

# PRACTICE EXAM 6: ARKANSAS BUSINESS AND LAW SIMULATION (50 QUESTIONS)

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

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

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

1. A contractor forms a corporation in Arkansas and is the sole shareholder, sole director, and sole officer. Over the next two years, the contractor deposits all business income into their personal checking account, pays personal bills from the same account, never holds a corporate meeting, never records corporate minutes, and does not file the required annual franchise tax report. A client sues the corporation for \$300,000 in construction defects. The client's attorney argues that the contractor should be personally liable. Under the legal doctrine that applies to this situation, what is the most likely outcome?

A. The court may pierce the corporate veil and hold the contractor personally liable because the contractor failed to maintain the corporation as a separate entity, commingled funds, and disregarded corporate formalities

B. The contractor is protected by limited liability regardless of how the corporation was managed because incorporating automatically creates permanent liability protection

C. The court will dismiss the case because the client's only recourse is against the corporation itself, which may have no assets

D. The contractor is personally liable only for the amount of their original capital contribution to the corporation

## **DOMAIN: LICENSING (4 Questions)**

2. A general contractor is licensed in Alabama and wants to work in Arkansas. Alabama is a NASCLA-participating state, and the contractor passed the NASCLA Accredited Examination three years ago. Which of the following accurately describes what the NASCLA exam result allows the contractor to do in Arkansas?

A. Begin work immediately in Arkansas because NASCLA accreditation constitutes a universal contractor's license accepted in all participating states

B. Skip both the trade exam and the Business and Law exam in Arkansas because NASCLA accreditation covers all exam requirements

C. Use the NASCLA exam result to satisfy the trade exam requirement in Arkansas, but the contractor must still pass the Arkansas Business and Law exam and meet all other ACLB licensing requirements

D. Apply for a temporary 180-day license in Arkansas that waives all examination requirements for NASCLA-certified contractors

3. A contractor is hired to build a custom home valued at \$350,000. During construction, the homeowner asks the contractor to also build a detached commercial workshop on the same property for the homeowner's welding business, valued at \$70,000. The contractor holds only a residential builder license. Can the contractor legally perform the workshop project?

A. Yes, because both structures are on the same property and can be covered under a single residential building permit

B. Yes, because the workshop is valued under \$100,000 and residential builder licenses cover small-scale accessory structures

C. Yes, because the workshop is accessory to the residential property and does not constitute independent commercial construction

D. No, because a detached commercial workshop is a commercial structure, and construction of a commercial building exceeding \$50,000 requires a commercial contractor's license

4. The Arkansas Contractors Licensing Board investigates a licensed contractor and determines that the contractor has been performing plumbing work on commercial projects without a plumbing license. The contractor argues that their commercial contractor's license authorizes all construction work on commercial projects. Is the contractor correct?

A. Yes, because an unrestricted commercial license authorizes the license holder to perform all construction trades without limitation

B. No, because plumbing work is regulated by the Arkansas Department of Health through a separate licensing board, and the ACLB commercial license does not authorize trade-specific plumbing work

C. Yes, but only if the plumbing work constitutes less than 25% of the total project value

D. No, but the contractor can perform plumbing work if they obtain a written waiver from the project owner acknowledging the licensing limitation

5. A contractor applies for a residential remodeler license in Arkansas. The applicant has six years of verified experience as a project manager for a commercial general contractor, managing renovation projects on office buildings and retail spaces. Does this experience qualify for the residential remodeler license?

A. Yes, because the ACLB requires four years of experience in the building industry, and commercial renovation project management qualifies as building industry experience applicable to the residential remodeler classification

B. No, because residential remodeler experience must be exclusively in residential construction and commercial experience does not transfer

C. Yes, but only if two of the six years include hands-on residential construction labor rather than project management

D. No, because project management experience does not qualify unless the applicant also holds a current commercial license

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

6. A contractor submits a bid on a county courthouse renovation project. The bid form requires a base bid, three additive alternates, and a list of proposed subcontractors. The contractor's bid includes the base bid and all three alternates but omits the subcontractor list. After the bid opening, the contractor offers to provide the subcontractor list within 24 hours. Should the county accept this offer?

A. Yes, because minor informalities in bids can be waived by the public owner at their discretion without affecting competition

B. Yes, because the subcontractor list is a post-award requirement that does not affect the responsiveness of the bid

C. No, because the subcontractor list was a mandatory component of the bid submission, and omitting it makes the bid non-responsive regardless of the contractor's willingness to provide it later

D. No, but the county should reject all bids and re-bid the project because one incomplete bid taints the entire bidding process

7. A contractor estimates that a foundation will require 85 cubic yards of concrete at \$155 per cubic yard (including delivery and placement). The contractor applies a 4% waste factor for the concrete and prices the formwork, reinforcing steel, and finishing labor separately. What is the estimated concrete material cost including waste?

A. \$13,175.00, calculated at the base quantity of 85 cubic yards without the waste factor adjustment

B. \$13,702.00, calculated as 88.4 cubic yards ( $85 \times 1.04$ ) multiplied by \$155 per cubic yard

C. \$14,337.50, calculated by applying a 10% waste factor instead of the specified 4% to provide additional safety margin

D. \$14,725.00, calculated by adding the waste factor to the unit price ( $\$155 \times 1.04$ ) rather than to the quantity

8. A project owner requires bidders on a public library project to submit a bid bond equal to 5% of their bid price. The contractor submits the lowest bid at \$1,800,000 with a \$90,000 bid bond. The second-lowest bid is \$1,920,000. The contractor is awarded the project but then refuses to execute the contract because they found a more profitable project elsewhere. What is the owner's remedy?

A. The owner can sue the contractor for the full \$1,800,000 contract value plus consequential damages for project delays

B. The owner can claim the entire \$90,000 bid bond as a flat penalty regardless of the actual cost difference between bidders

C. The owner has no remedy because bid bonds are optional security instruments that cannot be enforced against a withdrawing bidder

D. The owner can claim against the bid bond for the \$120,000 difference between the contractor's bid (\$1,800,000) and the second-lowest bid (\$1,920,000), up to the \$90,000 penal sum of the bond

9. A contractor wins a competitive bid on a state highway project. Before signing the contract, the contractor reviews the unit prices they submitted for various items of work. The contractor realizes their unit price for rock excavation is \$15 per cubic yard — significantly below their actual cost of \$45 per cubic yard. The estimated quantity of rock excavation in the bid documents is 500 cubic yards. However, the contractor's prices for other items are profitable enough to offset this loss on the overall project. What risk does the unbalanced bid create?

- A. If the actual quantity of rock excavation significantly exceeds the estimated 500 cubic yards, the contractor's losses on that unit price will multiply and could overwhelm the profit margins on other bid items
- B. No risk exists because unit prices are only used for informational purposes and do not affect the actual contract payments
- C. The only risk is reputational because other contractors may view the unbalanced pricing as an unethical bidding practice
- D. The contractor can request a unit price adjustment after contract execution to correct the below-cost rock excavation price

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

10. A contractor working on a commercial office building discovers that the mechanical drawings show HVAC supply ducts running through a structural beam location shown on the structural drawings. Both sets of drawings are part of the same contract document package. Neither the specifications nor any addenda address this conflict. What is the contractor's professional obligation?

- A. Proceed with the mechanical duct routing because mechanical systems can be modified more easily than structural elements
- B. Proceed with the structural beam location because structural integrity always takes legal precedence over mechanical design
- C. Stop work in the affected area and submit a Request for Information (RFI) to the architect identifying the conflict between the mechanical and structural drawings and requesting a coordinated design resolution
- D. Resolve the conflict independently using the contractor's best professional judgment and document the decision in the daily report

11. A project owner terminates a contractor for cause, alleging that the contractor abandoned the project for two weeks without explanation. The contractor claims they stopped work because the owner had not paid the last three monthly progress payment applications, totaling \$340,000. Under most standard construction contracts, which party's position is likely stronger?

- A. The owner's position is stronger because contractors cannot stop work for any reason once a construction contract is executed

B. The contractor's position is likely stronger because persistent non-payment by the owner typically constitutes a material breach that justifies the contractor's suspension of work, and the owner's termination for cause may be deemed wrongful

C. Neither party has a strong position because payment disputes must be resolved through mediation before either party takes unilateral action

D. The owner's position is stronger because the contractor's only remedy for non-payment is to file a mechanics' lien, not to stop work

12. A construction contract includes the following indemnification clause: "The Contractor shall indemnify, defend, and hold harmless the Owner from and against all claims, damages, losses, and expenses arising out of or resulting from the performance of the Work, provided that such claims are caused in whole or in part by the negligent acts or omissions of the Contractor." What does this clause require the contractor to do?

A. Pay the owner's insurance deductible for any claim filed against the project regardless of fault

B. Maintain an insurance policy that names the owner as the primary insured rather than an additional insured

C. Provide free warranty repairs for the life of the building rather than just the contractual warranty period

D. Protect the owner financially and legally — by paying for defense costs, damages, and losses — when claims arise from the contractor's own negligent acts or omissions

13. A commercial building owner wants to begin construction before the architectural design is complete. The owner selects a contractor through a qualifications-based selection process and enters into a contract where the contractor will be reimbursed for all actual construction costs plus a fixed fee, with a guaranteed maximum price established once the design reaches 60% completion. What type of project delivery and contract arrangement does this describe?

A. A construction management at-risk (CMAR) delivery with a cost-plus-fixed-fee contract that converts to a GMP once design development is sufficiently advanced

B. A design-bid-build delivery with a standard fixed-price contract based on completed construction documents

C. A design-build delivery where the contractor is responsible for both the design and the construction under a single contract

D. An integrated project delivery (IPD) arrangement where the owner, architect, and contractor share all project risks and rewards equally

14. A general contractor's subcontract with a roofing subcontractor includes a clause requiring the subcontractor to carry \$2,000,000 in CGL insurance and to name the general contractor as an additional insured. The roofing subcontractor's policy has a per-occurrence limit of only \$1,000,000. Halfway through the roofing work, a fire caused by the subcontractor's torch-applied roofing operation damages the building. The damage claim totals \$1,500,000. What insurance issue does this create?

A. The general contractor's own CGL policy will automatically cover the entire \$1,500,000 claim without any contribution from the subcontractor's policy

B. The general contractor has no exposure because the additional insured endorsement transfers all liability to the roofing subcontractor

C. The subcontractor's policy covers only \$1,000,000 of the claim, leaving a \$500,000 gap that may fall to the general contractor's policy or the subcontractor's personal assets

D. The fire damage is excluded from both policies because torch-applied roofing operations are classified as an inherently hazardous activity

15. A contractor completes a project and submits the final payment application, including the request for release of all retainage. The contract requires the contractor to submit specific closeout documents before final payment is released. Which of the following is typically required as a condition of final payment?

A. A letter from the contractor's surety confirming that no bond claims have been filed against the project

B. A consent of surety to final payment, all required lien waivers from subcontractors and suppliers, as-built drawings, O&M manuals, warranties, and a certificate of substantial or final completion from the architect

C. A notarized affidavit from every worker who performed labor on the project confirming they were paid in full

D. A performance evaluation from the owner rating the contractor's work quality, schedule adherence, and communication

16. An owner issues a change order that deletes \$45,000 of interior painting work from the contract because the owner has decided to hire a separate painting contractor after the general contractor completes construction. The general contractor argues that they are entitled to the profit they would have earned on the deleted painting work. Under most standard contract change order provisions, is the contractor correct?

A. No, because deductive change orders always reduce the contract price by the full amount of the deleted work including any embedded profit

B. Yes, because the contractor was guaranteed a profit on the full original contract value and cannot be deprived of expected earnings

C. No, because the contractor's only loss is direct cost savings, and profit on unperformed work is never recoverable

D. It depends on the contract language — many contracts allow the contractor to include overhead and profit on deductive change orders, meaning the deduction may be less than the full \$45,000 to account for the contractor's lost margin

17. A subcontractor on a commercial project notifies the general contractor that they intend to file a mechanics' lien against the project owner's property because the general contractor has not paid them for three months. The general contractor has been receiving regular payments from the owner. What obligation does this situation create for the general contractor?

A. The general contractor should immediately resolve the payment dispute with the subcontractor because the subcontractor's lien will cloud the owner's property title, and the prime contract likely requires the contractor to keep the property free of liens arising from the contractor's failure to pay subcontractors

B. The general contractor has no obligation because mechanics' liens are solely between the subcontractor and the property owner

C. The general contractor must file a counter-lien against the subcontractor's property to offset the subcontractor's claim

D. The general contractor should advise the owner to pay the subcontractor directly and deduct the amount from future progress payments

18. A project architect conducts a site visit and observes that the contractor is installing exterior brick veneer with mortar joints that appear wider than specified. The architect verbally instructs the contractor to stop the brickwork and correct the mortar joints before proceeding. The contractor disagrees with the architect's assessment. What is the appropriate course of action?

A. The contractor should ignore the architect's instruction because the architect does not have contractual authority to issue stop-work orders

B. The contractor should comply with the architect's instruction to stop the brickwork, then formally dispute the directive in writing if they disagree, because the architect's interpretation of the contract documents is generally binding until overturned through the dispute resolution process

C. The contractor should continue installing the brick and request a formal independent inspection by a third-party masonry expert

D. The contractor should remove all installed brickwork immediately without question because the architect's verbal instructions are absolute and final

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

19. A project manager develops a baseline schedule at the beginning of a commercial construction project. Six months into the 14-month project, the owner requests an updated schedule showing actual progress versus planned progress. The project manager provides an updated schedule showing that 8 of 12 critical path activities are behind their planned dates by an average of 6 days. What is the significance of this information?

A. The schedule variance is within acceptable limits because most projects experience minor delays during the first half of construction

B. The delays are insignificant because only critical path activities with zero float can affect the project completion date

C. The schedule update is informative but does not require action because the project still has 8 months remaining

D. The project is in serious jeopardy because delays to critical path activities directly extend the project completion date, and the owner should be informed immediately with a recovery plan

20. A contractor uses a three-week look-ahead schedule to manage daily construction activities. What is the primary purpose of a look-ahead schedule?

A. To identify and resolve near-term constraints — such as material deliveries, subcontractor mobilization, permit approvals, and equipment needs — that could prevent scheduled activities from starting or proceeding as planned during the upcoming three-week period

B. To replace the master project schedule with a more detailed and accurate version that better reflects actual field conditions

C. To provide the owner with a legally binding commitment to complete specific activities within the next three weeks

D. To calculate the critical path for only the next three weeks and disregard the overall project schedule beyond that window

21. A project superintendent notices that the productivity of the concrete crew has declined significantly over the past three weeks. The crew is placing an average of 35 cubic yards per day, compared to the estimated rate of 50 cubic yards per day used in the bid. The

superintendent investigates and discovers that the concrete pump has been breaking down frequently, causing the crew to wait for repairs. What should the superintendent do?

- A. Reduce the crew size to match the lower productivity rate and extend the concrete schedule accordingly
- B. Replace the defective concrete pump with a reliable unit immediately and monitor the crew's productivity to verify that the equipment was the root cause of the decline
- C. Arrange for a replacement concrete pump, document the productivity loss and the equipment failure as the cause, and evaluate whether the lost productivity will affect the critical path and require schedule recovery measures
- D. Notify the concrete supplier that their pump is defective and demand that the supplier provide a free replacement unit

22. During a coordination meeting on a hospital construction project, the fire protection subcontractor identifies that their sprinkler piping conflicts with the structural steel bracing in the mechanical room. The conflict was not visible on the contract drawings because the sprinkler shop drawings were developed after the structural steel was installed. Who is responsible for resolving this coordination conflict?

- A. The structural steel subcontractor, because their work was installed first and should have anticipated future sprinkler routing
- B. The general contractor bears the primary responsibility for coordinating the work of all subcontractors and resolving conflicts between trades, even when those conflicts arise from the interaction of shop drawings that were developed at different stages of the project
- C. The fire protection subcontractor, because they developed their shop drawings after the steel was installed and should have routed around existing conditions
- D. The project architect, because all coordination conflicts are design errors that must be resolved by the design team

23. A contractor receives a Notice to Proceed (NTP) on February 1 for a project with a 240-calendar-day contract duration. What is the contractual completion date?

- A. August 1, calculated as 240 working days (excluding weekends and holidays) from the NTP date
- B. September 30, calculated as 240 business days plus a standard 30-day mobilization period
- C. December 31, calculated as 240 calendar days from the NTP date plus a 90-day winter weather extension

D. September 29, calculated as 240 calendar days from February 1 (the NTP date), counting every day including weekends and holidays

24. A project is substantially complete, and the architect has issued the certificate of substantial completion. The contractor's project manager begins the closeout process. Which of the following activities is NOT typically part of the project closeout phase?

A. Preparing competitive bid packages for the owner's next construction project that is currently in the design phase

B. Completing all punch list items identified during the substantial completion walk-through inspection

C. Assembling and submitting warranties, as-built drawings, and operation and maintenance manuals to the owner

D. Processing the final payment application including the request for release of all retainage being held by the owner

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

25. A contractor's umbrella liability policy provides \$5,000,000 of coverage above the underlying CGL, commercial auto, and employers' liability policies. The contractor's CGL has a per-occurrence limit of \$1,000,000. A catastrophic jobsite accident results in a \$4,500,000 judgment against the contractor. How do the CGL and umbrella policies respond to this claim?

A. The umbrella policy pays the full \$4,500,000 because it replaces the CGL policy on claims exceeding \$1,000,000

B. The CGL pays nothing and the umbrella pays \$4,500,000 because umbrella policies are always the primary coverage

C. The CGL pays the first \$1,000,000 (up to its per-occurrence limit) and the umbrella pays the remaining \$3,500,000, for a combined total of \$4,500,000

D. The CGL and umbrella each pay 50% of the judgment, splitting the \$4,500,000 equally between the two policies

26. A surety evaluates a contractor's bonding application and considers the "Three C's" of bonding. Which of the following accurately describes one of the Three C's?

- A. Cost — the surety evaluates whether the contractor's bid prices are competitive enough to win projects consistently
- B. Coverage — the surety evaluates whether the contractor maintains adequate insurance coverage across all required policy types
- C. Compliance — the surety evaluates whether the contractor has a clean regulatory record with no OSHA citations or licensing violations
- D. Capital — the surety evaluates the contractor's financial strength, including net worth, working capital, profitability, and the adequacy of the balance sheet to support bonded work

27. A contractor is required to provide builder's risk insurance for a \$6,000,000 condominium construction project. The policy is written for the full completed value of the project. During construction, a fire destroys the partially completed structure when the project is approximately 60% complete. The actual replacement cost of the damaged work is \$3,800,000. How much does the builder's risk policy pay?

- A. \$6,000,000, equal to the full policy amount, because builder's risk policies always pay the full face value regardless of the stage of construction
- B. \$3,800,000, because the policy covers the actual loss — the cost to repair or replace the damaged work — up to the policy limit of \$6,000,000
- C. \$3,600,000, calculated as 60% of the \$6,000,000 policy amount to match the percentage of completion at the time of the fire
- D. \$0, because fires during construction are excluded from standard builder's risk policies and require a separate fire insurance endorsement

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

28. A construction company experiences the following workplace events during the calendar year: (1) a worker cuts their hand and receives butterfly bandages at the jobsite first aid station; (2) a worker sprains their ankle and is prescribed a hinged ankle brace by a physician; (3) a worker gets dust in their eye and the site medic flushes the eye with saline solution; (4) a worker strains their back and is placed on restricted duty for one week. How many of these events are OSHA recordable?

- A. Two events are recordable — the prescribed ankle brace (rigid means of immobilization prescribed by a physician constitutes medical treatment beyond first aid) and the restricted duty back strain (restricted work activity is a recordable outcome)

B. Three events are recordable because all injuries requiring any form of medical attention beyond self-treatment must be recorded

C. One event is recordable because only the back strain with restricted duty qualifies as a recordable outcome under OSHA standards

D. All four events are recordable because any workplace injury must be documented on the OSHA 300 Log regardless of the treatment provided

29. A project manager wants to verify their company's OSHA recordkeeping compliance. Which of the following is NOT a requirement under OSHA's recordkeeping regulations (29 CFR Part 1904)?

A. Maintaining the OSHA 300 Log of Work-Related Injuries and Illnesses throughout each calendar year

B. Completing an OSHA 301 Incident Report for each individual recordable workplace injury or illness

C. Submitting all OSHA 300 Logs and 301 Incident Reports to the nearest OSHA area office by January 31 of each year for federal review and approval

D. Posting the OSHA 300A Summary in a conspicuous location from February 1 through April 30 of the year following the record year

30. A worker on a construction site is killed when a concrete wall form collapses during a pour. The site superintendent witnesses the incident at 10:15 AM and immediately calls emergency services. The company owner is notified at 10:45 AM. When does the 8-hour reporting clock begin for purposes of OSHA fatality reporting?

A. At 10:15 AM when the incident occurred, because the reporting clock starts at the time of the fatal event

B. At 10:45 AM when the employer (company owner) learned of the fatality, because OSHA's reporting deadline runs from when the employer learns of the death, not from when the death occurs

C. At 12:00 PM noon, because OSHA provides a standard 2-hour grace period after the incident before the reporting clock begins

D. The clock does not start until the medical examiner officially pronounces the worker deceased and the employer receives written confirmation

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

31. A contractor with 45 employees operates in a state where recreational marijuana use is legal. The contractor maintains a drug-free workplace policy that prohibits marijuana use by employees. A carpenter tests positive for marijuana during a random drug test and is terminated. The carpenter sues, arguing that their off-duty marijuana use is legal and the termination violates their rights. In the context of construction employment, which outcome is most likely?

- A. The carpenter will prevail because employers cannot regulate lawful off-duty conduct
- B. The carpenter will prevail because random drug testing is unconstitutional for private sector employers
- C. The case will be dismissed because drug testing disputes must be resolved through OSHA's administrative process, not through the courts
- D. The contractor will likely prevail because construction is a safety-sensitive industry, the drug-free workplace policy was established and communicated in advance, and employers generally retain the right to enforce zero-tolerance drug policies regardless of state marijuana legalization

32. A non-exempt heavy equipment operator earns \$34.00 per hour and works 46 hours during a single workweek. The operator also receives a non-discretionary production bonus of \$200 for the week based on the volume of earth moved. Under the FLSA, how should overtime be calculated?

- A. The \$200 bonus must be included in the regular rate calculation — the regular rate is  $(\$34.00 \times 46 + \$200) \div 46 = \$38.35$  per hour, and the overtime premium of \$19.17 per hour (half the regular rate) is owed for the 6 overtime hours, totaling an additional \$115.04 beyond the straight-time earnings
- B. Overtime is calculated only on the base hourly rate of \$34.00, and the bonus is paid separately without affecting the overtime calculation
- C. The bonus eliminates the overtime obligation because bonus-eligible employees are classified as exempt under the FLSA
- D. Overtime is calculated at 1.5 times the base rate of \$34.00 (\$51.00), and the bonus is added to the total after the overtime calculation is complete

33. An employer is interviewing candidates for a field superintendent position that requires supervising multiple construction crews, reading blueprints, climbing ladders and scaffolds, and lifting materials weighing up to 75 pounds. A candidate discloses during the interview that they have a prosthetic leg. The employer is concerned about the candidate's ability to climb ladders and scaffolds safely. Under the ADA, what is the employer's most appropriate course of action?

A. Reject the candidate immediately because construction supervision requires full physical mobility that cannot be accommodated

B. Hire the candidate without further assessment because asking about physical limitations related to a disability is prohibited

C. Ask the candidate whether they can perform the essential functions of the position — including climbing ladders and scaffolds — with or without reasonable accommodation, and base the hiring decision on their demonstrated ability to perform the job

D. Require the candidate to undergo a medical examination before the interview continues to determine their physical fitness

34. An employer with 8 employees wants to determine their obligations under federal employment laws. Which of the following federal laws applies to this employer?

A. Title VII of the Civil Rights Act, which applies to employers with 15 or more employees

B. The Fair Labor Standards Act (FLSA), which applies to virtually all employers engaged in interstate commerce, including those with fewer than 15 employees

C. The Age Discrimination in Employment Act (ADEA), which applies to employers with 20 or more employees

D. The Family and Medical Leave Act (FMLA), which applies to employers with 50 or more employees within a 75-mile radius

35. A construction laborer is injured on a Wednesday and visits a doctor who prescribes physical therapy three times per week for four weeks. The laborer can continue working full duty between therapy sessions. Is this case OSHA recordable?

A. No, because the laborer did not miss any work time and continued performing their full job duties without restriction

B. No, because physical therapy prescribed by a physician is classified as first aid under OSHA's recordkeeping definitions

C. Yes, but only if the laborer misses more than three therapy sessions, which triggers the lost-time recording threshold

D. Yes, because physical therapy prescribed by a physician constitutes medical treatment beyond first aid, making the case recordable regardless of whether the laborer missed any work time

36. A contractor's employee handbook includes a clear anti-harassment policy that prohibits harassment based on race, sex, religion, national origin, age, and disability. The policy includes a complaint procedure, identifies three different people to whom complaints can be reported, and states that retaliation against complainants is prohibited. A supervisor harasses a female

employee over several weeks. The employee does not report the harassment. The employee later files a lawsuit. How does the employer's anti-harassment policy affect their legal position?

- A. The existence of a well-communicated anti-harassment policy with a complaint procedure that the employee failed to use may provide the employer with an affirmative defense against the harassment claim, potentially limiting the employer's liability
- B. The policy has no legal effect because employers are strictly liable for all supervisor harassment regardless of what policies exist
- C. The policy completely immunizes the employer from all harassment claims because having a written policy satisfies the employer's legal obligation
- D. The policy is only relevant if the harassment was committed by a coworker rather than a supervisor

37. A contractor is working on a federally funded community center project subject to the Davis-Bacon Act. The prevailing wage determination specifies that carpenters must receive \$38.00 per hour in wages plus \$16.50 per hour in fringe benefits. The contractor pays carpenters \$42.00 per hour in wages and provides health insurance valued at \$7.50 per hour and a 401(k) contribution of \$2.00 per hour per employee. What is the contractor's compliance status?

- A. Non-compliant, because the fringe benefits must be provided entirely through health insurance and retirement contributions cannot count toward the fringe requirement
- B. Non-compliant, because the base wage of \$42.00 exceeds the required \$38.00, and excess wages cannot be applied to offset a fringe benefit shortfall
- C. Compliant, because the total compensation is \$51.50 per hour (\$42.00 wage + \$7.50 health + \$2.00 retirement), which is slightly below the required \$54.50 (\$38.00 + \$16.50) — making the contractor actually non-compliant by \$3.00 per hour
- D. Compliant, because the \$42.00 wage exceeds the \$38.00 minimum by \$4.00, the health insurance provides \$7.50, and the 401(k) provides \$2.00 — but total compensation of \$51.50 still falls \$3.00 short of the required \$54.50

38. A project owner requires the general contractor to verify that all subcontractors carry workers' compensation insurance before they are allowed on the jobsite. One subcontractor claims they are exempt because they have no employees — the subcontractor is a sole proprietor who works alone. What is the general contractor's risk if they allow this uninsured sole proprietor on the jobsite?

- A. No risk, because sole proprietors without employees are categorically exempt from workers' compensation requirements in all circumstances

B. No risk, because the project owner's liability insurance automatically covers all uninsured workers on the jobsite

C. Minimal risk, because a sole proprietor working alone can only injure themselves, and self-inflicted injuries are not covered by workers' compensation

D. Significant risk, because if the sole proprietor is injured on the jobsite, they may file a claim arguing they were effectively an employee of the general contractor, potentially exposing the general contractor to workers' compensation liability and litigation costs

39. An employer operates a construction company with 55 employees. A foreman who has worked for the company for 7 years requests 6 weeks of unpaid leave to care for his elderly mother who has been diagnosed with a terminal illness. Under the FMLA, is the employer required to grant this leave?

A. No, because FMLA leave to care for a parent is limited to 4 weeks per calendar year regardless of the medical condition

B. Yes, because the FMLA provides up to 12 weeks of unpaid, job-protected leave to care for a parent with a serious health condition, and both the employer (55 employees) and the foreman (7 years of service) meet the coverage and eligibility requirements

C. No, because the FMLA covers leave for spouses and children only and does not extend to parents or other family members

D. Yes, but only if the foreman's mother resides in the same household as the foreman and is listed as a dependent on his tax return

40. A contractor's workers' compensation policy is audited at the end of the policy year. The auditor discovers that the contractor classified two roofers as office clerical workers, significantly underreporting the payroll in the high-risk roofing classification. What is the financial consequence of this misclassification?

A. The contractor will owe a substantial additional premium because roofing carries a much higher classification rate than clerical work, and the audit adjusts the premium to reflect the actual risk exposure based on the workers' true job duties

B. No financial consequence because payroll classification is determined by the employee's job title, not their actual duties

C. The contractor will receive a refund because the clerical classification rate is higher than the roofing rate for premium calculation purposes

D. The insurance carrier will cancel the policy retroactively and the contractor must obtain new coverage from a different carrier

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

41. A contractor reviews their year-end financial statements and finds the following: total contract revenue of \$5,800,000, cost of construction of \$4,756,000, and general and administrative expenses of \$638,000. What are the company's gross profit margin and net profit margin?

A. Gross profit margin is 18.0% and net profit margin is 7.0%, calculated from the income statement figures

B. Gross profit margin is 10.0% and net profit margin is 3.5%, reflecting conservative industry standards for general contractors

C. Gross profit margin is 18.0% and net profit margin is 7.0%, calculated as  $(\$5,800,000 - \$4,756,000) \div \$5,800,000$  for gross and  $(\$1,044,000 - \$638,000) \div \$5,800,000$  for net

D. Gross profit margin is 7.0% and net profit margin is 18.0%, because net profit margin is always higher than gross profit margin

42. A contractor is applying for an unrestricted commercial license from the ACLB. Their CPA-prepared balance sheet shows total assets of \$890,000, total liabilities of \$825,000, and cash on hand of \$30,000. Does the contractor meet the ACLB financial requirements for the unrestricted commercial license?

A. Yes, because the net worth of \$65,000 exceeds the \$50,000 minimum and cash requirements are waived for unrestricted license applicants

B. No, because while the net worth of \$65,000 exceeds the \$50,000 minimum, the cash on hand of \$30,000 exceeds the \$25,000 minimum but the financial statement must be audited or reviewed for an unrestricted license — the net worth alone is not sufficient if the statement type is inadequate

C. Yes, because the total assets of \$890,000 far exceed the \$50,000 net worth requirement

D. No, because the net worth of \$65,000 does not meet the minimum requirement of \$100,000 for unrestricted commercial licenses

43. A project has a contract value of \$1,800,000 and estimated total costs of \$1,440,000 under the percentage-of-completion method. At the end of the first reporting period, costs incurred total \$576,000. At the end of the second reporting period, cumulative costs total \$1,080,000. How much revenue is recognized in the second reporting period only?

- A. \$720,000, representing the revenue earned during the first period that was deferred and now recognized in the second period
- B. \$1,350,000, representing the cumulative earned revenue from the start of the project through the end of the second period
- C. \$576,000, equal to the costs incurred during the second period alone
- D. \$630,000, calculated as the cumulative earned revenue at end of Period 2 (\$1,350,000) minus the revenue already recognized in Period 1 (\$720,000)

44. A contractor's cash flow forecast shows the following for the next 90 days: expected collections from accounts receivable of \$475,000, expected retainage releases of \$85,000, projected payroll of \$310,000, projected material and subcontractor payments of \$280,000, fixed overhead costs of \$75,000, and equipment loan payments of \$35,000. The company currently has \$40,000 in cash. What is the projected cash position at the end of 90 days?

- A. Negative \$100,000 — the projected outflows of \$700,000 exceed the projected inflows of \$600,000 ( $\$475,000 + \$85,000 + \$40,000$  current cash), creating a \$100,000 shortfall that must be financed
- B. Positive \$125,000, because retainage releases and accounts receivable collections will more than cover all projected outflows
- C. Positive \$40,000, unchanged from the current cash balance because inflows and outflows are perfectly balanced over the 90-day period
- D. Negative \$60,000, calculated by subtracting total outflows from total inflows without considering the current cash balance

45. Under the completed-contract method of revenue recognition, a contractor has three projects with the following status at year-end: Project X is 95% complete with a contract value of \$600,000; Project Y is 100% complete with a contract value of \$450,000; Project Z is 40% complete with a contract value of \$1,200,000. How much revenue does the contractor recognize for the year under the completed-contract method?

- A. \$2,250,000, representing the total contract value of all three projects regardless of completion status
- B. \$1,020,000, calculated as 95% of Project X plus 100% of Project Y plus 0% of Project Z
- C. \$450,000, representing only Project Y which is the only project that has reached 100% completion
- D. \$1,170,000, calculated as 100% of Project X (since it is substantially complete at 95%) plus 100% of Project Y

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

46. A contractor organized as a multi-member LLC has not filed any special tax election with the IRS. How is this entity taxed by default at the federal level?

- A. As a C-Corporation filing Form 1120 with entity-level taxation at the 21% corporate rate
- B. As a partnership filing Form 1065, with each member receiving a Schedule K-1 to report their share of income on their individual tax return
- C. As an S-Corporation filing Form 1120-S with pass-through taxation limited to 100 shareholders
- D. As a disregarded entity with each member filing a separate Schedule C on their individual Form 1040

47. A construction company's payroll records are audited by the IRS. The auditor discovers that the company failed to issue Form W-2 to three employees and failed to issue Form 1099-NEC to two independent contractors, all for the prior tax year. What penalties might the company face?

- A. No penalties because W-2 and 1099 forms are courtesy documents that are not legally required by the IRS
- B. A verbal warning for first-time offenders with a 90-day grace period to file the missing forms without penalty
- C. Penalties for failure to file and failure to furnish information returns, calculated on a per-form basis, with the penalty amount varying based on how late the forms are filed
- D. Penalties assessed per form for late or missing W-2s and 1099s, with amounts increasing based on the length of the delay — filed within 30 days incurs a lower penalty than forms filed after August 1 or not filed at all

48. A self-employed contractor earns \$250,000 in net self-employment income. The contractor knows that self-employment tax covers both the employer and employee shares of Social Security and Medicare. However, the contractor's CPA mentions that the Social Security portion has an annual wage base cap. How does this cap affect the self-employment tax calculation?

A. The 12.4% Social Security tax applies only up to the annual wage base (approximately \$168,600 for recent years), and the 2.9% Medicare tax applies to all self-employment income with no cap, plus an additional 0.9% Medicare surtax applies on income exceeding \$200,000 for single filers

B. Both Social Security and Medicare taxes apply to all \$250,000 without any cap because self-employed individuals do not benefit from the wage base limitation

C. The wage base cap eliminates all self-employment tax on income above \$168,600 — both Social Security and Medicare taxes stop at that threshold

D. The Social Security cap applies only to employees and not to self-employed individuals, who must pay the full 15.3% on all earnings

49. An Arkansas contractor purchases \$18,000 of concrete, \$5,000 of rebar, and \$2,000 of form lumber from a building supply company for a commercial foundation project. The contractor also purchases \$500 of cleaning supplies for the company office from the same store on a separate invoice. How should Arkansas sales tax be applied?

A. Sales tax applies only to the \$500 office cleaning supplies because construction materials incorporated into real property improvements are exempt from sales tax

B. Sales tax applies to the \$18,000 concrete and the \$500 office supplies but not to the rebar and form lumber, which are classified as temporary materials

C. Sales tax applies to all purchases — the \$25,000 in construction materials (because the contractor is the consumer of installed materials) and the \$500 in office supplies (because they are business consumables) — totaling \$25,500 in taxable purchases

D. No sales tax applies because the contractor can use a blanket resale certificate for all purchases made at building supply companies

50. A contractor fails to make their third-quarter estimated income tax payment of \$12,000 by the September 15 deadline. The payment is made on November 20 — 66 days late. What consequence does the contractor face for this late payment?

A. No penalty because the IRS allows a 90-day grace period for estimated tax payments before assessing any underpayment charges

B. An underpayment penalty calculated as interest on the \$12,000 shortfall for the 66-day period between the September 15 due date and the November 20 payment date, using the IRS-prescribed interest rate

C. A flat 10% late payment penalty of \$1,200 assessed on the full estimated payment amount regardless of how late the payment is made

D. The contractor's estimated tax payment privilege is revoked for the following tax year, requiring the full annual liability to be paid with the annual return

## Practice Exam 6: Answer Key and Explanations

**1. A** — When a sole shareholder commingles personal and business funds, fails to hold corporate meetings, neglects corporate minutes, and does not file required annual reports, courts can "pierce the corporate veil" and hold the shareholder personally liable. The corporate veil protects shareholders only when the corporation is maintained as a genuinely separate entity. Treating the corporation as a personal alter ego destroys the legal separation that limited liability depends on.

**2. C** — NASCLA accreditation allows the contractor to use their NASCLA exam result to satisfy the trade examination requirement in Arkansas, but it does not waive any other requirement. The contractor must still pass the Arkansas-specific Business and Law Examination, meet financial qualifications, obtain bonding, provide references, and submit a complete application to the ACLB.

**3. D** — A detached commercial workshop used for a welding business is a commercial structure, not a residential accessory building. Because its value (\$70,000) exceeds the \$50,000 commercial licensing threshold, construction requires a commercial contractor's license. The residential builder license authorizes only residential construction and does not extend to commercial structures regardless of their proximity to a residential property.

**4. B** — The ACLB regulates commercial and residential construction but does not have jurisdiction over trade-specific plumbing work. Plumbing is regulated by the Arkansas Department of Health through a separate licensing board. A commercial contractor's license does not authorize the holder to perform plumbing, electrical, or HVAC work — those trades require separate licenses from their respective boards.

**5. A** — The ACLB requires four years of experience in the "building industry" for a residential remodeler license. Commercial renovation project management qualifies as building industry experience because it involves managing construction work on buildings. The requirement does not specify that the experience must be exclusively residential — commercial construction experience in the building industry satisfies the standard.

**6. C** — The subcontractor list was a mandatory component of the bid submission as specified in the bid documents. Omitting a required element makes the bid non-responsive, and on public projects, non-responsive bids must be rejected regardless of the bidder's willingness to cure the deficiency after the opening. Allowing post-opening corrections would undermine the integrity and fairness of the sealed bid process.

**7. B** — Apply the 4% waste factor to the base quantity:  $85 \times 1.04 = 88.4$  cubic yards. Multiply by the unit price:  $88.4 \times \$155 = \$13,702.00$ . The waste factor is applied to the quantity, not to the unit price, because waste represents additional material needed beyond the net design quantity to account for spillage, over-excavation, and field losses during placement.

**8. D** — When a contractor refuses to execute a contract after being awarded the project, the owner can make a claim against the bid bond for the difference between the defaulting contractor's bid and the next lowest bid. The difference is  $\$1,920,000 - \$1,800,000 = \$120,000$ . However, the bid bond's penal sum is  $\$90,000$  (5% of  $\$1,800,000$ ), which caps the surety's liability at  $\$90,000$ . The owner receives  $\$90,000$  from the bond.

**9. A** — An unbalanced bid creates risk when actual quantities differ from estimated quantities. If rock excavation significantly exceeds the estimated 500 cubic yards, the contractor loses  $\$30$  per cubic yard ( $\$45$  cost minus  $\$15$  bid price) on every additional yard. On a unit price contract, quantity overruns on underpriced items can quickly consume profit margins from other items and turn a profitable project into a significant loss.

**10. C** — When a conflict exists between two sets of contract drawings, the contractor should not unilaterally decide which document to follow. The correct action is to stop work in the affected area and submit an RFI to the architect, who is responsible for coordinating the design and resolving conflicts between disciplines. Proceeding without clarification risks installing work that must be demolished and reconstructed.

**11. B** — Persistent non-payment by the owner — three consecutive unpaid progress payment applications totaling  $\$340,000$  — typically constitutes a material breach that justifies the contractor's suspension of work. The owner's subsequent termination for "abandonment" may be deemed wrongful because the contractor's work stoppage was a legitimate response to the owner's prior breach. A wrongful termination for cause is typically converted to a termination for convenience.

**12. D** — An indemnification clause requires the contractor to protect the owner financially and legally when claims arise from the contractor's negligence. "Indemnify" means to compensate for losses. "Defend" means to pay for legal defense. "Hold harmless" means to shield from liability. This clause applies only when claims are caused by the contractor's negligent acts or omissions — not when the owner's own negligence is the cause.

**13. A** — This scenario describes a Construction Management at Risk (CMAR) delivery method with a cost-plus-fixed-fee contract that converts to a Guaranteed Maximum Price once the design is sufficiently developed. CMAR allows construction to begin before design is complete, with the contractor providing preconstruction services and cost input during the design phase, and the GMP providing cost certainty once the scope is defined.

**14. C** — The subcontractor's CGL policy covers only  $\$1,000,000$  per occurrence, but the contract required  $\$2,000,000$ . The  $\$1,500,000$  claim exceeds the subcontractor's  $\$1,000,000$  limit by  $\$500,000$ . This gap may fall to the general contractor's CGL policy (since the GC is responsible for the subcontractor's work), the subcontractor's personal assets, or the GC may pursue a breach of contract claim against the subcontractor for failing to maintain the required coverage levels.

**15. B** — Final payment release typically requires the contractor to submit a comprehensive closeout package including consent of surety to final payment, lien waivers from all subcontractors and suppliers, as-built drawings, operation and maintenance manuals, warranties, spare parts and attic stock, training records, and a certificate of substantial or final completion from the architect. These documents confirm the contractor has fulfilled all contractual obligations.

**16. D** — Whether the contractor can recover overhead and profit on deductive change orders depends on the specific contract language. Many standard contracts (including AIA documents) allow the contractor to include overhead and profit in the calculation of deductive change orders, meaning the deduction from the contract price is the net cost savings, not the full value of the deleted work. The contractor retains the margin they would have earned on the deleted scope.

**17. A** — The general contractor has a direct obligation to resolve the payment dispute because a subcontractor's mechanics' lien will cloud the owner's property title. Most prime contracts include a provision requiring the contractor to keep the property free of liens arising from the contractor's operations. If the GC has been receiving owner payments and failing to pass them through to subcontractors, the GC is breaching both the subcontract and potentially the prime contract.

**18. B** — Under most standard construction contracts, the architect has the authority to interpret the contract documents and to reject work that does not conform to the specifications. The contractor should comply with the architect's directive to stop the non-conforming work, then formally dispute the interpretation in writing if they disagree. The architect's interpretation generally stands until overturned through the contractual dispute resolution process.

**19. D** — Critical path activities have zero float — any delay to a critical path activity directly extends the project completion date by the same number of days. With 8 of 12 critical path activities behind schedule by an average of 6 days, the project completion date is at serious risk. The project manager must develop and communicate a recovery plan immediately and inform the owner of the situation.

**20. A** — A three-week look-ahead schedule is a short-range planning tool that identifies and resolves near-term constraints before they block scheduled activities. By reviewing the upcoming three weeks in detail, the project team can ensure that materials are ordered and delivered, subcontractors are mobilized, permits are obtained, equipment is scheduled, and predecessor work is completed — preventing delays caused by unresolved logistics.

**21. C** — The superintendent should address both the immediate problem (arrange a replacement pump) and the broader implications (document the productivity loss, identify the equipment failure as the root cause, and evaluate the schedule impact). If the concrete work is on the critical path, the productivity decline may require schedule recovery measures beyond just fixing the equipment — such as adding crews or extending work hours.

**22. B** — The general contractor bears primary responsibility for trade coordination, including resolving conflicts between different subcontractors' work. Even when conflicts arise from shop drawings developed at different project stages, the GC's coordination role requires them to identify and resolve interferences before they become field problems. The GC may submit an RFI if the conflict requires a design decision from the architect.

**23. A** — The contract duration is stated in calendar days, which count every day including weekends and holidays. Starting from the February 1 NTP date and counting 240 calendar days forward: February has 27 remaining days + March 31 + April 30 + May 31 + June 30 + July 31 + August 31 + September's first 29 days = 240. The completion date is approximately September 29.

**24. A** — Preparing bid packages for the owner's next project is not part of the current project's closeout phase — it is a separate business development activity. Closeout activities include completing punch list items, submitting as-built drawings and O&M manuals, assembling warranties, processing the final payment application, and releasing retainage. All closeout activities relate to completing and documenting the current project.

**25. C** — The CGL policy responds first, paying up to its \$1,000,000 per-occurrence limit. The umbrella policy then responds to the excess, paying the remaining \$3,500,000 (\$4,500,000 – \$1,000,000). The umbrella sits above the underlying policy and does not replace it — the CGL must be exhausted before the umbrella begins paying. Combined coverage: \$1,000,000 + \$3,500,000 = \$4,500,000.

**26. D** — Capital is one of the "Three C's" of bonding (Character, Capacity, and Capital). Capital evaluation examines the contractor's financial strength — net worth, working capital, profitability, debt levels, and the adequacy of the balance sheet to support bonded work. Insufficient capital is the most common reason sureties decline bond applications because financial weakness increases the risk of contractor default.

**27. B** — Builder's risk insurance covers actual losses — the cost to repair or replace damaged work — up to the policy limit. The actual replacement cost of the damaged work is \$3,800,000, which is below the \$6,000,000 policy limit, so the policy pays the full \$3,800,000 actual loss. The policy does not pay the full face value unless the actual loss equals or exceeds the policy limit.

**28. A** — Two events are recordable. The prescribed ankle brace constitutes medical treatment beyond first aid (rigid means of immobilization prescribed by a physician), and the restricted duty back strain is recordable because restricted work activity is a recordable outcome. Butterfly bandages and eye flushing with saline are both classified as first aid and are not recordable by themselves.

**29. C** — OSHA does not require employers to submit 300 Logs and 301 Incident Reports to any OSHA office for annual review and approval. These records are maintained at the workplace and made available for inspection upon request by OSHA compliance officers. The only routine submission is the 300A Summary posting requirement (February 1 through April 30) and electronic submission of injury data for certain employers as required by OSHA's reporting rule.

**30. B** — OSHA's fatality reporting deadline of 8 hours runs from when the employer learns of the death, not from when the death occurs. The company owner learned of the fatality at 10:45 AM, so the reporting deadline is 6:45 PM on the same day. If the superintendent is considered the employer's representative, the clock may start at 10:15 AM. The key principle is that the clock begins when the employer (or their agent) has knowledge.

**31. D** — Construction is a safety-sensitive industry where impaired workers pose immediate physical danger to themselves and coworkers. Employers generally retain the right to enforce drug-free workplace policies regardless of state marijuana legalization. Federal law still classifies marijuana as a controlled substance, and many project owners require drug-free workplace programs. The employer's established, communicated zero-tolerance policy provides a legitimate, non-discriminatory basis for termination.

**32. A** — Under the FLSA, non-discretionary bonuses must be included in the regular rate calculation for overtime purposes. The regular rate incorporates all compensation for the workweek:  $(\$34.00 \times 46 \text{ hours} + \$200 \text{ bonus}) \div 46 \text{ hours} = \$38.35/\text{hour}$ . The overtime premium is half the regular rate ( $\$19.17$ ) for each of the 6 overtime hours =  $\$115.04$  additional overtime premium. The total pay is  $\$34.00 \times 46 + \$200 + \$115.04$ .

**33. C** — The ADA allows employers to inquire about a candidate's ability to perform the essential functions of the job, including physical requirements, with or without reasonable accommodation. The employer should not make assumptions about the candidate's capabilities based on the disability. Instead, the employer should engage in an interactive dialogue about the candidate's ability to climb ladders and scaffolds and whether any reasonable accommodation would enable the candidate to perform those functions.

**34. B** — The FLSA applies to virtually all employers engaged in interstate commerce, regardless of the number of employees. With only 8 employees, this employer is below the thresholds for Title VII (15+), ADEA (20+), and FMLA (50+), but the FLSA's minimum wage, overtime, and recordkeeping requirements still apply. The FLSA is the most broadly applicable federal employment law.

**35. D** — Physical therapy prescribed by a physician constitutes medical treatment beyond first aid under OSHA's recordkeeping definitions. First aid includes only basic treatments such as bandages, ice packs, non-prescription medications, and tetanus shots. Any treatment requiring a physician's prescription or ongoing professional medical intervention exceeds the first aid threshold and makes the case recordable.

**36. A** — Under the Faragher-Ellerth defense, an employer can limit or avoid liability for supervisor harassment if they can demonstrate: (1) they exercised reasonable care to prevent and promptly correct harassment (evidenced by the anti-harassment policy and complaint procedure), and (2) the employee unreasonably failed to take advantage of the preventive or corrective opportunities provided (by not using the complaint procedure). A well-communicated policy with an unused complaint procedure strengthens the employer's defense.

**37. C** — Davis-Bacon requires total compensation (wages + fringe) to meet or exceed the prevailing wage determination. Required total:  $\$38.00 + \$16.50 = \$54.50/\text{hour}$ . Contractor's total:  $\$42.00 \text{ wage} + \$7.50 \text{ health} + \$2.00 \text{ retirement} = \$51.50/\text{hour}$ . Shortfall:  $\$54.50 - \$51.50 = \$3.00/\text{hour}$ . The contractor is non-compliant by  $\$3.00$  per hour and must either increase wages or add qualifying fringe benefits to close the gap.

**38. D** — Allowing an uninsured sole proprietor on the jobsite creates significant risk for the general contractor. If the sole proprietor is injured, they may argue that the working relationship made them a de facto employee of the general contractor, potentially exposing the GC to workers' compensation liability. Additionally, the GC's own workers' compensation carrier may assess additional premium for uninsured subcontractors working on the GC's projects.

**39. B** — The FMLA provides up to 12 weeks of unpaid, job-protected leave to care for a parent with a serious health condition. The employer has 55 employees (exceeding the 50-employee threshold), and the foreman has worked for 7 years (exceeding the 12-month eligibility requirement). A terminal illness qualifies as a serious health condition. The 6-week request is within the 12-week maximum.

**40. A** — Workers' compensation premiums are based on the actual duties performed by each employee, classified by risk category. Roofing carries one of the highest classification rates due to the extreme fall and injury risks. Misclassifying roofers as clerical workers dramatically understates the risk exposure and the corresponding premium. The audit adjustment will require the contractor to pay the difference between the clerical rate and the much higher roofing rate for the misclassified payroll.

**41. C** — Gross profit =  $\$5,800,000 - \$4,756,000 = \$1,044,000$ . Gross profit margin =  $\$1,044,000 \div \$5,800,000 = 18.0\%$ . Net income =  $\$1,044,000 - \$638,000 = \$406,000$ . Net profit margin =  $\$406,000 \div \$5,800,000 = 7.0\%$ . Gross margin measures project-level profitability before overhead; net margin measures true bottom-line profitability after all operating expenses.

**42. B** — Net worth is  $\$890,000 - \$825,000 = \$65,000$ , which exceeds the \$50,000 minimum. Cash of \$30,000 exceeds the \$25,000 minimum. However, for an unrestricted commercial license, the financial statement must be an audited or reviewed statement — a compiled statement is insufficient. Meeting the dollar thresholds alone does not satisfy the requirement if the CPA verification standard is not met.

**43. D** — Period 1: % complete =  $\$576,000 \div \$1,440,000 = 40\%$ . Revenue recognized =  $40\% \times \$1,800,000 = \$720,000$ . Period 2: cumulative % complete =  $\$1,080,000 \div \$1,440,000 = 75\%$ . Cumulative revenue =  $75\% \times \$1,800,000 = \$1,350,000$ . Revenue for Period 2 only =  $\$1,350,000 - \$720,000 = \$630,000$ . The POC method recognizes revenue incrementally by subtracting previously recognized amounts.

**44. A** — Total inflows:  $\$475,000 + \$85,000 = \$560,000$ . Total outflows:  $\$310,000 + \$280,000 + \$75,000 + \$35,000 = \$700,000$ . Net cash flow:  $\$560,000 - \$700,000 = -\$140,000$ . Adding current cash:  $\$40,000 - \$140,000 = -\$100,000$ . The contractor faces a projected \$100,000 cash shortfall that must be financed through a line of credit, accelerated collections, or deferred expenditures.

**45. C** — The completed-contract method recognizes revenue only when a project reaches substantial completion — not based on percentage complete. Project Y is the only project at 100% completion, so only its \$450,000 contract value is recognized as revenue. Project X at 95% is close but not yet complete. Project Z at 40% is far from completion. Revenue recognition is binary under this method: complete or not.

**46. B** — A multi-member LLC that has not filed any special tax election defaults to partnership taxation under IRS rules. The LLC files Form 1065 (an informational return), pays no entity-level tax, and each member receives a Schedule K-1 reporting their share of income, deductions, and credits. Members then report this information on their individual tax returns. The LLC can elect different taxation by filing the appropriate forms.

**47. D** — The IRS assesses penalties for failure to file information returns (W-2s, 1099s) on a per-form basis, with the penalty amount increasing based on the length of the delay. Forms filed within 30 days of the deadline incur a lower penalty. Forms filed after 30 days but by August 1 incur a higher penalty. Forms filed after August 1 or not filed at all incur the maximum penalty. Each unfiled form is assessed separately.

**48. A** — The Social Security portion of self-employment tax (12.4%) applies only up to the annual wage base (approximately \$168,600 for recent years). The Medicare portion (2.9%) applies to all self-employment income with no cap. Additionally, an extra 0.9% Medicare surtax applies on self-employment income exceeding \$200,000 for single filers. On \$250,000, the contractor pays the full 12.4% only on the first \$168,600 but pays 2.9% Medicare on the full \$250,000 and 0.9% surtax on \$50,000.

**49. C** — In Arkansas, contractors pay sales tax on all materials they purchase for installation because they are treated as the consumer of those materials. The \$25,000 in construction materials (concrete, rebar, form lumber) is taxable at purchase. The \$500 in office cleaning supplies is also taxable as a business consumable. Total taxable purchases: \$25,500. The contractor does not charge the project owner a separate sales tax on installed materials.

**50. B** — The IRS assesses an underpayment penalty on late estimated tax payments that functions as interest on the shortfall from the due date until the payment is made. The penalty is calculated using the IRS's prevailing interest rate for the period, applied to the \$12,000 shortfall for the 66 days between September 15 and November 20. It is not a flat percentage penalty — it is interest-based and accumulates daily.