

Practice Test 2

Time Allowed: 4 hours

Passing Score: 70% (88 out of 125 questions correct)

Instructions:

- Read each question carefully and select the BEST answer
- Mark your answers on a separate sheet
- You may use a calculator for mathematical calculations
- Answer all questions - there is no penalty for guessing
- Review your answers if time permits

SECTION 1: BUSINESS ORGANIZATION AND LICENSING (Questions 1-16)

1. What is the difference between a general partnership and a limited partnership?

- A. No difference
- B. General partners have unlimited liability; limited partners have limited liability
- C. Same structure
- D. Tax difference only

2. What is the main disadvantage of a sole proprietorship?

- A. Complex formation
- B. High costs
- C. Multiple owners
- D. Owner personally liable for all business debts and lawsuits

3. What is piercing the corporate veil?

- A. Court holding shareholders personally liable for corporate debts when corporation is misused
- B. Corporate formation
- C. Tax strategy
- D. Insurance coverage

4. What is a professional corporation (PC)?

- A. Any corporation
- B. Large corporation
- C. Corporation for licensed professionals (doctors, lawyers, architects)
- D. Non-profit corporation

5. What is required to maintain corporate status?

- A. Nothing required
- B. Annual meetings, minutes, separate finances, and proper corporate formalities
- C. One-time filing
- D. Insurance only

6. What happens if corporate formalities are not maintained?

- A. No consequences
- B. Tax benefits increase
- C. Corporation becomes stronger
- D. Risk of piercing corporate veil and personal liability

7. What is an RMO (Responsible Managing Officer)?

- A. Financial officer
- B. Secretary
- C. Insurance agent
- D. Any employee

8. What is the difference between an RMO and an RME?

- A. No difference
- B. Same position
- C. RMO is corporate officer; RME is employee (both can qualify licenses)
- D. RMO earns more

9. What is disassociation of a qualifying individual?

- A. Joining company
- B. Removal or departure of person qualifying the contractor license
- C. Promotion
- D. Retirement party

10. What is the penalty for contracting without a license in California?

- A. Small fine
- B. Warning
- C. No penalty
- D. Misdemeanor crime with fines up to \$5,000 and/or six months jail per violation

11. What is the Home Improvement Salesperson (HIS) registration?

- A. Real estate license
- B. Insurance license
- C. Marketing certification
- D. Building permit

12. What is required for HIS registration?

- A. College degree
- B. 10 years experience
- C. Registration with CSLB and working for licensed contractor
- D. No requirements

13. What is a supplemental (asbestos) certification?

- A. General license
- B. Additional certification for asbestos-related work beyond regular license
- C. Insurance policy
- D. Safety training

14. What is required to advertise contracting services?

- A. No requirements
- B. Any name acceptable
- C. No rules
- D. Must include license number in all advertising

15. What is the penalty for advertising without a license number?

- A. Infraction with fines and potential license discipline
- B. No penalty
- C. Warning only
- D. Increased advertising costs

16. What is "responsible management" in contractor licensing?

- A. Accounting duties
- B. Insurance management
- C. Active participation in company's construction operations and contract management
- D. Employee supervision

SECTION 2: BUSINESS FINANCES (Questions 17-35)

17. What is an income statement (profit and loss statement)?

- A. Balance sheet
- B. Financial statement showing revenues, expenses, and profit over period of time
- C. Cash flow statement
- D. Tax return

18. What is the difference between revenue and profit?

- A. Same thing
- B. No difference
- C. Different terms for same concept

D. Revenue is total income; profit is revenue minus expenses

19. What is gross profit?

- A. Total revenue
- B. Net income
- C. Operating expenses
- D. Final profit

20. What is net profit?

- A. Gross revenue
- B. Total sales
- C. Income after all expenses including taxes
- D. Operating income

21. What is EBITDA?

- A. Tax form
- B. Earnings Before Interest, Taxes, Depreciation, and Amortization
- C. Insurance type
- D. License category

22. What is the purpose of EBITDA?

- A. Tax calculation
- B. License renewal
- C. Insurance rating

D. Measuring operating performance excluding financing and accounting decisions

23. What is return on investment (ROI)?

- A. Interest rate
- B. Tax rate
- C. License fee
- D. Insurance premium

24. What is break-even analysis?

- A. Bankruptcy process
- B. Insurance claim
- C. Determining point where total revenue equals total costs
- D. Tax calculation

25. What is contribution margin?

- A. Tax deduction
- B. Sales price minus variable costs per unit
- C. Total profit
- D. Fixed costs

26. What is the difference between fixed and variable costs?

- A. No difference
- B. Same costs
- C. Fixed costs stay constant; variable costs change with production volume

D. Variable costs are higher

27. What is cash flow?

A. Movement of money in and out of business

B. Total revenue

C. Net profit

D. Gross income

28. What is positive cash flow?

A. Losing money

B. More money coming in than going out

C. Breaking even

D. Negative balance

29. What is a cash flow statement?

A. Income statement

B. Balance sheet

C. Tax return

D. Financial statement tracking cash inflows and outflows over period

30. What are the three sections of a cash flow statement?

A. Revenue, expenses, profit

B. Assets, liabilities, equity

C. Operating activities, investing activities, financing activities

D. Income, costs, taxes

31. What is accounts receivable financing?

- A. Customer financing
- B. Equipment financing
- C. Vehicle financing
- D. Property financing

32. What is factoring?

- A. Mathematical calculation
- B. Selling accounts receivable to third party at discount for immediate cash
- C. Equipment rental
- D. Insurance purchase

33. What is a line of credit?

- A. Credit card
- B. Personal loan
- C. Mortgage
- D. Term loan

34. What is collateral?

- A. Insurance policy
- B. Business partner
- C. Asset pledged to secure loan

D. Cash reserve

35. What is a personal guarantee on business loans?

A. Business guarantee

B. Insurance policy

C. No personal risk

D. Corporate protection

SECTION 3: EMPLOYMENT REQUIREMENTS (Questions 36-60)

36. What is the difference between exempt and non-exempt employees?

A. No difference

B. Exempt employees not covered by overtime laws; non-exempt receive overtime

C. Same classification

D. Pay rate only

37. What is the duties test for exempt employees?

A. Any duties qualify

B. No test required

C. Physical labor

D. All employees exempt

38. What is the white-collar exemption?

A. Dress code requirement

- B. Office location requirement
- C. Color requirement
- D. Racial category

39. What is comp time in California?

- A. Allowed for all employees
- B. Legal alternative to overtime pay
- C. Not allowed for private sector non-exempt employees
- D. Required payment method

40. What is meal period requirement in California?

- A. No meal breaks required
- B. 30-minute unpaid meal break for work over 5 hours (waivable if shift under 6 hours)
- C. 1-hour paid lunch
- D. 15-minute breaks only

41. What is rest period requirement in California?

- A. No rest breaks required
- B. 30-minute breaks
- C. 1-hour breaks
- D. One rest break per shift

42. What is the penalty for missed meal or rest breaks?

- A. No penalty

- B. Warning only
- C. Small fine
- D. One hour of pay at regular rate for each missed break

43. What is "on-call" time?

- A. Never compensable
- B. Always compensable
- C. Depends on restrictions
- D. Vacation time

44. What is travel time compensation?

- A. Never paid
- B. Commute time always paid
- C. Travel during work hours or to job sites (not regular commute) is compensable
- D. Only international travel

45. What is the final paycheck requirement in California?

- A. Within 30 days
- B. Next regular payday
- C. Within one week
- D. Immediate if employee quits; within 72 hours if terminated

46. What must be included in final paychecks?

- A. Wages only

- B. Wages, unused vacation (earned wages), and other compensation owed
- C. No vacation payout required
- D. Bonuses only

47. What is the penalty for late final wages?

- A. No penalty
- B. Small fine
- C. Waiting time penalties of up to 30 days wages
- D. Interest only

48. What is required payroll recordkeeping in California?

- A. No records required
- B. One year retention
- C. Three years for time records and payroll records
- D. Permanent retention

49. What information must be on wage statements (pay stubs)?

- A. Net pay only
- B. Gross wages, deductions, net pay, pay period, hours, rates, employer info
- C. Total only
- D. No requirements

50. What is the penalty for non-compliant wage statements?

- A. No penalty

- B. \$50-\$100 per employee per pay period up to \$4,000 per employee
- C. Warning only
- D. \$10 fine

51. What is constructive discharge?

- A. Fire employee
- B. Hire employee
- C. Promote employee
- D. Transfer employee

52. What is wrongful termination?

- A. Legal termination
- B. Proper termination
- C. Terminating employee in violation of law or public policy
- D. At-will termination

53. What is at-will employment?

- A. Employment contracts required
- B. Employees can be terminated for any legal reason without cause
- C. Employees cannot be terminated
- D. Government employment

54. What are exceptions to at-will employment?

- A. No exceptions

- B. All terminations legal
- C. Any reason acceptable
- D. No protections

55. What is retaliation in employment?

- A. Employee quitting
- B. Promotion
- C. Raise
- D. Transfer

56. What is protected activity under retaliation laws?

- A. Poor performance
- B. Tardiness
- C. Complaints about safety, discrimination, wage violations, or workers' comp claims
- D. Personal conflicts

57. What is the Age Discrimination in Employment Act (ADEA)?

- A. State law
- B. Local ordinance
- C. No age protections
- D. Minimum age law

58. What age group is protected by ADEA?

- A. Under 18

- B. Under 40
- C. All ages
- D. Workers 40 and older

59. What is the Americans with Disabilities Act (ADA)?

- A. Federal law prohibiting discrimination against qualified individuals with disabilities
- B. State law
- C. Insurance requirement
- D. Building code

60. What is reasonable accommodation under ADA?

- A. No accommodations required
- B. Any request must be granted
- C. Modifications enabling qualified disabled individuals to perform job functions
- D. Building modifications only

SECTION 4: INSURANCE AND LIENS (Questions 61-75)

61. What is the Experience Modification Rate (EMR) in workers' comp?

- A. Experience requirement
- B. Factor adjusting workers' comp premiums based on company's claims history
- C. License rating
- D. Training level

62. What is a good EMR?

- A. 2.0 or higher
- B. Exactly 1.0
- C. 5.0
- D. Below 1.0 (indicates better than average safety record)

63. What factors influence EMR?

- A. Nothing influences it
- B. Company size only
- C. Claim frequency, severity, and comparison to industry average
- D. Location only

64. What is a claims-made retroactive date?

- A. Policy start date
- B. Renewal date
- C. Date before which claims are not covered even if claim filed during policy
- D. Expiration date

65. What is tail coverage?

- A. Front coverage
- B. Extended reporting period coverage for claims-made policies after policy ends
- C. Side coverage
- D. Additional coverage

66. What is the difference between claims-made and occurrence policies?

- A. No difference
- B. Same coverage
- C. Cost only
- D. Claims-made requires continuous coverage or tail; occurrence provides perpetual coverage

67. What is automobile liability insurance?

- A. Property insurance
- B. Workers' comp
- C. General liability
- D. Vehicle insurance

68. What is non-owned auto coverage?

- A. Company vehicles
- B. Leased vehicles
- C. Coverage for employee personal vehicles used for business
- D. Stolen vehicles

69. What is hired auto coverage?

- A. Employee vehicles
- B. Coverage for rented or leased vehicles used for business
- C. Owned vehicles
- D. Company fleet

70. What is the purpose of a notice of completion?

- A. Starting project
- B. Obtaining permit
- C. Scheduling inspection
- D. Shortening lien deadline periods

71. Who can file a notice of completion?

- A. Anyone
- B. Subcontractors only
- C. Suppliers only
- D. Building inspector

72. What is the effect of recording a notice of completion?

- A. No effect
- B. Extends lien deadlines
- C. Shortens lien deadlines to 30 days for subcontractors and suppliers
- D. Eliminates lien rights

73. What is a notice of cessation?

- A. Project start
- B. Notice recorded when work stops for 30+ days shortening lien periods
- C. Completion notice
- D. Inspection notice

74. What is required to perfect a mechanics lien?

- A. Verbal notice
- B. Email notification
- C. Phone call
- D. Recording written lien with county recorder within deadlines

75. What is a mechanic's lien release bond?

- A. Contractor's bond
- B. License bond
- C. Performance bond
- D. Insurance policy

SECTION 5: CONTRACT REQUIREMENTS AND EXECUTION (Questions 76-101)

76. What is a unilateral contract?

- A. Both parties exchange promises
- B. No promises exchanged
- C. One party makes promise in exchange for other party's performance
- D. Verbal agreement

77. What is a bilateral contract?

- A. Both parties exchange promises (most common contract type)
- B. One-sided agreement
- C. No mutual promises
- D. Verbal agreement

78. What is quantum meruit?

- A. Contract type
- B. Legal remedy for reasonable value of services when no contract exists
- C. Insurance term
- D. License requirement

79. What is unconscionability in contracts?

- A. Valid contract term
- B. Fair agreement
- C. Reasonable term
- D. Contract so unfair or one-sided that courts won't enforce it

80. What is duress in contract formation?

- A. Voluntary agreement
- B. Free choice
- C. Normal negotiation
- D. Mutual benefit

81. What is undue influence?

- A. Fair negotiation
- B. Equal bargaining
- C. Taking unfair advantage of relationship or superior position to get agreement
- D. Standard practice

82. What is misrepresentation in contracts?

- A. Honest mistake
- B. False statement of fact inducing party to enter contract
- C. Opinion
- D. Prediction

83. What is the parol evidence rule?

- A. Written contracts cannot be contradicted by prior oral agreements
- B. Oral contracts preferred
- C. Verbal modifications allowed
- D. Written contracts unnecessary

84. What is contract reformation?

- A. Breaking contract
- B. Canceling contract
- C. Court rewriting contract to reflect parties' true agreement
- D. Contract negotiation

85. What is specific performance?

- A. Monetary damages
- B. Contract cancellation
- C. Court ordering party to perform contract obligations
- D. Refund

86. What is rescission?

- A. Contract modification
- B. Canceling contract returning parties to pre-contract positions
- C. Contract renewal
- D. Contract extension

87. What is novation?

- A. Contract modification
- B. Contract addendum
- C. Contract clause
- D. Contract term

88. What is assignment of contract?

- A. Transferring contract rights and duties to third party
- B. Contract cancellation
- C. Contract renewal
- D. Contract negotiation

89. What is contract delegation?

- A. Assigning contract rights
- B. Canceling contract
- C. Transferring duties to third party while remaining liable
- D. Contract modification

90. What is anti-assignment clause?

- A. Requires assignment
- B. Contract provision prohibiting transfer without consent
- C. Encourages assignment
- D. No effect

91. What is substantial performance?

- A. Perfect performance
- B. No performance
- C. Minimal performance
- D. Partial performance

92. What is material breach?

- A. Minor violation
- B. Significant violation excusing other party's performance
- C. No breach
- D. Technical violation

93. What is anticipatory breach?

- A. Future concern
- B. Past breach
- C. One party indicates before performance due that they won't perform
- D. Potential breach

94. What is liquidated damages clause?

- A. Actual damages
- B. Predetermined amount for breach stated in contract
- C. Court-determined damages
- D. No damages

95. What must liquidated damages be?

- A. Any amount
- B. Punitive amount
- C. Excessive amount
- D. Reasonable estimate of actual damages (not penalties)

96. What is consequential damages?

- A. Direct damages
- B. Indirect damages resulting from breach
- C. Liquidated damages
- D. No damages

97. What is mitigation of damages?

- A. Increasing damages
- B. Ignoring damages
- C. Injured party's duty to minimize damages from breach
- D. Waiving damages

98. What is force majeure?

- A. Contract requirement
- B. Performance guarantee
- C. Warranty
- D. Insurance term

99. What is the difference between warranties and representations?

- A. Same thing
- B. Warranties are statements of fact inducing contract; representations are contract promises
- C. No difference
- D. Timing only

100. What is express contract versus implied contract?

- A. No difference
- B. Same contracts
- C. Written only
- D. Verbal only

101. What is quasi-contract?

- A. Real contract
- B. Legal fiction imposing contract-like obligations to prevent unjust enrichment
- C. Invalid contract
- D. Void contract

SECTION 6: PUBLIC WORKS (Questions 102-107)

102. What is apprenticeship requirement for public works?

- A. No requirements
- B. Apprentices not allowed
- C. Any ratio acceptable
- D. Contractors must employ apprentices in ratios to journeymen per trade

103. What is a DIR (Department of Industrial Relations) registration?

- A. License type
- B. Insurance requirement
- C. Voluntary program
- D. Tax registration

104. What is required DIR registration for public works?

- A. Registration with DIR before bidding or working on public works projects
- B. No registration needed
- C. Optional registration
- D. License renewal

105. What is the penalty for working public works without DIR registration?

- A. Warning only
- B. \$100 fine

- C. No penalty
- D. Cannot bid future work

106. What records must be maintained for public works projects?

- A. No records required
- B. Certified payroll, apprenticeship records, and fringe benefit statements
- C. General records only
- D. Tax records only

107. What is Labor Compliance Program (LCP)?

- A. Union program
- B. Insurance program
- C. Training program
- D. License program

SECTION 7: SAFETY (Questions 108-125)

108. What is required fall protection for residential construction?

- A. Never required
- B. At 10 feet
- C. At 6 feet or when working from dangerous equipment
- D. At 20 feet

109. What are acceptable fall protection methods?

- A. Nothing required
- B. Guardrails, safety nets, or personal fall arrest systems
- C. Warning signs only
- D. Caution tape

110. What is required for personal fall arrest systems?

- A. Any harness
- B. No requirements
- C. Rope only
- D. Proper harness, lanyard, anchor point, and training

111. What is a competent person for fall protection?

- A. Any worker
- B. Owner
- C. Equipment operator
- D. Government inspector

112. What is required for scaffolding?

- A. No requirements
- B. Any construction
- C. Competent person erection, inspection, proper guardrails, and load ratings
- D. Warning signs only

113. What is the load rating for scaffolds?

- A. No limit
- B. 4 times maximum intended load
- C. Any weight
- D. Worker estimate

114. What is required guardrail height?

- A. Any height
- B. 36 inches
- C. 48 inches
- D. 42 inches plus or minus 3 inches

115. What is the maximum guardrail opening between rails?

- A. 19 inches to prevent falls through
- B. 30 inches
- C. 12 inches
- D. 24 inches

116. What is required for ladder safety?

- A. No requirements
- B. Any ladder acceptable
- C. Extend 3 feet above landing, proper angle, secured, and rated for use
- D. Warning signs only

117. What is the proper ladder angle?

- A. Vertical
- B. 4-to-1 ratio (1 foot out for every 4 feet up) or 75-degree angle
- C. 45 degrees
- D. Any angle

118. What is required electrical safety on construction sites?

- A. No requirements
- B. GFCIs for temporary power and wet locations
- C. Any electrical acceptable
- D. Extension cords sufficient

119. What is required for power tools?

- A. Properly grounded or double-insulated with guards in place
- B. No requirements
- C. Any condition acceptable
- D. Broken tools acceptable

120. What is the purpose of electrical permits?

- A. Revenue generation
- B. Ensuring electrical work meets code and is inspected
- C. Optional documentation
- D. Building decoration

121. What is required trenching protection at 5 feet depth?

- A. Warning signs only
- B. Shoring, shielding, or sloping and daily competent person inspection
- C. No protection needed
- D. Caution tape sufficient

122. What are the soil classifications for trenching?

- A. No classifications
- B. One type only
- C. Two types
- D. Type A (most stable), Type B (moderate), Type C (least stable)

123. What is required for confined space entry?

- A. Any entry allowed
- B. Nothing required
- C. Atmospheric testing, ventilation, permits, and attendants
- D. Warning signs only

124. What is the required confined space atmospheric testing?

- A. No testing needed
- B. Visual inspection
- C. Oxygen levels, flammable gases, and toxic substances before entry
- D. One-time testing

125. What is required heat illness prevention?

- A. Nothing required
- B. Water, shade, rest breaks, training, and monitoring during hot weather
- C. Air conditioning only
- D. Fans sufficient

Answer Key with Explanations

- 1. B** - General partnerships mean all partners have unlimited personal liability for partnership debts and obligations. Limited partnerships have two types: general partners (unlimited liability, manage business) and limited partners (liability limited to investment, no management role). Limited partners are passive investors.
- 2. D** - Sole proprietorships offer no liability protection—owners are personally liable for all business debts, contracts, and lawsuits. If the business is sued or goes bankrupt, owners' personal assets (home, savings, vehicles) are at risk. This unlimited liability is the major disadvantage.
- 3. A** - Piercing the corporate veil occurs when courts disregard corporate structure holding shareholders personally liable. This happens when corporations are misused (commingling funds, inadequate capitalization, fraud, or failing to follow corporate formalities). Proper corporate maintenance prevents piercing.
- 4. C** - Professional corporations are formed by licensed professionals (doctors, lawyers, architects, engineers, accountants) to provide professional services. PCs provide some liability protection but don't shield from professional malpractice. They have special formation and operation requirements for licensed professions.
- 5. B** - Maintaining corporate status requires following formalities: holding annual shareholder and director meetings, keeping meeting minutes, maintaining separate corporate bank accounts, proper capitalization, corporate recordkeeping, and avoiding commingling personal and business funds. These formalities prove the corporation is real.
- 6. D** - Failing to maintain corporate formalities risks piercing the corporate veil where courts ignore corporate structure imposing personal liability on shareholders. Courts look for proof corporations are legitimate separate entities. Without proper formalities, corporations are mere shells providing no protection.
- 7. A** - Responsible Managing Officers (RMOs) are corporate officers (president, vice president, secretary, treasurer) who qualify contractor licenses for corporations. They must be elected officers with authority over construction operations. RMOs combine officer status with license qualifying responsibility.
- 8. C** - RMOs are corporate officers who qualify licenses; RMEs are employees who qualify licenses. Both must meet experience and exam requirements and actively participate in construction operations. The distinction is corporate position—officer versus employee. Either can legally qualify contractor licenses.
- 9. B** - Disassociation occurs when qualifying individuals (RMO or RME) leave companies, are removed, or no longer meet requirements. Companies have 90 days to replace qualifiers or licenses become inactive. Disassociation requires immediate CSLB notification to maintain active license status.
- 10. D** - Contracting without a license is misdemeanor crime punishable by fines up to \$5,000 and/or six months jail per violation. Each contract is separate violation. Additionally, unlicensed contractors cannot sue to collect payment, must return all compensation received, and face administrative penalties.

11. A - Home Improvement Salespersons (HIS) are individuals registered with CSLB to solicit or sell home improvement contracts for licensed contractors. They cannot contract independently—they must work for licensed contractors. Registration requires background check and passing exam covering contract law and consumer protection.

12. C - HIS registration requires applying to CSLB, passing HIS exam covering contract law and regulations, criminal background clearance, and employment by licensed contractor. Registration must be renewed every four years. Registered HIS can negotiate and execute contracts on behalf of employing contractors.

13. B - Asbestos certification is supplemental certification required beyond regular contractor licenses to perform asbestos-related work. It requires completing approved training courses and passing asbestos exams. Asbestos work without proper certification violates health and safety laws and contractor licensing regulations.

14. D - All contractor advertising (print, online, radio, TV, vehicles, yard signs) must include contractor license numbers in text or voice. The requirement ensures consumers can verify licensure before hiring. Advertising includes business cards, websites, social media, and promotional materials.

15. A - Advertising without license numbers is infraction punishable by fines and CSLB discipline. Violations indicate contractors either aren't licensed or are trying to hide license status. The CSLB actively enforces advertising requirements protecting consumers from unlicensed contractors.

16. C - Responsible management means actively participating in company construction operations—supervising projects, making construction decisions, hiring and directing employees, ensuring code compliance, and managing contracts. Qualifiers cannot be "in name only"—they must genuinely manage construction activities.

17. B - Income statements (profit and loss statements) show revenues earned, expenses incurred, and resulting profit or loss over specific periods (month, quarter, year). Unlike balance sheets which are snapshots, income statements cover time periods showing business performance and profitability.

18. D - Revenue is total income from sales before expenses. Profit (net income) is what remains after subtracting all expenses from revenue. A company can have high revenue but low profit if expenses are excessive. Understanding this difference is critical for financial management.

19. A - Gross profit equals revenue minus cost of goods sold (direct costs). It measures profitability before operating expenses, interest, and taxes. Gross profit shows how efficiently companies produce goods or services. Strong gross profit margins indicate good cost control on direct costs.

20. C - Net profit is the bottom line—income remaining after all expenses including operating costs, interest, taxes, and depreciation. It represents actual profit available to owners. Net profit determines business success and sustainability. Positive net profit means the business is profitable.

21. B - EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) measures operating profitability before financing costs and accounting allocations. It allows comparison between companies

with different capital structures or tax situations. Lenders often evaluate EBITDA to assess borrowing capacity.

22. D - EBITDA focuses on operational profitability ignoring capital structure (interest), tax strategies (taxes), and accounting methods (depreciation/amortization). It shows how much cash businesses generate from core operations. However, it ignores important real costs and shouldn't be the only metric considered.

23. A - Return on Investment (ROI) measures profitability of investments calculated as $(\text{Gain from Investment} - \text{Cost of Investment}) \div \text{Cost of Investment}$. ROI of 20% means you earned \$20 for every \$100 invested. ROI helps compare investment opportunities and evaluate project profitability.

24. C - Break-even analysis determines the sales volume where total revenue equals total costs—the point where businesses neither profit nor lose money. Below break-even you lose money; above break-even you profit. Break-even analysis helps set pricing and sales targets.

25. B - Contribution margin is sales price minus variable costs per unit—the amount each unit sold contributes toward covering fixed costs and profit. After fixed costs are covered, contribution margin equals profit per unit. It's critical for pricing and profitability decisions.

26. D - Fixed costs remain constant regardless of production volume (rent, insurance, salaries). Variable costs change with production (materials, hourly labor, fuel). Understanding cost behavior helps with pricing, budgeting, and profitability analysis. Total costs equal fixed costs plus variable costs.

27. A - Cash flow is money movement in and out of businesses. Positive cash flow means more money coming in than going out. Cash flow differs from profit—profitable companies can have negative cash flow if customers pay slowly while expenses are immediate.

28. B - Positive cash flow occurs when cash inflows exceed outflows. This is healthy—businesses can pay bills, invest in growth, and handle emergencies. Negative cash flow (outflows exceed inflows) causes financial stress. Managing cash flow is often more critical than profitability for survival.

29. D - Cash flow statements track all cash inflows and outflows over periods showing where cash came from and how it was used. They're essential complements to income statements and balance sheets. Cash flow statements reveal whether companies generate enough cash to sustain operations.

30. C - Cash flow statements have three sections: operating activities (cash from business operations), investing activities (capital expenditures and asset sales), and financing activities (borrowing, debt repayment, owner investments). Together they explain changes in cash balances.

31. A - Accounts receivable financing (AR financing) uses receivables as collateral for loans. Lenders advance cash (typically 70-90% of receivable value) secured by customer payments. When customers pay, proceeds repay lenders. AR financing improves cash flow but costs interest.

32. B - Factoring sells accounts receivable to factoring companies at discounts (typically 2-6%) for immediate cash. Factors assume collection responsibility and risk. Unlike AR financing (a loan), factoring is asset sale. It's expensive but improves cash flow without increasing debt.

33. D - Lines of credit are revolving credit facilities allowing businesses to borrow up to maximum limits, repay, and borrow again. Interest accrues only on outstanding balances. Lines of credit provide flexible funding for working capital, handling cash flow fluctuations better than term loans.

34. C - Collateral is property pledged to secure loans. If borrowers default, lenders can seize collateral. Common collateral includes real estate, equipment, inventory, and accounts receivable. Secured loans (with collateral) have lower rates than unsecured loans. Collateral reduces lender risk.

35. A - Personal guarantees make individuals personally liable for business debts. If businesses default on guaranteed loans, lenders can pursue guarantors' personal assets. Personal guarantees defeat limited liability protections. They're commonly required for small business loans where owners must "co-sign."

36. B - Exempt employees are excluded from overtime and minimum wage requirements if they meet salary and duties tests. Non-exempt employees are covered receiving overtime for work over 8 hours daily or 40 weekly. The distinction is critical—misclassifying employees is expensive.

37. D - The duties test requires exempt employees perform primarily executive (manage business/department), administrative (office/non-manual work requiring discretion), or professional (learned profession requiring advanced knowledge) duties. Both salary and duties tests must be met for exemption.

38. A - White-collar exemptions are executive, administrative, and professional employee exemptions from overtime. They're called "white-collar" because they involve primarily mental versus manual labor. Most construction workers are non-exempt "blue-collar" workers entitled to overtime regardless of salary.

39. C - Compensatory time off (comp time) instead of overtime pay is prohibited for private sector non-exempt employees in California. Employers must pay overtime in wages, not time off. Public sector employees can receive comp time under specific rules. Comp time policies for private workers violate law.

40. B - California requires 30-minute unpaid meal breaks for work exceeding 5 hours (waivable if shift is 6 hours or less). Second meal breaks are required for work exceeding 10 hours (waivable if total work is 12 hours or less and first break taken).

41. D - California requires 10-minute paid rest breaks for every 4 hours worked or major fraction thereof. Rest breaks should occur in the middle of work periods. Rest breaks are paid time; meal breaks are unpaid. Employees must be relieved of all duties during breaks.

42. D - Employers who fail to provide required meal or rest breaks must pay one additional hour of regular pay for each day breaks are missed. This is premium pay, not overtime. Meal break violations and rest break violations each generate separate premium payments.

43. C - On-call time compensation depends on restrictions. If employees must remain on premises or within small areas unable to use time effectively, it's compensable. If employees can go about personal business with minimal restrictions, it's not compensable. Restrictions determine payment.

44. C - Travel time during normal working hours or to job sites other than regular workplace is compensable working time. Regular home-to-work commuting is not paid. Travel as part of principal work activity is compensable. Portal-to-portal rules govern travel time.

45. D - California requires final wages be paid immediately upon termination (firing or layoff) or within 72 hours if employees quit without notice. If employees give 72+ hours notice, final wages are due on last day. Delayed final wages trigger waiting time penalties.

46. B - Final paychecks must include all unpaid wages, earned vacation (vacation is earned wages that must be paid), bonuses earned, expense reimbursements, and other compensation owed. Unused vacation cannot be forfeited—it must be paid at final rate of pay.

47. C - Waiting time penalties equal up to 30 days wages at final rate if employers willfully fail to pay final wages timely. One day's wages are owed for each day payment is late up to 30 days maximum. These penalties can equal substantial amounts.

48. C - California requires employers retain payroll records for three years including time cards, wage computation records, and wage statements. These records must be available for inspection by Labor Commissioner. Failure to maintain records hampers defense against wage claims.

49. B - California wage statements must include: gross wages, total hours (for non-exempt), pay rate, pay period dates, deductions, net wages, employee name and last four digits of Social Security number, employer name and address, and applicable hourly rates and hours.

50. A - Non-compliant wage statements result in penalties of \$50 for initial violation and \$100 for subsequent violations per employee per pay period up to \$4,000 maximum per employee. Penalties add up quickly with multiple employees and pay periods. Accurate wage statements are essential.

51. A - Constructive discharge occurs when employers make working conditions so intolerable that reasonable employees feel compelled to resign. Though employees "quit," law treats it as termination triggering wrongful termination claims. Constructive discharge avoids direct firing while forcing employees out.

52. C - Wrongful termination is discharging employees in violation of law or public policy—discrimination, retaliation, breach of contract, or violating statutory protections. At-will employment doesn't protect illegal terminations. Wrongful termination exposes employers to substantial damages including emotional distress and punitive damages.

53. B - At-will employment means employers can terminate employees any time for any legal reason without cause, and employees can quit any time. However, terminations cannot violate law (discrimination, retaliation) or public policy. Most California employment is at-will absent contracts stating otherwise.

54. D - At-will employment exceptions include: implied contracts (handbooks, policies creating expectations), discrimination, retaliation, breach of good faith and fair dealing, and violation of public

policy (firing for refusing illegal acts). These exceptions significantly limit at-will termination despite the general rule.

55. D - Retaliation is taking adverse employment action (termination, demotion, reduction in pay, poor schedules) against employees for engaging in protected activities. Retaliation is illegal separate from underlying claims. Employers can violate retaliation laws even when underlying complaints lack merit.

56. C - Protected activities include: complaining about safety violations, reporting wage/hour violations, filing workers' compensation claims, reporting discrimination or harassment, whistleblowing illegal conduct, requesting reasonable accommodations, and taking protected leave. Retaliation for protected activities violates multiple laws.

57. B - The Age Discrimination in Employment Act (ADEA) is federal law prohibiting employment discrimination against individuals 40 and older. It covers hiring, firing, promotion, compensation, and terms of employment. California's Fair Employment and Housing Act (FEHA) provides additional protections.

58. D - ADEA protects workers 40 years and older from age discrimination. Younger workers aren't protected by federal age discrimination laws though some state laws provide broader protections. The 40+ cutoff recognizes age discrimination typically affects older workers.

59. A - The Americans with Disabilities Act (ADA) is federal civil rights law prohibiting discrimination against qualified individuals with disabilities. It requires reasonable accommodations enabling disabled individuals to perform essential job functions unless accommodations create undue hardship. ADA transformed disability rights.

60. C - Reasonable accommodations are modifications or adjustments enabling qualified disabled individuals to perform essential job functions—modified work schedules, equipment, reassignment to vacant positions, or facility modifications. Accommodations must not impose undue hardship (significant difficulty or expense) on employers.

61. B - Experience Modification Rate (EMR or Mod) is multiplier adjusting workers' compensation premiums based on company claim history compared to industry average. EMR of 1.0 is average; below 1.0 earns discounts; above 1.0 increases premiums. EMR reflects safety performance.

62. D - EMRs below 1.0 indicate better than average safety records earning premium discounts. 0.75 EMR means 25% discount. Below 1.0 demonstrates safety commitment improving competitiveness for bonding and bidding. Good EMRs result from fewer and less severe claims.

63. C - EMR is calculated from three-year claim history (excluding most recent year) comparing frequency and severity of claims to industry averages for similar businesses. Frequent small claims hurt EMR more than occasional large claims. Effective safety programs improve EMRs over time.

64. C - Retroactive dates are dates before which claims aren't covered even if claims are filed during policy periods. Claims-made policies only cover claims from incidents occurring after retroactive dates and filed during policy periods. Retroactive dates limit coverage for past events.

65. B - Tail coverage (Extended Reporting Period) extends claims-made coverage after policies end allowing reporting of claims from incidents during policy periods. Without tail coverage, dropping claims-made policies leaves gaps—no coverage for future claims from past incidents.

66. D - Claims-made policies require continuous coverage or tail coverage—gaps leave prior incidents uninsured. Occurrence policies cover incidents during policy periods regardless of when claims are filed providing perpetual coverage. Occurrence is simpler but costs more than claims-made.

67. A - Automobile liability insurance covers bodily injury and property damage from vehicle accidents. It's required by law. Commercial auto policies cover business vehicles and business use of personal vehicles. Adequate limits are essential—vehicle accidents can cause catastrophic damages exceeding minimum required coverage.

68. C - Non-owned auto coverage insures against liability from employee personal vehicles used for business. If employees drive their cars for work and cause accidents, non-owned coverage protects employers from liability claims. This coverage is critical when employees use personal vehicles.

69. B - Hired auto coverage insures rented or leased vehicles. Personal auto insurance and standard commercial policies often exclude hired vehicles. Hired auto coverage fills this gap protecting businesses when renting trucks, equipment, or vehicles for business purposes.

70. D - Notices of completion are recorded by owners after projects are substantially complete. Recording shortens mechanics lien deadlines from 90 days to 30 days for subcontractors and suppliers (60 days for direct contractors). Notices of completion accelerate project closeout.

71. A - Only property owners or their agents can file notices of completion. Contractors cannot file them. Owners record notices after substantial completion when work is usable for intended purposes. Recording starts running shortened lien deadlines.

72. C - Notices of completion shorten lien deadlines to 30 days for subs/suppliers and 60 days for direct contractors from recording date. Without notices, deadlines are 90 days from project completion. Shortened deadlines help owners obtain final funding and title insurance faster.

73. B - Notices of cessation are recorded when all work stops for continuous 30+ day periods before completion. They shorten lien deadlines to 30 days from recording similar to completion notices. Cessation notices protect owners when projects stall or are abandoned.

74. D - Perfecting mechanics liens requires recording verified claims of lien with county recorders within statutory deadlines (30 or 90 days depending on circumstances). Liens must include specific information: claimant identity, property description, labor/materials description, amount owed, and verification.

75. A - Mechanic's lien release bonds (also called lien release bonds or surety bonds) substitute bond security for property liens. Owners post bonds equal to 125% of lien amounts causing liens to release from property. Claimants pursue bonds instead of foreclosing on property.

76. C - Unilateral contracts involve one party making promises in exchange for other party's performance—"I'll pay \$500 if you find my lost dog." Only one party is bound until the other performs. Reward offers are classic unilateral contracts. Performance creates contracts.

77. A - Bilateral contracts (most contracts) involve mutual exchange of promises—both parties promise to perform. "I'll build your deck for \$10,000" and owner agrees. Both parties are bound from contract formation. Each party's promise is consideration for the other's promise.

78. B - Quantum meruit ("as much as deserved") is legal doctrine allowing recovery of reasonable value of services when no contract exists or contracts are unenforceable. Courts award quantum meruit to prevent unjust enrichment where one party benefits from another's work without paying.

79. D - Unconscionable contracts are so one-sided, unfair, or oppressive that courts refuse enforcement. Unconscionability has procedural aspects (unequal bargaining power, hidden terms) and substantive aspects (extremely unfair terms). Courts won't enforce "contracts" that shock the conscience.

80. A - Duress is forcing parties to enter contracts through threats, violence, or undue pressure. Contracts formed under duress are voidable—victims can cancel them. Economic duress (threatening financial harm) can also void contracts if improper pressure leaves no reasonable alternative.

81. C - Undue influence is taking unfair advantage of special relationships or superior positions to secure unfair agreements. It involves domination overpowering free will. Fiduciary relationships, family relationships, or significant power imbalances can create undue influence. Victims can void contracts.

82. B - Misrepresentation is false statement of material fact inducing parties to enter contracts. If parties rely on misrepresentations suffering harm, they can rescind contracts or sue for damages. Innocent misrepresentation allows rescission; fraudulent misrepresentation adds fraud damages.

83. A - The parol evidence rule prevents using prior or contemporaneous oral agreements to contradict written contracts. Written contracts are complete expressions of agreements. Oral evidence can explain ambiguities but cannot contradict clear written terms. This encourages complete written contracts.

84. C - Reformation is equitable remedy where courts rewrite contracts to reflect parties' true intentions when mistakes, fraud, or mutual misunderstanding causes written terms to differ from actual agreements. Courts reform contracts to express what parties actually intended.

85. C - Specific performance is equitable remedy ordering breaching parties to perform contract obligations. It's available when monetary damages are inadequate—typically for unique items like real property. Courts can order contractors to complete work or return deposits when money damages don't make parties whole.

86. B - Rescission cancels contracts returning parties to pre-contract positions. Each party returns what they received. Rescission is available for fraud, misrepresentation, mistake, duress, or material breach. It's an alternative to damages when parties want to undo agreements.

87. D - Novation creates new contracts replacing original contracts with different parties or terms. All parties must agree to novation. Original contracts are extinguished; new contracts govern. Novation differs from assignment—it releases original parties rather than just adding parties.

88. A - Assignment transfers contract rights and/or duties from original parties (assignors) to third parties (assignees). Assignors generally remain liable unless parties agree to novation. Anti-assignment clauses can prohibit assignment. Assignment is common when businesses are sold.

89. C - Delegation transfers contract duties to third parties (delegates) to perform. Delegating parties remain liable for performance—delegation doesn't eliminate their obligations. Obligees (those owed performance) can demand performance from either delegating parties or delegates.

90. B - Anti-assignment clauses prohibit transferring contract rights or duties without consent. They protect parties from dealing with unknown third parties. Violating anti-assignment clauses can breach contracts. Well-drafted contracts address assignment and delegation rights.

91. D - Substantial performance means performing contract obligations in all material respects with only minor deviations. It excuses minor defects allowing recovery of contract price minus costs to complete or correct defects. Substantial performance balances perfect performance requirements with practical reality.

92. B - Material breach is significant violation going to the heart of contracts excusing non-breaching parties from performing and allowing them to sue for damages. Material breaches defeat contract purposes. Not all breaches are material—minor breaches don't excuse performance.

93. C - Anticipatory breach (repudiation) occurs when parties indicate before performance is due that they won't perform. This allows non-breaching parties to immediately treat contracts as breached without waiting for performance dates. They can cover damages and sue immediately.

94. B - Liquidated damages clauses establish predetermined amounts payable for breach stated in contracts. They must be reasonable estimates of actual damages—not penalties. Valid liquidated damages avoid proving actual damages. Courts won't enforce penalties disguised as liquidated damages.

95. D - Liquidated damages must reasonably estimate actual damages at contract formation. Grossly excessive amounts are unenforceable penalties. Reasonable liquidated damages are enforced saving parties from proving actual damages. Common in construction for delay damages.

96. B - Consequential damages are indirect damages resulting from breach—lost profits, business interruption, or other foreseeable consequences. They go beyond direct damages compensating for breach's ripple effects. Consequential damages can far exceed direct damages but must be foreseeable.

97. C - Mitigation duty requires injured parties to take reasonable steps minimizing damages from breach. Parties cannot sit idle letting damages accumulate. They must make reasonable efforts to reduce harm. Failure to mitigate reduces recoverable damages.

98. B - Force majeure clauses excuse performance when extraordinary events beyond parties' control make performance impossible or impractical—natural disasters, wars, strikes, pandemics. Force majeure clauses should clearly define covered events. They protect parties from impossible performance obligations.

99. D - Warranties are contractual promises about quality or performance—"roof won't leak for 10 years." Breaching warranties triggers damages. Representations are statements of fact inducing contracts—"this roof is watertight." False representations may allow rescission for misrepresentation. Different legal remedies apply.

100. A - Express contracts are stated in words (written or oral) with explicitly agreed terms. Implied contracts are formed from conduct and circumstances—ordering meals at restaurants creates implied contracts to pay even without explicit agreements. Both are enforceable but express contracts provide clearer proof.

101. B - Quasi-contracts aren't real contracts but legal fictions courts impose preventing unjust enrichment. When parties receive benefits they should pay for but no contract exists, courts create quasi-contracts requiring payment of reasonable value. They're equitable remedies based on fairness.

102. D - Public works projects require employing apprentices registered in state-approved programs in ratios to journeymen per trade (typically 1:5). This develops skilled workforce. Contractors must request apprentices through approved programs or document good faith efforts to comply.

103. A - DIR registration requires contractors and subcontractors to register with California Department of Industrial Relations before bidding or working on public works projects. Registration costs \$300 initially with annual renewals. It's separate from contractor licensing.

104. A - Working public works without DIR registration is illegal. Contractors must be registered before bidding or working on covered projects exceeding \$1,000. Registration ensures contractors understand and will comply with prevailing wage and public works requirements.

105. D - Penalties for working without DIR registration include contract voidability, withholding of payments, inability to bid future public works, penalties up to \$10,000, and debarment from public works. Registration is mandatory—no exceptions for small work or subcontractors.

106. B - Public works projects require maintaining certified payroll records (weekly), apprenticeship compliance records, fringe benefit statements, and labor compliance documentation. Records must be available for inspection by awarding bodies and DIR. Failure to maintain proper records triggers penalties.

107. A - Labor Compliance Programs (LCP) are programs where awarding bodies (or third parties) monitor and enforce prevailing wage and apprenticeship compliance on public works. LCPs review certified payroll, investigate complaints, and ensure compliance protecting workers' rights to prevailing wages.

108. C - Residential construction requires fall protection at 6 feet except when using certain equipment (scaffolds, aerial lifts) where lower heights trigger protection. This is California standard, slightly different from general construction (7.5 feet). Residential work has specific fall protection requirements.

109. B - Acceptable fall protection includes guardrail systems (preferred), safety net systems, or personal fall arrest systems (harnesses, lanyards, anchors). Each has specific requirements. Guardrails are passive protection; personal fall arrest requires training. Warning lines and safety monitors have limited applications.

110. D - Personal fall arrest systems require full-body harnesses (not belts), shock-absorbing lanyards or self-retracting lifelines, secure anchor points (5,000-pound capacity), and proper training. Components must be compatible and meet standards. Improper systems cause fatal falls.

111. A - Competent persons for fall protection must identify existing and predictable fall hazards, authorize corrective measures, and have authority to take prompt corrective action. They need specific knowledge recognizing hazards. Employers must designate competent persons in writing.

112. C - Scaffolds must be erected by competent persons, inspected daily by competent persons before use, have proper guardrails (over 10 feet high), and be rated for intended loads with 4:1 safety factor. Scaffold failures cause numerous deaths—proper construction and inspection are critical.

113. B - Scaffolds must support without failure 4 times maximum intended load. This 4:1 safety factor accounts for dynamic loads, impact, and degradation. Working loads include workers, materials, and equipment. Exceeding scaffold capacity causes catastrophic collapse.

114. D - Top rails of guardrails must be 42 inches high (plus or minus 3 inches) measuring from walking/working surface. This height prevents most people from falling over rails. Mid-rails must be halfway between top rails and walking surfaces. Toe boards may be required.

115. A - Maximum opening between guardrail components (top rail to mid-rail, mid-rail to toe board or platform) is 19 inches. Larger openings allow people to fall through. The 19-inch maximum prevents adult bodies from passing through guardrails.

116. C - Ladders must extend minimum 3 feet above upper landing surfaces, be positioned at proper angle (4:1 ratio or 75 degrees), be secured against movement, and have adequate load rating. Ladder falls are leading causes of injuries—proper setup and use are essential.

117. B - Proper ladder angle is 4-to-1 ratio—ladder base should be 1 foot from wall for every 4 feet of vertical height, creating approximately 75-degree angle. Too steep causes tipping backward; too shallow causes base sliding out. The 4:1 ratio provides stable positioning.

118. B - All temporary power on construction sites requires GFCI protection. Receptacles in wet locations need GFCIs. This prevents electrocution from ground faults. GFCIs detect current leaks and shut off power in milliseconds. Construction sites without GFCIs are death traps.

119. A - Power tools must be properly grounded using three-prong plugs (unless double-insulated) and have all guards in place. Remove or disable guards, use damaged tools, or use two-prong adapters with grounded tools. Guards prevent contact with moving parts or electrical components.

120. B - Electrical permits ensure work meets code and is inspected by qualified inspectors. Permits protect against fire hazards and electrocution. Unpermitted electrical work may not meet code creating dangerous conditions, voiding insurance, and violating law.

121. B - Excavations 5+ feet deep require protective systems (shoring, shielding, or sloping based on soil type) and daily competent person inspection before workers enter and after events that could increase hazards. Cave-ins kill quickly—protection is mandatory, no exceptions.

122. D - Soil is classified as Type A (most stable—clay), Type B (medium stability—silt), or Type C (least stable—sand or submerged). Classification determines required slope angles or shoring. Competent persons must classify soil. Misclassification causes fatal cave-ins.

123. C - Confined spaces require atmospheric testing (oxygen, flammable gases, toxic substances), continuous or periodic ventilation, entry permits, trained attendants outside, and rescue equipment. Many confined space deaths occur during attempted rescues. Only authorized trained employees can enter.

124. C - Atmospheric testing before and during confined space entry measures oxygen (must be 19.5-23.5%), flammable gases (must be below 10% lower explosive limit), and toxic substances (below permissible exposure limits). Continuous monitoring may be required. Testing prevents asphyxiation and poisoning.

125. B - Heat illness prevention requires: fresh water access, shade for rest breaks and when ill, rest breaks during extreme heat, training for workers and supervisors, monitoring for heat illness symptoms, and emergency response procedures. California has specific heat illness prevention requirements.