

# PRACTICE EXAM 15: ARKANSAS BUSINESS AND LAW SIMULATION (50 QUESTIONS)

---

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

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

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

1. A husband and wife operate a construction business together. They have never filed any formal business organization documents with the Arkansas Secretary of State, have no written partnership agreement, and operate under their personal names. They share all profits equally and both make business decisions. A material supplier sues the business for \$60,000 in unpaid invoices. Under Arkansas law, what type of business entity are they operating, and what is their personal liability exposure?

A. A joint venture with liability limited to the amount of their capital contributions to the venture

B. A limited liability company by default because married couples operating businesses together automatically receive LLC protection

C. A general partnership by operation of law — because two or more persons carrying on a business for profit without filing formal organization documents creates a general partnership, and both spouses are jointly and severally liable for the full \$60,000

D. A sole proprietorship with only one spouse liable because Arkansas law recognizes only one owner per unregistered business

**DOMAIN: LICENSING (4 Questions)**

2. A contractor holds an unrestricted commercial license in Arkansas. The contractor's CPA-prepared financial statement, which was submitted with the license application 10 months ago, showed a net worth of \$120,000. Since then, the contractor has experienced significant financial losses — their current net worth has dropped to \$22,000, well below the \$50,000 minimum. The contractor has not reported this change to the ACLB. What is the contractor's obligation?

A. The contractor has an obligation to report material changes in their financial condition to the ACLB, and operating with a net worth below the minimum requirement may constitute grounds for license suspension or additional financial monitoring — the contractor should proactively notify the Board rather than wait for the next renewal cycle

B. No obligation exists because financial qualification is verified only at initial application and annual renewal, not between filings

C. The contractor must immediately cease all operations until their net worth is restored to \$50,000

D. The contractor's only obligation is to notify their surety company of the financial decline

3. An applicant for an Arkansas residential builder license claims 5 years of construction experience. The ACLB reviews the application and requests verification of the experience. Which of the following would the Board most likely accept as verification of construction experience?

A. A signed affidavit from the applicant's spouse confirming the applicant has been building homes for 5 years

B. A portfolio of photographs showing completed residential projects without any corroborating documentation

C. Social media posts from the applicant's business page showing construction work dating back 5 years

D. Reference letters from project owners, architects, or other licensed contractors who directly observed and can verify the applicant's construction work over the claimed 5-year period, combined with supporting documentation such as permits, contracts, or tax records

4. A contractor's commercial license is set to expire on September 30. The contractor mails the renewal application on September 20 but forgets to include the renewal fee. The ACLB receives the application on September 28 and notifies the contractor of the missing fee on

October 3. The contractor overnights the fee, which arrives on October 5. What is the contractor's license status between September 30 and October 5?

- A. The license remained active throughout because the application was received before the expiration date and the fee deficiency was a correctable administrative error
- B. The license expired on September 30, and the contractor was operating without a valid license from October 1 through October 5 — any construction work performed during this gap constitutes unlicensed activity regardless of the reason for the lapse
- C. The license is automatically extended for 30 days whenever a renewal application is received before the expiration date, regardless of whether the fee is included
- D. The ACLB must grant a retroactive renewal effective September 30 because the application was filed in good faith before the deadline

5. A residential homeowner hires a contractor to build a \$280,000 custom home. During construction, the contractor also agrees to build a \$60,000 detached workshop that the homeowner will use as a woodworking hobby shop — strictly for personal use, not for any commercial activity. The contractor holds a residential builder license only. Can the contractor build both structures?

- A. No, because detached workshops require a commercial license regardless of their intended use
- B. No, because the combined project value of \$340,000 exceeds the residential builder's maximum project value threshold
- C. Yes, because a detached workshop used exclusively for personal hobby purposes on a residential property is a residential accessory structure, and a residential builder license authorizes construction of the home and its accessory structures
- D. Yes, but only if the workshop is physically connected to the main residence by a covered breezeway or enclosed corridor

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

6. A contractor receives a set of bid documents for a public library construction project. The documents include architectural drawings, structural drawings, mechanical drawings, electrical drawings, civil/site drawings, and a project manual containing Division 1 through Division 33 specifications. During the estimate, the contractor finds that the architectural floor plan shows a room labeled "Server Room" with standard wall construction, but Division 27

(Communications) of the specifications requires the server room to have fire-rated walls, supplemental cooling, and a raised access floor system. The architectural drawings do not show these features. Which document controls?

A. The specifications (Division 27) control because in the standard document hierarchy, specifications take precedence over drawings when a conflict exists — the contractor should estimate the server room with fire-rated walls, supplemental cooling, and a raised floor as specified, and should submit an RFI to document the conflict

B. The architectural floor plan controls because the architect's design intent is expressed through the drawings, not the specifications

C. The contractor should estimate the less expensive option (standard wall construction) to submit the most competitive bid

D. Neither document controls and the contractor must exclude the server room from their bid entirely until the conflict is resolved

7. A contractor's estimator needs to calculate the loaded labor rate for a journeyman carpenter. The base hourly wage is \$28.00. The employer's burden includes: FICA (7.65%), workers' compensation (14.0%), health insurance (\$3.50/hour), unemployment taxes (2.8%), and general liability insurance (2.1%). What is the approximate loaded labor rate?

A. \$28.00, equal to the base wage because employer burden is classified as overhead and not included in the labor rate

B. \$31.50, calculated by adding only the health insurance to the base wage without the percentage-based burdens

C. \$42.00, calculated by applying a flat 50% markup to the base wage as a standard industry approximation

D. \$38.93, calculated by adding the percentage-based burdens (7.65% + 14.0% + 2.8% + 2.1% = 26.55% of \$28.00 = \$7.43) plus the hourly health insurance (\$3.50) to the base wage (\$28.00 + \$7.43 + \$3.50 = \$38.93)

8. A public school district receives four bids for a new elementary school project. The bids are: \$8,200,000, \$8,450,000, \$8,900,000, and \$9,100,000. The architect's estimate was \$8,800,000. The lowest bidder submits a bid bond, lists all required subcontractors, acknowledges all addenda, and meets all bid form requirements. The school board wants to award to the second-lowest bidder because the board member's nephew works for that company. Is this permissible?

A. Yes, because school boards have absolute discretion in awarding construction contracts to any bidder regardless of price

B. No, because public construction contracts must be awarded to the lowest responsive and responsible bidder — awarding to a higher bidder based on a board member's personal relationship violates competitive bidding law and the board member's conflict of interest must be disclosed and the member must recuse themselves from the award decision

C. Yes, but only if the board formally documents a non-price justification for selecting the higher bidder

D. No, but the board can reject all bids and rebid the project with revised specifications that favor the preferred contractor

9. A contractor is evaluating whether to bid on a complex hospital renovation project. The contractor has extensive experience with commercial office renovations but has never worked on a hospital project. Hospital construction involves infection control requirements, phased construction in occupied patient areas, specialized mechanical systems, and stringent regulatory approvals. What is the most important factor the contractor should evaluate before deciding to bid?

A. Whether the hospital project is more profitable than the contractor's typical office renovation projects

B. Whether the contractor can hire a superintendent with hospital construction experience to manage the project

C. Whether the contractor's organization has the technical expertise, specialized knowledge, and operational capacity to manage the unique risks and requirements of hospital construction — including infection control protocols, interim life safety measures, phased construction logistics, and healthcare regulatory compliance — because unfamiliarity with these requirements creates risk that cannot be solved by pricing alone

D. Whether the contractor's bonding company will approve the bond based on the contractor's existing project portfolio

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

10. A contractor signs a fixed-price contract for a commercial office building. The contract includes the standard AIA A201 General Conditions. During construction, the contractor encounters a 6-inch water main that is not shown on the civil drawings, the utility survey, or any other contract document. The water main runs directly through the planned building footprint and must be relocated at a cost of \$85,000. The contractor submits a change order citing the differing site conditions clause. The owner argues the contractor should have discovered the water main during their pre-bid site visit. Under the Spearin Doctrine, whose position is stronger?

A. The contractor's position is stronger because the Spearin Doctrine establishes that the owner impliedly warrants the completeness and accuracy of the contract documents provided to the contractor — the civil drawings and utility survey failed to show the water main, and the contractor's pre-bid site visit does not require subsurface investigation to discover buried utilities not shown on the documents

B. The owner's position is stronger because the pre-bid site visit obligates the contractor to discover all existing conditions including buried utilities

C. Neither party has a strong position because subsurface utility conflicts are always treated as shared risks under the AIA General Conditions

D. The owner's position is stronger because utility relocations are specifically excluded from the differing site conditions clause in all standard construction contracts

11. A contractor working on a commercial renovation discovers that the existing building's structural columns are severely corroded at their base connections — a condition completely concealed behind drywall that was not visible during the pre-construction walk-through and was not disclosed in any of the contract documents. Repairing the column bases will cost \$125,000. The contract includes a clause stating: "The Contractor has examined the site and existing conditions and accepts the work as shown and described in the Contract Documents." Does this clause bar the contractor's claim for the concealed corrosion?

A. Yes, because the site examination clause transfers all risk of existing conditions to the contractor without exception

B. Yes, because experienced renovation contractors should always assume structural deterioration exists behind walls in older buildings

C. No, but the contractor can only recover 50% of the repair cost because concealed conditions in renovation projects are a shared risk

D. No, because the site examination clause applies to conditions that were observable during the pre-construction examination — concealed corrosion hidden behind drywall was not observable and was not disclosed in the contract documents, making it a Type I differing site condition that the clause was not intended to cover

12. A subcontractor on a commercial project completes their scope of work but the general contractor refuses to process the subcontractor's final payment application, stating: "I'll pay you when I get around to it." The subcontractor's outstanding balance is \$92,000. The subcontract requires the GC to process payment applications within 7 days of receipt. It has been 45 days since the application was submitted. What remedies are available to the subcontractor?

A. The subcontractor's only remedy is to continue waiting because general contractors have unlimited time to process subcontractor payments

B. The subcontractor can send a formal written demand for payment, file a mechanics' lien against the project property if the lien deadline has not expired, pursue a payment bond claim if the project is bonded, and if necessary, file a breach of contract lawsuit for the unpaid amount plus any contractual interest or penalties for late payment

C. The subcontractor can deduct the unpaid amount from future work on other projects with the same general contractor

D. The subcontractor must wait until the general contractor receives final payment from the owner before pursuing any payment remedy

13. A construction contract requires the contractor to maintain a project schedule and submit monthly updates showing actual progress versus planned progress. The contractor's October update shows the project is 12 days behind schedule on the critical path. The contract includes a liquidated damages provision of \$2,500 per day for late completion. The owner demands a recovery schedule showing how the contractor will eliminate the 12-day delay. What should the contractor's recovery schedule demonstrate?

A. The recovery schedule should identify specific acceleration measures — such as adding crews, authorizing overtime, re-sequencing activities, or overlapping work phases — that will compress the remaining critical path by at least 12 days, along with the cost of acceleration and whether the delay was caused by excusable events that entitle the contractor to a time extension rather than requiring acceleration at the contractor's expense

B. The recovery schedule should simply add 12 days to the contractual completion date without showing any acceleration measures

C. The recovery schedule should show the project completing on the original date without explaining how the 12-day deficit will be recovered

D. The recovery schedule is optional because liquidated damages provisions automatically replace the requirement for schedule recovery

14. A project architect issues a Construction Change Directive (CCD) instructing the contractor to proceed with additional fire alarm work while the parties negotiate the change order price. The CCD states that the contractor must begin the work immediately and that the final price will be determined after completion. The contractor estimates the work will cost \$55,000 but believes the architect's scope description is ambiguous and could result in costs exceeding \$80,000. What should the contractor do?

A. Refuse to proceed until a firm fixed price is agreed upon because CCDs are not binding on the contractor

B. Proceed with the work at the \$55,000 estimate and accept any losses above that amount as the cost of complying with the directive

C. Respond in writing acknowledging the CCD, proceed with the work as directed, track all costs on a time-and-materials basis with daily documentation, and formally reserve the right to claim the full actual cost of the work in the change order negotiation — because CCDs require compliance but the contractor's documented actual costs form the basis for final pricing

D. Submit a lien waiver for the estimated \$55,000 before beginning the CCD work to lock in the maximum price

15. A contractor on a public school project discovers that the specified flooring adhesive has been recalled by the manufacturer due to elevated volatile organic compound (VOC) emissions. The architect has not issued a revised specification. The contractor cannot install the flooring without adhesive, and the recall creates a gap in the supply chain with no approved substitute. What should the contractor do?

A. Use the recalled adhesive anyway because the specification has not been formally changed and the contractor must follow the documents as written

B. Select an alternative adhesive with comparable performance characteristics and install it without notifying the architect

C. Stop all flooring work and wait indefinitely for the architect to issue a revised specification without taking any proactive action

D. Immediately notify the architect and owner in writing about the recall, submit information on alternative adhesives for approval, request an expedited review, and document the schedule impact of the specification gap — because the contractor cannot use a recalled product but also cannot substitute without approval

16. A general contractor on a \$6,000,000 commercial project subcontracts \$4,200,000 of the work to various specialty subcontractors. The general contractor's own forces perform only the general conditions, site work, and carpentry. During the project, the mechanical subcontractor installs an HVAC system that does not meet the specified performance requirements. The building owner holds the general contractor — not the mechanical subcontractor — responsible for the deficient HVAC system. Is the owner correct to hold the general contractor responsible?

A. Yes, because the general contractor is responsible to the owner for all work on the project, including the work of subcontractors — the GC has a non-delegable duty to deliver conforming work regardless of who actually performs it, and the owner has no direct contractual relationship with the subcontractors

B. No, because the owner should pursue the HVAC deficiency directly with the mechanical subcontractor since they performed the work

C. Yes, but only for the profit the general contractor earned on the mechanical subcontract, not for the full cost of correcting the deficiency

D. No, because general contractors who subcontract more than 50% of the work are classified as construction managers and do not bear responsibility for subcontractor performance

17. A contractor's project manager reviews the contract's payment terms and finds the following clause: "Payment applications shall include partial lien waivers from all subcontractors and suppliers who received payment in the prior billing period." The project has 28 subcontractors and over 40 material suppliers. The project manager finds it burdensome to collect lien waivers from every entity before each billing. Can the project manager skip the lien waiver requirement?

A. Yes, because collecting lien waivers from 68 parties is administratively impractical and the requirement is unenforceable

B. No, the lien waiver requirement is a contractual condition of payment that the contractor must satisfy — skipping it gives the owner grounds to reject the payment application, and the project manager should implement a systematic tracking process to collect lien waivers efficiently from all subcontractors and suppliers each billing cycle

C. Yes, because lien waivers are only required at final payment, not with monthly progress payment applications

D. No, but the contractor can substitute a single blanket lien waiver signed by the general contractor that covers all subcontractor and supplier lien rights

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

18. A project manager identifies that productivity on the masonry crew has declined by 20% over the past three weeks. The superintendent investigates and discovers three contributing factors: (1) the mortar mixer has been malfunctioning, causing the crew to hand-mix mortar; (2) scaffolding is not being erected ahead of the masons, causing them to wait for access; and (3) brick deliveries have been arriving 2 hours late each morning, leaving the crew idle. Which of these factors is likely having the greatest impact on productivity?

A. The late brick deliveries, because a 2-hour delay at the start of each day wastes 10 hours per week of productive time per crew member

B. The mortar mixer malfunction, because hand-mixing mortar is slower than machine mixing but only affects the mixing operation

C. All three factors are contributing approximately equally, and addressing them together in a coordinated manner will produce the greatest productivity recovery — however, the scaffolding sequencing failure may have the most systemic impact because it creates a physical barrier that prevents the crew from accessing their work face regardless of material availability

D. The scaffolding sequencing issue, because masons who cannot access the wall face cannot lay any bricks — this factor blocks all production rather than merely slowing it down

19. A contractor's three-week look-ahead schedule shows that a critical concrete pour is scheduled for the second week. The pour requires 350 cubic yards of structural concrete. The batch plant can produce a maximum of 40 cubic yards per hour and is located 30 minutes from the jobsite. Each truck carries 10 cubic yards. The contractor wants to complete the pour in a single 10-hour day. Is this feasible based on the delivery logistics alone?

A. Yes, because  $40 \text{ cubic yards per hour} \times 10 \text{ hours} = 400 \text{ cubic yards}$ , which exceeds the 350-yard requirement

B. Yes, because the 30-minute travel time is irrelevant to the batch plant's production capacity

C. No, because the batch plant cannot produce enough trucks per hour to sustain continuous delivery at the required rate given the 60-minute round-trip travel time

D. No, because the delivery logistics create a bottleneck — with a 30-minute travel time each way (60-minute round trip) and 10 cubic yards per truck, each truck can make approximately 1 delivery per hour, meaning the number of trucks in the fleet determines the delivery rate, not just the batch plant capacity — the contractor must verify the trucking fleet size to confirm feasibility

20. A project superintendent documents the following in Friday's daily report: "At 3:15 PM, the owner's representative verbally instructed us to relocate the employee parking area from the east side of the building to the north side, effective Monday. This relocation requires removing 200 linear feet of temporary fencing, installing 200 linear feet of new fencing, relocating the temporary power supply for site lighting, and re-grading the north lot surface. Estimated cost: \$18,000." What is the superintendent's most critical next step?

A. The superintendent must send written confirmation of the owner's verbal directive to the owner before the end of the business day, identifying the instruction as a scope change, stating the estimated cost of \$18,000, and requesting a formal change order before performing the relocation work — converting the verbal instruction into a documented written record that protects the contractor's right to additional compensation

B. Proceed with the parking lot relocation on Monday as instructed because verbal directives from the owner's representative are binding change orders

C. Ignore the verbal instruction because only the architect can authorize changes to the site plan

D. Complete the relocation work and include the \$18,000 cost in the next monthly payment application without a formal change order

21. A project is at the 80% completion mark. The project manager runs an earned value analysis and calculates: Planned Value (PV) = \$4,000,000; Earned Value (EV) = \$4,200,000; Actual Cost (AC) = \$3,900,000. What do the Schedule Performance Index (SPI) and Cost Performance Index (CPI) indicate?

- A.  $SPI = 0.95$  and  $CPI = 0.93$ , indicating the project is both behind schedule and over budget
- B.  $SPI = 1.05$  ( $\$4,200,000 \div \$4,000,000$ ) indicating the project is ahead of schedule (more work completed than planned), and  $CPI = 1.077$  ( $\$4,200,000 \div \$3,900,000$ ) indicating the project is under budget (completed work cost less than budgeted) — both metrics above 1.0 signal favorable performance
- C.  $SPI = 1.05$  and  $CPI = 0.93$ , indicating the project is ahead of schedule but over budget
- D. The metrics cannot be calculated because the Estimate at Completion (EAC) is required before SPI and CPI can be determined

22. A contractor is managing a phased renovation of an occupied commercial office building. Phase 1 involves renovating the second floor while the first and third floors remain occupied. The contractor's work generates noise, dust, and vibration that disrupt the occupied floors. After two weeks, the building tenants file complaints with the owner, who demands the contractor reduce disruption. What project management strategy should the contractor implement?

- A. Request that the building owner relocate all tenants for the duration of the renovation to eliminate all disruption complaints
- B. Continue working during normal business hours because some disruption is expected during renovation projects
- C. Offer to reduce the crew size by 50% to lower noise levels, accepting the resulting schedule extension
- D. Implement a disruption mitigation plan that includes scheduling high-noise and high-vibration activities during off-hours, installing temporary dust barriers and noise-dampening enclosures, providing advance notice to tenants about disruptive activities, and assigning a site logistics coordinator to manage tenant communication and access

23. A project schedule shows the following activities and their total float values: Activity R (12 days float), Activity S (0 days float), Activity T (3 days float), Activity U (0 days float), Activity V (8 days float), Activity W (0 days float). The project manager needs to allocate additional resources to prevent schedule delay. Which activities should receive the highest resource priority?

- A. Activities R and V because they have the most float and are therefore the most important activities in the schedule

B. All activities should receive equal resource priority because treating any activity as less important creates organizational inequity

C. Activities S, U, and W because they have zero float and are on the critical path — any delay to these activities directly delays the project completion date, making them the highest priority for resource allocation

D. Activity T because its 3 days of float represents the median value and is therefore the most representative of overall schedule health

24. A contractor receives a Notice to Proceed on March 1 for a project with a contract duration of 300 calendar days. After 120 calendar days, the contractor requests and receives a 30-day time extension due to an excusable weather delay. What is the revised contractual completion date?

A. The revised completion date is January 24 of the following year — calculated as 300 original calendar days from March 1 (December 25) plus the 30-day time extension, resulting in January 24

B. The revised completion date is December 25 because the 30-day extension applies only to the weather delay period and does not change the overall completion date

C. The revised completion date is February 23 of the following year because the 30-day extension is added after the original 300 days plus an additional 30-day buffer

D. The revised completion date cannot be determined without knowing the exact dates of the weather delay events

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

25. A contractor carries a CGL policy with a \$1,000,000 per-occurrence limit. The policy has a \$5,000 self-insured retention (SIR). During construction, a crane cable snaps and a load of steel beams falls onto a parked vehicle, causing \$85,000 in property damage. How does the SIR affect the claim payment?

A. The CGL policy pays the full \$85,000 because self-insured retentions do not apply to property damage claims involving construction equipment

B. The contractor pays the first \$5,000 of the \$85,000 claim (the SIR), and the CGL policy pays the remaining \$80,000 — the SIR functions similarly to a deductible, requiring the contractor to fund the initial portion of each covered claim before insurance coverage begins

C. The CGL policy pays \$85,000 and then bills the contractor separately for the \$5,000 SIR amount at policy renewal

D. The claim is denied entirely because crane operations are excluded from standard CGL policies

26. A contractor is evaluating their insurance program and wants to understand the difference between "occurrence" and "claims-made" CGL policies. Their current policy is occurrence-based. The contractor's broker suggests switching to a claims-made policy to reduce premiums. What is the most significant risk of switching from an occurrence-based policy to a claims-made policy?

A. Claims-made policies do not cover bodily injury claims, only property damage claims

B. If the contractor later cancels the claims-made policy without purchasing an extended reporting period (tail coverage), claims arising from work performed during the policy period but reported after cancellation would not be covered — creating a gap in coverage for latent defects and completed operations claims that may surface years after the work is performed

C. Claims-made policies have lower per-occurrence limits than occurrence-based policies for the same premium

D. Claims-made policies do not satisfy the insurance requirements of most construction contracts because they are not recognized by the construction industry

27. A surety has issued performance and payment bonds for a contractor on a state highway project. Midway through construction, the contractor informs the surety that they are experiencing cash flow difficulties and may not be able to complete the project. What is the surety's typical response to this early warning?

A. The surety immediately declares the contractor in default and hires a replacement contractor without further investigation

B. The surety waits until the project owner formally declares the contractor in default before taking any action

C. The surety cancels both bonds and removes itself from the project, leaving the contractor and owner to resolve the issue independently

D. The surety investigates the contractor's financial situation and may provide financial assistance — such as operating capital, material financing, or accelerated payment processing — to help the contractor complete the project, because the surety's financial exposure is typically lower if the original contractor finishes the work than if a replacement contractor must be hired

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

28. A construction employer has an employee who is diagnosed with hearing loss by an audiologist. The audiologist determines that the hearing loss is work-related, caused by years of exposure to heavy equipment noise without adequate hearing protection. The employee has not been issued hearing protection by the employer despite working in noise levels exceeding 85 decibels for 8 or more hours per day. The employee has not missed any work. Is this case OSHA recordable?

A. Yes, because a work-related hearing loss confirmed by an audiologist constitutes a significant recordable event — OSHA has specific criteria for recording hearing loss cases, including a Standard Threshold Shift (STS) of an average 10 dB or more in either ear at 2000, 3000, and 4000 Hz, and if the criteria are met, the case is recordable regardless of whether the employee missed work

B. No, because hearing loss is a gradual condition that develops over many years and cannot be attributed to a specific workplace event

C. No, because the employee has not missed any work time and continues performing their regular job duties

D. Yes, but only if the employer failed to provide hearing protection — the employer's negligence is what triggers recordability rather than the diagnosis itself

29. An employer reviews their OSHA 300 Log entries and wants to verify whether they correctly classified a case as "restricted work" versus "days away from work." An employee injured their shoulder and the doctor provided the following work restrictions: no overhead lifting, no carrying loads exceeding 20 pounds, and no repetitive reaching above shoulder height. The employee returned to work performing modified duties that complied with all restrictions. How should this case be classified?

A. "Days away from work" because the restrictions are so severe that the employee is essentially unable to perform meaningful work

B. "Other recordable" because the employee is performing modified duties rather than their normal job functions

C. "Restricted work" because the employee is working but cannot perform one or more of the routine functions of their job or cannot work the full workday — the medical restrictions prevent the employee from performing their complete range of normal duties

D. The case should not be recorded because the employee returned to work and is productive in a modified capacity

30. A construction company with 300 employees must submit injury and illness data electronically to OSHA as part of the electronic reporting requirement. What specific data must be submitted electronically, and by what deadline?

- A. The complete OSHA 300 Log with all individual employee names and case details must be submitted monthly to OSHA's online portal
- B. The information from the OSHA 300A Annual Summary must be submitted electronically to OSHA by March 2 of the year following the calendar year covered by the summary — establishments with 250 or more employees in most industries must submit this data annually through OSHA's Injury Tracking Application (ITA)
- C. Only fatality data must be submitted electronically because non-fatal injuries are reported exclusively on paper forms
- D. The employer must submit all 300 Logs, 300A Summaries, and 301 Incident Reports electronically within 48 hours of each recordable incident

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

31. A contractor with 75 employees receives a request from a carpenter for intermittent FMLA leave to attend weekly chemotherapy treatments every Thursday afternoon for 16 weeks. Each treatment requires approximately 4 hours, and the carpenter can work normally on all other days. The employer wants to deny the intermittent leave and require the carpenter to take 16 continuous weeks of leave instead. Can the employer do this?

- A. Yes, because the FMLA requires leave to be taken in full-week increments for the employee's own serious health condition
- B. Yes, because intermittent leave is available only for the birth or placement of a child, not for the employee's medical treatment
- C. No, but the employer can transfer the carpenter to an equivalent position that better accommodates the intermittent schedule
- D. No, the employer cannot deny intermittent FMLA leave when it is medically necessary — the FMLA specifically allows employees to take leave intermittently or on a reduced schedule when medically necessary for their own serious health condition, and the employer must accommodate the Thursday afternoon chemotherapy schedule

32. An employer has 30 employees and maintains a strict workplace safety policy. A worker is seriously injured in a fall from a scaffold. The worker files a workers' compensation claim. The employer's workers' compensation carrier accepts the claim and begins paying medical expenses and temporary disability benefits. Six months later, the worker sues the employer in civil court for negligence, seeking \$2,000,000 in damages beyond the workers' compensation benefits. Under the workers' compensation exclusive remedy doctrine, is the civil lawsuit permitted?

A. Generally no — the workers' compensation exclusive remedy doctrine bars employees from suing their employer in civil court for workplace injuries that are covered by workers' compensation, with limited exceptions such as intentional injury by the employer or failure to carry workers' compensation insurance

B. Yes, because workers' compensation benefits are always supplemental to civil court remedies and employees can pursue both simultaneously

C. No, under any circumstances — the exclusive remedy doctrine has no exceptions and absolutely prohibits all civil lawsuits against employers for any workplace injury

D. Yes, because the injury was caused by employer negligence rather than an unavoidable accident

33. A non-exempt construction worker earns \$24.00 per hour. During a workweek, the worker is required to travel from the employer's office to a jobsite 90 miles away. The worker drives a company vehicle and the travel takes 2 hours each way. The worker travels to the site on Monday morning (2 hours), works 8 hours on site, and returns Monday evening (2 hours). The same pattern repeats Tuesday through Thursday. On Friday, the worker reports to a local jobsite 10 minutes from the office and works 8 hours. What are the total compensable hours for the week?

A. 40 hours — only the on-site work time is compensable because travel between the office and the jobsite is commuting

B. 48 hours — the 8 hours of daily on-site work for 4 days (32 hours) plus 2 hours of travel each way for 4 days (16 hours) plus 8 hours Friday, but the first and last trip of each day may be non-compensable commuting

C. 56 hours — all travel time and all on-site work time are compensable because the employer requires the worker to report to the office before traveling to the distant jobsite, making the office the start and end point of each workday, with all time from office departure to office return being compensable hours worked

D. 32 hours — only the on-site work time for the four days at the distant site is compensable; the Friday local work is classified as a separate assignment

34. An employer terminates an employee for insubordination — specifically, the employee refused a direct order from their supervisor to operate a backhoe without the required OSHA operator certification. The employee argues they were protected under OSHA's whistleblower protections because they refused to perform work they believed was unsafe. What is the likely legal outcome?

A. The employer will prevail because employees cannot refuse direct work orders regardless of safety concerns

B. The employer will prevail because OSHA whistleblower protection applies only to employees who file formal complaints with OSHA, not to those who refuse work orders

C. The employee will prevail but is limited to receiving back pay for 30 days only because whistleblower damages are capped

D. The employee will likely prevail because OSHA's whistleblower protection under Section 11(c) prohibits employers from retaliating against employees who refuse to perform work they reasonably believe poses an imminent danger of death or serious injury — operating heavy equipment without required certification constitutes a legitimate safety refusal

35. A contractor's employee handbook includes a clear anti-retaliation policy that prohibits discipline against employees who report safety violations or file workers' compensation claims. An employee files a workers' compensation claim for a back injury. Two months later, the employee's supervisor — who is frustrated by the employee's ongoing medical appointments — begins assigning the employee the most physically demanding tasks and publicly criticizes the employee's work performance in front of coworkers. The employee alleges retaliation. What is the employer's exposure?

A. No exposure because the supervisor's actions constitute normal supervisory authority and performance management

B. Significant exposure because assigning an injured employee the most physically demanding tasks and publicly criticizing them shortly after a workers' compensation filing creates a strong inference of retaliation — the temporal proximity between the claim and the adverse treatment, combined with the supervisor's documented frustration about the medical appointments, provides compelling evidence of retaliatory motive

C. Minimal exposure because the anti-retaliation policy demonstrates the employer's good faith commitment to non-retaliation

D. Exposure only if the employee is ultimately terminated, because reassignment and criticism alone do not constitute actionable retaliation

36. An employer with 22 employees wants to implement a tip pooling arrangement for their construction company's service technicians who occasionally receive tips from residential customers for exceptional repair work. Under the FLSA, what is the key requirement for a lawful tip pool?

A. Tips can only be pooled among employees who customarily and regularly receive tips, and the employer cannot retain any portion of the tips or require employees to share tips with managers or supervisors — the employer must also ensure that pooling does not reduce any employee's earnings below the applicable minimum wage

B. Tip pooling is prohibited in the construction industry because tips are classified as gifts from customers rather than wages

C. The employer can retain up to 20% of pooled tips as an administrative fee for managing the tip distribution

D. Tip pools must include all employees — including managers and supervisors — to ensure equitable distribution

37. A contractor's workers' compensation carrier conducts a year-end premium audit and discovers that the contractor classified two roofers earning a combined \$120,000 in annual payroll under the "general carpentry" classification code rather than the "roofing" classification code. The roofing classification rate is \$22.00 per \$100 of payroll, while the general carpentry rate is \$11.50 per \$100. What is the approximate additional premium the contractor will owe?

A. \$6,300, calculated at the difference between the roofing and carpentry rates applied only to the first \$50,000 of each roofer's payroll

B. \$12,600, calculated at the roofing rate on the full \$120,000 without crediting the carpentry premium already paid

C. \$12,600, calculated as the difference between the roofing premium ( $\$120,000 \div \$100 \times \$22.00 = \$26,400$ ) and the carpentry premium already paid ( $\$120,000 \div \$100 \times \$11.50 = \$13,800$ ), yielding an additional \$12,600 owed

D. \$0, because the contractor is not responsible for classification errors made by the payroll department

38. A contractor operating on a Davis-Bacon covered project employs a worker classified as a cement mason. The prevailing wage determination specifies \$36.00/hour in wages plus \$18.00/hour in fringe benefits for cement masons. The contractor pays the worker \$40.00/hour in wages and provides health insurance valued at \$8.00/hour and a retirement plan contribution of \$4.00/hour. Is the contractor compliant?

A. Yes, because the \$40.00 hourly wage exceeds the \$36.00 base wage requirement

B. No, because total compensation is \$52.00/hour ( $\$40.00 + \$8.00 + \$4.00$ ) while the required total is \$54.00/hour ( $\$36.00 + \$18.00$ ), leaving a \$2.00/hour shortfall that must be covered by additional wages or qualifying fringe benefits

C. Yes, because the excess wage of \$4.00/hour above the base rate can be credited dollar-for-dollar against the fringe benefit shortfall

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

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

39. A contractor's balance sheet shows: cash \$75,000; accounts receivable \$480,000; retainage receivable \$110,000; costs in excess of billings \$45,000; prepaid expenses \$12,000; equipment (net) \$520,000; accounts payable \$340,000; billings in excess of costs \$55,000; accrued wages \$38,000; current portion of long-term debt \$35,000; long-term debt \$310,000. What is the contractor's working capital, current ratio, and net worth?

A. Working capital \$354,000, current ratio 1.54, net worth \$464,000

B. Working capital \$254,000, current ratio 2.54, net worth \$564,000

C. Working capital \$75,000, current ratio 1.0, net worth \$310,000

D. Working capital \$254,000 (current assets \$722,000 minus current liabilities \$468,000), current ratio 1.54 ( $\$722,000 \div \$468,000$ ), net worth \$464,000 (total assets \$1,242,000 minus total liabilities \$778,000)

40. A contractor uses the percentage-of-completion method on a \$4,000,000 project with estimated total costs of \$3,400,000. At the end of Year 1, costs incurred total \$1,700,000 and the contractor billed \$1,850,000. What is the earned revenue, the over/under billing status, and the gross profit recognized in Year 1?

A. Earned revenue is \$2,000,000 ( $50\% \times \$4,000,000$ ), the project is under-billed by \$150,000 ( $\$2,000,000$  earned minus  $\$1,850,000$  billed), and gross profit recognized is \$300,000 ( $50\% \times \$600,000$  estimated total profit)

B. Earned revenue is \$1,850,000 (equal to billings), the project is exactly on track, and gross profit is \$150,000

C. Earned revenue is \$1,700,000 (equal to costs), the project is over-billed by \$150,000, and no gross profit is recognized

D. Earned revenue is \$2,400,000 ( $60\% \times \$4,000,000$ ), the project is under-billed by \$550,000, and gross profit is \$360,000

41. A contractor's income statement for the fiscal year shows: total contract revenue \$5,400,000; cost of construction \$4,590,000; general and administrative expenses \$540,000. What are the gross profit, gross profit margin, net income, and net profit margin?

A. Gross profit \$810,000 (15% margin), net income \$270,000 (5% margin) — both metrics indicate healthy profitability

B. Gross profit \$540,000 (10% margin), net income \$0 (0% margin) — the company is breaking even

C. Gross profit \$810,000 (15% margin), net income \$270,000 (5% margin) — calculated as: gross profit = \$5,400,000 – \$4,590,000 = \$810,000; gross margin = \$810,000 ÷ \$5,400,000 = 15.0%; net income = \$810,000 – \$540,000 = \$270,000; net margin = \$270,000 ÷ \$5,400,000 = 5.0%

D. Gross profit \$1,080,000 (20% margin), net income \$540,000 (10% margin) — calculated by excluding half of G&A from the net income calculation

42. A contractor's WIP report shows Project Kappa: revised contract \$2,600,000; estimated total cost \$2,210,000; costs to date \$1,547,000; billings to date \$1,890,000. What is the project's percentage complete, over/under billing status, and estimated gross profit margin?

A. 60% complete, under-billed by \$70,000, gross margin 10%

B. 70% complete, billings match earned revenue exactly, gross margin 12%

C. 75% complete, over-billed by \$70,000, gross margin 20%

D. 70% complete ( $\$1,547,000 \div \$2,210,000$ ), over-billed by \$70,000 (billings of \$1,890,000 minus earned revenue of \$1,820,000), with an estimated gross profit margin of 15% ( $\$390,000 \div \$2,600,000$ )

43. A contractor reviews their cash flow forecast for the next 90 days and identifies the following: beginning cash balance \$55,000; projected collections from accounts receivable \$580,000; projected retainage releases \$40,000; projected draws on line of credit \$75,000. Projected outflows: payroll \$420,000; material and subcontractor payments \$330,000; overhead \$85,000; equipment loan payments \$30,000; estimated tax payments \$22,000. What is the projected ending cash position?

A. Positive \$137,000, calculated by overestimating inflows and underestimating outflows

B. Negative \$137,000, calculated as total available funds (\$750,000) minus total outflows (\$887,000)

C. Positive \$12,000, calculated by excluding the line of credit draw from available funds

D. Negative \$12,000, calculated by excluding the beginning cash balance from the projection

Let me calculate: Inflows + beginning cash:  $\$55,000 + \$580,000 + \$40,000 + \$75,000 = \$750,000$ . Outflows:  $\$420,000 + \$330,000 + \$85,000 + \$30,000 + \$22,000 = \$887,000$ . Net:  $\$750,000 - \$887,000 = -\$137,000$ . Answer B.

43. A contractor's 90-day cash flow forecast shows: beginning cash \$55,000; projected collections \$520,000; retainage releases \$35,000; credit line draws \$80,000. Projected outflows: payroll \$390,000; materials and subcontractors \$240,000; overhead \$60,000; equipment loan payments \$25,000; estimated tax payments \$18,000. What is the projected ending cash position?

A. Positive \$80,000, calculated by excluding the tax payment and equipment loan from the outflow projection

B. Negative \$43,000, calculated as total available funds (\$690,000) minus total outflows (\$733,000) — indicating the contractor must arrange additional financing, accelerate collections, or reduce expenditures to avoid a cash shortfall

C. Positive \$55,000, unchanged from the beginning balance because the line of credit draw offsets the net outflow

D. Negative \$98,000, calculated by omitting the credit line draw and retainage releases from available funds

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

44. A contractor organized as an S-Corporation has one shareholder who works full-time in the business. The company earns \$350,000 in net income. The shareholder pays themselves a salary of \$90,000 and takes the remaining \$260,000 as a shareholder distribution. The IRS audits the return and determines that a reasonable salary for the shareholder's role is \$160,000. What is the tax consequence of the underreported salary?

A. The IRS will reclassify \$70,000 of the distributions as salary (\$160,000 reasonable salary minus \$90,000 paid), subject the reclassified amount to FICA taxes retroactively, and may assess penalties and interest — this reduces the distribution to \$190,000 and increases the FICA-taxable salary to \$160,000

B. The IRS will reclassify the entire \$260,000 distribution as salary subject to the full 15.3% FICA rate

C. No consequence because S-Corporation shareholders have unlimited discretion over their salary-distribution split

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

45. An employer with 40 employees makes their payroll tax deposits on a monthly schedule. Their total deposit liability for March is \$32,000. The employer deposits \$32,000 on April 18

— three days past the April 15 monthly deposit deadline. What penalty rate applies to this late deposit?

- A. No penalty because the deposit was made within 5 business days of the deadline, which qualifies for the first-time penalty abatement
- B. 5%, applicable to deposits made 6 to 15 days late
- C. 10%, applicable to deposits made more than 15 days late
- D. 2%, applicable to deposits made 1 to 5 calendar days late — the \$32,000 deposit that is 3 days late triggers the lowest penalty tier of 2% on the full deposit amount

46. A contractor purchases a \$120,000 excavator and a \$45,000 pickup truck during the current tax year. The contractor wants to maximize their first-year tax deduction. Both assets will be used exclusively for business purposes. Under current tax law, which depreciation strategy provides the maximum first-year deduction?

- A. Standard MACRS depreciation over 5 years for the excavator and 5 years for the truck, with first-year deductions of approximately \$24,000 and \$9,000 respectively
- B. Section 179 expensing on the truck only (vehicles are limited) and bonus depreciation on the excavator
- C. No first-year deduction is available because construction equipment must be depreciated over its full useful life under the mandatory depreciation schedule
- D. Section 179 expensing and/or bonus depreciation on both assets may allow the contractor to deduct the full \$165,000 in the year of purchase, subject to applicable Section 179 dollar limits and bonus depreciation phase-out percentages — the optimal combination depends on the contractor's total income and other deductions

47. A sole proprietor contractor earns \$185,000 in net self-employment income. The contractor makes quarterly estimated tax payments. The first quarter payment is due April 15, the second quarter payment is due June 15, the third quarter is due September 15, and the fourth quarter is due January 15 of the following year. The contractor's CPA calculates a total annual tax liability (income tax plus self-employment tax) of \$52,000. What is the minimum amount the contractor should pay each quarter to avoid the underpayment penalty?

- A. \$13,000 per quarter ( $\$52,000 \div 4$ ), assuming equal quarterly payments that total at least 90% of the current year's tax liability or 100% of the prior year's tax liability (110% if prior year AGI exceeded \$150,000)
- B. \$52,000 in the first quarter, with the remaining three quarters at \$0 each

C. \$26,000 in two semi-annual payments (April and September) with no payments in June or January

D. \$17,333 per quarter because the IRS requires estimated payments to exceed the annual liability by at least one-third

48. A contractor organized as a C-Corporation retains \$500,000 in after-tax profits within the corporation to purchase new equipment and fund working capital growth. The contractor's tax advisor warns about the potential application of the accumulated earnings tax. Under what circumstances would the accumulated earnings tax apply?

A. The tax applies only when accumulated earnings exceed \$10 million, which is well above this contractor's retained earnings

B. The accumulated earnings tax may apply when a corporation accumulates earnings beyond the reasonable needs of the business to avoid distributing dividends to shareholders — however, a \$500,000 retention for documented equipment purchases and working capital growth would likely be considered a reasonable business need, providing a strong defense against the tax

C. The tax applies automatically to all C-Corporation retained earnings exceeding \$100,000 regardless of the business purpose

D. The accumulated earnings tax has been repealed and no longer applies to C-Corporations under current tax law

49. A contractor purchases \$35,000 in electrical supplies for a commercial wiring project, \$8,000 in diesel fuel for construction equipment, and \$4,500 in office furniture for the company's administrative office. All purchases are made in Arkansas on the same day from different suppliers. On which purchases must the contractor pay Arkansas sales tax?

A. Only the \$4,500 office furniture because construction materials and fuel are exempt from Arkansas sales tax

B. Only the \$35,000 electrical supplies because they will be permanently incorporated into real property

C. Only the \$35,000 electrical supplies and \$4,500 office furniture because diesel fuel is exempt from sales tax

D. All three purchases — the \$35,000 electrical supplies (contractor consumes materials they install), the \$8,000 diesel fuel (consumed in business operations), and the \$4,500 office furniture (business consumable) — totaling \$47,500 in taxable purchases

50. A contractor organized as a partnership has two partners: Partner A (60% ownership) and Partner B (40% ownership). The partnership earns \$500,000 in net income for the year. Partner A also has \$50,000 in W-2 wages from a part-time teaching position. For self-employment tax purposes, how does Partner A's W-2 income affect the self-employment tax calculation on their partnership income?

- A. The W-2 income has no effect because W-2 wages and partnership income are calculated on entirely separate tax systems
- B. The W-2 income exempts Partner A from self-employment tax on the first \$50,000 of partnership income
- C. Partner A's W-2 wages of \$50,000 reduce the Social Security wage base available for self-employment tax on the \$300,000 partnership income — the 12.4% Social Security tax applies only to the remaining wage base ( $\$168,600 - \$50,000 =$  approximately \$118,600 of the partnership income), while the 2.9% Medicare tax applies to the full \$300,000 with no cap
- D. Partner A must pay self-employment tax on the combined \$350,000 (\$300,000 partnership + \$50,000 W-2) using a single unified tax calculation

## Practice Exam 15: Answer Key and Explanations

**1. C** — When two or more persons carry on a business together for profit without filing formal organization documents, Arkansas law treats the arrangement as a general partnership by operation of law. No written agreement or state filing is required — the partnership exists based on conduct. Both spouses are general partners with joint and several liability, meaning the supplier can pursue either spouse individually for the full \$60,000.

**2. A** — Licensed contractors have an obligation to report material changes in their financial condition to the ACLB. Operating with a net worth of \$22,000 — well below the \$50,000 minimum — may constitute grounds for license suspension or enhanced financial monitoring. The contractor should proactively notify the Board and present a plan to restore financial compliance rather than wait for discovery at renewal.

**3. D** — The ACLB requires verification of construction experience from qualified individuals with direct personal observation of the applicant's work. Reference letters from project owners, architects, or other licensed contractors who can verify the claimed experience — combined with supporting documentation such as building permits, contracts, or tax records — provide the strongest and most credible verification of the 5-year experience claim.

**4. B** — The license expired on September 30 because the renewal was not complete — an application without the required fee is incomplete. From October 1 through October 5, the contractor had no valid license. Any construction work performed during this 5-day gap constitutes unlicensed activity. The responsibility for submitting a complete renewal application before the deadline rests entirely with the contractor.

**5. C** — A detached workshop used exclusively for personal hobby purposes (woodworking) on a residential property is classified as a residential accessory structure — similar to a detached garage, storage building, or pool house. The residential builder license authorizes construction of the primary residence and its accessory structures. The key factor is the workshop's exclusively personal, non-commercial use.

**6. A** — In the standard contract document hierarchy, specifications take precedence over drawings when a conflict exists. Division 27's requirements for fire-rated walls, supplemental cooling, and a raised access floor control over the architectural floor plan's depiction of standard construction. The contractor should estimate accordingly and submit an RFI documenting the conflict for the architect's resolution.

**7. D** — The loaded labor rate includes all employer costs associated with each hour of labor. Base wage: \$28.00. Percentage burdens: FICA 7.65% + workers' comp 14.0% + unemployment 2.8% + GL insurance 2.1% = 26.55%. Dollar amount:  $\$28.00 \times 0.2655 = \$7.43$ . Health insurance: \$3.50/hour. Loaded rate:  $\$28.00 + \$7.43 + \$3.50 = \$38.93$ . Using the base wage alone would understate the true labor cost by nearly 40%.

**8. B** — Public construction contracts must be awarded to the lowest responsive and responsible bidder. Awarding to the second-lowest bidder based on a board member's personal relationship violates competitive bidding law. The board member has a conflict of interest that must be disclosed, and the member must recuse themselves from the award decision. The lowest responsive and responsible bid must be accepted.

**9. C** — The most important factor is whether the contractor's organization has the technical expertise and operational capacity to manage hospital construction's unique requirements. Infection control protocols, interim life safety measures, phased construction in occupied patient areas, and healthcare regulatory compliance require specialized knowledge that cannot be acquired during construction. Unfamiliarity with these requirements creates risk that no amount of contingency can adequately cover.

**10. A** — The Spearin Doctrine establishes that the owner impliedly warrants the completeness and accuracy of the contract documents. The civil drawings and utility survey failed to show the 6-inch water main. The contractor's pre-bid site visit does not require subsurface investigation to discover buried utilities not disclosed in the documents. The contractor is entitled to rely on the completeness of the owner-provided documents.

**11. D** — A site examination clause applies to conditions that were observable during the pre-construction walk-through. Concealed corrosion hidden behind intact drywall was not observable and was not disclosed in any contract document. This is a classic Type I differing site condition — an actual condition that differs materially from what was represented. The site examination clause was not intended to transfer risk for truly concealed, undisclosed conditions.

**12. B** — The subcontractor has multiple remedies available: formal written demand for payment, mechanics' lien filing (if the deadline has not expired), payment bond claim (if the project is bonded), and breach of contract lawsuit. The general contractor's casual dismissal of the payment obligation violates the 7-day processing requirement and constitutes a breach of the subcontract's payment terms.

**13. A** — The recovery schedule must identify specific acceleration measures that will compress the critical path by at least 12 days. Equally important, the contractor should analyze whether the 12-day delay was caused by excusable events (weather, owner-caused delays, force majeure) that entitle the contractor to a time extension — because if the delay is excusable, the contractor should not be required to accelerate at their own expense.

**14. C** — A Construction Change Directive requires compliance even when a price is not yet agreed upon. The contractor should respond in writing, proceed with the work as directed, and track all costs on a time-and-materials basis with daily documentation verified by the owner's representative. This approach establishes written authorization, creates a verifiable cost record, and preserves the contractor's right to claim full actual costs during the change order negotiation.

**15. D** — The contractor cannot install a recalled product, but they also cannot unilaterally substitute an alternative without architect approval. The correct action is immediate written notification to the architect and owner, submission of alternative adhesive products for expedited review, and documentation of the schedule impact. This proactive approach protects the contractor from both using a recalled product and unauthorized substitution.

**16. A** — The general contractor has a non-delegable duty to deliver conforming work to the owner for the entire project, including all subcontracted work. The owner has a contractual relationship only with the general contractor — not with the subcontractors. The GC is responsible for correcting the deficient HVAC system and may then pursue the mechanical subcontractor for the cost of correction through the subcontract.

**17. B** — The lien waiver requirement is a contractual condition of payment that cannot be skipped. If the contractor submits a payment application without the required lien waivers, the owner has contractual grounds to reject the application. The project manager should implement a systematic tracking process — spreadsheet, software, or standard form — to collect lien waivers from all 68 parties each billing cycle.

**18. C** — All three factors contribute to the productivity decline, and addressing them together produces the greatest recovery. However, the scaffolding sequencing failure is likely the most systemic because it creates a physical barrier to the work face. Masons cannot lay bricks if they cannot reach the wall, regardless of whether mortar and materials are available. Fixing the scaffolding sequencing removes the production bottleneck.

**19. D** — The delivery rate depends on the trucking fleet size, not just the batch plant capacity. With a 60-minute round trip and 10 cubic yards per truck, each truck can deliver approximately once per hour. To deliver 35 cubic yards per hour ( $350 \div 10$  hours), approximately 35 trucks must be in continuous rotation. The contractor must verify the fleet size with the supplier before committing to a single-day pour.

**20. A** — The superintendent must convert the verbal instruction into a documented written record before performing any work. The written confirmation should identify the directive as a scope change, state the estimated \$18,000 cost, and request a formal change order. Proceeding without written documentation risks non-payment for the \$18,000 relocation work because verbal instructions are difficult to prove in disputes.

**21. B** —  $SPI = EV \div PV = \$4,200,000 \div \$4,000,000 = 1.05$ , indicating the project is ahead of schedule — 5% more work has been completed than planned.  $CPI = EV \div AC = \$4,200,000 \div \$3,900,000 = 1.077$ , indicating the project is under budget — the completed work cost approximately 7.7% less than budgeted. Both indices above 1.0 signal favorable performance on both schedule and cost.

**22. D** — A comprehensive disruption mitigation plan addresses the root cause of tenant complaints while keeping the project on schedule. Scheduling high-noise activities during off-hours, installing dust barriers and noise enclosures, providing advance tenant notification, and assigning a logistics coordinator balances the competing needs of construction progress and building occupancy.

**23. C** — Activities S, U, and W have zero float and are on the critical path. Any delay to these activities directly delays the project completion date. They must receive the highest priority for resource allocation, management attention, and risk mitigation. Activities with float (R, T, V) can be delayed within their float windows without affecting the completion date and therefore have lower scheduling urgency.

**24. A** — Original completion: March 1 + 300 calendar days = December 25. Adding the 30-day time extension: December 25 + 30 days = January 24. The time extension is added to the original contractual completion date, extending it by the number of excusable delay days granted. The revised completion date becomes the new contractual deadline for all purposes including liquidated damages.

**25. B** — The SIR functions like a deductible — the contractor pays the first \$5,000 of each covered claim before insurance coverage begins. For the \$85,000 property damage claim, the contractor pays \$5,000 and the CGL policy pays the remaining \$80,000. Unlike a traditional deductible where the insurer pays first and bills back, with an SIR the insured pays first before the policy responds.

**26. B** — The most significant risk of switching to a claims-made policy is the coverage gap that occurs if the policy is cancelled without purchasing tail coverage. Under claims-made, only claims filed during the active policy period are covered. If the policy lapses, claims arising from prior work but reported after cancellation are not covered — leaving the contractor exposed for latent defects and completed operations claims that may surface years later.

**27. D** — Sureties prefer to help the original contractor complete the project because this typically costs less than hiring a replacement contractor. When a contractor provides early warning of financial difficulties, the surety may offer financial assistance — operating capital, material financing, or payment facilitation — to keep the project moving. This proactive approach usually results in lower total exposure for the surety.

**28. A** — OSHA has specific criteria for recording hearing loss: a Standard Threshold Shift (STS) of an average 10 dB or more at 2000, 3000, and 4000 Hz in either ear, confirmed by an audiologist, and determined to be work-related. If these criteria are met, the case is recordable regardless of whether the employee missed any work time. The employer's failure to provide hearing protection is a separate OSHA compliance issue.

**29. C** — The medical restrictions prevent the employee from performing one or more routine functions of their normal job — overhead lifting, carrying over 20 pounds, and reaching above

shoulder height. This meets the OSHA definition of "restricted work activity." The employee is working but cannot perform their complete range of normal duties. The case is recorded as a restricted work case on the OSHA 300 Log.

**30. B** — Establishments with 250 or more employees in most industries must submit the information from their OSHA 300A Annual Summary electronically through OSHA's Injury Tracking Application (ITA). The submission deadline is March 2 of the year following the calendar year covered by the summary. This electronic reporting requirement applies to the summary data, not to individual case details.

**31. D** — The FMLA specifically allows intermittent leave when medically necessary for the employee's own serious health condition. Weekly chemotherapy is a medically necessary treatment schedule that qualifies for intermittent leave. The employer cannot force the carpenter to take 16 continuous weeks when 4 hours per week meets the medical need. The employer must accommodate the Thursday afternoon schedule.

**32. A** — The workers' compensation exclusive remedy doctrine generally bars employees from suing their employer in civil court for workplace injuries covered by workers' compensation. This trade-off gives employees no-fault benefits regardless of who caused the injury, while protecting employers from unlimited civil liability. Limited exceptions exist — such as intentional injury by the employer — but standard negligence claims are barred.

**33. A** — When the employer requires workers to report to the office before traveling to the distant jobsite, the office becomes the start point of the workday. All time from office departure through office return is compensable. Monday through Thursday: 12 hours/day (2 hours travel + 8 hours on-site + 2 hours return) × 4 days = 48 hours. Friday: 8 hours. Total: 56 compensable hours with 16 hours at overtime.

**34. D** — OSHA Section 11(c) protects employees who refuse to perform work they reasonably believe poses an imminent danger of death or serious injury. Operating heavy equipment without required certification creates a legitimate safety hazard. The employee's refusal was a protected activity, and the employer's termination constitutes unlawful retaliation. The employee is entitled to reinstatement, back pay, and other remedies.

**35. B** — The combination of temporal proximity (adverse actions occurring shortly after the workers' comp filing), documented supervisor frustration about the medical appointments, and the suspicious nature of the adverse actions (assigning the most physically demanding tasks to an injured worker) creates a strong inference of retaliation. The anti-retaliation policy demonstrates awareness of the prohibition but does not shield the employer from the supervisor's retaliatory conduct.

**36. A** — Under the FLSA, tips can only be pooled among employees who customarily and regularly receive tips. The employer cannot retain any portion of the pooled tips and cannot require tips to be shared with managers or supervisors. The employer must also ensure that the tip pooling arrangement does not reduce any participating employee's total earnings below the applicable minimum wage.

**37. C** — Roofing premium:  $(\$120,000 \div \$100) \times \$22.00 = \$26,400$ . Carpentry premium already paid:  $(\$120,000 \div \$100) \times \$11.50 = \$13,800$ . Additional premium owed:  $\$26,400 - \$13,800 = \$12,600$ . Workers' compensation classifications are based on actual job duties, not

job titles. Misclassifying roofers as carpenters understates the risk exposure and results in significant premium underpayment.

**38. B** — Required total:  $\$36.00 + \$18.00 = \$54.00/\text{hour}$ . Actual total:  $\$40.00 \text{ wage} + \$8.00 \text{ health} + \$4.00 \text{ retirement} = \$52.00/\text{hour}$ . Shortfall:  $\$54.00 - \$52.00 = \$2.00/\text{hour}$ . The excess wage of  $\$4.00$  above the base rate can offset the fringe shortfall, but the combined total still falls  $\$2.00$  short of the required  $\$54.00$ . The contractor must add  $\$2.00/\text{hour}$  in additional wages or qualifying fringe benefits.

**39. D** — Current assets:  $\$75,000 + \$480,000 + \$110,000 + \$45,000 + \$12,000 = \$722,000$ . Current liabilities:  $\$340,000 + \$55,000 + \$38,000 + \$35,000 = \$468,000$ . Working capital:  $\$722,000 - \$468,000 = \$254,000$ . Current ratio:  $\$722,000 \div \$468,000 = 1.54$ . Total assets:  $\$722,000 + \$520,000 = \$1,242,000$ . Total liabilities:  $\$468,000 + \$310,000 = \$778,000$ . Net worth:  $\$1,242,000 - \$778,000 = \$464,000$ .

**40. A** — Percentage complete:  $\$1,700,000 \div \$3,400,000 = 50\%$ . Earned revenue:  $50\% \times \$4,000,000 = \$2,000,000$ . Billings:  $\$1,850,000$ . Under-billed by  $\$150,000$  ( $\$2,000,000 - \$1,850,000$ ). Estimated total profit:  $\$4,000,000 - \$3,400,000 = \$600,000$ . Year 1 gross profit:  $50\% \times \$600,000 = \$300,000$ . The under-billing means the contractor has performed  $\$150,000$  more work than invoiced.

**41. C** — Gross profit:  $\$5,400,000 - \$4,590,000 = \$810,000$ . Gross margin:  $\$810,000 \div \$5,400,000 = 15.0\%$ . Net income:  $\$810,000 - \$540,000 = \$270,000$ . Net margin:  $\$270,000 \div \$5,400,000 = 5.0\%$ . The 15% gross margin indicates strong project-level profitability, and the 5% net margin reflects healthy bottom-line performance after all overhead deductions.

**42. D** — Percentage complete:  $\$1,547,000 \div \$2,210,000 = 70\%$ . Earned revenue:  $70\% \times \$2,600,000 = \$1,820,000$ . Billings:  $\$1,890,000$ . Over-billed by  $\$70,000$  ( $\$1,890,000 - \$1,820,000$ ). Estimated gross profit:  $\$2,600,000 - \$2,210,000 = \$390,000$ . Gross margin:  $\$390,000 \div \$2,600,000 = 15\%$ . The  $\$70,000$  over-billing appears as a current liability on the balance sheet.

**43. B** — Total available funds:  $\$55,000 + \$520,000 + \$35,000 + \$80,000 = \$690,000$ . Total outflows:  $\$390,000 + \$240,000 + \$60,000 + \$25,000 + \$18,000 = \$733,000$ . Projected ending position:  $\$690,000 - \$733,000 = -\$43,000$ . The contractor faces a  $\$43,000$  cash shortfall and must arrange additional financing, accelerate collections, or reduce expenditures to avoid running out of cash.

**44. A** — The IRS will reclassify  $\$70,000$  of distributions as salary ( $\$160,000$  reasonable minus  $\$90,000$  paid), subjecting the reclassified amount to FICA taxes retroactively — both the employer and employee shares. Penalties and interest will also be assessed on the underreported payroll taxes. The remaining  $\$190,000$  distribution retains its non-FICA status. The IRS closely scrutinizes S-Corporation salary levels that appear unreasonably low.

**45. D** — The IRS graduated penalty structure assesses 2% on payroll tax deposits that are 1 to 5 calendar days late. The  $\$32,000$  deposit made 3 days past the April 15 deadline falls in the lowest penalty tier. The 2% penalty on  $\$32,000$  equals  $\$640$ . While the penalty is relatively modest for a 3-day delay, consistent late deposits can trigger escalated penalties and enhanced IRS scrutiny.

**46. D** — Section 179 expensing and bonus depreciation may allow the contractor to deduct the full \$165,000 (\$120,000 excavator + \$45,000 truck) in the year of purchase, subject to the Section 179 annual dollar limit and bonus depreciation percentage. Both new and used assets qualify. The optimal strategy depends on the contractor's total taxable income and whether the Section 179 limit has been reached through other asset purchases.

**47. A** — Quarterly estimated payments should total at least 90% of the current year's tax liability ( $\$52,000 \times 90\% = \$46,800$ ) or 100% of the prior year's liability (110% if prior year AGI exceeded \$150,000). Equal quarterly payments of \$13,000 ( $\$52,000 \div 4$ ) satisfy the current-year safe harbor. The contractor should calculate both safe harbors and pay at least the minimum to avoid the underpayment penalty.

**48. B** — The accumulated earnings tax may apply when a C-Corporation retains earnings beyond the reasonable needs of the business to avoid distributing taxable dividends. However, retention for documented business needs — equipment purchases, working capital growth, debt reduction, or expansion — provides a strong defense. A \$500,000 retention with documented business purposes would likely be considered reasonable.

**49. D** — In Arkansas, contractors pay sales tax on all tangible personal property purchased for business use. The \$35,000 electrical supplies are taxable (contractor consumes installed materials). The \$8,000 diesel fuel is taxable (consumed in business operations). The \$4,500 office furniture is taxable (business consumable). Total taxable: \$47,500 at the applicable combined state and local rate.

**50. C** — The Social Security wage base is shared across all sources of earned income. Partner A's \$50,000 in W-2 wages consumes \$50,000 of the wage base, leaving approximately \$118,600 ( $\$168,600 - \$50,000$ ) available for the Social Security portion of self-employment tax on the \$300,000 partnership income. The 2.9% Medicare tax applies to the full \$300,000 partnership income with no cap.