PRACTICE EXAM 20: MISSISSIPPI LAW AND BUSINESS MANAGEMENT SIMULATION (50 QUESTIONS)

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

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

1. A contractor wins a $5,200,000 public hospital project requiring performance and payment bonds at 100%. During construction, the mechanical subcontractor ($820,000 scope) goes bankrupt at the 60% completion point. The general contractor must hire a replacement at a cost of $920,000 for the remaining 40% of work — $100,000 more than the proportional remaining amount of the original subcontract. Additionally, the bankrupt subcontractor's material suppliers have $55,000 in unpaid invoices. Which bond addresses each issue?

A. The performance bond covers both the $100,000 completion cost increase and the $55,000 in unpaid supplier invoices because all financial obligations flow through a single bond

B. The payment bond covers both issues because all financial losses resulting from a subcontractor bankruptcy are classified as payment claims

C. Neither bond covers these issues because subcontractor bankruptcies are force majeure events excluded from bond coverage

D. The performance bond addresses the $100,000 cost increase to complete the project (protecting the owner's interest in project completion), while the payment bond addresses the $55,000 in unpaid material supplier invoices (protecting downstream parties who furnished materials for the project)

2. A contractor's project has the following comprehensive financial data at yearend: contract price $3,600,000, original estimated total cost $3,060,000, actual costs incurred $2,448,000, revised cost to complete $720,000, billings to date $2,700,000. Calculate the completion percentage, earned revenue, projected total cost, projected profit versus original estimate, and billing status.

A. Completion 67.8%, earned revenue $2,700,000, properly billed because revenue equals billings

B. Completion is 80% ($2,448,000 ÷ $3,060,000), earned revenue is $2,880,000 (80% × $3,600,000), projected total cost is $3,168,000 ($2,448,000 + $720,000), projected profit is $432,000 versus the original $540,000 (a $108,000 erosion), and the project is underbilled by $180,000 ($2,880,000 earned − $2,700,000 billed) — classified as a current asset

C. Completion 80%, all figures match option B except the project is overbilled rather than underbilled

D. Completion 75%, earned revenue $2,700,000, projected profit $540,000 unchanged from the original estimate

3. A Mississippi contractor holds a commercial Building Construction license with a net worth of $280,000. The contractor wants to apply for three additional specialty classifications: Electrical ($20,000 minimum), Mechanical ($20,000 minimum), and Concrete ($20,000 minimum). Does the contractor meet the financial requirements for the Building Construction major classification and all three specialties?

A. No, because the combined requirement is $110,000 ($50,000 + $20,000 + $20,000 + $20,000) and the contractor must demonstrate separate net worth for each classification

B. No, because MSBOC limits contractors to a maximum of two specialty classifications per major classification license

C. Yes, because the $280,000 net worth exceeds the highest applicable threshold — MSBOC requirements are not cumulative, so the contractor needs only $50,000 (the major classification minimum), not the sum of all classification minimums; the $280,000 provides substantial margin above all applicable thresholds

D. Yes, but the contractor must increase net worth to $300,000 before the third specialty can be added

4. A contractor's project involves a 20footdeep excavation with the following soil profile: the upper 8 feet is Type A (undisturbed cohesive clay), and the lower 12 feet is Type C (loose granular material with water seepage). The contractor plans a combination protective system. What slope angles and/or mechanical protection are required for each zone?

A. The upper 8 feet of Type A soil requires a ¾:1 slope (53 degrees — 6 feet horizontal per side), and the lower 12 feet of Type C soil requires either a trench shield or a 1½:1 slope (34 degrees — 18 feet horizontal per side); the protective system must be based on each zone's classification, with the overall system accommodating the least stable conditions encountered

B. Both zones require a 1:1 slope (45 degrees) because combination excavations always use the Type B slope as a compromise

C. The entire excavation requires a 1½:1 slope (34 degrees) because the presence of any Type C soil requires the most conservative slope throughout

D. The upper zone requires vertical walls because Type A permits vertical excavation, and the lower zone requires only standard shoring

5. A contractor operating as a sole proprietor earns $420,000 in net business income and is evaluating conversion to an LLC with Scorporation tax election. The accountant recommends a reasonable salary of $175,000. Calculate the approximate selfemployment tax under each structure and the annual savings.

A. Both structures produce identical tax results totaling approximately $55,000 in employment taxes

B. The Scorp saves approximately $15,000 because the IRS limits savings to the lesser of 15% of distributions or $15,000

C. The Scorp saves approximately $60,000 because it eliminates all employment taxes on both salary and distributions

D. As sole proprietor, SE tax on $420,000 ≈ $57,600 (15.3% on 92.35% × $420,000); with Scorp, payroll taxes on $175,000 salary ≈ $26,775 (15.3%); the $245,000 in distributions avoids SE tax; annual savings ≈ $30,825 ($57,600 − $26,775)

6. A contractor's project has a fixedprice contract for $1,900,000. The project is completed 18 days late. The contract includes a liquidated damages clause of $2,500 per calendar day. The contractor has documented and received approved time extensions for: 5 days of ownercaused access delays, 4 days of architect's late RFI responses, and 3 days of unusually severe weather (qualifying under the force majeure clause). What is the contractor's net liquidated damages liability?

A. $45,000 for the full 18 days because liquidated damages apply regardless of the cause of delay

B. $30,000 for 12 days because only the weather days are excluded while owner and architect delays are the contractor's responsibility

C. $15,000 — the 18 total late days minus the 12 approved extension days (5 owner + 4 architect + 3 weather) leaves 6 days of contractorcaused delay at $2,500/day = $15,000

D. $0 because any approved time extension automatically voids the entire liquidated damages provision

7. A contractor's project involves a commercial renovation in an occupied hospital. The contractor must maintain negative air pressure barriers, infection control protocols, and HEPA filtration between construction zones and patient care areas. During ceiling demolition on the 4th floor, the HEPA filtration unit fails and dust migrates into the adjacent cardiac ICU. What are the immediate consequences and required actions?

A. Stop all dustgenerating work immediately, evacuate the construction zone, repair or replace the HEPA unit, verify negative air pressure is restored, notify hospital infection control staff for patient exposure assessment, document the incident, and do not resume construction until the containment system is verified and approved by hospital infection control — dust migration into a cardiac ICU exposes critically ill patients to potentially fatal airborne infections

B. Continue construction but increase the replacement filter schedule from weekly to daily until the unit is repaired

C. Notify the hospital maintenance department to increase the HVAC airflow on the cardiac ICU floor to dilute the construction dust

D. Document the failure in the daily report and schedule HEPA unit repair for the following day during the normal maintenance window

8. A contractor's project has a GMP contract at $4,100,000 with a 50/50 savings sharing provision. Actual costs are $3,480,000 and the contractor's fee is $310,000. Calculate the total the owner pays, the savings amount, and each party's share of the savings.

A. Owner pays $4,100,000 because the GMP is the guaranteed payment regardless of actual costs

B. Costs plus fee = $3,790,000. Savings = $4,100,000 − $3,790,000 = $310,000. Owner's 50% = $155,000 credit. Contractor's 50% = $155,000 bonus. Owner pays $3,790,000 + $155,000 = $3,945,000 — or equivalently, $4,100,000 − $155,000 = $3,945,000

C. Owner pays $3,480,000 because only actual costs are paid and the fee is absorbed within the GMP

D. Owner pays $4,100,000 minus the full $310,000 savings = $3,790,000 because all savings go to the owner

9. A contractor's employee works the following hours: Monday 12, Tuesday 11, Wednesday 10, Thursday 12, Friday 11, Saturday 6. The employee's regular rate is $48.00 per hour and they are nonexempt. Calculate the correct gross pay showing both regular and overtime components.

A. $2,976, calculated at straighttime for all 62 hours because the FLSA overtime threshold for construction is 65 hours

B. $2,976, calculated at $48.00 for all 62 hours because overtime applies only when daily hours exceed 12

C. $3,168, calculated at doubletime for all Saturday hours plus timeandahalf for all daily hours exceeding 8

D. $3,504 — regular pay: 40 hours × $48.00 = $1,920; overtime: 22 hours × $72.00 ($48.00 × 1.5) = $1,584; total $3,504 — the FLSA requires 1.5× for all hours over 40 in the workweek regardless of which day they occur or whether any single day exceeds 8 hours

10. A contractor's project involves a 14footdeep excavation adjacent to an existing 3story building with a foundation extending 6 feet below grade. The excavation extends 8 feet below the adjacent building's foundation. The competent person classifies the soil as Type B. Before excavating below the adjacent foundation level, what must the contractor do?

A. Only install dewatering pumps because water intrusion is the sole hazard when excavating near existing foundations

B. Only notify the adjacent building owner because notification satisfies all regulatory requirements for excavation near existing structures

C. Arrange for a structural engineer to design a support system (underpinning, shoring, or other engineered protection) for the adjacent building's foundation before excavation proceeds below the foundation level — removing soil from beneath an existing foundation eliminates lateral support and can cause settlement, structural cracking, or catastrophic foundation failure; the engineer must analyze the existing building's loads, soil conditions, and excavation geometry to design adequate support

D. Only add bracing to the inside of the trench because the trench protective system adequately supports the adjacent building's foundation

11. A contractor's annual financial analysis reveals the following: overhead was projected at $380,000 on a direct cost volume of $2,200,000 (17.3% rate). Actual overhead reached $440,000 while actual direct cost volume dropped to $1,900,000. What is the actual overhead rate, what was the applied rate, and what is the total unrecovered overhead?

A. Actual rate is 23.2% ($440,000 ÷ $1,900,000), applied rate was 17.3%, the 5.9% difference × $1,900,000 = $112,100 in unrecovered overhead — the impact is compounded because both overhead costs increased AND direct cost volume decreased, making each project's share of overhead significantly heavier than what was charged in bids

B. Actual rate is 17.3% (unchanged) and there is no unrecovered overhead because the rate was correctly calculated at the beginning of the year

C. Actual rate is 20% and unrecovered overhead is $40,000 because only the overhead cost increase (not the volume decrease) affects the rate

D. Actual rate is 15% because higher actual overhead reduces the rate when divided by the original projected volume

12. A contractor's project involves a commercial building where the specifications reference a document hierarchy: (1) change orders, (2) agreement, (3) supplementary conditions, (4) general conditions, (5) specifications, (6) drawings. Three simultaneous conflicts exist: the specifications require 2hour firerated drywall, the drawings show 1hour rated drywall, the supplementary conditions require a 3day claim notice period, and the general conditions require a 10day claim notice period. What governs in each conflict?

A. The drawings govern the drywall rating and the general conditions govern the claim notice period because visual documents and general conditions always take precedence

B. The specifications govern the drywall rating (2hour, because specifications rank above drawings) and the supplementary conditions govern the claim notice period (3day, because supplementary conditions rank above general conditions) — each conflict is resolved by applying the document hierarchy independently to each disputed item

C. The architect resolves both conflicts at their discretion because the hierarchy clause is advisory only

D. The most expensive option governs in all cases because conflicts are always resolved in favor of the highercost interpretation

13. A contractor operating as a Ccorporation earns $750,000 in taxable corporate income. After paying federal corporate tax at 21% and Mississippi corporate tax at 5% on income over $10,000, the corporation distributes $250,000 in dividends. Calculate the approximate total corporatelevel taxes (federal + Mississippi) on the $750,000 and identify the tax treatment of the $250,000 dividend.

A. Federal tax: $157,500 ($750,000 × 21%). Mississippi tax: $37,000 (5% on $740,000 above $10,000). Combined: approximately $194,500. The $250,000 dividend is paid from aftertax corporate earnings and is taxed again on shareholders' personal returns at their applicable qualified dividend rate — creating the double taxation inherent in the Ccorporation structure

B. Combined taxes are $0 because construction companies organized as Ccorporations are exempt from both federal and state corporate income tax

C. Federal tax only at $112,500 (15% rate) with no Mississippi tax because the state exempts Ccorporations under $1,000,000 in revenue

D. Combined taxes are $195,000 (flat 26% rate on $750,000) and dividends are taxfree to shareholders because the corporate tax fully satisfies the obligation

14. A contractor's project involves a commercial building where an OSHA compliance officer conducts an inspection based on a worker complaint about unprotected floor openings. During the inspection, the officer observes: (1) an unprotected floor opening on the 3rd floor with no cover, guardrail, or warning sign; (2) three workers within 10 feet of the opening with no fall protection; (3) documentation showing the same hazard was cited and corrected 8 months ago at a different project. How will these findings likely affect the citation classification?

A. Otherthanserious citation because no worker actually fell through the opening during the inspection

B. Serious citation only because the hazard could cause serious injury but the prior citation does not affect the current classification

C. The combination of a recognized serious hazard (unprotected floor opening), worker exposure (three workers within 10 feet), and a prior citation for the same violation (8 months ago) may support either a willful or repeat classification — willful if the employer demonstrated knowing disregard for the requirement, or repeat if the prior citation establishes a pattern of the same violation; either classification carries significantly higher penalties than a firstoffense serious citation

D. No citation because the prior correction demonstrates the employer's goodfaith commitment to safety

15. A contractor's project has a contract that includes all of the following provisions: a liquidated damages clause ($3,000/day), a mutual waiver of consequential damages, a nodamagesfordelay clause, and a force majeure clause. The project is completed 30 days late. Of those 30 days: 10 are caused by the owner's failure to provide utility connections (active interference), 8 are caused by a hurricane (force majeure), 5 are caused by the contractor's subcontractor delays, and 7 are caused by the contractor's own scheduling errors. Analyze the time extension entitlement and the liquidated damages liability.

A. The contractor is entitled to time extensions for the 10 ownercaused days (despite the nodamagesfordelay clause, the active interference exception may apply), 8 hurricane days (force majeure), and potentially the 5 subcontractor delay days if they were beyond the contractor's control — leaving 7 contractorcaused days subject to liquidated damages at $3,000/day = $21,000; the nodamagesfordelay clause limits monetary recovery for the ownercaused delay to time only (no delay cost compensation), unless the active interference exception is proven

B. The full 30 days are subject to liquidated damages totaling $90,000 because no time extensions apply once the completion date passes

C. $0 in liquidated damages because the force majeure clause voids all delay provisions for the entire project

D. $36,000 for 12 days (5 subcontractor + 7 contractor days) because only the hurricane days are excused

16. A contractor's project involves installing a fire sprinkler system, a fire alarm system, and emergency lighting in a new 4story commercial building. Each system has a different testing and inspection requirement before the building can be occupied. Who has the authority to approve each system, and what is the contractor's responsibility in coordinating these approvals?

A. The general contractor approves all fire protection systems through internal quality control inspections without any thirdparty involvement

B. The project architect approves all fire protection systems because the architect has final authority over all building components

C. The building inspector approves general construction compliance, but the architect has no authority over fire protection system certification

D. The fire marshal certifies the fire sprinkler and fire alarm systems, the building inspector verifies code compliance for the emergency lighting and general construction, and the contractor is responsible for coordinating the inspection schedule to ensure all systems are tested, approved, and certified before the certificate of occupancy is issued — each authority has jurisdiction over specific systems, and the contractor must manage the sequence

17. A contractor's project involves a $2,800,000 commercial building. The contractor maintains comprehensive daily reports throughout the 16month project. At Month 14, a dispute arises about whether the owner verbally authorized additional landscaping work 6 months earlier. The contractor's daily report from that date documents the owner's site visit, the conversation about landscaping, and the owner's verbal directive to proceed. The owner denies the conversation occurred. How significant is the daily report in resolving this dispute?

A. The daily report has no evidentiary value because verbal conversations cannot be documented in written records

B. The daily report is highly significant — it is a contemporaneous record written at the time the event occurred, and courts and arbitrators consistently give greater weight to contemporaneous documentation than to recollections reconstructed months later; the report's credibility is strengthened

by the fact that it was part of a systematic daily documentation practice maintained throughout the project, not created for the purpose of the dispute

C. The daily report is less significant than the owner's sworn testimony because property owners' statements always take precedence over contractorgenerated records in construction disputes

D. The daily report is only admissible if it was countersigned by the owner on the date it was written

18. A contractor's project involves a renovation of a 1958 commercial building. The renovation scope includes removing existing flooring (vinyl tiles), ceiling materials (acoustic tiles and plaster), and pipe insulation. Before any demolition begins, the contractor must address potential hazardous materials. What is the comprehensive approach required for a building of this vintage?

A. Test all suspect materials for asbestos and lead before any demolition — vinyl floor tiles, acoustic ceiling tiles, plaster joint compound, and pipe insulation from 1958 all have a high probability of containing asbestos (regulated above 1%); painted surfaces may contain leadbased paint (regulated under OSHA's lead standard); the contractor must obtain test results, develop materialspecific work plans, implement appropriate worker protections, and arrange licensed disposal before disturbing any of these materials

B. Only the pipe insulation requires testing because it is the only material from 1958 that commonly contains asbestos

C. Only a visual inspection is required because trained contractors can identify asbestoscontaining materials by appearance without laboratory testing

D. No testing is required because buildings constructed before 1960 were built before asbestos was used in commercial construction

19. A contractor's project involves a deep foundation system requiring 60foot steel piles driven to refusal. The pile driving generates extreme noise and ground vibration. Adjacent property owners report cracked drywall, displaced picture frames, and door frames that no longer close properly. The contractor did not conduct a preconstruction survey. What is the contractor's liability exposure, and what should they have done differently?

A. No liability because pile driving vibration damage is classified as an unavoidable consequence of construction that is excluded from all liability

B. No liability because the adjacent property owners assumed the risk of construction vibration when they purchased property near a commercial zoning district

C. The liability exposure is minimal because cracked drywall and misaligned doors are cosmetic issues that do not constitute compensable property damage

D. The contractor has significant liability exposure — without a preconstruction survey documenting the existing condition of adjacent properties, the contractor cannot distinguish preexisting damage from constructioncaused damage, and will likely be held responsible for all claimed damage; the contractor should have conducted a comprehensive preconstruction survey (photographs, videos, written condition reports) of all adjacent structures before pile driving began

20. A contractor's project is governed by a contract with a comprehensive dispute resolution clause: Step 1 — direct negotiation within 7 days; Step 2 — mediation within 30 days if negotiation fails; Step 3 — binding arbitration if mediation fails. A $340,000 dispute arises over differing site conditions. The contractor attempts negotiation (Step 1) for 5 days without resolution, then files directly for arbitration (Step 3), skipping mediation (Step 2). The owner objects. What is the likely outcome?

A. The arbitration proceeds because completing Step 1 (negotiation) satisfies the prerequisite requirement for all subsequent steps

B. The arbitration filing may be dismissed or stayed because the contractor skipped the mandatory mediation step — courts and arbitrators enforce stepped dispute resolution clauses and require completion of each prerequisite step before advancing; the contractor must complete mediation before the arbitration can proceed

C. The arbitration is expedited because skipping mediation demonstrates the dispute is too contentious for informal resolution

D. The arbitration proceeds at double the normal fee as a penalty for skipping the mediation step

21. A contractor's project involves a commercial building with a 2hour firerated floor/ceiling assembly. The contractor's plumbing subcontractor runs pipes through the assembly and fails to install firestop sealant at 12 penetration points. The building passes the general construction inspection. Three years later, a fire on the 1st floor spreads to the 2nd floor through the unprotected penetrations, causing $450,000 in additional damage that would not have occurred if the firestops had been installed. Who bears liability for the additional damage?

A. The building inspector bears sole liability because the inspection should have caught the missing firestops

B. The fire department bears liability for inadequate response time that allowed the fire to spread

C. The contractor bears primary liability for the $450,000 in additional damage caused by the missing firestops — the contractor (through the plumbing subcontractor) failed to install a coderequired

lifesafety component, and the additional fire spread was a direct and foreseeable consequence of this workmanship deficiency; the inspector's failure to catch the error does not absolve the contractor's obligation to install firestopping per specification and code

D. The building owner bears sole liability because the owner should have independently verified firestop installation at every penetration point

22. A contractor's project involves a comprehensive financial analysis. The project data: contract price $2,200,000, total estimated cost $1,870,000, direct costs $1,540,000, overhead rate 15%, project indirect costs $40,000. Verify: overhead = $1,540,000 × 15% = $231,000. Total cost = $1,540,000 + $231,000 + $40,000 = $1,811,000. The contractor wants a selling price that achieves a 15% margin. What is the correct selling price using the $1,870,000 total cost?

A. $2,200,000 is the contract price, and the margin is ($2,200,000 − $1,870,000) ÷ $2,200,000 = $330,000 ÷ $2,200,000 = 15% — the contract price already achieves the target 15% margin, confirming the bid was correctly calculated using the formula Selling Price = Cost ÷ (1 − Margin%) = $1,870,000 ÷ 0.85 = $2,200,000

B. The selling price should be $2,150,500, calculated by multiplying $1,870,000 by 1.15 to apply a 15% markup on cost

C. The selling price should be $1,870,000 because the margin should be embedded in the overhead rate

D. The selling price should be $2,431,000, calculated by dividing $1,870,000 by 0.77 because the margin formula uses (1 − 0.23) for a 15% target

23. A contractor's project involves a 12footdeep trench. The competent person performs soil classification and observes: the soil is granular (sandy), has no cohesion, crumbles when handled, shows visible water seepage, and has a previous utility excavation running parallel to the trench within 3 feet. Under OSHA's soil classification system, what is the classification and what protective system is required?

A. Type A because the granular soil is welldrained and the water seepage indicates a stable water table

B. Type B because the granular soil has some stability despite the water and previous disturbance

C. Stable Rock because granular soils in Mississippi commonly have a high rock content that provides inherent stability

D. Type C — the least stable classification — because the soil is granular (noncohesive), crumbles when handled, has water seepage, and has been previously disturbed by the adjacent utility excavation;

the protective system must be a 1½:1 slope (34 degrees — 18 feet horizontal per side for a 12foot depth), or a trench shield/shoring system rated for Type C conditions

24. A contractor's project is a $3,800,000 commercial office building. The contract requires the contractor to maintain the OSHA 300 Log, post the annual OSHA 300A Summary, and report severe injuries within specified timeframes. During the 18month project, the following incidents occur: (1) a worker fractures a wrist and misses 12 days of work; (2) a worker's fingertip is amputated by a table saw; (3) a worker is hospitalized overnight after a fall from a scaffold; (4) a worker receives 8 stitches for a laceration and returns to work the same day. Which incidents require immediate OSHA reporting (beyond recording on the 300 Log)?

A. All four incidents require immediate OSHA reporting within 8 hours because all construction injuries must be reported under the same fatality timeline

B. Only incidents (2) and (3) require immediate reporting — the amputation must be reported within 24 hours and the hospitalization must be reported within 24 hours; all four incidents are recordable on the OSHA 300 Log, but only amputations, hospitalizations, and eye losses trigger the 24hour expedited reporting requirement beyond standard logging

C. Only incident (3) requires reporting because hospitalizations are the only nonfatal injury category with an expedited reporting requirement

D. None require immediate reporting because all four incidents involve nonfatal injuries and only fatalities trigger expedited OSHA reporting

25. A contractor's project has reached the final phase. Synthesize the following closeout requirements: the architect has issued the certificate of substantial completion, the contractor has completed all 38 punch list items, delivered asbuilt drawings reflecting all field changes maintained through redline markups during the 14month project, submitted O&M manuals and equipment warranties, conducted owner training for maintenance staff, and submitted the final payment application including $185,000 in accumulated retainage. The contract specifies retainage release within 30 days of substantial completion. It is now Day 35. What is the status of all closeout elements?

A. All closeout requirements are satisfied, but the retainage has no specific release deadline because retainage release is discretionary

B. The closeout is incomplete because the asbuilt drawings must be prepared by the architect, not the contractor, and the contractorprepared asbuilts are not acceptable

C. All closeout requirements have been fulfilled — punch list completed, asbuilt drawings delivered (reflecting continuous redline documentation), O&M manuals submitted, equipment warranties

provided, owner training conducted, and final payment application submitted; the owner is now 5 days past the 30day retainage release deadline and is in breach of the payment obligation; the contractor may file a lien and pursue legal action if the $185,000 is not released promptly

D. The closeout is complete but the contractor must wait 90 days from substantial completion before the retainage release deadline begins

26. A contractor's project involves a comprehensive insurance analysis. The contractor carries: CGL ($1,000,000 peroccurrence / $2,000,000 aggregate), umbrella ($5,000,000), commercial auto ($1,000,000), workers' compensation (statutory limits / $500,000 employer's liability), and builder's risk ($4,500,000 project value). During the project, three separate incidents occur: (1) a crane drops a steel beam that damages an adjacent building — $1,200,000 claim; (2) a fire destroys $600,000 worth of completed work on the project; (3) a worker falls and is hospitalized. Match each incident to the correct responding insurance policy.

A. Incident (1): CGL pays $1,000,000, umbrella pays remaining $200,000 — thirdparty property damage from contractor operations. Incident (2): builder's risk pays $600,000 — physical damage to the structure under construction. Incident (3): workers' compensation pays medical and disability benefits — employee workplace injury. Each policy responds to a different type of risk, demonstrating why contractors need a comprehensive insurance program

B. The CGL pays all three claims because general liability covers all constructionrelated losses

C. The builder's risk pays all three claims because all incidents occurred during the construction phase

D. The umbrella pays all three claims because it provides the broadest coverage in the insurance program

27. A contractor's project involves a comprehensive scheduling analysis. The CPM schedule shows four parallel paths from the current point to project completion: Path A = 68 days, Path B = 75 days, Path C = 72 days, Path D = 61 days. A 5day delay occurs on Path C. Identify the critical path, calculate float for all paths before and after the delay, and determine the impact on the project completion date.

A. Path B is critical at 75 days. Path A has 7 days float (75−68). Path C has 3 days float (75−72). Path D has 14 days float (75−61). The 5day delay exceeds Path C's 3 days of float — Path C extends to 77 days, becoming the new critical path and extending the project by 2 days (77−75)

B. All paths have equal float and the 5day delay has no impact because parallel paths share float equally

C. Path B is critical but the delay on Path C has no impact because noncritical path delays never affect the project regardless of the delay duration

D. Path D is critical because it is the shortest path, and the delay on Path C has no impact on Path D

28. A contractor's project involves a comprehensive contract analysis. The contract includes: a fixed price of $2,600,000, a "time is of the essence" clause, a liquidated damages clause of $2,800/day, a mutual waiver of consequential damages, a stepped dispute resolution clause (negotiate → mediate → arbitrate), and a document hierarchy (change orders → agreement → supplementary conditions → general conditions → specifications → drawings). The contractor completes the project 15 days late, with 9 days attributable to the contractor and 6 days covered by an approved time extension. The owner assesses $42,000 in liquidated damages (15 × $2,800). Is the owner's assessment correct?

A. Yes, because "time is of the essence" means all 15 late days are subject to liquidated damages regardless of approved extensions

B. No, because the mutual waiver of consequential damages eliminates all liquidated damages provisions

C. No, because the dispute must go through the stepped resolution process before liquidated damages can be assessed

D. No — the owner should assess only $25,200 (9 contractorcaused days × $2,800/day), not $42,000 for all 15 days; the 6 approved extension days are excluded because the time extension moved the contractual completion date forward by 6 days, leaving only 9 days of contractorcaused delay subject to the liquidated damages clause

29. A contractor operating as a general partnership with three equal partners is considering converting to an LLC. Currently, the partnership earns $600,000 in net ordinary business income. No partner receives guaranteed payments. After conversion to a multimember LLC (no tax election), what changes and what stays the same regarding federal tax treatment?

A. The tax treatment remains identical — a multimember LLC is taxed as a partnership by default, filing Form 1065, issuing K1s, and each member paying SE tax on their $200,000 distributive share (adjusted to 92.35% before applying the 15.3% rate); the conversion adds limited liability protection while maintaining the same passthrough tax treatment, filing requirements, and SE tax obligations

B. The tax treatment changes to Ccorporation taxation, requiring Form 1120 and subjecting income to the 21% corporate rate

C. The tax treatment changes to Scorporation taxation, eliminating selfemployment tax on distributions

D. The tax treatment changes because LLC members are classified as passive investors exempt from selfemployment tax on all income

30. A contractor's project involves the final examday scenario. The Mississippi Law and Business Management exam consists of 50 questions, 2hour time limit, 70% passing score (35 correct), openbook format allowing the NASCLA guide and a silent calculator. A testtaker has prepared thoroughly with 20 practice exams scoring 7688%. The testtaker encounters a question about a specific MSBOC regulation they cannot immediately recall. What is the optimal exam strategy for this question?

A. Skip the question permanently because spending time on uncertain questions reduces the time available for questions the testtaker can answer confidently

B. Guess immediately and move on because the openbook format provides no advantage for regulatory questions

C. Use the tabbed NASCLA guide to locate the specific regulation — the openbook format exists precisely for this purpose; efficiently navigating the reference guide to find the answer uses less time than agonizing over a recall attempt, and the preparation investment in tabbing and organizing the guide pays dividends when specific regulatory details must be looked up during the exam

D. Change the answer to "C" because statistical analysis shows "C" is the most common correct answer on standardized licensing examinations

31. A contractor's project involves a comprehensive WIP analysis at yearend. Four active projects show the following: Project 1 (contract $1,200,000, earned $840,000, billed $900,000), Project 2 (contract $2,400,000, earned $1,680,000, billed $1,560,000), Project 3 (contract $800,000, earned $560,000, billed $560,000), Project 4 (contract $1,600,000, earned $960,000, billed $1,040,000). Calculate the billing status of each project and explain how they appear on the balance sheet.

A. All projects are combined into a single WIP line showing total earned revenue of $4,040,000 and total billings of $4,060,000

B. All four projects are reported as current assets because total earned revenue exceeds total billings across the portfolio

C. Project 3 is the only project that appears on the balance sheet because it is the only project with a billing discrepancy

D. Project 1: overbilled $60,000 (current liability). Project 2: underbilled $120,000 (current asset). Project 3: properly billed, no balance sheet entry. Project 4: overbilled $80,000 (current liability). The underbillings ($120,000) and overbillings ($140,000 total) are reported separately — never netted — providing stakeholders with an accurate picture of the contractor's billing practices across the project portfolio

32. A contractor's project involves a comprehensive safety analysis. The project includes the following concurrent activities: steel erection at 40 feet (connectors and nonconnectors), excavation at 14 feet (Type B soil), scaffold work at 22 feet, and work near overhead power lines at 34.5 kV. Identify the fall protection requirements, excavation protection, and power line clearance for each activity.

A. All activities use the same 6foot fall protection trigger and 10foot power line clearance because OSHA applies uniform standards across all construction activities

B. Steel erection nonconnectors: conventional fall protection above 15 feet (required at 40 feet). Steel erection connectors at 40 feet: conventional fall protection required because they are above the 30foot threshold where the connector exemption ends. Excavation: Type B protective system (1:1 slope or equivalent). Scaffold: guardrails required above 10 feet (required at 22 feet). Power lines at 34.5 kV: minimum 10foot clearance (applies to lines up to 50 kV). Each activity has its own specific OSHA standard with different trigger heights, thresholds, and requirements

C. Fall protection is required only above 30 feet for all activities, excavation requires Type A protection at any depth, and power line clearance is 5 feet for all voltages

D. No fall protection is required for steel connectors at any height, excavation protection is optional at 14 feet, and scaffold guardrails are not needed below 25 feet

33. A contractor's project involves a comprehensive estimating analysis. The bid components: materials $380,000, labor $290,000, equipment $65,000, subcontractors $415,000. The overhead rate is 16% of direct costs. Project indirect costs are $42,000. The desired profit margin is 11% on selling price. Calculate direct costs, overhead allocation, total cost, and the correct selling price using the margin formula.

A. Direct costs $1,150,000, overhead $184,000, total cost $1,376,000, selling price $1,376,000 ÷ 0.89 = $1,546,067 — verified: profit $170,067, margin $170,067 ÷ $1,546,067 = 11.0%

B. Direct costs $1,150,000, overhead $184,000, total cost $1,376,000, selling price $1,376,000 × 1.11 = $1,527,360 — but this produces an 11% markup on cost (9.9% margin), not the target 11% margin on selling price

C. Direct costs $1,150,000 but the overhead should be calculated on the contract price rather than on direct costs

D. Direct costs $1,150,000, selling price $1,265,000 because the margin should be applied only to labor and materials, not to subcontractors

34. A contractor's project involves a comprehensive tax analysis. The contractor operates as an Scorporation with two shareholderemployees. Annual revenue is $2,400,000, total expenses (including salaries) are $2,080,000, net income after salaries is $320,000. Shareholder A (60% owner) receives a salary of $130,000 and distributions of $192,000. Shareholder B (40% owner) receives a salary of $100,000 and distributions of $128,000. The IRS audits and confirms both salaries as reasonable.

Identify: total amount subject to payroll taxes, total amount avoiding SE/payroll taxes, and the tax treatment of each component.

A. All $640,000 (salaries + distributions) is subject to payroll taxes because the IRS confirmation triggers reclassification of all distributions as wages

B. Only the distributions ($320,000 total) are subject to selfemployment tax because Scorporation distributions are classified as selfemployment income

C. Total salaries subject to payroll taxes: $230,000 ($130,000 + $100,000). Total distributions avoiding SE taxes: $320,000 ($192,000 + $128,000). No amount is subject to any tax because Scorporations are fully taxexempt

D. Total payroll taxes apply to $230,000 (combined salaries: $130,000 + $100,000). Total SE/payroll tax avoidance applies to $320,000 (combined distributions: $192,000 + $128,000). Salaries are W2 wages subject to FICA withholding and employer matching. Distributions pass through as ordinary income on each shareholder's K1, subject to personal income tax but not FICA or SE tax — this is the confirmed and intended Scorporation tax treatment

35. A contractor's project involves a comprehensive contract closeout. The project is a $3,200,000 commercial building completed over 18 months. At closeout, the contractor must deliver: asbuilt drawings, O&M manuals, equipment warranties, spare parts, training for the owner's staff, final lien waivers from all subcontractors and suppliers, and the final payment application including $320,000 in accumulated retainage. The contract specifies retainage release within 45 days of substantial completion. All requirements are completed within 30 days of substantial completion. On Day 50, the retainage has not been released. What is the contractor's comprehensive position?

A. The contractor must wait until Day 90 because Mississippi law extends all contractual retainage release periods by an additional 45 days

B. The contractor has no recourse because retainage release is at the owner's sole discretion

C. All closeout requirements are fulfilled, the 45day deadline has passed by 5 days, and the owner is in breach of the payment obligation — the contractor may file a construction lien against the property for the $320,000, send a formal demand letter, and pursue legal action for breach of contract if payment is not received promptly; the contractor's comprehensive closeout documentation strengthens their position by demonstrating full compliance with all contractual prerequisites for retainage release

D. The closeout is incomplete because the contractor has not submitted a warranty bond, which is required on all projects exceeding $3,000,000

36. A contractor is sitting in the PSI testing center about to take the Mississippi Law and Business Management exam. The contractor has completed 20 practice exams with scores ranging from 68% on early exams to consistently 8288% on recent exams. The NASCLA guide is tabbed with a threecolor system (chapter tabs, highfrequency reference tabs, and Mississippispecific tabs). The calculator is confirmed as silent and nonprogrammable. Based on the exam structure (50 questions, 2 hours, 70% passing), what is the optimal approach for the first 5 minutes of the exam?

A. Read every question quickly without answering any to get an overview of the entire exam before starting to answer

B. Immediately begin answering Question 1 and work sequentially through Question 50 without previewing any questions

C. Spend the first 5 minutes reviewing the answer sheet format and filling in demographic information, which uses approximately 10% of the total exam time for administrative purposes

D. This is not a standalone question but a test of exam knowledge. Let me write a proper question.

36. A contractor has thoroughly prepared for the Mississippi Law and Business Management exam using a comprehensive study guide with 10 learning chapters and 20 practice exams. The contractor's NASCLA guide is organized with a threecolor tabbing system. Exam day arrives. For an openbook exam with 50 questions and 2 hours, what is the most effective time management approach?

A. Scan through all 50 questions first (approximately 10 minutes), then answer the questions you know immediately from knowledge (banking correct answers quickly), then work through referencelookup questions using the tabbed guide, and finally tackle the most analytical questions with the remaining time — this staged approach ensures the easiest points are captured first while maximizing reference guide efficiency

B. Spend 2.4 minutes on every question regardless of difficulty, maintaining a rigid pace without any strategic sequencing

C. Focus exclusively on the first 25 questions and leave the last 25 blank because the passing score of 70% means only 35 correct answers are needed

D. Read each question three times before selecting an answer because comprehension accuracy is more important than time management on openbook exams

37. A contractor discovers at the end of a 14month project that the company's annual overhead rate was calculated incorrectly throughout the entire year. The actual annual overhead was $495,000, but the rate applied to all bids was based on projected overhead of $400,000. Annual direct cost volume was $2,500,000. What are the actual and applied overhead rates, and what is the total annual unrecovered overhead?

A. Actual rate 19.8% ($495,000 ÷ $2,500,000) versus applied rate 16% ($400,000 ÷ $2,500,000). The 3.8% difference × $2,500,000 = $95,000 in unrecovered overhead — every project bid during the year carried 3.8% less overhead than the company actually needed, and the $95,000 shortfall came directly from the company's annual profit

B. Both rates are 16% because overhead rates cannot change after the beginning of the fiscal year

C. The actual rate is 12% because higher overhead costs reduce the rate when divided by larger cost volume

D. The unrecovered overhead is $95,000 but this amount is automatically recovered through yearend accounting adjustments

38. A contractor's project involves a comprehensive analysis of a workers' compensation claim. An employee falls from a scaffold at 18 feet, sustaining a broken pelvis and two broken ribs. The employee is hospitalized for 5 days and requires 16 weeks of recovery before returning to full duty. At maximum medical improvement, the employee is assessed a 12% permanent impairment rating. Identify all workers' compensation benefits, OSHA reporting requirements, and the employer's exposure if workers' compensation insurance was not in effect.

A. Benefits: medical costs covered with no cap, TTD benefits at 66⅔% of average weekly wage for 16 weeks (subject to state maximum), and PPD benefits based on the 12% impairment rating. OSHA: hospitalization reported within 24 hours, incident recorded on 300 Log. Without WC insurance (if required): the employer loses exclusive remedy protection and faces personal injury lawsuits seeking unlimited damages including pain/suffering, lost future earnings, and punitive damages

B. Benefits: only the medical bills for the hospitalization, with no wage replacement or permanent disability benefits

C. OSHA reporting is only required if the fall was from a height above 20 feet

D. Without WC insurance, the employer faces only a $1,000 fine with no personal liability exposure

39. A contractor's project involves a final comprehensive question integrating multiple knowledge domains. A Mississippi contractor operating as an LLC with Scorp tax election holds a commercial Building Construction license with a net worth of $420,000. The contractor is bidding a $2,800,000 public school project requiring performance and payment bonds at 100%. The project involves: excavation to 18 feet in Type C soil, steel erection to 45 feet, work near 23 kV overhead power lines, renovation of an existing 1962 building wing (potential asbestos and lead), and a DavisBacon prevailing wage requirement. Identify the correct protective measures for the excavation, fall

protection for steel erection, power line clearance, hazardous material protocol, and prevailing wage compliance requirement.

A. Excavation: Type C requires 1½:1 slope (27 feet horizontal per side for 18foot depth) or equivalent shielding/shoring. Steel: conventional fall protection for nonconnectors above 15 feet; connectors above 30 feet must have conventional protection (the 45foot height exceeds the 30foot connector exemption threshold). Power lines: 10foot minimum clearance for lines up to 50 kV. Hazardous materials: test all suspect materials in the 1962 wing for asbestos (>1% threshold) and lead before any disturbance. DavisBacon: pay applicable prevailing wage rates for each classification of work performed, maintain certified payrolls, and post the wage determination at the jobsite

B. All activities use the same 6foot trigger, 10foot clearance, and no testing is required for the 1962 wing

C. Excavation requires a Type A slope, steel connectors are exempt from fall protection at all heights, power line clearance is 5 feet, and DavisBacon applies only to projects over $5,000,000

D. The contractor's net worth of $420,000 is insufficient for any commercial license and the contractor cannot bid this project

40. A contractor has completed all 20 practice examinations in their comprehensive study guide for the Mississippi Law and Business Management exam. Their final practice exam scores have been consistently 8488%. The exam is tomorrow morning. Synthesize the optimal finalnight preparation strategy based on everything learned throughout the study process.

A. Study all night reviewing every chapter to maximize the total hours of study before the exam

B. Take three more practice exams tonight to push the total to 23 practice exams completed

C. Review only the glossary of terms because the exam primarily tests vocabulary knowledge

D. This is a metaquestion. Let me write a proper exam question.

40. A contractor has been studying for the Mississippi Law and Business Management exam for three months. The contractor has completed all learning chapters, taken 20 practice exams with scores progressing from 68% to consistently 8488%, and organized the NASCLA guide with a comprehensive tabbing system. The exam is tomorrow morning at 8:00 AM. What should the contractor do tonight?

A. Get adequate rest — the knowledge is established through three months of study and 20 practice exams with consistent scores above 80%; sleep deprivation impairs reading comprehension, analytical reasoning, time management, and reference navigation speed; the contractor should review exam

logistics one final time (testing center location, arrival time, ID, NASCLA guide, calculator), set an alarm with adequate time for a calm morning routine, and prioritize rest over any additional studying

B. Pull an allnight study session reviewing every chapter of the NASCLA guide from beginning to end

C. Take five more practice exams because additional repetition always improves exam performance regardless of fatigue

D. Reorganize the entire NASCLA guide tabbing system because a fresh organizational approach the night before an exam produces better results than the familiar system used during months of practice

41. A contractor's project involves a comprehensive analysis of retainage, payment, and lien rights. The project is a $2,400,000 private commercial building with 10% retainage ($240,000 accumulated at substantial completion). The contract specifies retainage release within 30 days of substantial completion. The architect certifies substantial completion on March 1. The contractor completes all punch list items and delivers all closeout documents by March 15. On April 15 (Day 45), the retainage has not been released. Additionally, a plumbing subcontractor with $68,000 in unpaid invoices asks the contractor about filing a construction lien. Address both the retainage release and the subcontractor lien question.

A. The retainage issue will resolve itself and the subcontractor should wait until the contractor receives the retainage before expecting payment

B. The contractor has no rights regarding the retainage because the 30day period is advisory, and the subcontractor cannot file a lien on private commercial property

C. The retainage situation only allows the contractor to file a complaint with MSBOC, and the subcontractor must sue the contractor rather than filing a lien

D. Retainage: the owner is 15 days past the 30day deadline with all conditions met — the contractor may file a lien and pursue breach of contract action for the $240,000. Subcontractor lien: Mississippi allows subcontractors to file liens against private property where work was performed, regardless of whether the owner paid the general contractor — the subcontractor should file with the Chancery Clerk within the statutory deadline to preserve their lien rights for the $68,000

42. A contractor's project involves a comprehensive insurance claim analysis. During construction of a commercial building, three incidents occur in the same policy year. The contractor's CGL policy has a $1,000,000 peroccurrence limit and $2,000,000 aggregate. Claim 1: a pedestrian is injured by falling debris ($750,000). Claim 2: a delivery truck damages an adjacent building ($900,000). Claim 3: a visitor trips on construction materials ($600,000). How does the CGL policy respond to all three claims?

A. All three claims are paid in full because each is under the peroccurrence limit and the total does not exceed the aggregate

B. Claim 1 is denied because pedestrian injuries are excluded from CGL coverage

C. Claim 1 ($750,000) paid in full — aggregate reduces to $1,250,000. Claim 2 ($900,000) paid in full — aggregate reduces to $350,000. Claim 3 ($600,000) exceeds remaining aggregate — policy pays only $350,000, leaving $250,000 uninsured. Total paid: $2,000,000. Total uninsured: $250,000. This scenario demonstrates why umbrella coverage is essential — the $250,000 gap would be covered by an umbrella policy

D. All three claims split the $2,000,000 aggregate equally at $666,667 each because the aggregate must be divided proportionally among all claims

43. A contractor's project involves comprehensive soil classification and excavation protection analysis. An 18footdeep excavation reveals three distinct soil layers: 06 feet is Type A (undisturbed cohesive clay, no cracks, no water, thumb cannot penetrate), 612 feet is Type B (medium cohesion, fissured, thumb penetrates with moderate pressure), and 1218 feet is Type C (granular, crumbles when handled, water seepage, previously disturbed by adjacent utility work). The contractor uses a combination system. What are the correct protective measures for each zone?

A. Upper zone (Type A, 06 ft): ¾:1 slope (53 degrees — 4.5 feet horizontal per side). Middle zone (Type B, 612 ft): 1:1 slope (45 degrees — 6 feet horizontal per side) or equivalent shoring. Lower zone (Type C, 1218 ft): trench shield or 1½:1 slope (34 degrees — 9 feet horizontal per side for this 6foot section). The protective system uses each zone's classification to apply the appropriate protection, with the overall system designed to accommodate the layered conditions

B. The entire 18foot excavation must use Type C protection (1½:1 slope) because the weakest layer governs the entire depth

C. The entire excavation requires Type A protection (¾:1 slope) because the top layer classification always governs

D. No protective system is needed because the mixed soil profile creates a selfstabilizing condition through the interaction of the three soil types

44. A contractor's project involves a comprehensive analysis of the markup versus margin calculation. The contractor's total estimated cost for a project is $1,420,000. The contractor wants to verify the selling price at three different profit targets. Calculate the selling price for: (a) 10% margin on selling price, (b) 15% margin on selling price, and (c) 20% margin on selling price.

A. (a) $1,562,000 (cost × 1.10), (b) $1,633,000 (cost × 1.15), (c) $1,704,000 (cost × 1.20) — all calculated by multiplying cost by (1 + margin%)

B. At 10% margin: $1,577,778 ($1,420,000 ÷ 0.90). At 15% margin: $1,670,588 ($1,420,000 ÷ 0.85). At 20% margin: $1,775,000 ($1,420,000 ÷ 0.80) — each calculated using the formula Selling Price = Cost ÷ (1 − Margin%), which produces the correct selling price where profit represents the specified percentage of the selling price

C. All three margin targets produce the same selling price of $1,633,000 because the margin percentage is applied to a fixed cost base

D. The calculations cannot be performed without knowing the overhead rate and direct cost breakdown

45. A contractor's project involves a final comprehensive analysis of the Mississippi contractor licensing system. The contractor holds a Building Construction major classification license. Identify: (a) the minimum net worth for this classification, (b) the minimum net worth for a specialty classification, (c) the CPA financial statement requirement, (d) the qualifying party rules, (e) the reciprocity provisions with neighboring states, and (f) the continuing education requirement for commercial contractors.

A. (a) $100,000 net worth for major; (b) $50,000 for specialty; (c) CPAaudited statements required; (d) no qualifying party needed; (e) no reciprocity exists; (f) 8 hours CE required annually

B. (a) $50,000 net worth; (b) $20,000 for specialty; (c) CPAreviewed statement only; (d) qualifying party with no entity limit; (e) full reciprocity eliminating all exam requirements; (f) 4 hours CE required annually for all contractors

C. All requirements are identical across major and specialty classifications with no differentiation

D. (a) $50,000 minimum net worth for major classifications. (b) $20,000 for specialty classifications (not cumulative). (c) CPAreviewed financial statement less than 12 months old. (d) Qualifying party may serve up to 3 entities without Board approval; must pass required PSI exams; 90day replacement window if QP departs. (e) Reciprocity with AL, AR, GA, LA, NC, SC, TN — waives trade exam only; Mississippi business and law exam still required. (f) Commercial contractors have no CE requirement; residential contractors licensed after 7/1/2015 require 2 hours annually

46. A contractor has completed all 20 practice examinations and the comprehensive study guide. The contractor's knowledge spans all 11 exam domains. For a final synthesis question: what are the 11 domains tested on the Mississippi Law and Business Management exam, and what are their approximate question counts based on the official weightings?

A. The exam tests only 5 domains with 10 questions each for a total of 50 questions

B. The exam tests 8 domains with varying weights but the specific weightings are not publicly available

C. The 11 domains and approximate question counts are: Estimating and Bidding (7), Contracts (6), Licensing (5), Financial Management (5), Tax Laws (5), Labor Laws (5), Project Management (5), Environmental and Safety (5), Risk Management (4), Business Organization (2), and Lien Law (1) — totaling 50 questions, with Estimating/Bidding and Contracts as the highestweight domains accounting for 26% of the exam

D. The exam tests 15 domains with 34 questions each for a standardized distribution across all topics

47. A contractor operating as an LLC with two members has not made any tax election with the IRS. The LLC earns $500,000 in net ordinary business income. Both members participate equally in management. What is each member's selfemployment tax base, and what is the approximate SE tax per member?

A. Each member's 50% distributive share is $250,000. The SE tax base is $250,000 × 92.35% = $230,875. The SE tax rate of 15.3% produces approximately $35,324 per member (12.4% Social Security up to the wage base plus 2.9% Medicare on all earnings) — both members owe SE tax on their full distributive shares because they are managing members of an LLC taxed as a partnership

B. Neither member owes SE tax because LLC members are classified as passive investors exempt from selfemployment tax

C. Each member owes approximately $5,000 in SE tax because the 92.35% adjustment reduces the effective rate to approximately 2% per member

D. Only the member who performs the most manual labor owes SE tax; the other member's income is classified as management fees exempt from SE tax

48. A contractor's project involves installing a complex mechanical system in a commercial building. During commissioning, the system delivers only 82% of the design heating capacity. The specification requires 100% of design capacity. The mechanical subcontractor argues that 82% is "within tolerance" and that the remaining 18% capacity shortfall will not be noticeable during Mississippi's mild winters. What is the correct resolution?

A. Accept the 82% capacity because Mississippi's climate makes the full design capacity unnecessary for the majority of the heating season

B. The contractor must require the subcontractor to investigate and correct the capacity deficiency — commissioning exists to verify systems perform to specification before the building is occupied, and 82% capacity does not meet the 100% design requirement; the subcontractor must troubleshoot the

cause (undersized equipment, control programming errors, air locks, improper piping, or duct leakage) and bring the system to full design capacity regardless of the local climate

C. Accept the system at 82% capacity but deduct 18% from the mechanical subcontractor's final payment as a performance credit

D. Report the mechanical subcontractor to MSBOC for providing a deficient installation because licensing violations are the appropriate enforcement mechanism for performance shortfalls

49. A contractor's project involves the final question of the final practice exam. The contractor has now completed 1,000 practice questions across 20 examinations covering all 11 domains of the Mississippi Law and Business Management exam. Synthesize the single most important principle that applies across every domain — from estimating to contracts, from licensing to safety, from tax law to lien rights.

A. The most important principle is that construction is an inherently risky business and contractors should always maximize their contingency funds to cover every possible eventuality

B. The most important principle is that verbal agreements are always sufficient in construction and written documentation is an unnecessary administrative burden

C. The most important crossdomain principle is documentation — written contracts, change orders, daily reports, RFI logs, safety inspections, financial records, payment applications, lien filings, tax returns, licensing records, and insurance certificates all serve the same fundamental purpose: creating a contemporaneous written record that protects the contractor's legal rights, financial interests, regulatory compliance, and professional reputation when disputes, audits, inspections, or claims arise

D. The most important principle is that the lowest bid always wins and contractors should focus exclusively on price competitiveness above all other business considerations

50. A contractor has completed the final practice exam of the comprehensive study guide. The 20 practice examinations contained 1,000 total questions covering every domain tested on the Mississippi Law and Business Management exam. The contractor is ready for exam day. What single piece of advice best summarizes the path to passing this examination?

A. Memorize as many individual facts as possible because the exam tests rote recall of specific numbers, dates, and regulatory citations

B. Know the material, trust your preparation, use the NASCLA guide efficiently, manage your time strategically, and stay composed — you have invested months of study, completed 20 practice exams with 1,000 questions, and built the knowledge base to pass; on exam day, the preparation speaks

through confident, systematic testtaking; answer what you know first, look up what you need to verify, analyze the complex questions carefully, and remember that 35 of 50 correct answers is the goal

C. Focus only on the two highestweight domains (Estimating and Contracts) because getting all 13 of those questions correct guarantees passing even if every other question is answered incorrectly

D. Rely entirely on the openbook format and do not study any material before the exam because the NASCLA guide contains all answers

Practice Exam 20: Answer Key and Explanations

1. D — The performance bond protects the owner's interest in project completion — it addresses the $100,000 cost increase to finish the work after the subcontractor's default. The payment bond protects downstream parties — it addresses the $55,000 owed to the bankrupt subcontractor's material suppliers. Each bond serves a different beneficiary and addresses a different risk category.

2. B — Completion: $2,448,000 ÷ $3,060,000 = 80%. Earned revenue: 80% × $3,600,000 = $2,880,000. Projected total cost: $2,448,000 + $720,000 = $3,168,000 (exceeds original $3,060,000 by $108,000). Projected profit: $432,000 vs. original $540,000 (a $108,000 erosion). Billing status: $2,880,000 earned − $2,700,000 billed = $180,000 underbilled (current asset).

3. C — Net worth of $280,000 exceeds the highest applicable threshold — $50,000 for the major classification. MSBOC requirements are not cumulative. The contractor does not need $110,000 ($50,000 + $20,000 × 3). The single net worth figure must meet the highest threshold only. Each specialty requires its own trade exam and $100 fee, but the financial requirement is satisfied by the $280,000.

4. A — Type A (upper 8 feet): ¾:1 slope = 6 feet horizontal per side. Type C (lower 12 feet): requires either a trench shield or 1½:1 slope = 18 feet horizontal per side. The combination system applies the correct protection for each soil classification. The overall system must accommodate the least stable conditions — the lower Type C zone drives the most conservative protection in that section.

5. D — Sole proprietor SE tax: 15.3% on 92.35% of $420,000 ≈ $57,600. Scorp payroll taxes on $175,000 salary: 15.3% ≈ $26,775. The $245,000 in distributions avoids SE tax. Annual savings: $57,600 − $26,775 ≈ $30,825. The savings come entirely from removing the $245,000 distribution from the SE tax base.

6. C — Total delay: 18 days. Approved extensions: 5 (owner) + 4 (architect) + 3 (weather) = 12 days. Contractorcaused delay: 18 − 12 = 6 days. Liquidated damages: 6 × $2,500 = $15,000. Each approved extension category reduces the total late period. Only the 6 contractorcaused days are subject to the daily rate.

7. A — Dust migration into a cardiac ICU is a medical emergency. Construction dust carries bacteria, fungal spores, and particulates that can cause fatal infections in immunocompromised patients. All dustgenerating work must stop immediately, the HEPA unit must be repaired, negative pressure must be verified, and hospital infection control must assess patient exposure. Construction convenience never justifies patient safety risk.

8. B — Costs plus fee: $3,480,000 + $310,000 = $3,790,000. Savings: $4,100,000 − $3,790,000 = $310,000. Owner's 50%: $155,000 credit. Contractor's 50%: $155,000 bonus. Owner pays: $3,790,000 + $155,000 = $3,945,000. Equivalently: $4,100,000 − $155,000 = $3,945,000.

9. D — Total hours: 12+11+10+12+11+6 = 62. Regular: 40 × $48.00 = $1,920. Overtime: 22 × $72.00 ($48.00 × 1.5) = $1,584. Total: $3,504. The FLSA requires 1.5× for all hours over 40 in the workweek. There is no daily overtime trigger, no Saturday premium, and no exemption based on which day hours are worked.

10. C — Excavating 8 feet below an existing foundation removes the soil providing lateral support and bearing capacity. A structural engineer must design underpinning, shoring, or other engineered support before the excavation reaches the adjacent foundation level. Without proper support, the existing building risks settlement, structural cracking, or catastrophic foundation failure — potentially endangering the building's occupants.

11. A — Actual rate: $440,000 ÷ $1,900,000 = 23.2%. Applied rate: $380,000 ÷ $2,200,000 = 17.3%. Difference: 5.9%. Unrecovered overhead: 5.9% × $1,900,000 = $112,100. The impact is compounded because both overhead costs increased AND volume decreased, making the gap between applied and actual rates much larger than either factor alone would produce.

12. B — The document hierarchy resolves each conflict independently. Specifications (rank 5) vs. drawings (rank 6): specifications govern — install 2hour drywall. Supplementary conditions (rank 3) vs. general conditions (rank 4): supplementary conditions govern — the 3day claim notice period applies. Each conflict is resolved by identifying which document ranks higher in the stated hierarchy.

13. D — Federal tax: $750,000 × 21% = $157,500. Mississippi tax: 5% on $740,000 (above $10,000) = $37,000. Combined: $194,500. The $250,000 dividend is paid from aftertax earnings and taxed again on shareholders' personal returns at the qualified dividend rate. This double taxation — entity level plus individual level — is the Ccorporation's defining disadvantage.

14. C — The unprotected floor opening (serious hazard), worker exposure (three workers), and prior citation for the same violation (8 months ago) create a pattern supporting either willful (knowing disregard) or repeat (substantially similar prior violation) classification. Both carry penalties up to $161,323 — significantly higher than the $16,131 maximum for serious citations. The prior citation eliminates any defense of ignorance.

15. A — The contractor is entitled to extensions for the 10 ownercaused days and 8 hurricane days (18 total). The 5 subcontractor days and 7 contractor scheduling days (12 total) are contractorcaused. Liquidated damages: 12 × $3,000 = $36,000. The nodamagesfordelay clause limits monetary recovery on the ownercaused days to time only unless the active interference exception applies. The force majeure clause provides time but typically no cost recovery.

16. D — The fire marshal certifies fire sprinkler and fire alarm systems. The building inspector verifies code compliance for emergency lighting and general construction. The contractor coordinates the inspection sequence — ensuring each system is tested, approved, and certified by the appropriate authority before the certificate of occupancy can be issued. Missed inspections delay occupancy.

17. B — A contemporaneous daily report written as part of a systematic documentation practice throughout a 16month project carries significant evidentiary weight. Courts and arbitrators consistently prefer contemporaneous records over testimony reconstructed months later. The report's credibility is

enhanced by being part of a continuous documentation practice — not created for the purpose of the dispute.

18. A — All four material categories in a 1958 building require testing before disturbance: vinyl floor tiles, acoustic ceiling tiles, plaster/joint compound, and pipe insulation all commonly contained asbestos. Painted surfaces may contain lead. The contractor must obtain test results, develop materialspecific work plans, implement worker protections (OSHA asbestos and lead standards), and arrange licensed disposal before any demolition begins.

19. D — Without a preconstruction survey, the contractor cannot prove which damage existed before pile driving and which was caused by construction. Every crack, displacement, and misalignment claimed by adjacent owners will be attributed to the contractor because there is no baseline documentation to refute the claims. The preconstruction survey creates objective evidence that protects the contractor from false or exaggerated claims.

20. B — The arbitration may be dismissed or stayed because the contractor skipped the mandatory mediation step. Courts enforce stepped dispute resolution clauses and require each prerequisite to be completed before advancing. The contractor must return to Step 2 (mediation) before the arbitration can proceed — even though Step 1 (negotiation) was completed.

21. C — The contractor (through the plumbing subcontractor) failed to install coderequired firestops at 12 penetration points. The additional $450,000 in fire damage was a direct and foreseeable consequence of this workmanship deficiency. The inspector's failure to catch the error does not shift the contractor's obligation. Firestopping is a lifesafety requirement that the contractor must perform regardless of inspection outcomes.

22. A — The contract price of $2,200,000 already achieves a 15% margin. Verification: $2,200,000 − $1,870,000 = $330,000 profit. Margin: $330,000 ÷ $2,200,000 = 15.0%. Using the formula: $1,870,000 ÷ 0.85 = $2,200,000. This confirms the bid was correctly calculated using the margin formula — dividing cost by (1 − margin%).

23. D — The soil exhibits every Type C characteristic: granular (noncohesive), crumbles when handled, has water seepage, and was previously disturbed. Type C requires the most conservative protection: 1½:1 slope (34 degrees — 18 feet horizontal per side at 12foot depth) or a shield/shoring system rated for Type C conditions. Multiple destabilizing factors reinforce the Type C classification.

24. B — Both incidents (2) and (3) require 24hour OSHA reporting. The amputation (incident 2) and the hospitalization (incident 3) are two of the three severe injury categories triggering expedited reporting. The fractured wrist with days away (incident 1) and the laceration with stitches (incident 4) are recordable on the 300 Log but do not trigger the 24hour reporting requirement.

25. C — All closeout requirements are fulfilled, the 30day deadline has passed by 5 days, and the owner is in breach. The contractor's comprehensive documentation — completed punch list, asbuilt drawings from continuous redline markups, O&M manuals, warranties, and training — demonstrates full compliance with all prerequisites for retainage release. The contractor may file a lien and pursue legal action for the $185,000.

26. A — Incident 1 (crane drops beam on adjacent building): CGL Coverage A — thirdparty property damage. CGL pays $1,000,000, umbrella pays $200,000. Incident 2 (fire destroys project work):

builder's risk — damage to structure under construction. Incident 3 (worker fall): workers' compensation — employee workplace injury. Each policy addresses a different risk category.

27. A — Path B (75 days) is critical. Before delay: Path A float = 7 days, Path C float = 3 days, Path D float = 14 days. The 5day delay on Path C exceeds its 3day float by 2 days — Path C extends to 77 days, becoming the new critical path. The project completion date extends by 2 days (from 75 to 77). This demonstrates how delays on noncritical paths can affect the project when they exceed available float.

28. D — The owner's $42,000 assessment (15 × $2,800) is incorrect. The 6 approved extension days shifted the completion date forward. Only the 9 contractorcaused days are subject to liquidated damages: 9 × $2,800 = $25,200. The "time is of the essence" clause makes every contractorcaused day material, but it does not eliminate the effect of approved time extensions.

29. A — The tax treatment is identical after conversion. A multimember LLC defaults to partnership taxation — Form 1065, K1s, and SE tax on each member's $200,000 distributive share (adjusted to 92.35%). The conversion adds limited liability while maintaining the same passthrough treatment, filing requirements, and SE tax obligations that existed under the partnership structure.

30. C — The openbook format exists for exactly this situation. The contractor's investment in tabbing and organizing the NASCLA guide pays dividends when specific regulations must be looked up. Efficient navigation — turning directly to the correct tab and finding the answer — uses less time than struggling to recall a detail from memory. The reference guide is a tool to be used, not a decoration.

31. D — Project 1: overbilled $60,000 (liability). Project 2: underbilled $120,000 (asset). Project 3: properly billed (no entry). Project 4: overbilled $80,000 (liability). The $120,000 underbilling and $140,000 total overbilling ($60,000 + $80,000) are reported separately — never netted. Separate reporting gives stakeholders accurate visibility into the contractor's billing practices.

32. B — Each activity has its own OSHA standard: steel nonconnectors require conventional fall protection above 15 feet; connectors above 30 feet require conventional protection (the 45foot height exceeds the exemption). Excavation requires Type B protection (1:1 slope). Scaffolds require guardrails above 10 feet. Power lines at 34.5 kV require 10foot minimum clearance (up to 50 kV threshold).

33. A — Direct costs: $380,000 + $290,000 + $65,000 + $415,000 = $1,150,000. Overhead: $1,150,000 × 16% = $184,000. Total cost: $1,150,000 + $184,000 + $42,000 = $1,376,000. Selling price: $1,376,000 ÷ 0.89 = $1,546,067. Verification: profit = $170,067; margin = $170,067 ÷ $1,546,067 = 11.0%. Dividing by 0.89, not multiplying by 1.11.

34. D — Salaries subject to payroll taxes: $230,000 ($130,000 + $100,000). Distributions avoiding SE tax: $320,000 ($192,000 + $128,000). Salaries are W2 wages with FICA withholding and employer matching. Distributions pass through on K1s as ordinary income subject to personal income tax but not FICA or SE tax. The IRS confirmation validates the intended Scorporation tax treatment.

35. C — All closeout requirements are satisfied, the 45day deadline has passed by 5 days, and the owner is in breach. The contractor's comprehensive documentation package strengthens their position by demonstrating full compliance with every contractual prerequisite. The contractor may file a lien for the $320,000 and pursue legal action if payment is not received promptly.

36. A — The staged approach maximizes efficiency: scan all questions first, answer confident questions quickly (banking points), work through referencelookup questions using the tabbed guide, then tackle analytical questions with remaining time. This ensures the easiest points are captured first, the reference guide is used efficiently, and maximum time is reserved for the most challenging questions.

37. A — Actual rate: $495,000 ÷ $2,500,000 = 19.8%. Applied rate: $400,000 ÷ $2,500,000 = 16%. Difference: 3.8%. Unrecovered overhead: 3.8% × $2,500,000 = $95,000. Every project bid at the 16% rate carried 3.8% less overhead than the company actually needed. The $95,000 shortfall came directly from the company's annual profit.

38. A — WC benefits: medical costs (no cap), TTD at 66⅔% for 16 weeks (subject to state max), and PPD based on 12% impairment rating. OSHA: hospitalization reported within 24 hours, incident recorded on 300 Log. Without WC insurance: the employer loses exclusive remedy protection and faces personal injury lawsuits seeking unlimited damages — pain/suffering, lost future earnings, and punitive damages far exceeding WC benefits.

39. A — Excavation Type C at 18 feet: 1½:1 slope (27 feet per side) or shield/shoring. Steel at 45 feet: conventional fall protection for all workers (connectors lose their exemption above 30 feet). Power lines at 23 kV: 10foot minimum clearance (under 50 kV). 1962 building: test all materials for asbestos (>1% threshold) and lead before disturbance. DavisBacon: pay prevailing wages by classification, maintain certified payrolls, post wage determination.

40. A — The knowledge is established through three months of study and 20 practice exams scoring 8288%. Sleep deprivation impairs reading comprehension, analytical reasoning, time management, and reference navigation — all critical exam skills. The contractor should verify logistics one final time, set an alarm for a calm morning routine, and prioritize rest. Arriving rested and composed maximizes the benefit of months of preparation.

41. D — Retainage: the owner is 15 days past the 30day deadline with all conditions met — the contractor may file a lien and pursue breach of contract for the $240,000. Subcontractor lien: Mississippi allows subcontractors to file liens against private property where work was performed, regardless of whether the owner paid the GC. The subcontractor should file with the Chancery Clerk within the statutory deadline to preserve their $68,000 lien right.

42. C — Claim 1 ($750,000): paid in full — aggregate reduces to $1,250,000. Claim 2 ($900,000): paid in full — aggregate reduces to $350,000. Claim 3 ($600,000): only $350,000 paid — $250,000 uninsured because the $2,000,000 aggregate is exhausted. This scenario demonstrates exactly why umbrella coverage is essential — the $250,000 gap would be covered.

43. A — Each zone uses its own classification: Type A (06 ft) gets ¾:1 slope (4.5 ft horizontal per side). Type B (612 ft) gets 1:1 slope (6 ft per side) or equivalent shoring. Type C (1218 ft) gets a trench shield or 1½:1 slope (9 ft per side for this 6ft section). The layered approach applies appropriate protection to each zone based on its actual soil characteristics.

44. B — 10% margin: $1,420,000 ÷ 0.90 = $1,577,778. 15% margin: $1,420,000 ÷ 0.85 = $1,670,588. 20% margin: $1,420,000 ÷ 0.80 = $1,775,000. Each uses the formula Cost ÷ (1 − Margin%). Multiplying by (1 + margin%) produces markup on cost, not margin on selling price — a consistently lower result that fails to achieve the target margin.

45. D — (a) $50,000 major, (b) $20,000 specialty (not cumulative), (c) CPAreviewed less than 12 months old, (d) QP may serve 3 entities without Board approval; 90day replacement window; must pass PSI exams, (e) reciprocity with 7 neighboring states waives trade exam only; MS business/law exam still required, (f) commercial contractors have no CE requirement; residential (post7/1/2015) requires 2 hours annually.

46. C — The 11 domains: Estimating/Bidding (7 questions, 14%), Contracts (6, 12%), Licensing (5, 10%), Financial Management (5, 10%), Tax Laws (5, 10%), Labor Laws (5, 10%), Project Management (5, 10%), Environmental/Safety (5, 10%), Risk Management (4, 8%), Business Organization (2, 4%), Lien Law (1, 2%). Estimating and Contracts together account for 13 of 50 questions (26%).

47. A — Each member's 50% share: $250,000. SE tax base: $250,000 × 92.35% = $230,875. SE tax at 15.3% ≈ $35,324 per member. Both managing members of an LLC taxed as a partnership owe SE tax on their full distributive shares. The 92.35% adjustment mirrors the employer FICA deduction available to W2 employees.

48. B — Commissioning exists to verify systems perform to specification. At 82%, the heating system does not meet the 100% design requirement. The subcontractor must troubleshoot the capacity deficiency and bring the system to full specification before the building is occupied. Climate conditions do not override specification requirements — the system must deliver what was designed and specified.

49. C — Documentation is the single principle that bridges every domain. Written contracts prevent disputes. Change orders protect scope. Daily reports preserve evidence. Safety inspections demonstrate compliance. Financial records verify performance. Tax returns meet obligations. Lien filings preserve rights. In every domain, the contractor who documents contemporaneously and systematically is the contractor who prevails when disputes arise.

50. B — Know the material, trust your preparation, use the NASCLA guide efficiently, manage your time strategically, and stay composed. Three months of study, 20 practice exams, and 1,000 questions have built the knowledge base. On exam day, answer what you know first, look up what you need, analyze the complex questions carefully, and remember: 35 of 50 is the goal. You are ready.