

# PRACTICE EXAM 14: ARKANSAS BUSINESS AND LAW SIMULATION (50 QUESTIONS)

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

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

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

1. A contractor operates as a C-Corporation and earns \$350,000 in taxable corporate income. After paying the 21% federal corporate income tax, the corporation distributes \$200,000 of the after-tax profits to the sole shareholder as dividends. The shareholder pays individual income tax on the dividends at the qualified dividend rate. A business advisor suggests that the contractor could eliminate one layer of taxation by restructuring the business. Which entity conversion would most directly eliminate the double taxation?

A. Converting to an S-Corporation, which passes income through to the shareholder's individual return and eliminates the entity-level corporate tax while preserving limited liability protection

B. Converting to a general partnership, which eliminates all taxation at both the entity and individual levels

C. Converting to a sole proprietorship, which reduces the corporate tax rate from 21% to 15% but maintains the dividend tax

D. Maintaining the C-Corporation and increasing the shareholder's salary to equal the full corporate income, which eliminates the dividend but increases FICA taxes on the entire amount

**DOMAIN: LICENSING (4 Questions)**

2. A contractor applies for an Arkansas commercial license. The application requires a financial statement showing a minimum net worth of \$50,000 with at least \$25,000 in cash or cash equivalents. The contractor's CPA-prepared balance sheet shows total assets of \$320,000, total liabilities of \$260,000, and cash of \$28,000. The contractor also has a certificate of deposit valued at \$15,000. Does the contractor meet the ACLB financial requirements?

A. No, because the net worth of \$60,000 is below the required \$75,000 minimum for commercial licenses

B. No, because the cash amount of \$28,000 does not meet the minimum when certificates of deposit are excluded from the calculation

C. Yes, because net worth is \$60,000 (exceeding the \$50,000 minimum) and cash plus cash equivalents total \$43,000 (\$28,000 cash + \$15,000 CD), exceeding the \$25,000 minimum — certificates of deposit are generally classified as cash equivalents

D. Yes, but only if the certificate of deposit matures within 30 days of the application filing date

3. A licensed Arkansas contractor completes a \$250,000 commercial renovation project for a restaurant owner. After completion, the restaurant owner files a complaint with the ACLB alleging that the contractor abandoned several punch list items and has not responded to repeated requests for warranty repairs. The ACLB investigates and finds the complaint has merit. Before imposing any disciplinary action, what procedural right must the Board afford the contractor?

A. The right to transfer the case to a federal court if the contractor disputes the ACLB's jurisdiction over commercial projects

B. The right to a hearing before the Board where the contractor can present evidence, call witnesses, and defend against the allegations before any disciplinary action is finalized

C. The right to have the complaint reviewed by an independent panel of licensed contractors rather than by the Board itself

D. The right to a 12-month probationary period during which the contractor can demonstrate improved performance before facing formal charges

4. A general contractor on a large commercial project discovers that one of their concrete subcontractors has been performing work with an expired license for the past six weeks. During those six weeks, the subcontractor completed \$145,000 worth of foundation work. The general

contractor was not aware of the license expiration. What should the general contractor do immediately upon discovering the expired license?

A. Allow the subcontractor to continue working while they process their license renewal because the foundation work is time-sensitive

B. Deduct 10% from the subcontractor's next payment as a penalty for operating with an expired license

C. Contact the ACLB to report the subcontractor's expired license and request guidance on the completed work

D. Stop the subcontractor's work immediately, require proof of license reinstatement before allowing the subcontractor to resume, notify the ACLB of the situation, and evaluate whether the unlicensed work affects the project's code compliance and the general contractor's own licensing obligations

5. An out-of-state contractor licensed in Mississippi wants to perform a single 45-day commercial project in Arkansas valued at \$800,000. The contractor holds a valid NASCLA-accredited commercial general building contractor license. What is the most efficient licensing pathway for this contractor to legally work in Arkansas?

A. Apply for a temporary license from the ACLB, which is valid for 90 days — sufficient for the 45-day project — while also using the NASCLA exam result to satisfy the trade exam component of any future permanent license application

B. Begin work immediately because NASCLA accreditation serves as a universal license in all participating states

C. Apply for full permanent Arkansas licensure before starting the project, which typically takes 6 to 8 weeks to process

D. Subcontract the entire project to a licensed Arkansas contractor and serve only as a consultant

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

6. A contractor is preparing a detailed estimate for a commercial office building. The estimator has completed the quantity takeoff and is now assigning unit prices. For the structural concrete work, the estimator uses a unit price of \$650 per cubic yard, which includes forming, reinforcement, placement, finishing, and curing. This unit price was derived from the contractor's historical cost data on similar projects completed within the past 18 months. What is the primary risk of relying on historical unit prices without adjustment?

A. Historical prices are always higher than current prices because material costs decrease over time due to improved manufacturing efficiency

B. Historical prices from projects completed 18 months ago are too old to be used for any estimating purpose and must be discarded entirely

C. Historical unit prices may not reflect current material costs, current labor rates, or the specific conditions of the new project — material prices may have increased, wage rates may have changed, site conditions may differ, and productivity assumptions embedded in historical data may not apply to the new project's unique characteristics

D. Historical unit prices are only valid if they are certified by a professional cost estimating organization

7. A public project bid opening produces the following results: Contractor A — \$4,180,000; Contractor B — \$4,350,000; Contractor C — \$3,920,000; Contractor D — \$4,510,000. Contractor C submits the lowest bid but includes a handwritten note on the bid form stating: "This bid is contingent upon the City approving a construction staging area on the adjacent vacant lot." The bid documents do not authorize any conditions or contingencies. What is the status of Contractor C's bid?

A. The bid is responsive because the staging area condition is a reasonable logistical request that does not affect the contract price

B. Contractor C's bid is likely non-responsive because it includes an unauthorized condition that modifies the terms of the bid — the bid documents do not permit conditional bids, and the staging area contingency changes the basis on which the bid was submitted compared to other bidders who accepted the bid terms without conditions

C. The bid is responsive but the condition must be removed before contract execution

D. The condition is acceptable because construction staging is an operational matter that does not affect the contract value

8. A contractor needs to calculate the total estimated cost for installing 6,000 linear feet of copper water pipe in a commercial building. The material cost is \$12.50 per linear foot for the pipe and fittings. The estimator applies an 8% waste factor for cutting and fitting losses. The installation labor productivity is 25 linear feet per hour at a loaded labor rate of \$52.00 per hour. What is the total estimated cost for the copper piping installation?

A. \$75,000.00, calculated using only the base material cost without waste and without installation labor

B. \$87,480.00, calculated by applying the waste factor to the labor cost instead of the material cost

C. \$93,500.00, calculated by applying a 15% waste factor to the material and using a higher productivity rate

D. \$93,480.00, calculated as material ( $\$12.50 \times 6,000 \times 1.08 = \$81,000$ ) plus labor ( $6,000 \div 25 = 240$  hours  $\times \$52.00 = \$12,480$ )

9. A contractor submits a bid on a municipal fire station project and is the apparent low bidder at \$2,100,000. Two days after the bid opening, the contractor discovers that their estimator inadvertently omitted the entire HVAC subcontractor quote of \$280,000 from the bid. The contractor wants to withdraw the bid. The second-lowest bid is \$2,340,000. Under common law principles governing bid mistakes, what factors will determine whether the contractor can withdraw without forfeiting their bid bond?

A. The contractor can automatically withdraw any bid within 72 hours of the opening without penalty under the standard bid withdrawal grace period

B. The contractor must demonstrate that their bid was lower than all competitors by more than 20% to qualify for withdrawal based on mathematical error

C. The contractor must demonstrate that the error was clerical or mathematical rather than an error in judgment, that the error was material in amount, that withdrawal was requested promptly upon discovery, and that the municipality would not be unconscionably harmed by allowing the withdrawal

D. The contractor can withdraw only if they can prove the estimator was not properly trained, establishing employer negligence as grounds for voiding the bid

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

10. A construction contract requires the contractor to submit monthly payment applications by the 25th of each month. The architect has 10 days to review and certify the application, and the owner has 30 days from certification to issue payment. The contractor submits the January application on January 25. The architect certifies it on February 3. The owner issues payment on March 10 — five days past the contractual deadline. What recourse does the contractor have for the late payment?

A. The contractor may be entitled to interest on the late payment from the due date (March 5) to the actual payment date (March 10) if the contract includes a late payment interest provision,

and the contractor should send written notice documenting the late payment to preserve their rights for future occurrences

B. No recourse because a 5-day delay is within the standard grace period for construction progress payments

C. The contractor can withhold the next month's work equal in value to the interest owed on the late payment

D. The contractor's only recourse is to terminate the contract for the owner's material breach of the payment provisions

11. A contractor on a commercial project receives a written directive from the owner to install a backup generator system that was not included in the original contract documents. The directive states: "Please proceed with generator installation immediately. Cost to be determined." The contractor estimates the generator work will cost \$95,000. Before proceeding, the contractor submits a change order proposal for \$95,000. The owner responds: "Your price seems high. Let's discuss after the generator is installed." What should the contractor do?

A. Install the generator immediately because the owner's written directive constitutes binding authorization regardless of whether a price is agreed upon

B. Install the generator at the \$95,000 price and bill the owner, relying on the written directive as proof of authorization

C. Refuse to install the generator entirely because the owner did not agree to the contractor's price

D. Respond in writing stating that the contractor will proceed with the generator installation under the owner's directive, that the work will be tracked on a time-and-materials basis with daily documentation, and that a final change order will be negotiated upon completion — this protects the contractor by establishing written authorization while documenting actual costs when a fixed price cannot be agreed upon in advance

12. A general contractor's subcontract with an electrical subcontractor includes the following clause: "The Subcontractor shall comply with all terms, conditions, and obligations of the Prime Contract between the Contractor and the Owner as they apply to the Subcontractor's scope of work." This clause is commonly known as what?

A. A joint venture clause that creates equal partnership between the general contractor and the subcontractor

B. A flow-down clause that incorporates the relevant terms of the prime contract into the subcontract, binding the subcontractor to the same quality standards, schedule requirements, safety rules, and administrative procedures that bind the general contractor under the prime contract

C. A back-to-back clause that guarantees the subcontractor will receive identical payment terms as the general contractor receives from the owner

D. A cross-default clause that makes the subcontractor liable for the general contractor's breaches of the prime contract

13. A project architect conducts a routine site visit and observes that the contractor is installing window frames that do not match the approved shop drawings. The shop drawings specified aluminum frames with a bronze anodized finish, but the installed frames are aluminum with a clear anodized finish. The contractor explains that the bronze finish was backordered and the clear finish was substituted to maintain the schedule. Under standard contract provisions, what is the likely outcome?

A. The architect will accept the clear finish as an equivalent substitution because the material (aluminum) is correct even though the finish differs

B. The contractor will receive a credit for the cost difference between the bronze and clear finishes

C. The architect will likely reject the non-conforming windows and require the contractor to remove and replace them with the specified bronze-finish frames at the contractor's expense — because the contractor substituted a product without obtaining prior approval, violating the contract's substitution procedures

D. The owner must accept the clear-finish frames because the contractor acted in good faith to maintain the project schedule

14. A contractor working on a fixed-price hospital addition discovers a major underground utility conflict that was not shown on the civil drawings or the utility survey provided with the bid documents. Resolving the conflict requires rerouting 200 feet of existing storm sewer at a cost of \$75,000 and adds 2 weeks to the critical path. The contract includes both a site examination clause and a differing site conditions clause. What is the contractor's strongest basis for claiming additional compensation?

A. The differing site conditions clause, because the utility conflict represents an actual subsurface condition that differs materially from the conditions represented in the contract documents — the civil drawings and utility survey failed to show the existing utility, and the contractor is entitled to rely on the completeness of these documents

B. The site examination clause, which requires the owner to reimburse the contractor for any conditions discovered during construction

C. Force majeure, because underground utility conflicts are unforeseeable events beyond either party's control

D. The contract's general provisions, which automatically increase the contract price by 10% for any unforeseen subsurface work

15. A project owner on a commercial renovation project issues a stop-work order directing the contractor to halt all construction activities for 30 days while the architect redesigns the second-floor layout. The stop-work order is not caused by any fault of the contractor. During the 30-day suspension, the contractor incurs \$45,000 in extended overhead costs (site security, equipment standby, supervision, insurance, temporary facilities). Under most standard construction contracts, what is the contractor entitled to?

A. Nothing, because stop-work orders are a standard part of construction that the contractor should anticipate and include in their bid price

B. Only the return of unused materials that were purchased specifically for the second-floor layout that is being redesigned

C. Compensation for the \$45,000 in overhead plus anticipated profit on the redesigned work that has not yet been performed

D. A time extension equal to the 30-day suspension period plus compensation for the \$45,000 in extended overhead costs directly caused by the owner-directed work suspension — because the stop-work order was not caused by the contractor's fault, the contractor should not bear the financial burden of the suspension

16. A subcontractor on a commercial project completes their rough-in plumbing work and submits a payment application for \$160,000. The general contractor reviews the work and determines that approximately \$140,000 of the work is satisfactory and \$20,000 represents work that does not conform to the approved shop drawings. How should the general contractor handle the payment?

A. Pay the full \$160,000 and address the non-conforming work through a separate back-charge process after the subcontractor has been paid

B. Pay \$140,000 for the conforming work and withhold \$20,000 for the non-conforming portion, directing the subcontractor to correct the deficient work before the withheld amount is released

C. Withhold the entire \$160,000 until every item of the subcontractor's work is complete and deficiency-free

D. Pay \$80,000 (50% of the application) as a compromise and negotiate the remaining balance after the non-conforming work is corrected

17. A contractor on a 14-month commercial project has been submitting monthly payment applications that progressively show the project at 30%, 42%, 55%, 68%, and 78% complete over five months. The owner's construction manager audits the contractor's progress claims and determines that the actual completion is only 62% — not the claimed 78%. The contractor has been over-billing by approximately 16 percentage points. What is the most significant risk this over-billing creates?

A. The owner may suffer minimal impact because the over-billing will self-correct in later months when the contractor's progress catches up to the billed amount

B. The owner may discover the discrepancy during an audit but has no contractual remedy because progress percentages are subjective estimates

C. The over-billing means the contractor has been paid for work not yet performed, creating a risk that if the contractor defaults or abandons the project, the owner will have paid substantially more than the value of work in place — and the owner may demand immediate repayment of the over-billed amount, withhold future payments until the billing aligns with actual progress, or pursue breach of contract claims

D. Over-billing by 16% is within the standard tolerance for progress payment applications and does not require corrective action

18. A construction contract states: "The Contractor shall indemnify and hold harmless the Owner from all claims arising from the Contractor's performance of the Work, including claims caused by the sole negligence of the Owner." This type of broad-form indemnification clause requires the contractor to protect the owner even when the owner is entirely at fault. In many jurisdictions, how are such clauses treated?

A. Many jurisdictions have enacted anti-indemnity statutes that void or limit indemnification clauses requiring a contractor to indemnify an owner for the owner's own sole negligence — these statutes protect contractors from being forced to assume liability for losses they did not cause

B. Broad-form indemnification clauses are universally enforceable in all jurisdictions because freedom of contract is absolute

C. These clauses are enforceable only on federal government contracts and are void on all state and private projects

D. The clause is enforceable but only up to the contractor's CGL policy limits, with no personal exposure beyond the insured amount

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

19. A project manager receives a change order that adds a new mechanical penthouse to the roof of a commercial building. The penthouse was not in the original design. The project is currently at 65% completion and on schedule. The change order adds \$420,000 to the contract and requires 6 additional weeks of work. The project manager must integrate this new scope into the existing schedule. What is the first scheduling step?

A. Add 6 weeks to the end of the project schedule and extend the contractual completion date by 6 weeks

B. Compress the existing schedule by 6 weeks through overtime and additional crews so the penthouse can be built without extending the completion date

C. Begin the penthouse work immediately regardless of whether the roof structure can support it at the current stage of construction

D. Analyze where the penthouse work fits in the construction sequence — determine which existing activities must be completed before the penthouse can begin, identify which penthouse activities will be on the revised critical path, and establish the logic ties between the new work and the existing schedule before adjusting the completion date

20. A contractor's superintendent maintains a daily report log with entries for every working day on a 14-month commercial project. During month 10, the owner files a delay claim alleging the contractor is behind schedule due to insufficient manpower. The contractor disputes the claim, arguing that the delays were caused by the owner's slow RFI responses. The daily reports consistently documented workforce counts, RFI submission dates, and the schedule impact of delayed RFI responses throughout the project. How do the daily reports support the contractor's defense?

A. The daily reports are inadmissible because they are internal contractor documents that cannot be used in formal dispute proceedings

B. The daily reports provide contemporaneous, day-by-day documentation of the contractor's staffing levels (refuting the insufficient manpower claim) and the architect's RFI response delays (supporting the owner-caused delay claim) — contemporaneous records created on the day events occurred carry significant evidentiary weight in dispute resolution proceedings

C. The daily reports support the owner's claim because documenting workforce counts proves the contractor was tracking their own manpower deficiency

D. The daily reports are useful only for internal management purposes and cannot be presented in mediation, arbitration, or litigation

21. A commercial building project requires the contractor to achieve substantial completion by December 1. The project schedule shows that the mechanical commissioning process — which must be completed before the certificate of occupancy can be issued — requires 3 weeks. The mechanical systems must be fully installed and operational before commissioning begins. Working backward from December 1, by what date must all mechanical system installations be complete?

A. November 7, which is 3 weeks before December 1 and allows exactly enough time for commissioning with no schedule buffer

B. December 1, because commissioning can occur concurrently with the substantial completion inspection

C. November 10, which allows 3 weeks for commissioning (November 10 through December 1) — working backward from the December 1 substantial completion deadline, all mechanical installations must be finished by approximately November 10 to provide the full 3-week commissioning window

D. October 15, which allows 6 weeks for commissioning — double the estimated duration to provide maximum schedule protection

22. A project manager discovers that three different subcontractors — mechanical, electrical, and fire protection — have each submitted shop drawings showing their systems routed through the same ceiling plenum space. The mechanical ductwork, electrical conduit runs, and fire sprinkler piping all occupy the same 18-inch space above the ceiling grid. A physical conflict is inevitable. What is the most effective project management tool for resolving this conflict before installation begins?

A. A Building Information Modeling (BIM) coordination process or a traditional overlay of all trade shop drawings that identifies spatial conflicts in three dimensions, followed by a coordination meeting where all trades agree on revised routing that eliminates the conflicts — resolving the problem on paper before it becomes a costly field problem

B. A resource histogram showing the labor demand for each trade during the ceiling rough-in period

C. A CPM schedule update showing which trade has priority based on their contractual start date

D. A daily report documenting the conflict and assigning responsibility to the subcontractor who submitted their shop drawings last

23. A construction project uses the Critical Path Method for scheduling. Activity P has an early start of Day 40, an early finish of Day 52, a late start of Day 40, and a late finish of Day 52. Activity Q follows Activity P with a finish-to-start relationship and has an early start of Day 52, an early finish of Day 60, a late start of Day 55, and a late finish of Day 63. Activity P is

delayed by 2 days and now finishes on Day 54 instead of Day 52. What is the impact on the project completion date?

- A. The project is delayed by 2 days because Activity P is on the critical path and any delay extends the project
- B. The project is delayed by 1 day because Activity Q has 3 days of float and absorbs 1 day of the delay but not both
- C. No impact because Activity Q has sufficient float to absorb the entire 2-day delay without affecting the project completion date
- D. No impact on the project completion date — Activity P is on the critical path (zero float), but Activity Q has 3 days of total float (late start 55 minus early start 52), so the 2-day delay pushes Q's start to Day 54, which is still within Q's float window (Q must start by Day 55 to avoid affecting the completion date)

24. A contractor's project manager observes that overtime has been authorized for the past 8 consecutive weeks on a commercial project. The superintendent reports that the overtime has not produced any net schedule gain — the project remains on the same timeline it was on before the overtime began. Workers are showing signs of fatigue, error rates have increased, and two recordable injuries occurred during overtime shifts in the past month. What management decision is most appropriate?

- A. Continue the overtime but increase the pay rate to double-time to improve worker motivation and productivity
- B. Discontinue the sustained overtime and return to a standard 40-hour workweek, because research consistently shows that productivity per hour declines after 4 to 6 weeks of sustained overtime until net output equals a standard workweek — while adding fresh workers or a second shift may be more effective if schedule acceleration is still needed
- C. Reduce overtime to 48 hours per week as a compromise between schedule pressure and worker fatigue
- D. Maintain the current overtime schedule but add mandatory rest breaks every 2 hours to counteract the fatigue

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

25. A contractor's CGL policy is on an "occurrence" basis with a policy period of January 1 through December 31, 2025. During 2025, the contractor completes a commercial roofing project. In March 2027 — 15 months after the policy expired — the building owner discovers a major roof leak caused by defective flashing installed during the 2025 project. The owner

files a \$350,000 claim against the contractor. Does the expired 2025 CGL policy respond to this claim?

A. Yes, because an occurrence-based policy covers claims arising from incidents that occurred during the policy period regardless of when the claim is filed — the defective flashing was installed during 2025 (within the policy period), so the 2025 policy responds even though the claim is filed in 2027

B. No, because the policy expired on December 31, 2025, and claims filed after expiration are not covered under any circumstances

C. Yes, but only if the contractor purchased an extended reporting period (tail coverage) endorsement when the policy expired

D. No, because roof defects discovered more than 12 months after project completion are excluded from CGL coverage

26. A surety issues performance and payment bonds for a \$2,500,000 school construction project. The contractor completes 60% of the work and then experiences severe financial difficulties — their key project manager quits, two major subcontractors walk off the project due to non-payment, and the contractor cannot obtain materials because suppliers have cut off credit. The school district declares the contractor in default. What happens next in the bonding process?

A. The surety immediately writes a check to the school district for the full \$2,500,000 penal sum of the performance bond

B. The surety files for bankruptcy protection on behalf of the defaulting contractor to preserve the remaining project assets

C. The school district must complete the project using their own maintenance staff because the surety's obligation is limited to paying the contractor's outstanding debts

D. The surety investigates the default and exercises its options under the performance bond — which typically include arranging financing to help the defaulting contractor complete the work, selecting and hiring a replacement contractor, negotiating a takeover agreement with the school district, or paying the district's actual completion costs up to the penal sum

27. A contractor carries a workers' compensation policy and wants to understand how their Experience Modification Rate is calculated. The contractor's insurance broker explains that the EMR is based on the contractor's claims history over a specific lookback period compared to the average claims experience for their industry classification. What is the standard lookback period used to calculate the EMR?

- A. The most recent 12 months of claims experience ending on the policy's current effective date
- B. A rolling three-year period with a one-year lag — meaning the current year's EMR is based on claims from approximately three to five years ago, with the most recent year excluded because claims from that year may not have fully developed
- C. The five most recent policy years including the current year, with equal weight given to each year
- D. A single-year snapshot of the worst claims year within the past decade, which establishes the maximum possible EMR

DOMAIN: OSHA RECORDKEEPING (3 Questions)

28. A construction worker steps on a rusty nail that penetrates their work boot and punctures the sole of their foot. The jobsite first aid attendant cleans the wound with antiseptic, applies a sterile bandage, and the worker receives a tetanus booster at the occupational health clinic. The worker returns to work the same day with no restrictions. Two days later, the puncture site becomes infected. The worker returns to the clinic where the doctor prescribes antibiotics and places the worker on restricted duty (no climbing or standing for extended periods) for one week. At what point does this case become OSHA recordable?

- A. At the two-day follow-up when the doctor prescribes antibiotics (prescription medication is medical treatment beyond first aid) and places the worker on restricted duty (a recordable outcome) — both triggers independently make the case recordable, though the original injury date is used on the 300 Log
- B. At the time of the original puncture wound because all nail punctures are automatically recordable under OSHA's construction standards
- C. The case is never recordable because the original treatment was first aid and subsequent complications are classified as a new medical event
- D. At the time of the tetanus booster because immunizations are classified as medical treatment beyond first aid

29. An employer with 14 employees in the construction industry wants to confirm their OSHA recordkeeping obligations. Which of the following statements correctly describes the employer's obligations?

- A. The employer is fully exempt from all OSHA requirements because they have fewer than 20 employees

B. The employer must maintain the OSHA 300 Log but is exempt from posting the 300A Summary due to their small size

C. The employer must maintain OSHA 300 Logs, 300A Summaries, and 301 Incident Reports because they exceed the 11-employee threshold, and must report fatalities within 8 hours and hospitalizations, amputations, and eye losses within 24 hours

D. The employer must only report fatalities and is exempt from all other recordkeeping and reporting requirements

30. A construction company has 75 employees and experienced the following incidents during the calendar year: 12 recordable injuries (including 2 fatalities, 4 cases with days away from work, 3 cases with restricted duty, and 3 cases with medical treatment beyond first aid only). Employees worked a total of 150,000 hours. The company's safety director calculates the TRIR. An industry peer company of similar size has a TRIR of 4.0. How does this company compare?

A. The company's TRIR is 8.0, which is below the peer company's rate of 4.0, indicating better safety performance

B. The company's TRIR is 16.0, calculated as  $(12 \times 200,000) \div 150,000$ , which is four times the peer company's rate of 4.0 — indicating significantly worse safety performance that demands immediate comprehensive safety intervention

C. The company's TRIR cannot be calculated because the 150,000 hours worked is below the minimum threshold for TRIR computation

D. The company's TRIR is 4.0, matching the peer company exactly because both companies have similar employee counts

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

31. A contractor operates a construction company with 65 employees. A journeyman electrician who has worked for the company for 4 years requests 8 weeks of FMLA leave to undergo treatment for a substance abuse disorder at an inpatient rehabilitation facility. The electrician has been a reliable worker with no disciplinary history. Under the FMLA, is the employer required to grant this leave?

A. No, because substance abuse treatment does not qualify as a serious health condition under the FMLA

B. No, because the FMLA covers only physical illnesses and injuries, not behavioral health or addiction treatment

C. Yes, but only if the electrician enrolls in the employer's employee assistance program (EAP) before beginning FMLA leave

D. Yes, because substance abuse treatment qualifies as a serious health condition under the FMLA when it involves inpatient care or continuing treatment by a health care provider — the employer has 65 employees (exceeding the 50-employee threshold) and the electrician has 4 years of tenure (exceeding the 12-month eligibility requirement)

32. An employer interviews a candidate for a construction superintendent position. During the interview, the employer asks: "Are you able to travel to our jobsites across the state and occasionally work weekends and evenings when project schedules require it?" Is this question permissible under federal employment discrimination laws?

A. No, because questions about travel and schedule flexibility are indirect inquiries about the candidate's family status and caregiving responsibilities

B. No, because weekend and evening work requirements must be disclosed only after a conditional job offer is extended

C. Yes, because the question relates directly to the essential functions of the superintendent position — the ability to travel to multiple jobsites and work non-standard hours when required is a legitimate job-related inquiry that does not target any protected characteristic

D. Yes, but only if the employer asks the question of every candidate regardless of gender, age, or family status

33. A non-exempt construction laborer earns \$26.00 per hour. The laborer works the following schedule: Monday 10 hours, Tuesday 10 hours, Wednesday 8 hours, Thursday 10 hours, Friday 8 hours, Saturday 6 hours. The laborer's employer pays a shift differential of \$2.00 per hour for all Saturday work. Under the FLSA, what is the correct gross pay calculation?

A. The laborer worked 52 total hours. The Saturday shift differential must be included in the regular rate: total straight-time earnings =  $(\$26.00 \times 52) + (\$2.00 \times 6 \text{ Saturday hours}) = \$1,352 + \$12 = \$1,364$ . Regular rate =  $\$1,364 \div 52 = \$26.23$ . Overtime premium =  $\$26.23 \times 0.5 = \$13.12 \times 12 \text{ overtime hours} = \$157.38$ . Total =  $\$1,364.00 + \$157.38 = \$1,521.38$

B. \$1,508.00, calculated at the base rate of \$26.00 for 52 hours plus \$12.00 Saturday differential without any overtime adjustment for the differential

C. \$1,404.00, calculated with overtime at 1.5 times the base rate only, ignoring the Saturday differential entirely

D. \$1,560.00, calculated with double-time for all Saturday hours and straight overtime for weekday hours exceeding 8

34. An employer terminates a worker for repeatedly failing drug tests under the company's drug-free workplace policy. The worker was a member of a racial minority group. The worker files a race discrimination complaint with the EEOC, alleging that white employees who failed drug tests were given second chances while minority employees were terminated. The employer's defense is that the drug-free workplace policy is applied uniformly. What evidence would most directly undermine the employer's defense?

A. Evidence that the drug-free workplace policy was adopted less than one year ago and had not been reviewed by an employment attorney

B. Documentation showing that three white employees who failed drug tests were offered rehabilitation programs and retained, while four minority employees who failed drug tests were immediately terminated — this pattern of disparate treatment, if substantiated, directly contradicts the employer's claim of uniform policy application

C. Testimony from the terminated worker that they personally observed white employees using drugs on the jobsite without consequences

D. Evidence that the company's drug testing laboratory has a higher false-positive rate than the industry average

35. An employer with 40 employees operates a construction company in Arkansas. A carpenter who has worked for the company for 6 years asks for 2 weeks off to care for their elderly grandmother who requires surgery. The grandmother is not the carpenter's parent — she is a grandparent. Under the FMLA, is the employer required to grant this leave?

A. Yes, because the FMLA covers leave to care for any family member within two generations of the employee

B. Yes, because the grandmother's surgery qualifies as a serious health condition and the carpenter has sufficient tenure

C. Yes, because employers with more than 25 employees must provide family care leave for all blood relatives under the FMLA

D. No, because the FMLA provides leave to care for a spouse, child, or parent with a serious health condition — grandparents are not included in the FMLA's definition of covered family members, though the employer may have a company policy that provides broader leave coverage

36. A contractor's project superintendent requires a crew of 8 workers to attend a mandatory 1-hour safety meeting every Monday morning before work begins at 7:00 AM. The safety meeting runs from 6:00 AM to 7:00 AM. Workers are not paid for the safety meeting hour because the superintendent considers it "pre-shift preparation." Under the FLSA, is this practice lawful?

A. Yes, because pre-shift meetings occurring before the start of the regular work shift are not compensable under FLSA regulations

B. Yes, because safety meetings are classified as training time that is exempt from compensation requirements

C. No, because mandatory safety meetings are compensable "hours worked" under the FLSA — if attendance is required by the employer, the time must be paid, and the unpaid hour must be included in the weekly total for overtime calculation purposes

D. No, but only if the safety meeting content includes topics unrelated to the specific day's work activities

37. A contractor discovers that their HR assistant has been conducting Form I-9 verifications inconsistently — requiring some employees to present specific documents (such as a Social Security card and driver's license) while allowing other employees to choose freely from the List of Acceptable Documents. An immigration attorney reviews the I-9 files and identifies a pattern: employees with Hispanic surnames were consistently required to present specific documents, while employees with non-Hispanic surnames were given free choice. What is the employer's legal exposure?

A. Significant exposure for document abuse discrimination under IRCA — selectively requiring specific documents from employees based on their national origin or perceived ethnicity violates the anti-discrimination provisions regardless of the employees' actual citizenship status, and the employer is liable for the HR assistant's discriminatory practices

B. No exposure because the employer can impose any document requirements they choose during the I-9 verification process

C. Minimal exposure because the discrimination was committed by a lower-level HR assistant, not by a company officer or owner

D. Exposure only if the affected employees file individual complaints with Immigration and Customs Enforcement within 30 days

38. A contractor operating on a Davis-Bacon covered project employs workers in two different classifications during the same workweek. Worker A spends 20 hours as a laborer (prevailing wage: \$24.00/hour + \$11.00 fringe) and 24 hours as a pipe layer (prevailing wage: \$34.00/hour + \$15.00 fringe). The contractor wants to simplify payroll by paying Worker A at the higher pipe layer rate for all 44 hours. Is this approach compliant with Davis-Bacon?

- A. No, because Davis-Bacon requires workers to be paid at the exact prevailing wage rate for each classification based on the hours actually worked in each role — paying the higher rate for all hours would overpay the laborer hours and create an inaccurate certified payroll report
- B. No, because workers cannot perform duties in two different classifications during the same workweek under Davis-Bacon
- C. Yes, because paying the higher rate for all hours exceeds the minimum prevailing wage requirements for both classifications
- D. Yes, but only if the contractor pays the higher rate for all hours and also provides the higher fringe benefit amount for all hours — paying at or above the highest applicable rate for all hours satisfies Davis-Bacon because the worker receives at least the required minimum for each hour worked regardless of classification

39. An employer with 55 employees has an employee handbook that includes an anti-retaliation policy prohibiting discipline against employees who report workplace safety concerns. An employee reports a trench safety violation to OSHA. Two weeks later, the employee's supervisor — who was unaware of the OSHA report — gives the employee a written warning for chronic tardiness. The employee alleges retaliation. What facts are most relevant to determining whether retaliation occurred?

- A. The temporal proximity (2 weeks) between the OSHA report and the written warning creates a strong presumption of retaliation that the employer cannot overcome
- B. The key facts are: (1) whether the supervisor knew about the OSHA report at the time of the warning (knowledge is a prerequisite for retaliation), (2) whether the employee had a documented history of tardiness before the OSHA report, and (3) whether similarly situated employees with comparable tardiness records received the same discipline — these facts determine whether the warning was a legitimate disciplinary action or a retaliatory response
- C. The employee's OSHA report automatically invalidates all disciplinary actions taken within 6 months because of the presumptive retaliation period
- D. Retaliation claims can only succeed if the employee was terminated, not merely given a written warning

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

40. A contractor's project has a contract value of \$2,800,000 with estimated total costs of \$2,380,000 using the percentage-of-completion method. At the end of Period 1, costs incurred

total \$952,000. At the end of Period 2, cumulative costs total \$1,666,000. What revenue is recognized in Period 2 only?

- A. \$840,000 — Period 1 cumulative revenue was \$1,120,000 ( $40\% \times \$2,800,000$ ); Period 2 cumulative revenue is \$1,960,000 ( $70\% \times \$2,800,000$ ); Period 2 incremental revenue =  $\$1,960,000 - \$1,120,000 = \$840,000$
- B. \$1,960,000, representing the full cumulative revenue through Period 2
- C. \$714,000, equal to the costs incurred during Period 2 only ( $\$1,666,000 - \$952,000$ )
- D. \$1,120,000, equal to the Period 1 revenue repeated in Period 2

41. A contractor's balance sheet shows: current assets \$850,000; current liabilities \$620,000; total assets \$1,900,000; total liabilities \$1,350,000. A surety uses a bonding multiplier of 15 times working capital. The contractor currently has \$800,000 in bonded work in progress. What is the contractor's remaining available bonding capacity?

- A. \$3,450,000 total capacity with \$800,000 committed, leaving \$2,650,000 available for new bonds
- B. \$2,650,000, representing the remaining capacity without identifying the total capacity for context
- C. \$2,650,000 remaining — total bonding capacity is \$3,450,000 ( $15 \times \$230,000$  working capital), minus \$800,000 in existing bonded work, leaving \$2,650,000 available for new project bonds
- D. \$8,250,000 total capacity calculated using net worth instead of working capital, leaving \$7,450,000 available

42. A contractor's income statement shows the following: total contract revenue \$9,200,000; cost of construction \$7,820,000; general and administrative expenses \$920,000. The contractor's banker asks for the gross profit margin and net profit margin to evaluate a loan application. What are these metrics?

- A. Gross margin 20% and net margin 10%, calculated using non-standard definitions that overstate profitability
- B. Gross margin 10% and net margin 5%, calculated using an incorrect revenue base
- C. Gross margin 18% and net margin 8%, calculated by rounding both margins upward from their actual values

D. Gross margin 15% ( $\$1,380,000 \div \$9,200,000$ ) and net margin 5% ( $\$460,000 \div \$9,200,000$ ) — the 15% gross margin indicates healthy project-level profitability and the 5% net margin reflects solid bottom-line performance after all overhead

43. A contractor's cash flow analysis reveals that their largest project (45% of total revenue) bills monthly but the owner consistently pays 75 days after billing — well beyond the 45-day industry standard. This single project's slow payment is causing the contractor to draw heavily on their line of credit. What is the most effective long-term solution?

A. Terminate the project to eliminate the cash flow drain regardless of contractual obligations

B. Negotiate improved payment terms with the project owner — including shortened payment cycles, reduced retainage, or interest on late payments — and if the owner cannot improve, factor the slow payment into future pricing for this owner's projects by increasing the bid to cover the financing cost of the extended collection period

C. Increase the line of credit limit to accommodate the slow-paying owner's billing cycle

D. Stop paying subcontractors on this project until the owner brings payments current

44. A contractor maintains job cost accounts for all active projects. At the midpoint of Project Theta, the cost report shows: budgeted cost for work performed (earned value) = \$1,200,000; actual cost of work performed = \$1,320,000; budgeted cost for work scheduled (planned value) = \$1,350,000. What do the Cost Performance Index (CPI) and Schedule Performance Index (SPI) indicate?

A.  $CPI = 0.909$  ( $\$1,200,000 \div \$1,320,000$ ) indicating 9.1% cost overrun, and  $SPI = 0.889$  ( $\$1,200,000 \div \$1,350,000$ ) indicating 11.1% schedule shortfall — the project is both over budget and behind schedule, requiring corrective action on both fronts

B.  $CPI = 1.10$  and  $SPI = 1.13$ , indicating the project is under budget and ahead of schedule

C.  $CPI = 0.909$  and  $SPI = 1.0$ , indicating cost overrun but the schedule is on track

D. CPI and SPI cannot be calculated from the data provided because the total project budget is missing

45. A contractor's accounts receivable aging shows: \$600,000 current (0-30 days), \$200,000 at 31-60 days, \$100,000 at 61-90 days, and \$75,000 over 90 days. The contractor's CPA recommends establishing a bad debt reserve using a tiered percentage: 1% on current, 5% on 31-60 days, 15% on 61-90 days, and 40% on over 90 days. What is the total recommended bad debt reserve?

- A. \$48,750, calculated by applying a flat 5% reserve to the entire \$975,000 receivable portfolio
- B. \$97,500, calculated by applying a 10% reserve to the entire portfolio
- C. \$9,750, calculated by applying the 1% current rate to all receivables regardless of aging
- D. \$51,000, calculated as:  $(\$600,000 \times 1\% = \$6,000) + (\$200,000 \times 5\% = \$10,000) + (\$100,000 \times 15\% = \$15,000) + (\$75,000 \times 40\% = \$30,000)$  — reflecting progressively higher reserve percentages as receivables age and become increasingly difficult to collect

**DOMAIN: TAX LAWS (5 Questions)**

46. A contractor organized as a sole proprietorship earns \$220,000 in net self-employment income. The contractor's CPA calculates the self-employment tax using the 92.35% adjustment. What is the purpose of this adjustment, and approximately how much is the adjusted self-employment income?

- A. The 92.35% adjustment increases the self-employment income by 7.65% to account for the employer's share of FICA taxes
- B. The 92.35% adjustment reduces the self-employment income to \$203,170 ( $\$220,000 \times 0.9235$ ) — the purpose is to approximate the treatment that employees receive, where FICA is calculated on wages net of the employer's share, since self-employed individuals pay both shares but should not pay self-employment tax on the tax itself
- C. The adjustment reduces taxable income to zero for sole proprietors earning less than \$250,000
- D. The 92.35% adjustment is applied only to the Medicare portion of the self-employment tax, not to the Social Security portion

47. An employer files Form 941 for the second quarter and reports total payroll tax liability of \$85,000. The employer deposited a total of \$78,000 during the quarter — \$7,000 less than the actual liability. The employer discovers the shortfall when preparing the quarterly return. What should the employer do?

- A. File an amended Form 941 for the first quarter to retroactively reallocate the excess deposit from Q1 to Q2
- B. Wait until the end of the year and include the \$7,000 shortfall in the fourth quarter Form 941 filing
- C. Deposit the \$7,000 shortfall immediately — the employer should make the deposit as soon as possible to minimize late deposit penalties, because the IRS penalty rate increases the longer

the deposit remains outstanding (2% for 1-5 days late, 5% for 6-15 days, 10% for 16+ days, 15% after IRS notice)

D. File a penalty abatement request with the IRS before making the deposit because penalties cannot be assessed until the employer is formally notified of the shortfall

48. A contractor buys a \$65,000 work truck and elects to expense the full cost under Section 179 in the year of purchase. The truck is used 80% for business and 20% for personal use. How does the mixed-use allocation affect the Section 179 deduction?

A. Only the business-use portion qualifies for Section 179 — the contractor can deduct \$52,000 ( $\$65,000 \times 80\%$ ), reflecting the 80% business-use percentage, because Section 179 deductions on listed property (vehicles) must be reduced by the personal-use percentage

B. The full \$65,000 is deductible because Section 179 does not require a business-use allocation for vehicles used in construction

C. No deduction is available because the vehicle must be used 100% for business to qualify for Section 179

D. The deduction is limited to \$25,000 regardless of business-use percentage because vehicles have a separate Section 179 cap

49. A contractor organized as an LLC taxed as an S-Corporation pays the owner-employee a salary of \$120,000 per year and distributes an additional \$80,000 as a shareholder distribution. What is the self-employment tax and FICA treatment of each component?

A. Both the salary and the distribution are subject to full FICA taxes because S-Corporation income is always subject to employment taxes

B. Neither the salary nor the distribution is subject to FICA or self-employment taxes because the S-Corporation election exempts all income from employment taxes

C. The salary is subject to FICA taxes on the full \$200,000 combined amount because the IRS does not recognize salary-distribution splits

D. The \$120,000 salary is subject to FICA taxes (employer and employee shares of Social Security and Medicare), while the \$80,000 distribution is not subject to FICA or self-employment tax — this salary-distribution split is the primary tax advantage of the S-Corporation structure, though the IRS requires the salary to be "reasonable" for the services performed

50. A contractor purchases \$50,000 in HVAC equipment for installation in a commercial building project and \$2,500 in janitorial supplies for their company office. Both purchases are made in Arkansas. How does Arkansas sales tax apply?

- A. Sales tax applies only to the \$2,500 janitorial supplies because HVAC equipment installed in commercial buildings is exempt
- B. Sales tax applies to both purchases — the \$50,000 HVAC equipment (because the contractor is the consumer of materials they install) and the \$2,500 janitorial supplies (because they are business consumables) — totaling \$52,500 in taxable purchases
- C. Sales tax applies only to the \$50,000 HVAC equipment because office supplies are exempt for licensed contractors
- D. No sales tax applies because the contractor can use a resale certificate to exempt all business purchases from sales tax

## Practice Exam 14: Answer Key and Explanations

- 1. A** — An S-Corporation is a pass-through entity that eliminates entity-level federal income tax. Corporate income flows through to the shareholder's individual return via Schedule K-1, where it is taxed only once at the individual rate. This directly eliminates the double taxation inherent in C-Corporations, where profits are taxed at the corporate level and again when distributed as dividends.
- 2. C** — Net worth:  $\$320,000 - \$260,000 = \$60,000$ , which exceeds the \$50,000 minimum. Cash and cash equivalents:  $\$28,000 \text{ cash} + \$15,000 \text{ certificate of deposit} = \$43,000$ , which exceeds the \$25,000 minimum. Certificates of deposit are generally classified as cash equivalents for financial reporting purposes. Both financial thresholds are met.
- 3. B** — Arkansas law guarantees contractors facing ACLB disciplinary proceedings the right to a hearing before the Board. This includes the right to present evidence, call witnesses, cross-examine witnesses, and defend against the allegations before any disciplinary action is finalized. These due process protections ensure that no contractor loses their license without a fair opportunity to be heard.
- 4. D** — Upon discovering the expired license, the general contractor should take immediate corrective action: stop the subcontractor's work, require proof of license reinstatement before allowing resumption, notify the ACLB, and evaluate whether the unlicensed work creates code compliance or licensing issues. Allowing unlicensed work to continue — even temporarily — exposes the general contractor to ACLB disciplinary action for aiding unlicensed activity.
- 5. A** — The ACLB offers temporary licenses for contractors performing limited-duration work in Arkansas. A temporary license valid for 90 days would cover the 45-day project timeline. The contractor's NASCLA exam result can satisfy the trade exam component. This pathway allows the out-of-state contractor to begin work most efficiently without waiting for full permanent licensure processing.

**6. C** — Historical unit prices may not reflect current conditions. Material prices fluctuate with market forces, labor rates change with union contracts and labor market conditions, and productivity assumptions embedded in historical data may not apply to different site conditions, building configurations, or crew compositions. The estimator should adjust historical prices for current market conditions and project-specific factors before using them.

**7. B** — The bid includes an unauthorized condition — the staging area contingency — that modifies the terms of the bid submission. On public projects, all bidders must accept the same terms and conditions. Contractor C's conditional bid changes the basis of competition by adding a requirement not available to other bidders. The bid is non-responsive and should be rejected.

**8. D** — Material with waste:  $\$12.50 \times 6,000 \times 1.08 = \$81,000$ . Labor:  $6,000 \div 25 = 240$  hours  $\times \$52.00 = \$12,480$ . Total:  $\$81,000 + \$12,480 = \$93,480$ . 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 pipe. The loaded labor rate includes wages, taxes, insurance, and benefits.

**9. C** — For a contractor to withdraw a bid based on a mathematical error, they must demonstrate: the error was clerical or mathematical (not judgmental), the error was material in amount (\$280,000 HVAC omission on a \$2,100,000 bid is 13.3%), the withdrawal was requested promptly (within 2 days), and the municipality would not be unconscionably harmed. These factors establish the framework courts use to evaluate bid withdrawal requests.

**10. A** — The contractor may be entitled to interest on the 5-day late payment if the contract includes a late payment interest provision. Even if the contract is silent on interest, the contractor should send written notice documenting the late payment, the contractual deadline, and the actual payment date. This written record preserves the contractor's rights and establishes a pattern if late payments become recurring.

**11. D** — When the owner directs work before a price is agreed upon, the contractor should protect themselves by establishing a documentation framework. Proceeding on a time-and-materials basis with daily records — signed by both parties' representatives — creates verifiable cost documentation that supports the final change order negotiation. The written response confirms authorization while the T&M tracking ensures cost transparency.

**12. B** — A flow-down clause incorporates the relevant terms of the prime contract into the subcontract. This ensures the subcontractor is bound by the same quality standards, schedule requirements, safety rules, insurance obligations, and administrative procedures that govern the general contractor. Without flow-down provisions, the GC may be unable to enforce prime contract requirements against their subcontractors.

**13. C** — The contractor substituted a product without obtaining prior architect approval, violating the contract's substitution procedures. The clear anodized finish does not match the specified bronze anodized finish shown on the approved shop drawings. The architect will reject the non-conforming windows, and the contractor bears the full cost of removal and replacement because they assumed the risk of proceeding without authorization.

**14. A** — The differing site conditions clause protects the contractor when actual subsurface conditions differ from those represented in the contract documents. The civil drawings and utility survey — contract documents provided by the owner — failed to show the existing

utility. The contractor relied on these documents when pricing the bid and is entitled to additional compensation for the unforeseen utility conflict through a change order.

**15. D** — An owner-directed stop-work order that is not caused by contractor fault entitles the contractor to both a time extension and compensation for the extended overhead costs incurred during the suspension. The contractor should not bear the financial burden of a work stoppage that was entirely the owner's decision. The \$45,000 in standby costs represents real expenses incurred solely because of the owner's redesign decision.

**16. B** — Paying for conforming work (\$140,000) while withholding only the amount attributable to non-conforming work (\$20,000) is the proportionate and appropriate response. This approach compensates the subcontractor for satisfactory work while creating a financial incentive to correct the deficiencies. Withholding the entire \$160,000 for \$20,000 in deficient work would be disproportionate.

**17. C** — Over-billing creates serious financial exposure for the owner. If the contractor defaults at 78% billed but only 62% complete, the owner has overpaid by 16% of the contract value and must fund the completion of 38% of the remaining work with only 22% of the contract funds remaining. The owner may demand immediate repayment, withhold future payments until billing matches progress, or pursue breach of contract claims.

**18. A** — Many jurisdictions have enacted anti-indemnity statutes that specifically prohibit or limit indemnification clauses requiring a contractor to assume liability for the owner's sole negligence. These statutes reflect public policy that parties should bear responsibility for their own negligent acts. Contractors should review indemnification clauses carefully and understand their state's anti-indemnity statute before signing.

**19. D** — The first step is analyzing where the penthouse work fits within the existing construction sequence. The project manager must determine which existing activities must be completed first (roof structure, waterproofing), identify which penthouse activities will fall on the revised critical path, and establish logic ties between the new and existing work. Only after this analysis can the completion date and time extension be accurately determined.

**20. B** — Daily reports are contemporaneous records created on the day events occurred — they carry significant evidentiary weight in dispute proceedings. The daily documentation of workforce counts directly refutes the insufficient manpower allegation, while the documented RFI submission dates and delayed responses support the contractor's owner-caused delay claim. Consistent daily reporting throughout the project creates a powerful factual record.

**21. C** — Working backward from December 1: the 3-week commissioning window runs from approximately November 10 through December 1. All mechanical system installations must be complete by November 10 to provide the full commissioning period. This backward scheduling approach — starting from the deadline and working in reverse — ensures adequate time for each required pre-completion activity.

**22. A** — BIM coordination or traditional shop drawing overlay identifies spatial conflicts in three dimensions before installation begins. A coordination meeting follows where all trades review the conflicts together and agree on revised routing. Resolving conflicts on paper (or in the model) costs a fraction of what field resolution costs — where installed work must be demolished, relocated, and reinstalled.

**23. D** — Activity P is on the critical path (zero float: late start 40 – early start 40 = 0). Activity Q has 3 days of total float (late start 55 – early start 52 = 3). The 2-day delay to Activity P pushes Q's start from Day 52 to Day 54. Since Q's late start is Day 55, starting on Day 54 is still within Q's float window. The project completion date is not affected because Q absorbs the delay within its available float.

**24. B** — After 8 weeks of sustained overtime with no net schedule gain, increasing fatigue, rising error rates, and two recordable injuries, the overtime program is counterproductive. Research consistently shows that after 4 to 6 weeks, sustained overtime produces diminishing returns until net weekly output equals a standard 40-hour week. Adding fresh workers or a second shift would be more effective than continuing the failing overtime approach.

**25. A** — An occurrence-based CGL policy covers claims arising from incidents that occurred during the policy period, regardless of when the claim is filed. The defective flashing was installed during 2025 — within the policy period. Even though the claim is filed in March 2027, the 2025 policy responds because the occurrence (defective installation) happened during 2025. This is the fundamental advantage of occurrence-based coverage.

**26. D** — When the surety receives a performance bond claim, it investigates the default and exercises its options. These typically include financing the defaulting contractor to complete the work, hiring a replacement contractor, negotiating a takeover with the obligee, or paying the obligee's actual completion costs up to the penal sum. The surety manages the resolution process to fulfill the bond obligation while minimizing its financial exposure.

**27. B** — The EMR is calculated using a rolling three-year period with a one-year lag. The most recent year is excluded because claims from that year may not have fully developed (medical costs may still be accumulating, lost-time cases may not have closed). This lag ensures the EMR reflects claims that have reached a reasonable level of maturity and cost finality.

**28. A** — The initial treatment (wound cleaning, bandage, tetanus booster) is all classified as first aid. The case becomes recordable at the follow-up when the doctor prescribes antibiotics (prescription medication is 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 records the original injury date, not the follow-up date.

**29. C** — With 14 employees, the employer exceeds the 11-employee OSHA recordkeeping threshold. The employer must maintain OSHA 300 Logs, complete 301 Incident Reports for each recordable case, post the 300A Summary from February 1 through April 30, and comply with all reporting requirements — fatalities within 8 hours and hospitalizations, amputations, and eye losses within 24 hours.

**30. B** —  $TRIR = (12 \text{ recordable cases} \times 200,000) \div 150,000 \text{ hours} = 16.0$ . The peer company's TRIR is 4.0. This company's rate is four times worse — a TRIR of 16.0 is catastrophically high and indicates fundamental safety management failures requiring immediate comprehensive intervention, including root cause analysis, safety program overhaul, and leadership accountability.

**31. D** — Substance abuse treatment qualifies as a serious health condition under the FMLA when it involves inpatient care or continuing treatment by a health care provider. The employer has 65 employees (exceeding the 50-employee threshold) and the electrician has 4 years of

tenure (exceeding the 12-month requirement). The 8-week request is within the 12-week FMLA maximum.

**32. C** — Questions about the ability to travel to multiple jobsites and work non-standard hours relate directly to the essential functions of a construction superintendent position. The question does not target any protected characteristic — it addresses legitimate job requirements that the successful candidate must be able to fulfill. Job-related inquiries about availability and mobility are permissible under federal employment law.

**33. A** — The Saturday shift differential must be included in the regular rate for overtime calculation. Total straight-time earnings:  $(\$26.00 \times 52) + (\$2.00 \times 6) = \$1,364$ . Regular rate:  $\$1,364 \div 52 = \$26.23$ . Overtime premium:  $\$26.23 \times 0.5 = \$13.12 \times 12$  overtime hours =  $\$157.38$ . Total gross pay:  $\$1,364.00 + \$157.38 = \$1,521.38$ . Non-discretionary shift differentials are always included in the regular rate.

**34. B** — Documentation showing a pattern of disparate treatment — white employees offered rehabilitation while minority employees were terminated for the same offense — directly contradicts the employer's claim of uniform policy application. This pattern evidence is the most powerful type of proof in a disparate treatment case because it demonstrates that the policy was applied differently based on race, regardless of the policy's facially neutral language.

**35. D** — The FMLA provides leave to care for a spouse, child, or parent with a serious health condition. Grandparents are not included in the FMLA's statutory definition of covered family members. While the grandmother's surgery is a serious health condition, the carpenter's relationship to her does not qualify under the FMLA. The employer may voluntarily grant leave under company policy but is not required to do so under the FMLA.

**36. C** — Mandatory safety meetings are compensable "hours worked" under the FLSA. When attendance is required by the employer, the time must be paid regardless of whether the meeting occurs before, during, or after the regular work shift. The unpaid hour must also be included in the weekly total for overtime purposes. Failing to pay for mandatory meeting time is a wage and hour violation.

**37. A** — Selectively requiring specific documents from employees based on their national origin or ethnicity constitutes document abuse discrimination under IRCA. Employers must allow all employees to freely choose which acceptable documents to present from the I-9 List of Acceptable Documents. The employer is liable for the HR assistant's discriminatory practices because employers are responsible for their agents' actions.

**38. D** — Paying the higher pipe layer rate for all 44 hours satisfies Davis-Bacon because the worker receives at least the required minimum for every hour worked — the laborer hours are paid above the required laborer rate and the pipe layer hours are paid at the required rate. The certified payroll should accurately document the hours worked in each classification even when a single higher rate is applied to all hours.

**39. B** — The critical facts for evaluating retaliation are: (1) whether the supervisor knew about the OSHA report when issuing the warning (knowledge is essential), (2) whether the employee had a documented history of tardiness predating the OSHA report (establishing a legitimate non-retaliatory basis), and (3) whether comparable employees received similar discipline for

similar conduct (demonstrating consistent application). These facts distinguish legitimate discipline from retaliatory action.

**40. A** — Period 1: % complete =  $\$952,000 \div \$2,380,000 = 40\%$ . Revenue =  $40\% \times \$2,800,000 = \$1,120,000$ . Period 2: cumulative % =  $\$1,666,000 \div \$2,380,000 = 70\%$ . Cumulative revenue =  $70\% \times \$2,800,000 = \$1,960,000$ . Period 2 incremental revenue =  $\$1,960,000 - \$1,120,000 = \$840,000$ . Revenue is recognized incrementally by subtracting previously recognized amounts from the cumulative total.

**41. C** — Working capital:  $\$850,000 - \$620,000 = \$230,000$ . Bonding capacity:  $15 \times \$230,000 = \$3,450,000$ . Existing bonded work:  $\$800,000$ . Available capacity:  $\$3,450,000 - \$800,000 = \$2,650,000$ . The contractor can bond an additional  $\$2,650,000$  in new work. Increasing working capital — through retained earnings, capital contributions, or improved collections — directly increases bonding capacity.

**42. D** — Gross profit:  $\$9,200,000 - \$7,820,000 = \$1,380,000$ . Gross margin:  $\$1,380,000 \div \$9,200,000 = 15.0\%$ . Net income:  $\$1,380,000 - \$920,000 = \$460,000$ . Net margin:  $\$460,000 \div \$9,200,000 = 5.0\%$ . A 15% gross margin indicates healthy project profitability and a 5% net margin reflects solid bottom-line performance — both within or above typical industry benchmarks for general contractors.

**43. B** — The most effective long-term solution addresses the root cause: the owner's slow payment habits. Negotiating improved payment terms (shorter cycles, reduced retainage, late payment interest) directly reduces the cash flow drag. If the owner cannot improve, the contractor should increase future bid prices for this owner to cover the financing cost of the extended 75-day collection period.

**44. A** — CPI =  $EV \div AC = \$1,200,000 \div \$1,320,000 = 0.909$ , indicating a 9.1% cost overrun. SPI =  $EV \div PV = \$1,200,000 \div \$1,350,000 = 0.889$ , indicating an 11.1% schedule shortfall. The project is both over budget and behind schedule. Both indices below 1.0 signal the need for corrective action on cost control and schedule acceleration simultaneously.

**45. D** — Tiered reserves: current ( $\$600,000 \times 1\% = \$6,000$ ) + 31-60 days ( $\$200,000 \times 5\% = \$10,000$ ) + 61-90 days ( $\$100,000 \times 15\% = \$15,000$ ) + over 90 days ( $\$75,000 \times 40\% = \$30,000$ ) =  $\$51,000$  total reserve. The progressively higher percentages reflect the increasing probability that older receivables will become uncollectible. This tiered approach produces a more accurate reserve than a flat percentage applied across all aging categories.

**46. B** — The 92.35% adjustment reduces self-employment income to approximate the treatment employees receive. Employees pay FICA only on their wages — not on the employer's matching share. Since self-employed individuals pay both shares (15.3%), the 92.35% adjustment prevents them from paying self-employment tax on the tax itself. Adjusted income:  $\$220,000 \times 0.9235 = \$203,170$ .

**47. C** — The employer should deposit the  $\$7,000$  shortfall immediately to minimize late deposit penalties. The IRS penalty rate escalates with time: 2% for 1-5 days late, 5% for 6-15 days late, 10% for 16+ days late, and 15% after receiving an IRS notice. Every day the shortfall remains outstanding increases the penalty. Prompt deposit limits the penalty to the lowest applicable rate.

**48. A** — Section 179 deductions on listed property (which includes vehicles) must be reduced by the personal-use percentage. With 80% business use, only \$52,000 ( $\$65,000 \times 80\%$ ) qualifies for the Section 179 deduction. The remaining 20% personal-use portion is not deductible. The contractor must maintain contemporaneous records documenting business versus personal mileage to substantiate the allocation.

**49. D** — The \$120,000 salary is subject to FICA taxes — both the employer and employee shares of Social Security and Medicare. The \$80,000 shareholder distribution is not subject to FICA or self-employment tax. This salary-distribution split is the primary tax advantage of the S-Corporation structure, saving approximately \$12,240 in self-employment taxes on the \$80,000 distribution ( $15.3\% \times \$80,000$ ). The IRS requires the salary to be reasonable for the services performed.

**50. C** — In Arkansas, contractors pay sales tax on all materials they purchase for use in their business. The \$50,000 HVAC equipment is taxable because the contractor is the consumer of materials they install — contractors cannot use resale certificates for materials incorporated into real property. The \$2,500 janitorial supplies are taxable as business consumables. Total taxable purchases: \$52,500 at the applicable combined state and local sales tax rate.