

PRACTICE EXAM 5: MISSISSIPPI LAW AND BUSINESS MANAGEMENT SIMULATION (50 QUESTIONS)

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

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

1. A contractor's project superintendent receives a phone call from the project owner directing the superintendent to change the exterior brick color from red to gray. The change will add \$18,000 to the project cost and delay the schedule by 5 days. The superintendent verbally agrees and instructs the masonry subcontractor to proceed with gray brick. Three weeks later, the owner disputes the \$18,000 charge, claiming the superintendent had no authority to approve changes. What fundamental contract administration error occurred?

- A. The superintendent exceeded authority by speaking directly with the owner, because all communication must flow through the project manager
- B. The masonry subcontractor should have refused to change the brick color without a signed purchase order from the brick supplier
- C. The change was not processed through the contractual change order procedure — no written change order request was prepared, no cost and schedule impact was formally documented, and no written authorization was obtained before the work proceeded
- D. The superintendent should have increased the original contract price by 10% to cover the risk of disputed changes rather than pricing the actual cost of the brick substitution

2. A Mississippi contractor applies for a commercial license in the Highway, Street and Bridges classification. The contractor's CPA reviewed financial statement shows total assets of \$290,000 and total liabilities of \$225,000. Does the contractor meet the financial qualification for this classification?

- A. Yes, because the net worth of \$65,000 ($\$290,000 - \$225,000$) exceeds the \$50,000 minimum required for major classifications including Highway, Street and Bridges

B. No, because Highway, Street and Bridges requires a minimum net worth of \$100,000, which is higher than the standard \$50,000 threshold for other major classifications

C. Yes, because the total assets of \$290,000 exceed the \$50,000 threshold, and MSBOC evaluates total assets rather than net worth for major classifications

D. No, because the ratio of liabilities to assets exceeds 75%, which disqualifies the applicant regardless of the absolute net worth figure

3. A contractor's estimator is preparing a bid and receives three subcontractor quotes for the mechanical (HVAC) portion of the work: \$342,000, \$368,000, and \$395,000. The estimator uses the lowest quote (\$342,000) in the bid. After the contractor wins the project, the \$342,000 mechanical subcontractor discovers they made an error and withdraws their quote. The contractor contacts the other two mechanical subcontractors and asks them to lower their prices, revealing the withdrawn bidder's original quote. What ethical violation has the contractor committed?

A. Frontloading, because the contractor is attempting to shift mechanical costs to earlier payment applications to improve shortterm cash flow

B. Bid rigging, because the contractor is coordinating with multiple subcontractors to fix mechanical pricing at an artificially low level

C. Scope creep, because the contractor is attempting to expand the mechanical scope without adjusting the subcontract price to match

D. Bid shopping, because the contractor is disclosing a subcontractor's pricing to competitors to drive down quotes after winning the project — an unethical practice that damages trust in the bidding process

4. An employer with 55 employees terminates a worker for poor attendance. The worker had been employed for 18 months, worked over 1,500 hours in the past year, and had requested FMLA leave two weeks before the termination to care for a parent with a serious health condition. The employer denied the FMLA request and then terminated the worker. What legal violations has the employer potentially committed?

A. No violations, because an employer with fewer than 100 employees is not covered by the FMLA and has no obligation to grant medical leave

B. Two potential violations — improperly denying an FMLA leave request from an eligible employee at a covered employer, and potentially retaliating against the employee for requesting FMLA leave by terminating them shortly after the request

C. One violation only — the improper denial of the FMLA request — but the termination for poor attendance is separately justified and cannot constitute retaliation

D. No violations, because caring for a parent with a serious health condition is not a qualifying reason for FMLA leave — only the employee's own serious health condition qualifies

5. A contractor is calculating the overhead rate for use in estimating. The company's annual G&A expenses total \$375,000. The company completed \$2,500,000 in direct cost volume last year and projects the same volume for the coming year. During the bidding process, the estimator applies the overhead rate to a project with \$180,000 in direct costs. What is the overhead allocation for this project?

A. The overhead allocation is \$13,500 — calculated by first determining the 15% overhead rate ($\$375,000 \div \$2,500,000 = 0.15$) and then applying it to the project's \$180,000 direct costs ($\$180,000 \times 0.15 = \$27,000$)

B. The overhead allocation is \$375,000 because the full annual overhead should be assigned to every project to ensure complete cost recovery

C. The overhead allocation is \$180,000 because overhead should equal direct costs on every project to maintain a 1:1 cost ratio

D. The overhead allocation is \$7,500 because overhead is calculated as a percentage of projected annual revenue rather than direct cost volume

6. A contractor holds both a Residential Builder license and plans to bid on a commercial office building renovation valued at \$120,000. The building is a two-story structure of 6,800 square feet. Can the contractor perform this work under the Residential Builder license?

A. Yes, because the project meets both requirements for a Residential Builder to perform commercial work — the building does not exceed 7,500 square feet and does not exceed three floors in height

B. No, because any commercial project exceeding \$100,000 requires a commercial contractor license regardless of building size

C. Yes, but only if the contractor obtains a temporary commercial work permit from MSBOC specifically for this single project

D. No, because Residential Builder licenses only permit commercial work on buildings under 5,000 square feet, not 7,500 square feet

7. A contractor's project is governed by a fixed-price contract for \$950,000. At the 70% completion point, the contractor's revised cost projection shows total estimated costs of \$980,000 — exceeding the contract price by \$30,000. The original estimated cost was \$855,000. Under the percentage-of-completion method, how should the contractor handle this projected loss?

- A. The projected loss should be ignored until the project is complete because the percentage-of-completion method does not require recognition of anticipated losses
- B. The projected loss should be deferred and recognized only in the final accounting period when the project reaches 100% completion
- C. The contractor should recognize a provision for the full anticipated loss of \$30,000 immediately upon determining that the project will result in a loss, regardless of the completion percentage
- D. The contractor should recognize only the proportional loss based on the 70% completion — recording a \$21,000 loss now and the remaining \$9,000 when the project is complete

8. A Mississippi contractor's qualifying party currently serves as the qualifier for two other contractor entities. The qualifying party wants to add a third entity. Under MSBOC regulations, what is required?

- A. The qualifying party is prohibited from serving more than two entities under any circumstances, and the request will be automatically denied
- B. The qualifying party may serve a third entity without any special approval because the standard MSBOC limit is three entities — Board approval is required only when exceeding three
- C. The qualifying party must appear before the Board and receive special permission before serving any entity beyond the first, because the standard limit is one entity per qualifier
- D. The qualifying party must resign from one of the existing two entities before MSBOC will consider the request, because the total can never exceed two

9. A contractor's employee works 44 hours in a workweek. The employee's regular rate of pay is \$36.00 per hour. The employer pays the employee for 44 hours at the straight-time rate of \$36.00, totaling \$1,584. Has the employer complied with the FLSA overtime requirements?

- A. No, because the employee worked 4 hours over 40 and is entitled to overtime at 1.5 times the regular rate — the employer should have paid 40 hours at \$36.00 (\$1,440) plus 4 hours at \$54.00 (\$216), totaling \$1,656

B. Yes, because the employer paid for all 44 hours at the agreed-upon hourly rate, and no additional premium is required as long as all hours are compensated

C. No, because the employer should have paid doubletime (\$72.00 per hour) for the 4 overtime hours, totaling \$1,728

D. Yes, because the 4 overtime hours fall within the FLSA's 6-hour overtime exemption for construction workers during peak season

10. A contractor installs a guardrail system on a scaffold platform 16 feet above grade. The top rail is set at 38 inches above the platform surface. The mid rail is installed at 19 inches. Does this guardrail system comply with OSHA scaffolding standards?

A. No, because OSHA requires the top rail of a scaffold guardrail to be installed at 38 to 45 inches above the platform surface — 38 inches is at the very bottom of the acceptable range, but the standard specifically requires approximately 42 inches plus or minus 3 inches (39 to 45 inches) for scaffolding

B. Yes, because OSHA allows the top rail to be installed at any height between 36 and 48 inches above the platform surface on scaffolding

C. No, because guardrail systems are not required on scaffold platforms at 16 feet — they are only required above 20 feet in the construction industry

D. Yes, because the 38-inch height meets the minimum requirement for all guardrail systems in construction, and there is no difference between scaffold and general guardrail height requirements

11. A contractor's cash flow projection identifies a \$60,000 shortfall expected in Month 4 of a seven-month project. The contractor has a \$100,000 unused line of credit available from their bank. What is the most prudent approach to managing this projected shortfall?

A. Delay all subcontractor payments for 60 days to preserve cash, informing subcontractors that payment will resume after the shortfall period passes

B. Withdraw the full \$100,000 line of credit immediately and hold it in a separate account as a cash reserve for the entire project duration

C. Ignore the projection because cash flow forecasts are inherently unreliable and the shortfall may not materialize as projected

D. Draw on the line of credit as needed to bridge the \$60,000 gap, while simultaneously accelerating progress billings and following up on any outstanding receivables to minimize the amount borrowed and the associated interest costs

12. A contractor is bidding on a statefunded bridge repair project in Mississippi. The bid documents require a performance bond and a payment bond, each at 100% of the contract value. The contractor has never obtained bonds before. What is the first step the contractor should take?

- A. Purchase the bonds directly from an insurance company, because performance and payment bonds are standard insurance products sold over the counter
- B. Contact a surety company or surety bond agent to begin the underwriting process, providing financial statements, a project resume, and other documentation that the surety will evaluate under the Three C's criteria — Character, Capacity, and Capital
- C. Request a waiver of the bonding requirement from the state agency, citing the contractor's strong financial position and extensive experience
- D. File a bonding application with MSBOC, because the Mississippi State Board of Contractors issues performance and payment bonds directly to licensed contractors

13. A contractor's project has the following data: contract price \$2,400,000, estimated total cost \$2,040,000, actual costs incurred \$1,224,000, billings to date \$1,350,000. Using the percentageofcompletion method, what is the earned revenue, and is the project overbilled or underbilled?

- A. Earned revenue is \$1,440,000 ($60\% \times \$2,400,000$), and the project is underbilled by \$90,000 because earned revenue of \$1,440,000 exceeds billings of \$1,350,000
- B. Earned revenue is \$1,350,000 (equal to billings), and the project is properly billed because revenue should always equal billings under the percentageofcompletion method
- C. Earned revenue is \$1,224,000 (equal to costs incurred), and the project is overbilled by \$126,000 because billings exceed the cost basis
- D. Earned revenue is \$2,400,000 (full contract), and the project is underbilled by \$1,050,000 because only \$1,350,000 has been invoiced against the full contract price

14. A contractor operating as a Ccorporation retains \$150,000 of aftertax profits in the business rather than distributing them as dividends. How are these retained earnings taxed?

- A. The retained earnings have already been taxed at the corporate level — they are not taxed again unless and until they are distributed to shareholders as dividends, at which point they would be subject to personal income tax on the shareholders' returns

- B. The retained earnings are taxed annually at the shareholder's personal income tax rate regardless of whether they are distributed, because C corporation earnings are passthrough income
- C. The retained earnings are exempt from all taxation because reinvested profits are treated as capital contributions rather than taxable income under federal tax law
- D. The retained earnings are subject to an additional 10% accumulated earnings penalty tax imposed by the IRS on all corporations that retain more than \$100,000

15. A contractor is performing foundation work on a commercial project. The excavation is 8 feet deep in soil that the competent person has classified as Type A — the most stable soil type after stable rock. If the contractor chooses to use sloping as the protective system, what is the maximum allowable slope angle for Type A soil?

- A. 1½:1 (34 degrees from horizontal), which is the universal maximum slope for all soil types in excavations deeper than 6 feet
- B. 1:1 (45 degrees from horizontal), which is the maximum slope for Type B soil but is commonly applied to Type A as a conservative measure
- C. Vertical (90 degrees), because Type A soil is stable enough to maintain vertical walls at any depth without a protective system
- D. ¾:1 (53 degrees from horizontal), which is the steepest allowable slope for Type A soil — the most stable type permits the steepest angle because it has the highest cohesive strength

16. A contractor signs a construction contract that requires the contractor to maintain builder's risk insurance for the duration of the project. Midway through construction, a severe thunderstorm causes wind damage to the partially completed structure, destroying \$85,000 worth of installed roofing and framing. How does the builder's risk policy respond?

- A. The policy does not cover wind damage because builder's risk insurance covers only fire, theft, and vandalism — not weatherrelated events
- B. The policy covers the \$85,000 in damage to the partially completed structure because builder's risk insurance protects against physical damage from covered perils including windstorm during the course of construction
- C. The policy covers only the material cost of the damaged components but not the labor cost to reinstall them because labor is excluded from builder's risk coverage
- D. The policy covers the damage only if the contractor can prove the roofing was installed correctly and the damage was not caused by defective workmanship

17. A contractor needs to determine the breakeven point for their construction business. Annual fixed costs (office rent, insurance, administrative salaries, equipment payments) total \$420,000. The average gross profit margin on projects is 20%. At what annual revenue level does the contractor break even?

- A. \$420,000, because breakeven occurs when revenue equals fixed costs regardless of the gross profit margin
- B. \$840,000, calculated by dividing fixed costs by 50% because breakeven occurs at twice the fixed cost amount in the construction industry
- C. \$504,000, calculated by adding 20% to the fixed costs because the gross margin must be added to the cost base to determine revenue
- D. \$2,100,000, calculated by dividing fixed costs (\$420,000) by the gross profit margin (0.20) — the contractor must generate \$2,100,000 in revenue to produce \$420,000 in gross profit, which exactly covers the fixed costs

18. A contractor's employee is injured on the jobsite and files a workers' compensation claim. The insurance carrier approves the claim and begins paying medical benefits and temporary total disability (TTD) benefits. The TTD benefits are calculated at what percentage of the employee's average weekly wage under typical workers' compensation provisions?

- A. 100% of the employee's average weekly wage, because workers' compensation is designed to fully replace all lost income during the recovery period
- B. 50% of the employee's average weekly wage, which represents the standard partial income replacement rate across all state workers' compensation systems
- C. Twothirds (66⅔%) of the employee's average weekly wage, subject to a maximum weekly benefit amount established by the state
- D. 80% of the employee's average weekly wage, calculated as the base rate of 66⅔% plus an additional 13⅓% supplement for construction industry workers

19. A contractor receives an RFI response from the architect that takes 45 days — significantly longer than the 10day response time specified in the contract. The delayed response causes a 3week work stoppage in the affected area because the contractor could not proceed without the clarification. What should the contractor do to protect their interests?

- A. The contractor should send written notice to the owner documenting the RFI submission date, the contractual response deadline, the actual response date, and the resulting 3week delay impact on the

project schedule, preserving the right to claim a time extension and potentially additional compensation for delay-related costs

B. The contractor should absorb the delay without comment because RFI response times are aspirational targets rather than enforceable contractual obligations

C. The contractor should file a formal complaint with the American Institute of Architects, which has jurisdiction over architect response times on construction projects

D. The contractor should deduct the architect's fee from the next progress payment to offset the cost of the 3-week delay caused by the late RFI response

20. A contractor is forming a new construction company and needs to obtain an Employer Identification Number (EIN). Which statement accurately describes the EIN requirement and the process for obtaining one?

A. An EIN is optional for construction companies and is only required for businesses with more than 25 employees

B. An EIN is obtained from the IRS at no cost through an online application, by mail, or by fax — it serves as the business's federal tax identification number and is required for any business that has employees, operates as a corporation or partnership, or files certain tax returns

C. An EIN is issued by the Mississippi Department of Revenue and costs \$150 per application, with annual renewal required

D. An EIN is the same as a Social Security number and can be obtained by submitting a copy of the business owner's Social Security card to the IRS

21. A contractor's project schedule identifies Activity M as having an earliest start of Day 30, earliest finish of Day 42, latest start of Day 30, and latest finish of Day 42. Activity N has an earliest start of Day 42, earliest finish of Day 50, latest start of Day 46, and latest finish of Day 54. A delay of 3 days occurs on Activity N. Does this delay affect the project completion date?

A. Yes, because any delay to any activity always extends the project completion date regardless of the activity's float

B. Yes, because Activity N immediately follows Activity M on the critical path, and the 3-day delay passes directly through to the project end date

C. No, because the delay cannot be assessed without performing a complete schedule update using resource leveling algorithms

D. No, because Activity N has 4 days of total float (latest start 46 – earliest start 42 = 4), and the 3day delay is absorbed within the available float without affecting the project completion date

22. A contractor is evaluating whether to lease or purchase a new piece of construction equipment costing \$180,000. The equipment will be used on multiple projects over the next five years. From a financial management perspective, which factors should the contractor consider in this decision?

A. The impact on cash flow (purchase requires large upfront payment or loan payments vs. lease spreads costs over time), tax implications (purchase allows depreciation deductions vs. lease payments are fully deductible as operating expenses), the effect on the balance sheet (purchase adds an asset and potentially a liability vs. operating lease may not appear), and bonding capacity impact

B. Only the monthly payment amount — whichever option has the lower monthly cost is always the better financial decision regardless of other factors

C. Only the tax implications — the option that produces the largest tax deduction in the current year is always preferable because construction companies should minimize current year taxes above all other considerations

D. Only the equipment's resale value after five years — if the resale value exceeds the total lease payments, purchasing is better, and this is the only factor that matters

23. A contractor's project involves working near overhead highvoltage power lines. OSHA requires minimum clearance distances between construction equipment, materials, and workers and energized power lines. For lines energized at up to 50 kilovolts, what is the minimum safe clearance distance?

A. 5 feet from all energized power lines, regardless of voltage, for both equipment and workers

B. 10 feet from lines energized at up to 50kV, with greater distances required for higher voltages — this is one of the most critical safety distances in construction

C. 15 feet from all overhead power lines, which is the universal minimum regardless of voltage level or line type

D. 20 feet from all energized lines, with the distance doubled to 40 feet during wet weather conditions when electrical conductivity increases

24. A contractor operating as a partnership receives a Schedule K1 from the partnership showing that one partner's share of ordinary business income is \$175,000. This partner also received a guaranteed payment of \$50,000 for management services during the year. What is the total amount subject to selfemployment tax for this partner?

- A. \$175,000 only, because guaranteed payments are classified as salary and are subject to payroll withholding rather than selfemployment tax
- B. \$225,000 — both the \$175,000 distributive share of ordinary business income and the \$50,000 guaranteed payment are subject to selfemployment tax for a general partner
- C. \$50,000 only, because the distributive share of partnership income is passive income that is exempt from selfemployment tax for all partners
- D. Zero, because partnership income of any type is exempt from selfemployment tax when the partnership has fewer than five partners

25. A contractor's project superintendent observes that a concrete subcontractor is placing concrete that has been in the mixer truck for an extended period. The concrete has begun to stiffen and the subcontractor's workers are adding water to the mix to restore workability. What quality control concern does this raise?

- A. No concern, because adding water to concrete is a standard industry practice that improves placement without affecting final structural performance
- B. No concern, because the superintendent has no authority over a subcontractor's means and methods for concrete placement operations
- C. Adding extra water beyond the approved mix design reduces the watertocement ratio control, which can significantly decrease compressive strength, increase porosity, and compromise durability — the superintendent should stop the pour and require a new conforming batch or field testing
- D. Minor concern only, because the additional water may slightly delay curing but will not affect the concrete's longterm compressive strength or structural capacity

26. A contractor's insurance program includes CGL coverage with a \$1,000,000 peroccurrence limit and a \$2,000,000 aggregate. Three separate incidents occur during the policy year: Claim 1 costs \$700,000, Claim 2 costs \$850,000, and Claim 3 costs \$600,000. How does the CGL policy respond to all three claims?

A. Claim 1 is paid at \$700,000 (within peroccurrence limit), Claim 2 is paid at \$850,000 (within peroccurrence limit), but only \$450,000 remains in aggregate for Claim 3 — leaving \$150,000 of Claim 3 uninsured because the \$2,000,000 aggregate is exhausted

B. All three claims are paid in full because each individual claim falls below the \$1,000,000 peroccurrence limit, and the aggregate does not apply when individual claims are under the peroccurrence threshold

C. Only Claim 1 is paid because the aggregate is divided equally among the number of claims, limiting each claim to \$666,667 regardless of the peroccurrence limit

D. None of the claims are paid because the combined total of \$2,150,000 exceeds the aggregate limit, which must be available in full before any individual claim can be paid

27. A contractor is developing a Stormwater Pollution Prevention Plan (SWPPP) for a 5-acre commercial development project. The site is adjacent to a wetland designated as a sensitive environmental area. What additional consideration must the SWPPP address beyond standard BMP requirements?

A. No additional considerations are needed because the NPDES Construction General Permit does not differentiate between sites based on proximity to environmental features

B. Additional or enhanced BMPs may be required for sites near sensitive waters — the SWPPP should include buffer zones around the wetland, enhanced sediment controls, more frequent inspection schedules, and potentially stricter discharge limits to protect the adjacent sensitive environmental area

C. The contractor must obtain a separate wetland construction permit from the U.S. Fish and Wildlife Service before any land disturbance can begin within 500 feet of a designated wetland

D. The SWPPP must be prepared by a licensed environmental engineer rather than the contractor, because sites adjacent to wetlands require professional engineering certification of the stormwater plan

28. A contractor's WIP schedule shows a project where costs incurred to date are \$340,000, estimated total cost is \$850,000, contract price is \$1,000,000, and billings to date are \$380,000. The contractor's project manager reports that the project is "on track" based on the billing status. Is this assessment accurate?

A. Yes, because billings are ahead of costs, indicating the contractor is in a positive cash position and the project is progressing well

B. Yes, because the contractor has billed 38% of the contract price while only 34% of the work is complete, creating a favorable overbilling position

C. The assessment cannot be made without knowing the original estimated total cost and whether the current estimate represents a change from the original budget

D. Not necessarily — while the billing position looks favorable (overbilled by \$20,000), the project manager should evaluate whether the 40% completion rate ($\$340,000 \div \$850,000$) aligns with the schedule baseline and whether the cost-to-complete estimate of \$510,000 is realistic, since billing ahead of earned revenue can mask underlying cost or schedule problems

29. A contractor files a Mississippi state income tax return as a sole proprietor. The business earns \$210,000 in net income. How is this income taxed by Mississippi?

A. The \$210,000 is reported on the contractor's Mississippi individual income tax return and taxed at the applicable graduated individual income tax rates, because sole proprietorship income passes through to the owner's personal return

B. The \$210,000 is taxed at the Mississippi corporate rate of 5% because all business income exceeding \$100,000 is classified as corporate income regardless of entity type

C. The \$210,000 is exempt from Mississippi income tax because sole proprietors are not required to file state income tax returns in Mississippi

D. The \$210,000 is taxed at a flat 7% rate, which is the same as the Mississippi sales tax rate applied to all business income

30. A contractor's project involves demolishing a section of an existing commercial building constructed in 1958. Before beginning demolition, the contractor's competent person should be specifically concerned about the potential presence of which hazardous materials commonly found in pre-1980 buildings?

A. Radon gas and carbon monoxide, which are the primary regulated hazardous substances found in commercial buildings from this era

B. Formaldehyde and volatile organic compounds from modern construction adhesives, which were first introduced in commercial buildings in the 1950s

C. Asbestos-containing materials (insulation, floor tiles, pipe wrap, roofing, joint compound) and lead-based paint, both of which were widely used in commercial construction before regulatory restrictions in the late 1970s and 1980s

D. Mercury vapor from fluorescent lighting only, because mercury is the only regulated hazardous material found in commercial buildings constructed before 1960

31. A contractor's employee is classified as a nonexempt salaried worker earning \$1,200 per week. The employee's normal schedule is 40 hours per week. During a week when the employee works only 32 hours due to a personal appointment, can the employer reduce the weekly salary?

A. No, because salaried employees must always receive their full weekly salary regardless of the number of hours worked, and any reduction converts the employee to hourly status

B. The employer may dock the salary for full-day absences under certain circumstances, but partial-day deductions from a salaried employee's pay are generally prohibited under the FLSA because they can jeopardize the employee's salaried status — however, since this employee is nonexempt, overtime rules rather than the salary basis test primarily govern, and the employer's payroll practices determine the specific treatment

C. Yes, the employer can deduct the cost of 8 hours at the employee's calculated hourly rate ($\$30/\text{hr} \times 8 = \240) from the weekly salary without any restriction

D. Yes, but only if the employee signs a written waiver authorizing the salary reduction for each week in which fewer than 40 hours are worked

32. A contractor is negotiating a construction contract and the owner insists on a termination for convenience clause. The contractor is concerned about the financial impact of an early termination. What provision should the contractor negotiate to protect their interests?

A. A clause prohibiting the owner from exercising the termination for convenience right before the project reaches 50% completion

B. A clause requiring the owner to pay triple the anticipated profit on the unperformed portion of the contract as a penalty for exercising the convenience termination

C. A clause requiring the owner to provide a minimum of 90 days' advance notice before exercising the termination, which is the mandatory statutory notice period under Mississippi contract law

D. A clause clearly defining the contractor's compensation upon termination — including payment for all completed work, reimbursement for reasonable termination costs (demobilization, supplier cancellation charges, subcontract winddown), and a reasonable profit on the work completed prior to termination

33. A contractor's project superintendent notices a crack developing in a recently poured concrete foundation wall. The crack is vertical, approximately 1/16 inch wide, and extends from the top of the wall to midheight. The architect has not yet inspected the wall. What should the superintendent do?

- A. Patch the crack with hydraulic cement immediately to prevent water infiltration, and continue construction without notifying the architect — cosmetic cracks in concrete are routine and do not require design professional involvement
- B. Ignore the crack because all concrete develops minor cracks during the curing process, and no action is needed unless the crack exceeds ¼ inch in width
- C. Document the crack with photographs and measurements, notify the architect and the project manager in writing, and request an engineering assessment to determine whether the crack is structural (requiring repair) or cosmetic (acceptable within tolerances) before proceeding with work that would cover or conceal the wall
- D. Demolish and replace the entire foundation wall immediately because any visible crack indicates a structural deficiency that cannot be repaired and renders the wall nonconforming

34. A contractor submits an application for a Mississippi commercial contractor license on June 10. The application includes a CPA reviewed financial statement dated July 15 of the previous year. MSBOC reviews the application on June 15. Is the financial statement acceptable?

- A. Yes, because the financial statement is less than 12 months old — dated July 15 of the previous year and submitted June 10 of the current year, it is approximately 11 months old and within the 12month window required by MSBOC
- B. No, because MSBOC requires financial statements to be dated within 6 months of the application submission date for all commercial license applications
- C. Yes, because MSBOC accepts financial statements up to 18 months old for initial applications, with the 12month requirement applying only to renewals
- D. No, because the financial statement must be dated within the current calendar year — any statement from a prior year is automatically ineligible

35. A contractor's employee is working in a confined space on a construction project — specifically, a large underground utility vault that has limited entry and exit points and the potential for hazardous atmospheric conditions. Before the employee enters the space, what must the contractor ensure under OSHA's confined space standards?

- A. The contractor must conduct atmospheric testing to verify oxygen levels, test for toxic gases and flammable atmospheres, ensure continuous ventilation, establish rescue procedures, designate an attendant outside the space, and ensure the entrant and attendant have completed confined space training

- B. The contractor must post a warning sign at the entrance and provide the worker with a flashlight and a hard hat — no additional safety measures are required for underground utility vaults
- C. The contractor must obtain a confined space entry permit from OSHA's regional office at least 48 hours before entry, because all confined space entries on construction sites require federal preauthorization
- D. The contractor must ensure the employee carries a cell phone for emergency communication, which satisfies all OSHA confined space requirements for construction projects

36. A Mississippi contractor wants to obtain a license through the NASCLA Accredited Examination Program rather than taking the Mississippi-specific Building Construction trade exam. What advantage does the NASCLA exam offer?

- A. The NASCLA exam is easier than the Mississippi-specific exam because it covers fewer topics and has a lower passing threshold
- B. Passing the NASCLA exam allows the contractor to use the results in multiple participating states through the National Examination Database (NED), reducing redundant trade testing for contractors seeking licensure in more than one state
- C. The NASCLA exam eliminates the need to take the Mississippi Law and Business Management exam because the NASCLA program covers both trade and business law content
- D. The NASCLA exam costs significantly less than the Mississippi-specific exam and can be taken online from any location without visiting a PSI testing center

37. A contractor's annual operating budget projects revenue of \$3,200,000, cost of construction of \$2,560,000, and G&A expenses of \$448,000. What is the projected gross profit, gross profit margin, net profit, and net profit margin?

- A. Gross profit is \$640,000 (20% margin), and net profit is \$192,000 (6% margin) — calculated by subtracting cost of construction from revenue for gross profit, then subtracting G&A for net profit, with each margin expressed as a percentage of revenue
- B. Gross profit is \$192,000 (6% margin), and net profit is \$640,000 (20% margin) — the lower figure represents gross profit because it accounts for all costs
- C. Gross profit is \$448,000 (14% margin), and net profit is \$192,000 (6% margin) — G&A expenses are subtracted from revenue first to calculate gross profit
- D. Gross profit is \$640,000 (25% margin), and net profit is \$192,000 (7.5% margin) — calculated by dividing each profit figure by total expenses rather than revenue

38. A subcontractor signs a conditional waiver on progress payment for \$45,000 and receives the general contractor's check. Before depositing the check, the subcontractor learns from another subcontractor that the general contractor may be experiencing financial difficulties. The subcontractor deposits the check, and it clears the bank. What is the status of the subcontractor's lien rights for the \$45,000?

- A. The lien rights remain intact for 60 days after the check clears, providing a safety period in case the general contractor's financial condition deteriorates further
- B. The lien rights are permanently preserved regardless of whether the check clears because conditional waivers never fully extinguish lien rights in Mississippi
- C. The lien rights for the \$45,000 are waived because the conditional waiver takes effect upon actual receipt of payment — the check cleared, meaning payment was received, and the condition of the waiver has been satisfied
- D. The lien rights are reduced by 50% upon the check clearing, with the remaining 50% preserved as ongoing security for future payment obligations

39. A contractor is hired to perform a commercial renovation project. The contract includes an indemnification clause requiring the contractor to indemnify the owner for losses arising from the contractor's negligent acts. During construction, a visitor is injured by a falling tool that a contractor's employee accidentally dropped from the second floor. Who bears financial responsibility for the visitor's injury claim?

- A. The property owner bears sole responsibility because the owner has a general duty to maintain safe premises for all visitors regardless of whether a contractor is performing work
- B. The contractor bears financial responsibility under the indemnification clause because the injury was caused by the contractor's employee's negligent act — the contractor's CGL policy would respond to defend and indemnify the contractor, who in turn indemnifies the owner as required by the contract
- C. Financial responsibility is automatically split 50/50 between the owner and the contractor under Mississippi's comparative negligence statute regardless of the indemnification clause
- D. The injured visitor bears sole responsibility because entering an active construction site constitutes assumption of risk that bars any recovery from either the owner or the contractor

40. A contractor's project is governed by a unit price contract for a parking lot paving project. The bid included a unit price of \$12.50 per square foot of asphalt paving. The engineer's estimate projected 40,000 square feet, but the final measured quantity is only 32,000 square feet because the owner reduced the parking lot size during construction. How is the contractor compensated?

- A. The contractor is paid for the original 40,000 square feet because the engineer's estimate establishes a guaranteed minimum quantity that cannot be reduced
- B. The contractor is paid for the actual 32,000 square feet at the bid unit price of \$12.50 per square foot, totaling \$400,000 — unit price contracts pay based on actual measured quantities, and the 8,000 square foot reduction is an inherent risk of this contract type
- C. The contractor is paid for 32,000 square feet at the original unit price plus a 15% premium on the reduced quantity to compensate for the loss of planned production volume
- D. The contractor is paid for 40,000 square feet minus a credit at 75% of the unit price for the 8,000 square feet not installed, reflecting the materials savings but not the labor efficiency loss

41. A contractor discovers that their accounts payable have been growing steadily while accounts receivable collections have slowed. The contractor's current ratio has declined from 1.45 six months ago to 1.05 today. What does this trend indicate, and what action should the contractor take?

- A. The trend indicates improving financial health because the current ratio remains above 1.0, and no action is needed as long as the ratio stays positive
- B. The trend indicates deteriorating liquidity — the company is paying obligations faster than it is collecting receivables, compressing working capital dangerously close to the 1.0 threshold where current liabilities would equal current assets, leaving no margin for unexpected expenses or delayed collections
- C. The trend is normal for growing construction companies and indicates that the business is successfully expanding its project volume and taking on appropriately larger financial obligations
- D. The trend indicates the company should immediately apply for a larger MSBOC license classification to match its growing financial obligations

42. An employer with 12 employees receives a discrimination complaint from a job applicant who was not hired. The applicant alleges discrimination based on national origin. Under Title VII, does this employer have sufficient employees to be covered by the statute?

- A. No, because Title VII applies to employers with 15 or more employees — this employer with 12 employees falls below the threshold and is not subject to Title VII's antidiscrimination provisions, though state or local antidiscrimination laws may still apply
- B. Yes, because Title VII applies to all employers regardless of size when the complaint involves national origin discrimination

C. No, because Title VII applies only to employers with 50 or more employees, which is the same threshold as the FMLA

D. Yes, because the 15employee threshold applies only to sex discrimination claims — all other protected categories under Title VII have no minimum employee requirement

43. A contractor purchases \$150,000 worth of plumbing fixtures and pipe from a Mississippi supplier for a commercial project. The contractor pays 7% Mississippi sales tax (\$10,500) at the time of purchase. Later, the contractor invoices the project owner for the materials and adds 7% sales tax to the owner's invoice. Is this practice correct?

A. No, because the contractor is the consumer of the materials for tax purposes and has already paid the sales tax — the contractor should not charge the owner additional sales tax on the materials because doing so results in double taxation of the same purchase

B. Yes, because the contractor must collect sales tax from the owner on all materials incorporated into construction projects as a passthrough obligation

C. No, but only because the contractor should have claimed a sales tax exemption at the time of purchase and then collected the full 7% from the owner

D. Yes, because Mississippi law requires sales tax to be charged at every stage of the supply chain, with each party collecting and remitting tax on their portion of value added

44. A contractor's project has been experiencing persistent schedule delays due to unusually severe weather. The contract includes a force majeure clause that excuses delays caused by "acts of God, including unusually severe weather conditions." The contractor has documented 18 days of weather delays with daily reports showing conditions that prevented outdoor work. What is the contractor typically entitled to under a standard force majeure clause?

A. An extension of the contract time equal to the documented delay days, plus full reimbursement of all additional costs incurred during the delay period including extended overhead

B. Automatic termination of the contract with full payment for all completed work plus anticipated profit on the remaining work

C. An extension of the contract time but no additional compensation for idle equipment, extended supervision costs, or other delayrelated expenses because most force majeure clauses excuse delay but do not provide for additional compensation

D. An extension of the contract time equal to the documented weather delay days plus an additional 50% time cushion to account for recovery and remobilization after the weather events

45. A contractor is preparing to mobilize for a new commercial project. During the preconstruction phase, the contractor identifies that several key materials have lead times of 12 to 16 weeks. The project schedule shows these materials are needed by Week 8 of construction. What preconstruction planning failure has occurred?

- A. The contractor failed to identify longlead items during the bidding phase, when the commitment to deliver should have prompted early material planning
- B. The project manager should have accelerated the construction schedule to complete the work requiring these materials before Week 8, eliminating the need for early procurement
- C. The architect should have specified materials with shorter lead times, because design professionals are responsible for ensuring all specified materials can be procured within the construction schedule
- D. No failure has occurred because material procurement is always handled during construction rather than during preconstruction, and the contractor can simply delay the affected activities until materials arrive

46. A contractor's payroll records show that a nonexempt employee worked the following hours: Week 1 — 35 hours, Week 2 — 48 hours. The employer decides to "average" the two weeks, claiming the employee worked an average of 41.5 hours per week, and pays a small amount of overtime for 1.5 hours. Is this averaging approach compliant with the FLSA?

- A. No, the FLSA requires overtime to be calculated on a workweek basis — each week stands alone, and hours from different workweeks cannot be averaged to reduce overtime obligations, so Week 2's 8 overtime hours must be paid at the premium rate regardless of Week 1's lower hours
- B. Yes, because the FLSA allows employers to average hours across any twoweek pay period for purposes of overtime calculation
- C. No, but only because the averaging period must be exactly one month — twoweek averaging is too short under federal overtime regulations
- D. Yes, because construction industry employers have a special exemption that allows multiweek averaging for seasonal work during peak construction periods

47. A contractor signs a subcontract that requires the subcontractor to carry CGL insurance with minimum limits of \$1,000,000 per occurrence and \$2,000,000 aggregate, and to name the general contractor as an additional insured on the policy. Why is the additional insured requirement important?

- A. The additional insured endorsement allows the general contractor to be covered under the subcontractor's CGL policy for claims arising from the subcontractor's work, providing the general contractor with a direct right to defense and indemnification from the subcontractor's insurer without having to first pursue the subcontractor
- B. The additional insured requirement is a formality with no practical benefit because the general contractor's own CGL policy always covers all claims from subcontractor operations
- C. The additional insured endorsement transfers the subcontractor's policy limits to the general contractor, reducing the subcontractor's available coverage proportionally
- D. The additional insured requirement allows the general contractor to cancel the subcontractor's insurance policy at any time if dissatisfied with the subcontractor's safety performance

48. A contractor is reviewing a potential project and identifies the following risk: the project site is in a floodprone area, and significant rainfall is forecasted during the planned construction period. The contractor has four risk response options. Which combination represents the most comprehensive risk management approach?

- A. Risk avoidance only — decline to bid on the project because the flood risk is too high to manage effectively under any circumstances
- B. A combination of risk reduction (scheduling critical groundlevel work during historically dry months, installing enhanced drainage and dewatering systems) and risk transfer (ensuring builder's risk insurance covers flood damage, including appropriate flood coverage in the project insurance program), with contingency funds budgeted for weatherrelated delays
- C. Risk acceptance only — proceed with the project as planned and address flooding if and when it occurs, without any proactive planning or additional insurance
- D. Risk transfer only — purchase flood insurance and proceed without any schedule adjustments, enhanced drainage, or contingency budgeting because insurance eliminates all financial exposure

49. A contractor operates in Mississippi and employs workers who are classified as both employees and independent contractors. The contractor issues W2 forms to employees at yearend. What form must be issued to each independent contractor who received \$600 or more in payments during the calendar year?

- A. Form W2, the same form issued to employees, because all workers receiving compensation from a construction company must receive a W2 regardless of classification

B. Form 1099MISC, which reports miscellaneous income including independent contractor payments and is issued to all nonemployee workers

C. Form W4, which the independent contractor uses to calculate and report their own tax withholding obligations for the following year

D. Form 1099NEC (Nonemployee Compensation), which reports payments of \$600 or more made to independent contractors during the calendar year and must be issued by January 31 of the following year

50. A contractor operating as a general partnership is considering converting to an LLC. Both partners want to maintain the current partnership tax treatment while gaining limited liability protection. Can the LLC achieve both objectives simultaneously?

A. No, because converting from a partnership to an LLC automatically triggers Ccorporation tax treatment that cannot be reversed for five years

B. No, because LLCs can only be taxed as sole proprietorships or S corporations — partnership tax treatment is not available to LLCs under any circumstances

C. Yes, because a multimember LLC is taxed as a partnership by default — the conversion provides limited liability protection to both members while maintaining the passthrough partnership taxation they currently have, with no need for any special tax election

D. Yes, but only if the LLC files a special election with the IRS within 30 days of formation requesting partnership treatment, because the default classification for a multimember LLC is Ccorporation

Practice Exam 5: Answer Key and Explanations

1. **C** — The fundamental error is that the change was not processed through the contractual change order procedure. No written change order request was prepared, no cost or schedule impact was formally documented, and no written authorization was obtained before the work began. The cardinal rule of change management — never perform changed work without written authorization — was violated, leaving the contractor unable to prove the terms of the change when the owner disputed the charge.

2. **A** — Net worth is total assets minus total liabilities: $\$290,000 - \$225,000 = \$65,000$. Highway, Street and Bridges is a major classification requiring a minimum net worth of \$50,000. The contractor's net worth of \$65,000 exceeds this threshold by \$15,000, satisfying the financial qualification. All major classifications — Building, Highway, Heavy, Electrical, Mechanical, and Municipal — share the same \$50,000 minimum.

3. D — Bid shopping occurs when the general contractor discloses a subcontractor's pricing to competitors to drive down quotes after using those prices to win the project. Revealing the withdrawn bidder's \$342,000 price to the other two mechanical subcontractors and asking them to beat it is a textbook example of bid shopping — an unethical practice that exploits the original bidder's pricing, undermines the competitive bidding process, and discourages qualified subcontractors from submitting competitive bids.

4. B — Two potential violations occurred. First, the employer improperly denied FMLA leave to an eligible employee — the worker met all eligibility requirements (18 months employed, 1,500+ hours, employer has 55 employees) and caring for a parent with a serious health condition is a qualifying reason. Second, terminating the employee two weeks after the FMLA request creates a strong inference of retaliation. Both the denial and the termination expose the employer to significant FMLA liability.

5. A — The overhead rate is annual G&A divided by annual direct cost volume: $\$375,000 \div \$2,500,000 = 15\%$. The overhead allocation for this project is the overhead rate multiplied by the project's direct costs: $\$180,000 \times 15\% = \$27,000$. This \$27,000 represents this project's proportional share of the company's annual operating expenses and must be included in the total cost before applying profit markup.

6. A — Mississippi licensing law permits Residential Builder license holders to work on commercial projects that do not exceed 7,500 square feet and three floors in height. This twostory, 6,800 square foot commercial office building falls within both limitations. The crossover provision allows the contractor to perform this commercial work under the existing Residential Builder license without obtaining a separate commercial classification.

7. C — Under GAAP and the percentage of completion method, when a project is projected to result in a loss, the entire anticipated loss must be recognized immediately — not proportionally based on completion percentage. The contractor must record the full \$30,000 projected loss as soon as the revised cost estimate indicates the project will be unprofitable, regardless of the current completion stage.

8. B — A qualifying party may serve up to three entities under MSBOC's standard rules without requiring special Board approval. Since this qualifying party currently serves two entities, adding a third is within the standard limit and does not require Board permission. Special permission from the Board is required only when a qualifying party seeks to serve more than three entities.

9. A — The FLSA requires overtime at 1.5 times the regular rate for all hours exceeding 40 in a workweek. The employee worked 44 hours: 40 regular hours at \$36.00 (\$1,440) plus 4 overtime hours at \$54.00 (\$216), totaling \$1,656. The employer paid only \$1,584 (44 hours \times \$36.00 straight time), shortchanging the employee \$72 in overtime premium pay — a clear FLSA violation.

10. A — The OSHA scaffolding standard (1926.451(g)(4)) requires the top rail to be installed between 38 inches and 45 inches above the platform surface, with 42 inches as the target height. At 38 inches, the guardrail is at the absolute minimum of the acceptable range. While technically at the boundary, OSHA's stated requirement of "approximately 42 inches" means 38 inches may be cited as noncompliant because it falls below the practical 39 to 45 inch interpretation that most compliance officers apply.

11. C — The most prudent approach is to use the line of credit strategically — drawing only what is needed to bridge the \$60,000 gap — while simultaneously accelerating billings and collections to

minimize borrowing. This combination addresses the shortfall without incurring unnecessary interest on the full credit line, maintains supplier and subcontractor relationships, and demonstrates the disciplined cash flow management that identifies problems early and responds with multiple corrective actions.

12. B — Surety bonds are not purchased like insurance policies — they require an underwriting process similar to a credit evaluation. The contractor should contact a surety company or bond agent to begin the qualification process, providing financial statements, project experience documentation, and references. The surety evaluates Character, Capacity, and Capital before determining whether to issue bonds and at what bonding capacity.

13. A — Completion percentage: $\$1,224,000 \div \$2,040,000 = 60\%$. Earned revenue: $60\% \times \$2,400,000 = \$1,440,000$. Billings to date: $\$1,350,000$. Since earned revenue ($\$1,440,000$) exceeds billings ($\$1,350,000$) by $\$90,000$, the project is underbilled. This $\$90,000$ underbilling appears as a current asset on the balance sheet — the contractor has performed work for which payment has not yet been invoiced.

14. A — Retained earnings in a Ccorporation have already been taxed at the corporate level (21% federal rate). They are not taxed again as long as they remain in the corporation. If the retained earnings are later distributed as dividends, they will be taxed a second time on the shareholders' personal returns — creating the double taxation characteristic of Ccorporations. Retaining earnings avoids the second layer of tax until distribution.

15. D — Type A soil is the most stable classification (after stable rock) and permits the steepest allowable slope: $\frac{3}{4}:1$ (53 degrees from horizontal). Type B soil requires 1:1 (45 degrees), and Type C soil requires the gentlest slope at $1\frac{1}{2}:1$ (34 degrees). The more stable the soil, the steeper the allowable slope — because higher cohesive strength allows the excavation walls to maintain steeper angles without collapse.

16. B — Builder's risk insurance covers physical damage to structures under construction from covered perils including fire, windstorm, hail, theft, and vandalism. The $\$85,000$ in wind damage to the partially completed roofing and framing is a covered loss under the builder's risk policy. The policy covers the value of the work in place, including both materials and the labor to install them, up to the policy limits and subject to any deductible.

17. D — Breakeven revenue is calculated by dividing fixed costs by the gross profit margin: $\$420,000 \div 0.20 = \$2,100,000$. At $\$2,100,000$ in revenue with a 20% gross margin, the company generates $\$420,000$ in gross profit — exactly covering the $\$420,000$ in fixed costs and resulting in zero net profit. Revenue below $\$2,100,000$ produces a loss; revenue above produces a profit.

18. C — Temporary total disability (TTD) benefits under workers' compensation are typically calculated at twothirds ($66\frac{2}{3}\%$) of the employee's average weekly wage, subject to a maximum weekly benefit amount established by the state. This rate reflects the compromise of the workers' compensation system — the employee receives guaranteed, nofault income replacement, but not full wage replacement, in exchange for giving up the right to sue the employer.

19. A — The contractor must document the delay to preserve their contractual rights. Written notice to the owner should include the RFI submission date, the contractual response deadline, the actual response date, the resulting work stoppage period, and the schedule and cost impact. Without timely

written notice, the contractor may waive the right to claim a time extension or additional compensation — even when the delay was clearly caused by the architect's slow response.

20. B — An EIN is obtained from the IRS at no cost through an online application (available on [irs.gov](https://www.irs.gov)), by mail, or by fax. It serves as the business's federal tax identification number and is required for any business that has employees, operates as a corporation or partnership, or files certain tax returns. Most construction businesses need an EIN because they employ workers and must file payroll tax returns.

21. D — Activity N has 4 days of total float: latest start (46) minus earliest start (42) = 4 days. A 3day delay on Activity N consumes 3 of the 4 available float days, leaving 1 day of remaining float. Since the delay does not exceed the available float, the project completion date is not affected. If the delay had been 5 days — exceeding the 4day float — it would have pushed the project completion date by 1 day.

22. A — The leaseversuspurchase decision involves multiple financial considerations: cash flow impact (large upfront purchase payment vs. spreadout lease payments), tax treatment (depreciation deductions for purchased assets vs. fully deductible lease payments), balance sheet effects (purchase adds both an asset and potentially a loan liability), and bonding capacity (equipment ownership increases net worth but loans increase liabilities). A comprehensive analysis considers all factors, not just the monthly payment.

23. B — OSHA requires a minimum clearance distance of 10 feet from overhead power lines energized at up to 50 kilovolts (50kV). For lines energized at higher voltages, the clearance distance increases. This 10foot minimum applies to equipment, materials, and workers. Contact with or arcing from energized power lines is one of the leading causes of electrocution deaths in construction.

24. B — For a general partner, both the distributive share of ordinary business income (\$175,000) and guaranteed payments (\$50,000) are subject to selfemployment tax. The total of \$225,000 is subject to SE tax at 15.3% (Social Security at 12.4% up to the wage base, plus Medicare at 2.9% on all earnings). Guaranteed payments are not treated as salary with payroll withholding — they are selfemployment income reported on Schedule SE.

25. C — Adding water to concrete beyond the approved mix design ("retempering") increases the watertocement ratio, which directly reduces compressive strength, increases permeability, and compromises longterm durability. The mix design specifies a precise watertocement ratio to achieve the required strength — adding field water undermines this specification. The superintendent should stop the pour and require either a fresh conforming batch or field testing to verify the compromised concrete meets specifications.

26. A — The CGL policy has a \$1,000,000 peroccurrence limit and a \$2,000,000 aggregate. Claim 1 (\$700,000) is paid in full — aggregate reduces to \$1,300,000. Claim 2 (\$850,000) is paid in full — aggregate reduces to \$450,000. Claim 3 (\$600,000) exceeds the remaining \$450,000 aggregate — the policy pays only \$450,000, leaving \$150,000 uninsured. This scenario demonstrates why umbrella coverage is essential for contractors facing multiple claims.

27. B — Sites adjacent to sensitive environmental areas such as wetlands may require enhanced BMPs beyond the standard NPDES Construction General Permit requirements. The SWPPP should include additional buffer zones around the wetland, enhanced sediment controls (double silt fence, sediment

basins with extended settling time), more frequent inspection schedules, and potentially stricter turbidity or discharge limits to protect the sensitive receiving water.

28. D — While the overbilling position (\$380,000 billed vs. \$340,000 costs = \$40,000 overbilled, and completion is 40% at \$340,000/\$850,000 vs. 38% of contract billed) may appear favorable for cash flow, the project manager should evaluate whether the 40% completion rate aligns with the schedule and whether the \$510,000 cost to complete is realistic. Billing ahead of earned revenue can mask underlying cost trends — a thorough WIP analysis, not just billing status, is needed.

29. A — Sole proprietorship income passes through to the owner's personal tax return. The \$210,000 in net business income is reported on the contractor's Mississippi individual income tax return and taxed at Mississippi's graduated individual income tax rates. Mississippi does not impose a separate business income tax on sole proprietorships — the income is taxed once at the individual level, just as it is for federal purposes.

30. C — Buildings constructed before 1980 commonly contain asbestos-containing materials (used in insulation, floor tiles, pipe wrap, roofing, ceiling tiles, and joint compound) and lead-based paint (used widely before its residential ban in 1978 and common in commercial buildings of this era). Both materials pose serious health hazards when disturbed during demolition and require identification, testing, and compliance with OSHA and EPA regulations before any demolition work proceeds.

31. B — The treatment of partial-day salary deductions for salaried employees involves complex FLSA rules. For exempt salaried employees, partial-day deductions can jeopardize the salary basis test and the employee's exempt status. For nonexempt salaried employees (like this worker), the employer has more flexibility, but payroll practices must still comply with FLSA requirements regarding the regular rate calculation and overtime computation. The specific treatment depends on the employer's established payroll policies.

32. D — The contractor should negotiate clear terms defining exactly what compensation is due upon a convenience termination: payment for all work completed to date, reimbursement for all reasonable termination costs (demobilization, supplier cancellation charges, subcontract winddown costs), and a reasonable profit on the completed work. Without these protective provisions, the contractor may face significant unrecoverable costs if the owner exercises the convenience termination.

33. C — The superintendent should document the crack with photographs and measurements, notify the architect and project manager in writing, and request a professional assessment before proceeding. Concrete cracks can be cosmetic (shrinkage cracks within acceptable tolerances) or structural (indicating foundation problems requiring engineering evaluation). Only the architect or structural engineer can make this determination — the superintendent should document and escalate, not patch or ignore.

34. A — The financial statement is dated July 15 of the previous year and submitted June 10 of the current year — approximately 11 months old. MSBOC requires financial statements to be less than 12 months old at the time of submission. This statement falls within the 12-month window and is acceptable. If the contractor had waited until after July 15, the statement would expire and a new CPA-reviewed statement would be required.

35. A — OSHA's confined space standards require comprehensive safety measures before entry: atmospheric testing for oxygen, toxics, and flammables; continuous ventilation; designation of an attendant stationed outside the space; established rescue procedures; completion of a confined space

entry permit; and training for all entrants, attendants, and rescue personnel. Confined spaces in construction — manholes, utility vaults, tanks, and similar spaces — are among the most dangerous work environments due to atmospheric hazards.

36. B — The NASCLA Accredited Examination Program allows contractors who pass the NASCLA exam to use those results in multiple participating states through the National Examination Database (NED). This eliminates the need to take separate statespecific trade exams in each participating state — a significant advantage for contractors seeking multistate licensure. The NASCLA exam replaces only the trade exam; each state's business and law exam must still be passed separately.

37. A — Gross profit = Revenue – Cost of Construction = \$3,200,000 – \$2,560,000 = \$640,000. Gross profit margin = \$640,000 ÷ \$3,200,000 = 20%. Net profit = Gross Profit – G&A = \$640,000 – \$448,000 = \$192,000. Net profit margin = \$192,000 ÷ \$3,200,000 = 6%. The 14point spread between 20% gross and 6% net demonstrates how G&A expenses consume the majority of the gross profit earned on construction operations.

38. C — A conditional waiver takes effect upon actual receipt of payment. The condition was that payment be received — the check cleared the bank, meaning the condition has been satisfied. The lien rights for the \$45,000 are now waived. This is exactly how conditional waivers are designed to work: they protect the subcontractor until payment is confirmed, then release the lien rights once the money is actually in hand.

39. B — The injury was caused by the contractor's employee dropping a tool — a negligent act occurring during the contractor's operations. Under the indemnification clause, the contractor is obligated to indemnify the owner for losses arising from the contractor's negligence. The contractor's CGL policy would respond to defend against the visitor's claim and pay any resulting judgment or settlement, and the indemnification clause shifts the financial burden from the owner to the contractor.

40. B — Unit price contracts compensate based on actual measured quantities, not estimated quantities. The final measured quantity of 32,000 square feet at \$12.50 per square foot produces a contract payment of \$400,000. The 8,000 square foot reduction is an inherent feature of unit price contracts — the owner bears the risk of quantity increases, and the contractor bears the risk of quantity decreases, with no adjustment to the unit price itself.

41. B — A current ratio declining from 1.45 to 1.05 in six months is a serious warning sign. The company's liquidity cushion has eroded dramatically — at 1.05, current assets barely exceed current liabilities, leaving almost no margin for delayed collections, unexpected expenses, or revenue shortfalls. The contractor should immediately accelerate receivable collections, negotiate extended payment terms with suppliers, review project profitability, and potentially secure a line of credit before the ratio drops below 1.0.

42. A — Title VII of the Civil Rights Act applies to employers with 15 or more employees. This employer with 12 employees falls below the threshold and is not subject to Title VII. However, state or local antidiscrimination laws may still apply and provide similar protections. The employee thresholds vary by statute: 15 for Title VII and ADA, 20 for ADEA, and 50 for FMLA.

43. A — In Mississippi, the contractor is the consumer of construction materials for sales tax purposes. The contractor pays the 7% sales tax when purchasing materials from the supplier. The contractor should not charge the owner additional sales tax on those same materials — doing so would result in

double taxation. The sales tax is a project cost that should be included in the contractor's bid price, not passed through as a separate charge to the owner.

44. C — Standard force majeure clauses typically provide an extension of contract time for qualifying delay events but do not include additional compensation for delay-related costs such as extended overhead, idle equipment, or extended supervision. The clause excuses the contractor from liquidated damages for the excused delay period but does not compensate for the cost of the delay itself — the contractor bears those costs unless the contract specifically provides otherwise..

45. A — The contractor failed to identify longlead materials during the preconstruction phase and order them early enough to arrive by Week 8. Materials with 12to16week lead times needed to be ordered no later than the project award date — weeks before construction begins. Identifying and procuring longlead items is one of the most critical preconstruction planning activities, and failing to do so creates avoidable schedule delays.

46. A — The FLSA requires overtime to be calculated on a workweek basis — each workweek stands alone. Hours from different workweeks cannot be averaged to reduce overtime obligations. Week 1 (35 hours) has no overtime. Week 2 (48 hours) has 8 hours of overtime that must be paid at 1.5 times the regular rate. Averaging the two weeks to reduce the overtime to 1.5 hours is a direct FLSA violation.

47. A — The additional insured endorsement adds the general contractor as a covered party under the subcontractor's CGL policy. If a claim arises from the subcontractor's work, the general contractor can seek defense and indemnification directly from the subcontractor's insurer — without first having to pursue the subcontractor or rely solely on the general contractor's own CGL policy. This provides a direct, additional layer of insurance protection.

48. B — Comprehensive risk management for a floodprone site combines multiple strategies: risk reduction through schedule adjustments and enhanced drainage systems, risk transfer through appropriate insurance including flood coverage, and financial preparation through contingency budgeting. No single strategy is sufficient — reduction lowers the probability, transfer protects against the financial impact, and contingency funds provide immediate resources for response.

49. D — Form 1099NEC (Nonemployee Compensation) is the correct form for reporting payments of \$600 or more to independent contractors. The 1099NEC replaced the use of Form 1099MISC Box 7 for reporting nonemployee compensation beginning with tax year 2020. The form must be issued to the independent contractor and filed with the IRS by January 31 of the year following the calendar year in which payments were made.

50. C — A multimember LLC is taxed as a partnership by default under IRS rules — no special election is needed. Converting from a general partnership to an LLC preserves the existing passthrough partnership taxation while adding limited liability protection for both members. This is exactly why the LLC has become the most popular business entity for construction companies — it combines the liability protection of a corporation with the tax flexibility and simplicity of a partnership.