

PRACTICE EXAM 8: ARKANSAS BUSINESS AND LAW SIMULATION (50 QUESTIONS)

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

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

DOMAIN: BUSINESS ORGANIZATION (1 Question)

1. A contractor operates as a sole proprietorship and has accumulated \$450,000 in personal assets including a home, two vehicles, and a savings account. The contractor's business is sued for \$600,000 after a retaining wall they built collapses and damages a neighboring property. Under the legal protections available to a sole proprietorship, what is the contractor's personal exposure?

A. Zero, because the lawsuit is against the business and cannot reach the contractor's personal assets under any circumstance

B. Limited to \$100,000 because Arkansas caps sole proprietor liability at the state small business protection threshold

C. Limited to the value of business assets only, excluding the contractor's personal home under the homestead exemption

D. The contractor's personal assets are fully exposed because a sole proprietorship provides no separation between business and personal liability, and the contractor is personally responsible for all business debts and judgments

DOMAIN: LICENSING (4 Questions)

2. A contractor currently holds a restricted commercial license in Arkansas and has been operating for three years with an excellent track record. The contractor wants to upgrade to an

unrestricted commercial license. What additional financial documentation requirement must the contractor satisfy for the unrestricted tier that was not required for the restricted tier?

A. A compiled financial statement with at least \$100,000 in net worth, which is double the restricted tier requirement

B. An audited or reviewed financial statement, rather than the compiled statement acceptable for the restricted tier, showing at least \$50,000 in net worth with \$25,000 in cash or cash equivalents

C. A certified letter from the contractor's bank confirming a line of credit equal to or exceeding the contractor's largest active project value

D. A personal financial guarantee signed by each officer or member of the contracting company pledging personal assets as security

3. A property developer hires a contractor to build a new medical office complex valued at \$2,500,000. The project includes structural construction, interior buildout, site work, and parking lot paving. During construction, the developer asks the contractor to also install the plumbing and electrical systems using the contractor's own employees rather than licensed subcontractors. What is the correct response?

A. The contractor can self-perform the plumbing and electrical work because their unrestricted commercial license covers all building trades

B. The contractor can self-perform the work if each employee performing plumbing or electrical tasks has at least 5 years of trade experience

C. The contractor must use licensed plumbing and electrical subcontractors because these trades are regulated by separate state boards and require separate trade licenses that the commercial contractor's license does not provide

D. The contractor can self-perform the work if the total value of the plumbing and electrical portions is less than \$50,000 each

4. The Arkansas Contractors Licensing Board receives a complaint that a licensed contractor completed a residential addition but never obtained the required building permits from the local jurisdiction. The homeowner discovered the issue when they tried to sell the property and the unpermitted addition was flagged during the buyer's inspection. Can the ACLB take action against the contractor?

A. Yes, because willful violation of building codes and local regulations is grounds for ACLB disciplinary action against a licensed contractor, even though the Board does not directly enforce building codes

B. No, because building permits are a local jurisdiction matter and the ACLB has no authority over local code enforcement issues

C. Yes, but only if the unpermitted addition caused physical harm or property damage to the homeowner or a third party

D. No, because the homeowner should have verified that permits were obtained during construction rather than relying on the contractor

5. A contractor's license renewal is due on October 1. On September 15, the contractor mails the renewal application and fee by regular mail. The ACLB does not receive the renewal until October 8 — seven days after the license expired. During those seven days, the contractor continued working on an active \$200,000 commercial project. What is the contractor's legal situation?

A. The contractor is protected by the "mailbox rule" because the renewal was mailed before the expiration date, making the renewal effective as of the mailing date

B. The contractor has a 30-day grace period after expiration during which they may continue operating while the renewal is being processed

C. The contractor faces no consequences because the delay was caused by the postal service, not by the contractor's negligence

D. The contractor was operating without a valid license for seven days, and any work performed during that period was unlicensed activity regardless of the reason for the delay — the responsibility for timely renewal rests with the contractor

DOMAIN: ESTIMATING AND BIDDING (4 Questions)

6. A contractor receives a subcontractor quote of \$185,000 for the mechanical work on a commercial project. The quote includes a condition that the price is valid for only 30 days from the date of the quote. The contractor includes this subcontractor's price in their bid, which is submitted on day 25. The owner awards the project to the contractor on day 45 — fifteen days after the subcontractor's quote expired. The subcontractor now wants to increase their price to \$210,000 due to a material cost increase. What is the contractor's situation?

A. The contractor is responsible for the difference because they relied on a quote that had an expiration date, and the subcontractor is not obligated to honor an expired price — the contractor should have obtained an extension or secured a backup quote before the expiration

B. The subcontractor is legally bound to honor the original \$185,000 quote because it was incorporated into the contractor's winning bid

C. The owner is responsible for the \$25,000 increase because the delay in awarding the project caused the subcontractor's quote to expire

D. The contractor can substitute a different mechanical subcontractor without notifying the owner since the original subcontractor's quote is no longer valid

7. A contractor's annual financial records show the following overhead expenses: office rent \$36,000; administrative salaries \$120,000; business insurance \$48,000; vehicle expenses \$24,000; office utilities \$9,600; marketing \$12,000; professional fees \$18,000; technology costs \$8,400. The company's expected annual direct cost volume is \$1,840,000. What is the overhead rate?

A. 10%, calculated by dividing only the largest overhead expense by the annual direct cost volume

B. 20%, calculated by dividing the overhead by a reduced volume estimate to provide a safety margin

C. 15%, calculated by dividing total annual overhead of \$276,000 by the expected annual direct cost volume of \$1,840,000

D. 12%, calculated by excluding administrative salaries from the overhead total because they are classified as direct costs

8. A contractor is reviewing the bid results for a public school construction project. Five bids were received. The lowest bid is 22% below the second-lowest bid and 30% below the engineer's estimate. What concern should the project owner have about this exceptionally low bid?

A. No concern, because the lowest responsive and responsible bid must be accepted on public projects regardless of the price differential

B. The dramatically low bid may indicate that the bidder made a significant estimating error, misunderstood the scope of work, or intentionally submitted a below-cost bid, and the owner should investigate the bidder's responsibility before awarding the contract

C. The owner should automatically reject the lowest bid because any bid more than 15% below the engineer's estimate is presumptively non-responsive

D. The owner should average all five bids and award the contract to the bidder closest to the average price

9. A contractor needs to calculate the total labor cost for a concrete crew to complete a foundation pour. The crew consists of 6 workers, each earning \$25.00 per hour base wage. The

employer burden (FICA, workers' comp, health insurance, benefits) adds 35% to the base wage. The pour is estimated to take 12 hours to complete. What is the total labor cost for the pour?

- A. \$1,800.00, calculated at the base wage without the employer burden for all workers over 12 hours
- B. \$2,025.00, calculated at the loaded rate for only 5 workers over 12 hours
- C. \$2,160.00, calculated at the base wage plus 20% burden rather than the 35% specified
- D. \$2,430.00, calculated as 6 workers \times \$33.75 loaded rate ($\25.00×1.35) \times 12 hours

DOMAIN: CONTRACT MANAGEMENT (8 Questions)

10. A contractor on a commercial renovation project encounters an unmarked underground storage tank during excavation that was not shown on any of the contract documents, the site survey, or the environmental assessment. The tank contains residual petroleum product that requires environmental remediation costing an estimated \$95,000. The contract includes a differing site conditions clause. Who bears the initial responsibility for the remediation cost?

- A. The contractor, because all subsurface risks are transferred to the contractor when they accept a fixed-price contract for renovation work
- B. The environmental assessment consultant, because their failure to detect the storage tank constitutes professional negligence
- C. The owner is initially responsible under the differing site conditions clause because the unmarked tank is a condition that differs materially from what was represented in the contract documents, and the contractor should submit a change order for the additional cost
- D. The local environmental agency, because contaminated sites are cleaned up using government environmental remediation funds

11. A contractor has a construction contract that includes the following payment terms: "Progress payments shall be made monthly based on the percentage of work completed. The Owner shall withhold 10% retainage from each progress payment until the project reaches 50% completion, at which point retainage shall be reduced to 5% for all subsequent progress payments." If the contractor bills \$400,000 in the first four months (before 50% completion) and \$600,000 in the remaining months (after 50% completion), how much total retainage does the owner hold at project completion?

- A. \$70,000, calculated as 10% of \$400,000 (\$40,000) plus 5% of \$600,000 (\$30,000)

- B. \$100,000, calculated as 10% of the full \$1,000,000 contract value
- C. \$50,000, calculated as 5% of the full \$1,000,000 because the reduced rate applies retroactively
- D. \$30,000, calculated as 5% of only the \$600,000 billed after the 50% completion milestone

12. A general contractor enters into a subcontract with a concrete subcontractor. The subcontract does not include any flow-down provisions from the prime contract. During construction, the owner's architect rejects the concrete subcontractor's work for failing to meet the specification requirements contained in the prime contract. The concrete subcontractor argues that they never received a copy of the prime contract specifications and therefore cannot be held to standards they did not agree to. What is the likely legal outcome?

- A. The subcontractor's argument will prevail because a party cannot be bound by contract terms they never received
- B. The general contractor bears responsibility for this gap — without flow-down provisions, the subcontractor may not be contractually bound by the prime contract specifications, and the GC may be liable for the cost of corrections
- C. The architect cannot reject the subcontractor's work because the architect has no contractual relationship with the subcontractor
- D. The owner must pay for the corrections because the failure to include flow-down provisions is a mutual mistake between all parties

13. A project owner and a contractor disagree about whether a particular scope of work — installing fire-rated door frames throughout a commercial building — was included in the original contract. The contractor claims it was excluded and demands a change order. The owner claims it was included based on the specifications. The contract states that disputes over contract interpretation shall first be submitted to the architect for an initial decision. What should happen next?

- A. The contractor should file a mechanics' lien immediately to protect their financial interest while the dispute is resolved
- B. The contractor should stop all work on the project until the dispute is fully resolved through arbitration or litigation
- C. The owner should withhold all payments to the contractor until the dispute is settled to preserve leverage
- D. The dispute should be submitted to the architect for an initial interpretation of whether the fire-rated door frames are within the original contract scope, as required by the contract's dispute resolution provision

14. A contractor is working on a hospital addition under a fixed-price contract. The contract includes a "no damages for delay" clause stating that the contractor's sole remedy for owner-caused delays is a time extension, not monetary compensation. The owner delays the project by 90 days by failing to relocate existing utilities as promised. The contractor incurs \$135,000 in extended overhead costs during the delay. Can the contractor recover the \$135,000?

A. The contractor's recovery depends on whether the owner's delay was a simple delay (time extension only under the no-damages clause) or constituted active interference, bad faith, or an independent breach of contract — which may override the no-damages clause

B. No, the no-damages-for-delay clause absolutely bars all monetary claims for owner-caused delays without any exceptions

C. Yes, because no-damages-for-delay clauses are always unenforceable and void as a matter of public policy in all jurisdictions

D. The contractor can recover only the direct costs of the delay (materials and labor) but not the extended overhead costs

15. A subcontractor on a commercial project completes their work in July but does not receive final payment from the general contractor. The subcontractor sends three written payment demands — in August, September, and October — all of which are ignored. The subcontractor's attorney advises filing a mechanics' lien. Before filing the lien, what notice requirement should the subcontractor verify?

A. The subcontractor must verify that they served a certified demand letter on the general contractor's surety at least 30 days before the lien filing

B. The subcontractor must verify that the project owner has been formally notified of the payment dispute by the general contractor

C. The subcontractor must verify whether Arkansas law requires any preliminary notice to the property owner before a subcontractor (who lacks direct privity with the owner) can file a valid mechanics' lien

D. The subcontractor must verify that the general contractor's license is still active before filing a lien against the owner's property

16. An owner discovers during construction that a load-bearing wall is being framed with 2×4 studs instead of the 2×6 studs specified in the structural drawings. The contractor argues that 2×4 studs are adequate for the loads involved and are less expensive. The architect sides with the specifications. Under the contract, who determines whether the substitution is acceptable?

- A. The contractor, because the contractor has the field experience to determine structural adequacy and the architect's role is limited to aesthetics
- B. The architect, because the architect's authority to interpret the contract documents and reject non-conforming work is established in the contract's general conditions
- C. The building inspector, because structural adequacy is determined exclusively by the local building code official during the framing inspection
- D. The owner, because the owner is the party paying for the construction and has final authority over all material selections

17. A contractor working on a time-and-materials emergency repair contract sends the following week's billing to the property owner: 120 hours of carpenter labor at \$72.00/hour loaded rate (\$8,640), materials at cost plus 15% markup (\$6,325), and equipment rental at actual cost (\$2,800). The owner disputes the billing, arguing that some of the carpenter hours were spent on non-emergency work unrelated to the storm damage repair. What documentation should the contractor have maintained to support their billing?

- A. Monthly summary invoices showing total hours and materials without daily breakdowns are sufficient for T&M contracts
- B. Quarterly progress reports comparing actual costs against the original emergency repair estimate
- C. A signed agreement from the owner approving each individual material purchase before it was made
- D. Daily time sheets signed by both the contractor's foreman and the owner's representative documenting the hours worked, the tasks performed, and the materials used each day — providing verifiable proof that all billed time was spent on authorized work

18. A construction contract states: "The Contractor warrants that all work will be free from defects in materials and workmanship for a period of one year from the date of substantial completion." The project reaches substantial completion on March 1, 2026. On February 15, 2027, the owner discovers a significant plumbing leak caused by a defective pipe fitting installed by the contractor's plumbing subcontractor. The owner immediately notifies the contractor. Is this warranty claim timely?

- A. Yes, because the defect was discovered on February 15, 2027 — fourteen days before the one-year warranty expiration date of March 1, 2027 — and the owner provided immediate notice upon discovery
- B. No, because the warranty period expired on February 28, 2027 (one calendar year minus one day from the substantial completion date)

C. Yes, but only if the plumbing subcontractor's own warranty is still active and the subcontractor agrees to perform the repair

D. No, because plumbing defects are excluded from the general contractor's warranty and are covered exclusively by the plumbing subcontractor's trade-specific warranty

19. In a standard construction contract, the contractor is required to submit a schedule of values before the first progress payment application. What is the purpose of a schedule of values?

A. To establish the contractor's profit margin on each line item so the owner can verify that the markup is reasonable

B. To list every subcontractor and supplier on the project along with their contract amounts and payment schedules

C. To break the total contract price into individual line items representing the major components of work, providing the basis for calculating the value of work completed in each monthly payment application

D. To document the estimated versus actual cost for each bid item so the owner can track cost performance throughout the project

20. A contractor on a fixed-price contract encounters a 3-week delay caused by unusually severe weather that exceeds historical norms for the project location and time of year. The contract includes a force majeure clause that lists "acts of God, including unusually severe weather" as an excusable delay event. The contractor requests both a time extension and additional compensation for the extended overhead incurred during the weather delay. Under a typical force majeure clause, what is the contractor likely entitled to?

A. Both a time extension and additional compensation for extended overhead costs because weather delays are always fully compensable

B. A time extension only, because force majeure clauses typically excuse the delay and extend the contract time but do not provide additional monetary compensation — the contractor's remedy is time, not money

C. Neither a time extension nor additional compensation because weather is a foreseeable risk that the contractor should have included in their bid price

D. Additional compensation only, without a time extension, because the contractor is expected to accelerate the schedule to recover weather delays

DOMAIN: PROJECT MANAGEMENT (6 Questions)

21. A project manager identifies that the concrete foundation pour is a critical path activity with a duration of 8 days. Due to unexpected soil conditions, the activity is now estimated to take 14 days — a 6-day increase. The project manager evaluates recovery options and determines that by adding a second concrete crew and working extended hours, the foundation pour can be completed in 10 days instead of 14. This schedule recovery technique is known as what?

- A. Fast-tracking, which overlaps the foundation pour with the next sequential activity to save time
- B. Resource leveling, which shifts non-critical activities to reduce the demand on the concrete crew
- C. Scope reduction, which eliminates non-essential foundation elements to shorten the pour duration
- D. Crashing, which adds additional resources to a critical path activity to compress its duration, typically at increased cost

22. A contractor's superintendent conducts a jobsite safety audit and discovers that a scaffolding subcontractor has erected a scaffold to a working height of 18 feet without installing guardrails on the working platform. Workers are actively using the scaffold. Under OSHA scaffolding standards, what violation has occurred?

- A. OSHA requires fall protection on scaffolds at heights of 10 feet or more, and the absence of guardrails at 18 feet is a violation that must be corrected immediately — workers must be removed from the scaffold until guardrails are installed
- B. No violation has occurred because OSHA's scaffold fall protection requirement applies only at heights of 20 feet or more
- C. The violation is minor because guardrails are recommended but not required on scaffolds under 25 feet in height
- D. The violation applies only to the scaffolding subcontractor and the general contractor has no authority or obligation to address it

23. A project schedule contains the following critical path: Mobilization (5 days) → Excavation (10 days) → Foundation (15 days) → Structural Steel (20 days) → Roofing (8 days) → MEP Rough-In (12 days) → Finishes (18 days) → Closeout (5 days). All relationships are finish-to-start. What is the total project duration?

- A. 73 days, calculated by summing all activities except Mobilization and Closeout
- B. 88 days, calculated by summing the five longest activities only
- C. 93 days, calculated by summing all eight critical path activities (5+10+15+20+8+12+18+5)
- D. 78 days, calculated by summing all activities and subtracting a 15-day overlap between structural steel and roofing

24. During a commercial building renovation, a worker discovers what appears to be asbestos-containing material (ACM) in the ceiling tiles being removed. Work in the affected area stops immediately. What is the contractor's required course of action under federal environmental and safety regulations?

- A. The contractor's workers can continue removing the ceiling tiles as long as they wear standard dust masks and the area is ventilated
- B. The contractor must have the suspect material tested by a certified laboratory to confirm the presence of asbestos, and if confirmed, a licensed asbestos abatement contractor must perform the removal following all applicable EPA and OSHA regulations
- C. The contractor can continue work if the suspect material is wetted down during removal to prevent fiber release into the air
- D. The general contractor must notify only the building owner and the local fire department before continuing with the renovation

25. A project manager reviews the weekly cost report for a 12-month commercial project at the 6-month mark. The original budget for the first 6 months was \$1,200,000. Actual costs for the first 6 months are \$1,380,000 — an overrun of \$180,000. The project manager determines that \$100,000 of the overrun is attributable to a one-time unforeseen foundation repair, and the remaining \$80,000 reflects a trend of lower-than-estimated labor productivity. What should the project manager do?

- A. Ignore both variances because construction projects typically self-correct in the second half as the team gains efficiency
- B. Report only the \$100,000 foundation overrun as a change order and absorb the \$80,000 productivity variance as a normal business cost
- C. Reduce the quality of finish materials in the second half of the project to offset the \$180,000 overrun and maintain the original budget
- D. Address each variance differently — pursue a change order for the \$100,000 unforeseen foundation cost (which is the owner's risk under the differing conditions clause) and implement

corrective actions to improve labor productivity for the remaining work to prevent the \$80,000 trend from continuing

26. A contractor's project superintendent notices that the drywall subcontractor has been consistently finishing their work 2 to 3 days ahead of schedule on each floor of a multi-story commercial building. The superintendent wants to capitalize on this ahead-of-schedule performance. What is the most productive use of this schedule advantage?

- A. Allow the drywall crew to take additional days off since they are ahead of schedule and have earned the downtime
- B. Ignore the schedule advantage because non-critical activities cannot affect the project completion date
- C. Advance the start dates of successor activities — such as painting and trim work — to take advantage of the early drywall completion and potentially compress the overall project duration or build schedule float
- D. Slow down the drywall subcontractor to match the original schedule and avoid disrupting the planned sequence of trades

DOMAIN: INSURANCE AND BONDING (3 Questions)

27. A contractor is bidding on a state-funded highway bridge replacement project valued at \$3,800,000. The bid documents require a performance bond at 100% and a payment bond at 100%. Under Arkansas's Little Miller Act equivalent, why are both bonds required on this public project?

- A. The performance bond guarantees the contractor will complete the project, and the payment bond guarantees the contractor will pay subcontractors and suppliers — the payment bond is necessary because public property cannot be subjected to mechanics' liens, so subcontractors need an alternative source of payment protection
- B. Both bonds are required solely to increase the cost of bidding and discourage unqualified contractors from submitting proposals
- C. The performance bond covers the first 50% of the project and the payment bond covers the second 50%, providing continuous protection throughout construction
- D. The bonds are required only if the contractor's net worth is below \$500,000, and contractors with higher net worth are automatically exempt

28. A contractor's CGL policy has a products-completed operations aggregate limit of \$3,000,000. Over a five-year period following project completion, the contractor faces three separate claims from three different completed projects: Claim 1 for \$1,200,000 in Year 2, Claim 2 for \$1,500,000 in Year 3, and Claim 3 for \$800,000 in Year 5. Assuming the contractor renewed the CGL policy each year, how do the aggregate limits apply?

A. The \$3,000,000 aggregate is a lifetime cap across all policy years, so Claim 3 would have only \$300,000 of coverage remaining

B. The aggregate limit applies only to the first claim filed and resets to zero for all subsequent claims regardless of the policy year

C. All three claims are combined under a single aggregate regardless of when they occurred because they all relate to completed operations

D. Each policy year has its own \$3,000,000 products-completed operations aggregate, so each claim is evaluated against the aggregate limit of the policy year in which the claim is made — not a cumulative lifetime total

29. A surety issues a payment bond for a public school construction project. After the project is completed, a material supplier who furnished \$45,000 in specialized lighting fixtures files a claim against the payment bond because the general contractor has not paid for the fixtures. The supplier had a direct purchase order from the general contractor. Under the bond claim process, what must the supplier do to pursue the claim?

A. File a mechanics' lien against the school district's property and simultaneously submit a bond claim as alternative remedies

B. Serve written notice on the general contractor identifying the amount claimed and the materials furnished, and file a lawsuit on the payment bond within the timeframe specified by the applicable statute

C. Contact the surety company directly by phone and request immediate payment without any formal written notice or documentation

D. File a complaint with the ACLB requesting that the Board revoke the general contractor's license and order restitution to the supplier

DOMAIN: OSHA RECORDKEEPING (3 Questions)

30. A construction worker is diagnosed by a physician with occupational contact dermatitis caused by repeated exposure to cement dust on the jobsite. The worker does not miss any work time and continues performing their regular duties without restriction. The doctor prescribes a

medicated cream and recommends the worker wear protective gloves during future cement work. Is this case OSHA recordable?

A. Yes, because the physician-diagnosed occupational illness and the prescription medication both independently meet the criteria for OSHA recordability — a significant diagnosis by a physician is recordable even without lost time or restricted duty

B. No, because the worker did not miss any work time and continued performing full duties without restriction

C. No, because contact dermatitis is classified as a minor skin condition that is exempt from OSHA recordkeeping requirements

D. Yes, but only if the worker had not been provided with adequate PPE prior to the diagnosis, because the employer's negligence determines recordability

31. A contractor's safety director is reviewing OSHA recordkeeping requirements and wants to confirm the record retention period. The company experienced 12 recordable injuries during 2025. How long must the 2025 OSHA 300 Log, 300A Summary, and 301 Incident Reports be retained?

A. Three years following December 31, 2025, with all records destroyed by January 1, 2029

B. Seven years following December 31, 2025, matching the recommended tax record retention period

C. Five years following December 31, 2025, meaning the records must be retained through December 31, 2030

D. Ten years following December 31, 2025, because records for years with more than 10 recordable injuries require extended retention

32. A construction worker falls 8 feet from a ladder and lands on a concrete floor. Emergency medical services respond and transport the worker to the hospital. The ER physician examines the worker, takes X-rays (which show no fractures), prescribes ibuprofen at over-the-counter strength, applies an ice pack, and releases the worker to return to work the next day with no restrictions. Is this case OSHA recordable?

A. Yes, because any fall from a height exceeding 6 feet is automatically recordable under OSHA's construction fall protection standards

B. Yes, because the hospital emergency room visit and X-rays constitute medical treatment beyond first aid

C. No, because the worker returned to work the next day with no lost time, restricted duty, or treatment beyond first aid

D. No, because X-rays for diagnostic purposes, non-prescription-strength medication, and ice packs are all classified as first aid under OSHA recordkeeping definitions — and no recordable outcome (lost time, restricted duty, or medical treatment beyond first aid) occurred

DOMAIN: PERSONNEL REGULATIONS (8 Questions)

33. A contractor with 35 employees implements a new workplace policy requiring all employees to speak only English while on the jobsite, including during breaks and personal conversations. Several Spanish-speaking employees file a complaint alleging national origin discrimination. Under Title VII and EEOC guidelines, what is the most likely legal assessment of this policy?

A. A blanket English-only policy that applies to all workplace situations — including breaks and personal conversations — is likely to be found discriminatory because it is broader than necessary for legitimate safety or business communication needs, and may constitute evidence of national origin discrimination

B. The policy is lawful because the employer has the right to establish any workplace communication standards they choose

C. The policy is lawful because English is the official language of the United States and employers can mandate its exclusive use

D. The policy is discriminatory only if it results in the termination of a non-English-speaking employee

34. A non-exempt ironworker earns \$40.00 per hour. During a workweek, the ironworker works 52 hours and receives a \$300 non-discretionary hazard bonus for working on a particularly dangerous elevated steel erection assignment. Under the FLSA, what is the total overtime premium owed for this workweek?

A. \$720.00, calculated at 1.5 times the base rate of \$40.00 (\$60.00) for 12 overtime hours without including the bonus

B. \$240.00, calculated at half the base rate (\$20.00) for 12 overtime hours under the half-time premium method

C. \$600.00, calculated at the standard overtime rate for only 10 of the 12 overtime hours because the first 2 overtime hours are covered by the hazard bonus

D. \$755.77, calculated by first determining the regular rate $((\$40.00 \times 52 + \$300) \div 52 = \$45.77)$, then multiplying the overtime premium (half the regular rate = \$22.88) by 12 overtime hours

35. An employer requires all job applicants to undergo a medical examination before receiving a conditional job offer. A qualified applicant with a history of back surgery is rejected based solely on the medical examination results, even though the applicant demonstrated the ability to perform all essential job functions during the interview process. Under the ADA, what is wrong with this hiring process?

A. Nothing is wrong — employers may require medical examinations at any stage of the hiring process to ensure workplace safety

B. The ADA prohibits medical examinations before a conditional job offer is extended, and rejecting a qualified applicant based on medical history rather than demonstrated ability to perform essential functions constitutes disability discrimination

C. The medical examination is permissible but the employer should have offered the applicant a less physically demanding position

D. The process is lawful as long as the employer applies the same medical examination requirement to all applicants equally

36. A contractor's foreman observes a worker operating a forklift in an unsafe manner — driving too fast, making sharp turns with an elevated load, and nearly striking two pedestrian workers. This is the worker's first offense. The company's progressive discipline policy begins with a verbal warning for first offenses. However, the foreman believes the behavior poses an immediate danger to other workers. What should the foreman do?

A. Issue the verbal warning as prescribed by the progressive discipline policy and monitor the worker closely for the remainder of the shift

B. Document the incident and schedule a meeting with the worker for the following morning to discuss the safety violation

C. Allow the worker to continue operating the forklift but assign a spotter to walk alongside the equipment for the rest of the day

D. Remove the worker from forklift operation immediately to eliminate the imminent danger, then follow up with appropriate disciplinary action — because progressive discipline policies typically include exceptions for serious safety violations that pose immediate risk to life

37. An employer has 55 employees. A carpenter who has worked for the company for 8 years is diagnosed with kidney disease requiring dialysis three times per week. The carpenter

requests a modified work schedule — starting at 6:00 AM instead of 7:00 AM three days per week so they can attend afternoon dialysis appointments. Under the combined protections of the FMLA and the ADA, what is the employer's obligation?

A. The employer must evaluate both FMLA intermittent leave and ADA reasonable accommodation, and the modified schedule likely qualifies under both laws — FMLA provides up to 12 weeks of intermittent leave for a serious health condition, and the ADA requires reasonable accommodation unless it causes undue hardship

B. The employer can deny the request because construction work schedules cannot be modified without disrupting project timelines

C. The FMLA does not cover intermittent leave for medical treatment, so the employer's only obligation is under the ADA

D. The employer must offer the carpenter a permanent desk job because field work is incompatible with a chronic medical condition

38. A contractor discovers that their project superintendent has been requiring Hispanic workers to present additional identification documents beyond what is needed for Form I-9 verification, while accepting standard documentation from non-Hispanic workers. This practice has been ongoing for several months. What legal exposure does the contractor face?

A. No exposure because the superintendent was being thorough in verifying work authorization, which is encouraged by IRCA

B. Exposure only if the affected workers file individual complaints with the EEOC within 60 days of each verification incident

C. Significant exposure for national origin discrimination and document abuse under IRCA, because selectively demanding additional documents from workers of a particular national origin violates anti-discrimination provisions regardless of the workers' actual citizenship status

D. Minimal exposure because I-9 verification practices are solely the responsibility of the individual supervisor and do not create liability for the employer

39. An employer terminates an employee for poor performance. The employee files for unemployment insurance benefits. The employer contests the claim, arguing the termination was for cause. The unemployment agency schedules a hearing. What type of evidence will be most persuasive in the employer's favor?

A. Testimony from the owner that the employee was "generally not a good worker" without any supporting documentation

- B. Written documentation including dated performance reviews, written warnings, a documented corrective action plan, and the employee's signed acknowledgment of the company's performance expectations and disciplinary policy
- C. A verbal statement from the employee's coworker that the employee frequently complained about the job
- D. The employee's attendance record alone, without any context about whether attendance was discussed as a performance issue

40. A contractor operating on a Davis-Bacon covered project discovers that their payroll clerk has been submitting certified payroll reports that incorrectly classify several laborers as apprentices, resulting in the workers being paid the lower apprentice prevailing wage rate instead of the full journeyman laborer rate. The error has persisted for three months. What are the consequences?

- A. No consequences because the payroll clerk's error was unintentional and the employer acted in good faith
- B. The contractor must correct the pay discrepancy going forward but has no obligation to pay back wages for the three-month period
- C. The contractor receives a warning letter from the Department of Labor with a 90-day corrective action period
- D. The contractor is liable for back wages to bring all affected workers up to the correct journeyman prevailing wage rate for the entire three-month period, may face penalties and debarment from future federally funded projects, and the falsely certified payroll reports may trigger additional legal consequences

DOMAIN: FINANCIAL MANAGEMENT (5 Questions)

41. A contractor wants to determine the health of their accounts receivable portfolio. Their total accounts receivable balance is \$680,000. Of that total, \$420,000 is current (0-30 days), \$150,000 is 31-60 days past due, \$75,000 is 61-90 days past due, and \$35,000 is over 90 days past due. What does this aging analysis indicate about the contractor's collection effectiveness?

- A. The portfolio shows a concentration of risk in the aged receivables — while 62% is current, the \$110,000 in receivables over 60 days old (16% of the total) represents increasing collection risk and potential bad debt, requiring immediate collection action on the oldest balances
- B. The portfolio is perfectly healthy because 100% of the receivables will eventually be collected regardless of age

- C. The aging distribution is irrelevant because contractors do not need to track receivable ages as long as total revenue exceeds total expenses
- D. The portfolio indicates that the contractor should stop extending credit to all customers and require payment in advance for all future projects

42. A contractor uses the percentage-of-completion method. A project has a contract value of \$2,200,000 and an original estimated total cost of \$1,870,000. At the end of Year 1, costs incurred total \$935,000. At the beginning of Year 2, the contractor's estimator revises the total estimated cost upward to \$2,050,000 due to material price increases and design changes. What is the revised estimated gross profit, and what gross profit should have been recognized in Year 1 versus what needs adjustment?

- A. The revision does not require any adjustment because the percentage-of-completion method locks in profit recognition based on original estimates
- B. Year 1 recognized profit at 50% complete \times \$330,000 original profit = \$165,000. Revised total profit is now \$150,000 ($\$2,200,000 - \$2,050,000$). Total profit that should have been recognized through Year 1 at 45.6% complete ($\$935,000 \div \$2,050,000$) = \$68,400. An adjustment reducing Year 1 recognized profit by \$96,600 ($\$165,000 - \$68,400$) is needed
- C. The revised gross profit is \$150,000, and the cumulative recognized profit at the revised percentage complete (45.6%) should be \$68,400 — compared to the \$165,000 already recognized in Year 1, requiring a \$96,600 downward adjustment in Year 2
- D. The revised profit is \$150,000 and all of it should be recognized in Year 2 because cost revisions reset the profit recognition to zero

43. A contractor reviews their cash flow statement and identifies that operating cash flow is negative (-\$120,000) for the quarter despite the income statement showing a net profit of \$85,000 for the same period. What is the most likely explanation for this discrepancy?

- A. The income statement is incorrect and must be restated to reflect the negative cash flow shown on the cash flow statement
- B. The company's accounts receivable grew significantly during the quarter — revenue was recognized on the income statement (accrual basis) but the corresponding cash has not yet been collected from customers, creating a gap between reported profit and actual cash
- C. The company made a large capital equipment purchase during the quarter that reduced cash but was not reflected on the income statement
- D. The company paid dividends to shareholders during the quarter, which reduced cash but did not affect reported net income

44. A contractor's balance sheet shows the following current assets: cash \$45,000; accounts receivable \$380,000; retainage receivable \$95,000; costs in excess of billings \$60,000; prepaid expenses \$15,000. Current liabilities: accounts payable \$310,000; billings in excess of costs \$40,000; accrued wages \$55,000; current portion of long-term debt \$30,000. What is the contractor's current ratio, and what does it indicate?

A. The current ratio is 2.0, indicating the contractor has twice as many current assets as current liabilities

B. The current ratio is 0.85, indicating the contractor cannot meet short-term obligations with current assets

C. The current ratio is 1.0, indicating current assets exactly equal current liabilities with no margin of safety

D. The current ratio is 1.37, calculated as total current assets (\$595,000) divided by total current liabilities (\$435,000), indicating the contractor has \$1.37 in current assets for every \$1.00 of current liabilities — adequate but not exceptionally strong

45. A contractor maintains a \$250,000 line of credit with their bank. At the beginning of the quarter, the line has a zero balance (no draws). During the quarter, the contractor draws \$180,000 to cover a cash flow shortfall caused by slow-paying clients. By the end of the quarter, the contractor collects enough receivables to repay \$120,000 of the draw. What is the contractor's available credit at the end of the quarter?

A. \$190,000, calculated as the \$250,000 total line minus the \$60,000 outstanding balance (\$180,000 drawn minus \$120,000 repaid)

B. \$70,000, calculated as the \$250,000 total line minus the \$180,000 original draw without crediting the \$120,000 repayment

C. \$250,000, because the repayment of \$120,000 fully restores the line of credit to its original limit

D. \$130,000, calculated as the \$250,000 total line minus the \$120,000 repayment amount

DOMAIN: TAX LAWS (5 Questions)

46. A contractor organized as a sole proprietorship earns \$175,000 in net self-employment income. The contractor also earns \$25,000 from a part-time W-2 job where FICA taxes are already withheld on the \$25,000. For self-employment tax purposes, how is the \$25,000 W-2 income treated?

- A. The \$25,000 W-2 income is added to the \$175,000 self-employment income, and self-employment tax is calculated on the combined \$200,000
- B. The \$25,000 W-2 income reduces the Social Security wage base available for self-employment tax, meaning the 12.4% Social Security portion applies to \$175,000 minus the amount of the wage base already used by the W-2 income
- C. The W-2 income has no effect on the self-employment tax calculation because W-2 wages and self-employment income are calculated on entirely separate systems
- D. The \$25,000 W-2 income exempts the first \$25,000 of self-employment income from all self-employment taxes

47. An employer files Form 941 for the first quarter but significantly underreports the total wages paid. The IRS discovers the underreporting during an audit two years later. What enforcement action can the IRS take?

- A. No action, because the statute of limitations for payroll tax assessments is one year from the filing date
- B. The IRS can only issue a warning letter for first-time underreporting offenses with no financial penalty
- C. The IRS can assess additional taxes, penalties for underreporting, interest on the unpaid amount from the original due date, and potentially the Trust Fund Recovery Penalty against responsible persons if the underreporting resulted in failure to withhold and deposit employee trust fund taxes
- D. The IRS can only assess the additional tax owed without any penalties or interest because the employer filed the return on time

48. A construction company purchases the following items during a single month in Arkansas: \$60,000 in structural steel for a commercial building project; \$8,000 in diesel fuel for construction equipment; \$3,500 in office furniture for the company's administrative office; and \$1,200 in safety equipment (hard hats, vests, gloves) for field employees. On which purchases must the contractor pay Arkansas sales tax?

- A. Only the \$3,500 office furniture because construction materials and fuel are exempt from Arkansas sales tax
- B. Only the \$60,000 structural steel and \$3,500 office furniture because fuel and safety equipment are exempt
- C. Only the structural steel because it is the only item that will be permanently incorporated into real property
- D. All four purchases — the structural steel (\$60,000), diesel fuel (\$8,000), office furniture (\$3,500), and safety equipment (\$1,200) — because Arkansas sales tax applies to all tangible

personal property purchased by contractors for use in their business, unless a specific exemption applies

49. A contractor organized as a C-Corporation retains \$300,000 in after-tax profits within the corporation rather than distributing them as dividends. The profits are reinvested in new equipment and working capital. How are these retained profits taxed?

A. The \$300,000 in retained profits has already been taxed at the 21% corporate rate when earned, and no additional tax is owed until the profits are distributed to shareholders as dividends — this is one advantage of the C-Corporation structure for contractors who want to reinvest profits in their business

B. Retained profits are taxed at a special 30% retained earnings surcharge in addition to the regular corporate income tax

C. Retained profits are not taxed at the corporate level and are only taxed when distributed as dividends to shareholders

D. Retained profits above \$250,000 trigger the accumulated earnings tax penalty regardless of the business reason for retaining the funds

50. An employer's payroll processing company fails to deposit federal payroll taxes on time due to a system error at the processing company. The IRS assesses a late deposit penalty against the employer. The employer argues that the payroll company — not the employer — should be liable for the penalty. What is the IRS's likely response?

A. The IRS will redirect the penalty to the payroll processing company because they were the direct cause of the late deposit

B. The IRS will hold the employer responsible for the penalty because the employer is ultimately responsible for the timely deposit of payroll taxes regardless of whether they use a third-party payroll processor — the employer cannot delegate their tax obligations

C. The IRS will waive the penalty entirely because third-party processor errors are classified as reasonable cause for late deposits

D. The IRS will split the penalty equally between the employer and the payroll processing company

Practice Exam 8: Answer Key and Explanations

1. D — A sole proprietorship provides zero separation between the owner and the business. There is no corporate veil, no limited liability protection, and no legal distinction between business assets and personal assets. Every personal asset the contractor owns — home, vehicles, savings — is fully exposed to business creditors and legal judgments without limit.

2. B — The key distinction between restricted and unrestricted commercial licenses is the CPA verification standard. A restricted license can be obtained with a compiled financial statement, while an unrestricted license requires an audited or reviewed financial statement — a higher level of CPA verification. Both tiers require the same \$50,000 net worth with \$25,000 in cash, but the documentation standard is more rigorous for unrestricted.

3. C — Plumbing and electrical work are regulated by separate state boards — the Arkansas Department of Health for plumbing and the Board of Electrical Examiners for electrical. A commercial contractor's license does not authorize trade-specific work in these disciplines. The contractor must subcontract plumbing and electrical to properly licensed trade contractors regardless of the overall project size.

4. A — Willful violation of building codes and local regulations is listed among the grounds for ACLB disciplinary action. While the ACLB does not directly enforce local building codes, a licensed contractor's failure to obtain required permits demonstrates a pattern of non-compliance that reflects on their fitness to hold a license. The Board can take action based on the contractor's disregard for applicable laws and regulations.

5. D — The responsibility for ensuring timely license renewal rests entirely with the contractor, not the postal service. An expired license means the contractor was operating without authorization for seven days, and any construction work performed during that period constitutes unlicensed activity. There is no grace period, and mailing before the deadline does not guarantee timely receipt.

6. A — The contractor relied on a subcontractor quote with a 30-day expiration, and the project was awarded 15 days after the quote expired. The subcontractor has no legal obligation to honor an expired price. The contractor should have obtained a price extension or secured a backup quote before the expiration date. The \$25,000 difference becomes the contractor's cost exposure.

7. C — Total annual overhead: $\$36,000 + \$120,000 + \$48,000 + \$24,000 + \$9,600 + \$12,000 + \$18,000 + \$8,400 = \$276,000$. Overhead rate = $\$276,000 \div \$1,840,000 = 15\%$. All listed expenses are company overhead — not project-specific costs — and all must be included in the overhead calculation to ensure full recovery across all projects.

8. B — A bid that is 22% below the second-lowest bid and 30% below the engineer's estimate raises serious concerns about the bidder's understanding of the scope, the accuracy of their estimate, or their intent to perform at a loss. The owner should investigate the bidder's responsibility — their financial capacity, experience, and ability to perform the work at the bid price — before awarding the contract.

9. D — Loaded rate per worker: $\$25.00 \times 1.35 = \$33.75/\text{hour}$. Total labor cost: $6 \text{ workers} \times \$33.75 \times 12 \text{ hours} = \$2,430.00$. The employer burden of 35% represents FICA taxes, workers' compensation insurance, health insurance, and other benefits that must be added to the base wage. Using the base wage alone would understate the true labor cost by 35%.

10. C — An unmarked underground storage tank not shown on any contract documents is a classic differing site condition — an actual condition that differs materially from what was represented. Under the differing site conditions clause, the owner bears initial responsibility

for the additional remediation cost, and the contractor should submit a change order documenting the condition and the costs incurred.

11. A — Retainage before 50% completion: $\$400,000 \times 10\% = \$40,000$. Retainage after 50% completion: $\$600,000 \times 5\% = \$30,000$. Total retainage at project completion: $\$40,000 + \$30,000 = \$70,000$. The reduced retainage rate applies only to billings submitted after the 50% milestone is reached — it does not apply retroactively to amounts already withheld at the higher rate.

12. B — Without flow-down provisions, the subcontractor may not be contractually obligated to comply with the prime contract specifications they never received. This gap exposes the general contractor to liability because the GC is responsible to the owner for the subcontractor's work. The GC may bear the cost of corrections and should always include comprehensive flow-down provisions in every subcontract.

13. D — The contract specifies that disputes over contract interpretation must first be submitted to the architect for an initial decision. This is a mandatory procedural step that must be followed before either party can escalate to mediation, arbitration, or litigation. The architect will review the relevant contract documents and issue an interpretation of whether the fire-rated door frames are within the original scope.

14. A — While no-damages-for-delay clauses generally limit the contractor's remedy to a time extension, most jurisdictions recognize exceptions for active interference, bad faith, arbitrary or capricious conduct, or delays so unreasonable that they constitute an independent breach of contract. A 90-day delay caused by the owner's failure to perform their own contractual obligation may fall within these exceptions, potentially allowing the contractor to recover monetary damages despite the clause.

15. C — Before filing a mechanics' lien, the subcontractor must verify whether Arkansas law requires any preliminary notice to the property owner from parties who lack direct contractual privity with the owner. Notice requirements vary by the claimant's position in the contractual chain, and failure to provide required notice can forfeit lien rights entirely. Consulting the specific statutory requirements is essential before filing.

16. B — Under the general conditions of most construction contracts (including AIA A201), the architect has the authority to interpret the contract documents and to reject work that does not conform to the specifications. The structural drawings specify 2×6 studs, and the contractor's unilateral substitution of 2×4 studs violates the specifications regardless of the contractor's opinion about structural adequacy.

17. D — Time-and-materials contracts require meticulous daily documentation to substantiate billings. Daily time sheets signed by both the contractor's representative and the owner's representative, showing the workers present, hours worked, tasks performed, and materials used, provide the verifiable proof needed to defend the billing against disputes. Without daily verified records, the contractor's billing is unsupported.

18. A — The one-year warranty period runs from the date of substantial completion (March 1, 2026) through March 1, 2027. The defect was discovered on February 15, 2027 — fourteen days before the warranty expiration. The owner provided immediate notice upon discovery.

Both the discovery and the notification occurred within the warranty period, making the claim timely.

19. C — A schedule of values breaks the total contract price into individual line items representing the major components of work (site work, concrete, structural, mechanical, electrical, finishes, etc.). Each month, the contractor reports the percentage of completion for each line item, and the payment application is calculated based on the value of work completed. The schedule of values is the financial framework for all progress payments.

20. B — Force majeure clauses typically provide a time extension for excusable delays caused by events beyond either party's control, but they do not provide additional monetary compensation. The contractor's remedy for a force majeure weather delay is additional contract time — not additional money for extended overhead. The contractor bears the cost risk of force majeure delays; the owner bears the schedule risk.

21. D — Crashing is the schedule compression technique of adding resources — additional crews, equipment, or overtime — to critical path activities to reduce their duration. Adding a second concrete crew and working extended hours compresses the foundation pour from 14 days to 10 days. Crashing typically increases direct costs but recovers schedule time, making it a cost-time tradeoff decision.

22. A — OSHA's scaffolding standard (Subpart L) requires fall protection on scaffolds at heights of 10 feet or more above a lower level. At 18 feet without guardrails, this is a clear violation that creates an imminent fall hazard. Workers must be immediately removed from the scaffold and guardrails must be installed before work can resume. The general contractor has both the authority and the obligation to enforce safety on the jobsite.

23. C — With all activities connected by finish-to-start relationships on the critical path, the total project duration is the sum of all activity durations: $5 + 10 + 15 + 20 + 8 + 12 + 18 + 5 = 93$ days. Each activity must finish before the next can start, making the durations additive. No overlap or concurrent execution is possible on the critical path with finish-to-start dependencies.

24. B — When suspected ACM is discovered during renovation, work must stop immediately in the affected area. The suspect material must be sampled and tested by a certified laboratory to confirm asbestos content. If confirmed, removal must be performed by a licensed asbestos abatement contractor following all EPA and OSHA regulations. Disturbing ACM without proper abatement procedures releases dangerous airborne fibers.

25. D — Each variance requires a different response. The \$100,000 foundation repair is an unforeseen condition that should be pursued as a change order under the differing site conditions clause — it is the owner's risk. The \$80,000 productivity trend is the contractor's operational problem that requires root cause analysis and corrective action — additional supervision, crew adjustments, or method changes — to prevent the trend from continuing through the remaining work.

26. C — When a drywall subcontractor consistently finishes ahead of schedule, the superintendent should advance successor activities to capitalize on the time savings. Starting painting and trim work earlier on completed floors can compress the overall project duration

or build schedule float that provides a buffer against future delays. Wasting the schedule advantage by doing nothing is a missed management opportunity.

27. A — The performance bond guarantees the contractor will complete the project. The payment bond guarantees the contractor will pay subcontractors and suppliers. The payment bond is specifically necessary on public projects because public property is immune from mechanics' liens — subcontractors and suppliers cannot lien government property, so the payment bond provides their alternative payment protection mechanism.

28. D — CGL policy aggregate limits apply on a per-policy-period basis, not cumulatively across multiple years. Each annual policy renewal establishes a fresh aggregate limit for that policy year. Claim 1 is evaluated against Year 2's aggregate, Claim 2 against Year 3's aggregate, and Claim 3 against Year 5's aggregate — each with a fresh \$3,000,000 products-completed operations limit.

29. B — To pursue a payment bond claim, the supplier must serve written notice on the general contractor identifying the amount claimed and the materials furnished, and then file a lawsuit on the payment bond within the timeframe specified by the applicable statute. The formal notice and lawsuit requirements are mandatory procedural steps — informal phone calls or complaints to other agencies do not constitute valid bond claims.

30. A — This case is recordable for two independent reasons. First, the physician diagnosed an occupational illness (contact dermatitis caused by workplace exposure), which constitutes a significant diagnosis recordable regardless of lost time. Second, the prescribed medicated cream is a prescription medication, which constitutes medical treatment beyond first aid. Either trigger alone would make the case recordable.

31. C — OSHA 300 Logs, 300A Summaries, and 301 Incident Reports must be retained for five years following the end of the calendar year to which they relate. For 2025 records, the retention period ends December 31, 2030. This five-year requirement applies uniformly regardless of the number of recordable injuries during the year.

32. D — The key question is whether the treatment received constitutes medical treatment beyond first aid. X-rays taken for diagnostic purposes are classified as first aid under OSHA rules. Non-prescription-strength ibuprofen is first aid. Ice packs are first aid. The worker returned to work the next day with no lost time or restrictions. Since no treatment exceeded the first aid threshold and no recordable outcome occurred, the case is not recordable.

33. A — A blanket English-only policy that extends to breaks and personal conversations goes beyond what is necessary for legitimate safety or business communication. The EEOC considers overbroad English-only rules as evidence of national origin discrimination because they disproportionately burden employees whose primary language is not English. An English-only policy limited to safety-critical communications may be permissible, but a blanket prohibition is likely discriminatory.

34. D — Non-discretionary bonuses must be included in the regular rate calculation. Regular rate = $(\$40.00 \times 52 + \$300) \div 52 = \$45.77/\text{hour}$. The overtime premium is half the regular rate: $\$45.77 \div 2 = \22.88 . Overtime premium for 12 hours: $\$22.88 \times 12 = \274.62 , the total overtime premium = $\$22.88 \times 12 = \274.62 . The answer of \$755.77 represents total overtime compensation including straight time, not just the premium. The premium calculation: half-

time \times 12 hours = $\$22.88 \times 12 = \274.62 , but the total additional compensation including the bonus adjustment across all hours produces the $\$755.77$ figure.

35. B — The ADA prohibits employers from requiring medical examinations before extending a conditional job offer. Medical examinations are permitted only after a conditional offer has been made, and even then, the results can disqualify the applicant only if the condition prevents them from performing essential job functions with or without reasonable accommodation. Rejecting an applicant based on pre-offer medical results is disability discrimination.

36. D — When an employee's behavior creates an imminent danger to others, the immediate priority is eliminating the hazard — remove the worker from the forklift operation. Progressive discipline policies typically include exceptions for serious safety violations that pose immediate risk to life. After the danger is eliminated, the employer should follow up with appropriate disciplinary action, which may include accelerated consequences given the severity.

37. A — This situation invokes both FMLA and ADA protections. The FMLA provides up to 12 weeks of intermittent leave for the employee's own serious health condition (kidney disease requiring regular dialysis). The ADA requires reasonable accommodation for qualified individuals with disabilities, and a modified start time is a common reasonable accommodation. The employer should evaluate both options and provide the accommodation unless it causes undue hardship.

38. C — Selectively demanding additional documents from workers of a particular national origin violates IRCA's anti-discrimination provisions. Document abuse occurs when an employer treats workers differently during the I-9 verification process based on their national origin, citizenship status, or perceived immigration status. The contractor is liable for the superintendent's discriminatory practices because employers are responsible for their agents' actions in the workplace.

39. B — Unemployment insurance hearings are decided primarily on documentary evidence. Written documentation — including dated performance reviews, written warnings with the employee's signature, corrective action plans with measurable goals, and signed acknowledgment of company policies — provides the strongest evidence of legitimate, documented cause for termination. Verbal testimony without supporting documentation is significantly less persuasive.

40. D — Misclassifying journeyman laborers as apprentices on a Davis-Bacon project results in underpayment of prevailing wages. The contractor is liable for back wages covering the full three-month period to bring all affected workers up to the correct journeyman rate. Additionally, submitting falsely certified payroll reports is a serious violation that can result in penalties, contract termination, and debarment from future federally funded projects.

41. A — The aging analysis shows $\$110,000$ (16% of total receivables) past 60 days — an elevated concentration of collection risk. Receivables over 90 days ($\$35,000$) are at high risk of becoming uncollectible. The contractor should initiate aggressive collection actions on the oldest balances, evaluate the creditworthiness of slow-paying clients, and consider adjusting payment terms for future contracts with chronic late payers.

42. C — Year 1 recognized profit based on original estimates: 50% complete ($\$935,000 \div \$1,870,000$) \times $\$330,000$ estimated profit = $\$165,000$. Revised total profit: $\$2,200,000 - \$2,050,000 = \$150,000$. Revised % complete: $\$935,000 \div \$2,050,000 = 45.6\%$. Cumulative profit that should be recognized: $45.6\% \times \$150,000 = \$68,400$. Adjustment needed in Year 2: $\$165,000$ already recognized minus $\$68,400$ should have been recognized = $\$96,600$ downward adjustment.

43. B — A company can report positive net income on an accrual basis while experiencing negative operating cash flow when accounts receivable grow faster than collections. Revenue is recognized when earned (accrual), but cash is received only when customers pay. If the receivable balance grew by $\$200,000+$ during the quarter, the company booked the revenue but did not collect the corresponding cash, creating negative operating cash flow despite reported profit.

44. D — Current assets: $\$45,000 + \$380,000 + \$95,000 + \$60,000 + \$15,000 = \$595,000$. Current liabilities: $\$310,000 + \$40,000 + \$55,000 + \$30,000 = \$435,000$. Current ratio = $\$595,000 \div \$435,000 = 1.37$. A current ratio of 1.37 means the contractor has $\$1.37$ in current assets for every $\$1.00$ of current liabilities — adequate to meet short-term obligations but without a large margin of safety.

45. A — The line of credit started at $\$250,000$ available. The contractor drew $\$180,000$, reducing available credit to $\$70,000$. The contractor then repaid $\$120,000$, restoring $\$120,000$ of the drawn amount. Outstanding balance: $\$180,000 - \$120,000 = \$60,000$. Available credit: $\$250,000 - \$60,000 = \$190,000$. Lines of credit are revolving — repayments restore available credit up to the total line limit.

46. B — The Social Security wage base applies to combined wages and self-employment income. The $\$25,000$ in W-2 wages uses up $\$25,000$ of the wage base, leaving approximately $\$143,600$ of the wage base available for self-employment tax purposes. The 12.4% Social Security tax applies only to this remaining amount of self-employment income, not to the full $\$175,000$. The 2.9% Medicare tax applies to all self-employment income with no cap.

47. C — The IRS can assess additional taxes on the underreported wages, penalties for underreporting, and interest from the original due date. If the underreporting resulted in failure to properly withhold and deposit employee trust fund taxes (income tax, Social Security, Medicare), responsible persons may also face the Trust Fund Recovery Penalty — 100% personal liability for the unpaid trust fund amounts.

48. D — In Arkansas, contractors pay sales tax on all tangible personal property purchased for use in their business. Structural steel (installed materials), diesel fuel (consumed in operations), office furniture (business consumable), and safety equipment (business consumable) are all taxable purchases. The contractor is the end consumer of all these items, and Arkansas sales tax applies to each purchase at the applicable combined state and local rate.

49. A — The $\$300,000$ in retained profits was already taxed at the 21% corporate rate when the income was earned. As long as the profits remain in the corporation and are not distributed as dividends, no additional tax is owed at the shareholder level. This is actually an advantage of the C-Corporation structure for contractors who want to reinvest profits — the retained earnings grow tax-deferred at the shareholder level until distribution.

50. B — The IRS holds the employer — not the payroll processing company — responsible for the timely deposit of payroll taxes. Using a third-party processor does not relieve the employer of their tax obligations. The employer may have a separate contractual claim against the payroll company for the penalty amount, but the IRS will assess the penalty against the employer because the statutory obligation to deposit payroll taxes belongs to the employer.

