

PRACTICE EXAM 16: ARKANSAS BUSINESS AND LAW SIMULATION (50 QUESTIONS)

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

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

DOMAIN: BUSINESS ORGANIZATION (1 Question)

1. A contractor forms an LLC and elects S-Corporation taxation. The LLC has two members: Member A owns 70% and Member B owns 30%. Both members work full-time in the business. The company earns \$500,000 in net income. Member A takes a salary of \$80,000 and Member B takes a salary of \$60,000. The remaining \$360,000 is distributed as shareholder distributions proportional to ownership (Member A receives \$252,000 and Member B receives \$108,000). The IRS audits the company and determines both salaries are unreasonably low. What is the primary tax risk the IRS is targeting?

A. The IRS is concerned that the LLC failed to file the required S-Corporation election form (Form 2553) before the tax year began

B. The IRS is concerned that the total distributions exceed the combined salaries, which violates the S-Corporation distribution cap rule

C. The IRS is concerned that the members are retaining too much cash in the business rather than distributing it to shareholders

D. The IRS is targeting the FICA tax avoidance — by keeping salaries artificially low and taking the majority of income as distributions (which are not subject to FICA), the members avoided paying approximately \$25,000 to \$30,000 in combined employer and employee FICA taxes on the unreported salary amounts

DOMAIN: LICENSING (4 Questions)

2. A contractor applies for an Arkansas commercial license and submits a CPA-reviewed financial statement showing net worth of \$55,000 and cash of \$26,000. The applicant has 6 years of verified commercial construction experience, three acceptable reference letters, and a \$10,000 surety bond. The applicant passed the NASCLA trade exam two years ago but has not yet taken the Arkansas Business and Law Examination. What is the status of this application?

- A. The application is complete and the license will be issued immediately because the NASCLA exam satisfies all examination requirements
- B. The application meets all requirements except the Arkansas Business and Law Examination — the NASCLA exam satisfies the trade exam requirement, but the applicant must still pass the Arkansas-specific Business and Law exam before the license can be issued
- C. The application is deficient because a reviewed financial statement is not acceptable for commercial licenses — only audited statements are accepted
- D. The application is deficient because 6 years of experience does not meet the minimum 10-year requirement for commercial licenses

3. A licensed contractor in Arkansas is convicted of a felony involving fraud in a construction transaction — specifically, the contractor was convicted of taking \$200,000 in payments for a project they never intended to complete. The ACLB learns of the conviction. What is the most severe action the Board can take?

- A. The ACLB can revoke the contractor's license — a felony conviction involving fraud in a construction transaction is among the most serious grounds for disciplinary action, and revocation permanently removes the contractor's authority to operate as a licensed contractor in Arkansas
- B. The ACLB can issue a formal reprimand but cannot revoke the license because criminal matters are handled by the courts, not by licensing boards
- C. The ACLB can suspend the license for a maximum of 6 months because Arkansas law limits suspension periods for first-time criminal offenses
- D. The ACLB has no authority to act on criminal convictions and must wait for a civil complaint from the defrauded project owner

4. A contractor holds a residential remodeler license. A homeowner asks the contractor to add a second-story addition to their existing single-story home. The addition involves new structural framing, roofing, electrical, plumbing, and HVAC systems. The total project cost is \$175,000. Can the contractor perform this work under their residential remodeler license?

- A. No, because second-story additions require a commercial contractor's license due to the structural complexity involved
- B. No, because the \$175,000 project value exceeds the residential remodeler's \$100,000 maximum project value
- C. Yes, because adding a second story to an existing residential structure is classified as residential remodeling — it is an alteration, improvement, and addition to an existing home, which falls within the residential remodeler's scope of work
- D. Yes, but only if the contractor subcontracts the structural framing to a licensed commercial contractor

5. An unlicensed individual contracts with a homeowner to build a \$250,000 custom home in Arkansas. Midway through construction, the homeowner discovers the contractor is unlicensed and files a complaint with the ACLB. In addition to the ACLB enforcement action, what other legal consequence may the unlicensed contractor face regarding their ability to collect payment for work already performed?

- A. The unlicensed contractor can collect full payment for completed work because the quality of work is more important than licensing status
- B. The unlicensed contractor can collect payment minus a 10% penalty deducted by the ACLB for operating without a license
- C. The unlicensed contractor can file a mechanics' lien against the property for unpaid work because lien rights are independent of licensing status
- D. The unlicensed contractor may be unable to enforce the contract or collect payment for work performed — Arkansas courts may treat contracts entered into by unlicensed contractors as unenforceable, denying the contractor any legal remedy to collect payment regardless of the work's quality or completeness

DOMAIN: ESTIMATING AND BIDDING (4 Questions)

6. A contractor is preparing a bid for a commercial project and must calculate the overhead allocation for this specific project. The contractor's total annual overhead is \$384,000. The contractor expects to perform \$2,400,000 in total direct costs across all projects during the year. This particular project has estimated direct costs of \$520,000. What is the overhead allocation for this project?

- A. \$384,000, equal to the full annual overhead because each project must bear the total overhead burden

B. \$83,200, calculated by multiplying the project's direct costs (\$520,000) by the overhead rate (16%), where the overhead rate is the total annual overhead (\$384,000) divided by the total annual direct costs (\$2,400,000)

C. \$52,000, calculated at a flat 10% overhead rate regardless of the contractor's actual overhead expenses

D. \$192,000, calculated by dividing the annual overhead equally between two assumed projects

7. A contractor receives a subcontractor quote for mechanical work on a public project. The quote states: "This price is valid for 60 days from the date of this quote and is subject to material price increases occurring after this date." The contractor includes this quote in their bid. If material prices increase by 15% between the quote date and the contract award (which occurs within the 60-day validity period), can the subcontractor increase their price?

A. Yes, because the quote explicitly states it is "subject to material price increases occurring after this date" — this escalation clause means the subcontractor reserved the right to adjust their price for material cost increases, and the contractor accepted this condition by including the quote in their bid

B. No, because all subcontractor quotes on public projects are irrevocable for the full 60-day validity period regardless of any stated conditions

C. Yes, but only if the material increase exceeds 25% because that is the standard escalation threshold for construction subcontracts

D. No, because the general contractor's acceptance of the quote by including it in the bid creates a binding contract at the quoted price

8. A contractor estimates installing 4,000 square feet of commercial carpet tile. Material costs \$4.50 per square foot with a 5% waste factor. Adhesive costs \$0.40 per square foot with no waste factor. Installation labor productivity is 80 square feet per hour at a loaded labor rate of \$42.00 per hour. What is the total estimated cost?

A. \$18,000.00, calculated using only the base material cost without waste, adhesive, or installation labor

B. \$19,600.00, calculated with waste on materials but excluding the labor cost from the total

C. \$22,600.00, calculated as material with waste ($\$4.50 \times 4,000 \times 1.05 = \$18,900$) plus adhesive ($\$0.40 \times 4,000 = \$1,600$) plus labor ($4,000 \div 80 = 50$ hours $\times \$42.00 = \$2,100$)

D. \$20,500.00, calculated by applying the waste factor to both the material and the adhesive costs

9. A contractor submits a bid on a public water treatment plant project. After the bid opening, the contractor discovers they used a unit price of \$8.50 per linear foot for 2-inch PVC pipe instead of the correct \$12.50 per linear foot. The bid documents show 8,000 linear feet of 2-inch PVC pipe. The pricing error results in a \$32,000 underestimate. The contractor's total bid is \$1,850,000 and the second-lowest bid is \$1,920,000. If the contractor cannot withdraw, what financial exposure does the error create?

A. No financial exposure because unit price errors are automatically corrected to reflect current material costs after contract award

B. \$32,000 exposure for the entire project because the underpriced pipe quantity is fixed in the bid documents

C. The exposure is limited to \$16,000 because unit price errors are split equally between the contractor and the project owner

D. The exposure may exceed \$32,000 if the actual quantity of 2-inch PVC pipe exceeds the estimated 8,000 linear feet — on a unit price contract, the contractor is paid the bid unit price for all actual quantities installed, meaning every linear foot above 8,000 increases the loss by \$4.00 per foot (\$12.50 actual cost minus \$8.50 bid price)

DOMAIN: CONTRACT MANAGEMENT (8 Questions)

10. A contractor on a fixed-price commercial project receives a change order from the owner adding a new emergency generator system valued at \$140,000. The contract's change order markup provisions allow 15% overhead and profit on self-performed work and 7% on subcontracted work. The contractor will subcontract the generator installation to an electrical subcontractor for \$120,000 and self-perform the concrete pad and electrical conduit connections for \$20,000. What is the maximum total markup the contractor can charge?

A. \$21,000, calculated at 15% on the full \$140,000 because the contractor manages all change order work

B. \$11,400, calculated as 15% on the self-performed \$20,000 (\$3,000) plus 7% on the subcontracted \$120,000 (\$8,400)

C. \$9,800, calculated at 7% on the full \$140,000 because any work involving a subcontractor uses the lower rate

D. \$19,600, calculated by applying both the 15% and 7% rates to the full change order amount

11. A project architect issues a field order during a site visit directing the contractor to relocate a floor drain from the center of a mechanical room to a corner location. The architect states the change is minor and should not require a formal change order. The contractor reviews the impact and determines that relocating the drain requires cutting a new trench in the existing slab, rerouting 15 feet of underground piping, patching the original drain location, and regrading the floor to the new drain — estimated cost of \$8,500. How should the contractor respond?

A. The contractor should comply with the field order and absorb the \$8,500 cost because architects have unilateral authority to issue minor field modifications without cost impact

B. The contractor should acknowledge the architect's authority to direct minor field adjustments but should respond in writing documenting the scope of work involved, the \$8,500 cost, and the fact that this exceeds the threshold for a minor field order — submitting a change order request before proceeding

C. The contractor should refuse the field order entirely because architects cannot direct any changes without a formal change order signed by the owner

D. The contractor should perform the work and deduct the \$8,500 from the architect's design fee as reimbursement for the unplanned modification

12. A general contractor on a 24-month commercial project maintains detailed daily cost tracking for all subcontractors. At the 12-month mark, the contractor notices that the drywall subcontractor's billings consistently exceed the percentage of drywall work actually completed — the subcontractor has billed \$380,000 but only approximately \$290,000 of work is in place. What risk does this over-billing create for the general contractor?

A. No risk because subcontractor billing percentages are subjective estimates that naturally vary from actual completion

B. Minimal risk because the drywall subcontractor's performance bond covers any financial exposure from over-billing

C. The general contractor faces significant risk — if the drywall subcontractor defaults or abandons the project, the GC has overpaid by approximately \$90,000 and must fund the completion of the remaining work from their own resources while the over-billed funds are unrecoverable

D. The risk is limited to the owner's retainage on the drywall portion because retainage provides a financial buffer against subcontractor over-billing

13. A construction contract includes a clause stating: "No claim by the Contractor for additional cost or time shall be valid unless written notice of the claim is provided to the Owner within 14 days of the event giving rise to the claim." The contractor encounters a differing site

condition on Day 1 but does not submit written notice until Day 28 — fourteen days past the contractual deadline. The contractor argues that the claim is still valid because the differing site condition is obvious and the owner was aware of it. Is the contractor's claim likely preserved?

A. Yes, because the owner's actual knowledge of the condition substitutes for the contractor's written notice obligation

B. Yes, because 28 days is within the standard 30-day notice period recognized by most jurisdictions regardless of the contract's stated deadline

C. No, but the contractor can cure the late notice by filing a mechanics' lien within 120 days of the last day of work

D. The contractor's claim is at serious risk — many courts strictly enforce contractual notice deadlines as conditions precedent to claim validity, and failure to provide timely written notice may bar the claim regardless of its merits or the owner's actual knowledge of the underlying condition

14. A subcontractor on a commercial project submits a monthly payment application to the general contractor for \$85,000. The general contractor approves \$85,000 and includes it in their own application to the owner. The owner pays the general contractor in full. The general contractor then pays the subcontractor only \$60,000, stating they are withholding \$25,000 as a "performance reserve" that is not provided for in the subcontract. Is this withholding lawful?

A. Yes, because general contractors have inherent authority to create performance reserves from subcontractor payments as a risk management tool

B. No, because the general contractor approved the full \$85,000, included it in their application to the owner, received full payment, and the subcontract does not authorize a "performance reserve" — withholding \$25,000 without contractual basis likely constitutes a breach of the subcontract's payment provisions

C. Yes, but only if the general contractor provides the subcontractor with 10 days' advance notice before imposing the performance reserve

D. No, but the subcontractor's only remedy is to file a complaint with the ACLB because payment disputes are exclusively within the Board's jurisdiction

15. A contractor working on a school construction project discovers that the mechanical specifications call for a chilled water system with a specific operating capacity, but the electrical specifications provide insufficient electrical service capacity to power the chilled water system at the specified load. The contractor identifies this conflict during the shop drawing phase. What is the contractor's obligation?

- A. The contractor must notify the architect of the conflict between the mechanical and electrical specifications through an RFI, because the contractor has a duty to report known errors and omissions in the contract documents — even though the contractor did not create the design error, their obligation to report it arises from the contract's general conditions
- B. The contractor has no obligation to identify design conflicts because design coordination is exclusively the architect's responsibility
- C. The contractor should install the mechanical system as specified and allow the building commissioning to reveal the electrical deficiency
- D. The contractor should independently resolve the conflict by upgrading the electrical service and billing the owner as a change order without prior notification

16. A project owner issues a written directive to the contractor stating: "Effective immediately, the project schedule is accelerated by 60 days. All work must be completed 60 days earlier than the current contractual completion date." The directive is not accompanied by a change order or any discussion of additional costs. The contractor estimates that compressing the schedule by 60 days will require \$180,000 in overtime, additional crews, and premium material deliveries. What should the contractor do?

- A. Comply immediately with the acceleration directive and absorb the \$180,000 cost because the owner has the authority to accelerate the schedule at any time without additional compensation
- B. Ignore the directive because the contractual completion date cannot be changed without a formal contract modification
- C. Respond in writing acknowledging the directive, stating that the 60-day acceleration constitutes a constructive change requiring additional compensation, submitting a change order for the estimated \$180,000 acceleration cost, and requesting written authorization before implementing the acceleration measures
- D. File a formal protest with the ACLB challenging the owner's authority to accelerate the schedule without a change order

17. A contractor completes a commercial building project and the architect issues the certificate of substantial completion on September 15. The contract states that the contractor's warranty period is "one year from the date of substantial completion." On September 10 of the following year — five days before the warranty expires — the building owner discovers that multiple HVAC condensate drain lines are leaking due to improper soldering by the contractor's plumbing subcontractor. The owner notifies the contractor on September 12. The contractor argues they need additional time to investigate before committing to repairs. Can the contractor delay repairs past the warranty expiration date?

- A. Yes, because the contractor has 30 days after notification to schedule and complete warranty repairs regardless of the warranty expiration date
- B. No, because all warranty work must be completed before the warranty expiration date or the claim is forfeited
- C. Yes, because warranty claims do not expire on a fixed date but remain open for the lifetime of the building's mechanical systems
- D. The contractor cannot simply delay and let the warranty expire — the owner notified the contractor within the warranty period (September 12, before the September 15 expiration), which preserves the claim, and the contractor is obligated to investigate and repair the defect even if the repair work extends beyond the warranty expiration date

DOMAIN: PROJECT MANAGEMENT (6 Questions)

18. A project manager on a commercial building project receives the following schedule update at the 50% completion mark: planned duration is 280 calendar days; 140 calendar days have elapsed; 125 of 280 planned activities have been completed; 40 activities are in progress; critical path activities are on schedule; total project float has decreased from 22 days to 8 days since the project began. What is the most concerning trend in this update?

- A. The number of activities in progress (40) is too high and indicates the contractor is spreading resources too thin
- B. The float erosion from 22 days to 8 days is the most concerning trend because it indicates the schedule's resilience is diminishing — if float continues to erode at this rate, the project will have zero float before completion, meaning any future delay will directly extend the completion date
- C. The 125 completed activities out of 280 planned represents an activity completion rate of only 44.6% at the 50% time mark, indicating the project is behind schedule
- D. The critical path being on schedule means the project is healthy and no concerns exist

19. A contractor's superintendent observes that the electrical subcontractor's crew of 6 electricians is consistently standing idle for 45 minutes each morning waiting for the general contractor's carpentry crew to complete overhead blocking that the electricians need for mounting conduit runs. This has been happening for 3 weeks. What is the total weekly productivity loss, and what should the superintendent do?

- A. The weekly loss is 22.5 person-hours ($6 \text{ workers} \times 45 \text{ minutes} \times 5 \text{ days} = 1,350 \text{ minutes} \div 60 = 22.5 \text{ hours}$), and the superintendent should re-sequence the carpentry blocking to be

completed the day before the electrical crew needs it — this eliminates the daily idle time by ensuring the work face is ready when the electricians arrive each morning

B. The loss is negligible because 45 minutes of idle time per day is within the normal construction tolerance for trade coordination

C. The superintendent should terminate the electrical subcontractor for poor time management

D. The superintendent should require the electricians to perform carpentry work during the waiting period to eliminate the idle time

20. A project schedule shows the following parallel activity chains: Chain 1 total duration = 165 days; Chain 2 total duration = 172 days; Chain 3 total duration = 172 days; Chain 4 total duration = 158 days. The project has a single start milestone and a single finish milestone. Which chain or chains are on the critical path?

A. Only Chain 2 is critical because it was entered into the schedule database first among the tied chains

B. Only Chain 4 is critical because the shortest chain represents the most efficient path through the schedule

C. Both Chain 2 and Chain 3 are critical paths because they tie at 172 days — the longest duration — and any delay to any activity on either chain will extend the project completion date

D. All four chains are critical because they all operate simultaneously during the same project timeframe

21. A contractor's project engineer reviews the as-built drawings for a completed commercial building and discovers that a structural beam was installed 6 inches lower than specified. The beam clears all ceiling height requirements and does not interfere with any mechanical systems. The architect was not notified of the deviation during construction. Should the project engineer disclose this deviation during closeout?

A. No, because the beam meets all functional requirements and disclosing the deviation will only create unnecessary complications during the closeout process

B. No, because as-built drawings are internal contractor documents that do not need to reflect minor field deviations

C. Yes, but only if the deviation is discovered by the building inspector during the final inspection

D. Yes, the deviation should be disclosed in the as-built drawings and reported to the architect — regardless of whether it affects functionality, accurate as-built documentation is essential

for future maintenance, renovations, and structural assessments, and concealing a structural deviation violates the contractor's obligation to provide truthful project records

22. A contractor is managing a fast-track commercial project where design and construction are proceeding simultaneously. The architectural design for the exterior envelope is only 60% complete while the structural frame is being erected. The steel erector reports that the connection details at the northwest corner do not accommodate the curtain wall attachment points shown in the partial exterior drawings. What should the project manager do?

A. Direct the steel erector to modify the connections in the field based on their professional judgment about how the curtain wall will likely attach

B. Stop the steel erection at the northwest corner, submit an urgent RFI to the architect identifying the conflict between the structural connections and the curtain wall design, and request an expedited response — because field modifications to structural connections without engineering approval create life safety risks

C. Complete the structural frame as designed and address the curtain wall attachment during a later construction phase

D. Instruct the curtain wall subcontractor to design their own attachment system that works with the existing structural connections

23. A contractor receives a notice from the local utility company that electrical service to the project site will be interrupted for 8 hours on a Thursday for a planned utility upgrade. The contractor's schedule shows critical concrete placement, welding operations, and elevator testing all scheduled for that Thursday — all of which require electrical power. What should the project manager do?

A. Reschedule all power-dependent critical activities to Wednesday or Friday, arrange for a temporary generator to maintain essential site services (lighting, security, temporary heat) during the outage, and adjust the look-ahead schedule to reflect the changes — proactive rescheduling avoids a full day of lost productivity on critical path activities

B. Proceed with all scheduled activities and use battery-powered tools for the welding and concrete operations

C. Cancel all work on Thursday and give the crew the day off because the power outage makes all construction impossible

D. Contact the utility company and demand they reschedule the outage to a weekend when construction activities are not planned

24. A project's earned value analysis at the 75% completion mark shows: Budget at Completion (BAC) = \$6,000,000; Earned Value (EV) = \$4,500,000; Actual Cost (AC) = \$4,800,000. The

CPI is 0.9375. Using the CPI to forecast the Estimate at Completion (EAC), what is the projected final cost?

- A. \$6,000,000, equal to the original budget because the project will self-correct in the final 25%
- B. \$6,300,000, calculated by adding the \$300,000 current overrun to the original budget without projecting the trend
- C. \$6,400,000, calculated as $BAC \div CPI = \$6,000,000 \div 0.9375$ — indicating that if the current cost inefficiency trend continues, the project will finish approximately \$400,000 over budget
- D. \$5,625,000, calculated by multiplying the BAC by the CPI, which incorrectly reduces the estimate

DOMAIN: INSURANCE AND BONDING (3 Questions)

25. A contractor carries a CGL policy with a per-occurrence limit of \$2,000,000, a general aggregate of \$4,000,000, and a products-completed operations aggregate of \$2,000,000. The contractor completes a condominium project. Three years after completion, water intrusion claims from multiple unit owners total \$3,500,000. How much coverage does the products-completed operations aggregate provide?

- A. \$3,500,000, because the general aggregate of \$4,000,000 covers all claims regardless of type
- B. \$2,000,000 per occurrence, covering the full claim if it is treated as a single occurrence
- C. \$4,000,000, because the general aggregate and products-completed operations aggregate are combined
- D. The products-completed operations aggregate provides a maximum of \$2,000,000 for all completed operations claims during the policy year — the remaining \$1,500,000 of the \$3,500,000 claim exceeds this aggregate and is not covered unless the contractor has umbrella or excess coverage

26. A surety evaluates a contractor's bonding application and determines the contractor's bonding capacity is \$5,000,000. The contractor currently has \$3,200,000 in bonded work in progress. A new project requires performance and payment bonds totaling \$2,500,000. The contractor argues that the \$3,200,000 in existing work should be reduced because two of those projects are 90% complete. How does the surety typically handle near-completion projects when calculating available capacity?

- A. The surety never adjusts for project completion status — all bonded work is counted at full value until the bonds are formally released
- B. The surety automatically reduces the bonded amount by the completion percentage, so the two 90% complete projects count at only 10% of their bond value
- C. The surety may consider the completion status of existing projects when evaluating available capacity — projects near completion with final payment pending represent lower risk than new projects, and the surety may partially or fully release the capacity occupied by substantially complete projects when evaluating the contractor's ability to take on new bonded work
- D. The surety increases the contractor's bonding capacity by 10% for each project above 75% completion as an incentive for completing bonded work

27. A contractor's workers' compensation carrier provides a "Waiver of Subrogation" endorsement to a project owner as required by the construction contract. What does this endorsement do?

- A. The waiver of subrogation prevents the workers' compensation carrier from pursuing the project owner for reimbursement of workers' compensation benefits paid to the contractor's injured employees — even if the owner's negligence contributed to the employee's injury, the carrier waives its right to recover (subrogate) against the owner
- B. The waiver eliminates the contractor's obligation to carry workers' compensation insurance for the duration of the project
- C. The waiver transfers the workers' compensation premium obligation from the contractor to the project owner
- D. The waiver allows the injured employee to sue the project owner in civil court in addition to receiving workers' compensation benefits

DOMAIN: OSHA RECORDKEEPING (3 Questions)

28. A construction worker cuts their hand on a piece of sheet metal. The jobsite first aid attendant cleans the wound, applies antibiotic ointment, and covers it with a sterile bandage. The next day, the cut shows signs of infection. The worker visits a doctor who prescribes oral antibiotics, administers a tetanus booster, and applies a fresh bandage. The worker returns to work with no restrictions. At what point does this case become OSHA recordable?

- A. At the time of the initial injury because any laceration requiring bandaging is automatically recordable under OSHA's construction standards

B. When the first aid attendant applied antibiotic ointment because topical medications constitute medical treatment beyond first aid

C. The case is not recordable because the worker returned to work with no restrictions and no lost time regardless of the treatment received

D. When the doctor prescribes oral antibiotics — prescription medication constitutes medical treatment beyond first aid, making the case recordable at that point, with the original injury date recorded on the 300 Log (note: the tetanus booster alone is classified as first aid and would not trigger recordability)

29. An employer has 9 full-time employees and 4 part-time employees who each work approximately 20 hours per week. The employer wants to know if they are required to maintain OSHA injury and illness records. What is the correct determination?

A. No, because the employer has only 9 full-time employees, which is below the 11-employee threshold

B. Yes, because the OSHA recordkeeping threshold counts all employees — full-time and part-time — and this employer has 13 total employees, which exceeds the 11-employee threshold requiring maintenance of OSHA 300 Logs, 300A Summaries, and 301 Incident Reports

C. No, because the full-time equivalent (FTE) count is 11.0 ($9 \text{ full-time} + 4 \times 0.5 = 11.0$), which does not exceed the threshold of 11

D. Yes, but only for the full-time employees — part-time employee injuries are exempt from OSHA recordkeeping

30. A construction company has 100 employees who worked a total of 200,000 hours during the calendar year. The company had the following recordable cases: 2 fatalities, 3 cases with days away from work, 2 cases with restricted duty or job transfer, and 5 cases with medical treatment beyond first aid only. What is the company's TRIR, and how does it compare to the construction industry average of approximately 3.0?

A. TRIR = 6.0, which is exactly double the industry average and indicates moderately poor safety performance

B. TRIR = 10.0, which is more than triple the industry average, indicating the company needs a comprehensive safety program overhaul

C. TRIR = 12.0, calculated as $(12 \text{ total recordable cases} \times 200,000) \div 200,000 = 12.0$ — which is four times the industry average of 3.0, indicating critically poor safety performance that demands immediate executive-level intervention

D. TRIR = 2.0, which is below the industry average and indicates good safety performance

DOMAIN: PERSONNEL REGULATIONS (8 Questions)

31. A contractor with 52 employees receives an FMLA leave request from a laborer who needs intermittent leave to attend physical therapy sessions twice per week for a knee injury that qualifies as a serious health condition. Each session requires approximately 3 hours during the workday. The laborer has worked for the company for 2 years and worked 1,400 hours in the past 12 months. The employer approves the FMLA leave but wants to transfer the laborer to a different jobsite that is closer to the physical therapy clinic. Is this transfer permissible?

A. Yes, the FMLA allows employers to temporarily transfer employees to alternative positions that better accommodate intermittent leave schedules, provided the alternative position has equivalent pay and benefits — transferring to a closer jobsite would accommodate the physical therapy schedule while minimizing schedule disruption

B. No, because any change in work location during FMLA leave constitutes retaliation and is strictly prohibited

C. Yes, but only if the transfer includes a 10% pay increase to compensate for the inconvenience of changing jobsites

D. No, because FMLA intermittent leave requires the employer to accommodate the employee's schedule at their existing work location without any modifications

32. An employer hires a worker who presents a valid U.S. passport as their List A document for Form I-9 verification. The passport expires in 3 months. The employer accepts the document and completes the I-9. Three months later, the passport expires. Must the employer re-verify the worker's employment authorization when the passport expires?

A. Yes, because employers must re-verify employment authorization whenever any document used for I-9 verification expires

B. Yes, because passports that expire during employment invalidate the original I-9 verification and require a new Form I-9

C. No, but only because the worker is a U.S. citizen and citizens' work authorization does not expire — however, if the worker were a non-citizen, re-verification of employment authorization would be required when the document expires

D. No, because U.S. citizens and non-citizen nationals have permanent work authorization that does not require re-verification — a U.S. passport establishes both identity and permanent employment authorization, and the expiration of the physical document does not affect the holder's underlying citizenship status or work authorization

33. A non-exempt ironworker earns \$42.00 per hour. During a workweek, the ironworker works 10 hours per day Monday through Thursday (40 hours) and then works 12 hours on Friday. The employer's policy pays double-time for all Friday hours because the company considers Friday a premium workday. Under the FLSA, what is the minimum overtime obligation?

A. The employer must pay 1.5 times the regular rate (\$63.00) for all hours exceeding 8 per day because overtime is calculated daily in the construction industry

B. The employer must pay at least 1.5 times the regular rate (\$63.00) for the 12 Friday hours exceeding the 40-hour weekly threshold — the employer's voluntary double-time policy exceeds the FLSA minimum, which requires only time-and-a-half for hours over 40 in a workweek

C. The employer must pay the FLSA minimum of 1.5 times for 12 hours, which the double-time policy already exceeds, so no additional payment is required beyond what the employer already voluntarily pays

D. No overtime is owed because the employer's double-time policy replaces the FLSA overtime obligation entirely

34. A contractor's HR manager discovers that the company has been classifying an office manager as exempt from overtime for the past 3 years. The office manager earns a salary of \$950 per week, manages the company's daily administrative operations, supervises 3 office staff members, has authority to hire and fire office personnel, and spends approximately 70% of their time on managerial duties. The current FLSA salary threshold for exempt status is \$684 per week. Does this employee qualify for the administrative or executive exemption?

A. The employee likely qualifies for the executive exemption because they meet all criteria: salary above the \$684 threshold (\$950/week), primary duty is management, regularly directs 2 or more employees, and has genuine hiring and firing authority — the 70% managerial time further supports the executive classification

B. The employee does not qualify for any exemption because office managers in construction companies are always classified as non-exempt

C. The employee qualifies for the administrative exemption only, not the executive exemption, because managing office staff is classified as administrative rather than executive work

D. The employee does not qualify because the salary of \$950 per week does not meet the minimum threshold for any FLSA exemption

35. An employer with 30 employees has a written progressive discipline policy. An employee is caught falsifying their time card — recording 8 hours worked when they actually left the jobsite after 6 hours. This is the employee's first documented offense. The progressive

discipline policy states that first offenses receive a verbal warning. However, the employee handbook also states: "Falsification of company records, including time cards, is grounds for immediate termination." Which provision should the employer follow?

- A. The verbal warning for first offenses, because the progressive discipline policy creates a binding procedure that must be followed sequentially regardless of the nature of the offense
- B. The employer should issue both a verbal warning and a written warning simultaneously as a compromise between the two provisions
- C. The immediate termination provision for time card falsification, because the handbook's specific rule for falsification of records supersedes the general progressive discipline sequence — the progressive discipline policy applies to general performance issues, while the falsification rule addresses a specific category of serious misconduct
- D. Neither provision, because contradictory handbook provisions render both unenforceable and the employer must seek an advisory opinion from the Department of Labor

36. An employer's safety manager notices that a new employee has been consistently performing their job duties without wearing the required safety glasses despite receiving safety orientation and being issued appropriate PPE. The safety manager verbally reminds the employee three times over two days. On the third day, the employee is still not wearing safety glasses. What is the most appropriate escalation?

- A. Report the employee to OSHA for a personal protective equipment violation because the employee is the one failing to comply
- B. Counsel the employee about the importance of eye protection and hope their behavior improves over the coming weeks
- C. Accept that some employees will not wear safety glasses and assign the employee to tasks that do not require eye protection
- D. Issue a formal written warning documenting the repeated PPE violation, the three prior verbal reminders, and the specific consequences of further non-compliance — because the employer has a legal duty to enforce PPE requirements, and documented progressive discipline demonstrates the employer's commitment to compliance

37. A contractor operating on a Davis-Bacon covered highway project hires apprentice laborers. The prevailing wage determination specifies journeyman laborer wages of \$26.00 per hour plus \$12.00 per hour in fringe benefits. The apprentice schedule approved by the Department of Labor starts at 50% of the journeyman rate for first-year apprentices. The contractor has two first-year apprentice laborers who are registered in an approved apprenticeship program. What must they be paid?

- A. The full journeyman rate of \$26.00 plus \$12.00 because Davis-Bacon does not recognize apprentice wage schedules
- B. At least \$13.00 per hour in wages (50% of the \$26.00 journeyman rate) plus the proportional fringe benefits specified in the approved apprentice schedule — the apprentice rates are valid only because the apprentices are registered in a bona fide program approved by the DOL or a state apprenticeship agency
- C. The federal minimum wage because apprentices are categorically exempt from prevailing wage requirements
- D. 50% of the combined journeyman wage and fringe (\$19.00) with no separate fringe benefit obligation

38. An employer fires a construction worker and the worker files for unemployment benefits. The employer contests the claim, stating the worker was terminated for "excessive absenteeism." The worker's attendance record shows 12 absences in 6 months, but the employer never issued any written warnings, never documented the absences as a performance concern, and the employee handbook does not define a specific absenteeism threshold. What is the likely outcome?

- A. The worker will likely receive benefits because the employer's failure to document the attendance problem, issue progressive discipline, and define clear attendance standards undermines the employer's claim that the termination was for willful misconduct — without documented warnings, the unemployment agency is unlikely to classify the termination as disqualifying misconduct
- B. The worker will be denied benefits because 12 absences in 6 months automatically constitutes excessive absenteeism under unemployment insurance law
- C. The worker will receive benefits at a reduced rate of 50% because the employer has partial documentation supporting the termination
- D. The unemployment agency will defer the decision until the worker completes a mandatory job search period of 4 weeks

39. A contractor with 60 employees has a female project manager who discovers she is being paid \$15,000 less per year than a male project manager with equal qualifications, experience, and performance ratings. The female project manager manages larger and more complex projects than her male counterpart. She files an Equal Pay Act complaint. The employer argues the pay difference is justified because the male project manager negotiated a higher salary during hiring. Under the Equal Pay Act, is the employer's defense valid?

- A. Yes, because salary negotiation outcomes are always a legitimate factor that justifies pay differences between employees

B. No, because the Equal Pay Act only applies to employers with 100 or more employees and this employer has only 60

C. The employer's defense is weak because salary negotiation history alone is generally not recognized as a valid defense under the Equal Pay Act — the employer must demonstrate that the pay difference is based on seniority, merit, quantity or quality of production, or a factor other than sex, and mere negotiation differences may not satisfy the "factor other than sex" requirement

D. Yes, because the Equal Pay Act permits pay differences of up to \$20,000 between employees performing similar work

40. A contractor's workers' compensation carrier reports that the company's EMR has increased from 0.90 to 1.25 over the past two years due to multiple serious injuries. The annual base premium at EMR 1.0 is \$180,000. What is the financial impact of this EMR increase, and what additional business consequences may result?

A. The premium increase is \$9,000 annually and has no impact beyond the insurance cost

B. The premium increases from \$162,000 (at 0.90) to \$225,000 (at 1.25) — a \$63,000 annual increase — and the higher cost alone reduces competitiveness

C. The EMR increase results in automatic OSHA inspection of all active jobsites within 60 days of the rating change

D. The premium increases from \$162,000 to \$225,000 — a \$63,000 annual increase — and the EMR of 1.25 may disqualify the contractor from projects requiring a maximum EMR of 1.0, directly reducing available bidding opportunities in addition to the \$63,000 increased cost

DOMAIN: FINANCIAL MANAGEMENT (5 Questions)

41. A contractor's WIP report shows Project Lambda: revised contract \$1,400,000; estimated total cost \$1,190,000; costs to date \$833,000; billings to date \$1,050,000. What is the percentage complete, over/under billing status, and estimated gross profit margin?

A. 60% complete, under-billed by \$70,000, gross margin 20%

B. 70% complete ($\$833,000 \div \$1,190,000$), over-billed by \$70,000 (billings of \$1,050,000 minus earned revenue of \$980,000), with a 15% estimated gross profit margin ($\$210,000 \div \$1,400,000$)

C. 75% complete, billings match earned revenue exactly, gross margin 10%

D. 65% complete, over-billed by \$70,000, gross margin 12%

42. A contractor uses the percentage-of-completion method on a \$3,600,000 project with estimated total costs of \$3,060,000. At the end of Year 1, costs incurred total \$1,530,000. At the end of Year 2, cumulative costs total \$2,448,000. The project is still in progress. What is the revenue recognized in Year 2 only?

A. \$1,080,000, calculated as Period 2 cumulative revenue (\$2,880,000 at 80% complete) minus Period 1 revenue (\$1,800,000 at 50% complete) = \$1,080,000

B. \$2,880,000, representing the full cumulative revenue through Year 2 without subtracting Year 1

C. \$918,000, equal to the costs incurred during Year 2 only (\$2,448,000 – \$1,530,000)

D. \$1,800,000, equal to the Year 1 revenue repeated in Year 2

43. A contractor's cash flow analysis reveals a recurring pattern: the company is consistently profitable on the income statement but chronically short of cash. The contractor's CPA identifies the following contributing factors: (1) accounts receivable average 78 days outstanding versus the 45-day industry standard; (2) retainage receivable has accumulated to \$350,000 across all active projects; (3) the contractor pays subcontractors within 10 days but collects from owners in 78 days. What is the fundamental cash flow problem?

A. The company is not actually profitable — the income statement must contain errors if cash flow is negative

B. The company's profit margin is too low to cover the fixed overhead costs, creating a structural deficit

C. The fundamental problem is a timing mismatch — the contractor pays out cash faster than they collect it, with a 33-day gap (78-day collections minus 45-day benchmark) tying up hundreds of thousands in working capital, compounded by \$350,000 in retainage that cannot be collected until projects are complete

D. The problem is caused by excessive equipment purchases that are depleting the company's cash reserves

44. A contractor's balance sheet shows the following year-over-year changes: working capital decreased from \$380,000 to \$220,000; debt-to-equity ratio increased from 2.0 to 3.5; accounts receivable aging shows 25% of receivables are over 90 days old, up from 8% last year. A surety is evaluating the contractor for a bond renewal. What is the surety's likely assessment?

- A. The surety will increase the contractor's bonding capacity because the higher debt-to-equity ratio indicates the contractor is accessing more capital to grow their business
- B. The surety will maintain the current bonding line because the financial changes are within normal year-over-year fluctuations for construction companies
- C. The surety will focus exclusively on the accounts receivable aging because that is the only metric relevant to bonding decisions
- D. The surety will likely reduce the contractor's bonding capacity or impose additional conditions — the combination of declining working capital, increasing leverage, and deteriorating receivable quality signals elevated financial risk that increases the probability of contractor default

45. A contractor maintains a \$600,000 line of credit secured by accounts receivable. The bank's borrowing base formula limits draws to 75% of receivables under 90 days old. Current receivable aging: \$400,000 current (0-30 days), \$180,000 at 31-60 days, \$100,000 at 61-90 days, \$85,000 over 90 days. The contractor currently has \$350,000 drawn on the line. What is the remaining available credit?

- A. \$250,000, calculated as \$600,000 line limit minus \$350,000 drawn without considering the borrowing base
- B. \$160,000 — eligible receivables are \$680,000 (\$400,000 + \$180,000 + \$100,000), the borrowing base is \$510,000 (75% of \$680,000), the \$510,000 borrowing base is below the \$600,000 line limit making the borrowing base the constraint, and available credit is \$510,000 minus \$350,000 already drawn = \$160,000
- C. \$85,000, calculated by subtracting the over-90-day receivables from the available credit
- D. \$600,000, because the full line is always available regardless of the borrowing base calculation

DOMAIN: TAX LAWS (5 Questions)

46. A contractor organized as a sole proprietorship wants to understand the difference between a tax deduction and a tax credit. The contractor has \$10,000 in business expenses (deductions) and a \$2,000 energy-efficient construction tax credit. The contractor is in the 24% federal income tax bracket. What is the tax savings from each?

- A. The \$10,000 deduction saves \$2,400 (reducing taxable income by \$10,000 × 24% tax rate), while the \$2,000 credit saves the full \$2,000 (reducing the tax bill dollar-for-dollar) — credits are more valuable than deductions of the same amount because credits directly reduce the tax owed rather than merely reducing taxable income

B. Both the deduction and the credit save \$2,000 each because they are treated identically under the tax code

C. The deduction saves \$10,000 and the credit saves \$2,000 because deductions reduce the tax bill by their full face value

D. The deduction saves \$2,400 and the credit saves \$480 because credits are reduced by the taxpayer's marginal rate

47. An employer with 25 employees makes their payroll tax deposit for the March payroll period. The total deposit should have been \$22,000, but the employer mistakenly deposits only \$20,000. The employer discovers the \$2,000 shortfall 4 days after the deposit deadline. Under the IRS de minimis safe harbor rule for deposit shortfalls, will a penalty apply?

A. Yes, because any shortfall in a payroll tax deposit triggers an automatic penalty regardless of the amount

B. No penalty applies if the shortfall qualifies for the de minimis safe harbor — the shortfall must be the greater of \$100 or 2% of the required deposit (2% of \$22,000 = \$440), and since the \$2,000 shortfall exceeds \$440, the safe harbor does not apply and a penalty will be assessed on the \$2,000 shortfall

C. No, because the de minimis rule exempts all shortfalls under \$5,000 from penalties regardless of the percentage

D. No penalty applies because the employer deposited more than 90% of the required amount, which satisfies the de minimis safe harbor

48. A contractor organized as an S-Corporation has two equal shareholders, both of whom work full-time in the business. The company earns \$600,000 in net income. Each shareholder takes a salary of \$100,000 and a distribution of \$200,000. The IRS determines that a reasonable salary for each shareholder is \$150,000. What is the total additional FICA tax exposure for both shareholders combined?

A. Approximately \$7,650 per shareholder ($\$50,000 \times 15.3\%$) = \$15,300 combined, representing both the employer and employee shares of FICA on the \$50,000 per shareholder reclassified from distribution to salary

B. \$0, because the IRS cannot reclassify S-Corporation distributions as salary under any circumstances

C. \$91,800, calculated at the full 15.3% FICA rate on the entire \$600,000 of corporate income

D. Approximately \$15,300 total — the IRS will reclassify \$50,000 per shareholder (\$150,000 reasonable minus \$100,000 paid) from distributions to salary, subjecting the reclassified

\$100,000 combined amount to the full 15.3% FICA rate ($\$100,000 \times 0.153 = \$15,300$), plus penalties and interest

49. A contractor purchases \$30,000 in plumbing supplies for a commercial construction project, \$12,000 in diesel fuel for construction equipment over a one-month period, and \$6,000 in office computers for the company's administrative staff. All purchases are made in Arkansas. Which purchases are subject to Arkansas sales tax?

A. Only the \$6,000 in office computers because construction materials and fuel are exempt from Arkansas sales tax

B. All three purchases — the \$30,000 plumbing supplies (contractor is the consumer of installed materials), the \$12,000 diesel fuel (consumed in business operations), and the \$6,000 office computers (business consumables) — totaling \$48,000 in taxable purchases

C. Only the \$30,000 plumbing supplies because they will be permanently incorporated into real property and are the only items subject to the contractor use tax

D. Only the \$30,000 plumbing supplies and \$6,000 office computers because diesel fuel for construction equipment is exempt under the agricultural and construction fuel exemption

50. A contractor's CPA is preparing the company's year-end tax return and discusses the importance of proper record retention. The CPA recommends keeping all tax records, supporting documentation, receipts, and payroll records for at least seven years. The contractor asks why seven years instead of the standard three-year statute of limitations. What is the CPA's most likely reasoning?

A. The CPA recommends seven years because the standard three-year statute of limitations applies only when the return is accurate — if gross income is understated by more than 25%, the IRS has six years to assess additional tax, and the seven-year retention provides a one-year safety margin beyond this extended assessment period

B. The seven-year recommendation has no legal basis and is merely an overly cautious practice that wastes storage space

C. Federal law requires all construction companies to retain records for a minimum of seven years regardless of the statute of limitations

D. The CPA recommends seven years because Arkansas state tax law requires a minimum seven-year retention period for all business tax records

Practice Exam 16: Answer Key and Explanations

1. D — The IRS targets S-Corporation owners who keep salaries artificially low to avoid FICA taxes on the difference taken as distributions. Shareholder distributions are not subject to FICA, while salary is — so by paying \$140,000 in combined salaries and taking \$360,000 as distributions, the members avoided approximately \$25,000 to \$30,000 in combined employer and employee FICA taxes. The IRS will reclassify a portion of the distributions as salary and assess back FICA taxes, penalties, and interest.

2. B — The NASCLA exam satisfies the trade exam requirement, but Arkansas requires all commercial license applicants to pass the state-specific Business and Law Examination separately. The financial statement (reviewed, showing \$55,000 net worth and \$26,000 cash), experience (6 years), references (three), and surety bond (\$10,000) all meet requirements. The missing Business and Law exam is the only deficiency.

3. A — License revocation is the most severe disciplinary action available to the ACLB. A felony conviction involving fraud in a construction transaction — taking \$200,000 for work never intended to be performed — is among the most serious violations of contractor licensing law. Revocation permanently removes the contractor's authority to operate, protecting the public from further harm.

4. C — Adding a second story to an existing single-story home is classified as residential remodeling — it is an alteration, improvement, and addition to an existing residential structure. The residential remodeler license authorizes this type of work. The structural complexity of a second-story addition does not reclassify it as commercial construction; the determining factor is the building's use as a residence.

5. D — Arkansas courts may treat contracts entered into by unlicensed contractors as unenforceable, denying the contractor legal remedies to collect payment regardless of the quality or completeness of the work performed. This principle protects the public and creates a powerful incentive for contractors to obtain proper licensing before performing work. The unlicensed contractor may lose both the right to payment and face ACLB enforcement penalties.

6. B — Overhead rate: $\$384,000 \div \$2,400,000 = 16\%$. Project overhead allocation: $\$520,000 \times 16\% = \$83,200$. This allocation ensures that each project bears its proportional share of the company's fixed overhead costs. If the contractor fails to include overhead in their bid, the project may generate revenue but not cover the company's operating expenses.

7. A — The subcontractor's quote explicitly includes an escalation clause stating the price is "subject to material price increases occurring after this date." By including this quote in their bid, the contractor accepted this condition. The subcontractor has the contractual right to adjust the price for documented material cost increases that occur after the quote date but within the 60-day validity period.

8. C — Material with waste: $\$4.50 \times 4,000 \times 1.05 = \$18,900$. Adhesive: $\$0.40 \times 4,000 = \$1,600$. Labor: $4,000 \div 80 = 50$ hours $\times \$42.00 = \$2,100$. Total: $\$18,900 + \$1,600 + \$2,100 = \$22,600$. The waste factor applies only to the material quantity — adhesive is calculated on the net area, and labor productivity already accounts for the time needed to cut and fit tiles.

9. D — On a unit price contract, the contractor is paid the bid unit price for all actual quantities installed — not just the estimated quantities. If the actual quantity of 2-inch PVC pipe exceeds the estimated 8,000 linear feet, the contractor loses \$4.00 per foot on every additional foot (\$12.50 actual cost minus \$8.50 bid price). This makes the financial exposure potentially much greater than the initial \$32,000 estimate.

10. B — The contract specifies different markup rates for self-performed and subcontracted work. Self-performed work (\$20,000): $15\% \times \$20,000 = \$3,000$. Subcontracted work (\$120,000): $7\% \times \$120,000 = \$8,400$. Total markup: $\$3,000 + \$8,400 = \$11,400$. Applying the wrong rate to the wrong work category would violate the contract terms and could be challenged by the owner.

11. A — The architect characterizes the drain relocation as minor, but the actual scope — cutting a new trench, rerouting underground piping, patching, and regrading — at \$8,500 exceeds what most contracts define as a minor field order. The contractor should respond in writing documenting the full scope and cost, and submit a change order request. Absorbing \$8,500 without documentation sets a precedent for future uncompensated scope changes.

12. C — If the drywall subcontractor defaults after billing \$380,000 but completing only \$290,000 of work, the general contractor has overpaid by \$90,000. The GC must fund the remaining drywall work from their own resources while the overpaid amount is likely unrecoverable. This is why general contractors should independently verify subcontractor progress before approving payment applications.

13. D — Many courts strictly enforce contractual notice deadlines as conditions precedent to claim validity. The contractor's failure to provide written notice within the 14-day contractual deadline may bar the claim entirely — even if the claim has clear merit and the owner was aware of the underlying condition. Timely written notice is one of the most critical risk management disciplines in construction.

14. B — The general contractor approved the full \$85,000, included it in their own application, and received full payment from the owner. Withholding \$25,000 as a "performance reserve" that is not authorized by the subcontract constitutes a breach of the payment provisions. The GC cannot unilaterally create withholding categories not provided for in the contract. The subcontractor is entitled to the approved amount.

15. A — The contractor has a duty to report known errors and omissions in the contract documents, even though the contractor did not create the design error. The conflict between the mechanical specifications (chilled water capacity) and the electrical specifications (insufficient power) should be reported through an RFI. This obligation arises from the contract's general conditions and prevents costly field corrections.

16. B — The contractor should respond in writing because an owner directive to accelerate the schedule by 60 days constitutes a constructive change that requires additional compensation. The contractor should submit a change order for the estimated \$180,000 in acceleration costs and request written authorization before implementing overtime, additional crews, and premium deliveries. Accelerating without a change order risks non-payment for the acceleration costs.

17. C — The owner notified the contractor on September 12, within the warranty period (before September 15). This timely notification preserves the warranty claim. The contractor is obligated to investigate and repair the defect even if the actual repair work extends beyond the September 15 warranty expiration date — the claim was made within the warranty period.

18. B — Float erosion from 22 days to 8 days is the most concerning trend because it indicates the schedule's ability to absorb future delays is rapidly diminishing. If float continues to erode at this rate, the project will reach zero float before completion — meaning any subsequent delay will directly extend the completion date. The project manager should investigate which activities are consuming float and implement corrective measures.

19. D — The weekly productivity loss is 22.5 person-hours (6 electricians × 45 minutes × 5 days). The superintendent should re-sequence the carpentry blocking to be completed the day before the electrical crew needs it. This eliminates the daily idle time by ensuring the work face is prepared in advance. The cost of 22.5 lost person-hours per week compounds significantly over the project duration.

20. C — Both Chain 2 and Chain 3 tie at 172 days — the longest duration — making them both critical paths. Any delay to any activity on either chain will extend the project completion date. When multiple paths tie for the longest duration, all tied paths are critical and must be managed with equal vigilance. Chains 1 and 4 are shorter and have float.

21. D — The structural beam deviation should be disclosed in the as-built drawings and reported to the architect. Accurate as-built documentation is essential for future maintenance, renovations, and structural assessments. Concealing any deviation — regardless of its functional impact — violates the contractor's obligation to provide truthful project records and creates potential liability for future issues.

22. B — The steel erector should not modify structural connections in the field without engineering approval. The project manager should stop the steel erection at the northwest corner, submit an urgent RFI identifying the conflict between structural connections and the curtain wall design, and request an expedited response. Field modifications to structural connections without engineering review create unacceptable life safety risks.

23. A — Proactively rescheduling power-dependent critical activities to Wednesday or Friday avoids a full day of lost productivity on the critical path. Arranging a temporary generator for essential site services maintains safety and security during the outage. This forward-looking approach — identified through the look-ahead schedule — prevents a reactive scramble on the day of the outage.

24. C — $EAC = BAC \div CPI = \$6,000,000 \div 0.9375 = \$6,400,000$. If the current cost inefficiency continues (getting only \$0.94 of value for every \$1.00 spent), the project will finish approximately \$400,000 over the \$6,000,000 budget. The CPI-based forecast assumes the current cost trend persists through completion — the project manager must implement cost corrective actions to improve the CPI.

25. D — The products-completed operations aggregate limit is \$2,000,000 — separate from the general aggregate. This \$2,000,000 is the maximum the policy will pay for all completed operations claims during the policy year. The \$3,500,000 claim exceeds this aggregate by

\$1,500,000, leaving the contractor exposed for the gap unless umbrella or excess coverage is in place.

26. C — Sureties may consider the completion status of existing projects when evaluating available capacity. Projects at 90% completion with final payment pending represent significantly lower risk than newly bonded projects. The surety may partially or fully release the capacity occupied by substantially complete projects, effectively freeing up bonding room for new work — though this is at the surety's discretion.

27. A — A waiver of subrogation prevents the workers' compensation carrier from pursuing the project owner for reimbursement of benefits paid to the contractor's injured employees — even if the owner's negligence contributed to the injury. Without this waiver, the carrier could sue the owner to recover its claim payments. Many construction contracts require this endorsement to protect the owner from subrogation claims.

28. D — The initial treatment (wound cleaning, antibiotic ointment, bandage) and the tetanus booster are all classified as first aid under OSHA rules. The case becomes recordable when the doctor prescribes oral antibiotics — prescription medication constitutes medical treatment beyond first aid. The tetanus booster alone would not trigger recordability. The 300 Log entry should reflect the original injury date.

29. B — The OSHA recordkeeping threshold counts all employees — full-time and part-time — not full-time equivalents. This employer has 13 total employees (9 full-time + 4 part-time), which exceeds the 11-employee threshold. The employer must maintain OSHA 300 Logs, 300A Summaries, and 301 Incident Reports for all recordable injuries and illnesses.

30. C — Total recordable cases: 2 fatalities + 3 days away + 2 restricted + 5 medical treatment = 12. $TRIR = (12 \times 200,000) \div 200,000 = 12.0$. The construction industry average is approximately 3.0, making this company's rate four times worse. A TRIR of 12.0 indicates critically poor safety performance demanding immediate executive intervention, comprehensive safety program overhaul, and root cause analysis.

31. A — The FMLA allows employers to temporarily transfer employees to alternative positions that better accommodate intermittent leave schedules, provided the position has equivalent pay and benefits. Transferring the laborer to a jobsite closer to the physical therapy clinic reduces schedule disruption for both the employee and the project while maintaining full FMLA protections.

32. D — U.S. citizens and non-citizen nationals have permanent work authorization that does not expire. A U.S. passport establishes both identity and permanent employment authorization. When the physical passport document expires, the holder's underlying citizenship and work authorization remain intact. No re-verification is required — employers who re-verify U.S. citizens based on document expiration may violate IRCA's anti-discrimination provisions.

33. B — The FLSA calculates overtime on a workweek basis (not daily). Total hours: 40 (Monday-Thursday) + 12 (Friday) = 52 hours. The 12 Friday hours exceed the 40-hour weekly threshold. The FLSA requires at least time-and-a-half (\$63.00) for those 12 hours. The employer's voluntary double-time policy (\$84.00) exceeds the FLSA minimum, so no additional payment is required beyond the employer's own policy.

34. A — The office manager meets all criteria for the executive exemption: salary of \$950/week exceeds the \$684 threshold, primary duty is management, regularly directs 3 employees (more than 2), and has genuine hiring and firing authority. The 70% managerial time further supports the classification. All four elements of the executive exemption duties test are satisfied.

35. C — The handbook's specific rule for falsification of records supersedes the general progressive discipline sequence. Progressive discipline policies typically address general performance issues, while specific rules for serious misconduct (theft, fraud, falsification, violence) establish standalone consequences. Time card falsification is a form of fraud that justifies immediate termination under the handbook's specific provision.

36. D — After three verbal reminders over two days with no behavioral change, the appropriate escalation is a formal written warning. The written documentation records the specific violation, the prior verbal reminders, and the consequences of continued non-compliance. Employers have a legal duty to enforce PPE requirements, and documented progressive discipline demonstrates good-faith compliance efforts.

37. B — Davis-Bacon allows apprentice wage rates for workers registered in approved apprenticeship programs. First-year apprentices at 50% receive at least \$13.00/hour (50% of \$26.00 journeyman wage) plus proportional fringe benefits as specified in the approved schedule. The critical requirement is that the apprentices must be registered in a bona fide program — unregistered workers performing apprentice duties must be paid the full journeyman rate.

38. A — The employer's failure to document the attendance problem, issue progressive discipline, and define clear absenteeism thresholds severely undermines the misconduct defense. Without written warnings establishing that the absences were a recognized performance problem, the unemployment agency is unlikely to classify the termination as disqualifying willful misconduct. Documentation is the employer's most powerful tool in contesting unemployment claims.

39. C — Salary negotiation history alone is generally not recognized as a valid defense under the Equal Pay Act. The employer must demonstrate the pay difference is based on seniority, merit, quantity or quality of production, or a factor other than sex. The fact that the female project manager manages larger and more complex projects further weakens the employer's position, since her responsibilities exceed those of the higher-paid male counterpart.

40. D — Premium at EMR 0.90: $\$180,000 \times 0.90 = \$162,000$. Premium at EMR 1.25: $\$180,000 \times 1.25 = \$225,000$. Annual increase: \$63,000. Beyond the premium increase, an EMR of 1.25 disqualifies the contractor from projects requiring a maximum EMR of 1.0 — a common prequalification threshold. The combined financial impact includes both higher insurance costs and reduced bidding opportunities.

41. B — Percentage complete: $\$833,000 \div \$1,190,000 = 70\%$. Earned revenue: $70\% \times \$1,400,000 = \$980,000$. Billings: \$1,050,000. Over-billed by \$70,000 ($\$1,050,000 - \$980,000$). Gross profit: $\$1,400,000 - \$1,190,000 = \$210,000$. Gross margin: $\$210,000 \div \$1,400,000 = 15\%$. The \$70,000 over-billing appears as a current liability representing work billed but not yet earned.

42. A — Year 1: % complete = $\$1,530,000 \div \$3,060,000 = 50\%$. Revenue = $50\% \times \$3,600,000 = \$1,800,000$. Year 2: cumulative % = $\$2,448,000 \div \$3,060,000 = 80\%$. Cumulative revenue = $80\% \times \$3,600,000 = \$2,880,000$. Year 2 incremental revenue = $\$2,880,000 - \$1,800,000 = \$1,080,000$. Revenue is recognized incrementally by subtracting previously recognized amounts from the cumulative earned total.

43. C — The fundamental problem is a timing mismatch between cash outflows and cash inflows. The contractor pays subcontractors in 10 days but waits 78 days for owner payments — creating a 68-day gap where the contractor must fund operations from working capital. Combined with \$350,000 in trapped retainage, the company is profitable on paper but chronically short of cash because it pays out faster than it collects.

44. D — The combination of declining working capital (from \$380,000 to \$220,000), increasing leverage (debt-to-equity from 2.0 to 3.5), and deteriorating receivable quality (over-90-day receivables jumping from 8% to 25%) signals elevated financial risk. Each metric independently raises concerns; together they present a pattern of financial deterioration that increases the probability of contractor default.

45. B — Eligible receivables (under 90 days): $\$400,000 + \$180,000 + \$100,000 = \$680,000$. Borrowing base: $\$680,000 \times 75\% = \$510,000$. The borrowing base (\$510,000) is below the line limit (\$600,000), making the borrowing base the binding constraint. Available credit: $\$510,000 - \$350,000 \text{ drawn} = \$160,000$. The \$85,000 in over-90-day receivables is excluded from the eligible base.

46. A — A \$10,000 deduction reduces taxable income by \$10,000, saving \$2,400 at the 24% tax bracket ($\$10,000 \times 0.24$). A \$2,000 credit reduces the actual tax bill by \$2,000 dollar-for-dollar. The credit provides greater value per dollar because it directly reduces tax owed, while the deduction only reduces the income on which tax is calculated.

47. C — The de minimis safe harbor rule exempts deposit shortfalls that do not exceed the greater of \$100 or 2% of the required deposit amount. For a \$22,000 required deposit, the safe harbor threshold is \$440 (2% of \$22,000). The \$2,000 shortfall significantly exceeds the \$440 threshold, so the safe harbor does not apply. The 2% late deposit penalty applies to the \$2,000 shortfall because it was corrected within 5 days.

48. A — The IRS will reclassify \$50,000 per shareholder from distributions to salary (\$150,000 reasonable minus \$100,000 paid). The reclassified \$100,000 combined is subject to the full 15.3% FICA rate: $\$100,000 \times 0.153 = \$15,300$ in additional FICA taxes for both shareholders combined, plus penalties and interest on the underreported payroll taxes.

49. B — In Arkansas, contractors pay sales tax on all tangible personal property purchased for business use. The \$30,000 plumbing supplies are taxable (contractor consumes installed materials). The \$12,000 diesel fuel is taxable (consumed in business operations). The \$6,000 office computers are taxable (business consumables). Total taxable: \$48,000 at the applicable combined state and local rate.

50. A — The standard three-year statute of limitations applies when tax returns are accurately filed. However, if gross income is understated by more than 25%, the IRS has six years to assess additional taxes. The seven-year retention recommendation provides a one-year safety

margin beyond this extended six-year assessment period, offering maximum protection against potential IRS audits for underreported income.