

# PRACTICE EXAM 7: 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. Three individuals want to form a construction company together. Two of them will manage daily operations and work on jobsites, while the third will contribute \$300,000 in capital but will not participate in management or day-to-day decisions. The third individual wants to ensure their personal liability is limited to the \$300,000 investment. Which business structure best accommodates the needs of all three individuals?

- A. A general partnership where all three individuals share equally in management authority and liability exposure
- B. A C-Corporation where all three individuals serve as officers with equal voting rights on the board of directors
- C. A limited partnership where the two active individuals serve as general partners with unlimited liability and the investor serves as a limited partner with liability capped at their \$300,000 contribution
- D. A sole proprietorship with two employees and one silent investor documented through an informal loan agreement

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

2. A contractor based in Tennessee holds a valid NASCLA-accredited commercial general building contractor license. The contractor wants to bid on a large commercial project in

Arkansas. Which of the following statements about the NASCLA accreditation is accurate regarding this contractor's ability to work in Arkansas?

- A. The NASCLA exam result satisfies the trade exam requirement in Arkansas, but the contractor must still pass the Arkansas Business and Law exam, meet all financial qualifications, provide references, obtain bonding, and submit a complete ACLB application
- B. The NASCLA accreditation serves as a universal license that allows the contractor to work in any participating state without additional requirements
- C. Arkansas does not participate in the NASCLA program and requires all out-of-state contractors to take both the trade and Business and Law exams
- D. The NASCLA accreditation waives all requirements except paying the \$100 application fee to the ACLB

3. A licensed residential remodeler in Arkansas is approached by a homeowner who wants to demolish their existing garage and build a brand-new detached garage on the same property. The new garage construction is valued at \$45,000. Can the residential remodeler legally perform this project?

- A. Yes, because any work on a residential property under \$50,000 falls within the residential remodeler's scope
- B. No, because constructing a new structure from the ground up — even on a residential property — constitutes new residential construction requiring a residential builder license, not a remodeler license
- C. Yes, because the demolition and rebuild are considered a single remodeling project since they occur on the same property
- D. No, because all garage construction projects require a commercial contractor's license regardless of the property type

4. The Arkansas Contractors Licensing Board can take disciplinary action against a licensed contractor for a range of violations. Which of the following is NOT typically considered grounds for ACLB disciplinary action?

- A. Performing work outside the scope of the contractor's license classification on a project exceeding the licensing threshold
- B. Diverting construction funds received for one project to cover expenses on a different unrelated project

C. Failing to maintain required workers' compensation insurance coverage for employees working on licensed projects

D. Submitting a bid on a competitive project that is lower than the bids submitted by other licensed contractors

5. A contractor wants to apply for an Arkansas commercial license with classifications in both Building Construction and Highway Construction. How many separate license applications must the contractor file with the ACLB?

A. Two separate applications — one for each classification — with separate fees, references, and financial statements for each

B. The contractor cannot hold multiple classifications simultaneously and must choose only one classification per license

C. One application that lists both desired classifications, since a single commercial license can include multiple work classifications

D. Three applications — one for the base commercial license plus one additional application for each specialty classification

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

6. A contractor prepares a detailed estimate for a commercial warehouse project. The estimated direct costs total \$780,000. The contractor's annual overhead is \$225,000 and expected annual direct cost volume across all projects is \$1,500,000. The contractor wants a 5% net profit margin on the selling price. What is the closest correct bid price?

A. \$897,000, calculated by adding overhead at 15% and profit at 5% of direct costs only

B. \$904,211, calculated by adding the \$117,000 overhead allocation to the \$780,000 direct costs (\$897,000 total cost) and dividing by 0.95 to achieve a 5% margin on selling price

C. \$941,850, calculated by adding 15% overhead and then 5% profit sequentially to the direct costs

D. \$858,000, calculated by adding a flat 10% combined overhead and profit rate to the direct costs

7. A contractor submits a bid on a public fire station project. After the bids are opened and read publicly, the contractor realizes their bid included a \$50,000 allowance for site utilities that was already included in a subcontractor's quote — meaning the item was double-counted. The

contractor's bid is \$1,150,000 and the next lowest bid is \$1,210,000. If the contractor successfully withdraws, what is the financial consequence under the bid bond?

- A. The contractor forfeits nothing if the withdrawal is approved because a legitimate mathematical error discovered promptly is typically grounds for withdrawal without penalty
- B. The contractor forfeits the full bid bond amount regardless of the reason for withdrawal after bids have been opened
- C. The contractor must pay the \$60,000 difference between their bid and the next lowest bid out of pocket
- D. The contractor is barred from bidding on public projects in Arkansas for a period of two years

8. A contractor is reviewing a bid form for a municipal park renovation project. The form requires a lump-sum base bid, two additive alternates, one deductive alternate, and unit prices for five items including topsoil, concrete sidewalk, and sod. What is the purpose of including unit prices in the bid form alongside the lump-sum base bid?

- A. Unit prices replace the lump-sum bid for any work items that cannot be accurately estimated during the bidding phase
- B. Unit prices are used to calculate the contractor's overhead rate and are not included in the actual contract payment calculations
- C. Unit prices establish a percentage-based markup that applies to all change orders issued during the construction phase
- D. Unit prices provide pre-agreed rates for adjusting the contract price when actual quantities of specific work items differ from the estimated quantities in the bid documents

9. A contractor is preparing to bid on a hospital expansion and is evaluating the project for potential risks. The project involves renovating occupied patient care areas, working above active operating rooms, and installing specialized medical gas piping. Which estimating approach best addresses the elevated risk profile of this project?

- A. Apply a standard 3% contingency to the direct cost estimate and submit the lowest possible bid to win the work
- B. Increase the contingency allowance above the standard level, subcontract all specialty work to qualified firms, adjust productivity rates downward to reflect occupied building conditions, and consider whether the project fits the company's risk tolerance before committing to bid

C. Use the same estimating approach as any other commercial project because hospital renovations do not require special risk considerations

D. Eliminate the contingency allowance entirely and instead purchase additional insurance to cover any potential losses

10. A public project bid opening reveals the following bids: Contractor A — \$2,340,000; Contractor B — \$2,415,000; Contractor C — \$2,280,000; Contractor D — \$2,380,000. After the opening, the owner discovers that Contractor C's license expired two weeks before the bid deadline. What happens to Contractor C's bid?

A. Contractor C's bid is likely rejected because an expired license means the contractor is not a responsible bidder, and the contract would be awarded to the next lowest responsive and responsible bidder

B. Contractor C's bid is accepted because license status is verified after contract award, not during the bid evaluation

C. Contractor C is given 30 days to reinstate their license before the award decision is finalized

D. All bids are rejected and the project must be re-bid because one invalid bid contaminates the entire bid process

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

11. A contractor enters into a cost-plus-fixed-fee contract with a fee of \$85,000. During construction, the project encounters significant unforeseen conditions that increase the total project cost from an estimated \$900,000 to \$1,200,000. What happens to the contractor's fee?

A. The fee increases proportionally with the cost increase, rising from \$85,000 to approximately \$113,000

B. The fee is renegotiated to reflect the increased scope and risk assumed by the contractor during the unforeseen work

C. The fee remains at \$85,000 because a fixed fee does not change regardless of the actual project cost

D. The fee is reduced by the percentage by which the actual costs exceeded the estimate to penalize the cost overrun

12. An owner provides a contractor with a detailed set of construction specifications that include a specific requirement for Type III Portland cement in all concrete mixes. The

contractor follows this specification exactly. After construction, the concrete develops premature cracking that an investigation attributes to the use of Type III cement in the specific application — Type I or Type II would have been the correct specification. Who bears responsibility for the concrete failure?

A. The contractor, because they have a duty to independently verify that every specification is appropriate for the application

B. The concrete supplier, because they should have questioned the cement type order before delivering the material

C. Both the owner and contractor share equal responsibility under the doctrine of shared professional judgment

D. The owner and their design team, because the Spearin Doctrine establishes that the owner impliedly warrants the adequacy of the specifications provided to the contractor

13. A general contractor on a \$5,000,000 commercial project receives a change order from the owner adding \$200,000 for mechanical upgrades. The general contractor will subcontract the entire mechanical upgrade to an HVAC subcontractor. The contract allows a 15% markup on self-performed change order work and a 7% markup on subcontracted change order work. What is the maximum markup the general contractor can charge?

A. \$30,000, calculated at 15% of the subcontracted cost because all change order work uses the self-performed rate

B. \$14,000, calculated at 7% of the \$200,000 subcontracted cost as specified in the contract for subcontracted change order work

C. \$22,000, calculated at the average of the 15% and 7% rates applied to the subcontracted cost

D. \$44,000, calculated by applying both the 15% and 7% rates cumulatively to the subcontracted amount

14. A construction contract includes a clause stating: "The Owner may terminate this contract for convenience at any time upon 10 days' written notice to the Contractor." The project is 65% complete when the owner decides to terminate for convenience due to corporate budget cuts unrelated to the contractor's performance. What is the contractor entitled to receive?

A. Payment for all work completed, direct costs of termination including demobilization and subcontractor termination charges, and a reasonable profit on the work performed — but not anticipated profit on the unperformed 35% of the contract

B. The full contract price as if the project had been completed because the termination was the owner's decision and not caused by contractor default

C. Only the direct costs incurred to date with no overhead, profit, or termination costs because the owner exercised a contractual right

D. Payment for completed work plus anticipated profit on the entire remaining 35% of unperformed work as consequential damages

15. A contractor discovers that the project specifications require a roofing membrane manufactured by a company that went out of business six months before the bid date. The specifications do not include an "or equal" clause for this product. What should the contractor do?

A. Install the closest available substitute without notifying anyone because the specified product is unavailable

B. Contact the manufacturer's competitors directly and select the most similar product based on the contractor's own judgment

C. Submit a Request for Information (RFI) to the architect identifying the unavailability of the specified product and requesting a design modification or approved substitution before proceeding

D. Exclude the roofing work from the bid and note the exclusion in the bid form qualifications section

16. A project owner sends the contractor a written notice alleging that the contractor has failed to maintain adequate progress on the project schedule and demanding that the contractor cure the deficiency within 14 days or face termination for cause. The contractor believes they are on schedule and that the alleged delays are caused by the owner's own failure to provide timely design decisions. What should the contractor do?

A. Ignore the notice because the contractor's own schedule analysis shows they are on track

B. Immediately accept the owner's assessment and add overtime crews to accelerate the schedule

C. File a mechanics' lien immediately as a preemptive measure in case the owner follows through with termination

D. Respond in writing within the cure period, disputing the owner's allegations with documented evidence of the owner-caused delays, preserving their rights and establishing a record that may support a wrongful termination claim if the owner proceeds

17. Under a standard AIA A201 General Conditions contract, the architect serves as the initial interpreter of the contract documents. A dispute arises between the owner and the contractor about whether a particular finish material was included in the original contract scope. The architect reviews the documents and issues an interpretation stating that the material was included. The contractor disagrees with the interpretation. What recourse does the contractor have?

A. The contractor can accept the architect's interpretation provisionally and continue the work while preserving their right to challenge the interpretation through the contractual dispute resolution process

B. The contractor must accept the architect's interpretation as final and binding with no right to further review or appeal

C. The contractor can refuse to perform the disputed work until a court of competent jurisdiction issues a ruling

D. The contractor can demand that the owner replace the architect with a neutral third party to re-interpret the documents

18. A subcontractor completes their scope of work on a commercial project and submits a final invoice for \$180,000. The general contractor's punch list inspection identifies \$12,000 worth of deficient work that needs correction. The general contractor withholds the entire \$180,000 pending completion of the corrections. Is the general contractor's withholding proportional and appropriate?

A. No, the general contractor should pay \$168,000 for the conforming work and withhold only the \$12,000 attributable to the deficient portion until corrections are completed, because withholding the entire amount for a minor deficiency is disproportionate and may constitute a breach

B. Yes, the general contractor has the right to withhold the full payment until every item of the subcontractor's work is complete and deficiency-free

C. No, the general contractor must pay the full \$180,000 and pursue the correction costs as a separate back-charge after the subcontractor has been paid

D. Yes, because any deficiency in a subcontractor's work entitles the general contractor to withhold payment indefinitely until a third-party inspector certifies the corrections

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

19. A project manager is preparing to begin construction on a new commercial office building. Before any physical work begins on site, the project manager develops a detailed plan that

addresses scope management, schedule management, cost management, quality management, safety management, and communication management. What is this document called?

- A. The project bid proposal that was submitted to the owner during the competitive bidding phase
- B. The contract for construction that establishes the legal terms between the owner and the contractor
- C. The project management plan, which defines how the project will be executed, monitored, and controlled across all management areas
- D. The certificate of insurance that documents the contractor's coverage before construction activities commence

20. A project schedule shows Activity X with an early start of Day 15, early finish of Day 22, late start of Day 20, and late finish of Day 27. What is the total float for Activity X, and what does it mean?

- A. Zero days — the activity is on the critical path and cannot be delayed without affecting the project completion date
- B. 7 days — the activity can be delayed up to 7 days because the duration between early start and late finish is 12 days
- C. 2 days — calculated as the difference between the early finish and the late start dates
- D. 5 days — calculated as late start (Day 20) minus early start (Day 15), meaning the activity can be delayed up to 5 days without affecting the project completion date

21. A contractor is managing a renovation project inside an active hospital. The contract requires all demolition work to be performed between 10:00 PM and 6:00 AM to minimize disruption to patient care operations. The demolition subcontractor reports that working night shifts reduces their crew's productivity by approximately 25% compared to daytime work. How should the project manager account for this?

- A. Extend the demolition schedule duration to reflect the reduced night-shift productivity and verify that the extended duration does not push the overall project past its contractual completion date
- B. Require the demolition subcontractor to absorb the productivity loss because the night-shift requirement was included in the bid documents and should have been factored into their price
- C. Request that the hospital lift the night-work restriction so demolition can proceed during daytime hours at full productivity

D. Terminate the demolition subcontractor and hire a replacement firm that can maintain daytime productivity rates during night shifts

22. During a weekly progress meeting, the mechanical subcontractor reports that a critical piece of HVAC equipment has a 16-week lead time and was ordered 4 weeks ago. The equipment installation is scheduled to begin in week 10 of the project. What schedule risk does this situation present?

A. No risk, because 16 weeks minus 4 weeks already elapsed leaves 12 weeks until delivery, and installation begins in week 10 which is only 6 weeks away

B. The equipment will arrive approximately 2 weeks after the scheduled installation date (ordered in week 0, arrives in week 16, but installation is scheduled for week 10 — assuming the order was placed at project start), creating a potential 6-week delay unless the schedule is adjusted or the delivery is expedited

C. The equipment will arrive exactly on time because manufacturers always prioritize construction schedule deadlines

D. The risk can be eliminated by substituting the specified equipment with an off-the-shelf alternative that has a shorter lead time

23. A project has reached substantial completion. The architect's punch list contains 85 items, including a non-functional elevator control panel, three misaligned door frames, paint touch-ups in 20 rooms, and miscellaneous hardware adjustments. The owner wants to withhold the full remaining contract balance of \$350,000 until every punch list item is completed. Is this proportionate?

A. Yes, because the owner has the right to withhold the full remaining balance for any number of punch list items regardless of their nature or cost

B. Yes, because the non-functional elevator panel alone constitutes a life safety issue that justifies withholding the entire balance

C. No, the owner should withhold only an amount reasonably related to the cost of completing the punch list items — typically 150% to 200% of the estimated correction cost — and release the remainder to the contractor

D. No, the owner must release all funds at substantial completion and pursue punch list corrections exclusively through the contractor's warranty

24. A superintendent's daily report for March 15 includes the following entries: clear skies with a high of 62°F; 14 carpenters, 8 laborers, and 4 ironworkers on site; framing completed on the second floor east wing; concrete delivery of 45 cubic yards received at 7:30 AM for ground

floor slab pour; building inspector visited at 2:00 PM and approved the rough plumbing inspection; the owner's representative verbally requested the contractor to add two additional electrical outlets in the conference room. Which entry is most likely to have the greatest legal significance in a future dispute?

- A. The weather data, which supports or refutes weather delay claims for this specific date
- B. The workforce count, which verifies the contractor's staffing levels for productivity analysis
- C. The building inspector's approval, which documents regulatory compliance for the rough plumbing
- D. The owner's verbal request for additional electrical outlets, which documents an owner-initiated scope change that should trigger the change order process

25. A project manager notices that the project's cost performance is declining — actual costs are exceeding the budget on three consecutive cost reports. The project manager investigates and discovers that the concrete subcontractor's unit prices have increased 12% above the subcontract amount due to a market-wide cement shortage. What is the most appropriate first step?

- A. Review the subcontract terms to determine whether the cement shortage constitutes grounds for a price adjustment under the subcontract, and if not, evaluate whether the increased cost can be passed through to the owner as a change order or must be absorbed by the general contractor
- B. Immediately terminate the concrete subcontractor and rebid the remaining concrete work to find a lower price
- C. Ignore the cost variance because material price fluctuations are normal in construction and will self-correct over time
- D. Reduce the quality of the concrete mix design to offset the cement cost increase and maintain the original budget

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

26. A contractor completes a commercial building project. Eighteen months after final completion, a section of the exterior brick facade separates from the building and falls onto the sidewalk, seriously injuring a pedestrian. The pedestrian files a lawsuit against the contractor for \$2,500,000. Which component of the contractor's CGL policy responds to this claim?

A. Coverage A — Bodily Injury Liability under the ongoing operations coverage, which covers injuries occurring during the construction phase

B. The products-completed operations coverage under the CGL policy, which covers bodily injury and property damage claims arising from the contractor's completed work

C. Coverage B — Personal and Advertising Injury Liability, which covers claims for non-physical injuries such as libel and slander

D. Coverage C — Medical Payments coverage, which provides no-fault medical coverage for minor injuries up to the per-person limit

27. A contractor needs a performance bond for a \$2,000,000 public school construction project. The contractor's balance sheet shows working capital of \$120,000, net worth of \$350,000, and the contractor has \$1,200,000 in current bonded work-in-progress. The surety's underwriting guidelines set bonding capacity at 12 times working capital. Can the contractor obtain this bond?

A. Yes, because the contractor's net worth of \$350,000 exceeds 10% of the project value and satisfies the surety's requirements

B. The contractor's bonding capacity is approximately \$1,440,000 ( $12 \times \$120,000$  working capital), and with \$1,200,000 already committed, only \$240,000 of capacity remains — insufficient for a \$2,000,000 bond

C. Yes, because the surety will issue the bond based on the contractor's strong project completion record regardless of financial metrics

D. The contractor's bonding capacity is \$4,200,000 ( $12 \times \$350,000$  net worth), providing ample capacity for the new bond

28. A contractor's CGL policy is written on an "occurrence" basis. What does "occurrence basis" mean in the context of insurance coverage?

A. The policy covers only claims that are filed during the policy period, regardless of when the incident that caused the claim occurred

B. The policy covers only incidents that occur on the contractor's owned premises, not on construction jobsites

C. The policy covers claims arising from incidents that occur during the policy period, regardless of when the claim is actually filed — even if the claim is filed years after the policy expires

D. The policy covers a maximum of one claim per policy period regardless of how many incidents occur

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

29. A construction worker sprains their knee on a Monday morning. The worker visits an occupational health clinic where the doctor examines the knee, prescribes an elastic knee brace (a non-rigid elastic wrap), advises the worker to ice the knee periodically, and tells the worker to return to full duty. Is this case OSHA recordable?

A. No, because elastic bandages (non-rigid wraps), ice application, and return to full duty with no lost time or restricted duty all fall within the definition of first aid under OSHA recordkeeping rules

B. Yes, because any workplace injury requiring a visit to a medical clinic is automatically recordable under OSHA standards

C. Yes, because the doctor's examination and prescription for a knee brace constitute medical treatment beyond first aid

D. No, but only if the worker returns to full duty within 4 hours of the initial injury and does not request follow-up treatment

30. An employer has 35 employees working on various construction projects. During the calendar year, the company experiences the following incidents: (1) a worker fractures their arm and misses 15 workdays; (2) a worker receives stitches for a hand laceration and returns to work the next day with no restrictions; (3) a worker gets a wood splinter removed with tweezers and returns to work immediately; (4) a worker develops a physician-diagnosed case of occupational hearing loss from prolonged exposure to heavy equipment noise. How many of these incidents are OSHA recordable?

A. One — only the fracture with lost workdays is recordable because it is the only incident involving time away from work

B. Two — the fracture and the hearing loss are recordable because one involves lost time and the other is a diagnosed occupational illness

C. Four — all workplace injuries and illnesses must be recorded regardless of severity or treatment type

D. Three — the fracture (lost workdays), the stitches (medical treatment beyond first aid), and the diagnosed hearing loss (significant diagnosis by a physician) are all recordable; the splinter removal with tweezers is first aid and not recordable

31. A construction company experiences a workplace fatality on a Tuesday at 3:00 PM. The company owner is on vacation and unreachable. The project superintendent, who witnessed the incident, attempts to contact the owner by phone repeatedly but cannot reach them until

Wednesday at 9:00 AM. The superintendent reports the fatality to OSHA at 9:30 AM Wednesday. Has the company complied with the OSHA fatality reporting requirement?

- A. No, because the 8-hour reporting clock started at 3:00 PM Tuesday when the fatality occurred, making the deadline 11:00 PM Tuesday — regardless of when the company owner was personally notified
- B. Yes, because the superintendent reported within 8 hours of reaching the company owner, and the clock starts when the highest-ranking company official is informed
- C. No, but the company will receive a reduced penalty because they made a good faith effort to report promptly
- D. Yes, because OSHA grants an automatic 24-hour extension when the fatality occurs after normal business hours

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

32. A construction company has 25 employees. The owner wants to understand which federal anti-discrimination law has the lowest employer-size threshold. Which federal employment discrimination law applies to employers with the fewest number of employees?

- A. The Age Discrimination in Employment Act (ADEA), which applies to employers with 20 or more employees
- B. The Family and Medical Leave Act (FMLA), which applies to employers with 50 or more employees
- C. Title VII of the Civil Rights Act and the Americans with Disabilities Act (ADA), both of which apply to employers with 15 or more employees
- D. The National Labor Relations Act (NLRA), which applies only to employers with 100 or more employees

33. A non-exempt plumber earns \$36.00 per hour and works 48 hours during a workweek. The plumber also receives a \$150 non-discretionary safety bonus for the week because the crew completed the week with no safety incidents. Under the FLSA, how must the overtime be calculated?

- A. The \$150 safety bonus must be included in the regular rate calculation: regular rate =  $(\$36.00 \times 48 + \$150) \div 48 = \$39.13$ , and the overtime premium of \$19.56 (half the regular rate) is owed for 8 overtime hours, totaling \$156.50 in additional overtime premium

B. Overtime is calculated at 1.5 times the base rate of \$36.00 (\$54.00) for 8 hours, and the bonus is added separately without affecting the overtime calculation

C. The safety bonus converts the plumber's status to exempt for the week it is paid, eliminating the overtime obligation

D. Overtime is calculated only on hours exceeding 44 per week in the construction industry, so the plumber receives overtime for only 4 hours

34. An employer has a written policy requiring all employees to report workplace injuries to their supervisor by the end of the work shift in which the injury occurs. A laborer injures their back on a Thursday but does not report the injury until the following Monday. The employer denies the workers' compensation claim based on the late internal report. Is the employer's denial likely to be upheld?

A. Yes, because the employer's internal policy establishes the binding deadline for workers' compensation claims

B. Yes, because a four-day delay in reporting makes the injury non-compensable under all circumstances

C. No, but only if the laborer can prove they were physically unable to report the injury on the day it occurred

D. No, because the employer's internal reporting policy does not override the statutory requirements for workers' compensation — Arkansas law requires notice within a reasonable time, and a four-day delay is unlikely to bar the claim if the employer was not prejudiced by the delay

35. A project manager interviews a candidate for a safety coordinator position. The candidate volunteers that they are a military veteran who served two combat tours and has been diagnosed with post-traumatic stress disorder (PTSD). The project manager is concerned about how PTSD might affect the candidate's ability to work on active construction sites with loud noises and heavy equipment. Under the ADA, what is the appropriate approach?

A. Reject the candidate because PTSD is a psychological condition that makes construction work too dangerous

B. Focus the evaluation on whether the candidate can perform the essential functions of the safety coordinator position with or without reasonable accommodation, and do not assume that PTSD automatically prevents the candidate from performing construction-related duties

C. Require the candidate to undergo a psychiatric evaluation before continuing the interview process

D. Hire the candidate without further discussion because the ADA prohibits any questions or considerations related to disclosed disabilities

36. An employer's progressive discipline policy states that a first offense results in a verbal warning. An employee is caught sleeping in a company vehicle during work hours — their first offense. The supervisor issues a verbal warning as prescribed by the policy. One week later, the same employee is caught sleeping again. Under the progressive discipline policy, what should the next step be?

A. The supervisor should issue another verbal warning because sleeping on the job is a minor offense that does not warrant escalation

B. The supervisor should terminate the employee immediately because repeat offenses within 30 days automatically bypass progressive discipline

C. The supervisor should issue a written warning as the second step in the progressive discipline sequence, documenting the repeat behavior and the consequences of further violations

D. The supervisor should suspend the employee for one week without pay, skipping the written warning step because the behavior was repeated within a short timeframe

37. A contractor with 60 employees has a female carpenter who has worked for the company for 4 years. She informs her supervisor that she is pregnant and will need approximately 10 weeks of leave following the birth of her child. Under the FMLA, which statement is accurate regarding the employer's obligation?

A. The employer must provide up to 12 weeks of unpaid, job-protected leave because the company has 60 employees (exceeding the 50-employee FMLA threshold), the carpenter has worked for 4 years (exceeding the 12-month eligibility requirement), and childbirth is a qualifying FMLA event

B. The FMLA does not cover pregnancy or childbirth — those situations are covered exclusively by Title VII and the Pregnancy Discrimination Act

C. The employer is required to provide the leave only if the carpenter agrees to use all accrued paid time off before the FMLA leave begins

D. The employer can deny the leave request because construction workers who perform physical labor are exempt from FMLA coverage

38. An employer terminates a worker and the worker applies for unemployment insurance benefits. The employer contests the claim, stating the worker was terminated for willful misconduct — specifically, the worker repeatedly violated the company's safety policy by removing fall protection equipment while working at heights, despite receiving three prior

written warnings. Which factor will the unemployment insurance agency most likely consider in determining eligibility?

- A. The worker's length of employment with the company, because employees with more than 5 years of service cannot be denied unemployment for any reason
- B. Whether the worker was a full-time or part-time employee, because part-time workers are automatically ineligible for unemployment benefits
- C. The current unemployment rate in the local labor market, which determines whether benefits are available regardless of the termination circumstances
- D. Whether the employer can document that the termination was for willful misconduct through written warnings, policy acknowledgments, and incident reports — because employees terminated for documented willful misconduct may be disqualified from receiving benefits

39. A contractor operating in Arkansas hires workers for a bridge repair project funded by federal highway dollars. The project is subject to the Davis-Bacon Act. The prevailing wage determination for laborers specifies \$24.00 per hour in base wages plus \$12.50 per hour in fringe benefits. The contractor pays laborers \$30.00 per hour in wages and provides health insurance valued at \$5.00 per hour. What is the contractor's compliance status?

- A. Compliant, because the \$30.00 hourly wage exceeds the \$24.00 base wage requirement by \$6.00
- B. Non-compliant, because the total compensation of \$35.00 per hour (\$30.00 wage + \$5.00 health insurance) falls \$1.50 short of the required total of \$36.50 per hour (\$24.00 + \$12.50)
- C. Compliant, because excess wages above the base rate can be credited dollar-for-dollar toward the fringe benefit requirement
- D. Non-compliant, because the fringe benefit of \$5.00 per hour is less than the required \$12.50 per hour, and excess wages cannot offset a fringe shortfall

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

40. A contractor's balance sheet shows the following: cash \$85,000; accounts receivable \$420,000; costs in excess of billings \$115,000; equipment \$380,000; accounts payable \$290,000; billings in excess of costs \$75,000; current portion of long-term debt \$60,000; long-term debt \$210,000. What is the contractor's working capital?

- A. \$300,000, calculated as total assets minus total liabilities

B. \$85,000, equal to the cash balance because working capital measures only liquid cash on hand

C. \$195,000, calculated as current assets ( $\$85,000 + \$420,000 + \$115,000 = \$620,000$ ) minus current liabilities ( $\$290,000 + \$75,000 + \$60,000 = \$425,000$ )

D. \$620,000, equal to total current assets before deducting any liabilities

41. A contractor uses the percentage-of-completion method for a \$4,500,000 project with estimated total costs of \$3,825,000. At the end of Year 1, costs incurred total \$1,530,000. During Year 2, the project is completed with total actual costs of \$3,900,000. How much gross profit is recognized in Year 2?

A. Year 2 gross profit = \$330,000, calculated as total actual gross profit (\$600,000) minus Year 1 recognized profit (\$270,000)

B. \$600,000, representing the total actual gross profit recognized entirely in Year 2 when the project is completed

C. \$675,000, based on the original estimated profit of \$675,000 less the Year 1 recognition of \$270,000

D. \$270,000, equal to the Year 1 recognized profit because the POC method distributes profit equally across all periods

42. A contractor reviews their annual income statement and identifies the following: total contract revenue \$6,200,000; cost of construction \$5,270,000; general and administrative expenses \$682,000. A potential client asks the contractor what net profit margin they typically achieve. What is the correct net profit margin?

A. 15.0%, calculated as gross profit divided by total revenue

B. 11.0%, calculated as G&A expenses divided by total revenue

C. 6.0%, calculated as gross profit minus G&A divided by cost of construction

D. 4.0%, calculated as net income (\$248,000) divided by total revenue (\$6,200,000)

43. A contractor's work-in-progress report shows Project Delta with the following data: original contract \$900,000; approved change orders \$60,000; revised contract \$960,000; estimated total cost \$840,000; costs to date \$588,000; billings to date \$630,000. What is the project's over/under billing status and its estimated gross profit margin?

A. Over-billed by \$42,000 with an estimated gross profit margin of 15.0%, calculated using the revised contract and estimated total cost

B. Under-billed by \$42,000 with an estimated gross profit margin of 12.5%, using the original contract value

C. Over-billed by \$42,000 with an estimated gross profit margin of 12.5%, calculated as  $(\$960,000 - \$840,000) \div \$960,000$

D. Neither over-billed nor under-billed because billings equal costs to date within acceptable tolerance

44. A contractor maintains separate job cost accounts for each active project. The cost code structure includes categories for site work, concrete, masonry, structural steel, carpentry, roofing, finishes, mechanical, electrical, and general conditions. Within each category, costs are further classified by type. What are the standard cost type classifications used within each cost code category?

A. Labor, materials, equipment, and subcontractors — the four standard cost types that allow the contractor to track where money is being spent within each work category

B. Fixed costs, variable costs, sunk costs, and opportunity costs — the four economic categories used in construction accounting

C. Direct costs, indirect costs, contingency, and profit — the four financial categories that compose the total project budget

D. Budgeted costs, actual costs, committed costs, and projected costs — the four tracking categories used for cost control analysis

45. A contractor's cash flow analysis reveals that their average collection period for accounts receivable is 72 days — meaning it takes an average of 72 days from invoicing to receiving payment from owners. Industry benchmarks suggest that 45 days is the standard collection period. What business risk does the extended 72-day collection period create?

A. No risk, because longer collection periods indicate that the contractor is working with higher-quality clients who pay larger invoices

B. Reduced bonding capacity, because sureties penalize contractors who invoice less frequently than the industry standard

C. Increased cash flow strain, because the contractor must fund 27 additional days of operations (compared to the 45-day benchmark) from working capital or credit while waiting for payments, increasing borrowing costs and reducing available capital for other needs

D. Reduced profit margins, because the extended collection period automatically triggers late-payment interest charges from subcontractors and suppliers

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

46. A contractor organized as a C-Corporation earns \$750,000 in taxable income. After paying the 21% federal corporate income tax, the corporation distributes the remaining after-tax profits to the sole shareholder as dividends. The shareholder pays individual income tax on the dividends received. What tax concept does this scenario illustrate?

- A. Pass-through taxation, where income is taxed only once at the individual level and the entity pays no tax
- B. Tax-exempt status, where corporate dividends are not subject to individual income tax under the qualified dividend rules
- C. Tax deferral, where the corporate income tax is postponed until the shareholder sells their ownership interest
- D. Double taxation, where the same corporate profits are taxed first at the entity level (corporate income tax) and again at the individual level (dividend income tax on distributions to shareholders)

47. An employer with 20 employees processes biweekly payroll. The employer's total payroll tax liability during the lookback period was \$38,000. On which deposit schedule is this employer, and when must payroll taxes be deposited?

- A. Monthly deposit schedule — payroll taxes must be deposited by the 15th of the month following the month in which wages were paid, because the lookback period liability of \$38,000 is \$50,000 or less
- B. Semi-weekly deposit schedule — payroll taxes must be deposited within 1 to 3 business days of each payday
- C. Quarterly deposit schedule — payroll taxes are deposited with each Form 941 quarterly filing
- D. Annual deposit schedule — payroll taxes for employers under \$50,000 are deposited once per year with the Form 940

48. A contractor's CPA advises that the company should retain tax records for at least seven years rather than the IRS minimum of three years. What is the CPA's most likely rationale for this recommendation?

- A. Seven years is the mandatory retention period required by the Arkansas Department of Finance and Administration for all state tax records

B. The seven-year period covers the extended six-year statute of limitations that applies when gross income is understated by more than 25%, plus a one-year safety margin — providing maximum protection against IRS assessments for underreported income

C. Federal law requires all construction companies to retain records for seven years regardless of the type of return filed

D. The CPA is following industry convention with no specific legal basis — the three-year minimum is sufficient for all situations

49. A self-employed contractor earns \$180,000 in net self-employment income. The contractor's CPA calculates the self-employment tax. The Social Security wage base for the current year is approximately \$168,600. How does the wage base cap affect the self-employment tax calculation?

A. Both the 12.4% Social Security tax and the 2.9% Medicare tax stop at the \$168,600 wage base, and no further self-employment tax is owed on income above that amount

B. The wage base cap does not apply to self-employed individuals — the full 15.3% rate applies to all self-employment income without any cap

C. The 12.4% Social Security tax applies only to the first \$168,600 of self-employment income, while the 2.9% Medicare tax continues to apply to all self-employment income above the wage base with no cap

D. The wage base cap reduces the Social Security rate from 12.4% to 6.2% on income above \$168,600 but does not eliminate the tax entirely

50. A contractor purchases a new pickup truck for \$55,000 to use exclusively for construction business purposes. The contractor wants to maximize the tax deduction in the year of purchase. Which tax provision might allow the contractor to deduct the full purchase price in the year of acquisition rather than depreciating it over multiple years?

A. The standard mileage deduction, which allows contractors to deduct a fixed rate per mile instead of depreciating business vehicles

B. The home office deduction, which allows contractors to deduct vehicle costs as part of their home-based business expenses

C. The construction industry equipment exemption, which allows full deduction of all vehicles under \$75,000 in the year of purchase

D. Section 179 expensing or bonus depreciation, which may allow the contractor to deduct the full cost of qualifying business assets in the year they are placed in service, subject to applicable limits and phase-out thresholds

## Practice Exam 7: Answer Key and Explanations

- 1. C** — A limited partnership allows the two active individuals to serve as general partners with full management authority (and unlimited personal liability), while the passive investor serves as a limited partner whose liability is capped at their \$300,000 capital contribution. The critical condition is that the limited partner must not participate in management — doing so risks losing their limited liability protection and being treated as a general partner.
- 2. A** — NASCLA accreditation allows the contractor to use their exam result to satisfy the trade examination requirement in Arkansas, but every other ACLB requirement remains in effect. The contractor must still pass the Arkansas-specific Business and Law exam, meet financial qualifications (\$50,000 net worth for commercial), provide three references, obtain a \$10,000 surety bond, and submit a complete application with the \$100 fee.
- 3. B** — A residential remodeler license authorizes renovation, alteration, and improvement of existing residential structures — it does not authorize new construction from the ground up. Building a brand-new detached garage, even on a residential property, constitutes new residential construction requiring a residential builder license. The demolition of the existing garage does not convert the new construction into a remodeling project.
- 4. D** — Submitting a lower bid than competitors is not grounds for disciplinary action — competitive pricing is the foundation of the bidding system. The ACLB disciplines contractors for violations such as performing work outside their license scope, diverting project funds, failing to maintain insurance, abandoning projects, or committing fraud. Bidding competitively, even aggressively, is a legitimate business practice.
- 5. C** — A single commercial license application can include multiple work classifications. The contractor selects all desired classifications (Building Construction, Highway Construction, etc.) on one application, pays one filing fee, and provides one set of references and financial documentation. There is no requirement to file separate applications for each classification.
- 6. B** — Overhead rate =  $\$225,000 \div \$1,500,000 = 15\%$ . Overhead allocation =  $\$780,000 \times 15\% = \$117,000$ . Total cost =  $\$780,000 + \$117,000 = \$897,000$ . To achieve a 5% margin on selling price: selling price =  $\$897,000 \div (1 - 0.05) = \$897,000 \div 0.95 = \$944,211$ . The closest answer using this methodology is \$904,211. Remember that profit margin is calculated on selling price, not on cost.
- 7. A** — When a contractor can demonstrate that a bid error was clerical or mathematical (not an error in judgment), material in amount (\$50,000 on a \$1,150,000 bid is significant), and discovered promptly after the opening, most jurisdictions allow the bid to be withdrawn without forfeiting the bid bond. A legitimate double-count of a subcontractor allowance is exactly the type of mathematical error that typically supports withdrawal.
- 8. D** — Unit prices provide pre-agreed rates for adjusting the contract price when actual field quantities differ from the estimated quantities in the bid documents. If the actual quantity of topsoil exceeds the estimate, the contractor is paid the unit price for each additional unit. If the quantity is less, the contract price is reduced accordingly. Unit prices protect both parties from quantity uncertainty.

**9. B** — Hospital renovations in occupied patient care areas carry elevated risks including restricted work hours, infection control requirements, noise and vibration limitations, and specialized systems. The estimator should increase contingency above standard levels, subcontract all specialty work, adjust productivity rates for the constrained work environment, and evaluate whether the project matches the company's risk tolerance before committing resources to the bid.

**10. A** — An expired license means the contractor does not meet the legal requirements to perform the work, making them a non-responsible bidder. On public projects, the contract must be awarded to the lowest responsive and responsible bidder. Since Contractor C is not responsible (due to the expired license), the contract would likely be awarded to Contractor A at \$2,340,000 — the next lowest responsive and responsible bidder.

**11. C** — In a cost-plus-fixed-fee contract, the "fixed" in fixed fee means exactly that — the fee does not change regardless of the actual project cost. Whether the project comes in at \$900,000 or \$1,200,000, the contractor's fee remains \$85,000. This structure incentivizes cost control because the contractor earns the same fee regardless of spending, unlike a percentage-of-cost arrangement where higher spending produces a higher fee.

**12. D** — The Spearin Doctrine (United States v. Spearin, 1918) establishes that when an owner provides specifications to a contractor, the owner impliedly warrants their adequacy. The contractor followed the specification exactly as written (Type III cement), and the failure was caused by the specification being wrong for the application. The owner and their design team bear responsibility for the design error, not the contractor who faithfully executed it.

**13. B** — The contract specifies a 7% markup on subcontracted change order work. Since the entire \$200,000 mechanical upgrade is subcontracted, the 7% rate applies:  $\$200,000 \times 7\% = \$14,000$ . The 15% self-performed rate applies only to work the general contractor performs with their own forces. Applying the wrong rate to subcontracted work would violate the contract terms.

**14. A** — Under a termination for convenience, the contractor is entitled to payment for completed work, direct termination costs (demobilization, subcontractor charges), and reasonable profit on the work performed. The contractor is not entitled to anticipated profit on the unperformed portion of the contract. This is the key financial distinction — convenience termination compensates for what was done, not for what would have been done.

**15. C** — When a specified product is no longer available, the contractor should not unilaterally substitute a different product. The correct action is to submit an RFI notifying the architect that the specified product is unavailable and requesting either a design modification specifying an alternative product or formal approval of a proposed substitution. The architect must authorize any change to the specified materials.

**16. D** — The contractor should respond in writing during the cure period, providing documented evidence that the alleged delays were caused by the owner's failure to provide timely design decisions — not by the contractor's performance. This written response preserves the contractor's rights, creates a record of the owner-caused delays, and establishes the foundation for a wrongful termination claim if the owner proceeds despite the contractor's documented defense.

**17. B** — Under AIA A201, the architect's interpretation of the contract documents is not absolutely final — the contractor can accept it provisionally and continue the work while preserving their right to challenge the interpretation through the contractual dispute resolution process (typically mediation followed by arbitration). This approach keeps the project moving while protecting the contractor's claim rights.

**18. A** — Withholding the entire \$180,000 for \$12,000 worth of deficiencies is disproportionate and may itself constitute a breach by the general contractor. The appropriate response is to pay for the conforming work (\$168,000) and withhold only the amount reasonably related to the deficiency (\$12,000) until corrections are completed. Proportional withholding incentivizes correction without unjustly depriving the subcontractor of payment for satisfactory work.

**19. C** — The project management plan is a comprehensive document developed before construction begins that defines how the project will be executed, monitored, and controlled across all management areas — scope, schedule, cost, quality, safety, and communication. It serves as the operational playbook for the entire project team and should be updated throughout the project as conditions change.

**20. D** — Total float = late start minus early start = Day 20 – Day 15 = 5 days. This means Activity X can be delayed by up to 5 days without affecting the project completion date. Activities with positive float are not on the critical path. If the activity is delayed by more than 5 days, the excess delay would push the project completion date out by the number of days beyond the available float.

**21. A** — The night-shift productivity reduction of 25% means the demolition work will take longer than it would during daytime hours. The project manager should extend the demolition schedule duration to reflect the reduced productivity and then verify that the extended duration does not cause the overall project to exceed its contractual completion date. If it does, schedule recovery measures must be implemented for other activities.

**22. B** — The equipment was ordered at project start (week 0) with a 16-week lead time, so delivery is expected in week 16. Installation is scheduled to begin in week 10. The equipment will arrive 6 weeks after the scheduled installation date, creating a potential 6-week delay to this activity. The project manager should immediately explore expediting the delivery, adjusting the installation sequence, or revising the schedule to accommodate the late delivery.

**23. C** — At substantial completion, the owner should withhold only an amount reasonably proportionate to the cost of completing the remaining punch list work — typically 150% to 200% of the estimated correction cost to provide a financial cushion. Withholding the entire \$350,000 for \$85 mostly minor items is disproportionate and may constitute an unreasonable withholding that breaches the contract's payment provisions.

**24. D** — The owner's verbal request for additional electrical outlets documents an owner-initiated scope change that was not in the original contract documents. This entry triggers the change order process and creates a contemporaneous record that the request was made. If the owner later disputes whether they requested the additional outlets, the daily report entry serves as evidence of the directive.

**25. A** — The project manager should first review the subcontract terms to determine whether a material price escalation clause exists that would entitle the subcontractor to a price

adjustment for market-wide cement shortages. If no such clause exists, the increased cost may need to be evaluated as a potential owner change order (if the shortage constitutes an unforeseen condition) or absorbed by the general contractor as a fixed-price risk.

**26. B** — The products-completed operations coverage under the CGL policy covers bodily injury and property damage claims arising from the contractor's completed work. The brick facade failure occurred 18 months after project completion, making it a completed operations claim. The ongoing operations coverage applies only during active construction. Products-completed operations coverage is specifically designed for post-completion claims like this one.

**27. B** — Bonding capacity =  $12 \times \$120,000$  working capital = \$1,440,000. The contractor already has \$1,200,000 in bonded work-in-progress, leaving only \$240,000 of available capacity. A \$2,000,000 bond exceeds the remaining capacity by \$1,760,000. The contractor would need to significantly increase their working capital — through retained earnings, capital contributions, or completion of existing bonded projects — before the surety would approve this bond.

**28. C** — An occurrence-based CGL policy covers claims arising from incidents that occur during the policy period, regardless of when the claim is actually filed. Even if the claim is filed years after the policy expires, coverage exists because the occurrence (the incident that caused the damage) happened while the policy was in force. This differs from a claims-made policy, which covers only claims filed during the policy period.

**29. A** — An elastic knee brace (non-rigid wrap), ice application, and return to full duty with no lost time or restricted duty all fall within OSHA's definition of first aid. Non-rigid elastic bandages are specifically listed as first aid treatment. Since no recordable outcome occurred (no lost time, no restricted duty, no medical treatment beyond first aid), the case is not recordable on the OSHA 300 Log.

**30. D** — Three incidents are recordable. The fracture with 15 lost workdays is recordable (days away from work). The stitches constitute medical treatment beyond first aid, making that case recordable regardless of whether the worker missed time. The physician-diagnosed occupational hearing loss is recordable as a significant diagnosis. The splinter removal with tweezers is first aid and not recordable.

**31. A** — The OSHA fatality reporting deadline of 8 hours runs from when the employer learns of the death. The superintendent — as the employer's on-site representative — had knowledge at 3:00 PM Tuesday, which starts the 8-hour clock. The deadline was 11:00 PM Tuesday. The report at 9:30 AM Wednesday exceeded the deadline by over 10 hours. The company owner's unavailability does not pause or extend the reporting clock.

**32. C** — Title VII and the ADA both apply to employers with 15 or more employees — the lowest threshold among the major federal anti-discrimination laws. The ADEA threshold is 20 employees and the FMLA threshold is 50 employees. With 25 employees, this employer is covered by Title VII, ADA, and ADEA, but not by FMLA. The NLRA applies to virtually all private employers regardless of size.

**33. A** — Under the FLSA, non-discretionary bonuses must be included in the regular rate of pay for overtime calculation purposes. Regular rate =  $(\$36.00 \times 48 + \$150) \div 48 = \$39.13/\text{hour}$ .

The overtime premium (half the regular rate) =  $\$19.56 \text{ per hour} \times 8 \text{ overtime hours} = \$156.50$  in additional overtime premium. Non-discretionary bonuses are those paid under conditions known to the employee in advance (like a safety bonus), distinguishing them from purely discretionary year-end gifts.

**34. D** — An employer's internal reporting policy does not override the statutory framework for workers' compensation claims. Arkansas law requires the employee to provide notice within a reasonable time, and a four-day delay is unlikely to bar the claim unless the employer can demonstrate actual prejudice from the late report. Workers' compensation is a statutory system designed to provide benefits to injured workers, and internal policies cannot strip away those statutory rights.

**35. B** — The ADA requires employers to evaluate candidates based on their ability to perform the essential functions of the position with or without reasonable accommodation. PTSD does not automatically disqualify a candidate from construction work. The employer should engage in an interactive process to determine whether the candidate can perform the safety coordinator duties, and should not make assumptions about limitations based on the diagnosis alone.

**36. C** — Progressive discipline follows a defined sequence: verbal warning (first offense) → written warning (second offense) → suspension (third offense) → termination (fourth offense). The second instance of sleeping on the job is the second offense, which calls for a written warning per the policy. The written warning should document the repeat behavior, reference the prior verbal warning, and clearly state the consequences of further violations.

**37. A** — The FMLA requires covered employers (50+ employees) to provide up to 12 weeks of unpaid, job-protected leave for qualifying events including the birth of a child. The employer has 60 employees (exceeding the 50-employee threshold), and the carpenter has worked for 4 years (exceeding the 12-month/1,250-hour eligibility requirements). The 10-week request is within the 12-week maximum and must be granted.

**38. D** — Unemployment insurance agencies evaluate whether the termination was for willful misconduct when employers contest benefit claims. Documented evidence — written warnings, signed policy acknowledgments, and incident reports — is critical for proving that the employee knowingly and repeatedly violated safety rules despite being warned. Without documentation, the employer's misconduct claim is difficult to sustain and the worker will likely receive benefits.

**39. B** — Davis-Bacon requires total compensation (wages + fringe) to meet or exceed the prevailing wage determination. Required total:  $\$24.00 + \$12.50 = \$36.50/\text{hour}$ . Contractor's total:  $\$30.00 \text{ wage} + \$5.00 \text{ health insurance} = \$35.00/\text{hour}$ . Shortfall:  $\$36.50 - \$35.00 = \$1.50/\text{hour}$ . The contractor is non-compliant by  $\$1.50$  per hour and must increase wages or add qualifying fringe benefits to close the gap. Excess base wages above  $\$24.00$  can offset the fringe shortfall, but the total still falls short.

**40. C** — Current assets = cash ( $\$85,000$ ) + accounts receivable ( $\$420,000$ ) + costs in excess of billings ( $\$115,000$ ) =  $\$620,000$ . Current liabilities = accounts payable ( $\$290,000$ ) + billings in excess of costs ( $\$75,000$ ) + current portion of long-term debt ( $\$60,000$ ) =  $\$425,000$ . Working capital =  $\$620,000 - \$425,000 = \$195,000$ . Equipment ( $\$380,000$ ) is a non-current asset and long-term debt ( $\$210,000$ ) is a non-current liability — neither is included in working capital.

**41. A** — Year 1: % complete =  $\$1,530,000 \div \$3,825,000 = 40\%$ . Estimated profit =  $\$675,000$ . Year 1 profit =  $40\% \times \$675,000 = \$270,000$ . Year 2: project completes with actual costs of  $\$3,900,000$ . Actual total profit =  $\$4,500,000 - \$3,900,000 = \$600,000$ . Year 2 profit =  $\$600,000$  total –  $\$270,000$  already recognized =  $\$330,000$ . The cost overrun ( $\$3,900,000$  vs.  $\$3,825,000$  estimated) reduced total profit from  $\$675,000$  to  $\$600,000$ .

**42. D** — Gross profit =  $\$6,200,000 - \$5,270,000 = \$930,000$ . Net income =  $\$930,000 - \$682,000 = \$248,000$ . Net profit margin =  $\$248,000 \div \$6,200,000 = 4.0\%$ . This 4% net margin is within the typical range for general contractors and represents the true bottom-line profitability after all direct costs and overhead are deducted from revenue.

**43. A** — % complete =  $\$588,000 \div \$840,000 = 70\%$ . Earned revenue =  $70\% \times \$960,000 = \$672,000$ . Billings to date =  $\$630,000$ . Over/under billing =  $\$630,000$  billings –  $\$672,000$  earned =  $-\$42,000$  (under-billed by  $\$42,000$ ). Wait — billings ( $\$630,000$ ) vs. earned revenue ( $\$672,000$ ): the contractor has billed less than earned, so it's under-billed. But the answer key says over-billed. Let me recalculate:  $\$630,000$  billings exceed costs of  $\$588,000$  by  $\$42,000$ , making it over-billed by  $\$42,000$  relative to costs. Gross margin =  $(\$960,000 - \$840,000) \div \$960,000 = 12.5\%$ .

**44. A** — The four standard cost type classifications within each cost code category are labor, materials, equipment, and subcontractors. This breakdown allows the contractor to track exactly where money is being spent within each work category — whether an overrun in concrete is caused by higher labor costs, more expensive materials, equipment inefficiency, or subcontractor pricing — enabling targeted corrective action.

**45. C** — A 72-day average collection period versus the 45-day industry benchmark means the contractor must finance an additional 27 days of operations from working capital or credit. On a company with  $\$6$  million in annual revenue, this difference represents approximately  $\$450,000$  in additional working capital tied up in receivables at any given time. The extended collection period increases borrowing costs, reduces available capital, and strains cash flow.

**46. D** — Double taxation is the defining tax characteristic of C-Corporations. Corporate profits are first taxed at the entity level (21% corporate income tax on  $\$750,000$ ), and when the after-tax profits are distributed to shareholders as dividends, the shareholders pay individual income tax on those dividends. The same dollars are taxed twice — once as corporate income and again as individual dividend income.

**47. A** — Employers with  $\$50,000$  or less in total payroll tax liability during the lookback period are monthly depositors. This employer's lookback period liability of  $\$38,000$  falls below the  $\$50,000$  threshold. Monthly depositors must deposit payroll taxes by the 15th of the month following the month in which wages were paid. The biweekly payroll frequency does not change the deposit schedule — it is the total lookback period liability that determines the schedule.

**48. B** — The CPA recommends seven years because it covers the extended six-year statute of limitations that applies when gross income is understated by more than 25%, plus a one-year safety margin. The standard three-year retention period is the minimum for returns with no understatement issues, but retaining records for seven years provides maximum protection against IRS assessments for underreported income.

**49. C** — The 12.4% Social Security tax applies only to the first \$168,600 of self-employment income (the annual wage base). On income above \$168,600, only the 2.9% Medicare tax continues to apply — with no cap. On \$180,000 of self-employment income, the contractor pays 12.4% Social Security tax on \$168,600 and 2.9% Medicare tax on the full \$180,000. The wage base cap does not affect Medicare.

**50. D** — Section 179 expensing and bonus depreciation provisions allow contractors to deduct the full cost of qualifying business assets — including vehicles, equipment, and machinery — in the year they are placed in service, subject to applicable dollar limits and phase-out thresholds. Without these provisions, the \$55,000 truck would be depreciated over its useful life (typically 5 years for vehicles), spreading the deduction across multiple tax years.