

Practice Test 7

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 purpose of a contractor license bond claim?

- A. Insurance claim
- B. Tax refund
- C. Loan application
- D. Seeking damages from contractor for violations or financial harm

2. What is required to file a bond claim?

- A. Written claim with documentation of damages and contractor violations
- B. Phone call
- C. Email
- D. No documentation

3. What is the bond claim investigation process?

- A. Immediate payment
- B. Automatic denial
- C. Bonding company investigates claim, may request documentation, and determines validity
- D. No investigation

4. What happens after bond claim approval?

- A. Automatic license revocation
- B. Bonding company pays claim up to bond limits; may pursue contractor for reimbursement
- C. No payment
- D. Criminal charges

5. What is citation compliance verification?

- A. Automatic compliance
- B. Self-certification
- C. No verification
- D. Contractor proves violations corrected and fines paid before citation is dismissed

6. What is license reinstatement after revocation?

- A. Requires meeting all current requirements, waiting periods, and possible re-examination
- B. Automatic process
- C. Simple payment
- D. Phone request

7. What is Home Improvement Salesperson registration renewal?

- A. Annual renewal
- B. One-time registration
- C. Every 4 years with continuing education requirements
- D. No renewal needed

8. What is the penalty for acting as HIS without registration?

- A. Warning only
- B. Misdemeanor with fines up to \$5,000 and potential jail time
- C. Small fine
- D. License suspension

9. What is required to qualify multiple companies?

- A. One qualifier can qualify multiple companies in some circumstances
- B. Not allowed
- C. Unlimited qualifying
- D. Must have separate license for each

10. What is the limitation on qualifying multiple companies?

- A. Generally one RMO/RME can actively qualify only one company at a time
- B. No limits
- C. Up to 10 companies
- D. As many as desired

11. What is asbestos certification renewal?

- A. No renewal
- B. One-time certification
- C. Annual renewal with continuing education on asbestos regulations
- D. Automatic renewal

12. What is the hazardous substance removal certification?

- A. Not required
- B. Additional certification for removing hazardous materials beyond contractor license
- C. Included in general license
- D. Voluntary certification

13. What is suspension versus revocation severity?

- A. Same penalty
- B. No difference
- C. Revocation is temporary
- D. Suspension is temporary; revocation is permanent license loss

14. What is probation violation consequence?

- A. No consequence
- B. Extended probation
- C. Warning only
- D. Ignored violation

15. What is the Contractors State License Law?

- A. Federal law
- B. Local ordinance
- C. California Business and Professions Code sections governing contractor licensing
- D. Voluntary guidelines

16. What are the consequences of an unlicensed contractor?

- A. Warning only
- B. Criminal charges, fines, inability to enforce contracts, and restitution to victims
- C. Small fine
- D. License application

SECTION 2: BUSINESS FINANCES (Questions 17-35)

17. What is the purpose of financial statement footnotes?

- A. Optional information
- B. Unnecessary details
- C. Marketing material
- D. Providing additional detail and context explaining financial statement items

18. What is an audited financial statement?

- A. Self-prepared statements
- B. Internal review
- C. Informal review

D. Quick review

19. What is reviewed financial statement?

A. Audited statement

B. Compiled statement

C. Accountant performs limited procedures providing limited assurance on accuracy

D. Self-prepared

20. What is compiled financial statement?

A. Audited statements

B. Accountant prepares statements without providing assurance on accuracy

C. Reviewed statements

D. Fully verified

21. What is the cost difference between audit, review, and compilation?

A. Same cost

B. No difference

C. Compilation costs most

D. Audit costs most; review intermediate; compilation least

22. What is management representation letter?

A. Marketing letter

B. Sales document

C. Customer letter

D. Advertisement

23. What is the purpose of internal controls?

A. External auditing

B. Tax compliance

C. Safeguarding assets, ensuring accuracy, and preventing fraud

D. Marketing

24. What is segregation of duties?

A. Department organization

B. Dividing responsibilities so no one person controls all aspects of transactions

C. Employee specialization

D. Work schedules

25. What is the fraud triangle?

A. Three types of fraud

B. Three prevention methods

C. Three detection techniques

D. Pressure, opportunity, and rationalization—conditions enabling fraud

26. What is embezzlement?

A. Theft of company assets by employees in positions of trust

B. Customer theft

C. Vendor fraud

D. External theft

27. What is check kiting?

A. Flying checks

B. Mailing checks

C. Exploiting float time between banks by writing checks on insufficient funds

D. Check verification

28. What is the purpose of bank reconciliation?

A. Loan application

B. Comparing bank statements with company records identifying differences

C. Tax filing

D. Audit preparation

29. What is outstanding check?

A. Excellent payment

B. High-quality check

C. Perfect transaction

D. Check written but not yet cleared bank

30. What is deposit in transit?

A. Deposit recorded by company but not yet recorded by bank

B. Bank deposit

C. Cleared deposit

D. Processed deposit

31. What is petty cash?

A. Major expenses

B. Large transactions

C. Small amount of cash on hand for minor expenses

D. Revenue

32. What is imprest system for petty cash?

A. Random amounts

B. Fixed amount replenished to maintain constant balance

C. Unlimited cash

D. No system

33. What is prepaid expense?

A. Past expense

B. Current expense

C. Future expense

D. Payment for future benefits (insurance, rent) recorded as asset

34. What is accrued expense?

A. Expense incurred but not yet paid (wages owed, interest owed)

B. Prepaid expense

C. Future expense

D. Paid expense

35. What is deferred revenue?

A. Lost revenue

B. Future revenue

C. Payment received for services not yet performed (customer deposits)

D. Earned revenue

SECTION 3: EMPLOYMENT REQUIREMENTS (Questions 36-60)

36. What is the California Labor Commissioner?

A. Federal official

B. State agency enforcing labor laws, investigating complaints, and adjudicating wage claims

C. Union representative

D. Private arbitrator

37. What is a Berman hearing?

A. Criminal trial

B. Civil lawsuit

C. Union hearing

D. Informal hearing

38. What is the Labor Commissioner award enforcement?

A. Enforceable as court judgment after filing with court

- B. Not enforceable
- C. Voluntary compliance only
- D. No enforcement

39. What is appeal from Labor Commissioner decision?

- A. No appeal allowed
- B. Final decision
- C. Appeal to superior court for trial de novo (new trial)
- D. Appeal to CSLB

40. What is statute of limitations for wage claims?

- A. 1 year
- B. Typically 3 years (4 years for written contracts)
- C. 5 years
- D. 10 years

41. What is regular rate of pay?

- A. Hourly wage only
- B. Salary only
- C. Base wage
- D. All remuneration including bonuses, commissions used to calculate overtime

42. What is included in regular rate?

- A. Hourly wages and most bonuses, commissions, shift differentials, piece rates

- B. Base pay only
- C. Minimum wage only
- D. Overtime only

43. What is excluded from regular rate?

- A. All compensation included
- B. Everything counts
- C. Gifts, discretionary bonuses, expense reimbursements, premium pay
- D. Overtime pay

44. What is on-call pay requirement?

- A. No pay required
- B. Depends on restrictions—if significantly restricted, must be paid for on-call time
- C. Always unpaid
- D. Optional

45. What is standby time?

- A. Never compensable
- B. Break time
- C. Off-duty time
- D. On-call time that may be compensable depending on restrictions

46. What is sleep time pay for residential employees?

- A. Always paid

- B. Never paid
- C. Optional
- D. Varies based on circumstances

47. What is travel time between job sites?

- A. Never paid
- B. Optional payment
- C. Travel between job sites during workday is compensable working time
- D. Unpaid commute

48. What is required notice of pay rate changes?

- A. No notice required
- B. Written notice before changes take effect
- C. Verbal notice sufficient
- D. Email adequate

49. What is itemized wage statement requirement frequency?

- A. Annual
- B. Monthly
- C. Quarterly
- D. Every shift

50. What is the penalty for failing to provide itemized wage statements?

- A. \$50 initial violation; \$100 subsequent violations per pay period per employee

- B. Warning only
- C. No penalty
- D. Small fine

51. What is payday requirements in California?

- A. Monthly payment acceptable
- B. Quarterly payment allowed
- C. At least twice monthly for most employees (semi-monthly)
- D. Annual payment

52. What is final wage payment deadline for seasonal employees?

- A. Within 30 days
- B. Within 72 hours of termination
- C. Next regular payday
- D. When convenient

53. What is vacation payout requirement at termination?

- A. Discretionary payout
- B. No requirement
- C. Half of accrued vacation
- D. All earned unused vacation must be paid at final rate of pay

54. What is "use it or lose it" vacation policy legality in California?

- A. Illegal—earned vacation cannot be forfeited (must be paid out)

- B. Legal
- C. Allowed with notice
- D. Permitted if in writing

55. What is vacation accrual cap?

- A. No caps allowed
- B. Unlimited accrual required
- C. Employers can cap accrual at reasonable limits (1.5-2 times annual accrual)
- D. Must pay out annually

56. What is paid sick leave accrual method?

- A. Lump sum only
- B. One hour per 30 hours worked or minimum 24 hours/3 days upfront annually
- C. No accrual required
- D. Two hours per week

57. What is the paid sick leave carryover requirement?

- A. No carryover required
- B. Full carryover mandatory
- C. Forfeited if unused
- D. Accrued leave carries over (but usage can be capped at 24 hours/3 days annually)

58. What are permissible uses of paid sick leave?

- A. Employee illness, injury, medical care; family member care; domestic violence/sexual assault

- B. Vacation only
- C. Personal days
- D. Any purpose

59. What is paid sick leave notice requirement?

- A. One month advance notice
- B. Two weeks notice
- C. Reasonable notice when foreseeable; as soon as practicable if unforeseeable
- D. No notice required

60. What is retaliation for using sick leave?

- A. Allowed
- B. Prohibited—cannot discipline or terminate for lawful sick leave use
- C. Permitted with documentation
- D. Legal

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

61. What is key person insurance?

- A. Life insurance on critical individuals whose loss would harm company financially
- B. General liability
- C. Property insurance
- D. Auto insurance

62. What is business overhead expense insurance?

- A. General liability
- B. Property insurance
- C. Covering fixed business expenses if owner becomes disabled
- D. Auto insurance

63. What is buy-sell agreement funding?

- A. Revenue source
- B. Life insurance or disability insurance funding partner buyouts upon death/disability
- C. Operating cash
- D. Investment

64. What is disability insurance waiting period?

- A. Immediate coverage
- B. No waiting
- C. Instant benefits
- D. Coverage starts same day

65. What is own-occupation disability coverage?

- A. Any occupation coverage
- B. Coverage if unable to perform your specific occupation
- C. General disability
- D. Unemployment coverage

66. What is residual disability benefit?

- A. Full disability only
- B. No coverage
- C. Partial disability benefit for reduced earnings while working part-time
- D. Temporary benefit

67. What is notice of completion purpose?

- A. Starting projects
- B. Recording notice shortening mechanic's lien deadlines after substantial completion
- C. Building permit
- D. Contract signature

68. What is the deadline to record notice of completion?

- A. Anytime
- B. Within 15 days of completion
- C. Within 60 days
- D. Within 90 days of completion

69. What is verified statement of completion?

- A. Statement to owner's knowledge work is complete
- B. Inspection report
- C. Building permit
- D. License verification

70. What is bonding company right of refusal?

- A. No refusal rights
- B. Must bond all projects
- C. Sureties can refuse to bond specific projects deemed too risky
- D. Bonding is mandatory

71. What is single project bonding limit?

- A. No limits
- B. Maximum amount surety will bond for individual project
- C. Unlimited capacity
- D. Fixed amount

72. What is aggregate bonding program limit?

- A. Per project limit
- B. Single bond maximum
- C. Total value of all bonded work contractor can have at one time
- D. Annual limit

73. What is bond premium payment?

- A. Paid by owner
- B. Free service
- C. Paid by surety
- D. Government subsidy

74. What is bond premium calculation basis?

- A. Random amount
- B. Fixed fee
- C. Based on contract amount, contractor financial strength, and project risk
- D. Flat rate

75. What is preliminary notice service method verification?

- A. Verbal confirmation
- B. Proof of service showing proper delivery method and date
- C. Email receipt
- D. Phone log

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

76. What is a letter agreement?

- A. Verbal agreement
- B. Informal contract in letter format stating terms and requiring acceptance
- C. No contract
- D. Invitation to bid

77. What is a purchase order?

- A. Invoice
- B. Receipt
- C. Payment
- D. Contract

78. What is firm offer expiration?

- A. Offers expire immediately
- B. No time limit
- C. One year
- D. Permanent

79. What is option contract?

- A. Free offer
- B. Verbal agreement
- C. Contract giving right to accept offer within specified time for consideration
- D. Invitation

80. What is rejection of offer effect?

- A. Offer remains open
- B. Terminates offer—cannot later accept rejected offer
- C. Extends offer
- D. No effect

81. What is the mailbox rule exception?

- A. No exceptions
- B. All communications by mail
- C. Always applies
- D. Doesn't apply to revocations, rejections (effective on receipt, not mailing)

82. What is written confirmation between merchants?

- A. Not binding
- B. Informal
- C. Optional
- D. No effect

83. What is the battle of the forms knockout rule?

- A. First form wins
- B. Last form wins
- C. Conflicting terms in exchanged forms cancel out; gap filled by UCC
- D. No terms apply

84. What is material alteration in battle of forms?

- A. Any change
- B. Additional terms that materially alter agreements don't become part of contracts
- C. All changes accepted
- D. Minor changes only

85. What is goods versus services contract distinction?

- A. No distinction
- B. Same rules
- C. Identical treatment
- D. Goods governed by UCC Article 2; services by common law

86. What is predominant purpose test?

- A. Determines if mixed contracts are primarily goods or services
- B. Quality test
- C. Price test
- D. Delivery test

87. What is substantial performance defense?

- A. No defense
- B. Not recognized
- C. Defense to breach—performed in all material respects despite minor deviations
- D. Complete excuse

88. What is de minimis breach?

- A. Material breach
- B. Minor trivial breach not excusing other party's performance
- C. Total breach
- D. Partial breach

89. What is cure of defective performance?

- A. Not allowed
- B. No opportunity
- C. Impossible
- D. Right to correct non-conforming performance if time remains or reasonable grounds

90. What is perfect tender rule exception for installment contracts?

- A. No exceptions
- B. Perfect tender always required
- C. Substantial impairment required for rejection
- D. Any deviation allows rejection

91. What is assurance of performance?

- A. No assurance needed
- B. Optional
- C. Right to demand adequate assurance when reasonable grounds for insecurity exist
- D. Never required

92. What is anticipatory repudiation response?

- A. Must wait
- B. Non-breaching party can immediately treat as breach, suspend performance, seek damages
- C. No action allowed
- D. Continue performance

93. What is retraction of anticipatory repudiation?

- A. Not possible
- B. No retraction
- C. Impossible
- D. Allowed if other party hasn't changed position

94. What is commercial frustration versus impossibility?

- A. Same concept
- B. Frustration destroys purpose; impossibility makes performance impossible
- C. No difference
- D. Identical

95. What is changed circumstances doctrine?

- A. Never applies
- B. Not recognized
- C. Extreme unforeseen changes may excuse performance if allocation wasn't anticipated
- D. Applies to any change

96. What is contract modification requirement under UCC?

- A. No consideration needed
- B. Needs new consideration
- C. Requires full consideration
- D. New contract

97. What is preexisting duty rule?

- A. No duty exists
- B. Creates new duties
- C. Modifying duties already owed doesn't provide consideration
- D. Promise to perform existing duty is valid consideration

98. What is accord executory?

- A. Agreement to accept different performance in satisfaction of original duty
- B. Original contract
- C. No agreement
- D. Initial negotiation

99. What is satisfaction defined?

- A. Initial agreement
- B. Original contract
- C. Performance of accord agreement discharging original obligation
- D. Negotiation stage

100. What is novation versus accord and satisfaction?

- A. Same concept
- B. Both identical
- C. No difference
- D. Interchangeable

101. What is express condition versus implied condition?

- A. No difference
- B. Same effect
- C. Identical
- D. Express stated in contract; implied arises from circumstances

SECTION 6: PUBLIC WORKS (Questions 102-107)

102. What is the definition of "awarding body"?

- A. Public entity that awards public works contracts (state, city, county, district)
- B. Contractor
- C. Bonding company
- D. Insurance company

103. What is formal advertising requirement for public works?

- A. Newspaper ads only
- B. Online only
- C. Public notice and competitive bidding for projects over threshold amounts
- D. No advertising

104. What is the informal bidding threshold?

- A. \$100,000
- B. Projects under specified amounts (typically \$60,000-\$200,000) allow informal bidding
- C. \$1,000
- D. \$10,000

105. What is bid security requirement?

- A. Not required
- B. Bid bonds or cashier's checks ensuring bidders will execute contracts if awarded
- C. Optional

D. Voluntary

106. What is subcontractor listing requirement?

A. Not required

B. Optional

C. Voluntary

D. Recommended

107. What is subletting and subcontracting fair practices?

A. No regulations

B. Unrestricted

C. Requirements for subcontractor listing, preventing bid shopping, and fair dealing

D. Voluntary guidelines

SECTION 7: SAFETY (Questions 108-125)

108. What is required for working over or near water?

A. No requirements

B. Life jackets and rescue equipment within immediate reach

C. Optional safety

D. Swimming ability

109. What is required marine construction safety?

A. No special requirements

- B. General safety sufficient
- C. Standard construction rules
- D. Regular safety adequate

110. What is the purpose of safety signage?

- A. Decoration
- B. Warning of hazards, directing traffic, and providing safety information
- C. Company branding
- D. Advertising

111. What is required signage for excavations?

- A. No signage needed
- B. Optional warning
- C. Warning signs and barriers preventing public access
- D. Suggested posting

112. What is traffic control requirement on construction sites?

- A. No control needed
- B. Traffic control plans protecting workers and public following MUTCD standards
- C. Optional safety
- D. Suggested barriers

113. What is flagging certification requirement?

- A. No certification

- B. Anyone can flag
- C. Optional training
- D. No requirements

114. What is high-visibility clothing requirement for flaggers?

- A. Any clothing
- B. Regular work clothes
- C. Optional vest
- D. Suggested attire

115. What is barricade and warning device requirements?

- A. Adequate barriers, signs, lights, and devices protecting workers and public
- B. No requirements
- C. Optional devices
- D. Suggested protection

116. What is the purpose of safety color code?

- A. Aesthetic choice
- B. Color standardization communicating hazard types (red=danger, yellow=caution, green=safety)
- C. Company branding
- D. Personal preference

117. What is housekeeping importance in construction safety?

- A. Optional cleanliness

- B. Aesthetic only
- C. Not important
- D. Required maintenance

118. What is trip hazard definition?

- A. Any obstacle creating stumbling or falling risk
- B. No hazard
- C. Minor concern
- D. Aesthetic issue

119. What is falling object protection?

- A. No protection needed
- B. Optional safety
- C. Toe boards, screens, canopies, or exclusion zones preventing falling object injuries
- D. Suggested protection

120. What is storage safety requirement?

- A. Any storage method
- B. Materials stacked safely, secured, and within load limits
- C. No requirements
- D. Optional securing

121. What is compressed gas cylinder storage?

- A. Any position

- B. Lying down acceptable
- C. Random storage
- D. Store in open areas

122. What is welding and cutting fire watch?

- A. Not required
- B. Fire watch during and for 30 minutes after hot work in fire risk areas
- C. Optional monitoring
- D. Suggested observation

123. What is hot work permit purpose?

- A. Temperature measurement
- B. Authorizing welding, cutting, or other spark-producing work ensuring precautions
- C. Equipment permit
- D. Tool authorization

124. What is confined space atmospheric testing frequency?

- A. One-time testing
- B. Continuous or periodic testing before and during entry
- C. No testing needed
- D. Optional monitoring

125. What is permit-required confined space entry permit contents?

- A. Nothing specific

B. General information

C. Name only

D. Entry plan details

Answer Key With Explanations

- 1. D** - Contractor license bond claims seek damages from contractors for license law violations, financial harm to consumers, incomplete work, or failure to pay subcontractors/suppliers. Bonds protect consumers and others harmed by contractor violations. Claims must establish contractor violated laws and caused damages. Bonds provide financial recourse when contractors fail obligations.
- 2. A** - Filing bond claims requires written claims with detailed documentation including contracts, invoices, payment records, correspondence, photos of defects, and evidence of contractor violations. Claims must clearly state damages and legal basis. Bonding companies need comprehensive documentation evaluating validity. Incomplete claims delay processing or result in denial.
- 3. C** - Bonding companies investigate claims by requesting documentation, contacting contractors for responses, examining evidence, and determining whether claims are valid under bond terms. Investigations take time—bonding companies must verify claims before paying. Contractors can dispute claims providing evidence. Valid claims are paid; invalid claims are denied with explanations.
- 4. B** - After approving claims, bonding companies pay claimants up to bond limits (typically \$25,000 for California contractors), then pursue contractors for reimbursement through indemnity agreements. Remember: bonds aren't insurance—contractors must reimburse bonding companies. Unpaid reimbursement results in collection actions potentially including liens, garnishment, or lawsuits.
- 5. D** - Citation compliance verification requires contractors prove violations were corrected and all fines paid before citations are dismissed. Contractors submit evidence of correction (permits obtained, work completed properly, payments made). CSLB verifies compliance before closing citations. Unresolved citations remain on license records affecting future licensing.
- 6. A** - License reinstatement after revocation requires meeting all current licensing requirements (experience, exams, insurance, bond), waiting periods (typically several years), demonstrating rehabilitation, and possibly re-taking examinations. Revocation is severe—reinstatement is difficult and uncertain. Some revocations permanently bar licensing. Maintain active status avoiding revocation.
- 7. C** - Home Improvement Salesperson (HIS) registration renews every 4 years requiring continuing education on consumer protection laws, contract requirements, and ethical practices. HIS work for licensed contractors selling home improvement. Renewal maintains registration allowing continued sales activity. Expired registrations prohibit sales work until renewed.
- 8. B** - Acting as Home Improvement Salesperson without registration is misdemeanor punishable by fines up to \$5,000, potential jail time up to 6 months, and civil penalties. HIS registration protects consumers by ensuring salespeople understand legal requirements. Working without registration violates Business and Professions Code triggering criminal and civil liability.
- 9. A** - One qualifying individual can qualify multiple companies under limited circumstances: if companies have common ownership, don't compete, and qualifier actively participates in all companies. However, this is scrutinized—qualifiers must genuinely manage construction for all companies. Most qualifiers should focus on one company ensuring adequate supervision.

10. A - Generally, one RMO (Responsible Managing Officer) or RME (Responsible Managing Employee) can actively qualify only one company at a time ensuring they actively direct and supervise construction. Multiple qualifications dilute attention and violate supervision requirements. Exceptions exist for commonly owned non-competing companies but require demonstrating genuine involvement.

11. C - Asbestos certification renews annually requiring continuing education on asbestos regulations, safety practices, and removal techniques. California requires asbestos certification for contractors removing asbestos-containing materials. Annual renewal with CE ensures contractors stay current on changing regulations. Expired certification prohibits asbestos work.

12. B - Hazardous substance removal certification is separate certification required for removing hazardous materials beyond contractor licenses. California Department of Public Health issues hazardous substance certifications after training and examination. Regular contractor licenses don't authorize hazardous material removal—additional certification is required. Specialty work requires specialty certification.

13. D - Suspension temporarily prohibits contracting for specified periods (30 days to several years) with potential reinstatement afterward. Revocation permanently terminates licenses—contractors cannot contract and must cease operations. Suspension is serious but temporary; revocation is permanent career-ending penalty. The severity difference is significant.

14. A - Violating probation terms (failing to submit reports, not maintaining insurance, continuing violations) results in additional disciplinary action including extending probation, increasing conditions, or revoking licenses. Probation is conditional continued licensing—violating conditions forfeits that privilege. CSLB closely monitors probationers and acts swiftly on violations.

15. C - The Contractors State License Law (Business and Professions Code sections 7000-7191) is California law governing contractor licensing, requirements, discipline, and consumer protection. It establishes CSLB, defines licensing requirements, prohibits unlicensed contracting, and sets penalties. All California contractors must comply with this comprehensive regulatory framework.

16. B - Unlicensed contracting results in criminal misdemeanor charges (fines, jail), administrative penalties, inability to sue to enforce contracts or collect payment, mandatory restitution to victims, and permanent prohibition from licensing. Unlicensed contractors lose all contract rights and face serious criminal/civil liability. Never contract without proper licensing.

17. D - Financial statement footnotes provide additional detail, explanations, and context about financial statement items including accounting policies, significant transactions, contingencies, debt terms, subsequent events, and uncertainties. They're integral to financial statements—not optional. Footnotes disclose information not apparent from numbers alone providing complete financial picture.

18. A - Audited financial statements are independently examined by CPAs who express opinions on whether statements fairly present financial positions and results in accordance with accounting principles. Audits involve testing transactions, examining evidence, and evaluating internal controls. Audited statements provide highest assurance—they're most reliable and credible.

19. C - Reviewed financial statements involve accountants performing limited analytical procedures and inquiries providing limited (but not absolute) assurance that statements don't require material modifications. Reviews are less extensive than audits but more than compilations. They provide moderate assurance at lower cost than audits.

20. B - Compiled financial statements are prepared by accountants using client-provided information without verification or assurance. Accountants simply organize data into proper financial statement format. Compilations provide no assurance—they're essentially formatted financial information. They're least expensive but provide no third-party verification.

21. D - Audits cost most (typically \$15,000-\$50,000+ for mid-size contractors) requiring extensive work. Reviews cost less (typically \$5,000-\$15,000) with limited procedures. Compilations cost least (typically \$2,000-\$5,000) with no assurance work. Cost reflects assurance level and time required. Choose appropriate level for needs and budget.

22. A - Management representation letters are written statements from management to auditors confirming responsibility for financial statements, asserting completeness and accuracy of information provided, and acknowledging management responsibilities. They're required in audits documenting management's representations. If management won't provide representation letters, audits cannot be completed.

23. C - Internal controls are processes and procedures safeguarding assets against theft and unauthorized use, ensuring financial record accuracy and reliability, promoting operational efficiency, and detecting/preventing fraud. Strong internal controls protect companies through segregation of duties, authorization requirements, reconciliations, and documentation. Weak controls invite fraud and errors.

24. B - Segregation of duties divides transaction responsibilities so no single person controls all aspects—different people authorize, record, and custody assets. This prevents fraud requiring collusion. Example: person writing checks shouldn't reconcile bank statements. Inadequate segregation enables embezzlement. Small companies struggle with segregation but should implement where possible.

25. D - The fraud triangle identifies three conditions enabling fraud: (1) Pressure/motive (financial problems, addiction, maintaining lifestyle), (2) Opportunity (weak controls, access to assets, lack of oversight), and (3) Rationalization (justifying theft). All three must be present for fraud. Eliminate opportunity through controls reducing fraud risk.

26. A - Embezzlement is theft of company assets by employees in positions of trust who have authorized access—bookkeepers stealing checks, managers diverting funds, or purchasers creating fake vendors. It's different from burglary (outsider theft)—embezzlers have legitimate access they abuse. Embezzlement causes significant business losses. Strong controls prevent it.

27. C - Check kiting exploits float time between banks by writing checks on Account A deposited to Account B before Account A has funds, then depositing checks from Account B to Account A before Account B clears. Kitters artificially inflate balances using uncollected funds. It's illegal fraud punishable criminally. Banks detect kiting through monitoring patterns.

28. B - Bank reconciliations compare bank statements with company records identifying and explaining differences (outstanding checks, deposits in transit, bank fees, errors). Reconciliations detect errors, fraud, and unauthorized transactions. They're essential internal control—independent persons should reconcile accounts monthly. Unreconciled accounts invite embezzlement and hide errors.

29. D - Outstanding checks are checks written and recorded in company books but not yet cleared banks—recipients haven't cashed them. They create timing differences between book balances and bank balances. Outstanding checks are deducted from bank balances during reconciliation. Large old outstanding checks may indicate lost checks requiring stop payments.

30. A - Deposits in transit are deposits recorded by companies but not yet recorded by banks—deposited too late for that day's bank statement. They create timing differences. Deposits in transit are added to bank balances during reconciliation. Most deposits in transit clear next business day. Multiple old deposits in transit suggest problems.

31. C - Petty cash is small amount of currency (typically \$50-\$500) kept on hand for minor expenses (parking, small supplies, postage). It avoids writing checks for small amounts. Petty cash should be secured, controlled by custodians, supported by receipts, and periodically replenished. Weak petty cash controls invite theft.

32. B - Imprest petty cash systems maintain fixed amounts (say \$200). When spent down, custodians submit receipts for reimbursement checks restoring petty cash to fixed amounts. Imprest systems make cash accountable—beginning balance plus reimbursements minus receipts should equal ending balance. Shortages indicate theft or poor recordkeeping.

33. D - Prepaid expenses are payments for future benefits recorded as assets (prepaid insurance, prepaid rent). As time passes, prepaid expenses are expensed. If you pay annual insurance \$12,000 on January 1, it's initially \$12,000 asset, then \$1,000 monthly expense. Prepaid expenses are current assets converted to expenses over time.

34. A - Accrued expenses are expenses incurred but not yet paid—wages owed to employees at period end, interest accumulated on loans, or bills received but not paid. They're liabilities. Accrual accounting records expenses when incurred, not when paid. Accrued expenses ensure expenses are matched with periods they relate to.

35. C - Deferred revenue (unearned revenue) is payment received before earning it—customer deposits, advance payments, or prepayments for future services. It's liability (obligation to perform or refund). As services are performed, deferred revenue becomes earned revenue. Example: \$100,000 deposit for future project is initially liability, converted to revenue as work progresses.

36. B - The California Labor Commissioner (Division of Labor Standards Enforcement—DLSE) is state agency enforcing labor laws including wage laws, overtime, breaks, meal periods, and working conditions. Labor Commissioner investigates complaints, conducts hearings, issues wage orders, and assesses penalties. Workers can file wage claims with Labor Commissioner for free.

37. D - Berman hearings (informal hearings before deputy Labor Commissioners) adjudicate wage claims and labor law disputes. They're administrative proceedings—less formal than court trials but quasi-judicial. Parties present evidence and testimony. Deputy Commissioners issue findings and orders. Berman hearings provide accessible dispute resolution avoiding expensive litigation.

38. A - Labor Commissioner awards become enforceable as court judgments after filing with superior courts. Winners file judgments, then enforce through normal collection methods—wage garnishment, liens, levies. Labor Commissioner awards have full judgment enforcement power. Losers who don't pay face collection actions.

39. C - Either party can appeal Labor Commissioner decisions to superior courts for trial de novo (completely new trial) within 10 days. De novo trials start fresh—courts hear evidence anew and make independent decisions. Previous Labor Commissioner decisions aren't binding. Appeals give parties second chances at trials.

40. B - Wage claim statutes of limitations are typically 3 years from wage payment due dates (4 years for written contracts under some claims). Employees must file within 3 years or lose claims. Some violations (waiting time penalties) have 1-year limits. Advise employees to file claims promptly—old claims may be time-barred.

41. D - Regular rate of pay includes all remuneration for work except statutory exclusions—base wages plus nondiscretionary bonuses, production bonuses, commissions, shift differentials, and piece rate earnings. Regular rate is used calculating overtime rates. Understanding regular rate is essential—overtime must be calculated on total regular rate, not just base wage.

42. A - Regular rate includes hourly wages, salaries converted to hourly, nondiscretionary bonuses, production bonuses, commissions, shift differentials, piece rates, and most other compensation for work. Basically everything earned for working counts toward regular rate. Proper regular rate calculation is critical for overtime compliance.

43. C - Regular rate excludes gifts, discretionary bonuses (amount and payment not promised or expected), expense reimbursements, premium overtime payments, vacation pay, holiday pay, sick pay, and certain other specific exclusions. These don't reflect compensation for hours worked so they don't inflate regular rate for overtime calculations.

44. B - On-call pay depends on restrictions during on-call time. If employees are significantly restricted (must remain home, respond within minutes, can't engage in personal activities), on-call time is compensable. If employees have freedom (go anywhere, respond within hours), it's not compensable. Restrictiveness determines compensability—strict restrictions require pay.

45. D - Standby time (on-call time) compensation depends on whether employees are "engaged to wait" (compensable because they're essentially working) or "waiting to be engaged" (not compensable because they're free to use time personally). Control and restrictions determine compensability. More restrictions means more likely compensable.

46. D - Sleep time pay for residential employees (live-in) depends on hours and conditions. Employees working 24-hour shifts can exclude up to 8 hours sleep time if provided adequate sleeping facilities and uninterrupted sleep. If sleep is regularly interrupted, all time is compensable. Short shifts don't allow sleep time exclusion.

47. C - Travel between job sites during workdays is compensable working time—it's part of principal activities. If workers travel from Job Site A to Job Site B during shifts, that travel time is paid. Home-to-work commuting generally isn't compensable, but travel between jobs during work hours is paid working time.

48. B - California requires written notice of pay rates and basis (hourly, salary, piece rate, commission) at hire and before changes. Notices must include regular and overtime rates, pay periods, employer information, and wage statement specifics. Notices ensure employees know pay terms. Failing to provide notices violates Labor Code.

49. D - Employers must provide itemized wage statements (pay stubs) each pay period showing gross wages, deductions, net wages, dates, rates, hours, and employer information. Every paycheck requires wage statement. Wage statements inform employees how pay was calculated enabling verification. Missing or inadequate wage statements violate Labor Code.

50. A - Failing to provide accurate itemized wage statements results in penalties of \$50 for initial violations and \$100 for each subsequent violation per employee per pay period, plus attorney fees. Maximum penalties are \$4,000 per employee. Penalties accumulate quickly—missing wage statements for 10 employees for 12 pay periods costs \$14,500 (\$50 initial + \$100 × 11 subsequent × 10 employees).

51. C - California requires paying most employees at least twice monthly (semi-monthly) on designated regular paydays. Common schedules are 1st and 15th or 15th and last day. Some employees (executive, administrative, professional) can be paid monthly. More frequent payment (weekly, bi-weekly) is allowed. Semi-monthly is minimum for most employees.

52. B - Final wage payment for seasonal employees (agricultural, food processing, certain tourism workers) must be within 72 hours of termination like regular employees—no special extended deadline. Even seasonal workers get prompt final payment. The 72-hour rule applies to all employees regardless of seasonal status.

53. D - California requires paying all earned unused vacation at termination at employees' final rates of pay—not hire rates, average rates, or reduced rates. Vacation is earned wages that cannot be forfeited. Paying out vacation at reduced rates violates law. Calculate vacation payout using current rates even if rates increased since accrual.

54. A - "Use it or lose it" vacation policies are illegal in California—earned vacation cannot be forfeited. Vacation is earned compensation that vests as work is performed. Policies eliminating accrued vacation violate law. However, employers can cap accrual at reasonable limits preventing unlimited accumulation. Distinguish between capping accrual (legal) and forfeiting earned vacation (illegal).

55. C - Vacation accrual caps are legal if reasonable—typically 1.5 to 2 times annual accrual. If annual vacation is 80 hours, caps of 120-160 hours are reasonable. Once caps are reached, employees stop accruing until they use some vacation. Caps prevent unlimited accrual but must be reasonable. Employees can't lose earned vacation—they just stop earning more.

56. B - Paid sick leave accrues at one hour per 30 hours worked (approximately 3 days annually for full-time employees), or employers can provide 24 hours/3 days upfront at year start. Both methods satisfy requirements. Accrual method tracks hours worked; front-loading provides full amount immediately. Choose method fitting payroll systems.

57. D - Accrued paid sick leave carries over year to year but usage can be capped at 24 hours/3 days annually. Employers aren't required to allow using unlimited accrued leave—they can limit annual usage while requiring unlimited carryover. Alternatively, employers can pay out unused leave at year-end and start fresh avoiding carryover tracking.

58. A - Paid sick leave can be used for: employee's illness, injury, medical care, or preventive care; caring for family member's illness or medical care; or absences related to domestic violence, sexual assault, or stalking. These are only permitted uses—employers cannot limit to narrower uses but can't expand to general personal time.

59. C - Employees must provide reasonable advance notice when sick leave is foreseeable (scheduled appointments) and as soon as practicable when unforeseeable (sudden illness). Employers can require notice but must allow reasonable timing. Employees can't always provide advance notice for unexpected illness. Reasonable notice standards balance employee and employer needs.

60. B - Retaliation for using paid sick leave is prohibited—employers cannot discipline, terminate, threaten, or discriminate against employees for lawful sick leave use. Even if use is inconvenient, retaliation is illegal. Employees have absolute right to use sick leave for permitted purposes. Disciplining for lawful use violates multiple laws triggering significant liability.

61. A - Key person insurance (key man insurance) is life insurance on critical individuals (owners, key employees, essential managers) whose death would significantly harm companies financially. Companies are beneficiaries receiving payouts replacing lost income, covering recruitment/training, or buying out deceased's ownership. Key person insurance protects businesses from financial losses when critical people die.

62. C - Business overhead expense (BOE) insurance pays fixed business expenses (rent, utilities, employee salaries, equipment leases) if owners become disabled and can't work. BOE keeps businesses operating during owner disability. It doesn't replace owner income—it covers business expenses until owners return or businesses can be sold/closed.

63. B - Buy-sell agreements should be funded with life insurance or disability insurance on partners/owners providing cash to buy out deceased or disabled owners' interests. Insurance funding ensures liquidity avoiding forcing surviving owners to finance buyouts personally or liquidate businesses. Proper funding makes buy-sell agreements workable.

64. D - Disability insurance waiting periods (elimination periods) are times between disability onset and benefit payments starting—typically 30, 60, 90, or 180 days. Longer waiting periods mean lower premiums because insurance doesn't pay for short disabilities. Choose waiting periods matching emergency fund coverage—if you can self-fund 90 days, choose 90-day elimination periods.

65. B - Own-occupation disability coverage pays benefits if you cannot perform your specific occupation even if you could work other jobs. It's more liberal than any-occupation coverage which only pays if you can't work any job. Own-occupation is more expensive but provides better protection for highly skilled specialists. Occupation definition dramatically affects coverage.

66. C - Residual disability benefits provide partial benefits when disabilities allow part-time work or reduced earnings. If you earn 60% of pre-disability income, residual benefits pay portion of lost income. Residual benefits encourage return to work while maintaining income support. They bridge gap between total disability and full recovery incentivizing gradual return.

67. B - Notice of completion is document recorded by owners after substantial completion shortening mechanics lien filing deadlines—from 90 days to 60 days for direct contractors and 90 days to 30 days for subcontractors/suppliers. Recording notices protects owners from late lien filings. Owners should record notices promptly after completion.

68. D - Notices of completion must be recorded within 15 days of project completion to be effective. Late-recorded notices don't shorten lien deadlines. Recording promptly after completion (within 15 days) gives owners benefit of shortened deadlines. Miss the 15-day window and standard 90-day deadlines apply giving more time for liens.

69. A - Verified statement of completion is owner's statement under penalty of perjury that work is complete to their knowledge. These statements are prerequisite to recording notices of completion. They're "verified" meaning signed under oath certifying truthfulness. Verification adds solemnity requiring truthful statements under perjury penalties.

70. C - Bonding companies (sureties) can refuse to bond specific projects deemed too risky due to project complexity, owner payment history, contract terms, location, or schedule. Sureties aren't obligated to bond everything—they evaluate each project declining unacceptable risks. Contractors can seek alternative sureties but some projects are universally declined.

71. B - Single project bonding limits are maximum amounts sureties will bond for individual projects based on contractor capacity. If your single project limit is \$5 million, sureties won't bond larger projects even if your aggregate capacity is higher. Single project limits reflect surety comfort with risk concentration. Build track record increasing single project limits.

72. D - Aggregate bonding program limits are total values of all bonded work contractors can have simultaneously—uncompleted bonded work. If aggregate capacity is \$20 million and you have \$15 million bonded backlog, you can obtain \$5 million more bonding. As projects complete, capacity replenishes. Aggregate limits prevent overextension across multiple projects.

73. A - Bond premiums are paid by contractors (not owners)—they're contractor costs typically 0.5-3% of contract amounts depending on project type, size, contractor strength, and risk. Premiums compensate sureties for risk. Contractors include premium costs in bids. Strong contractors get better rates; weak contractors pay higher premiums.

74. C - Bond premiums are calculated based on contract amounts (larger contracts pay more), contractor financial strength (strong financials get better rates), project type and risk (complex or risky projects cost more), and contractor experience/track record. Rates vary widely—financially strong contractors with good records get rates below 1%; weak contractors may pay 3%+ if bondable at all.

75. B - Preliminary notice service method verification requires proof showing how notices were served (certified mail, personal delivery), when served, and who served them. Keep return receipts, delivery confirmations, and certificates of service. Without proof, notices may be challenged as ineffective losing lien rights. Proving proper service protects lien rights.

76. B - Letter agreements are informal contracts in letter format stating terms and requiring acceptance signatures. They're valid enforceable contracts despite informal format. Letter agreements work well for simple engagements. However, comprehensive contracts are better for complex projects. Format doesn't determine enforceability—agreement on essential terms does.

77. D - Purchase orders are written offers to buy goods at specified terms. When accepted by sellers, they become binding contracts. POs specify items, quantities, prices, delivery, and terms. They're commonly used buying materials and supplies. POs streamline purchasing creating paper trails and clarifying terms. Treat POs as contracts—they're legally binding.

78. A - Firm offers under UCC (by merchants in signed writings) are irrevocable for stated times (or reasonable time if none stated) up to 3 months maximum even without consideration. After expiration, offers can be revoked. Firm offers prevent offerors from revoking during stated times giving offerees security. Beyond 3 months, offers need consideration (option contracts) remaining irrevocable.

79. C - Option contracts are agreements giving rights to accept offers within specified times in exchange for consideration (payment for option). Options keep offers open—offerors cannot revoke during option periods. Example: pay \$1,000 for 30-day option to buy property at \$500,000. During 30 days, you can accept or let option expire. Consideration makes options binding.

80. B - Rejecting offers terminates them—you cannot later accept rejected offers unless offerors make new offers. Rejection shows you don't want offered terms. Offerors are released from offers upon rejection. If you reject offers then change your mind, you must negotiate new agreements. Rejection is final terminating offers.

81. D - The mailbox rule makes acceptances effective when properly posted. However, exceptions exist: rejections and revocations are effective on receipt, not mailing. If you mail rejection then mail acceptance, whichever arrives first controls. This exception prevents confusion—revocations and rejections don't become effective until received unlike acceptances effective when mailed.

82. D - Written confirmations between merchants can satisfy statute of frauds even if recipients don't sign if recipients don't object within 10 days after receiving confirmations. If merchants orally agree and one sends written confirmation, recipient's failure to object within 10 days makes it enforceable. This merchant exception streamlines commerce reducing signature requirements.

83. C - Under the knockout rule, when merchants exchange forms with conflicting terms, the conflicting terms cancel each other out (knocked out) and gaps are filled by UCC default terms. Neither party's terms control—conflicts disappear leaving UCC gap-fillers. This prevents endless disputes over whose terms govern. Avoid conflicts by negotiating specific terms.

84. B - Material alterations in acceptances don't automatically become part of contracts between merchants—they're proposals requiring assent. Materially different terms (different warranties, arbitration clauses, limitation of liability) don't become binding without acceptance. Only immaterial additional terms become part of contracts automatically unless objected to. The distinction between material and immaterial matters.

85. D - Goods contracts are governed by UCC Article 2 (more flexible, commercial rules). Services contracts are governed by common law (traditional contract principles). The distinction matters because UCC has different rules for formation, modification, and breach than common law. Determine whether transactions are primarily goods or services.

86. A - The predominant purpose test determines whether mixed goods-and-services contracts are primarily goods (UCC applies) or services (common law applies). Courts examine contract language, pricing breakdown, and parties' intent. If goods predominate, UCC governs entire contract; if services predominate, common law governs. Mixed contracts create uncertainty—clarify governing law in contracts.

87. C - Substantial performance is defense to breach claims when contractors perform in all material respects despite minor deviations. If work is substantially complete with only minor defects, contractors have substantially performed and owners must pay contract prices minus defect costs. Substantial performance recognizes perfect performance is rare and economic reality.

88. B - De minimis breaches are minor trivial violations not excusing other party's performance. If violations are insignificant and don't defeat contract purposes, they don't justify refusing performance. Examples: delivering 99 widgets instead of 100, or completing one day late. De minimis breaches may give damages rights but don't excuse counter-performance.

89. D - Cure allows sellers/contractors to correct non-conforming performance. If time remains under contracts or sellers had reasonable grounds to believe tenders would be acceptable, cure is allowed. Sellers must notify buyers of intent to cure and make conforming tenders within reasonable times or contract times. Cure prevents harsh perfect tender results.

90. A - Installment contracts (contracts requiring deliveries in separate installments) don't apply perfect tender rule. Buyers can reject installments only if non-conformity substantially impairs installment values and can't be cured. This prevents buyers from rejecting entire contracts for minor defects in single installments. Installment contracts have more flexible rejection standards than single-delivery contracts.

91. C - When parties have reasonable grounds to believe the other might not perform (financial problems, past performance issues, concerning communications), they can demand adequate assurances of performance. If assurances aren't provided within reasonable time (UCC: 30 days), it's anticipatory repudiation allowing treating as breach. Assurance rights protect parties from dealing with doubtful counterparties.

92. B - Anticipatory repudiation (clearly indicating refusal to perform before performance is due) allows non-breaching parties to immediately: treat contracts as breached, suspend their own performance, seek cover or alternative arrangements, and sue for damages. Non-breaching parties don't have to wait until performance is due—repudiation accelerates remedies.

93. D - Repudiators can retract anticipatory repudiations before next performance is due if non-breaching parties haven't materially changed position, canceled contracts, or indicated repudiation is final. Retraction reestablishes obligations. However, if non-breaching parties already covered or changed position in reliance, retraction is ineffective. Early retraction preserves contracts.

94. B - Commercial frustration occurs when unforeseen events destroy contract purposes but don't make performance impossible—performance is possible but pointless. Impossibility makes performance objectively impossible. Example: renting venue for concert—if venue burns down (impossibility) or event is canceled (frustration). Both may excuse performance but are different doctrines.

95. C - Changed circumstances doctrine (commercial impracticability) may excuse performance when extreme unforeseen changes make performance extraordinarily difficult or expensive in ways parties didn't anticipate and couldn't have allocated risk for. Courts rarely find changed circumstances—mere difficulty, increased costs, or unprofitability aren't enough. Extreme fundamental changes may excuse.

96. A - UCC allows contract modifications without consideration if made in good faith responding to changed circumstances. Common law requires consideration for modifications. This UCC flexibility recognizes commercial reality—parties should be able to adjust terms as circumstances change. However, modifications must be in good faith, not coerced modifications.

97. C - Preexisting duty rule states promises to perform duties already owed don't provide consideration for new promises. If you're obligated to do X, promising to do X doesn't support new contract. Example: contractor already obligated to build house can't extract more money for same work without providing additional value. Preexisting duties lack bargained-for exchange.

98. A - Accord executory is agreement to accept different performance in satisfaction of original duties. It's new agreement substituting new obligations for original ones. Example: debtor owes \$10,000; parties agree to accept \$8,000 as full payment. The agreement is accord. Until performed, original obligations continue. Accord doesn't discharge original duty—satisfaction does.

99. C - Satisfaction is performance of accord agreements discharging original obligations. Once accords are satisfied (performed), original duties are discharged. In example above, paying agreed \$8,000 satisfies accord and discharges original \$10,000 debt. Until satisfaction, both original obligation and accord exist. Satisfaction completes the transaction.

100. B - Novation substitutes new parties or fundamentally changes obligations extinguishing original contracts. New contracts replace old ones. Accord and satisfaction discharges original duties through substitute performance but parties remain same. Novation replaces contracts or parties; accord and satisfaction discharges through substitute performance. Both discharge obligations but through different mechanisms.

101. D - Express conditions are explicitly stated conditions in contracts—"if X happens" or "provided that Y." Implied conditions arise from circumstances, conduct, or necessity even though not expressly stated. Example: implied duty to cooperate enabling other party's performance. Express conditions are written; implied conditions are inferred. Both are conditions but different sources.

102. A - Awarding bodies are public entities that award public works contracts including state agencies, counties, cities, school districts, water districts, and other political subdivisions. They're public owners contracting for public projects. Awarding body definition is broad covering all governmental entities engaging in public works construction.

103. C - Formal advertising for public works requires public notice (newspaper publication, online posting) and competitive sealed bidding for projects over threshold amounts (typically \$60,000-\$200,000 depending on entity type). Public notice ensures competition and transparency. Formal bidding requirements prevent favoritism and promote fair competition protecting public funds.

104. B - Informal bidding thresholds (varying by jurisdiction—typically \$60,000-\$200,000) allow streamlined procedures for smaller projects including fewer bidders, less formal advertising, and simplified processes. Below thresholds, informal procedures apply; above thresholds, formal competitive bidding is required. Thresholds balance administrative efficiency with competition benefits.

105. B - Bid security (bid bonds or cashier's checks—typically 10% of bids) ensures winning bidders execute contracts and provide required bonds. If bidders refuse to sign contracts, bid security compensates awarding bodies for cost differences to next bidders. Bid bonds protect public entities from frivolous or withdrawn bids.

106. D - Subcontractor listing laws require bidders list subcontractors for specified trades (typically electrical, plumbing, HVAC) in bids including sub names and bid amounts. This prevents bid shopping (soliciting lower bids after award) and provides transparency. Unlisted subs generally cannot be used except under limited circumstances requiring showing good cause.

107. C - Subletting and subcontracting fair practices laws require listing subs in bids, prohibit bid shopping after bids (soliciting lower sub bids), require good faith for substituting listed subs, and mandate fair dealing with subs. These protections prevent abuse ensuring subs get work they bid and primes don't manipulate sub pricing.

108. B - Working over or near water requires Coast Guard-approved life jackets or work vests within immediate reach and readily available rescue equipment (ring buoys, life lines, boats). Even good swimmers need flotation—unexpected falls into cold water cause shock. Don't rely on swimming ability—use flotation and rescue equipment preventing drowning.

109. D - Marine construction requires specialized safety including fall protection over water, personal flotation devices, rescue boats, work platform stability requirements, and protection from marine hazards. Standard construction safety is insufficient—water hazards require additional precautions. Drowning is leading marine construction hazard requiring specialized training and equipment.

110. B - Safety signage warns workers and public of hazards (high voltage, confined spaces, hard hat areas), directs traffic safely around work zones, provides safety instructions (lockout points, emergency exits), and communicates required PPE. Effective signage prevents injuries by making hazards visible and providing guidance. Signage is passive safety control supplementing other measures.

111. C - Excavations require warning signs and physical barriers (fencing, barricades, covers) preventing public from accidentally falling in. Signs alone are insufficient—physical barriers are required. Children and distracted pedestrians won't see signs—barriers provide physical protection. Many injuries occur when people fall into unmarked unbarricaded excavations.

112. B - Construction sites affecting traffic must have traffic control plans following Manual on Uniform Traffic Control Devices (MUTCD) standards using proper signs, barriers, tapers, flaggers, and devices protecting workers and motorists. Traffic control plans are engineered documents showing proper setup. Improper traffic control causes accidents—follow MUTCD standards.

113. D - Flaggers must be trained and certified in traffic control procedures, hand signals, proper positioning, and safety. Many states/jurisdictions require formal flagger certification (typically 4-8 hour courses). Untrained flaggers create hazards—they don't know proper procedures. Flagger training is critical for worker and motorist safety.

114. A - Flaggers must wear high-visibility safety apparel (ANSI Class 2 or 3) with fluorescent background (orange, yellow-green) and retroreflective material visible from 1,000 feet. This ensures visibility to motorists day and night. Regular work clothes or vests without proper reflectivity are inadequate—flaggers must be highly visible preventing motorist strikes.

115. A - Construction requires adequate barricades (fences, barriers, guardrails), warning signs, flashing lights (at night or poor visibility), and devices protecting workers and public from hazards. Passive barriers and warnings prevent unauthorized access and alert to hazards. Barricades must be substantial—string lines are inadequate. Proper barricading prevents injuries.

116. B - Safety color codes standardize hazard communication: red indicates danger (fire equipment, stop, emergency); yellow indicates caution (physical hazards, tripping); orange indicates warning (dangerous parts, energized equipment); green indicates safety (first aid, safety equipment). Color standardization provides instant recognition without reading signs improving safety response.

117. D - Good housekeeping (maintaining clean, organized, orderly worksites) prevents trips, falls, fires, and other hazards. Poor housekeeping (debris, clutter, spills) creates multiple hazards. OSHA requires housekeeping as basic safety measure. Clean sites are safer, more efficient, and more professional. Make housekeeping daily priority—don't tolerate messy sites.

118. A - Trip hazards are obstacles or conditions creating stumbling risks—extension cords across walkways, uneven surfaces, debris, protruding objects, or poor lighting. Trip hazards cause falls resulting in sprains, fractures, and head injuries. Eliminate trip hazards through housekeeping, cable management, level surfaces, and lighting. Trip and fall injuries are preventable.

119. C - Falling object protection includes toe boards (preventing materials from sliding off platforms), screens or netting (catching falling debris), canopies (protecting workers below), or exclusion zones (preventing workers from being under overhead work). Falling objects kill workers—hard hats alone are insufficient. Prevent objects from falling and protect workers below.

120. B - Materials must be stacked safely and securely within floor/surface load limits. Stack materials stable and straight avoiding leaning or unstable piles. Secure materials preventing collapse or sliding. Respect load limits—overloading floors causes collapse. Materials storage injuries are common—falling materials crush workers. Stack materials safely following manufacturer guidelines.

121. D - Compressed gas cylinders must be stored upright, secured to prevent falling, protected from physical damage, separated by gas type (fuel and oxygen separated), in well-ventilated areas away from heat. Falling cylinders can rupture causing explosions. Improper storage (especially mixing fuel and oxygen) creates fire/explosion risks. Follow manufacturer storage requirements.

122. B - Fire watch is required during and for minimum 30 minutes after hot work (welding, cutting, grinding, torch work) in areas with fire hazards. Fire watchers monitor for fires, have extinguishers ready, and check nearby spaces. Many fires start after hot work when workers leave—embers ignite materials later. Fire watch prevents hot work fires.

123. B - Hot work permits authorize welding, cutting, or other spark-producing work after verifying fire precautions including clearing combustibles, providing fire extinguishers, having fire watch, checking spaces above/below, and notifying building occupants. Permits ensure precautions are taken before hot work. Never perform hot work without permits in areas with fire risks.

124. B - Confined space atmospheric testing must be done continuously or periodically (typically every 30 minutes) before and during entry because atmospheres can change. Initial testing isn't enough—oxygen can be consumed, toxic gases can accumulate, or flammable vapors can enter. Continuous monitoring with alarms is ideal. Test frequently protecting entrants from atmospheric hazards.

125. D - Permit-required confined space entry permits must include: space identification, purpose of entry, date and duration, authorized entrants and attendants, hazards, measures to eliminate hazards, acceptable entry conditions, air test results, rescue procedures, communication methods, equipment, and supervisor signature. Comprehensive permits ensure safety measures are in place before entry.