

Practice Test 9

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 license status verification requirement for contracts?

- A. Verbal confirmation
- B. Not required
- C. Contractor license number must be shown on contracts and advertising
- D. Optional disclosure

2. What is automatic license suspension trigger?

- A. Failure to maintain required bond or workers' compensation insurance
- B. Late renewal only
- C. Address change
- D. Minor violations

3. What is workers' compensation exemption for sole proprietors?

- A. Always required
- B. Never exempt
- C. Must carry insurance
- D. Can elect to be exempt but must notify CSLB and customers

4. What is the penalty for operating without workers' compensation?

- A. Warning only
- B. Stop orders, penalties up to \$100,000, and criminal charges
- C. Small fine
- D. License suspension only

5. What is contractor advertising requirements?

- A. No requirements
- B. Any format acceptable
- C. Must include license number in all advertising
- D. License number optional

6. What is unlicensed advertising consequence?

- A. Violation of Business and Professions Code subject to penalties and prosecution
- B. Warning letter
- C. No consequence
- D. Small fine

7. What is home solicitation contract cancellation right?

- A. No cancellation rights
- B. Cannot cancel
- C. No cooling-off period
- D. 3-day right to cancel for contracts signed at home

8. What is required notice of cancellation form?

- A. Verbal notice acceptable
- B. Contractors must provide written notice of cancellation rights in contracts
- C. Not required
- D. Optional form

9. What is service and repair contract threshold?

- A. Any amount
- B. \$500 or more
- C. Contracts for service and repair \$500+ require specific disclosures
- D. \$1,000 or more

10. What is down payment limitation?

- A. Down payment limited to \$1,000 or 10% of contract price, whichever is less
- B. Any amount allowed
- C. 50% maximum
- D. No restrictions

11. What is the Home Improvement Contract law?

- A. Federal law
- B. Optional guideline
- C. Voluntary practice
- D. California law requiring specific contract provisions for home improvement

12. What must home improvement contracts include?

- A. Nothing specific
- B. Start and completion dates, payment schedule, change order procedures, and license number
- C. Price only
- D. General description

13. What is mechanics lien warning requirement?

- A. Not required
- B. Optional notice
- C. Contracts must contain mechanics lien warning in specific statutory language
- D. Verbal warning

14. What is arbitration notice requirement in contracts?

- A. Notice that arbitration may limit right to court trials
- B. Not required
- C. Optional disclosure
- D. Arbitration prohibited

15. What is swimming pool contract requirements?

- A. No special requirements
- B. General terms sufficient
- C. Standard contract
- D. Additional safety and permit disclosures required

16. What is asbestos disclosure requirement?

- A. Not required
- B. Contractors must disclose if work may disturb asbestos-containing materials
- C. Optional disclosure
- D. Verbal notice sufficient

SECTION 2: BUSINESS FINANCES (Questions 17-35)

17. What is economic value added (EVA)?

- A. Revenue growth
- B. Market share
- C. Profit after deducting cost of capital showing value created
- D. Sales increase

18. What is free cash flow?

- A. Cash available after capital expenditures and operating needs
- B. Total revenue
- C. Net income

D. Gross profit

19. What is cash conversion cycle?

A. Payment terms

B. Credit period

C. Collection time

D. Days to convert inventory investment back to cash

20. What is the purpose of cash flow statement?

A. Profit calculation

B. Shows cash inflows and outflows from operating, investing, and financing activities

C. Revenue tracking

D. Expense reporting

21. What are the three sections of cash flow statement?

A. Revenue, expenses, profit

B. Assets, liabilities, equity

C. Operating, investing, and financing activities

D. Income, costs, net

22. What is operating cash flow?

A. Cash from core business operations

B. Investment returns

C. Financing proceeds

D. Asset sales

23. What is investing cash flow?

A. Operating cash

B. Financing cash

C. Revenue

D. Cash from buying/selling long-term assets

24. What is financing cash flow?

A. Operating activities

B. Cash from debt, equity, and dividend transactions

C. Investment returns

D. Asset sales

25. What is positive operating cash flow importance?

A. Debt obligations

B. Investment needs

C. Company generates cash from core business sustaining operations

D. Financing requirements

26. What is burn rate?

A. Profit margin

B. Rate company consumes cash (especially for startups or unprofitable companies)

C. Revenue growth

D. Market share

27. What is runway in business finance?

A. Physical space

B. Growth potential

C. Market size

D. Time until company runs out of cash at current burn rate

28. What is break-even point?

A. Sales level where total revenue equals total costs

B. Maximum profit

C. Loss position

D. Shutdown point

29. What is contribution margin?

A. Net profit

B. Gross margin

C. Sales revenue minus variable costs

D. Operating income

30. What is absorption costing?

A. Variable costing

B. Allocating all manufacturing costs (fixed and variable) to products

C. Direct costing

D. Marginal costing

31. What is variable costing?

A. Fixed costing

B. Absorption costing

C. Full costing

D. Allocating only variable manufacturing costs to products

32. What is the difference between absorption and variable costing?

A. Treatment of fixed manufacturing overhead

B. No difference

C. Variable costs only

D. Revenue recognition

33. What is activity-based costing (ABC)?

A. Time-based costing

B. Traditional costing

C. Allocating overhead based on activities causing costs rather than volume

D. Standard costing

34. What is cost driver in ABC?

A. Total cost

B. Activity or factor causing costs to be incurred

C. Fixed cost

D. Revenue driver

35. What is job order costing?

A. Process costing

B. Standard costing

C. Activity costing

D. Tracking costs for individual jobs or projects

SECTION 3: EMPLOYMENT REQUIREMENTS (Questions 36-60)

36. What is unemployment insurance purpose?

A. Temporary income for workers who lose jobs through no fault of their own

B. Retirement benefit

C. Health insurance

D. Disability coverage

37. What is unemployment insurance funding?

A. Employee contributions

B. Federal funding

C. Employer payroll taxes based on experience ratings

D. State general fund

38. What is unemployment experience rating?

A. Random assignment

- B. Based on company's layoff history affecting tax rates
- C. Fixed rate
- D. Standard rate

39. What is unemployment claim contestation?

- A. Cannot contest
- B. Automatic approval
- C. No objection allowed
- D. Employers can contest claims providing evidence of misconduct or voluntary quit

40. What is misconduct disqualifying unemployment?

- A. Poor performance
- B. Attendance issues
- C. Skill deficiencies
- D. Minor mistakes

41. What is constructive discharge for unemployment?

- A. Proper termination
- B. Voluntary quit
- C. Working conditions so intolerable reasonable workers would quit
- D. Resignation

42. What is partial unemployment benefit?

- A. Not available

- B. Benefits for workers with reduced hours or earnings
- C. Full-time only
- D. No partial benefits

43. What is work search requirement?

- A. No requirements
- B. Optional effort
- C. Suggested activity
- D. Claimants must actively seek work and document efforts

44. What is suitable work requirement?

- A. Any job
- B. Must accept any employment
- C. All offers
- D. No requirements

45. What is disability insurance (SDI) in California?

- A. Federal program
- B. Workers' compensation
- C. State program providing benefits for non-work-related disability and family leave
- D. Health insurance

46. What is Paid Family Leave (PFL)?

- A. Sick leave

- B. Part of SDI providing benefits for bonding with new child or caring for ill family
- C. Vacation
- D. Holiday pay

47. What is PFL maximum duration?

- A. 6 weeks
- B. 4 weeks
- C. 12 weeks
- D. Up to 8 weeks per 12-month period

48. What is PFL benefit amount?

- A. Percentage of wages (60-70% depending on income)
- B. Full pay
- C. Minimum wage
- D. Fixed amount

49. What is California State Disability Insurance funding?

- A. Employer contributions
- B. Federal funds
- C. Employee payroll deductions
- D. State budget

50. What is pregnancy disability leave relationship to PFL?

- A. Same benefit

- B. PDL is medical disability leave; PFL is bonding leave after birth
- C. Identical programs
- D. Interchangeable

51. What is the California Private Attorneys General Act (PAGA)?

- A. Criminal law
- B. Civil procedure
- C. Contract law
- D. Allows employees to sue employers for Labor Code violations on behalf of state

52. What is PAGA penalty distribution?

- A. All to employee
- B. 25% to employee bringing action; 75% to state
- C. All to state
- D. 50/50 split

53. What is wage theft prevention act requirements?

- A. Written notices of pay rates, pay day, employer information at hire
- B. No requirements
- C. Verbal notice sufficient
- D. Optional disclosure

54. What is itemized wage statement (pay stub) retention?

- A. Not required

- B. Employers must maintain copies for 3 years
- C. One year
- D. Six months

55. What is personal information protection requirement?

- A. No protection
- B. Public records
- C. Open access
- D. Employers must safeguard employee SSN and personal data

56. What is California Consumer Privacy Act (CCPA) application to employment?

- A. Limited application to employee data; employees have some rights to data access
- B. Full application
- C. No application to employment
- D. Covers customers only

57. What is identity theft prevention requirement?

- A. No requirements
- B. Optional security
- C. Reasonable safeguards to protect employee personal information from theft
- D. Minimal protection

58. What is data breach notification requirement?

- A. Optional notice

- B. Must notify affected individuals of personal information breaches
- C. No notification required
- D. Voluntary disclosure

59. What is E-Verify system?

- A. Mandatory for all
- B. Federal electronic employment verification system (optional in California)
- C. Required in California
- D. State program

60. What is Form I-9 retention requirement?

- A. 3 years after hire or 1 year after termination, whichever is later
- B. One year
- C. No retention
- D. Forever

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

61. What is the purpose of commercial crime insurance?

- A. General liability
- B. Covering employee theft, forgery, and other crime losses
- C. Property insurance
- D. Auto insurance

62. What is employee dishonesty coverage?

- A. Customer theft
- B. Vendor fraud
- C. External crime
- D. Theft by employees

63. What is forgery or alteration coverage?

- A. Document creation
- B. Signature verification
- C. Notary services
- D. Check tampering

64. What is computer fraud coverage?

- A. Hardware damage
- B. Software costs
- C. Unauthorized electronic fund transfers and computer fraud losses
- D. Internet service

65. What is funds transfer fraud coverage?

- A. Cash handling
- B. Fraudulent instruction to transfer funds from accounts
- C. Check fraud
- D. Credit card theft

66. What is social engineering fraud coverage?

- A. Relationship building
- B. Networking
- C. Communication skills
- D. Losses from deceptive communications tricking employees into transferring funds

67. What is fidelity bond?

- A. Surety bond for project completion
- B. Contract bond
- C. License bond
- D. Payment bond

68. What is difference between fidelity bond and crime insurance?

- A. No difference
- B. Same coverage
- C. Fidelity is crime insurance covering employee dishonesty
- D. Unrelated products

69. What is business interruption insurance trigger?

- A. Any closure
- B. Voluntary shutdown
- C. Scheduled maintenance
- D. Revenue maintenance

70. What is business interruption waiting period?

- A. Immediate coverage
- B. No waiting
- C. Instant benefits
- D. Typically 48-72 hours before benefits begin

71. What is extra expense coverage?

- A. Overhead costs
- B. Standard expenses
- C. Regular operations
- D. Profits

72. What is contingent business interruption?

- A. Own business closure
- B. Direct damage
- C. Coverage for losses from interruption of suppliers or customers
- D. Internal issues

73. What is construction defect insurance (OCIP/CCIP)?

- A. General liability
- B. Owner or contractor controlled insurance programs for projects
- C. Standard policy
- D. Individual coverage

74. What is wrap-up insurance program benefit?

- A. Higher costs
- B. More policies
- C. Complex administration
- D. Centralized coverage for all project participants reducing costs and claims

75. What is builder's risk extended coverage?

- A. Basic coverage only
- B. Standard perils
- C. Fire and theft only
- D. No extensions

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

76. What is quantum meruit?

- A. Reasonable value of services where no contract price agreed
- B. Fixed price
- C. Contract amount
- D. Negotiated price

77. What is unjust enrichment?

- A. Legitimate profit
- B. Fair compensation
- C. Inequitable benefit without compensation
- D. Earned income

78. What is restitution remedy?

- A. Damages
- B. Returning parties to pre-contract positions or compensating value received
- C. Specific performance
- D. Injunction

79. What is rescission remedy?

- A. Damages award
- B. Continuing contract
- C. Performance completion
- D. Canceling contract and restoring parties to original positions

80. What is specific performance remedy?

- A. Court ordering breaching party to perform contract obligations
- B. Money damages
- C. Termination
- D. Rescission

81. What is reformation remedy?

- A. Damages
- B. Cancellation
- C. Rewriting contract to reflect parties' true agreement
- D. Termination

82. What is liquidated damages enforceability requirement?

- A. Any amount acceptable
- B. Reasonable estimate of actual damages and difficult to calculate losses
- C. Penalty amount
- D. Unlimited damages

83. What is punitive damages availability in contracts?

- A. Always available
- B. Common remedy
- C. Standard award
- D. Generally not available for breach of contract alone

84. What is expectation damages?

- A. Putting non-breaching party in position they would have been in if contract performed
- B. Reliance damages
- C. Restitution
- D. Nominal damages

85. What is reliance damages?

- A. Expectation damages
- B. Benefit of bargain
- C. Expenses incurred in relying on contract
- D. Consequential damages

86. What is consequential damages?

- A. Direct damages
- B. Indirect losses flowing from breach (lost profits, business interruption)
- C. Incidental damages
- D. Nominal damages

87. What is incidental damages?

- A. Consequential damages
- B. Direct losses
- C. Expectation damages
- D. Minor costs of dealing with breach

88. What is duty to mitigate damages?

- A. Maximize damages
- B. Increase losses
- C. Enhance damages
- D. Collect everything

89. What is nominal damages?

- A. Large award
- B. Substantial compensation
- C. Token amount when breach occurred but no actual loss
- D. Full damages

90. What is avoidable consequences doctrine?

- A. Maximize damages
- B. Cannot recover for losses that could have been reasonably avoided
- C. Full recovery regardless
- D. No duty to prevent

91. What is cover in UCC sales?

- A. Insurance
- B. Warranty
- C. Guarantee
- D. Buyer purchasing substitute goods after breach

92. What is market price damages under UCC?

- A. Contract price - Market price difference when seller breaches
- B. Fixed amount
- C. Standard damages
- D. Nominal damages

93. What is lost volume seller?

- A. Regular seller
- B. Standard dealer
- C. Seller who could have made both breached sale and substitute sale
- D. Occasional seller

94. What is commercial reasonableness standard?

- A. Perfection required
- B. Actions meeting industry standards and common business practices
- C. Maximum effort
- D. Best possible outcome

95. What is good faith definition in UCC?

- A. Trust
- B. Belief
- C. Confidence
- D. Honesty in fact and reasonable commercial standards

96. What is course of dealing?

- A. Initial transaction
- B. First contract
- C. Original agreement
- D. Current transaction

97. What is course of performance?

- A. Past dealings
- B. Industry custom
- C. Repeated occasions for performance under contract showing parties' intentions
- D. Future performance

98. What is usage of trade?

- A. Company policy
- B. Industry practices and standards regularly observed in particular trade
- C. Internal procedures
- D. Individual customs

99. What is UCC's hierarchy for interpretation?

- A. Random order
- B. Equal weight
- C. No hierarchy
- D. Express terms first, then course of performance, course of dealing, usage of trade

100. What is gap-filling provisions in UCC?

- A. Default terms UCC provides when contracts are silent
- B. Required terms
- C. Mandatory provisions
- D. Essential elements

101. What is open price term under UCC?

- A. Contract fails
- B. Unenforceable
- C. Reasonable price at delivery time if parties intended contract despite open price
- D. Void contract

SECTION 6: PUBLIC WORKS (Questions 102-107)

102. What is record retention requirement for public works?

- A. One year
- B. Certified payroll and records must be retained 3 years
- C. Six months
- D. No requirement

103. What is public works bid protest bond requirement?

- A. No bond required
- B. Free protest
- C. Optional bond
- D. Bond equal to 10% of bid amount or specified amount to file protest

104. What is responsible bidder requirement?

- A. Lowest bid wins always
- B. Price only
- C. Cost determines winner
- D. Bidder must demonstrate financial capacity, experience, and ability to perform

105. What is prequalification of bidders purpose?

- A. Excluding competition
- B. Limiting bids
- C. Verifying bidder qualifications before allowing bid submission

D. Reducing participants

106. What is bid shopping prohibition?

A. No restrictions

B. Any practice allowed

C. After award, soliciting lower bids from other subcontractors than those listed

D. Encouraged practice

107. What is subcontractor substitution grounds?

A. Any reason

B. Convenience

C. Cost savings

D. Listed sub is unavailable, fails to execute contract, or good cause shown

SECTION 7: SAFETY (Questions 108-125)

108. What is lockout/tagout program requirement?

A. Written energy control procedures for servicing equipment

B. Verbal instructions

C. No program needed

D. Voluntary procedures

109. What is authorized employee in LOTO?

A. Anyone

- B. Supervisor only
- C. Employee trained to apply LOTO devices
- D. All workers

110. What is affected employee in LOTO?

- A. Any worker
- B. Worker whose job requires operating equipment being serviced
- C. All employees
- D. Supervisors only

111. What is group lockout procedure?

- A. Individual lockout
- B. Single lock
- C. One key
- D. Each worker applies individual lock when multiple workers service equipment

112. What is periodic LOTO inspection requirement?

- A. Annual inspection of procedures by authorized employees
- B. No inspections
- C. Optional review
- D. Voluntary check

113. What is permit-required confined space entry procedure?

- A. Free entry

- B. Unrestricted access
- C. Entry permits, atmospheric testing, attendants, and rescue arrangements
- D. No procedures

114. What is confined space attendant duty?

- A. Entry work
- B. Stationed outside monitoring entrants and summoning rescue
- C. Supervision
- D. Equipment operation

115. What is rescue plan requirement for confined spaces?

- A. Suggested plan
- B. Optional preparation
- C. Voluntary procedures
- D. Non-entry rescue capability or trained rescue team before entry

116. What is bloodborne pathogen exposure control plan?

- A. Written plan identifying exposure risks and protective measures
- B. No plan required
- C. Verbal instructions
- D. Optional procedures

117. What is universal precautions principle?

- A. Optional practice

- B. Suggested behavior
- C. Treating all blood and body fluids as potentially infectious
- D. Selective caution

118. What is hepatitis B vaccination requirement?

- A. Optional vaccination
- B. Must be offered to employees with occupational exposure at no cost
- C. Employee pays
- D. Not required

119. What is exposure incident response?

- A. Wait and see
- B. No action needed
- C. Optional treatment
- D. Document later

120. What is hazard communication standard purpose?

- A. Ensuring workers know chemical hazards through labels, SDS, and training
- B. Optional information
- C. Suggested communication
- D. Voluntary disclosure

121. What is Safety Data Sheet (SDS) requirement?

- A. Optional reference

- B. Not required
- C. Maintain SDS for all hazardous chemicals and make accessible to workers
- D. Management only

122. What is chemical labeling requirement?

- A. Labels with identity, hazards, and precautionary statements on containers
- B. Optional labels
- C. No requirements
- D. Suggested practice

123. What is globally harmonized system (GHS)?

- A. Local standard
- B. Company policy
- C. Internal system
- D. International standard

124. What is hazcom training requirement?

- A. Train workers on chemical hazards, protective measures, and SDS use
- B. No training required
- C. Optional education
- D. Voluntary information

125. What is respiratory protection program requirement?

- A. Voluntary use

- B. Optional program
- C. Written program when respirators are required or permitted
- D. No program needed

Answer Key With Explanations

- 1. C** - California law requires contractor license numbers be displayed on all contracts, bids, and advertising (including business cards, vehicles, websites, print ads). The 7-digit license number must be clearly visible ensuring consumers can verify licensing. Advertising without license numbers violates Business and Professions Code. License number disclosure protects consumers enabling verification.
- 2. A** - Contractor licenses are automatically suspended for failing to maintain required contractor's bond or workers' compensation insurance. Insurance lapses immediately suspend licenses prohibiting contracting, bidding, or permit pulling. Contractors cannot work with suspended licenses. Maintain continuous insurance avoiding automatic suspension. Reinstatement requires proof of insurance and possible penalties.
- 3. D** - Sole proprietors without employees can elect to be exempt from workers' compensation insurance but must notify CSLB annually and inform customers in contracts. Exemption applies only to owners—hiring even one employee requires coverage. Exemptions save costs but expose owners to injury without coverage. Most sole proprietors should carry insurance.
- 4. B** - Operating without workers' compensation results in stop orders halting all work, civil penalties up to \$100,000, criminal misdemeanor charges (fines up to \$10,000 and jail), and doubled benefits to injured workers. Penalties are severe—workers' compensation is mandatory. Never operate without coverage—consequences are catastrophic financially and criminally.
- 5. C** - All advertising (business cards, fliers, websites, vehicles, newspapers, radio, TV, online) must include contractor license numbers in sizes large enough to be noticed. This enables consumers to verify licensing before hiring. Advertising without license numbers violates law triggering citations and fines. Always include license numbers prominently.
- 6. A** - Unlicensed advertising violates Business and Professions Code sections 7027.1 and 7099.10 subject to civil penalties, criminal misdemeanor charges, investigation, and prosecution by CSLB. Advertising without licenses misleads consumers. Even licensed contractors advertising without showing license numbers violate law. Violations carry fines and potential jail.
- 7. D** - Home solicitation contracts (signed at consumers' homes rather than contractors' business locations) give consumers 3 business days to cancel without penalty under California Civil Code. Contractors must provide two copies of Notice of Right to Cancel. The cooling-off period protects consumers from high-pressure sales. Cancellation rights are absolute within 3 days.
- 8. B** - Contractors must provide written Notice of Right to Cancel forms in contracts for home solicitation sales. Forms must be in same language as presentations and include date of transaction, notice of 3-day cancellation right, and instructions for canceling. Failure to provide notices voids cancellation deadlines—consumers can cancel anytime. Proper notices are legally required.
- 9. C** - Service and repair contracts (work improving, altering, or repairing structures) of \$500 or more require specific disclosures including license number, contractor's name and address, description of work,

contract price, payment terms, and completion date. Disclosure requirements protect consumers. Contracts under \$500 still need license numbers but fewer disclosures.

10. A - California limits down payments (initial deposits) to lesser of \$1,000 or 10% of contract price on home improvement contracts protecting consumers from excessive up-front payments. Deposits over limits are violations. Example: \$5,000 contract allows \$500 down (10%); \$15,000 contract allows \$1,000 down (less than 10%). Protect consumers by following limits.

11. D - California's Home Improvement Contract law (Business and Professions Code sections 7150-7191) establishes requirements for contracts, disclosures, payment limits, liens, and consumer protection. It regulates home improvement work preventing fraud and ensuring consumers receive proper information. Compliance is mandatory—violations trigger discipline and consumer rescission rights.

12. B - Home improvement contracts must include start and substantial completion dates, payment schedule showing work to be performed before each payment, change order procedures, contractor license number, company name and address, description of work, contract price, and required notices. Comprehensive contracts protect parties clarifying expectations and legal obligations.

13. C - All home improvement contracts must contain preliminary 20-day notice requirement in 10-point type informing owners that subcontractors and suppliers can file mechanics liens, and explaining lien rights, procedures, and owner protections. Specific statutory language is required. This notice educates consumers about lien exposure encouraging obtaining releases.

14. A - Contracts requiring arbitration must include conspicuous notice (10-point bold type) stating arbitration may limit right to court trial, discovery, and appeal, and that arbitration decisions are final and binding. Notice ensures consumers understand arbitration's impact before agreeing. Without proper notice, arbitration agreements may be unenforceable protecting consumer trial rights.

15. D - Swimming pool contracts require additional disclosures about safety requirements (fencing, barriers, alarms), building permits, health permits, energy regulations, and construction specifications beyond standard home improvement contract requirements. Pool construction is highly regulated requiring extensive disclosures. Contractors must ensure buyers understand requirements and costs.

16. B - When work may disturb asbestos-containing materials, contractors must disclose potential asbestos presence, recommend testing, and warn about health hazards. Failure to disclose asbestos risks violates law and exposes contractors to liability. Older buildings (pre-1980) likely contain asbestos requiring special handling. Disclosure protects consumers and contractors.

17. C - Economic Value Added (EVA) measures value created by subtracting cost of capital from operating profit. Positive EVA means returns exceed capital costs creating shareholder value. Negative EVA destroys value. EVA considers that capital isn't free—companies must earn more than capital costs. It's superior performance measure to accounting profit.

18. A - Free cash flow is cash available after paying operating expenses and capital expenditures—cash available for debt service, dividends, acquisitions, or growth. It's cash truly available to stakeholders.

Positive free cash flow indicates financial health. Negative free cash flow requires external financing. Free cash flow is critical metric for financial sustainability.

19. D - Cash conversion cycle measures days to convert inventory and receivables investments back to cash: Days Inventory Outstanding + Days Sales Outstanding - Days Payables Outstanding. Shorter cycles mean faster cash turnover and less working capital needed. Construction typically has long cycles due to retainage and slow collections. Reducing cycle improves cash flow.

20. B - Cash flow statements show actual cash movements (not accrual accounting) in three sections: operating activities (core business), investing activities (asset purchases/sales), and financing activities (debt/equity transactions). They reconcile net income to actual cash explaining differences. Cash flow statements are essential—profitable companies can be cash-poor.

21. C - Cash flow statement sections are: (1) Operating activities—cash from/used in core business operations, (2) Investing activities—cash from/used buying/selling long-term assets, and (3) Financing activities—cash from/used in debt, equity, dividends. The three sections show all sources and uses of cash. Understanding sections reveals financial strategy.

22. A - Operating cash flow shows cash generated or consumed by core business operations—collections from customers minus payments to suppliers, employees, landlords, and others. Positive operating cash flow means business generates cash from operations. Negative means consuming cash. Sustained negative operating cash flow is unsustainable requiring financing or asset sales.

23. D - Investing cash flow shows cash from buying or selling long-term assets—equipment, vehicles, buildings, investments. Buying assets shows as negative (cash outflow); selling shows as positive (cash inflow). Heavy investing cash outflows indicate growth. Cash from selling assets may indicate financial distress. Investing activities fund future operations.

24. B - Financing cash flow shows cash from debt issuance/repayment, equity issuance/buybacks, and dividend payments. Borrowing money or issuing stock generates cash (positive). Repaying debt or paying dividends uses cash (negative). Financing activities show how companies fund operations and return cash to stakeholders. Heavy financing activity may indicate growth or problems.

25. C - Positive operating cash flow means companies generate sufficient cash from core operations sustaining business without external financing. It indicates healthy viable businesses. Negative operating cash flow means consuming cash requiring debt or equity. While startups or growing companies may temporarily have negative operating cash flow, sustained negative flow is dangerous.

26. B - Burn rate is rate companies consume cash typically measured monthly—important for startups and unprofitable companies. If burning \$100,000 monthly with \$500,000 cash, runway is 5 months. Monitoring burn rate is critical for cash management. High burn rates require increasing revenue, cutting costs, or raising capital.

27. D - Runway is time until companies run out of cash at current burn rates calculated by dividing cash by monthly burn rate. Example: \$600,000 cash ÷ \$100,000 monthly burn = 6-month runway. Runway

determines urgency of achieving profitability or raising capital. Short runways require immediate action. Always know your runway.

28. A - Break-even point is sales level where total revenue equals total costs resulting in zero profit or loss. Above break-even, companies profit; below, they lose money. Break-even analysis guides pricing and volume targets. Formula: $\text{Fixed Costs} \div (\text{Price per Unit} - \text{Variable Cost per Unit})$. Knowing break-even is fundamental financial planning.

29. C - Contribution margin equals sales revenue minus all variable costs showing amount available to cover fixed costs and generate profit. Contribution margin per unit is price minus variable cost. Contribution margin ratio is contribution margin \div sales. Higher contribution margins mean more money covers fixed costs and profits. Maximize contribution margins.

30. B - Absorption costing allocates all manufacturing costs (both fixed and variable) to products. Fixed overhead is absorbed into product costs. Under absorption costing, inventory includes fixed overhead costs. It's required for external financial reporting. Absorption costing matches expenses with products but can incentivize overproduction building inventory absorbing fixed costs.

31. D - Variable costing (direct costing) allocates only variable manufacturing costs to products treating fixed manufacturing overhead as period expense. Inventory values include only variable costs. Variable costing is useful for internal decisions showing contribution margins clearly. However, it's not allowed for external financial reporting—absorption costing is required by GAAP.

32. A - The key difference is treatment of fixed manufacturing overhead. Absorption costing capitalizes it in inventory; variable costing expenses it immediately. When production exceeds sales, absorption costing shows higher profit (overhead sits in inventory). When sales exceed production, variable costing shows higher profit. The difference is timing of overhead recognition.

33. C - Activity-Based Costing allocates overhead based on activities causing costs (setups, inspections, purchasing) rather than volume alone. It identifies cost drivers for each activity and allocates accordingly. ABC provides more accurate product costs than traditional volume-based allocation especially when products differ significantly in complexity or resource consumption.

34. B - Cost drivers are activities or factors causing costs—number of setups, purchase orders, inspections, material moves. ABC identifies cost drivers for activities and allocates costs based on driver usage. Different products use different amounts of activities. Cost drivers link activities to costs enabling accurate allocation. Identifying drivers is key to ABC.

35. D - Job order costing tracks costs for individual jobs or projects accumulating materials, labor, and overhead for specific jobs. Each job gets separate cost sheet. It's used when products/services are customized—construction, consulting, custom manufacturing. Job costing enables accurate profitability analysis by job. Compare to process costing for mass production.

36. A - Unemployment insurance provides temporary partial wage replacement for workers who lose jobs through no fault of their own while they seek new employment. It cushions financial impact of involuntary

job loss supporting workers during transitions. Benefits typically replace 50-60% of wages for up to 26 weeks. Unemployment insurance stabilizes economy during downturns.

37. C - Unemployment insurance is funded by employer payroll taxes based on experience ratings (history of layoffs). Employers with higher layoffs pay higher rates. New employers pay standard rates. Employees don't contribute to unemployment insurance (except in a few states). Experience rating incentivizes avoiding layoffs. Tax rates vary significantly based on layoff history.

38. B - Unemployment experience rating bases tax rates on employers' layoff histories. Employers with frequent layoffs pay higher rates; those with few layoffs pay lower rates. Rating rewards stable employment. Contesting unjustified claims protects ratings. Experience rating is reason to contest improper unemployment claims—they directly impact costs through higher future rates.

39. D - Employers can contest unemployment claims by providing evidence that separations resulted from misconduct (willful policy violations, insubordination, theft) or voluntary quits. Hearings allow presenting evidence. Successful contests deny benefits and protect experience ratings. Contest when employees were fired for cause or quit voluntarily. Document performance issues supporting contests.

40. A - Misconduct disqualifying unemployment benefits requires willful or wanton disregard of employer interests, deliberate policy violations, or actions violating duty to employer. Simple poor performance, attendance issues due to legitimate reasons, or skill deficiencies don't constitute misconduct. Misconduct must be intentional and egregious. Mere inadequacy doesn't disqualify.

41. C - Constructive discharge for unemployment purposes occurs when working conditions become so intolerable that reasonable workers would feel compelled to quit. Though employees "quit," it's treated as involuntary separation qualifying for benefits. Examples: severe harassment, dangerous conditions, illegal activities. The conditions must be objectively intolerable—not just unpleasant or inconvenient.

42. B - Partial unemployment benefits are available for workers with reduced hours or earnings allowing them to supplement reduced income. Benefits equal difference between full benefits and earnings (after earnings disregards). Partial benefits help workers maintain income during reduced hours encouraging keeping employees on payroll rather than full layoffs. They bridge income gaps.

43. D - Unemployment claimants must actively seek suitable work documenting job search efforts (applications, interviews, networking). States specify weekly minimum contacts. Work search ensures recipients are genuinely seeking employment. Failure to search can disqualify benefits. Requirements balance supporting unemployed workers with encouraging prompt reemployment preventing benefit abuse.

44. A - Suitable work considers skills, experience, wages, distance, and safety. Claimants must accept suitable work—refusing suitable offers can disqualify benefits. Initially, claimants can seek work similar to previous jobs. After time, lower wages and different work may become "suitable." Suitable work definition expands over time encouraging reemployment.

45. C - State Disability Insurance (SDI) is California program providing short-term benefits for workers unable to work due to non-work-related illness, injury, pregnancy, or childbirth. It also includes Paid

Family Leave for bonding and caregiving. SDI differs from workers' compensation (work-related) and unemployment (job loss). SDI ensures income during disability.

46. B - Paid Family Leave (PFL) is part of California SDI providing benefits for bonding with new children (birth, adoption, foster) or caring for seriously ill family members. PFL provides 60-70% wage replacement. It's separate from CFRA (job protection). PFL provides income; CFRA provides job protection. Many workers use both simultaneously.

47. D - Paid Family Leave provides up to 8 weeks of benefits per 12-month period—separate from pregnancy disability benefits which can provide 4+ additional weeks. Total leave for childbearing can exceed 16 weeks combining pregnancy disability, PFL bonding, and CFRA. PFL significantly expanded paid leave in California supplementing unpaid CFRA.

48. A - PFL benefits equal approximately 60-70% of wages depending on income with maximum weekly benefits capped (2024: \$1,620 weekly maximum). Lower earners receive higher replacement rates. Benefits are calculated from recent earnings. While not full pay, PFL provides substantial income support. Benefits are taxable income.

49. C - California SDI (including PFL) is funded through employee payroll deductions—currently about 1.1% of wages up to annual maximum. Employers don't contribute to SDI. Employees fund their own disability and family leave benefits through payroll deductions. The employee-funded nature makes benefits employee-earned rather than employer costs.

50. B - Pregnancy Disability Leave is medical disability leave for pregnancy, childbirth, and related conditions (up to 4 months). Paid Family Leave is bonding leave after birth for any parent. PDL is for medical disability; PFL is for bonding. They're separate benefits often used sequentially—PDL for recovery, then PFL for bonding extending total leave.

51. D - The California Private Attorneys General Act (PAGA) allows employees to sue employers for Labor Code violations on behalf of state recovering civil penalties. PAGA deputizes employees as private attorneys general. It incentivizes enforcement when state agencies lack resources. PAGA lawsuits have exploded creating significant employer liability for technical violations.

52. A - PAGA penalty distribution gives 25% to employees bringing actions and 75% to state Labor and Workforce Development Agency. This split incentivizes employee enforcement while primarily benefiting state. Plaintiffs receive enough incentive to sue but most penalties go to state. PAGA recovers penalties for state through private enforcement.

53. A - California's Wage Theft Prevention Act requires providing written notices at hire containing pay rates, pay basis (hourly, salary, commission), regular payday, employer name/address, workers' compensation carrier, and sick leave information. Notices ensure employees know pay terms. Updates required when information changes. Failure to provide notices subjects employers to penalties.

54. B - Employers must maintain itemized wage statement copies for 3 years along with time records. Retaining records enables defending wage claims and complying with audit requests. Three-year retention

matches statute of limitations for most wage claims. Failure to maintain records creates presumption in employees' favor in disputes. Always retain payroll records.

55. D - Employers must safeguard employee Social Security numbers, financial information, medical data, and other personal information from unauthorized access, theft, or disclosure. Implement security measures—locked files, password-protected systems, limited access, and secure disposal. Data breaches expose employers to liability. Protecting employee privacy is legal and ethical obligation.

56. A - California Consumer Privacy Act (CCPA) has limited application to employee data—employees have some rights to access, delete, and know about data collection but exemptions significantly reduce obligations. However, CCPA continues evolving expanding employee coverage. Employers should prepare for increased employee privacy rights under CCPA and California Privacy Rights Act (CPRA).

57. C - Employers must implement reasonable safeguards protecting employee personal information from identity theft including secure storage, limited access, background checks for employees accessing data, encryption for electronic data, and secure destruction of records. Identity theft harms employees and creates employer liability. Reasonable security measures are legal requirements and best practices.

58. B - When personal information breaches occur, employers must notify affected individuals without unreasonable delay describing breaches, information compromised, steps taken, and protective measures individuals can take. Notification allows individuals to protect themselves. Delayed notification increases harm. Many states require specific timing (e.g., California: without unreasonable delay). Prompt notification is required.

59. D - E-Verify is federal electronic system verifying employment authorization by checking I-9 information against government databases. Participation is voluntary for most California employers (federal contractors must use it). Some states mandate E-Verify but California doesn't. E-Verify provides quick verification but isn't foolproof. Most employers rely on I-9 without E-Verify.

60. A - Form I-9 must be retained 3 years after hire or 1 year after termination, whichever is later. Example: employee hired January 2020 and terminated January 2022 must have I-9 kept until January 2025 (3 years from hire) not January 2023 (1 year from termination). Retention ensures compliance with ICE audits. Discard I-9s when retention ends.

61. B - Commercial crime insurance covers financial losses from employee theft, forgery, computer fraud, funds transfer fraud, and other crime. It protects against internal crime (employee dishonesty) and external crime (burglary, robbery). Crime insurance is separate from general liability and property insurance. Businesses with employees, cash handling, or electronic funds transfers need crime coverage.

62. D - Employee dishonesty coverage (fidelity coverage) insures against theft by employees including embezzlement, forgery, and stealing money, securities, or property. Employees in positions of trust can cause significant losses. Employee dishonesty coverage is essential crime insurance component. It covers employee theft that might not be covered by other policies.

63. A - Forgery or alteration coverage insures against losses from forged or altered checks, drafts, promissory notes, or similar instruments. If someone forges company checks or alters payment amounts,

coverage responds. Check fraud is common—employees or outsiders can forge signatures or alter payees. Forgery coverage protects against check tampering losses.

64. C - Computer fraud coverage insures against unauthorized electronic fund transfers and computer system intrusions causing financial losses. If hackers access systems and transfer funds, coverage responds. As electronic banking increases, computer fraud risk rises. Coverage protects against technology-enabled theft increasingly common as cybercrime grows. Essential protection for businesses with electronic banking.

65. B - Funds transfer fraud coverage insures against losses from fraudulent instructions to transfer funds—someone impersonating executives or vendors directing wire transfers. Social engineering scams trick employees into transferring funds. These losses are significant and increasing. Funds transfer fraud coverage specifically protects against impersonation fraud causing wire transfers.

66. D - Social engineering fraud coverage insures against losses from deceptive communications (emails, phone calls) tricking employees into transferring funds or disclosing information. Example: email appearing from CEO directing wire transfer. These scams are sophisticated and common. Traditional crime policies may not cover social engineering—specific coverage is needed.

67. A - Fidelity bonds insure against employee dishonesty covering theft by employees. They're type of crime insurance. Fidelity bonds protect employers from employee theft, embezzlement, and fraud. They're called "bonds" but function as insurance. Fidelity coverage is essential for businesses with employees handling money, inventory, or valuable property.

68. C - Fidelity bonds are form of crime insurance specifically covering employee dishonesty. Crime insurance is broader category including fidelity (employee dishonesty), forgery, computer fraud, theft, and other crimes. Fidelity is subset of crime insurance. The terms are related—fidelity specifically means employee dishonesty coverage within broader crime insurance.

69. B - Business interruption insurance is triggered by direct physical loss to property causing business suspension. Voluntary closures, lack of customers, or economic downturns aren't covered. Covered perils (fire, windstorm, etc.) must cause physical damage requiring closing business. Once triggered, business interruption pays for lost income during restoration.

70. D - Business interruption waiting periods (typically 48-72 hours) must elapse before benefits begin. Waiting periods prevent claims for minor brief closures. After waiting periods, benefits cover lost income during entire restoration periods. Choose waiting periods matching ability to absorb short closures. Longer waiting periods reduce premiums; shorter periods provide faster benefits.

71. D - Extra expense coverage pays extraordinary costs incurred continuing operations or minimizing business interruption following covered losses—temporary facility rentals, expedited equipment delivery, overtime labor, and temporary equipment. It covers costs beyond normal operating expenses. Extra expense coverage supplements business interruption helping minimize income loss by continuing operations.

72. C - Contingent business interruption coverage insures against income losses when suppliers, customers, or other dependent parties suffer covered losses disrupting insured's business. If key supplier's facility burns down halting your production, contingent coverage responds. Contingent coverage recognizes business interdependencies. Supply chain disruptions can shut down businesses without direct damage to their property.

73. B - Owner Controlled Insurance Programs (OCIP) or Contractor Controlled Insurance Programs (CCIP) are wrap-up insurance programs providing consolidated coverage for entire projects. Owners (OCIP) or general contractors (CCIP) purchase master policies covering all participants. Wrap-ups reduce insurance costs, improve safety, and streamline claims. Common on large projects.

74. D - Wrap-up insurance program benefits include: centralized coverage eliminating redundant policies, reduced total insurance costs through bulk purchasing, uniform coverage terms preventing gaps, simplified claims administration, better loss control through unified programs, and improved safety. Wrap-ups work well for large projects. They're complex but cost-effective for substantial projects.

75. A - Builder's risk extended coverage adds perils beyond basic fire and extended coverage endorsements including theft, vandalism, collapse, water damage, and other perils. Basic builder's risk covers limited perils; extended coverage (special form) covers all risks except exclusions. Extended coverage significantly broadens protection. Always purchase extended coverage for comprehensive protection.

76. A - Quantum meruit ("as much as deserved") is equitable remedy allowing recovery of reasonable value of services where no contract price was agreed or contracts are unenforceable. It prevents unjust enrichment when parties didn't establish prices. Courts determine reasonable value based on market rates. Quantum meruit applies when contract remedies are unavailable.

77. C - Unjust enrichment occurs when one party benefits at another's expense without justification or compensation. Law implies obligation to pay despite no contract. Example: contractor improves property at owner's request without formal contract—owner is unjustly enriched if doesn't pay. Unjust enrichment prevents unfair benefit retention creating restitution obligations.

78. B - Restitution restores parties to pre-contract positions or compensates value conferred preventing unjust enrichment. It's backward-looking—returning what was received. Restitution differs from expectation damages (forward-looking compensation for lost bargain). Restitution applies when contracts are rescinded, are unenforceable, or to prevent unjust enrichment.

79. D - Rescission cancels contracts returning parties to pre-contract positions as if contracts never existed. Rescinded contracts become void ab initio (from beginning). Grounds for rescission include mutual mistake, fraud, duress, undue influence, or material breach. Rescission is powerful remedy eliminating contractual obligations. It's equitable remedy requiring returning benefits received.

80. A - Specific performance is court order requiring breaching parties to perform contract obligations. It's available when money damages are inadequate—unique property (real estate), unique goods, or when damages are difficult to calculate. Specific performance forces actual performance rather than substituting money. Courts grant specific performance sparingly requiring exceptional circumstances.

81. C - Reformation rewrites contracts to reflect parties' true agreements when writing fails to capture intent due to mistake, fraud, or ambiguity. Courts correct contract language to match what parties actually agreed. Reformation differs from rescission—contracts continue with corrected terms. It's equitable remedy requiring clear proof of original intent.

82. B - Enforceable liquidated damages must: (1) reasonably estimate actual anticipated damages at contract formation, and (2) actual damages must be difficult to calculate. Courts void liquidated damages provisions that are penalties (grossly disproportionate to actual harm). The reasonableness test balances upfront certainty against preventing punitive provisions.

83. D - Punitive damages generally aren't available for breach of contract alone—only compensatory damages. Contract law compensates rather than punishes. However, if breach involves independent tort (fraud, intentional interference), punitive damages may be available for tort. Pure contract breaches don't support punitive damages. This distinguishes contracts from torts.

84. A - Expectation damages put non-breaching parties in positions they would have been in if contracts had been performed—the "benefit of bargain." They compensate for what parties expected to gain. Example: if contractor breaches \$100,000 contract requiring \$120,000 to complete, expectation damages are \$20,000. Expectation damages are standard contract remedy.

85. C - Reliance damages reimburse expenses incurred relying on contracts preparing for or beginning performance. They restore parties to pre-contract positions. Example: if contractor spent \$5,000 on materials/plans before owner breached, reliance damages are \$5,000. Reliance damages are alternative to expectation damages when lost profits are uncertain.

86. B - Consequential damages (special damages) are indirect losses flowing from breaches that were foreseeable at contracting—lost profits, business interruption, lost opportunities. Example: if contractor's delay causes owner to lose lease resulting in relocation costs. Consequential damages require foreseeability. They're often limited or excluded in contracts because they can be enormous.

87. D - Incidental damages are reasonable costs and expenses from dealing with breaches—finding substitute performance, additional shipping, inspection costs, or storage. They're direct but minor costs necessarily incurred responding to breaches. Example: costs of hiring replacement contractors. Incidental damages are recoverable without proving they were foreseeable.

88. A - Duty to mitigate requires non-breaching parties take reasonable steps minimizing damages from breaches. Parties cannot sit idle allowing damages to accumulate—they must make reasonable efforts to avoid or reduce losses. Failure to mitigate bars recovering avoidable damages. The duty is reasonable effort—not guaranteeing success. Mitigation reduces overall loss.

89. C - Nominal damages are token amounts (typically \$1) awarded when breaches occurred causing no actual financial loss but wrongful conduct should be recognized. Nominal damages vindicate rights without compensating actual loss. They establish breaches occurred without awarding meaningful money. Some jurisdictions don't award costs/fees with only nominal damages.

90. B - The avoidable consequences doctrine (duty to mitigate) prevents recovering for losses that could have been reasonably avoided. Non-breaching parties must take reasonable steps minimizing damages. If replacement goods are available at reasonable prices, buyers must purchase them—they cannot refuse and sue for lost profits. Reasonable mitigation efforts are required.

91. D - Cover under UCC allows buyers to purchase substitute goods after sellers breach enabling buyers to proceed with business. Buyers can recover difference between cover price and contract price plus incidental and consequential damages. Cover must be reasonable and in good faith. Cover provides practical remedy allowing buyers to mitigate losses.

92. A - When sellers fail to deliver, buyers can recover contract price minus market price at time and place of tender as damages. If contract price was \$100 and market price is \$120, damages are \$20 per unit. Market price damages compensate for paying more than contract price in replacement market. Add incidental and consequential damages.

93. C - Lost volume sellers are sellers who could have made both breached sales and substitute sales—they lost volume rather than just selling to different buyers. Example: car dealer could have sold cars to both original buyers and subsequent buyers. Lost volume sellers recover profits from breached sales—not just contract minus market price.

94. B - Commercial reasonableness means acting in ways considered reasonable in trade according to industry standards and common business practices. It's objective standard based on what reasonable businesspeople would do. Courts evaluate commercial reasonableness based on circumstances, customs, and industry norms. It's flexible standard recognizing business reality.

95. D - Good faith under UCC means honesty in fact (subjective element) and observing reasonable commercial standards of fair dealing (objective element). Modern UCC definition combines subjective honesty with objective commercial reasonableness. Good faith is fundamental UCC obligation in performance and enforcement. It prevents exploiting technicalities while allowing legitimate business behavior.

96. A - Course of dealing is sequence of previous conduct between parties establishing common basis for interpreting communications and conduct. It's parties' own history showing how they've interpreted agreements. Example: if parties always allowed informal change orders in past contracts, course of dealing suggests this practice continues. History matters in interpretation.

97. C - Course of performance is repeated occasions for performance under specific contracts with one party's performance acquiesced to by other party without objection. It shows how parties interpret particular contracts through their actions. Example: if buyer repeatedly accepts late deliveries without objection, course of performance suggests late delivery is acceptable.

98. B - Usage of trade is practice or method of dealing having such regularity in trade or business that it's observed with reasonable conformity. It's industry custom showing how terms are understood in particular trades. Courts look to usage of trade filling gaps and interpreting terms. Trade customs and practices inform reasonable expectations.

99. D - UCC's interpretation hierarchy: (1) Express terms control; (2) If ambiguous, look to course of performance; (3) Then course of dealing; (4) Finally usage of trade. Express language is supreme but conduct and custom fill gaps and explain ambiguities. Hierarchy reflects importance of what parties actually said versus what they did versus industry norms.

100. A - UCC gap-filling provisions provide default terms when contracts are silent—reasonable price, reasonable time, place of delivery, and payment terms. Gap-fillers enable enforcing contracts despite missing terms recognizing commercial reality. Parties needn't specify everything—UCC fills gaps with reasonable terms. Gap-fillers facilitate commerce reducing formality requirements.

101. C - When contracts don't specify prices, UCC implies reasonable prices at delivery time if parties intended binding contracts despite omissions. Courts determine reasonable prices based on market prices, comparable transactions, and circumstances. Open price terms don't void contracts if parties intended to be bound. UCC flexibility enables contract enforcement.

102. B - Public works contractors and subcontractors must maintain certified payroll records and supporting documents for 3 years after project completion. Records must be available for Labor Commissioner inspection. Three-year retention enables enforcement and protects against claims. Failure to maintain records creates presumption of violations. Always retain public works records 3+ years.

103. D - Filing public works bid protests may require posting bid protest bonds equal to 10% of protested bid amounts or specified amounts ensuring protestors have stake in outcomes discouraging frivolous protests. Bonds compensate awarding bodies for costs if protests are unsuccessful. Requirements vary by entity. Bond requirements raise stakes making protests more serious.

104. A - Responsible bidders must demonstrate financial capacity, technical expertise, experience, performance history, and ability to perform. Lowest bids don't automatically win—bidders must be responsible (capable and reliable). Awarding bodies evaluate responsibility before awards. Irresponsible bidders (even if lowest) can be rejected protecting project success.

105. C - Prequalification requires bidders prove qualifications before being allowed to bid. Bidders submit financial statements, experience, references, and bonding capacity. Awarding bodies evaluate qualifications approving only qualified bidders. Prequalification saves time by preventing unqualified bidders from bidding. However, prequalification must be non-discriminatory and reasonable.

106. C - Bid shopping is unethical practice where prime contractors, after receiving subcontractor bids and using them to secure contracts, solicit lower bids from other subs undercutting original bidders. Subcontractor listing laws prohibit bid shopping requiring primes to use listed subs or show good cause for substitution. Bid shopping undermines fair bidding.

107. D - Substituting listed subcontractors requires showing good cause: listed sub refuses to execute contracts, becomes unavailable, fails to perform, isn't licensed, or won't furnish adequate bonds. Substitution for convenience or cost savings isn't allowed—only legitimate inability to use listed subs. Requirements protect subs from bid shopping ensuring work goes to those who bid.

108. A - Lockout/tagout requires written energy control procedures identifying equipment, energy types, shutdown procedures, isolation methods, and verification steps. Procedures must be documented, specific to equipment, and followed precisely. Written procedures ensure consistent application preventing energy control mistakes. Generic procedures are insufficient—procedures must address specific equipment and energy sources.

109. C - Authorized employees are trained to apply lockout/tagout devices—they understand energy sources, isolation methods, and procedures. Authorization requires training and demonstrating competence. Only authorized employees can apply LOTO devices. Affected employees are notified but don't apply devices. Clear distinction between authorized (apply LOTO) and affected (work around locked-out equipment) employees.

110. B - Affected employees operate or use equipment being serviced under lockout/tagout—they're affected by LOTO but don't apply it. Examples: operators whose equipment is locked out for maintenance. Affected employees must be trained recognizing LOTO devices and understanding their purpose. They don't need full LOTO training—just awareness training.

111. D - Group lockout requires each worker apply individual locks to equipment when multiple workers service equipment. Group lockbox systems allow multiple locks on single lockboxes controlling equipment energy sources. Every worker must apply their own lock ensuring they control their protection. Supervisors cannot remove workers' locks—only workers who applied them.

112. A - Lockout/tagout programs require annual inspections of energy control procedures by authorized employees other than those using procedures. Inspections verify procedures are adequate, being followed, and employees understand. Inspections identify deficiencies enabling corrections. Document inspections. Annual review ensures LOTO effectiveness maintaining worker protection.

113. C - Permit-required confined space entry demands written entry permits, atmospheric testing before and during entry, attendants stationed outside monitoring entrants, rescue arrangements (non-entry rescue or trained rescue teams), and specific training. Permits verify precautions before entry. Permit system ensures safe entry procedures preventing confined space deaths.

114. B - Confined space attendants are stationed outside confined spaces continuously monitoring entrants, maintaining communication, preventing unauthorized entry, summoning rescue if needed, and never entering spaces. Attendants are lifelines for entrants—they monitor conditions and sound alarms. Attendant's job is watching—not entering or performing other tasks.

115. D - Confined space rescue plans must provide non-entry rescue capability (retrieval systems allowing rescue without entry) or access to trained rescue teams within timeframes preventing death/serious injury. Many rescuer deaths occur when untrained workers enter confined spaces attempting rescue. Non-entry rescue is preferred—it's faster and safer. Always have rescue plans before entry.

116. A - Bloodborne pathogen exposure control plans are written documents identifying employees with occupational exposure, methods for reducing exposure (engineering controls, work practices, PPE), procedures for exposure incidents, training, and recordkeeping. Plans are required when employees face bloodborne pathogen exposure. Written plans establish comprehensive protection programs.

117. C - Universal precautions means treating all blood and potentially infectious materials as if infected with bloodborne pathogens regardless of perceived infection status. Since infection status is often unknown, universal precautions protect against all exposures. Use protective equipment and practices universally—not selectively based on assumptions. Universal precautions are fundamental bloodborne pathogen protection.

118. B - Employers must offer hepatitis B vaccinations to employees with occupational exposure at no cost within 10 days of assignment. Vaccinations are voluntary—employees can decline by signing declination forms. Employers cannot require hepatitis B vaccination but must offer and encourage it. Free vaccination protects employees and reduces employer exposure incident costs.

119. D - Exposure incidents (eye, mouth, other mucous membrane, non-intact skin, or parenteral contact with blood/infectious materials) require immediate evaluation, medical evaluation and treatment within hours, testing, post-exposure prophylaxis, and documentation. Time is critical—immediate medical evaluation can prevent infection. Report all exposure incidents immediately seeking medical attention.

120. A - Hazard Communication Standard ensures workers know chemical hazards through chemical labels, Safety Data Sheets, and training. Workers have right to know hazards of chemicals they work with. HazCom provides information enabling safe handling. Components are labels (warning), SDS (detailed information), and training (understanding hazards and protection).

121. C - Employers must maintain current Safety Data Sheets for all hazardous chemicals in workplaces and make them readily accessible to employees during work shifts. SDSs provide detailed hazard, handling, and emergency information. Inaccessible SDSs violate HazCom—employees must be able to access SDSs immediately when needed. Digital and paper SDS systems both work if accessible.

122. A - Chemical container labels must identify chemicals, include pictograms showing hazard types, signal words (Danger, Warning), hazard statements describing hazards, and precautionary statements describing protective measures. GHS standardized labeling worldwide. Labels warn workers at first point of contact. Proper labels are critical safety information preventing exposure from ignorance.

123. D - The Globally Harmonized System (GHS) is international standard for chemical hazard communication harmonizing classification and labeling worldwide. GHS standardizes pictograms, signal words, hazard statements, and SDS formats. International standardization improves safety in global economy. U.S. adopted GHS in 2012. GHS makes hazard communication consistent globally.

124. A - HazCom training must cover chemical hazards in work areas, detecting releases, protective measures, SDS location and use, and label information. Training occurs at hire and when new chemicals are introduced. Workers must understand chemical hazards and know how to protect themselves. Effective training prevents chemical injuries—ignorance causes harm.

125. C - When respirators are required or permitted, employers must establish written respiratory protection programs including medical evaluations, fit testing, selection procedures, training, cleaning, maintenance, and air quality testing. Written programs ensure comprehensive respiratory protection. Programs are required whenever respirators are used—even if voluntary. Proper respiratory protection prevents lung disease.

