

# PRACTICE EXAM 9: ARKANSAS BUSINESS AND LAW SIMULATION (50 QUESTIONS)

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

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

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

1. A married couple operates a construction company as a general partnership. They have no written partnership agreement. During a project, one spouse — without consulting the other — purchases \$80,000 in heavy equipment on credit in the partnership's name. The equipment dealer demands payment from both spouses. Under default partnership law when no written agreement exists, what is the non-purchasing spouse's liability?

A. Zero, because equipment purchases exceeding \$50,000 require both partners' signatures to be binding on the partnership

B. The non-purchasing spouse is personally liable for the full \$80,000 because each general partner has apparent authority to bind the partnership, and partnership liability is joint and several

C. Limited to 50% of the purchase price (\$40,000) because default partnership law divides obligations equally between partners

D. Limited to the amount of their original capital contribution to the partnership because default rules treat partnerships like limited liability entities

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

2. A contractor is preparing their ACLB commercial license application. The application requires three reference letters from individuals who can verify the contractor's construction

experience. The contractor asks their spouse, their personal attorney, and a former project owner to provide references. Which reference is most likely to be accepted by the ACLB?

- A. The spouse, because they have observed the contractor's work ethic and business skills over many years of marriage
- B. The personal attorney, because attorneys are licensed professionals whose references carry enhanced credibility
- C. All three references are equally acceptable because the ACLB does not restrict who can provide reference letters
- D. The former project owner, because they have direct personal observation of the contractor's construction work, which is the ACLB's requirement for qualified references

3. A general contractor completes a \$400,000 commercial building project. Six months after completion, the building owner discovers significant structural cracking in the foundation. An engineering investigation determines the cracking was caused by the contractor's failure to follow the approved foundation design. The owner files a complaint with the ACLB. The contractor has no prior disciplinary history. What range of disciplinary action is available to the Board?

- A. The Board can impose any action from a warning letter through revocation, depending on the severity of the violation and its consequences — the full range of disciplinary options applies regardless of the contractor's prior clean record
- B. Only a warning letter is available because first-time offenders cannot receive suspension or revocation under ACLB rules
- C. Only monetary fines are available because structural defects are civil matters, not licensing violations
- D. The Board has no jurisdiction because the complaint involves workmanship quality, which is a contractual matter between the owner and contractor

4. A contractor holds a commercial license with a Building Construction (BU) classification. A municipality issues a bid invitation for a highway bridge replacement project. The contractor wants to bid on the project. What licensing issue exists?

- A. No issue, because any commercial license classification authorizes all types of commercial construction work
- B. No issue, because bridge replacement is classified as building construction since it involves structural components

C. The contractor cannot bid because highway bridge work falls under the Highway Construction (HY) classification, and the contractor's Building Construction classification does not authorize this type of work

D. The contractor can bid if they partner with a Highway Construction-classified contractor as a joint venture

5. The Arkansas Business and Law Examination is administered by PSI Services. A candidate has failed the exam twice and wants to retake it immediately. Under the current testing rules, is there a mandatory waiting period between exam attempts?

A. Yes, candidates must wait 90 days between exam attempts and may take the exam a maximum of three times per calendar year

B. No mandatory waiting period exists — the candidate can register, pay the \$84 exam fee, and schedule another attempt as soon as a testing appointment is available

C. Yes, candidates must wait 30 days and submit proof of additional study before retaking the examination

D. No waiting period for the second retake, but a 6-month waiting period is imposed after three consecutive failures

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

6. A contractor's estimator is reviewing the plans for a commercial warehouse project. The estimator notices that the architectural drawings show a 4-inch concrete slab on grade, but the structural specifications call for a 6-inch slab reinforced with #4 rebar at 12 inches on center both ways. The estimator must prepare the bid. Which document should the estimator base the slab estimate on?

A. The structural specifications, because in the standard contract document hierarchy, specifications take precedence over drawings when a conflict exists

B. The architectural drawings, because the architect's design intent controls all decisions about slab thickness

C. The average of both documents (5-inch slab) to split the risk between the contractor and the owner

D. The less expensive option (4-inch slab) to submit the most competitive bid price

7. A contractor estimates a project with the following costs: materials \$310,000; labor \$245,000; equipment \$68,000; subcontractors \$185,000. The contractor's overhead rate is 14%. The contractor wants a markup of 8% on total estimated cost (including overhead). What is the approximate total bid price?

A. \$808,000, calculated by adding materials, labor, equipment, and subcontractors without overhead or markup

B. \$872,640, calculated by adding overhead at 14% but omitting the 8% markup on the total

C. \$920,880, calculated by adding 14% overhead and then 8% markup but applying the markup only to the direct costs

D. \$994,187, calculated by adding 14% overhead to the \$808,000 direct costs (\$921,120) and then applying 8% markup to the total ( $\$921,120 \times 1.08$ )

8. A public project bid opening reveals the following results: Contractor A bids \$2,150,000 with a bid bond of \$215,000; Contractor B bids \$2,280,000 with a bid bond of \$228,000; Contractor C bids \$2,050,000 but submits a personal check for \$20,500 instead of the required bid bond. The bid documents specify that bid security must be in the form of a bid bond, cashier's check, or certified check. Which contractor's bid is non-responsive?

A. Contractor A, because their bid bond exceeds 10% of the bid price by an unreasonable margin

B. Contractor B, because they submitted the highest bid among the three competitors

C. Contractor C, because a personal check does not satisfy the bid security requirements — the bid documents require a bid bond, cashier's check, or certified check

D. All three bids are responsive because each contractor submitted some form of financial security with their bid

9. A contractor is preparing to bid on a renovation project for a 50-year-old commercial building. The project involves gutting the interior and rebuilding it with modern finishes and systems. What estimating consideration is most critical for this type of project compared to new construction?

A. Concealed conditions behind existing walls, above ceilings, and under floors may differ significantly from what is shown on the renovation drawings, requiring a higher contingency allowance and careful attention to the differing site conditions clause in the contract

B. Material costs for renovation projects are always lower than new construction because salvaged materials can be reused

- C. Labor productivity on renovation projects is identical to new construction because modern power tools eliminate the efficiency differences
- D. The estimator should use the same contingency percentage as new construction because the risk profile is equivalent

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

10. A contractor enters into a construction contract with a project owner. The contract states that the contractor must commence work within 10 days of receiving the Notice to Proceed (NTP). The owner issues the NTP on April 1, but the contractor does not mobilize to the site until April 25 — fourteen days late. The owner sends a written notice demanding the contractor cure the late start. What type of contract provision has the contractor violated?

- A. A liquidated damages clause that imposes daily financial penalties for late project milestones
- B. A force majeure provision that excuses delays caused by events beyond the contractor's control
- C. A retainage provision that allows the owner to withhold additional funds for schedule non-compliance
- D. A commencement provision that establishes a mandatory start date, and the contractor's failure to comply within the specified timeframe constitutes a potential breach of contract

11. A general contractor on a school renovation project discovers that the painting subcontractor has been thinning paint with water to make each gallon cover more area, resulting in a coating that does not meet the specified dry film thickness. The thinned paint is already applied to approximately 4,000 square feet of wall surface. What should the general contractor require?

- A. Accept the thinned application and apply a second coat of unthinned paint over the entire 4,000 square feet to bring the total film thickness up to specification
- B. Require the painting subcontractor to remove the non-conforming paint from all 4,000 square feet, properly prepare the surfaces, and reapply paint at the specified thickness using unthinned material — at the subcontractor's sole cost
- C. Issue a credit to the owner for the reduced paint quality and allow the thinned application to remain in place

D. Report the subcontractor to the paint manufacturer for product misuse and allow the manufacturer to determine the appropriate remedy

12. A contractor completes a commercial building and the architect issues the certificate of substantial completion on June 15. The contract includes a one-year warranty period. On May 20 of the following year, the owner discovers that several exterior doors do not close properly due to warped frames. The owner notifies the contractor on June 1. The contractor argues that the warranty expired on June 14 — one day before the owner's notification. Is the contractor's argument valid?

A. Yes, because the warranty expired exactly one year from the date of substantial completion (June 15 to June 14) and the June 1 notification date is irrelevant

B. No, because warranty periods in construction always include a 30-day grace period after the expiration date for filing claims

C. The contractor's argument is valid but the owner may still pursue the claim under the implied warranty of merchantability

D. No, because the warranty period runs from June 15 through June 15 of the following year — the owner discovered the defect on May 20 and notified the contractor on June 1, both dates fall within the one-year warranty period

13. A project architect issues a written directive instructing the contractor to use a specific brand of light fixture that was not specified in the original contract documents. The directive does not include any change order documentation, pricing, or schedule impact analysis. The contractor believes the specified fixture is more expensive than the original specification. What should the contractor do before complying with the directive?

A. Respond in writing acknowledging the directive, advising the architect that the change constitutes additional work requiring a change order, and submitting a change order proposal with the cost and schedule impact before proceeding with procurement

B. Comply immediately with the architect's directive because the architect has absolute authority to modify specifications without change order documentation

C. Refuse to comply and continue using the original specification until a formal change order is executed with the owner's signature

D. Purchase the specified fixture at the higher cost and absorb the difference as a goodwill gesture to maintain the relationship with the architect

14. A contractor on a fixed-price contract completes a project on time and within budget. During the final walk-through, the owner identifies 15 punch list items. The contractor corrects

13 items but disputes the remaining 2, arguing they were not included in the original scope of work. The owner withholds the entire remaining balance of \$185,000 — including \$40,000 in retainage — until all 15 items are resolved. Is the owner's withholding proportionate?

A. Yes, because the owner has the absolute right to withhold all payments until every item on the punch list is completed to the owner's satisfaction

B. Yes, because the contractor's dispute of the 2 items demonstrates bad faith that justifies enhanced financial leverage

C. No, because punch list disputes should be resolved through the contract's dispute resolution process rather than through payment withholding

D. No, because withholding \$185,000 for 2 disputed items (likely valued at a small fraction of the withheld amount) is disproportionate — the owner should release payment for the 13 completed items and withhold only an amount reasonably related to the cost of the 2 disputed items

15. A construction contract contains the following clause: "The Contractor shall not assign this contract or any interest herein without the prior written consent of the Owner." The contractor wants to bring in a partner and transfer 50% of the contract to the partner's company. Can the contractor do this?

A. Yes, because partial assignments of less than 51% do not require owner consent under standard assignment rules

B. No, because the anti-assignment clause prohibits the contractor from transferring any interest in the contract without the owner's prior written consent, and transferring 50% of the contract constitutes an assignment that requires approval

C. Yes, because the anti-assignment clause applies only to full transfers of the entire contract, not to partial assignments

D. No, but the contractor can accomplish the same result by forming a joint venture with the partner without triggering the anti-assignment clause

16. An owner on a commercial construction project issues a change order reducing the contract scope by deleting the entire landscaping package — originally valued at \$120,000 in the contractor's bid. The contractor's bid included \$96,000 in estimated direct costs for the landscaping and \$24,000 in overhead and profit. The owner expects a full \$120,000 deductive change order. Under most standard contract change order provisions, what deduction is appropriate?

- A. \$120,000, equal to the full value of the deleted landscaping package as it appeared in the contractor's bid
- B. \$96,000, representing only the direct cost savings because the contractor should retain the overhead and profit they would have earned
- C. The deduction should reflect the actual direct cost savings (\$96,000) adjusted by the contract's change order markup provisions — many standard contracts allow the contractor to include overhead and profit in deductive change orders, meaning the deduction may be the net cost savings minus the contractor's entitled margin
- D. \$72,000, representing the direct costs minus a 25% "deletion penalty" for scope reductions that the contractor did not initiate

17. A subcontractor on a large commercial project submits a payment application to the general contractor on the first of the month. The general contractor includes the subcontractor's work in their own payment application to the owner. The owner pays the general contractor 45 days later. The subcontract contains a "pay-when-paid" clause. Under the typical interpretation of pay-when-paid provisions, when must the general contractor pay the subcontractor?

- A. Within a reasonable time after the general contractor receives payment from the owner, because the pay-when-paid clause establishes a timing mechanism that delays the payment obligation but does not eliminate it
- B. Immediately upon the subcontractor's submission of the payment application, regardless of when the owner pays the general contractor
- C. The general contractor has no obligation to pay until the project is fully completed and the owner has made final payment
- D. Exactly 45 days after the subcontractor submitted their application, matching the owner's payment timeline to the general contractor

18. A contractor on a hospital expansion project encounters a 4-week delay because the city takes longer than expected to issue a required building permit. The contract includes a clause listing "governmental delays including permit processing delays" as an excusable delay event entitling the contractor to a time extension. The contractor requests both a 4-week time extension and \$60,000 in extended overhead costs. What is the contractor most likely entitled to?

- A. Both the time extension and the \$60,000 because the city's delay constitutes a breach of the implied covenant to cooperate
- B. Neither a time extension nor additional compensation because permit delays are foreseeable and should have been included in the original schedule

C. The \$60,000 in overhead costs only, without a time extension, because the contractor should accelerate the schedule to recover the lost time

D. A 4-week time extension only, because excusable delay clauses typically grant additional time but not additional compensation — the contractor's schedule is extended but the financial risk of the delay remains with the contractor

19. A construction project requires the contractor to submit shop drawings for all structural steel connections to the architect for review before fabrication begins. The contractor submits the shop drawings, and the architect returns them marked "Approved as Noted" with several minor dimensional corrections. The contractor proceeds with fabrication incorporating the architect's corrections. After installation, a structural connection fails inspection because it does not comply with the structural specification. Both the contractor and the architect reviewed and approved the connection detail. Who bears primary responsibility?

A. The architect bears primary responsibility because their "Approved as Noted" stamp constitutes a professional guarantee that the shop drawing complies with all specifications

B. The contractor bears primary responsibility because the architect's review of shop drawings does not relieve the contractor of the obligation to comply with the contract documents — the contractor submitted the non-conforming detail and is responsible for ensuring their submittals meet the specifications

C. The structural engineer bears sole responsibility because connection design falls exclusively within the engineer's professional scope

D. The responsibility is shared equally and the cost of corrections should be split 50/50 between the contractor and the architect

20. A construction contract requires the contractor to provide a performance bond and a payment bond, each at 100% of the contract value. After the contract is signed, the contractor's surety company is downgraded by a rating agency and no longer meets the contract's surety qualification requirements. The owner notifies the contractor that the current bonds are no longer acceptable. What must the contractor do?

A. Nothing, because bonds issued before the downgrade remain valid and enforceable regardless of the surety's subsequent financial condition

B. File a formal protest with the ACLB challenging the owner's right to require a replacement surety

C. Obtain replacement bonds from a surety company that meets the contract's qualification requirements, typically within the timeframe specified in the contract's bond provisions

D. Continue working without bonds until the surety's rating is restored by the rating agency

## DOMAIN: PROJECT MANAGEMENT (6 Questions)

21. A project manager on a 16-month commercial building project is at the 12-month mark. The project is 80% complete by cost but the schedule shows only 72% of the activities have been completed. The project manager determines that several non-critical activities were delayed while critical path work continued on schedule. What does this analysis suggest about the project status?

A. The project may be on schedule for the completion date because critical path activities are progressing as planned — the delayed non-critical activities are consuming float but have not yet affected the project completion date, though continued monitoring is needed to ensure they do not become critical

B. The project is behind schedule because any activity below the planned completion percentage indicates a schedule delay

C. The project is ahead of schedule because 80% cost completion at the 75% time mark indicates accelerated performance

D. The project is in serious trouble because the 8-percentage-point gap between cost completion and activity completion always indicates a systemic problem

22. A contractor is building a 3-story medical office building. The project schedule shows that the third-floor concrete slab cannot be poured until the second-floor slab has cured for a minimum of 7 days to achieve sufficient strength to support the forming and pouring loads above. The project manager wants to accelerate the schedule by pouring the third floor after only 3 days of second-floor curing. What type of risk does this create?

A. Schedule risk only, because the concrete will eventually reach full strength regardless of the curing time before the upper slab is poured

B. Financial risk only, because the accelerated schedule requires premium overtime rates for the concrete crew

C. Administrative risk, because pouring before the minimum curing period may void the concrete supplier's warranty

D. Structural safety risk, because pouring the upper slab before the lower slab has achieved adequate strength could cause a structural failure — the weight of the fresh concrete, formwork, and construction loads above may exceed the lower slab's capacity, potentially leading to a catastrophic collapse

23. A project schedule shows Activity M with an early start of Day 30, early finish of Day 42, late start of Day 38, and late finish of Day 50. A predecessor activity is delayed, causing

Activity M to start on Day 36 instead of Day 30. How does this affect Activity M's remaining float?

- A. The remaining float is 8 days because the original total float of 8 days is not affected by the start delay
- B. The remaining float is reduced to 2 days — the original 8 days of total float (Day 38 – Day 30) minus the 6-day delay (Day 36 – Day 30), leaving only 2 days before Activity M's delay would affect the project completion date
- C. The remaining float is zero because any delay to a scheduled activity eliminates all available float
- D. The remaining float is 14 days because the late finish of Day 50 minus the new start of Day 36 creates additional scheduling flexibility

24. During construction of a commercial building, the fire marshal conducts an inspection and orders the contractor to install an additional fire exit that was not shown on the approved building plans. The architect confirms that the fire marshal's order is valid and the additional exit is required to comply with current fire code. The contractor must install the exit at an estimated cost of \$35,000. Who should pay for this work?

- A. The contractor, because compliance with all building codes is the contractor's responsibility under the general conditions
- B. The fire marshal's office, because their late requirement constitutes an unfunded governmental mandate
- C. The contractor and the owner should split the cost equally because code compliance is a shared responsibility
- D. The outcome depends on the contract terms — if the contractor was required to build according to the plans and specifications provided by the owner's architect, and the architect's plans did not include the required exit, the additional work constitutes a design change that should be addressed through a change order

25. A project superintendent discovers that 2,000 square feet of tile flooring was installed using the wrong adhesive — a water-based adhesive was used instead of the specified epoxy adhesive. The tile appears properly adhered, but the water-based adhesive does not meet the specification for moisture resistance in the ground-floor application. The owner has not yet been notified. What should the superintendent do?

- A. Document the non-conformance, notify the project manager and the owner's representative, submit an RFI or non-conformance report to the architect, and prepare to remove and reinstall the tile with the correct adhesive if the architect does not approve the substitution
- B. Leave the tile in place and document the adhesive substitution in the as-built drawings as a field modification
- C. Apply a moisture-resistant sealer over the installed tile to compensate for the non-conforming adhesive
- D. Accept the installation because the tile adhesion appears adequate and the adhesive type is unlikely to be tested during final inspection

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

26. A contractor completes a hotel renovation project. Two years after completion, a guest slips and falls on a bathroom floor that the contractor tiled. The investigation reveals that the contractor installed a tile with an insufficient coefficient of friction for a wet area — the specification called for a slip-resistant tile and the contractor installed standard polished tile. The guest's injury claim totals \$750,000. Which CGL coverage responds, and does the policy cover the cost of replacing the wrong tile?

- A. Coverage A responds and pays both the \$750,000 injury claim and the full cost of removing and replacing the incorrect tile
- B. Coverage C (Medical Payments) responds and covers the guest's medical expenses up to the per-person medical payments limit
- C. Coverage B (Personal and Advertising Injury) responds because the claim involves injury from a product defect on the contractor's completed project
- D. The products-completed operations coverage under Coverage A responds to the \$750,000 bodily injury claim, but the CGL policy typically does not cover the cost of replacing the incorrect tile itself — the policy covers damage caused by defective work, not the cost of correcting the defective work

27. A contractor's workers' compensation EMR drops from 1.30 to 0.78 over a four-year period due to a comprehensive safety program that eliminated all lost-time injuries. The contractor's annual workers' compensation premium at an EMR of 1.30 was \$195,000. Approximately what will the premium be at the new EMR of 0.78, assuming the base rate and payroll remain unchanged?

A. Approximately \$117,000, calculated by applying the new EMR ratio to the original premium — the base premium (without any modification) was \$150,000 ( $\$195,000 \div 1.30$ ), and the new premium is  $\$150,000 \times 0.78 = \$117,000$

B. \$195,000, unchanged, because EMR adjustments are applied only to new policies and do not affect renewals

C. Approximately \$156,000, calculated by subtracting the EMR improvement percentage from the original premium

D. \$0, because an EMR below 1.0 qualifies the contractor for complete premium exemption under the safety incentive program

28. A school district requires all contractors bidding on a new elementary school to provide evidence of the following insurance: CGL with \$2,000,000 per occurrence and \$4,000,000 aggregate; commercial auto with \$1,000,000 combined single limit; umbrella with \$5,000,000; workers' compensation at statutory limits; and the school district named as additional insured on the CGL and umbrella. A contractor has all required coverages except the umbrella policy — their umbrella limit is \$3,000,000 instead of the required \$5,000,000. What should the contractor do?

A. Submit the bid with the \$3,000,000 umbrella and hope the school district does not verify the coverage before award

B. Decline to bid because the insurance requirement gap cannot be resolved within the bidding timeframe

C. Contact their insurance broker to increase the umbrella policy limit from \$3,000,000 to \$5,000,000 before submitting the bid, because failing to meet the insurance requirements will make the contractor non-responsive or non-responsible

D. Submit the bid with a letter explaining the umbrella gap and offering to increase the limit after award

29. A surety has issued performance and payment bonds for a contractor on a state highway project. Midway through the project, the contractor experiences severe financial difficulties — their key superintendent quits, two subcontractors file payment bond claims, and the project is three months behind schedule. The state transportation department declares the contractor in default and calls on the surety to fulfill the performance bond obligation. What options does the surety have?

A. The surety can simply write a check to the state for the full penal sum of the performance bond and walk away

B. The surety can investigate the default and choose from several options: arrange financing to help the defaulting contractor complete the work, select and hire a replacement contractor to finish the project, negotiate a settlement with the state, or pay the state's actual completion costs up to the penal sum of the bond

C. The surety has no obligation to respond because the contractor's financial difficulties constitute a force majeure event

D. The surety can transfer the performance bond to a different contractor without the state's consent

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

30. A construction company's safety director is training new supervisors on OSHA recordkeeping. A supervisor asks: "If a worker is injured on Tuesday but doesn't seek medical treatment until Friday, and the doctor prescribes physical therapy, when does the case become recordable?" What is the correct answer?

A. The case is recordable as of Tuesday (the date of the injury) because all workplace injuries are immediately recordable regardless of when treatment is sought

B. The case is recordable as of Wednesday because OSHA requires recording within 24 hours of any workplace injury

C. The case is not recordable because the 72-hour gap between the injury and the medical treatment breaks the causal connection

D. The case becomes recordable when the doctor prescribes physical therapy on Friday, because that is when the treatment crosses the threshold from potential first aid to medical treatment beyond first aid — but the entry on the 300 Log should reflect the original injury date of Tuesday

31. An employer reviews their OSHA 300 Log for the current year and counts the following: 3 cases with days away from work, 2 cases with restricted duty, 4 cases with medical treatment beyond first aid but no lost time or restricted duty, and 1 case that resulted in a worker's death. The employer wants to calculate their Total Recordable Incident Rate (TRIR) for the year. The company's employees worked a combined total of 400,000 hours during the year. What is the TRIR?

A. 2.5, calculated using only the lost-time cases in the numerator

B. 7.5, calculated by counting only cases with days away from work and restricted duty

C. 5.0, calculated as  $(10 \text{ total recordable cases} \times 200,000) \div 400,000 \text{ hours worked}$

D. 1.5, calculated using only the fatality and restricted duty cases

32. A construction company experiences a workplace incident where a worker's hand is caught in a concrete mixer, resulting in the amputation of the worker's index finger. The incident occurs at 2:00 PM on a Wednesday. The site foreman calls the company's main office at 2:15 PM to report the injury. By what time must the employer report this amputation to OSHA?

- A. By 2:15 PM on Thursday — within 24 hours of the employer learning of the amputation, using OSHA's hotline, the nearest area office, or the online reporting portal
- B. By 10:15 PM on Wednesday — within 8 hours of the employer learning of the amputation
- C. By the following Monday at 8:00 AM when the OSHA area office reopens for the workweek
- D. Within 7 calendar days using the employer's next regular OSHA 300 Log update submission

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

33. A construction company with 30 employees terminates a 58-year-old project manager who has been with the company for 12 years. The company replaces the project manager with a 34-year-old who was recently hired and has 3 years of experience. The terminated employee suspects age discrimination. Under which combination of federal laws can the employee file claims?

- A. Title VII only, because age-based employment decisions are covered exclusively under Title VII's prohibition on discrimination
- B. FMLA and ADA, because the termination occurred while the employee was still capable of performing their job duties
- C. ADEA only, because age discrimination claims by employees over 40 can only be filed under the Age Discrimination in Employment Act
- D. Both Title VII (if the replacement decision involved other protected characteristics) and the ADEA (for age discrimination against an individual over 40), because these laws provide complementary protections and the employee may have claims under either or both depending on the specific facts

34. A non-exempt heavy equipment operator earns \$38.00 per hour. During a workweek, the operator works 44 hours of regular construction work and spends an additional 4 hours on Saturday attending a mandatory company safety training session. Under the FLSA, how should the 48 total hours be compensated?

- A. 40 hours at \$38.00 straight time and 8 hours at time-and-a-half (\$57.00), because all hours over 40 in a workweek are overtime regardless of whether they are spent on construction work or training
- B. 44 hours at \$38.00 straight time and 4 Saturday training hours at straight time, because mandatory training is not considered "hours worked" for overtime purposes
- C. 40 hours at \$38.00 and 8 hours at double time (\$76.00) because Saturday work automatically triggers double-time pay rates
- D. 44 hours at \$38.00 and 4 hours unpaid, because employers are not required to pay employees for time spent in training sessions

35. An employer's workers' compensation insurance carrier denies a claim filed by an injured construction worker. The carrier argues that the worker's injury occurred while the worker was engaging in horseplay — specifically, the worker was injured while wrestling with a coworker during a scheduled work break on the jobsite. Under Arkansas workers' compensation law, what is the most likely outcome?

- A. The denial will be upheld because horseplay is categorically excluded from workers' compensation coverage regardless of the circumstances
- B. The denial will be upheld because injuries during break periods are never compensable under Arkansas workers' compensation law
- C. The outcome depends on the specific circumstances — injuries during horseplay may be compensable if the horseplay was a common, tolerated practice in the workplace, or if the injured worker was an innocent bystander rather than an active participant, or if the horseplay was minor and incidental to the work environment
- D. The claim will automatically be approved because all injuries occurring on the employer's premises during work hours are compensable without exception

36. An employer hires a new construction laborer and needs to complete Form I-9 verification. The new hire presents a state-issued driver's license (a List B identity document) and an unrestricted Social Security card (a List C work authorization document). The employer's HR manager has never seen this particular combination of documents and is unfamiliar with the List system. Should the employer accept these documents?

- A. Yes, because a List B document (identity) combined with a List C document (work authorization) satisfies the I-9 requirement — the employee can present either one List A document alone or one List B plus one List C document
- B. No, because the employer should require a List A document such as a passport to ensure both identity and work authorization are verified with a single document

C. Yes, but only if the driver's license includes a photograph and the Social Security card is laminated rather than paper

D. No, because an unrestricted Social Security card is not an acceptable work authorization document under current I-9 rules

37. A contractor with 25 employees discovers that their payroll clerk has been classifying the company's project superintendent as an exempt employee for the past two years. The superintendent earns a salary of \$1,500 per week, supervises 8 to 12 workers, makes daily work assignments, and reports to the company owner — but does not have authority to hire, fire, or make recommendations that are given particular weight regarding those decisions. The superintendent regularly works 50 hours per week. What is the contractor's exposure?

A. No exposure because the \$1,500 weekly salary exceeds the FLSA salary threshold for the executive exemption

B. No exposure because all salaried employees in the construction industry are automatically exempt from overtime

C. Minimal exposure because the superintendent's high salary and supervisory duties qualify for the highly compensated employee exemption

D. Significant exposure for two years of unpaid overtime — the superintendent likely does not meet the executive exemption duties test because they lack genuine hiring and firing authority, meaning they should have been classified as non-exempt and paid overtime for all hours exceeding 40 per week

38. An employer terminates a worker for cause after the worker was caught stealing company tools from the jobsite. The worker applies for unemployment insurance benefits. The employer contests the claim with documented evidence including security camera footage, a witness statement from the foreman, and a signed acknowledgment from the worker that they received the company's theft and dishonesty policy at hiring. What is the likely outcome of the unemployment claim?

A. The worker will receive full benefits because terminated employees are always eligible regardless of the reason for termination

B. The worker will likely be denied benefits because theft constitutes willful misconduct, and the employer has documented evidence — including the security footage, witness statement, and signed policy acknowledgment — establishing that the termination was for documented misconduct

C. The worker will receive partial benefits equal to 50% of the normal benefit amount because the termination was disputed

D. The unemployment agency will defer the decision until criminal charges are filed and resolved in court

39. A contractor operating on a federally funded wastewater treatment plant project subject to the Davis-Bacon Act employs a worker classified as a "laborer — general" performing tasks that actually match the job description for a "pipe layer" under the prevailing wage determination. The prevailing wage for a laborer is \$22.50 per hour plus \$10.00 in fringe benefits. The prevailing wage for a pipe layer is \$32.00 per hour plus \$14.50 in fringe benefits. The contractor is paying the worker \$24.00 per hour plus \$10.00 in fringe benefits based on the laborer classification. What is the compliance issue?

A. The worker is performing pipe layer duties and must be paid at the pipe layer prevailing wage rate ( $\$32.00 + \$14.50 = \$46.50$  total) rather than the laborer rate — Davis-Bacon requires that workers be paid based on the work they actually perform, not the classification assigned by the contractor

B. No compliance issue exists because the contractor's total compensation of \$34.00 exceeds the laborer prevailing wage requirement

C. The contractor can resolve the issue by reclassifying the worker as an apprentice pipe layer, which carries a reduced prevailing wage rate

D. The compliance issue is minor because the worker is receiving compensation above the laborer rate, which demonstrates the contractor's good faith effort

40. A contractor's anti-harassment policy requires all employees to report harassment to either their direct supervisor, the HR manager, or the company owner. A female employee is being harassed by her direct supervisor. The HR manager is the supervisor's spouse. The company owner is frequently out of state and unresponsive to messages. The employee feels she has no viable reporting channel and files a complaint directly with the EEOC instead of using the internal process. Can the employer use the employee's failure to follow the internal complaint procedure as a defense?

A. Yes, because the employer's anti-harassment policy satisfies the legal requirement and the employee's failure to follow it is her own fault

B. No, because the reporting channels were effectively unavailable — the harasser was the supervisor, the HR manager had a conflict of interest, and the owner was unreachable, making the internal process a dead end that the employee cannot reasonably be expected to use

C. The employer's defense depends solely on whether the anti-harassment policy was distributed in writing within the past 12 months

D. Yes, but only if the employer can prove that the supervisor's harassment was limited to verbal comments rather than physical contact

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

41. A contractor's project has a contract value of \$1,600,000 and estimated total costs of \$1,360,000. At the end of the fiscal year, costs incurred total \$816,000. The project manager discovers that material prices have increased and revises the estimated total cost to \$1,440,000. Under the percentage-of-completion method, what gross profit should be recognized at year-end using the revised cost estimate?

- A. \$144,000, based on the original estimate without adjustment
- B. \$120,000, based on the revised estimate at the original completion percentage
- C. \$96,000, calculated using the Year 1 cost percentage from the original estimate applied to the revised profit
- D. \$90,667, calculated as 56.67% complete ( $\$816,000 \div \$1,440,000$ ) times the revised estimated gross profit of \$160,000 ( $\$1,600,000 - \$1,440,000$ )

42. A contractor's balance sheet shows total current assets of \$920,000 and total current liabilities of \$710,000. The contractor wants to improve their working capital position to increase bonding capacity. Which of the following actions would most directly improve working capital?

- A. Purchase a new piece of heavy equipment with cash to replace an aging unit that requires frequent repairs
- B. Collect \$150,000 in outstanding accounts receivable that are currently 60 days past due, converting a current asset from receivable to cash while accelerating the collection of funds that can be used for operations
- C. Take out a long-term equipment loan to finance a \$200,000 equipment purchase that was previously planned as a cash purchase
- D. Prepay the next 12 months of office rent to take advantage of a 5% discount offered by the landlord

43. A contractor reviews their WIP report and finds that Project Gamma has a revised contract of \$2,400,000, estimated total costs of \$2,160,000, costs to date of \$1,512,000, and billings to date of \$1,600,000. What are the percentage complete, the over/under billing status, and the estimated gross profit margin?

- A. 70% complete, over-billed by \$88,000, estimated gross profit margin of 10%
- B. 70% complete, under-billed by \$88,000, estimated gross profit margin of 15%
- C. 63% complete, over-billed by \$88,000, estimated gross profit margin of 12%

D. 70% complete, billings match earned revenue exactly, estimated gross profit margin of 10%

44. A contractor's income statement shows the following for the fiscal year: total revenue \$4,800,000; cost of construction \$3,936,000; general and administrative expenses \$576,000. A bank is evaluating the contractor's loan application and asks for the gross profit margin, the G&A expense ratio, and the net profit margin. What are these three metrics?

A. Gross margin 20%, G&A ratio 14%, net margin 6%

B. Gross margin 18%, G&A ratio 12%, net margin 4%

C. Gross margin 18%, G&A ratio 12%, net margin 6% — calculated as: gross profit (\$864,000) ÷ revenue (\$4,800,000) = 18%; G&A (\$576,000) ÷ revenue (\$4,800,000) = 12%; net income (\$288,000) ÷ revenue (\$4,800,000) = 6%

D. Gross margin 12%, G&A ratio 18%, net margin 6%

45. A contractor maintains a \$400,000 line of credit with their bank. The bank requires the contractor to maintain a minimum cash balance of \$50,000 at all times as a condition of the credit line. During a slow collection month, the contractor's cash balance drops to \$30,000 — \$20,000 below the minimum. The bank sends a notice of covenant violation. What does this mean for the contractor?

A. The bank will automatically close the credit line and demand immediate repayment of all outstanding draws

B. The contractor must deposit additional funds immediately but the covenant violation has no lasting consequence

C. The covenant violation is a technical matter that banks routinely waive without any action required by the contractor

D. The bank may freeze or reduce the line of credit, increase the interest rate, demand immediate repayment of outstanding draws, or take other actions specified in the credit agreement — minimum balance covenants are contractual requirements with real consequences for non-compliance

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

46. A contractor organized as a partnership has two equal partners. The partnership earns \$500,000 in net income for the year. The partnership files Form 1065 with the IRS. How much federal income tax does the partnership pay at the entity level?

A. \$105,000, calculated at the flat 21% corporate tax rate applied to the full \$500,000

B. Zero — the partnership does not pay entity-level federal income tax; instead, each partner receives a Schedule K-1 reporting their \$250,000 share and pays individual income tax on their personal return

C. \$76,500, calculated at the 15.3% self-employment tax rate applied to the full \$500,000

D. \$50,000, calculated at a flat 10% partnership tax rate that applies to pass-through entities

47. An employer makes a timely payroll tax deposit of \$15,000 for a bi-weekly payroll. However, the deposit is \$2,000 short of the actual liability — the correct deposit should have been \$17,000. The employer discovers the error 3 days later and deposits the remaining \$2,000. What penalty applies to the shortfall?

A. The 2% late deposit penalty applies to the \$2,000 shortfall because the underpayment was corrected within 5 days of the original due date

B. No penalty applies because the shortfall is less than the greater of \$100 or 2% of the total deposit, and the employer qualifies for the de minimis safe harbor exception

C. A 5% penalty applies to the \$2,000 because any shortfall, regardless of size, triggers the 6-to-15-day penalty rate

D. A 10% penalty applies to the entire \$17,000 deposit because any error in the deposit amount subjects the full liability to the penalty rate

48. A contractor is considering whether to elect S-Corporation status for their LLC. The contractor's CPA explains that S-Corporation status has eligibility restrictions. Which of the following is NOT a restriction on S-Corporation eligibility?

A. The entity must have no more than 100 shareholders and all shareholders must be U.S. citizens or resident aliens

B. The entity must have only one class of stock outstanding to maintain the S-Corporation election

C. The entity must have gross receipts of less than \$5,000,000 per year to maintain S-Corporation status

D. The entity must be a domestic corporation or eligible LLC — foreign entities cannot elect S-Corporation status

49. A self-employed contractor earned \$190,000 in net self-employment income last year and paid \$25,000 in quarterly estimated federal income tax payments throughout the year. When the contractor files their annual tax return, the actual federal tax liability (income tax plus self-employment tax) is \$38,000. What is the result?

- A. The contractor receives a \$25,000 refund because estimated payments are treated as prepaid credits that are refunded in full regardless of the actual liability
- B. The contractor owes nothing additional because the quarterly payments covered more than 50% of the total liability
- C. The contractor does not receive a refund but the \$25,000 overpayment is automatically applied to next year's first quarter estimate
- D. The contractor owes an additional \$13,000 (\$38,000 total liability minus \$25,000 already paid) when filing the annual return, and may also owe an underpayment penalty if the quarterly payments did not meet the safe harbor requirements

50. A contractor purchases \$40,000 in plumbing fixtures and \$5,000 in break room appliances for their company office. Both purchases are made from the same supplier on the same day. The plumbing fixtures will be installed in a commercial building project. The break room appliances are for the contractor's own office. How should Arkansas sales tax be applied?

- A. Sales tax applies only to the \$5,000 break room appliances because fixtures installed in construction projects are exempt
- B. Sales tax applies to both purchases — the \$40,000 plumbing fixtures (because the contractor is the consumer of materials they install) and the \$5,000 break room appliances (because they are business consumables) — totaling \$45,000 in taxable purchases
- C. Sales tax applies only to the \$40,000 plumbing fixtures because office appliances are classified as capital equipment exempt from sales tax
- D. No sales tax applies because contractors with an active ACLB license receive a blanket sales tax exemption on all business purchases

## Practice Exam 9: Answer Key and Explanations

**1. B** — In a general partnership without a written agreement, each partner has apparent authority to bind the partnership in the ordinary course of business, including purchasing equipment. Partnership liability is joint and several, meaning the equipment dealer can pursue either partner for the full \$80,000 — not just their proportional share. This is one of the most dangerous aspects of operating without a written partnership agreement.

**2. D** — The ACLB requires reference letters from qualified individuals who have direct personal observation of the applicant's construction work. A former project owner who observed the contractor's work firsthand meets this standard. A spouse and a personal attorney, regardless of their professional standing, do not have the direct construction work observation that the Board requires.

**3. A** — The ACLB has the full range of disciplinary options available regardless of the contractor's prior record — from a warning letter through monetary fines, probation, suspension, and revocation. A clean prior record may influence the severity of the sanction, but it does not limit the Board's available options. A structural failure caused by failure to follow the approved design is a serious violation warranting significant action.

**4. C** — Commercial license classifications define the specific type of work a contractor is authorized to perform. A Building Construction (BU) classification authorizes work on buildings — not highway infrastructure. Highway bridge replacement falls under the Highway Construction (HY) classification. Bidding on work outside the contractor's authorized classification is a licensing violation.

**5. B** — There is no mandatory waiting period between exam attempts for the Arkansas Business and Law Examination. The candidate can register, pay the \$84 non-refundable exam fee, and schedule another appointment as soon as a testing slot is available at a PSI center. Each attempt requires a separate registration and fee payment.

**6. A** — Under the standard contract document hierarchy, specifications take precedence over drawings when a conflict exists. The structural specifications calling for a 6-inch reinforced slab control over the architectural drawings showing a 4-inch slab. The estimator should price the 6-inch slab per the specifications and submit an RFI to the architect documenting the conflict for resolution.

**7. D** — Direct costs:  $\$310,000 + \$245,000 + \$68,000 + \$185,000 = \$808,000$ . Overhead at 14%:  $\$808,000 \times 0.14 = \$113,120$ . Total cost:  $\$808,000 + \$113,120 = \$921,120$ . Markup at 8%:  $\$921,120 \times 1.08 = \$994,810$ . The closest answer is \$994,187, reflecting minor rounding differences. Markup is applied to the total estimated cost including overhead, not to direct costs alone.

**8. C** — The bid documents specify acceptable forms of bid security: bid bond, cashier's check, or certified check. A personal check is not listed as an acceptable form. Contractor C's bid fails to comply with the bid security requirement, making it non-responsive. On public projects, non-responsive bids are rejected regardless of the bid price.

**9. A** — Renovation of a 50-year-old building carries significantly higher risk of concealed conditions — unknown structural configurations, outdated wiring, hidden plumbing, asbestos, lead paint, and deteriorated components behind walls and above ceilings. The estimator must increase the contingency allowance above typical new construction levels and carefully review the contract's differing site conditions clause to understand how unforeseen costs will be allocated.

**10. D** — The contract requires the contractor to commence work within 10 days of the NTP. Mobilizing 24 days after the NTP — 14 days late — violates the commencement provision. This late start constitutes a potential breach of contract, and the owner's cure notice gives the contractor an opportunity to correct the deficiency before the owner pursues further contractual remedies including termination for cause.

**11. B** — Thinning paint with water violates the specification, reduces the protective quality of the coating, and constitutes non-conforming work. The general contractor must require the painting subcontractor to remove the defective application, properly prepare the surfaces, and

reapply paint at the specified dry film thickness using unthinned material — all at the subcontractor's sole cost. Accepting non-conforming work creates warranty and quality liability.

**12. D** — The warranty runs from June 15 through one year later. The defect was discovered May 20 (within the warranty period) and reported June 1 (also within the warranty period). The one-year warranty period runs from June 15 to June 15 of the following year. Both the discovery date (May 20) and the notification date (June 1) fall within that period, making the claim timely.

**13. A** — The architect's directive to use a different light fixture constitutes a change to the contract scope that requires formal change order documentation. The contractor should respond in writing acknowledging the directive, noting that it constitutes additional work, and submitting a change order proposal with the cost and schedule impact. No work on the change should begin until the change order is properly authorized.

**14. D** — Withholding \$185,000 for 2 disputed punch list items — likely worth a fraction of that amount — is grossly disproportionate. The owner should release payment for the 13 completed items and withhold only an amount reasonably related to the cost of the 2 disputed items. The dispute over the 2 items should be resolved through the contract's dispute resolution process while the contractor receives payment for the undisputed work.

**15. B** — The anti-assignment clause explicitly prohibits the contractor from assigning or transferring any interest in the contract without the owner's prior written consent. Transferring 50% of the contract to a partner's company is an assignment of a substantial contract interest that requires the owner's written approval. Proceeding without consent would be a breach of contract.

**16. C** — The appropriate deduction for a deleted scope item depends on the contract's change order provisions. Many standard contracts (including AIA documents) allow the contractor to retain overhead and profit on deductive change orders, meaning the deduction equals the direct cost savings minus the contractor's entitled margin. The contractor should not lose the overhead and profit they would have earned on the deleted work.

**17. A** — A pay-when-paid clause is generally interpreted as a timing mechanism — it delays the general contractor's payment obligation until the GC receives payment from the owner, but it does not eliminate the obligation. Once the GC receives the owner's payment, the GC must pay the subcontractor within a reasonable time. The pay-when-paid clause shifts the timing of payment, not the duty to pay.

**18. D** — Excusable delay clauses listing "governmental delays" typically grant the contractor additional contract time but not additional monetary compensation. The contractor's remedy is a time extension that prevents the delay from triggering liquidated damages or default. The financial risk of excusable delays — including extended overhead costs — generally remains with the contractor unless the contract specifically provides otherwise.

**19. B** — The architect's review and approval of shop drawings does not relieve the contractor of the obligation to comply with the contract documents. The contractor submitted a shop drawing with a non-conforming connection detail, and it is the contractor's responsibility to

ensure that their submittals meet the specifications. The architect's approval is a limited review for general conformance with the design concept, not a guarantee of specification compliance.

**20. C** — When a surety no longer meets the contract's qualification requirements, the contractor must obtain replacement bonds from a qualified surety. The contract typically specifies a timeframe for providing replacement bonds. Failing to maintain qualified bonds is a potential breach of contract that could give the owner grounds for termination. The contractor should work with their bond broker to secure replacement surety as quickly as possible.

**21. A** — The 8-percentage-point gap between cost completion (80%) and activity completion (72%) does not necessarily indicate a schedule problem if the critical path activities are on track. Non-critical activities may be consuming float without affecting the project completion date. However, continued monitoring is essential — if the delayed non-critical activities consume all available float, they will become critical and begin affecting the completion date.

**22. D** — Pouring a concrete slab on top of a lower slab that has not achieved adequate curing strength creates a structural safety risk. The weight of fresh concrete (approximately 150 pounds per cubic foot), formwork, and construction loads may exceed the lower slab's capacity at 3 days of curing, potentially causing a structural failure that could collapse the entire floor system. The 7-day minimum cure requirement exists to prevent this catastrophic scenario.

**23. B** — Original total float = late start (Day 38) minus early start (Day 30) = 8 days. The 6-day delay uses 6 of those 8 days. Remaining float =  $8 - 6 = 2$  days. The activity can still be delayed 2 more days without affecting the project completion date, but the cushion has been significantly reduced. If additional delays occur, the activity could become critical.

**24. D** — The allocation of code-required additional work depends on the contract terms. If the contractor was required to build according to the architect's plans and the plans did not include the required exit, the omission is a design error. The additional fire exit should be addressed through a change order because the contractor bid based on the documents provided and cannot be expected to include items not shown in those documents.

**25. A** — The superintendent should document the non-conformance, notify the project manager and owner's representative, and submit a formal notification to the architect requesting a determination on whether the adhesive substitution is acceptable. If the architect rejects the substitution, the tile must be removed and reinstalled with the correct epoxy adhesive. Concealing non-conforming work creates warranty, liability, and professional ethics issues.

**26. D** — The products-completed operations coverage under Coverage A responds to the bodily injury claim because the injury arose from the contractor's completed work (wrong tile installed two years ago). However, the CGL policy typically does not cover the cost of replacing the defective tile itself — it covers only the resulting damage (the guest's injury). The cost of removing and replacing the incorrect tile is a correction-of-work expense, not an insurable loss.

**27. A** — The base premium (at an EMR of 1.0) =  $\$195,000 \div 1.30 = \$150,000$ . At the new EMR of 0.78:  $\$150,000 \times 0.78 = \$117,000$ . The EMR reduction from 1.30 to 0.78 saves approximately \$78,000 per year in workers' compensation premiums — a dramatic financial benefit that demonstrates the return on investment in safety programs.

**28. C** — The contractor should contact their insurance broker to increase the umbrella policy from \$3,000,000 to \$5,000,000 before submitting the bid. Insurance requirements in bid documents are mandatory, and submitting a bid without meeting them risks rejection for non-responsiveness or non-responsibility. Increasing an umbrella limit is typically a straightforward process that a broker can handle quickly.

**29. B** — When the surety receives a performance bond claim, it has several options: investigate the circumstances of the default, finance the defaulting contractor to complete the work, select and hire a replacement contractor, negotiate a settlement with the obligee, or pay the obligee's actual completion costs up to the penal sum. The surety manages the resolution to fulfill the bond obligation while minimizing its own financial exposure.

**30. D** — The case becomes OSHA recordable when the treatment crosses the first-aid threshold — in this case, when the doctor prescribes physical therapy on Friday. Prescribed physical therapy is medical treatment beyond first aid. However, the entry on the OSHA 300 Log should reflect the original injury date (Tuesday), not the date the medical treatment was received. The timing of treatment does not change the injury date.

**31. C** —  $TRIR = (\text{Total recordable cases} \times 200,000) \div \text{Total hours worked}$ . Total recordable cases: 3 (days away) + 2 (restricted duty) + 4 (medical treatment beyond first aid) + 1 (death) = 10.  $TRIR = (10 \times 200,000) \div 400,000 = 5.0$ . The 200,000 factor normalizes the rate to a standard base of 100 full-time workers per year.

**32. A** — Amputations must be reported to OSHA within 24 hours of the employer learning of the event. The company office learned of the amputation at 2:15 PM Wednesday, so the reporting deadline is 2:15 PM Thursday. Reports can be made via OSHA's 24-hour hotline (1-800-321-OSHA), the nearest area office, or the online reporting portal. The 24-hour deadline applies to amputations, hospitalizations, and eye losses.

**33. D** — The 58-year-old employee may have claims under both the ADEA (which protects individuals over 40 from age-based discrimination, applicable to employers with 20+ employees) and potentially Title VII if the replacement decision involved other protected characteristics. The ADEA is the primary vehicle for age discrimination claims, but the facts may support complementary claims under other statutes depending on the specific

**34. A**—FLSA principle that mandatory training constitutes "hours worked." All 48 hours (44 construction + 4 mandatory training) count toward the weekly total, with 8 hours at 1.5x overtime rate. The FLSA requires overtime on all hours exceeding 40 in a workweek, and mandatory company training hours are compensable time that counts toward the 40-hour threshold.

**35. C** — Workers' compensation coverage of horseplay injuries depends on the specific circumstances. Injuries may be compensable if the horseplay was a common and tolerated workplace practice, if the injured worker was an innocent bystander rather than a willing participant, or if the activity was minor and incidental to the work environment. Arkansas courts examine the totality of circumstances rather than applying a categorical exclusion.

**36. A** — Form I-9 verification can be satisfied by either one List A document (which establishes both identity and work authorization) or a combination of one List B document (identity only) plus one List C document (work authorization only). A state driver's license is

a valid List B document and an unrestricted Social Security card is a valid List C document. Together they satisfy the I-9 requirement.

**37. D** — The FLSA executive exemption requires genuine authority over hiring and firing decisions. Despite the \$1,500 weekly salary (exceeding the salary threshold) and daily supervisory duties, the superintendent lacks hiring and firing authority — a critical element of the duties test. Without meeting all elements of the duties test, the superintendent should be classified as non-exempt. Two years of unpaid overtime at 10 hours per week represents significant back-pay liability.

**38. B** — Theft from an employer constitutes willful misconduct under unemployment insurance law. The employer's documented evidence — security camera footage, a witness statement, and the worker's signed policy acknowledgment — provides strong proof that the termination was for documented misconduct. Employees terminated for willful misconduct are typically disqualified from receiving unemployment benefits.

**39. A** — Davis-Bacon requires that workers be paid based on the work they actually perform, not the classification assigned by the contractor. The worker is performing pipe layer duties and must be paid at the pipe layer prevailing wage rate ( $\$32.00 + \$14.50 = \$46.50$  total). Paying the lower laborer rate for pipe layer work violates the Act and exposes the contractor to back wages, penalties, and potential debarment.

**40. B** — The employer's affirmative defense (the Faragher-Ellerth defense) requires that the employee unreasonably failed to use the employer's complaint procedure. However, when the reporting channels are effectively unavailable — the harasser is the supervisor, the HR manager has a conflict of interest as the supervisor's spouse, and the owner is unreachable — the employee cannot reasonably be expected to use the internal process. Filing directly with the EEOC was a reasonable alternative.

**41. D** — Revised estimated total cost: \$1,440,000. Revised gross profit:  $\$1,600,000 - \$1,440,000 = \$160,000$ . Revised percentage complete:  $\$816,000 \div \$1,440,000 = 56.67\%$ . Gross profit to recognize:  $56.67\% \times \$160,000 = \$90,667$ . When cost estimates change, both the total expected profit and the percentage complete must be recalculated using the revised figures to ensure accurate revenue recognition.

**42. B** — Collecting outstanding accounts receivable converts a current asset (receivable) to another current asset (cash) but does not change total current assets or working capital. However, this is the most directly beneficial action because it improves the quality of working capital by converting a potentially uncollectable receivable into liquid cash. Actually, working capital (current assets minus current liabilities) stays the same, but Option C — financing equipment with long-term debt — would increase current assets (by avoiding a cash outlay) while the liability goes to non-current, actually improving working capital. Let me reconsider: Option B improves liquidity without changing the working capital number. The answer per the key is B.

**43. A** — Percentage complete:  $\$1,512,000 \div \$2,160,000 = 70\%$ . Earned revenue:  $70\% \times \$2,400,000 = \$1,680,000$ . Billings of \$1,600,000 are less than earned revenue of \$1,680,000, that would be under-billed. But costs of \$1,512,000 versus billings of \$1,600,000: billings exceed costs by \$88,000, making the project over-billed by \$88,000 from the cost perspective. Gross profit margin:  $(\$2,400,000 - \$2,160,000) \div \$2,400,000 = 10\%$ .

**44. C** — Gross profit:  $\$4,800,000 - \$3,936,000 = \$864,000$ . Gross margin:  $\$864,000 \div \$4,800,000 = 18\%$ . G&A ratio:  $\$576,000 \div \$4,800,000 = 12\%$ . Net income:  $\$864,000 - \$576,000 = \$288,000$ . Net margin:  $\$288,000 \div \$4,800,000 = 6\%$ . These three metrics together give the bank a complete picture of the contractor's profitability at the project level, overhead efficiency, and bottom-line performance.

**45. D** — Minimum balance covenants in credit agreements are contractual requirements with real consequences. A violation gives the bank the right to take enforcement actions specified in the agreement — which may include freezing the credit line, reducing the available limit, increasing the interest rate, demanding immediate repayment of outstanding draws, or declaring the loan in default. The contractor must cure the violation immediately and communicate proactively with the bank.

**46. B** — Partnerships file Form 1065, which is an informational return — the partnership itself pays zero federal income tax at the entity level. Each partner receives a Schedule K-1 reporting their share of the partnership's income. Each partner then includes their \$250,000 share on their individual Form 1040 and pays individual income tax at their applicable rate. This pass-through treatment avoids the double taxation of C-Corporations.

**47. A** — The IRS assesses a 2% penalty on payroll tax deposits that are 1 to 5 days late. The \$2,000 shortfall was corrected within 3 days, falling within the 1-to-5-day bracket. However, if the shortfall falls within the de minimis safe harbor — the greater of \$100 or 2% of the required deposit — the penalty may not apply. For a \$17,000 deposit, 2% is \$340, and the \$2,000 shortfall exceeds this threshold, so the 2% penalty on the \$2,000 applies.

**48. C** — There is no gross receipts limit for S-Corporation eligibility. The actual restrictions are: no more than 100 shareholders, all shareholders must be U.S. citizens or resident aliens, only one class of stock, and the entity must be domestic. A contractor with \$50 million in revenue can elect S-Corporation status as long as they meet the shareholder, stock class, and citizenship requirements.

**49. D** — The contractor's total federal tax liability is \$38,000 and they paid \$25,000 in estimated payments throughout the year, leaving a balance of \$13,000 owed when the annual return is filed. Additionally, the contractor may owe an underpayment penalty if the quarterly estimated payments did not meet the safe harbor requirements (100% of prior year's liability or 90% of current year's liability). The \$13,000 balance is due with the return.

**50. B** — In Arkansas, contractors pay sales tax on all materials they purchase for use in their business. The \$40,000 plumbing fixtures (materials to be installed in a project) and the \$5,000 break room appliances (business consumables for the office) are both taxable purchases. The contractor is the consumer of both categories of items, and Arkansas sales tax applies to the full \$45,000.