrors the employer FICA deduction available to W2 employees.

33. B — Cutting refrigerant lines and venting R22 to the atmosphere violates EPA regulations under Section 608 of the Clean Air Act. R22 must be recovered by a certified technician using approved recovery equipment before any lines are cut or equipment is removed. Venting violations carry penalties of up to \$44,539 per day per violation. R22 has not been deregulated — it remains a regulated substance requiring proper recovery and handling.

34. D — Persistent late payments over 6 consecutive months may constitute a material breach of the owner's payment obligation. The contractor should review the contract for suspension provisions, send formal written notice identifying the specific breach (payment delays,

amounts, dates), state that work will be suspended if timely payment is not restored, and allow a reasonable cure period. Immediate suspension without notice or continued performance without asserting rights are both risky approaches.

35. C — The contractor has a 12-month gap in warranty coverage. The prime contract requires 24 months of warranty, but the subcontract only provides 12 months. If the fire alarm system fails between Month 13 and Month 24, the contractor is obligated to repair it under the prime contract warranty but cannot recover the cost from the subcontractor whose warranty has expired. Subcontract warranty terms should always match or exceed the prime contract requirements.

36. A — Mississippi law requires 811 notification before any excavation regardless of the contractor's assumption about underground utilities. The requirement is absolute — there are no exceptions for rural areas, assumed absence of utilities, or contractor judgment. By skipping the notification, the contractor assumed full liability for all damage to underground facilities. The gas pipeline strike and all resulting repair costs, service interruption costs, and potential injury liability fall on the contractor.

37. B — Project 1 is overbilled by \$50,000 (current liability). Project 2 is underbilled by \$60,000 (current asset). Project 3 is properly billed with zero balance sheet impact. The overbilling and underbilling must be reported separately — not netted. Even though the net difference across all three projects is only \$10,000, the \$50,000 liability and \$60,000 asset must appear as independent line items to accurately represent the contractor's billing position.

38. D — The damaged silt fence must be repaired or replaced immediately — especially with a rainstorm forecast. The NPDES permit requires BMPs to be maintained in functional condition at all times. Allowing a nonfunctional silt fence to remain during a rain event risks uncontrolled sediment discharge to receiving waters, violating the permit and potentially triggering enforcement action, fines, and project stopwork orders.

39. C — Gaspowered equipment operated indoors generates carbon monoxide (CO) — a colorless, odorless gas that can accumulate in enclosed spaces and flow to occupied areas below. CO exposure can cause headaches, dizziness, unconsciousness, and death. The contractor must either switch to electricpowered cutting equipment, provide adequate mechanical ventilation to prevent CO accumulation, or implement continuous CO monitoring in both the work area and the occupied spaces below.

40. D — The building owner has authority over the property, and the lease requires owner approval for construction. Removing a loadbearing wall without structural engineering approval is a serious safety violation that could compromise the building's structural integrity. The building owner has legitimate grounds to stop work, require a structural evaluation, and demand remediation before construction resumes — regardless of the tenant's authorization.

41. B — The CPA must refuse. Deliberately excluding a \$120,000 loan from the balance sheet would overstate net worth by \$120,000, materially misrepresenting the company's financial condition. This violates the CPA's professional standards, could mislead MSBOC's licensing evaluation, and exposes the CPA to professional sanctions, potential license revocation, and legal liability. The CPA's obligation to present financial information fairly overrides the client's preferences.

42. A — Rebar spacing directly affects the concrete's structural capacity. Installing #5 rebar at 18 inches instead of the specified 12 inches reduces the reinforcement by approximately 33%. The structural engineer must evaluate whether the asbuilt condition can support the design loads. If the reduced reinforcement is inadequate, the concrete must be removed and replaced at the contractor's expense — a potentially enormous cost for a shortcut that saved minimal time and material.

43. C — "Time is of the essence" elevates timely performance to a material contract term. Any delay beyond the contractual completion date — even one day — may constitute a material breach, giving the owner grounds for termination, liquidated damages from the first day of delay, and potentially consequential damages. This clause makes schedule management critically important because the contractor loses the argument that a minor delay is not a material breach.

44. B — The FLSA requires overtime at 1.5 times the regular rate for hours over 40: 40 hours \times \$40.00 = \$1,600 plus 10 hours \times \$60.00 = \$600, totaling \$2,200. The employer paid only \$2,000, underpaying by \$200. The "builtin overtime" argument does not satisfy FLSA requirements without a specific, properly structured arrangement such as a fluctuating workweek agreement. Simply claiming the hourly rate includes overtime compensation is insufficient.

45. D — On a fixed-price contract, the contractor bears the risk of cost overruns including underestimated waste disposal. The contract price does not change because the contractor generated more waste than estimated. The additional \$14,000 in dumpster costs reduces the contractor's profit on this project. More accurate waste estimation during bidding would have captured this cost in the original bid price.

46. A — Double taxation is the defining disadvantage of the C corporation. The \$200,000 in earnings is taxed first at the corporate level (21% = \$42,000), and then again on each shareholder's personal return at the applicable qualified dividend rate when distributed. The same income is taxed twice — once at the entity level and once at the individual level. Passthrough entities (S corps, LLCs, partnerships) avoid this by taxing income only once at the owner level.

47. C — Buildings constructed before 1980 commonly contain asbestos and lead-based paint. A predemolition hazardous materials survey identifies regulated substances that must be properly abated before demolition begins. Demolishing a building containing asbestos without prior abatement releases dangerous fibers into the air, violating OSHA worker protection standards and EPA environmental regulations. The survey is not optional — it is a regulatory requirement.

48. B — Completion: $\$459,000 \div \$765,000 = 60\%$. Earned revenue: $60\% \times \$900,000 = \$540,000$. Billings: \$550,000. Since billings (\$550,000) exceed earned revenue (\$540,000) by \$10,000, the project is overbilled. The \$10,000 overbilling is classified as a current liability on the balance sheet — the contractor has been paid for work not yet performed.

49. D — The employer failed to maintain the temporary electrical system in safe condition throughout the construction period. The initial installation and inspection were proper, but OSHA requires ongoing maintenance — regular inspections for damage, prompt repair of damaged components, and protection of electrical equipment from construction activity

damage. A temporary outlet box damaged by construction activity and left unrepaired creates a recognized electrical hazard that the employer is obligated to correct.

50. C — The night before the exam, the most important preparation is logistical verification — not additional studying. Confirm the testing center location and arrival time, verify the photo ID is ready, check that the NASCLA guide is properly tabbed and the calculator meets requirements, review the exam format, get adequate rest, and plan to arrive early. At this point, content knowledge is established — examday readiness, composure, and efficient reference navigation determine the outcome.