

# Practice Test 8

**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)**

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1. What is joint venture formation?

- A. Temporary partnership for specific project without separate legal entity formation
- B. Permanent corporation
- C. Solo business
- D. Individual ownership

2. What is joint venture liability?

- A. No liability
- B. Limited liability
- C. Each party liable for joint venture obligations (similar to partnership)
- D. Corporate protection

3. What is joint venture dissolution?

- A. Permanent entity
- B. Automatic dissolution at project completion or agreed term
- C. Never dissolves
- D. Continues indefinitely

4. What is required joint venture documentation?

- A. Verbal agreement
- B. No documentation
- C. Handshake deal
- D. Written agreement specifying contributions, profit sharing, management, and dissolution

5. What is professional corporation requirement?

- A. All shareholders must be licensed in same profession
- B. Any shareholders
- C. No requirements
- D. Mixed ownership

6. What is personal liability in professional corporations?

- A. No liability
- B. Full protection
- C. Shareholders remain liable for own professional malpractice
- D. Complete immunity

7. What is the purpose of Errors and Omissions insurance for professionals?

- A. Property coverage
- B. Professional liability coverage for negligent services or advice
- C. General liability
- D. Auto insurance

8. What is tail coverage in E&O insurance?

- A. Front coverage
- B. Primary coverage
- C. Basic protection
- D. Extended reporting period coverage after policy cancellation

9. What is license classification restriction?

- A. Work outside classification
- B. Any work allowed
- C. No restrictions
- D. Universal license

10. What is incidental and supplementary work?

- A. Primary work only
- B. Main scope
- C. Minor work related and necessary to classified work without additional classification
- D. Unlimited scope

11. What is joint classification requirement?

- A. One qualifier sufficient
- B. Multiple classifications require separate qualifiers or one qualifier with all experiences
- C. No additional requirement
- D. Automatic qualification

12. What is the responsible managing employee (RME) versus RMO?

- A. Same position
- B. No difference
- C. Identical roles
- D. Equal status

13. What is qualifying individual replacement timeline?

- A. Within 90 days of loss or license becomes inoperative
- B. One year
- C. Immediate
- D. No deadline

14. What is responsible managing officer role?

- A. Paperwork only
- B. Financial management
- C. Corporate officer actively directing and supervising construction operations
- D. Silent partner

15. What is the CSLB's jurisdiction over licensees?

- A. California only
- B. Nationwide authority over licensees' conduct anywhere related to licensing
- C. Local only
- D. County level

16. What is extraterritorial jurisdiction?

- A. No authority outside California
- B. State borders only
- C. Local jurisdiction
- D. CSLB can discipline for out-of-state conduct affecting California licensing

## **SECTION 2: BUSINESS FINANCES (Questions 17-35)**

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17. What is the purpose of ratio analysis?

- A. Evaluating financial health and performance using numerical relationships
- B. Tax calculation
- C. Revenue tracking
- D. Expense management

18. What is trend analysis?

- A. Fashion trends
- B. Market research
- C. Comparing financial data over time identifying patterns and changes

D. Sales forecasting

19. What is horizontal analysis?

A. Vertical comparison

B. Comparing financial statement items across periods calculating percentage changes

C. Single period

D. Static analysis

20. What is vertical analysis?

A. Horizontal comparison

B. Time series

C. Multiple periods

D. Expressing financial statement items as percentages of base amounts (revenue/assets)

21. What is common-size financial statement?

A. Standardizing statements expressing all items as percentages enabling comparison

B. Standard format

C. Regular statement

D. Normal reporting

22. What is benchmarking in finance?

A. Furniture selection

B. Building design

C. Comparing performance to industry standards or competitors

D. Equipment choice

23. What is the purpose of financial forecasting models?

A. Historical recording

B. Predicting future financial performance using assumptions and historical data

C. Past analysis

D. Record keeping

24. What is sensitivity analysis?

A. Emotional assessment

B. Personal evaluation

C. Subjective review

D. Testing how changes in variables affect outcomes

25. What is scenario planning?

A. Creating and analyzing multiple possible future situations and responses

B. Single plan

C. One option

D. Fixed strategy

26. What is Monte Carlo simulation in finance?

A. Gambling technique

B. Casino strategy

C. Using random sampling and probability to model financial outcomes

D. Game theory

27. What is discounted cash flow analysis?

A. Valuing investments by discounting projected future cash flows to present value

B. Discount pricing

C. Sale calculation

D. Markdown strategy

28. What is terminal value in DCF?

A. Initial value

B. Starting amount

C. Opening balance

D. Value of cash flows beyond forecast period

29. What is weighted average cost of capital (WACC)?

A. Simple average

B. Average cost of debt and equity financing weighted by proportions

C. Total cost

D. Unweighted cost

30. What is the purpose of cost of capital?

A. Construction cost

B. Material expense

C. Minimum required return on investments; used as discount rate

D. Labor cost

31. What is the Modigliani-Miller theorem?

A. In perfect markets, capital structure doesn't affect firm value

B. Debt always better

C. Equity superior

D. Fixed structure required

32. What is optimal capital structure?

A. All debt

B. All equity

C. Random mix

D. Mix of debt and equity minimizing cost of capital

33. What is financial distress cost?

A. Accounting fees

B. Costs of financial difficulties (bankruptcy, restructuring, lost business)

C. Regular expenses

D. Operating costs

34. What is the trade-off theory of capital structure?

A. No trade-offs

B. All debt optimal

C. Balancing tax benefits of debt against financial distress costs

D. Equity only

35. What is pecking order theory?

A. Random financing

B. Equal preference

C. No hierarchy

D. No priority

### **SECTION 3: EMPLOYMENT REQUIREMENTS (Questions 36-60)**

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36. What is the California Family Rights Act (CFRA)?

A. Federal law

B. Childcare subsidy

C. School enrollment

D. State law providing up to 12 weeks unpaid job-protected leave for family/medical reasons

37. What triggers CFRA coverage?

A. All employers

B. Small businesses exempt

C. No size requirement

D. One employee minimum

38. What are qualifying CFRA reasons?

A. Vacation only

- B. Personal time
- C. Employee serious health condition, caring for family, new child bonding
- D. Any absence

39. What is the difference between CFRA and FMLA?

- A. No differences
- B. Identical laws
- C. Same coverage
- D. Equal scope

40. What is intermittent CFRA leave?

- A. Continuous leave only
- B. Block time
- C. One period
- D. Taking leave in separate periods or reduced schedule

41. What is certification requirement for CFRA?

- A. Medical certification documenting need for leave
- B. No documentation
- C. Verbal statement
- D. Self-certification

42. What is employer notification requirement for CFRA?

- A. No notice required

- B. Optional posting
- C. Notice of CFRA rights in employee handbooks and postings
- D. Voluntary information

43. What is the penalty for CFRA violations?

- A. Warning only
- B. Back pay, reinstatement, damages, and attorney fees
- C. Small fine
- D. No penalty

44. What is the Fair Labor Standards Act (FLSA)?

- A. State law
- B. Local ordinance
- C. Voluntary guideline
- D. Federal law establishing minimum wage, overtime, and child labor standards

45. What is FLSA overtime requirement?

- A. Time and a half after 40 hours per week for non-exempt employees
- B. Double time
- C. No overtime required
- D. Straight time

46. What is the FLSA white-collar exemption?

- A. Color-based exemption

- B. Clothing exemption
- C. Executive, administrative, professional employees meeting salary and duty tests
- D. Office workers

47. What is the salary basis test?

- A. Hourly payment
- B. Variable pay
- C. Commission only
- D. Fluctuating wages

48. What is the duties test for exemption?

- A. Any duties
- B. Job title determines exemption
- C. Name of position
- D. Primary duties must be executive, administrative, or professional

49. What is highly compensated employee exemption?

- A. Employees earning over threshold performing any office/non-manual work
- B. No exemption exists
- C. All employees
- D. Universal application

50. What is the computer employee exemption?

- A. Anyone using computers

- B. All tech workers
- C. Systems analysts, programmers meeting salary and duty requirements
- D. Office staff

51. What is the outside sales exemption requirement?

- A. Any sales position
- B. Primary duty is outside sales and regularly works away from employer's premises
- C. Inside sales included
- D. All salespeople

52. What is learner, apprentice, and student minimum wage?

- A. Same as regular
- B. Equal to adults
- C. No difference
- D. May be lower than standard minimum wage under specific programs

53. What is tipped minimum wage under FLSA?

- A. \$2.13 per hour if tips bring total to minimum wage (California requires full minimum)
- B. No minimum for tipped
- C. Half minimum wage
- D. Variable amount

54. What is tip credit?

- A. Tax credit

- B. Employer tax benefit
- C. Offset of tips against minimum wage (prohibited in California)
- D. Tip bonus

55. What is compensatory time off (comp time)?

- A. Always allowed
- B. Any employer can offer
- C. Universal practice
- D. No restrictions

56. What is fluctuating workweek method?

- A. Standard calculation
- B. Method calculating overtime for salaried non-exempt with varying hours
- C. Fixed hours
- D. Regular schedule

57. What is the regular rate calculation for overtime?

- A.  $\text{Base rate} \div \text{Hours worked including all compensation except statutory exclusions}$
- B. Base pay only
- C. Hourly rate
- D. Minimum wage

58. What is the 8 and 80 rule?

- A. Standard workweek

- B. California rule
- C. Alternative overtime calculation for healthcare (overtime after 8 daily or 80 biweekly)
- D. Construction standard

59. What is on-duty meal period?

- A. Never allowed
- B. Paid meal period when employee cannot be relieved of duties
- C. Always unpaid
- D. Optional break

60. What is waiver of meal break legality?

- A. Never allowed
- B. Cannot waive
- C. Prohibited always
- D. Allowed in limited circumstances (shifts 6 hours or less) with mutual consent

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

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61. What is the purpose of directors and officers (D&O) insurance?

- A. Property coverage
- B. General liability
- C. Covering personal liability of directors/officers for management decisions
- D. Auto insurance

62. What is employment practices liability insurance (EPLI) exclusion?

- A. Covers all employment claims
- B. Universal coverage
- C. Complete protection
- D. No exclusions

63. What is prior acts coverage in claims-made policies?

- A. Future events only
- B. Current year
- C. Next year
- D. Coverage for wrongful acts before policy inception if no prior knowledge

64. What is extended reporting period benefit?

- A. Shorter coverage
- B. Right to report claims after policy cancellation for additional premium
- C. Reduced time
- D. Limited window

65. What is nose coverage in insurance?

- A. Facial injury coverage
- B. Health insurance
- C. Coverage for claims arising from acts before policy effective date
- D. Medical coverage

66. What is claims-made policy trigger?

- A. When claim is made during policy period regardless of when act occurred
- B. When act occurs
- C. Loss date
- D. Discovery date

67. What is occurrence policy trigger?

- A. Claim filing date
- B. Discovery date
- C. Reporting time
- D. When act causing damage occurs regardless of when claim is filed

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

- A. No difference
- B. Claims-made covers when claimed; occurrence covers when act occurred
- C. Same trigger
- D. Identical coverage

69. What is preliminary notice to private owner?

- A. Not required
- B. Optional notice
- C. Notice to private property owners of right to file lien
- D. Voluntary filing

70. What is the deadline to serve preliminary notice on private projects?

- A. Within 20 days of first providing labor/materials
- B. Any time
- C. No deadline
- D. 90 days

71. What is stop payment notice on private projects?

- A. Public works only
- B. Not available
- C. Limited use
- D. Notice to withhold funds to pay lien claimants

72. What is release bond versus payment bond?

- A. Same bond
- B. Release bond replaces lien; payment bond guarantees payment on public works
- C. Identical purpose
- D. No difference

73. What is lien priority date?

- A. Recording date
- B. Notice date
- C. Date of project commencement for work
- D. Contract signing

74. What is subcontractor lien priority?

- A. All liens equal priority from commencement date if proper notices given
- B. First recorded wins
- C. Recording order
- D. Largest lien first

75. What is owner responsibility for mechanics liens?

- A. No responsibility
- B. Not affected
- C. Immune from liens
- D. Property encumbered until liens released; may pay twice if didn't require releases

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

76. What is assignment of contract?

- A. Initial signing
- B. Contract formation
- C. Creating contract
- D. Transferring contract rights/duties to third party

77. What is delegation of duties?

- A. Creating obligations
- B. Transferring duty performance to another party
- C. Initial assignment
- D. Forming contracts

78. What is the difference between assignment and delegation?

- A. Same concept
- B. No difference
- C. Assignment transfers rights; delegation transfers duties
- D. Identical meaning

79. What is anti-assignment clause?

- A. Contract provision prohibiting assignment without consent
- B. Required assignment
- C. Mandatory transfer
- D. Forced delegation

80. What is novation in assignment?

- A. Original party remains liable
- B. No change
- C. Additional party
- D. New party replaces original party releasing original party

81. What is obligee consent for assignment?

- A. Never required
- B. Generally required for delegation of duties but not assignment of rights
- C. Always required
- D. Prohibited

82. What is the third-party beneficiary?

- A. Original party
- B. Contract creator
- C. Party benefiting from contract between others who can enforce it
- D. Witness

83. What is intended versus incidental beneficiary?

- A. Same rights
- B. No difference
- C. Equal enforcement
- D. Interchangeable

84. What is creditor beneficiary?

- A. Debtor
- B. Borrower
- C. Obligor
- D. Third party to whom contracting party owes debt

85. What is donee beneficiary?

- A. Creditor beneficiary
- B. Third party receiving gift or benefit from contracting party's performance
- C. Debtor beneficiary
- D. Incidental beneficiary

86. What is vesting of third-party beneficiary rights?

- A. Never vests
- B. Immediate vesting
- C. Rights become enforceable when beneficiary learns of and assents to contract
- D. No vesting

87. What is privity of contract?

- A. Direct contractual relationship between parties
- B. No relationship
- C. Indirect connection
- D. Third-party status

88. What is contract interpretation contra proferentem rule?

- A. Favor drafter
- B. Neutral interpretation
- C. Equal construction
- D. Ambiguous terms interpreted against drafter

89. What is parol evidence rule?

- A. Oral evidence always admissible
- B. Written contracts cannot be contradicted by prior or contemporaneous oral agreements
- C. All evidence allowed
- D. No restrictions

90. What are parol evidence rule exceptions?

- A. No exceptions
- B. Rule always applies
- C. Allows evidence of fraud, mistake, ambiguity, or subsequent modifications
- D. Absolute rule

91. What is merger clause?

- A. Business combination
- B. Acquisition terms
- C. Partnership formation
- D. Stock sale

92. What is choice of law clause?

- A. Random law selection
- B. No law applies
- C. Undetermined law
- D. Specifying which state's law governs contract disputes

93. What is forum selection clause?

- A. Meeting location
- B. Specifying court or jurisdiction for dispute resolution
- C. Arbitration location
- D. Mediation venue

94. What is arbitration agreement enforceability?

- A. Not enforceable
- B. Unenforceable
- C. Generally enforceable under Federal Arbitration Act if agreement is valid
- D. Never binding

95. What is mandatory arbitration?

- A. Required arbitration for all disputes per contract
- B. Optional arbitration
- C. Court option available
- D. Voluntary process

96. What is binding versus non-binding arbitration?

- A. Same concept
- B. No difference
- C. Identical process
- D. Equal outcomes

97. What is arbitrator selection process?

- A. Court appoints
- B. Parties agree on arbitrator or use arbitration service selection process
- C. Random assignment
- D. Mandatory assignment

98. What is limited judicial review of arbitration awards?

- A. Full review available
- B. Complete appeal
- C. Courts review arbitration awards only for limited grounds (fraud, bias, exceeding authority)
- D. Unlimited appeal

99. What is mediation versus arbitration?

- A. Mediation is binding; arbitrator decides; mediation facilitates settlement
- B. Same process
- C. No difference
- D. Identical outcome

100. What is good faith negotiation requirement?

- A. No good faith required
- B. Bad faith allowed
- C. Deception permitted
- D. Parties must negotiate honestly and fairly attempting to reach agreement

101. What is material breach versus minor breach?

- A. Material breach substantially deprives party of contract benefits; minor doesn't
- B. Same breach
- C. No difference
- D. Equal effect

## **SECTION 6: PUBLIC WORKS (Questions 102-107)**

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102. What is "labor compliance program"?

- A. General compliance
- B. Safety program
- C. Monitoring and enforcement of prevailing wage and labor law compliance
- D. Training initiative

103. What is the role of labor compliance officer?

- A. Safety inspector
- B. Monitoring certified payroll, interviewing workers, and investigating violations
- C. Project manager
- D. Quality control

104. What is apprenticeship compliance on public works?

- A. No requirements
- B. Hiring any workers acceptable
- C. Optional apprentices
- D. Required apprentice-to-journeyman ratios and good faith efforts to hire

105. What is the penalty for apprenticeship violations?

- A. No penalty
- B. Forfeiture of up to \$100 per day per apprentice not hired when required
- C. Warning only

D. Small fine

106. What is DIR registration requirement?

A. Contractors and subcontractors must register with DIR before bidding/working public works

B. Optional registration

C. Voluntary program

D. Not required

107. What is the penalty for working without DIR registration?

A. Warning

B. Ineligible for public works, penalties up to \$10,000, and debarment

C. Small fine

D. No penalty

## **SECTION 7: SAFETY (Questions 108-125)**

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108. What is required fall protection at what height?

A. 10 feet

B. 8 feet

C. 12 feet

D. 6 feet or greater in construction

109. What is personal fall arrest system component?

A. Full body harness, lanyard, anchor point, and connecting hardware

- B. Safety belt only
- C. Rope alone
- D. Guardrails

110. What is proper anchor point strength?

- A. Any attachment
- B. Weak point acceptable
- C. Capable of supporting 5,000 pounds or 2 times maximum load
- D. 1,000 pounds

111. What is guardrail top rail height requirement?

- A. 36 inches
- B. 42 inches plus or minus 3 inches
- C. 48 inches
- D. 30 inches

112. What is mid-rail requirement?

- A. Not required
- B. Optional
- C. Recommended
- D. Required midway between top rail and walking surface

113. What is toe board minimum height?

- A. 3.5 inches preventing objects from rolling off elevated surfaces

- B. 2 inches
- C. 6 inches
- D. 8 inches

114. What is hole covering requirement?

- A. Warning signs sufficient
- B. Barriers only
- C. Covers secured, marked, and capable of supporting twice expected load
- D. Tape adequate

115. What is leading edge fall protection?

- A. No protection needed
- B. Fall protection required when working on edges without guardrails
- C. Optional safety
- D. Suggested protection

116. What is controlled access zone purpose?

- A. Security
- B. Limited area for working at leading edges with reduced fall protection requirements
- C. Storage area
- D. Equipment zone

117. What is skylight fall protection?

- A. No protection required

- B. Screens, guardrails, or personal fall arrest around skylights
- C. Warning signs sufficient
- D. Visual barriers adequate

118. What is safety monitoring system?

- A. Equipment monitoring
- B. Competent person monitoring workers using warning line systems
- C. Camera surveillance
- D. Automatic detection

119. What is warning line system requirements?

- A. Any rope
- B. Flagged line 6 feet from edge alerting workers to fall hazard
- C. Verbal warnings
- D. Visual markers

120. What is scaffold competent person requirement?

- A. Anyone can inspect
- B. No inspection needed
- C. Optional review
- D. Trained person inspecting scaffolds before each shift and after changes

121. What is scaffold load capacity?

- A. Unlimited load

- B. Any weight acceptable
- C. No limits
- D. No calculation needed

122. What is scaffold access requirement?

- A. Climbing end frames prohibited—use stairs, ladders, or ramps
- B. Any access method
- C. Climbing acceptable
- D. No requirements

123. What is scaffold platform requirement?

- A. Partial decking
- B. Fully decked and planked with no gaps over 1 inch
- C. Gaps acceptable
- D. Open areas allowed

124. What is scaffold fall protection requirement?

- A. Not required
- B. Guardrails or personal fall arrest for platforms over 10 feet
- C. Optional protection
- D. Recommended only

125. What is scaffold stability requirement?

- A. Free-standing always acceptable

B. Secured to structures or stable base preventing tipping

C. No securing needed

D. Any base acceptable

## Answer Key With Explanations

- 1. A** - Joint ventures are temporary partnerships formed for specific projects or limited purposes without creating separate legal entities. Two or more parties combine resources, expertise, and capital for particular projects while maintaining separate businesses otherwise. Joint ventures dissolve upon project completion. They're common for large projects exceeding single contractor capacity.
- 2. C** - Joint venture participants share liability similar to general partnerships—each party is liable for joint venture obligations and other parties' actions within venture scope. There's no limited liability protection. Joint venture debt or litigation affects all participants. Use written agreements clearly defining liability allocation and obtain adequate insurance.
- 3. B** - Joint ventures automatically dissolve upon project completion, expiration of agreed terms, or achievement of stated purposes. They're temporary arrangements, not permanent entities. Dissolution terms should be specified in joint venture agreements addressing asset distribution, completion of obligations, and final accounting. Clear dissolution provisions prevent disputes.
- 4. D** - Joint ventures require comprehensive written agreements specifying each party's contributions (cash, equipment, personnel), profit and loss sharing percentages, management structure and decision-making authority, dispute resolution, and dissolution terms. Oral joint ventures are legal but extremely risky—written agreements are essential preventing disputes and clarifying expectations.
- 5. A** - Professional corporations (for licensed professionals like doctors, lawyers, architects, engineers) require all shareholders to be licensed in the same profession. This ensures professional control and maintains professional standards. Non-professionals cannot own shares in professional corporations. The requirement protects professional independence and client interests.
- 6. C** - Professional corporation shareholders remain personally liable for their own professional malpractice and negligence. Corporate form protects from general business liabilities but not professional liability. If architect makes design error, they're personally liable despite corporate structure. Professional liability insurance is essential—corporate form provides limited protection.
- 7. B** - Errors and Omissions (E&O) insurance provides professional liability coverage for negligent services, mistakes, omissions, or inadequate work causing client financial losses. Design professionals, consultants, and service providers need E&O coverage. General liability doesn't cover professional mistakes—separate E&O coverage is required for professional services.
- 8. D** - Tail coverage (extended reporting period endorsement) allows reporting claims after claims-made policies expire or are canceled for acts that occurred during policy periods. When switching insurers or closing businesses, tail coverage ensures continued protection for past work. Without tail coverage, you're uninsured for claims arising from work during canceled policy periods.
- 9. C** - License classifications restrict contractors to work within their licensed classifications. A plumbing contractor cannot do electrical work; a painting contractor cannot do concrete work. Working outside classifications violates licensing law triggering discipline. Only perform work within your classifications or subcontract to properly classified contractors.

**10. C** - Incidental and supplementary work is minor work related and necessary to classified work that can be performed without additional classifications. Example: general building contractors can do minor electrical work incidental to construction without electrical license. However, significant work outside classifications requires proper licensing or subcontracting.

**11. B** - Multiple classifications require either separate qualifying individuals for each classification or one qualifier with experience and examination passing in all classifications. You cannot qualify multiple unrelated classifications without proper experience. Each classification requires demonstrated competency through experience and testing.

**12. D** - Responsible Managing Employees (RMEs) are employees qualifying companies, while Responsible Managing Officers (RMOs) are corporate officers/LLC members/partners qualifying companies. RMEs are W-2 employees; RMOs have ownership stakes. Both must actively direct and supervise construction—only organizational relationship differs. Both have same supervision responsibilities.

**13. A** - When qualifying individuals are lost (death, resignation, termination, incapacity), replacement qualifiers must be obtained within 90 days or licenses become inoperative (unable to contract, pull permits, or bid). During 90 days, companies can complete existing contracts but cannot enter new ones. Failure to replace qualifiers within 90 days suspends licenses.

**14. C** - Responsible Managing Officers must be corporate officers, LLC managing members, or general partners who actively and directly participate in daily construction operations, supervise work, ensure code compliance, and make construction decisions. They're not merely paper officers or passive investors—they must genuinely manage construction activities. Active involvement is required.

**15. B** - CSLB has jurisdiction over California licensees' conduct anywhere—not just California. If California licensee commits license violations in Nevada, Arizona, or any state, CSLB can investigate and discipline. Holding California license subjects you to CSLB jurisdiction regardless of work location. Out-of-state conduct can trigger California discipline.

**16. D** - CSLB's extraterritorial jurisdiction allows disciplining for out-of-state conduct affecting California licensing including fraud, misrepresentation, or violations occurring outside California. If you're disciplined by another state, CSLB may take reciprocal discipline. California contractors remain subject to CSLB authority even when working elsewhere.

**17. A** - Ratio analysis evaluates financial health using numerical relationships between financial statement items (current ratio, debt-to-equity, profit margins). Ratios provide insights into liquidity, profitability, efficiency, and leverage. Comparing ratios to industry standards and trends identifies strengths, weaknesses, and areas needing attention. Ratios are essential financial analysis tools.

**18. C** - Trend analysis compares financial data across multiple periods (typically 3-5 years) identifying patterns, growth rates, and changes over time. It reveals whether revenues are growing, expenses increasing, or profitability improving. Trend analysis shows direction and momentum. Positive trends indicate improving performance; negative trends signal problems requiring correction.

**19. B** - Horizontal analysis compares financial statement items across periods calculating dollar and percentage changes. Example: if 2024 revenue is \$5M and 2023 was \$4M, horizontal analysis shows \$1M increase (25% growth). It identifies growth or decline in specific accounts. Horizontal analysis is time-series comparison showing changes.

**20. D** - Vertical analysis expresses all financial statement items as percentages of base amounts—income statement items as percentages of revenue; balance sheet items as percentages of total assets. Example: if gross profit is \$2M and revenue is \$10M, gross profit is 20% of revenue. Vertical analysis shows composition and relationships.

**21. A** - Common-size financial statements express all items as percentages enabling comparison across companies of different sizes or across time periods. They eliminate size differences allowing meaningful comparison. All companies' statements become comparable when standardized to percentages. Common-size statements are powerful comparative analysis tools.

**22. C** - Benchmarking compares company performance to industry standards, competitors, or best practices identifying performance gaps and improvement opportunities. If your profit margin is 3% but industry average is 5%, you're underperforming. Benchmarking reveals where you stand relative to peers and identifies targets for improvement.

**23. B** - Financial forecasting models predict future financial performance using historical data, assumptions, and mathematical relationships. Forecasts guide planning, budgeting, and decision-making. They project revenues, expenses, cash flows, and financial positions under various scenarios. Good forecasting improves strategic planning though forecasts are estimates, not guarantees.

**24. D** - Sensitivity analysis tests how changes in key variables (sales volume, pricing, costs) affect outcomes like profit or cash flow. "What if" analysis shows which variables most impact results and quantifies effects. Example: what happens to profit if material costs increase 10%? Sensitivity analysis identifies critical factors and risks.

**25. A** - Scenario planning creates and analyzes multiple possible future situations (best case, worst case, most likely) and develops response strategies for each. It prepares for uncertainty by considering various outcomes and planning accordingly. Scenario planning improves adaptability and reduces surprise from unexpected events.

**26. C** - Monte Carlo simulation uses random sampling and probability distributions modeling thousands of possible outcomes for complex situations with uncertainty. It generates probability distributions of results showing likelihood of various outcomes. Monte Carlo provides sophisticated risk analysis for complex financial decisions going beyond simple scenarios.

**27. A** - Discounted Cash Flow (DCF) analysis values investments by projecting future cash flows and discounting them to present value using appropriate discount rates. It recognizes time value of money—future dollars are worth less than current dollars. DCF is fundamental valuation technique for investment decisions. Positive NPV indicates profitable investments.

**28. D** - Terminal value represents value of all cash flows beyond detailed forecast periods (typically 5-10 years). Since forecasting indefinitely is impractical, terminal value captures continuing value using perpetuity growth models or exit multiples. Terminal value often represents majority of total DCF value—small assumption changes significantly impact valuations.

**29. B** - Weighted Average Cost of Capital (WACC) is average cost of debt and equity financing weighted by their proportions in capital structure. If debt is 40% at 5% cost and equity is 60% at 12% cost, WACC is 9.2%. WACC represents required return on invested capital—projects must exceed WACC to create value.

**30. C** - Cost of capital represents minimum required return on investments—the hurdle rate. Investments must generate returns exceeding cost of capital to create shareholder value. Cost of capital reflects risk and opportunity cost—higher risk requires higher returns. It's discount rate in DCF analysis and benchmark for investment decisions.

**31. A** - The Modigliani-Miller theorem states that in perfect markets (no taxes, bankruptcy costs, asymmetric information), capital structure (debt vs. equity mix) doesn't affect firm value. Only operating performance matters. In reality, markets aren't perfect—taxes favor debt (interest deductibility) and bankruptcy costs limit debt. MM theorem is theoretical foundation for capital structure theory.

**32. D** - Optimal capital structure is debt-equity mix minimizing weighted average cost of capital and maximizing firm value. It balances tax benefits of debt against financial distress costs and agency costs. Too little debt foregoes tax benefits; too much debt increases bankruptcy risk. Optimal structure varies by industry, company stability, and asset tangibility.

**33. B** - Financial distress costs include direct costs (bankruptcy, restructuring, legal fees) and indirect costs (lost customers, employee turnover, supplier demands, fire sale asset prices, management distraction). High debt increases financial distress probability and costs. These costs reduce value of highly leveraged firms offsetting debt tax benefits.

**34. C** - Trade-off theory suggests firms balance tax benefits of debt (interest is tax-deductible) against financial distress costs and agency costs determining optimal leverage. Add debt until marginal tax benefits equal marginal distress costs. This balancing produces interior optimal capital structure—neither all equity nor maximum debt.

**35. A** - Pecking order theory suggests firms prefer financing in order: (1) retained earnings (cheapest, no information asymmetry), (2) debt (less information asymmetry than equity), (3) equity (most expensive due to information asymmetry). Managers know more than investors—equity issuance signals overvaluation. Pecking order explains why profitable firms use less debt.

**36. D** - California Family Rights Act (CFRA) provides up to 12 weeks unpaid job-protected leave in 12-month periods for serious health conditions, caring for seriously ill family members, or bonding with new children. CFRA is California's parallel to federal FMLA with some broader protections. It applies to employers with 5+ employees.

**37. A** - CFRA covers employers with 5 or more employees within 75 miles (broader than FMLA's 50 employees). Employees must have worked 1,250 hours in previous 12 months and 12 months total. CFRA's lower employee threshold covers more California workers than federal FMLA. Small employers have CFRA obligations.

**38. C** - CFRA qualifying reasons include: employee's own serious health condition, caring for child/parent/spouse/domestic partner/grandparent/grandchild/sibling with serious health conditions, and bonding with new children (birth, adoption, foster). CFRA covers more family relationships than federal FMLA. Serious health condition requires incapacity and continuing treatment.

**39. D** - CFRA provides broader coverage than FMLA: lower employer threshold (5 vs. 50 employees), more covered family relationships (grandparents, grandchildren, siblings, parents-in-law), and separate 12-week entitlement for pregnancy disability. In California, pregnancy disability leave is separate from CFRA bonding leave—potentially 16+ weeks total leave for childbirth.

**40. D** - Intermittent CFRA leave allows taking leave in separate blocks or reducing work schedules rather than continuous leave. Example: weekly medical appointments or reduced 30-hour schedule during treatment. Intermittent leave accommodates ongoing medical needs while maintaining employment. Employers can require medical certification justifying intermittent leave necessity.

**41. A** - Employers can require medical certification from healthcare providers documenting serious health conditions, care needs, incapacity duration, and treatment plans. Certification must be provided within 15 days of request. Insufficient or incomplete certification can be clarified but employers must allow reasonable time for completion. Proper certification prevents abuse.

**42. C** - Employers must notify employees of CFRA rights through employee handbooks, workplace postings, and individual notices when leave needs are known. Detailed notices must explain qualifying reasons, employee rights, employer obligations, and consequences of failing to return. Adequate notice ensures employees know rights. Failure to provide notices can waive employer defenses.

**43. B** - CFRA violations result in reinstatement to same or equivalent positions, back pay for lost wages and benefits, liquidated damages equal to back pay (for willful violations), emotional distress damages, and attorney fees. Employees also may pursue wrongful termination claims. CFRA violations trigger significant liability—comply carefully with leave obligations.

**44. D** - The Fair Labor Standards Act (FLSA) is federal law establishing minimum wage, overtime pay, recordkeeping, and child labor standards for private and public sector employees. Enacted 1938, FLSA forms foundation of U.S. wage-hour law. States can provide greater protections (California does) but cannot provide less. FLSA is enforced by Department of Labor.

**45. A** - FLSA requires time-and-a-half pay (1.5 times regular rates) for hours over 40 per workweek for non-exempt employees. California requires daily overtime (over 8 hours/day) and double time (over 12 hours/day) providing greater protection than federal law. Federal overtime is workweek-based; California adds daily overtime.

**46. C** - FLSA white-collar exemptions exclude executive, administrative, and professional employees from overtime if they meet salary and duties tests. Exemptions recognize these employees' discretion, responsibility, and compensation levels. However, job titles alone don't create exemptions—actual duties and pay must meet tests. Misclassifying employees as exempt violates FLSA.

**47. D** - Salary basis test requires paying predetermined amounts not reduced by quality or quantity of work (minimum \$684 weekly as of 2020, \$844 as of July 2024). Salaried employees receive full salary regardless of hours worked or work quality. Deductions are severely limited. Improper deductions destroy exemption. Salary basis differs from hourly pay.

**48. D** - Duties tests examine primary duties—not just job titles or occasional tasks. Executives manage enterprises or departments and supervise two or more employees. Administrators perform office/non-manual work exercising discretion on significant matters. Professionals perform work requiring advanced knowledge in science or learning. Actual duties must meet exemption criteria—titles are insufficient.

**49. A** - Highly compensated employee (HCE) exemption applies to employees earning over \$107,432 annually (as of 2020, \$132,964 as of July 2024) performing office or non-manual work and customarily performing at least one exempt duty. HCE exemption has relaxed duties test recognizing high compensation indicates exempt work. Not all highly paid employees are exempt—manual workers aren't.

**50. C** - Computer employee exemption covers systems analysts, programmers, software engineers, and similar skilled workers if they're paid at least \$684 weekly salary or \$27.63 hourly (2020 thresholds, higher as of 2024) and perform exempt duties (systems analysis, design, development). Not all tech workers are exempt—help desk, data entry, and support roles are non-exempt.

**51. B** - Outside sales exemption requires primary duty be making sales away from employer's place of business and regularly working outside the office. There's no salary requirement for outside sales—commission-only outside salespeople are exempt. Inside sales (telephone sales, counter sales) are non-exempt. "Outside" requires physical presence at customer locations making sales.

**52. D** - FLSA allows paying learners, apprentices, and students registered in qualifying programs less than minimum wage under special certificates from Department of Labor. These sub-minimum wages recognize training and education components. However, California generally requires minimum wage even for learners—federal sub-minimum wages rarely apply in California. Most workers must receive full minimum wage.

**53. A** - Federal FLSA allows \$2.13 per hour tipped minimum if tips bring total to federal minimum wage (tip credit). However, California prohibits tip credits requiring full minimum wage for all employees including tipped workers. California tips are additional to minimum wage—not offsetting it. California's prohibition on tip credits significantly exceeds federal law.

**54. C** - Tip credit allows employers to pay tipped employees reduced hourly wages if tips make up difference to minimum wage. Prohibited in California but allowed federally. If federal minimum is \$7.25 and tipped minimum is \$2.13, tips must equal \$5.12 to meet minimum wage. Tip credit enables reduced direct wages but California requires full minimum wage.

**55. B** - Compensatory time off (comp time) allows public sector employees to receive paid time off instead of overtime pay. Private sector employers generally cannot offer comp time for overtime—they must pay cash overtime. However, comp time is allowed within same workweek (non-overtime hours). The prohibition prevents employers from forcing time off instead of paying overtime.

**56. B** - Fluctuating workweek method calculates overtime for salaried non-exempt employees with varying weekly hours. Weekly salary is divided by actual hours worked establishing regular rates, then overtime hours are paid at half regular rate (since full regular rate is already included in salary). FWW is complex and controversial—many states prohibit it. Use cautiously.

**57. A** - Regular rate for overtime includes all remuneration for work divided by hours worked: base pay plus nondiscretionary bonuses, shift premiums, commissions, piece rates. Exclude only statutory exceptions (discretionary bonuses, reimbursements, premium pay). Regular rate calculation is critical for overtime compliance. Failing to include all compensation in regular rate underpays overtime.

**58. C** - The 8 and 80 rule (Section 7(j) FLSA exemption) allows hospitals and residential care facilities to calculate overtime over 14-day periods paying overtime for hours over 8 per day or 80 per 14 days. This accommodates healthcare scheduling needs. It's optional special rule for healthcare requiring employer adoption and notice. Most employers use standard workweek overtime.

**59. B** - On-duty meal periods occur when employees cannot be completely relieved of duties (e.g., receptionist eating while answering phones). On-duty meal periods are compensable working time. California allows on-duty meal periods only when nature of work prevents relief of duty and parties agree in writing. On-duty meal periods should be avoided when possible.

**60. D** - California meal break waivers are allowed in limited circumstances: first meal period can be waived if shifts are 6 hours or less, and second meal period can be waived if total hours are 12 or less and first meal period wasn't waived. Waivers require mutual written consent. Waivers must be voluntary—coerced waivers are invalid.

**61. C** - Directors and Officers (D&O) insurance protects personal assets of directors and officers from liability for management decisions, breaches of fiduciary duty, mismanagement claims, and alleged wrongful acts. D&O protects against shareholder lawsuits, regulatory actions, and employment claims against individual directors/officers. Corporate indemnification may not cover all situations—D&O fills gaps.

**62. D** - EPLI typically excludes bodily injury, property damage, contractual liability, intentional misconduct, wage and hour claims (sometimes), and prior known claims. Not all employment-related claims are covered. Exclusions vary by policy—read carefully. Wage and hour class actions often aren't covered by standard EPLI requiring separate coverage or endorsements.

**63. D** - Prior acts coverage (retroactive coverage) on claims-made policies covers wrongful acts that occurred before policy inception dates if no prior knowledge of claims existed when policies incepted. It extends coverage backwards protecting against claims from earlier acts. Without prior acts coverage, only acts during policy periods are covered leaving gaps in coverage.

**64. B** - Extended reporting periods (tail coverage) give rights to report claims arising from acts during policy periods after policies expire or cancel. You pay additional premiums for tails (often 100-300% of annual premium). Tails are critical when switching insurers or closing businesses—without them, past work is uninsured. Always purchase tail coverage when canceling claims-made policies.

**65. C** - Nose coverage provides coverage for acts that occurred before policy effective dates (retroactive coverage). It covers your "nose" (past). Opposite of tail coverage (extending coverage forward). When switching insurers, get nose coverage from new insurer covering gap between old retroactive date and new policy inception. Seamless coverage requires coordinating nose and tail.

**66. A** - Claims-made policies cover claims made (filed, reported) during policy periods regardless of when acts occurred. If acts occurred in 2020 but claims are made in 2024 during policy periods, policies respond. This differs from occurrence policies. Claims-made policies are cheaper initially but require ongoing coverage. Canceling claims-made policies without tail coverage leaves gaps.

**67. D** - Occurrence policies cover damage-causing acts that occur during policy periods regardless of when claims are filed. If acts occur in 2020 during policy periods but claims are filed in 2030, policies respond. Occurrence coverage provides long-term protection without tail coverage needs. Most general liability policies are occurrence-based providing lifetime coverage for policy-period acts.

**68. B** - Claims-made policies cover when claims are made (during policy periods). Occurrence policies cover when acts occur (during policy periods). The trigger timing differs. Claims-made requires maintaining coverage or buying tail. Occurrence provides perpetual coverage for policy-period acts. Occurrence is simpler but often more expensive. The distinction is fundamental to understanding coverage.

**69. C** - Preliminary notices to private owners notify them of parties furnishing labor/materials and their lien rights. Notices inform owners so they can protect themselves by requiring lien releases before paying contractors. Notices preserve lien rights—failure to serve preliminary notices (except direct contractors) forfeits lien rights. Serve notices early protecting rights.

**70. A** - Preliminary notices to private owners must be served within 20 days of first furnishing labor or materials. Late notices only cover work from 20 days before notice forward—earlier work is unprotected. Timely service within 20 days protects full value. Subcontractors and suppliers should serve preliminary notices immediately upon starting work protecting lien rights.

**71. D** - Stop payment notices on private projects notify owners or construction lenders to withhold funds from contractors to pay lien claimants. Withheld funds are held pending lien resolution. Stop notices are powerful tools providing direct access to project funds more quickly than liens. They're particularly effective when construction loans exist.

**72. B** - Release bonds replace recorded liens allowing property transfers or refinancing. Bonding companies post bonds substituting bond security for lien security. Payment bonds on public works guarantee contractor will pay subs/suppliers (public property can't be liened). Different purposes: release bonds release recorded liens; payment bonds guarantee payment preventing liens.

**73. C** - Mechanics lien priority dates back to project commencement dates (when work began) for all claimants who properly noticed and filed—not recording dates. Earlier recorded liens don't have priority over later liens if all work was from same project commencement. This relation-back doctrine treats all claimants equally based on project start rather than recording race.

**74. A** - All properly noticed subcontractors and suppliers share equal lien priority dating from project commencement. First-to-record has no priority over later recordings if from same project. This differs from normal recording priorities. However, if insufficient funds exist to pay all liens, they're paid pro rata. Proper notice is critical for priority.

**75. D** - Owners' property is encumbered by mechanics liens until released. If owners pay contractors who don't pay subs, owners may pay twice—once to contractor and again to clear liens. This double payment risk is why owners should require lien releases before final payment and can withhold retainage. Owners must actively protect against lien risk.

**76. D** - Assignment transfers contract rights or duties to third parties. Rights assignments transfer benefits (payment rights); duty delegations transfer obligations (performance duties). Assignments allow parties to transfer interests to others. However, personal service contracts and those requiring unique skills are often non-assignable. Anti-assignment clauses restrict assignments.

**77. B** - Delegation transfers duty performance to other parties. Original obligors delegate duties to delegates who perform on their behalf. However, original obligors remain liable if delegates fail to perform. Delegation doesn't release obligors from liability—it only transfers performance responsibility. Delegating doesn't escape obligations.

**78. C** - Assignment transfers rights (benefits, payments). Delegation transfers duties (performance obligations). Assignment gives others your rights; delegation has others perform your duties. Example: assigning right to receive payment gives another party your money; delegating construction duty has another party do your work. Different concepts though often occur together.

**79. A** - Anti-assignment clauses prohibit or restrict contract assignment without other parties' consent. They're common in construction protecting obligees from unknown assignees. Clauses may prohibit assignment entirely or require consent. Violating anti-assignment clauses may void assignments or breach contracts. Always check for anti-assignment clauses before assigning rights.

**80. D** - Novation substitutes new parties for original parties with all parties' consent releasing original parties from obligations. New parties assume full responsibility. Novation differs from assignment—novation releases original obligors; assignment doesn't. Novations require consent of all parties including obligees. They're complete replacements of parties.

**81. B** - Assignment of rights generally doesn't require obligees' consent—rights are freely assignable unless contracts prohibit it. However, delegation of duties often requires consent especially for personal services or duties requiring particular skills or trust. The distinction is important—rights assignments are easier than duty delegations.

**82. C** - Third-party beneficiaries are non-parties who benefit from contracts between others and can enforce those contracts. Example: construction contract requires contractor to pay subcontractor—sub is third-party beneficiary who can sue for payment. Third-party beneficiary status allows non-parties to enforce contracts made for their benefit.

**83. D** - Intended beneficiaries are specifically intended by contracting parties to benefit from contracts and can enforce them. Incidental beneficiaries merely happen to benefit and cannot enforce. Distinction is intent—were they meant to benefit? Only intended beneficiaries have enforcement rights. Incidental benefit without intent doesn't create enforceable rights.

**84. D** - Creditor beneficiaries are third parties to whom contracting parties owe debts. Example: A owes money to B; A contracts with C requiring C to pay B. B is creditor beneficiary who can enforce C's payment obligation. Creditor beneficiary status allows creditors to enforce debtor's contracts requiring payment to creditors.

**85. B** - Donee beneficiaries are third parties receiving gifts or benefits under contracts. Example: life insurance beneficiaries, trust beneficiaries. Contracting parties intend gratuitous transfers to donee beneficiaries who can enforce contracts. Donee beneficiaries differ from creditor beneficiaries—they receive gifts rather than debt payments.

**86. C** - Third-party beneficiary rights vest (become enforceable) when beneficiaries learn of contracts and assent to them, detrimentally rely, or bring lawsuits. Until vesting, contracting parties can modify or cancel without beneficiary consent. After vesting, beneficiaries' rights are protected. Vesting timing matters—it determines when rights become indefeasible.

**87. A** - Privity of contract is direct contractual relationship between parties. Only parties in privity can enforce contracts against each other (except third-party beneficiaries). Lack of privity generally prevents lawsuits. Example: subcontractors lack privity with owners—they can't sue owners for payment. Privity determines who has contractual rights.

**88. D** - Contra proferentem means ambiguous contract language is interpreted against drafters. If language is unclear, courts construe it against parties who wrote it. This rule encourages clear drafting and protects non-drafters from unclear terms. In adhesion contracts (take-it-or-leave-it), ambiguities are construed against drafters protecting weaker parties.

**89. B** - Parol evidence rule prohibits using prior or contemporaneous oral or written agreements to contradict or add to terms of complete integrated written contracts. Once parties reduce agreements to writing, outside evidence generally can't alter written terms. The rule promotes finality and reliability of written contracts preventing fraud and confusion.

**90. C** - Parol evidence rule exceptions allow evidence of fraud, mistake, duress, lack of consideration, ambiguity explanation, or subsequent modifications. Evidence proving contracts are invalid or explaining unclear terms is admissible. The rule prevents contradicting contracts but doesn't prevent showing contracts are void or unclear. Exceptions protect against unfairness.

**91. A** - Merger clauses (integration clauses) state written contracts are complete and final agreements superseding all prior negotiations, understandings, and agreements. They strengthen parol evidence rule applications. Merger clauses indicate parties intended writing to be final expression. Well-drafted merger clauses prevent claims that oral promises modified written terms.

**92. D** - Choice of law clauses specify which state's law governs contract interpretation and disputes. Without them, conflict of law rules determine governing law creating uncertainty. Choice of law clauses provide certainty and allow choosing favorable law. Courts generally enforce choice of law clauses if reasonable relationship to contracts exists.

**93. B** - Forum selection clauses designate specific courts or jurisdictions for dispute resolution. They prevent parties from suing in inconvenient or hostile jurisdictions. Courts generally enforce forum selection clauses unless unreasonable or unjust. Forum selection provides certainty about dispute location. Include both choice of law and forum selection clauses.

**94. C** - Arbitration agreements are generally enforceable under Federal Arbitration Act (FAA) if agreements are valid (mutual assent, consideration, not unconscionable). FAA strongly favors arbitration. However, agreements must be clear and supported by consideration. Courts enforce arbitration agreements compelling arbitration and dismissing lawsuits. Arbitration is contractually enforceable dispute resolution.

**95. A** - Mandatory arbitration requires all disputes be arbitrated per contracts—parties waive court trial rights. It's binding contractual obligation. Parties cannot litigate disputes covered by mandatory arbitration clauses—courts dismiss lawsuits compelling arbitration. Mandatory arbitration is controversial but generally enforceable. Distinguish from voluntary arbitration where parties choose arbitration after disputes arise.

**96. D** - Binding arbitration produces final enforceable decisions with very limited judicial review. Non-binding arbitration produces recommendations that parties can reject proceeding to court trials. Binding arbitration is final and enforceable; non-binding is advisory. Most contractual arbitration is binding. Understand whether arbitration is binding or non-binding—it dramatically affects finality.

**97. B** - Arbitrator selection is usually by mutual agreement or through arbitration service procedures (like AAA or JAMS). Parties often select from arbitrator lists provided by arbitration organizations. Some agreements specify arbitrator qualifications or selection methods. The process should be fair ensuring neutral arbitrators. Biased arbitrator selection can void awards.

**98. C** - Judicial review of arbitration awards is extremely limited—courts review only for fraud, evident partiality/corruption, arbitrator misconduct, or exceeding authority. Courts don't review factual or legal accuracy. This finality is arbitration's advantage and disadvantage. Once arbitrators decide, decisions are final. Limited review prevents endless litigation.

**99. A** - Mediation is facilitated negotiation where neutral mediators help parties reach voluntary settlements. Mediators don't decide—parties control outcomes. Arbitration is binding decision-making where arbitrators issue decisions after hearing evidence. Mediation is settlement-focused and consensual; arbitration is adjudicative and binding. Mediation is less adversarial than arbitration.

**100. D** - Good faith negotiation requires parties to negotiate honestly, fairly, and sincerely attempting to reach agreements. Bad faith negotiation (going through motions without intent to agree, making unreasonable demands, refusing compromise) violates implied duty of good faith. While parties needn't agree, they must genuinely try. Bad faith can breach contracts.

**101. A** - Material breach substantially deprives non-breaching parties of reasonably expected contract benefits excusing their performance and allowing damages. Minor breach doesn't substantially impair benefits requiring continued performance with damages for breach. Material/minor distinction is fundamental—material breach excuses performance; minor breach doesn't. Magnitude and impact determine materiality.

**102. C** - Labor compliance programs monitor and enforce prevailing wage and labor law compliance on public works including certified payroll review, worker interviews, site visits, and investigating violations. They ensure contractors pay prevailing wages and comply with labor laws. Labor compliance protects workers and honest contractors from unfair competition. Awarding bodies establish programs.

**103. B** - Labor compliance officers monitor certified payroll records ensuring accuracy, interview workers verifying payments match payroll, conduct site visits checking compliance, investigate violations, and assess penalties. They're watchdogs protecting prevailing wage requirements. LCOs have authority to audit records and interview workers. Contractors must cooperate with LCOs.

**104. D** - Public works requires complying with apprentice-to-journeyman ratios for each trade and making good faith efforts to hire apprentices from state-approved programs. Ratios vary by trade (typically 1:3 to 1:5). Contractors must request apprentices from Dispatch Services and hire available apprentices. Compliance protects apprenticeship programs and provides training opportunities.

**105. B** - Apprenticeship violations result in forfeitures up to \$100 per day per apprentice contractors should have hired but didn't. If required to employ 2 apprentices for 10 days but employed none, forfeit \$2,000. Additionally, debarment from public works for up to 3 years is possible. Penalties are substantial—comply with apprenticeship requirements.

**106. A** - All contractors and subcontractors (regardless of tier) working public works must register with DIR before bidding or working. Registration requires providing information, fees, and compliance history. Unregistered contractors cannot legally work public works. Registration ensures DIR knows who's working and can enforce prevailing wage. Always register before bidding.

**107. B** - Working without DIR registration makes contractors ineligible for public works, subjects them to civil penalties up to \$10,000, creates liability for other contractors who hire them, and can result in debarment from public works. Additionally, contracts with unregistered contractors may be void. Registration is mandatory—working without it has serious consequences.

**108. D** - Fall protection is required at 6 feet or greater in construction (4 feet in general industry). Heights of 6+ feet require guardrails, safety nets, or personal fall arrest systems. Below 6 feet, fall protection may not be required but is good practice. The 6-foot threshold triggers mandatory fall protection. Most construction falls causing serious injury occur under 10 feet.

**109. A** - Personal fall arrest systems require full body harnesses (not safety belts which can cause internal injuries), lanyards or lifelines, adequate anchor points, and proper connecting devices. All components must be compatible and properly used. Body harnesses distribute fall forces across body preventing concentration at waist. Complete systems are required—missing components make systems ineffective.

**110. C** - Anchor points must support 5,000 pounds per attached worker or maintain 2 times maximum fall arrest forces as safety factor. Weak anchors fail during falls killing workers. Anchors must be engineered for fall arrest or independently capable of supporting 5,000 pounds. Never guess about anchor strength—verify capacity. Anchor failure is common fall arrest failure mode.

**111. B** - Guardrail top rails must be 42 inches plus or minus 3 inches above walking surfaces (39-45 inches acceptable). This height prevents workers from flipping over railings. Rails must withstand 200-pound force. Too low, workers fall over; too high, workers duck under. The 42-inch standard balances protection with usability.

**112. D** - Mid-rails are required approximately midway between top rails and walking surfaces (typically 21 inches high). Mid-rails prevent workers from sliding under top rails. They're mandatory guardrail components. Screens or mesh can substitute for mid-rails. Two-rail systems (top and mid) are minimum guardrail requirements. Three-rail systems provide additional protection.

**113. A** - Toe boards must be minimum 3.5 inches high preventing tools, materials, and debris from rolling or sliding off elevated surfaces potentially striking workers below. Toe boards are required when objects could fall harming workers below. They're simple but effective protection. Solid or with openings not over 1 inch, they form base barrier.

**114. C** - Hole covers must be secured preventing accidental displacement, marked "HOLE" or "COVER" indicating covers exist, and capable of supporting twice maximum expected loads with safety factors. Unsecured covers shift when stepped on causing falls. Color-coding or marking prevents workers from removing covers unknowingly. Strong covers prevent collapse. Proper hole covering is simple effective fall prevention.

**115. B** - Leading edge work (forming, decking, or constructing perimeters before guardrails can be installed) requires fall protection through personal fall arrest systems, safety monitoring systems, or controlled access zones. Leading edge is inherently hazardous—workers are at edges before protection is installed. Strict protection is required due to high fall risk.

**116. B** - Controlled access zones are designated areas limiting access to qualified workers performing leading edge work under relaxed fall protection requirements. CAZs must be clearly marked and restrict access. Only workers directly engaged in leading edge work can enter. CAZs allow performing work at edges before guardrails exist while limiting exposed worker numbers.

**117. B** - Skylight fall protection requires screens capable of withstanding 200 pounds, guardrails around skylights at least 39 inches from edges, or personal fall arrest. Skylights appear solid but aren't—workers step on them and fall through. Many deaths occur from skylight falls. Never assume skylights support weight. Guard or screen all skylights.

**118. B** - Safety monitoring systems use competent persons to watch workers using warning line systems alerting them to fall hazards. Monitors watch worker positioning warning them when too close to edges. It's active fall protection relying on human vigilance. Safety monitoring is less reliable than physical protection—use only when other protection isn't feasible.

**119. B** - Warning line systems are ropes, wires, or chains with high-visibility flagging erected 6 feet from roof edges alerting workers to fall hazard proximity. Lines must be 34-39 inches high and flagged every 6 feet. Warning lines are passive fall protection reminding workers of hazards. They're often used on low-slope roofs.

**120. D** - Scaffold competent persons (trained in scaffold assembly, hazard recognition, and inspection procedures) must inspect scaffolds before each work shift and after any occurrence potentially affecting structural integrity (weather, impacts, modifications). Daily inspections catch problems before failures. Inspections must be documented. Never use scaffolds without current inspections by competent persons.

**121. D** - Scaffolds must be designed to support their own weight plus 4 times maximum intended loads (materials and workers). This 4:1 safety factor prevents collapse. Exceeding load capacity causes catastrophic failures. Load calculations must include all workers and materials simultaneously on scaffolds. Know and respect load capacities—post capacity plaques on scaffolds.

**122. A** - Climbing scaffold end frames is prohibited—it's dangerous and often causes falls. Instead, provide proper access through stairs, ladders mounted on scaffolds, or ladder scaffolds. Safe access is required—workers shouldn't climb structure. Cross braces aren't designed for climbing and can fail. Proper access prevents falls during mounting and dismounting.

**123. B** - Scaffold platforms must be fully decked and planked with decking extending full scaffold width. Gaps cannot exceed 1 inch except near guardrails where 9.5-inch gaps are allowed. Full decking prevents foot-through injuries and dropped tools. Partial decking creates trip and fall hazards. Always fully deck scaffolds—never skip planks.

**124. B** - Scaffolds over 10 feet high require guardrails or personal fall arrest. Guardrails are preferred as passive protection not relying on worker compliance. Guardrails must meet standard requirements (top rail, mid-rail, toe board). Fall protection at 10+ feet is mandatory—scaffolds are frequent fall sources. Many fatal falls occur from scaffolds without guardrails.

**125. B** - Scaffolds must be secured to structures preventing tipping, or have stable bases with adequate surface area, or use outriggers. Free-standing tall scaffolds without ties topple easily especially when loaded or in wind. Tie scaffolds every 26 vertical feet and 30 horizontal feet. Unstable scaffolds kill workers—ensure adequate stability through ties or wide stable bases.