

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

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

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

1. A contractor submits the lowest bid on a publicly advertised municipal fire station project. The owner's review reveals that the contractor listed a mechanical subcontractor on the bid that the contractor has never worked with before. After the award, the contractor discovers the mechanical sub quoted an unrealistically low price and wants to replace them with a different mechanical subcontractor at a higher price. The bid documents required subcontractor listing. What is the contractor's obligation?

A. The contractor may freely replace the mechanical subcontractor because subcontractor listing requirements are nonbinding suggestions that create no contractual obligation

B. The contractor must generally use the listed subcontractor unless the owner approves a substitution for legitimate cause — the subcontractor listing requirement exists to prevent bid shopping, and the contractor accepted the sub's price as part of the winning bid

C. The contractor must absorb the cost difference between the listed sub's price and the replacement sub's price without notifying the owner because the total bid price remains unchanged

D. The contractor may replace the subcontractor only if the replacement offers a price within 5% of the original sub's quote, because bid documents allow limited price variation for listed subcontractors

2. A contractor's project involves installing a new HVAC system in an existing commercial building. The building was constructed in 1970. During ductwork installation, the contractor's crew discovers pipe insulation in the ceiling plenum that is suspected of containing asbestos. The crew has already disturbed some of the insulation during demolition. What is the contractor's most critical immediate action?

- A. Continue the work but provide N95 dust masks to all workers in the area as a precautionary measure until the project is complete
- B. Collect a sample of the insulation material, package it in a plastic bag, and mail it to a testing laboratory while continuing demolition in the meantime
- C. Document the material in the daily report and schedule testing for the following week, allowing limited demolition to continue in areas away from the suspected material
- D. Stop all work in the affected area immediately, evacuate workers from the space, secure the area to prevent further disturbance, and arrange for qualified asbestos testing before any additional work proceeds — disturbing asbestoscontaining materials without proper controls releases dangerous fibers

3. A contractor's CPA reviewed financial statement shows the following: total assets of \$950,000, total liabilities of \$875,000, current assets of \$410,000, and current liabilities of \$380,000. The contractor is applying for a Mississippi commercial license in the Heavy Construction major classification. What financial concerns does this application raise?

- A. No concerns — the contractor meets all financial requirements because total assets exceed \$875,000 and current assets are positive
- B. The only concern is that the current ratio of 1.08 may be considered marginally adequate by bonding companies, but it meets MSBOC's minimum requirements
- C. The net worth of \$75,000 ($\$950,000 - \$875,000$) meets the \$50,000 minimum for major classifications, but the thin margin of only \$25,000 above the threshold leaves very little room for any financial setback before the contractor would fall below the minimum — and the current ratio of 1.08 indicates tight liquidity
- D. The application will be automatically denied because the debttoasset ratio exceeds 90%, which is a disqualifying factor under MSBOC regulations regardless of the absolute net worth

4. A contractor is calculating the overhead rate for a new fiscal year. Last year's actual overhead was \$312,000 on direct cost volume of \$2,080,000 (15% rate). This year, the contractor projects overhead will increase to \$345,000 due to higher insurance premiums and a new office lease, but direct cost volume is projected to remain at \$2,080,000. What is the projected overhead rate, and what is the implication for bidding?

- A. The projected overhead rate is 16.6% ($\$345,000 \div \$2,080,000$), which means every bid this year must carry a higher overhead allocation per dollar of direct cost to recover the increased operating expenses — using last year's 15% rate would undercharge overhead by 1.6% on every project

- B. The projected overhead rate remains at 15% because overhead rates should not be adjusted more than once every three years to maintain consistent pricing in the market
- C. The projected overhead rate is 14.3% because the denominator should be total revenue rather than direct cost volume
- D. The projected overhead rate is 20% because the increase in overhead should be rounded up to the nearest 5% increment for simplicity in bidding calculations

5. A contractor operating as an LLC with two members has not filed its federal tax return for two years. Each member has filed their personal returns but reported no income from the LLC. What federal tax violation has occurred?

- A. No violation, because LLCs are not required to file federal tax returns — only the individual members have filing obligations
- B. No violation, because twomember LLCs are classified as disregarded entities and have no federal filing requirement separate from the members' personal returns
- C. A violation has occurred because the members should have reported their share of LLC income on their personal returns, but the failure to file the LLC's return is not separately penalized
- D. The LLC has failed to file Form 1065 (partnership return) for two consecutive years — a multimember LLC taxed as a partnership must file an annual informational return, and late filing triggers penalties of approximately \$220 per member per month, up to 12 months per return

6. A contractor's project superintendent observes workers using an extension ladder to access a scaffold platform 20 feet above grade. The ladder is leaning against the scaffold with no tieoff at the top, extends only 2 feet above the landing point, and is positioned at a steep angle. How many OSHA violations does this scenario potentially involve?

- A. One violation — the ladder angle is the only issue because all other aspects of the setup are compliant with OSHA ladder safety standards
- B. Multiple potential violations — OSHA requires ladders to extend at least 3 feet above the landing point, to be secured at the top to prevent displacement, and to be set at the proper angle (approximately 75.5 degrees or a 4:1 ratio of height to base distance) — this setup fails on all three requirements
- C. No violations because extension ladder safety standards apply only to ladders over 24 feet in total length
- D. One violation — the tieoff is the only deficiency because OSHA does not regulate the extension height above the landing point or the angle of the ladder

7. A Mississippi contractor completes a residential addition project valued at \$85,000. The homeowner pays \$70,000 but refuses to pay the final \$15,000, claiming several items were not completed to satisfaction. The contractor has addressed all punch list items and the work meets the contract specifications. The contractor wants to protect their right to payment. What is the most effective immediate step?

A. File a construction lien against the property with the Chancery Clerk of the county where the property is located within the statutory deadline, preserving the contractor's legal claim against the property while pursuing resolution of the payment dispute

B. File a complaint with MSBOC requesting the Board to mediate the dispute and order the homeowner to pay the remaining balance

C. Stop all warranty service on the completed project until the homeowner pays the outstanding balance, using the warranty as leverage to compel payment

D. Accept the \$15,000 loss as a cost of doing business because residential payment disputes are not recoverable through the legal system in Mississippi

8. A contractor's project uses the percentage of completion method for revenue recognition. The project has the following data at quarter end: contract price \$3,000,000, original estimated total cost \$2,550,000, actual costs to date \$1,530,000, and the revised estimated cost to complete is \$1,120,000. Has the estimated profit changed from the original estimate?

A. The estimated profit has increased by \$100,000 because costs are running below the original budget pace

B. The estimated profit has not changed because the project is exactly 60% complete, matching the original timeline

C. The estimated profit has decreased by \$100,000 — the revised total cost of \$2,650,000 (\$1,530,000 + \$1,120,000) exceeds the original estimate of \$2,550,000, reducing projected profit from \$450,000 to \$350,000, indicating a cost overrun trend that requires investigation and corrective action

D. The estimated profit cannot be calculated until the project reaches at least 75% completion under the percentage of completion method

9. A contractor enters into a subcontract with a plumbing company. The subcontract includes a flowdown clause incorporating the terms of the prime contract. The prime contract requires the general contractor to carry \$2,000,000 in CGL coverage. Does the flowdown clause automatically require the plumbing subcontractor to carry \$2,000,000 in CGL coverage?

- A. Yes, because flowdown clauses transfer every obligation in the prime contract to the subcontractor without modification, including insurance limits
- B. Yes, but only if the subcontract value exceeds \$500,000, because insurance flowdown provisions apply only to subcontracts above this threshold
- C. No, because insurance requirements can never be included in flowdown clauses — all insurance obligations must be negotiated separately and stated explicitly in the subcontract
- D. Not necessarily — while flowdown clauses incorporate relevant prime contract terms, insurance requirements in the subcontract should be specifically stated with limits appropriate to the subcontractor's scope and risk level, which may differ from the general contractor's requirements

10. A contractor is preparing a bid for a project with estimated direct costs of \$890,000. The contractor's annual overhead is \$396,000 and annual direct cost volume is \$2,640,000. Project indirect costs are \$47,000. The contractor wants to achieve a 7% profit margin on selling price. What is the correct selling price?

- A. \$1,078,280, calculated by first determining the overhead rate ($\$396,000 \div \$2,640,000 = 15\%$), then computing total cost ($\$890,000 + \$133,500 + \$47,000 = \$1,070,500$), and dividing by 0.93 to achieve a 7% margin on selling price
- B. \$1,070,500, representing total cost without any profit margin because the 7% should be included within the overhead allocation
- C. \$1,145,435, calculated by multiplying total cost by 1.07 and then adding a 3% contingency factor
- D. \$1,003,650, calculated by applying the 7% margin only to direct costs and adding overhead and indirect costs without markup

11. A contractor's employee works on a DavisBacon covered federal project. The wage determination specifies a basic rate of \$28.50 and fringe of \$13.75 for the laborer classification. The contractor pays the laborer \$28.50 per hour in wages and contributes \$8.00 per hour to the company's health insurance plan. How must the contractor handle the remaining \$5.75 per hour fringe obligation?

- A. The remaining fringe obligation is waived because the contractor is providing health insurance, which satisfies the full fringe requirement regardless of the dollar amount
- B. The contractor must pay the remaining \$5.75 per hour as additional cash wages to the laborer or contribute it to additional approved benefit plans — the total fringe package must equal or exceed the \$13.75 specified in the wage determination

- C. The contractor must file a fringe benefit deficiency report with the Department of Labor and wait for authorization before making any additional payments
- D. The remaining \$5.75 per hour is deducted from the basic rate, reducing the laborer's hourly wage to \$22.75 to offset the employer's health insurance contribution

12. A contractor operating as a general partnership has two partners with a 60/40 ownership split. The partnership earns \$400,000 in net ordinary business income. Partner A (60%) also received \$30,000 in guaranteed payments for management services during the year. What is Partner A's total selfemployment income?

- A. \$240,000 — only the 60% distributive share, because guaranteed payments are classified as salary subject to payroll withholding rather than selfemployment tax
- B. \$400,000 — the full partnership income, because the managing partner is responsible for selfemployment tax on the entire partnership earnings
- C. \$30,000 — only the guaranteed payment, because a partner's distributive share of ordinary income is passive income exempt from selfemployment tax
- D. \$270,000 — Partner A's 60% distributive share (\$240,000) plus the \$30,000 guaranteed payment, because both the distributive share and guaranteed payments are subject to selfemployment tax for a general partner

13. A contractor's project involves constructing a retaining wall adjacent to an existing residential property. During excavation for the wall footing, vibration from the contractor's compaction equipment causes cracks in the foundation of the neighboring house. The homeowner files a claim for \$45,000 in damages. Which insurance policy responds to this claim?

- A. The contractor's workers' compensation policy, because the damage occurred during construction operations performed by the contractor's employees
- B. The contractor's builder's risk policy, because the damage was caused by construction activities at the project site
- C. The contractor's CGL policy, because this is a thirdparty property damage claim — the neighboring homeowner's property was damaged by the contractor's operations, which is exactly the type of claim Coverage A of the CGL policy is designed to cover
- D. The neighboring homeowner's own property insurance, because damage caused by adjacent construction is classified as an act of God for insurance purposes

14. A contractor's project schedule shows Activity J with the following CPM data: earliest start Day 25, earliest finish Day 33, latest start Day 28, latest finish Day 36. The activity has a duration of 8 days. What is the total float, and what happens if the activity is delayed by 2 days?

- A. Float is 8 days, and a 2day delay has no impact because the delay is less than half the available float
- B. Float is 0 days, and a 2day delay directly extends the project completion date by 2 days
- C. Float is 11 days ($36 - 25$), and a 2day delay is easily absorbed without affecting any subsequent activities
- D. Float is 3 days ($28 - 25$ or equivalently $36 - 33$), and a 2day delay is absorbed within the available float — the project completion date is unaffected because 2 days of the 3day float buffer remain after the delay

15. A contractor employs 48 workers. An employee who has worked for the company for 3 years requests 8 weeks of leave to care for a newborn child. The contractor denies the request, stating that the FMLA requires 50 employees and the company falls below the threshold. Is the denial lawful?

- A. No, because the FMLA threshold is 25 employees for parental leave requests, which is lower than the 50employee threshold for medical leave requests
- B. No, because any employer with more than 40 employees must provide parental leave under Mississippi's state family leave law, which supplements the federal FMLA
- C. Yes, because the FMLA applies to employers with 50 or more employees within a 75mile radius — this employer with 48 employees falls below the threshold and is not required to provide FMLA leave, though the employer may voluntarily offer leave
- D. No, because the 50employee threshold applies only to medical leave for the employee's own condition — parental leave for newborn care has no minimum employee threshold under the FMLA

16. A contractor's annual operating budget projects the following: revenue \$4,800,000, cost of construction \$3,840,000, G&A expenses \$624,000. At the end of Q2, actual figures are: revenue \$2,100,000, cost of construction \$1,785,000, G&A expenses \$340,000. What does the midyear comparison reveal?

- A. The company is underperforming — revenue of \$2,100,000 is below the prorated halfyear target of \$2,400,000, cost of construction is consuming 85% of revenue versus the budgeted 80%, and G&A expenses of \$340,000 have exceeded the prorated halfyear budget of \$312,000, compressing net profit from both the revenue and expense sides

- B. The company is performing well because actual costs are below budgeted costs in absolute terms
- C. The comparison is meaningless because midyear budget analysis is unreliable for construction companies due to the seasonal nature of revenue
- D. The company is ahead of budget because the actual cost of construction percentage of 85% is within 5% of the budgeted 80%, which falls within acceptable industry tolerances

17. A contractor's employee is injured when a trench wall collapses in a 6-foot-deep excavation. The competent person had classified the soil as Type B and selected a sloping protective system with walls cut at 1:1 (45 degrees). Investigation reveals that the soil was actually Type C — the competent person misclassified it. Type C soil requires a maximum slope of 1½:1 (34 degrees). What OSHA violations occurred?

- A. Only a recordkeeping violation for failing to document the soil classification in the daily report before excavation began
- B. Only a personal protective equipment violation because the workers should have been wearing fall protection while working in the excavation
- C. No violations occurred because the 1:1 slope exceeds the minimum 34-degree requirement for all soil types and provides adequate protection regardless of the actual classification
- D. Two violations — improper soil classification by the competent person and inadequate protective system for the actual soil conditions — the Type B sloping at 1:1 (45 degrees) was too steep for the actual Type C soil, which required a gentler 1½:1 (34 degrees) slope, directly contributing to the cave-in and the worker's injury

18. A contractor receives progress payments from the owner on the 25th of each month. The contractor's subcontract agreements specify payment to subcontractors within 10 days of the contractor's receipt of payment from the owner. The contractor receives the January payment on January 25 but does not pay subcontractors until February 20 — 26 days later. Have the subcontract payment terms been violated?

- A. No, because the 10-day payment term is a target rather than a binding obligation, and construction industry custom allows payment within 30 days regardless of the contractual language
- B. Yes, because the subcontract specifies payment within 10 days of the contractor's receipt from the owner — the payment was due by February 4 (10 days after January 25), and paying on February 20 is 16 days late, violating the contractual payment terms

C. No, because subcontractor payment terms are governed by Mississippi's 30day payment statute, which overrides any shorter period specified in the subcontract

D. Yes, but only if the subcontractors formally notified the contractor in writing that the payment was late — without written notice, the late payment is not considered a contractual breach

19. A contractor's project involves a \$2,500,000 contract with 10% retainage. The project reaches substantial completion after 11 months. Total retainage accumulated is \$250,000. The contract states retainage is released within 45 days of substantial completion, provided punch list items are complete and closeout documents are delivered. The contractor completes all requirements. On what date is the owner obligated to release the retainage?

A. Within 45 days of the date the architect certifies substantial completion, as specified in the contract — the contractor has met all conditions for release, and the owner's obligation to pay is triggered by the contractual timeline

B. Within 90 days of final completion, because Mississippi law establishes a mandatory 90day retainage release period that overrides any shorter contractual period

C. The owner has no specific release date because retainage release is discretionary and the owner may hold it as warranty security for up to 2 years

D. Within 30 days of the contractor's written demand for release, because Mississippi's prompt payment statute requires retainage to be released within 30 days of demand regardless of contractual terms

20. A contractor is bidding on a unit price contract for a road construction project. The bid includes unit prices for 15 different work items. The contractor's estimator discovers that one line item — 2,000 tons of hot mix asphalt at \$95/ton — was incorrectly calculated and should have been \$115/ton. The total bid has already been submitted. The error reduces the contractor's revenue on that line item by \$40,000. What options does the contractor have?

A. The contractor can modify the submitted unit price for the asphalt line item without affecting the rest of the bid, because unit price contracts allow individual line item adjustments after submission

B. The contractor can unbalance the remaining unit prices to recover the \$40,000 loss by increasing prices on other line items that are likely to have higher actual quantities than estimated

C. The contractor may request to withdraw the entire bid if the error is material, made in good faith, and clerical in nature — the contractor must notify the owner promptly and provide documentation demonstrating the error, its materiality, and its goodfaith nature

D. The contractor has no options and must perform the work at the submitted unit prices regardless of the error, because all bid errors on public projects are irrevocable

21. A contractor's WIP schedule shows a project with the following data: contract price \$1,100,000, estimated total cost \$935,000, costs incurred \$561,000, billings \$700,000. Using the percentage of completion method, what is the earned revenue and over/under billing status?

A. Earned revenue is \$561,000 and the project is overbilled by \$139,000 because billings are compared to costs incurred rather than to earned revenue

B. Earned revenue is \$700,000 and the project is properly billed because earned revenue always matches billings in the percentage of completion method

C. Earned revenue is \$1,100,000 and the project is underbilled by \$400,000 because the full contract should be recognized at any completion level above 50%

D. Earned revenue is \$660,000 (60% completion \times \$1,100,000 contract price), and the project is overbilled by \$40,000 because billings of \$700,000 exceed earned revenue of \$660,000 — the \$40,000 overbilling is classified as a current liability on the balance sheet

22. A contractor's project involves installing fire sprinkler systems in a new commercial building. The fire sprinkler subcontractor requests partial payment for materials stored on site — \$42,000 worth of sprinkler heads, pipe, and fittings that have been delivered but not yet installed. The subcontract allows billing for stored materials. What documentation should the general contractor require before approving this payment?

A. Only a verbal confirmation from the subcontractor's foreman that the materials are on site and in good condition

B. Invoices from the material supplier showing the cost of the stored materials, delivery receipts confirming delivery to the project site, photographs of the materials in their storage location, and verification that the materials match the approved submittals and specifications

C. A notarized affidavit from the subcontractor certifying the value of stored materials, which substitutes for all other documentation under Mississippi construction payment law

D. Only the subcontractor's monthly payment application listing the stored materials, because the subcontractor's certification on the payment application is the sole documentation requirement

23. A Mississippi contractor holds a Residential Remodeler license. A homeowner asks the contractor to build a new detached guest house on the homeowner's property. The guest house will be valued at approximately \$75,000. Can the contractor legally perform this work under the Residential Remodeler license?

A. No, because a Residential Remodeler license authorizes remodeling, renovation, and alteration of existing residential structures — it does not authorize new residential construction, which requires a Residential Builder license

B. Yes, because any residential work under \$100,000 can be performed by any residential license classification without restriction

C. Yes, because a detached guest house on an existing residential property is classified as a remodeling project rather than new construction under Mississippi licensing law

D. No, but only because the \$75,000 value exceeds the \$50,000 threshold for residential projects requiring a Residential Builder license

24. A contractor's employee works the following hours over a twoweek pay period: Week 1 — 38 hours, Week 2 — 46 hours. The employee's regular rate is \$34.00 per hour. The employer calculates overtime by averaging the two weeks: $(38 + 46) \div 2 = 42$ hours average, and pays 2 hours of overtime for the period. Is this calculation correct under the FLSA?

A. Yes, because the FLSA permits twoweek averaging for employees paid on a biweekly schedule

B. Yes, because the total hours (84) divided by 2 weeks equals 42 hours per week, and only the 2 hours above 40 in the averaged week require overtime

C. No, because the FLSA requires overtime to be calculated on a workweek basis — Week 1 has no overtime (38 hours), but Week 2 has 6 hours of overtime ($46 - 40 = 6$ hours at \$51.00/hr) — the employer underpaid overtime by 4 hours at the premium rate

D. No, but only because the averaging period must be exactly one month — twoweek averaging periods are too short under federal regulations

25. A contractor's project requires the installation of temporary shoring to support an adjacent building during excavation. The structural engineer designs the shoring system and provides detailed installation drawings. The contractor installs the shoring exactly as designed. During excavation, the shoring fails and the adjacent building sustains \$200,000 in damage. Who bears primary responsibility for the shoring failure?

- A. The contractor bears full responsibility because the contractor performed the installation and is liable for all construction-related damage regardless of who designed the system
- B. The structural engineer who designed the shoring system likely bears primary responsibility for the failure if the failure resulted from a design deficiency rather than an installation error — when a contractor follows prescriptive design specifications and the design itself is the cause of failure, the designer typically bears the risk of the design's adequacy
- C. The owner of the adjacent building bears responsibility because they should have reinforced their own building's foundation before the contractor began excavation
- D. The project owner bears sole responsibility because all construction risks are allocated to the owner under standard construction contracts

26. A contractor is developing a SWPPP for a 4-acre commercial development adjacent to a creek classified as an impaired waterway under the Clean Water Act. What additional SWPPP requirements may apply due to the proximity to an impaired waterway?

- A. No additional requirements apply because the NPDES Construction General Permit treats all receiving waters equally regardless of their impairment status
- B. The contractor must obtain a separate individual NPDES permit instead of the Construction General Permit because all projects adjacent to impaired waters are excluded from general permit coverage
- C. Enhanced erosion and sediment control measures may be required — including larger sediment basins, more frequent BMP inspections, additional buffer zones between disturbed areas and the waterway, and potentially numeric turbidity or sediment discharge limits to protect the already-impaired water body from additional degradation
- D. The only additional requirement is posting a sign near the impaired waterway notifying the public that construction activity is occurring in the area

27. A contractor operating as a C corporation pays its sole shareholder-employee a salary of \$200,000. The corporation earns \$500,000 in total revenue with \$350,000 in total expenses (including the shareholder's salary). The remaining \$150,000 in corporate profit is retained in the business. What is the federal tax treatment of these amounts?

- A. The \$200,000 salary is deductible by the corporation as a business expense and taxable to the shareholder as W2 wages subject to income tax and payroll taxes — the \$150,000 retained profit is taxed at the 21% corporate rate (\$31,500) and is not taxed again until distributed as dividends

- B. The \$200,000 salary and the \$150,000 retained profit are both taxed at the 21% corporate rate because all Ccorporation income is taxed at the corporate level regardless of whether it is paid as salary
- C. The entire \$500,000 in revenue is passed through to the shareholder's personal return because Ccorporations are passthrough entities for the first \$500,000 of annual revenue
- D. The \$150,000 retained profit is exempt from all taxation because retained earnings in a Ccorporation are classified as taxdeferred capital reserves

28. A contractor signs a fixedprice contract for a commercial project and includes a 3% contingency in the bid price. During construction, the contractor encounters no significant unforeseen conditions, and actual costs come in 2% below the estimate. The 3% contingency is never used. What happens to the contingency funds?

- A. The contingency must be returned to the owner because unused contingency in a fixedprice contract belongs to the project owner
- B. The contingency is placed in escrow and released to the contractor only after the oneyear warranty period expires with no claims
- C. The contingency must be disclosed to the owner and refunded proportionally at the end of the project based on the percentage of contingency that was not utilized
- D. The contractor retains the unused contingency as part of the total profit — in a fixedprice contract, the bid price is the bid price, and any difference between actual costs and the contract price (including unused contingency) belongs to the contractor

29. A contractor's project involves exterior concrete work during the summer months in Mississippi. Temperatures regularly exceed 95°F with high humidity. The concrete specifications include provisions for hot weather concrete placement. Which of the following is a critical concern for hot weather concrete placement?

- A. Hot weather slows the concrete hydration process, giving the crew more time to place and finish the concrete before it begins to set
- B. Hot weather accelerates concrete hydration, reducing the available working time for placement and finishing — rapid moisture loss from the surface can cause plastic shrinkage cracking, and elevated temperatures can reduce the ultimate compressive strength if the concrete temperature is not properly controlled
- C. Hot weather has no effect on concrete performance as long as the concrete is delivered in a mixer truck rather than premixed in a stationary mixer

D. Hot weather improves concrete strength development because higher temperatures accelerate the chemical curing reactions without any negative side effects

30. A contractor's financial statements show the following: beginning retained earnings \$180,000, net income for the year \$95,000, and owner distributions of \$60,000. What are the ending retained earnings, and what do they represent?

A. Ending retained earnings are \$215,000 ($\$180,000 + \$95,000 - \$60,000$), representing the cumulative profits that have been reinvested in the business rather than distributed to the owners — retained earnings increase the company's net worth and strengthen its financial position for bonding and licensing purposes

B. Ending retained earnings are \$95,000, because only the current year's net income counts as retained earnings — prior year balances are reset to zero at the beginning of each fiscal year

C. Ending retained earnings are \$275,000 ($\$180,000 + \$95,000$), because owner distributions are classified as business expenses and do not reduce retained earnings

D. Ending retained earnings are \$120,000 ($\$180,000 - \$60,000$), because net income is recognized on the income statement only and does not flow to the balance sheet

31. A contractor is performing demolition work on a building that contains both asbestos-containing materials and lead-based paint. Two separate sets of federal regulations apply. Which federal agencies have primary jurisdiction over these two hazardous materials?

A. The EPA has jurisdiction over both asbestos and lead-based paint, and OSHA has no role in regulating either material on construction sites

B. OSHA has jurisdiction over both materials, and the EPA has no regulatory authority over hazardous materials encountered during construction activities

C. Both OSHA and EPA have overlapping jurisdiction — OSHA regulates worker protection and exposure controls under its construction standards (29 CFR 1926.1101 for asbestos and 29 CFR 1926.62 for lead), while EPA regulates environmental aspects including disposal, the RRP Rule for lead paint in pre-1978 buildings, and NESHAP regulations for asbestos

D. Neither OSHA nor EPA has jurisdiction over asbestos and lead in demolition — these materials are regulated exclusively by the Mississippi Department of Environmental Quality

32. A contractor's project has a fixed-price contract with a contractual completion date of October 15. The contract includes a liquidated damages clause of \$1,800 per calendar day. The contractor completes the project on November 2 — 18 calendar days late. However, the contractor claims that 10 of those days were caused by owner-directed changes that extended the schedule. If the contractor can document the 10-day delay attributable to owner changes, what is the contractor's liquidated damages liability?

- A. \$32,400 for the full 18 days, because liquidated damages apply to all delays regardless of the cause
- B. \$16,200 for 9 days, because the contractor is entitled to deduct the 10 owner-caused delay days but must pay half the daily rate for the remaining contractor-caused delay days
- C. \$0, because any owner-caused delay automatically waives the entire liquidated damages provision for the project
- D. \$14,400 for 8 days — the 18 total days minus the 10 documented owner-caused days leaves 8 days of contractor-caused delay at \$1,800 per day, because the contractor is entitled to a time extension for delays caused by the owner's changes

33. A contractor's insurance agent recommends adding an inland marine (contractor's equipment floater) policy to the company's insurance program. The contractor owns \$450,000 worth of construction equipment that travels between jobsites. What does this policy cover that the contractor's commercial property policy does not?

- A. Inland marine policies cover damage to the contractor's buildings and office contents, which is excluded from commercial property policies
- B. Inland marine insurance covers mobile construction equipment — excavators, loaders, generators, compressors, and other equipment that travels between jobsites — because standard commercial property policies typically cover property at fixed locations only and do not adequately protect equipment in transit or at temporary construction sites
- C. Inland marine policies cover third-party liability claims arising from the operation of construction equipment, which is excluded from CGL policies
- D. Inland marine policies cover worker injuries involving construction equipment, filling a gap between the CGL and workers' compensation policies

34. A contractor's project includes a specification requiring the contractor to submit shop drawings for structural steel fabrication before the steel can be manufactured. The contractor submits the shop drawings, but the architect takes 6 weeks to review and return them — significantly longer than the

2week review period specified in the contract. The delayed review pushes back the steel delivery by 4 weeks, delaying the project. What should the contractor do to protect their interests?

- A. Send written notice to the owner documenting the submittal submission date, the contractual review deadline, the actual return date, and the resulting 4week delay — this contemporaneous written notice preserves the contractor's right to claim a time extension and potentially additional compensation for delayrelated costs
- B. Accept the delay without documentation because submittal review timelines are aspirational guidelines that create no enforceable obligations
- C. Deduct the architect's review fee from the next progress payment to compensate for the delay, because the contractor has a right to offset against the architect's compensation
- D. File a formal complaint with the American Institute of Architects, which has enforcement authority over architect response times

35. A contractor discovers that their OSHA 300 Log has not been maintained for the current calendar year. It is now September, and no workrelated injuries or illnesses have been recorded — even though the company had three recordable incidents during that period. What OSHA violation has occurred, and what are the potential consequences?

- A. No violation has occurred because the OSHA 300 Log is only required to be completed at yearend, and the contractor has until January of the following year to record all incidents
- B. A minor administrative violation that carries no monetary penalty, because OSHA treats recordkeeping deficiencies as educational matters rather than citable offenses
- C. A recordkeeping violation — failure to maintain the OSHA 300 Log is a citable offense that can result in penalties of up to \$16,131 per violation, and the failure to record three separate incidents could potentially be treated as three separate violations with cumulative penalties
- D. A criminal violation that automatically results in imprisonment for the company's safety officer because failure to record injuries is classified as fraud

36. A contractor is reviewing the accounts receivable aging report. The report shows: 030 days \$180,000, 3160 days \$95,000, 6190 days \$62,000, over 90 days \$43,000. Total receivables are \$380,000. What financial management concern does the aging distribution reveal?

- A. No concern, because all receivables are classified as current assets and contribute positively to working capital regardless of their age

B. Minor concern only, because the over90day balance of \$43,000 represents less than 15% of total receivables, which is within acceptable industry benchmarks

C. The aging report is irrelevant because construction companies typically carry receivables over 90 days as a normal part of the retainage and final payment cycle

D. The \$105,000 in receivables over 60 days (\$62,000 + \$43,000) is a significant concern — aging receivables consume working capital, may indicate collection problems or client financial difficulties, and receivables over 90 days carry increasing risk of becoming uncollectible, requiring aggressive followup and potentially reserves for bad debt

37. A contractor's project involves a complex HVAC installation with extensive ductwork, piping, and control systems. The mechanical subcontractor submits shop drawings showing equipment locations that conflict with the structural beam layout shown on the structural drawings. Who is responsible for identifying and resolving this conflict?

A. The structural engineer alone, because the structural drawings take precedence over all other disciplines and the engineer must adjust the design to accommodate the mechanical systems

B. The general contractor is responsible for identifying coordination conflicts between trades and disciplines — the contractor should flag the conflict through an RFI, request direction from the design team, and coordinate the resolution between the structural engineer and the mechanical subcontractor to ensure both systems can be installed without interference

C. The mechanical subcontractor alone, because the subcontractor submitted the conflicting shop drawings and is solely responsible for ensuring their work coordinates with all other disciplines

D. The project owner, because the owner hired both the structural engineer and the architect and is therefore responsible for coordinating the work of all design professionals

38. A contractor operating as a sole proprietor converts the business to an LLC on March 1 of the current year. For tax purposes, how is income reported for this transition year if the LLC is a singlemember entity and no tax election is made?

A. The sole proprietor reports all business income for the entire year on Schedule C of their personal Form 1040, because a singlemember LLC without a tax election is treated as a disregarded entity — the tax treatment does not change from the sole proprietorship, and no separate entity return is required

B. The contractor must file two separate tax returns — a final sole proprietorship return for JanuaryFebruary and a new LLC partnership return for MarchDecember

- C. The contractor must file Form 1120 as a corporation for the period March-December because forming an LLC automatically creates a new taxable entity classified as a corporation
- D. The contractor must obtain a new EIN and file a partial-year Form 1065 for the March-December LLC period, even though the LLC has only one member

39. A contractor's project superintendent observes that a concrete truck has been on site for 90 minutes and the concrete has not yet been placed. The specifications state that concrete must be placed within 90 minutes of batching (or within the time recommended by the manufacturer, whichever is less). The concrete in the truck has begun to stiffen. What should the superintendent do?

- A. Direct the concrete crew to add water to the mix to restore workability, which is standard practice for concrete that has been in the truck for extended periods
- B. Reject the load and send the truck back to the batch plant — concrete that has exceeded the specified time limit or has begun to stiffen should not be placed because the delayed placement and stiffening compromise the concrete's workability, strength development, and long-term durability
- C. Place the concrete in a nonstructural area such as a sidewalk or equipment pad where reduced strength will not affect the building's structural integrity
- D. Accept the load and add a concrete accelerator to speed up the curing process, which compensates for the delayed placement time

40. A contractor signs a construction contract and the owner requires the contractor to name the owner as an additional insured on the contractor's CGL policy. What does the additional insured endorsement provide to the owner?

- A. The endorsement transfers the contractor's CGL policy to the owner, making the owner the primary named insured for the duration of the project
- B. The endorsement allows the owner to file claims directly against the contractor's CGL policy without first pursuing the contractor, but only for claims unrelated to the construction work
- C. The endorsement provides the owner with coverage under the contractor's CGL policy for claims arising from the contractor's operations on the project — giving the owner a direct right to defense and indemnification from the contractor's insurer for liability arising from the contractor's work
- D. The endorsement reduces the contractor's policy limits by 50% because the available coverage must be shared equally between the named insured and the additional insured

41. A contractor wants to determine the breakeven revenue for the next fiscal year. The projected annual fixed costs (G&A expenses) are \$520,000, and the projected average gross profit margin on projects is 22%. What annual revenue must the contractor generate to break even?

A. \$2,363,636, calculated by dividing the fixed costs of \$520,000 by the gross profit margin of 0.22 — at this revenue level, the gross profit of \$520,000 exactly covers the G&A expenses, resulting in zero net profit

B. \$520,000, because breakeven occurs when revenue equals fixed costs regardless of the gross profit margin

C. \$2,600,000, calculated by adding the fixed costs to the projected direct cost volume and multiplying by 1.22

D. \$1,040,000, calculated by doubling the fixed costs because the 22% margin must be applied twice to account for both direct costs and overhead

42. A contractor's project is nearing completion. The architect conducts the substantial completion inspection and certifies that the project is substantially complete — ready for the owner to occupy and use for its intended purpose. What events are triggered by the certificate of substantial completion?

A. Only the punch list period begins — no other contractual events are affected by the substantial completion certification

B. The contractor's insurance obligations end immediately because the owner has accepted the building by occupying it

C. The contractor must immediately remove all equipment and personnel from the site because the owner takes exclusive possession at substantial completion

D. Several contractual events are triggered: the punch list period begins, the warranty period typically starts, the owner may take possession and begin using the building, retainage release provisions are activated (per the contract terms), and the contractor's exposure to liquidated damages for late completion ends

43. A contractor employs a crew of 12 workers on a commercial roofing project. Five of the workers are classified as independent contractors and receive 1099NEC forms. The remaining seven are W2 employees. An IRS audit examines the five independent contractors and determines they should be reclassified as employees. Beyond the back taxes and penalties, what additional consequence may the contractor face?

A. The contractor's MSBOC license is automatically revoked because worker misclassification is a licensing violation that triggers immediate license cancellation

B. The five reclassified workers are now counted as employees, bringing the total employee count to 12, which may trigger additional employment law obligations — for example, if the company previously had fewer than 5 employees, the reclassification could trigger Mississippi's workers' compensation insurance requirement (5+ employees)

C. The contractor must pay each reclassified worker retroactive health insurance benefits for the entire period of misclassification, regardless of whether the company offers health insurance

D. The reclassified workers are entitled to retroactive partnership interests in the contractor's business, because employees reclassified from independent contractor status receive ownership rights under federal tax law

44. A contractor is planning a concrete pour for a large commercial foundation. The specification requires concrete testing — specifically, slump tests during placement and compressive strength tests at 7 days and 28 days. When must the slump test be performed, and what does it measure?

A. The slump test is performed at the point of placement — it measures the concrete's consistency and workability by determining how much a standard cone of fresh concrete settles (slumps) when the cone is removed, verifying that the delivered concrete matches the approved mix design's workability parameters

B. The slump test is performed 28 days after placement to measure the concrete's final compressive strength by applying increasing pressure until the test cylinder fails

C. The slump test is performed at the batch plant before the concrete is loaded into the mixer truck, measuring the water content of the dry cement mix

D. The slump test is performed 7 days after placement to measure the concrete's early curing progress by striking a hardened sample with a calibrated hammer

45. A contractor's project has been substantially delayed by 6 weeks due to the owner's failure to provide timely access to a portion of the project site. The contractor has documented the delay with daily reports, correspondence, and schedule analysis. The contract includes a nodamagesfordelay clause that states the contractor's sole remedy for ownercaused delays is a time extension, with no monetary compensation for delayrelated costs. Is this clause enforceable?

A. Nodamagesfordelay clauses are always unenforceable because they violate public policy by allowing the owner to cause delays without financial consequence

- B. Nodamagesfordelay clauses are enforceable in some states, including Mississippi, but courts have recognized exceptions — such as delays caused by the owner's active interference, bad faith, or fraud — where the clause may not bar the contractor's recovery of delay damages
- C. Nodamagesfordelay clauses are enforceable without exception in all states, and the contractor has no remedy beyond the time extension regardless of the cause or severity of the delay
- D. Nodamagesfordelay clauses apply only to weatherrelated delays and cannot be used to bar claims for ownercaused delays

46. A contractor's employee is bitten by a venomous snake while clearing brush on a rural construction site. The employee requires hospitalization and antivenom treatment. Is this injury covered by workers' compensation?

- A. No, because snake bites are classified as acts of nature that are excluded from workers' compensation coverage
- B. No, because the employee was performing brush clearing rather than construction work, and only injuries during actual construction activities are covered
- C. Yes, but only if the contractor can prove the snake was already present on the site before construction began, because preexisting hazards are the only animalrelated injuries covered by workers' compensation
- D. Yes, because the injury arose out of and in the course of employment — the employee was performing assigned work duties (clearing brush on a construction site) when the injury occurred, which is the fundamental test for workers' compensation coverage

47. A contractor's project has the following WIP data for two active projects. Project 1: contract \$800,000, earned revenue \$480,000, billings \$520,000. Project 2: contract \$1,200,000, earned revenue \$720,000, billings \$660,000. How do these projects appear on the contractor's balance sheet?

- A. Both projects are combined into a single WIP line item showing total earned revenue of \$1,200,000 and total billings of \$1,180,000
- B. Project 1 is overbilled by \$40,000 (billings \$520,000 > earned \$480,000), classified as a current liability — Project 2 is underbilled by \$60,000 (earned \$720,000 > billings \$660,000), classified as a current asset — the two amounts are reported separately on the balance sheet, not netted against each other
- C. Both projects appear as assets because the total earned revenue exceeds total billings across the two projects

D. Both projects appear as liabilities because the contractor has billing obligations that create deferred revenue

48. A contractor is reviewing a potential project that involves constructing a building on a site where the previous structure was demolished and hazardous materials were identified during the environmental site assessment. The assessment found petroleum contamination in the soil at levels exceeding regulatory standards. What risk management consideration should the contractor evaluate before bidding?

A. The contractor should evaluate the scope and cost of environmental remediation that may be required during construction, determine whether the contract allocates contamination risk to the owner or the contractor, verify whether environmental liability insurance is needed, and assess whether the contaminated conditions could cause project delays, additional costs, or regulatory compliance obligations that should be reflected in the bid price

B. Soil contamination has no impact on construction and should not be considered during the bidding process because environmental issues are always the owner's responsibility

C. The contractor should refuse to bid on any project with known soil contamination because construction on contaminated sites is prohibited by Mississippi law

D. The contractor should increase the bid price by a flat 5% to cover potential environmental costs, which is the standard industry practice for contaminated site construction

49. A contractor's project requires a construction crane to be erected on site for the duration of the structural steel erection phase. The crane will operate near overhead power lines. OSHA requires the contractor to implement specific safety measures for crane operations near energized power lines. What is one of the primary safety measures?

A. The crane operator must hold a valid commercial driver's license (CDL) because crane operation near power lines requires the same certification as driving on public roads

B. The contractor must install insulated covers on the power lines before the crane arrives on site, because OSHA requires physical insulation of all power lines within 200 feet of active crane operations

C. The contractor must maintain minimum clearance distances between the crane and the energized lines — 10 feet for lines up to 50kV with increased distances for higher voltages — and implement additional measures such as a dedicated spotter, crane proximity warning devices, and prelift planning that accounts for boom swing radius relative to power line locations

D. The contractor must obtain a waiver from the electric utility company allowing the crane to operate within 5 feet of the power lines, which eliminates the need for clearance distances

50. A contractor is evaluating whether to carry an umbrella liability policy. The contractor currently has a \$1,000,000 CGL policy, a \$1,000,000 commercial auto policy, and a workers' compensation policy with employer's liability limits of \$500,000. The contractor is bidding on larger commercial projects where owners require \$5,000,000 in total liability coverage. What is the most costeffective way to meet this requirement?

- A. Increase the CGL policy limits to \$5,000,000, which is the only way to meet the owner's liability coverage requirement
- B. Purchase five separate \$1,000,000 CGL policies from different carriers to create \$5,000,000 in total coverage
- C. Reduce the deductibles on existing policies to increase the effective coverage available for each claim
- D. Purchase an umbrella policy with a \$4,000,000 limit that sits above the existing \$1,000,000 CGL and auto policies — this creates \$5,000,000 in total liability coverage per occurrence at a fraction of the cost of increasing the primary CGL limit to \$5,000,000, because umbrella premiums are significantly lower than primary policy premiums for the same amount of coverage

Practice Exam 8: Answer Key and Explanations

1. B — Subcontractor listing requirements exist specifically to prevent bid shopping — using one sub's price to win the bid and then switching to a cheaper alternative after the award. The contractor must use the listed subcontractor unless the owner approves a substitution for legitimate cause such as the sub's inability to perform. The contractor accepted the mechanical sub's price as part of the winning bid and is bound by the listing.

2. D — When suspected asbestoscontaining materials are discovered — especially after some disturbance has already occurred — the most critical action is to stop work immediately, evacuate the affected area, prevent further disturbance, and arrange for qualified testing. Asbestos fibers become airborne when disturbed and are invisible to the naked eye. Continuing any demolition activity risks exposing workers to a confirmed carcinogen that causes mesothelioma and other fatal diseases.

3. C — Net worth is $\$950,000 - \$875,000 = \$75,000$, which meets the \$50,000 minimum for major classifications. However, the \$25,000 margin above the threshold is thin — a single bad project or unexpected expense could drop net worth below \$50,000. The current ratio of 1.08 ($\$410,000 \div \$380,000$) indicates tight liquidity. Both metrics suggest the contractor meets minimum requirements but has minimal financial cushion.

4. A — The projected overhead rate is $\$345,000 \div \$2,080,000 = 16.6\%$. If the contractor continues using last year's 15% rate, every bid will undercharge overhead by 1.6% — on a project with \$500,000 in direct costs, that's \$8,000 in unrecovered overhead. The overhead rate must be recalculated annually to reflect current operating costs, ensuring every project contributes its fair share to covering the company's actual G&A expenses.

5. D — A multimember LLC is taxed as a partnership by default and must file Form 1065 annually. Failing to file for two years triggers penalties of approximately \$220 per member per month of

delinquency, up to 12 months per return. For a twomember LLC, that's \$440/month per late return. Additionally, the members should have reported their K1 income on personal returns — failing to do so creates additional individual filing issues.

6. B — This scenario involves three separate OSHA ladder safety violations: the extension above the landing point is only 2 feet (OSHA requires at least 3 feet), the ladder is not secured at the top (OSHA requires ladders to be tied off or otherwise secured to prevent displacement), and the steep angle suggests the ladder is not at the proper 4:1 ratio (OSHA recommends approximately 75.5 degrees). Each deficiency is a separately citable violation.

7. A — Filing a construction lien is the most effective immediate step to protect the contractor's right to payment. The lien creates a legal claim against the property that encumbers the title, creating significant leverage for payment resolution. The lien must be filed with the Chancery Clerk of the county where the property is located within the statutory deadline — missing this deadline permanently extinguishes the lien right regardless of the merits of the claim.

8. C — Revised total cost: $\$1,530,000 + \$1,120,000 = \$2,650,000$. Original estimated cost was $\$2,550,000$. The projected cost has increased by $\$100,000$, reducing projected profit from $\$450,000$ ($\$3,000,000 - \$2,550,000$) to $\$350,000$ ($\$3,000,000 - \$2,650,000$). This $\$100,000$ profit erosion signals a cost overrun trend that demands investigation — the project manager must identify the source and implement corrective action before additional profit is consumed.

9. D — Flowdown clauses incorporate relevant prime contract terms into the subcontract, but insurance requirements should be specifically stated with limits appropriate to the subcontractor's scope and risk. A plumbing subcontractor performing $\$200,000$ of work may not need the same $\$2,000,000$ CGL limits as the general contractor managing a $\$5,000,000$ project. Insurance obligations should be clearly negotiated and specified in the subcontract, not assumed from a blanket flowdown.

10. A — Overhead rate: $\$396,000 \div \$2,640,000 = 15\%$. Overhead allocation: $\$890,000 \times 15\% = \$133,500$. Total cost: $\$890,000 + \$133,500 + \$47,000 = \$1,070,500$. Selling price for 7% margin: $\$1,070,500 \div 0.93 = \$1,150,538$. The answer of $\$1,078,280$ reflects the correct methodology — dividing total cost by $(1 - \text{margin}\%)$ to achieve margin on selling price. The key principle: divide by 0.93, do not multiply by 1.07.

11. B — The contractor must pay the remaining $\$5.75/\text{hour}$ fringe shortfall either as additional cash wages or as contributions to approved benefit plans. DavisBacon requires the total fringe package to equal or exceed the wage determination amount ($\$13.75/\text{hour}$). The $\$8.00$ health plan contribution covers only $\$8.00$ of the $\$13.75$ requirement — the remaining $\$5.75$ must be provided through some combination of additional benefits or cash.

12. D — Partner A's total SE income is the 60% distributive share ($\$240,000$) plus the $\$30,000$ guaranteed payment = $\$270,000$. For general partners, both distributive shares of ordinary income and guaranteed payments are subject to selfemployment tax. Guaranteed payments are not classified as salary with payroll withholding — they are selfemployment income that the partner reports on Schedule SE along with their distributive share.

13. C — The neighboring homeowner's property was damaged by the contractor's construction operations — specifically, vibration from compaction equipment. This is a classic CGL Coverage A claim: thirdparty property damage caused by the contractor's operations. The CGL policy defends the

contractor and pays the homeowner's \$45,000 claim (subject to the deductible). Workers' comp covers employee injuries, and builder's risk covers the contractor's own project.

14. D — Float = Latest Start – Earliest Start = 28 – 25 = 3 days (confirmed by Latest Finish – Earliest Finish = 36 – 33 = 3). A 2day delay consumes 2 of the 3 available float days. Since the delay (2 days) is less than the available float (3 days), the project completion date is unaffected — 1 day of float remains. If the delay were 4 days, it would exceed the float and push the project end date by 1 day.

15. C — The FMLA applies to employers with 50 or more employees within a 75mile radius. This employer has 48 employees — below the threshold. The denial is lawful because the FMLA does not apply to this employer. The employer may voluntarily offer leave, but it is not legally required. The 50employee threshold is the same for all FMLA qualifying reasons including parental leave.

16. A — Revenue of \$2,100,000 is 12.5% below the prorated halfyear target of \$2,400,000, indicating a revenue shortfall. Cost of construction is consuming 85% of revenue versus the budgeted 80%, compressing gross margins. G&A expenses of \$340,000 exceed the prorated halfyear budget of \$312,000 by \$28,000. All three metrics are trending negatively — the company is underperforming on revenue while overspending on both direct costs and overhead.

17. D — Two violations occurred: the competent person misclassified Type C soil as Type B, and the resulting protective system (1:1 slope) was inadequate for the actual conditions. Type C soil requires 1½:1 (34 degrees) — significantly gentler than the 1:1 (45 degrees) slope installed for Type B. The too steep slope directly contributed to the cavein. Accurate soil classification is the foundation of the entire excavation safety system.

18. B — The subcontract specifies payment within 10 days of the contractor's receipt from the owner. Payment received January 25 means the subcontractor's payment was due by February 4. Paying on February 20 is 16 days late — a clear breach of the contractual payment terms. The paywhenpaid clause establishes a specific, enforceable timeline, and the contractor violated it by paying more than two weeks past the deadline.

19. A — The contract specifies retainage release within 45 days of substantial completion, conditioned on punch list completion and closeout document delivery. The contractor has met all conditions. The owner is obligated to release the \$250,000 within 45 days of the architect's substantial completion certification. Failure to do so constitutes a breach of the payment obligation that may entitle the contractor to file a lien or pursue legal action.

20. C — A bid error on a public project may allow the contractor to withdraw the entire bid if the error is material (the \$40,000 impact is significant), made in good faith (not an attempt to manipulate pricing after seeing competitors' bids), and clerical in nature (an incorrect unit price calculation). The contractor must notify the owner promptly and provide documentation. Individual line items cannot be modified after submission without withdrawing the entire bid.

21. D — Completion: $\$561,000 \div \$935,000 = 60\%$. Earned revenue: $60\% \times \$1,100,000 = \$660,000$. Billings: \$700,000. Since billings (\$700,000) exceed earned revenue (\$660,000) by \$40,000, the project is overbilled. The \$40,000 overbilling is classified as a current liability (billings in excess of costs and estimated earnings) on the balance sheet — the contractor has been paid for work not yet performed.

22. B — Supporting a stored materials payment requires comprehensive documentation: supplier invoices proving the cost, delivery receipts confirming materials arrived on site, photographs showing the materials' condition and secure storage location, and verification that the materials match the approved submittals. This documentation protects both the general contractor (who vouches for the payment to the owner) and the owner (who is paying for materials not yet installed).

23. A — A Residential Remodeler license authorizes remodeling, renovation, and alteration of existing residential structures. It does not authorize new residential construction. Building a new detached guest house — even on an existing residential property — is new construction that requires a Residential Builder license. The classification distinction is based on the type of work (new vs. renovation), not the location or relationship to existing structures.

24. C — The FLSA requires overtime to be calculated on a workweek basis — each week stands alone. Week 1 (38 hours) has zero overtime. Week 2 (46 hours) has 6 hours of overtime at \$51.00/hr ($1.5 \times \$34.00 = \51.00). The employer's twoweek averaging approach, which calculated only 2 hours of overtime, underpaid 4 hours of overtime premium. Multiweek averaging is prohibited under the FLSA.

25. B — When a contractor follows prescriptive design specifications exactly and the design fails, the designer typically bears responsibility for the design's adequacy. The contractor installed the shoring system as designed — the failure resulted from a design deficiency, not an installation error. This principle — that following prescriptive specifications transfers the performance risk to the designer — is fundamental to the allocation of design versus construction liability.

26. C — Projects adjacent to impaired waterways may face enhanced stormwater management requirements under the NPDES permit. The SWPPP should include additional protective measures: larger sediment basins with extended settling time, more frequent BMP inspections, buffer zones between construction activity and the waterway, and potentially numeric discharge limits. Impaired waters are already degraded, and regulatory agencies impose stricter controls to prevent further deterioration.

27. A — The \$200,000 salary is deductible by the corporation as a business expense, reducing corporate taxable income. It is taxable to the shareholder as W2 wages subject to income and payroll taxes. The \$150,000 retained profit ($\$500,000 \text{ revenue} - \$350,000 \text{ expenses} = \$150,000$) is taxed at the 21% corporate rate (\$31,500). The retained earnings are not taxed again until distributed as dividends — demonstrating the Ccorporation's ability to defer the second layer of taxation.

28. D — In a fixedprice contract, the bid price is the contract price. The contractor assumes the risk of cost overruns and retains the benefit of cost savings. Unused contingency — along with any other difference between actual costs and the contract price — belongs to the contractor as part of the total profit. The owner has no claim to unused contingency because the owner agreed to pay a fixed amount, not costplus.

29. B — Hot weather accelerates concrete hydration, reducing working time for placement and finishing. Rapid evaporation from the surface causes plastic shrinkage cracking, and elevated concrete temperatures can reduce ultimate compressive strength. Hot weather concrete requires protective measures: cooling the mix ingredients, using ice water in the batch, scheduling pours for early morning, applying evaporation retarders, and beginning curing immediately after finishing.

30. A — Ending retained earnings = Beginning retained earnings + Net income - Distributions: $\$180,000 + \$95,000 - \$60,000 = \$215,000$. Retained earnings represent the cumulative profits

reinvested in the business rather than distributed to owners. They directly increase owner's equity (net worth) on the balance sheet, strengthening the company's financial position for bonding, lending, and MSBOC licensing purposes.

31. C — Both OSHA and EPA regulate asbestos and leadbased paint, with overlapping but distinct jurisdictions. OSHA regulates worker protection — exposure limits, work practices, respiratory protection, medical surveillance — under its construction standards. EPA regulates environmental aspects — disposal requirements, the RRP Rule for lead paint renovation, and NESHAP (National Emission Standards for Hazardous Air Pollutants) for asbestos. Contractors must comply with both agencies' requirements simultaneously.

32. D — Liquidated damages apply only to contractorcaused delays. If the contractor can document that 10 of the 18 late days were caused by ownerdirected changes, the contractor is entitled to a 10day time extension. The remaining 8 days of contractorcaused delay are subject to liquidated damages: $8 \times \$1,800 = \$14,400$. Proper documentation of ownercaused delays — through daily reports, change order records, and schedule analysis — is essential to support this defense.

33. B — Inland marine insurance (contractor's equipment floater) covers mobile construction equipment that travels between jobsites — excavators, loaders, cranes, generators, compressors, and similar equipment. Standard commercial property policies typically cover property at fixed locations (office, shop, yard) and do not adequately protect equipment in transit or at temporary construction sites. The inland marine policy fills this gap, covering the equipment wherever it is used.

34. A — The contractor must send written notice documenting the submittal submission date, the contractual 2week review period, the actual 6week review, and the resulting 4week project delay. This contemporaneous written notice is essential for preserving the contractor's right to claim a time extension and delayrelated costs. Without timely written notice, the contractor may waive these rights — even when the delay was clearly caused by the architect's slow review.

35. C — Failure to maintain the OSHA 300 Log is a recordkeeping violation citable under OSHA's recordkeeping standard. Each unrecorded incident can be treated as a separate violation, with penalties up to \$16,131 per violation. Three unrecorded incidents could result in cumulative penalties approaching \$48,000. The OSHA 300 Log must be maintained contemporaneously throughout the year — not completed retroactively at yearend.

36. D — The \$105,000 in receivables over 60 days is a significant concern. Aging receivables consume working capital, reduce liquidity, and increase the risk of uncollectible accounts. The \$43,000 over 90 days is particularly troubling — receivables at this age often indicate collection problems, client financial difficulties, or disputed invoices. The contractor should aggressively pursue collections, consider establishing bad debt reserves, and evaluate the creditworthiness of clients with aging balances.

37. B — The general contractor is responsible for coordinating between trades and identifying conflicts. When mechanical ductwork conflicts with structural beams, the contractor should flag the conflict through an RFI to the design team, identify the specific drawings and locations involved, and request direction on how to resolve the interference. The design team determines the solution, and the contractor coordinates implementation between the affected trades.

38. A — A singlemember LLC that makes no tax election is treated as a disregarded entity by the IRS. The tax treatment is identical to a sole proprietorship — all income and expenses are reported on

Schedule C of the member's personal Form 1040. The conversion from sole proprietorship to single-member LLC changes the legal structure for liability purposes but does not change the federal tax filing requirements or create a new taxable entity.

39. B — Concrete that has exceeded the specified placement time limit or has begun to stiffen should be rejected. Adding water to restore workability (retempering) increases the water-to-cement ratio, reducing strength and durability. The superintendent should reject the load, send the truck back, and order a fresh batch. The specification's 90-minute limit exists precisely because concrete quality degrades after extended mixing and transport time.

40. C — The additional insured endorsement provides the owner with coverage under the contractor's CGL policy for claims arising from the contractor's operations. If a third party is injured by the contractor's work and sues both the contractor and the owner, the owner has a direct right to defense and indemnification from the contractor's CGL insurer. This is an additional layer of protection for the owner beyond the owner's own insurance.

41. A — Breakeven revenue = Fixed costs ÷ Gross profit margin = $\$520,000 \div 0.22 = \$2,363,636$. At this revenue level, gross profit = $\$2,363,636 \times 22\% = \$520,000$, which exactly covers the G&A expenses — resulting in zero net profit. Revenue below $\$2,363,636$ produces a loss; revenue above produces a profit. The breakeven calculation is one of the most fundamental financial planning tools for construction companies.

42. D — Substantial completion triggers multiple contractual events: the punch list period begins for addressing remaining deficiencies, the warranty period typically starts running, the owner may take possession and begin occupying the building, retainage release provisions are activated per the contract terms, and the contractor's exposure to liquidated damages for late completion ends. It is one of the most consequential milestones in the contract.

43. B — Reclassifying 5 independent contractors as employees increases the total employee count, which may trigger additional employment law obligations. If the company previously had fewer than 5 employees, the addition brings the count to 12, triggering Mississippi's workers' compensation insurance requirement. Other thresholds may also be affected — 15 employees for Title VII and ADA, 20 for ADEA. Misclassification consequences ripple across multiple regulatory frameworks.

44. A — The slump test is performed at the point of placement using a standardized cone mold. Fresh concrete is placed in the cone, the cone is removed, and the amount of vertical settlement (slump) is measured in inches. The test verifies that the concrete's workability matches the approved mix design. Excessive slump indicates too much water; insufficient slump indicates the concrete is too stiff for proper placement and consolidation.

45. B — No-damage-for-delay clauses are enforceable in many jurisdictions including Mississippi, but courts have recognized exceptions. When the delay is caused by the owner's active interference, bad faith, arbitrary action, or conduct not contemplated by the contract, the clause may not bar the contractor's recovery. A 6-week delay caused by the owner's failure to provide site access may fall within one of these exceptions, depending on the specific facts and the court's analysis.

46. D — Workers' compensation covers injuries that arise out of and in the course of employment. The employee was performing assigned work duties (clearing brush on a construction site) when bitten — the injury directly arose from the employment activity. Snake bites, insect stings, and other

environmental hazards encountered during work are covered because the employment placed the worker in the environment where the hazard existed.

47. B — Overbillings and underbillings are reported separately on the balance sheet — they are not netted. Project 1 is overbilled by \$40,000 (\$520,000 billed – \$480,000 earned), classified as a current liability. Project 2 is underbilled by \$60,000 (\$720,000 earned – \$660,000 billed), classified as a current asset. Separate reporting provides stakeholders with accurate information about the contractor's billing practices and financial position.

48. A — Known soil contamination creates multiple risks that must be evaluated before bidding: remediation scope and cost, contract allocation of contamination liability, need for environmental liability insurance, potential delays for remediation activities, regulatory compliance obligations, and worker exposure controls. The contractor should factor all identified environmental risks into the bid price and verify that the contract clearly defines who bears the financial responsibility for contamination-related costs.

49. C — Crane operations near energized power lines require minimum clearance distances (10 feet for lines up to 50kV, increasing with voltage), plus additional safety measures: a dedicated spotter to monitor clearance, crane proximity warning devices, and prelift planning that evaluates boom swing radius relative to power line locations. Contact between a crane and an energized line is one of the leading causes of electrocution death in construction — these measures are critical lifesafety requirements.

50. D — An umbrella policy with a \$4,000,000 limit above the existing \$1,000,000 CGL and auto policies creates \$5,000,000 in total peroccurrence coverage at a fraction of the cost of increasing the primary CGL limit. Umbrella premiums are significantly lower per dollar of coverage than primary policy premiums because umbrella claims occur less frequently — the underlying policy absorbs the majority of claims, and the umbrella responds only to the excess.