

PRACTICE EXAM 12: OHIO BUSINESS AND LAW SIMULATION (50 QUESTIONS)

50 Questions — 120 Minutes Recommended

1. A commercial HVAC contractor forms an LLC with three members. The operating agreement specifies that Member A owns fifty percent, Member B owns thirty percent, and Member C owns twenty percent. The agreement is silent on profit distribution. Under Ohio's default LLC rules, how are profits allocated when the operating agreement does not address the issue?

- A. Equally among the three members regardless of ownership percentages
- B. In proportion to each member's initial capital contribution
- C. In proportion to each member's ownership interest — fifty, thirty, and twenty percent respectively
- D. Entirely to the managing member until the company reaches a specified profit threshold

2. An Ohio contractor operates as a Ccorporation. The corporation earns \$180,000 in taxable income and pays the twentyone percent corporate tax rate. After paying corporate taxes, the board decides to retain all aftertax profits in the company and not distribute any dividends to the sole shareholder. What is the shareholder's personal federal income tax obligation on the \$180,000 of corporate income?

- A. The shareholder owes personal income tax on the full \$180,000 because corporate income passes through to shareholders
- B. The shareholder owes zero personal income tax on the corporate income because no dividends were distributed
- C. The shareholder owes personal income tax at the capital gains rate on the retained earnings balance
- D. The shareholder owes a ten percent penalty tax on the undistributed earnings for accumulating profits

3. A contractor's business plan includes a section describing the company's unique capabilities — a proprietary energy modeling software system, two LEEDcertified project managers, and exclusive regional distribution agreements with three major equipment manufacturers. This information belongs in which section of the business plan?

- A. The company description section which details the business's unique characteristics, competitive advantages, and distinguishing capabilities
- B. The financial projections section because the proprietary software has quantifiable economic value
- C. The funding requirements section because the software and certifications represent capital investments
- D. The market analysis section because the equipment distribution agreements affect the competitive landscape

4. An Ohio contractor holds an OCILB plumbing license. The contractor is hired to install a fire suppression sprinkler system in a new commercial building. The contractor has extensive experience with water supply piping but has never installed fire suppression systems. Is the contractor authorized to perform this work under the plumbing license?

- A. Yes because the plumbing license covers all piping systems that convey water within a commercial building
- B. Yes because fire suppression falls under the plumbing classification as a waterbased life safety system
- C. No because fire suppression systems require a separate state fire marshal certification not an OCILB license
- D. The OCILB plumbing license scope should be verified because fire suppression may require additional certifications or fall outside the standard plumbing classification depending on Ohio's specific regulatory framework

5. A contractor fails the Ohio Business and Law exam on the first attempt with a score of sixtyfour percent. The contractor wants to retake the exam as soon as possible. Under OCILB and PSI rules, when is the earliest the contractor can schedule the retake?

- A. Immediately because there is no waiting period between exam attempts for the Business and Law exam

- B. Sixty days after the failed attempt because Ohio requires a sixtyday waiting period before retesting
- C. Thirty days after the failed attempt which is the standard PSI retake interval for all contractor exams
- D. Ninety days after the failed attempt to allow adequate study time as mandated by the OCILB

6. A contractor's estimator is preparing a bid for a commercial electrical project. The project specifications require a specific brand of lighting fixtures. The estimator obtains a quote from the specified manufacturer at \$42,000. A competitor manufacturer offers equivalent fixtures at \$28,000. The estimator uses the \$28,000 price in the bid. What risk does this create?

- A. If the architect does not approve the substitution the contractor must furnish the specified fixtures at \$42,000 absorbing the \$14,000 difference
- B. No risk because all commercial specifications include an automatic "or equal" clause allowing substitutions
- C. The risk is limited to a resubmittal process that adds two weeks to the project schedule
- D. The owner will automatically approve the substitution if the contractor demonstrates cost savings

7. A contractor calculates the following annual overhead costs: office rent \$36,000, office staff salaries \$125,000, owner's salary (nonfield) \$95,000, insurance premiums \$48,000, vehicle expenses \$22,000, marketing \$18,000, professional services \$15,000, and depreciation \$24,000. What is the total annual general overhead?

- A. \$161,000 excluding the owner's salary because it is classified as a distribution not an overhead cost
- B. \$258,000 excluding depreciation and marketing because they are classified as capital expenditures
- C. \$347,000 excluding only insurance premiums because they are classified as projectspecific job overhead
- D. \$383,000 including all listed items because each represents a companywide cost not attributable to any specific project

8. A general contractor receives a bid from Subcontractor A for \$165,000 on the mechanical work. Subcontractor A is the only mechanical bidder. The GC includes the \$165,000 in the overall bid and wins the project. After award, the GC discovers that Subcontractor B would have bid \$138,000 but

was not aware of the project. The GC asks Subcontractor A to match Subcontractor B's price. What ethical issue does this present?

- A. No ethical issue because price negotiation is standard practice in the construction industry
- B. No ethical issue because Subcontractor A was the sole bidder and had no competition to protect
- C. This constitutes bid shopping because the GC is using a postaward competitive quote to pressure the original bidder to reduce their price
- D. This is acceptable because the GC has a fiduciary duty to the owner to obtain the lowest possible price

9. A construction contract between an owner and contractor provides that all disputes will be resolved through binding arbitration. During the project, the contractor files a mechanic's lien against the owner's property for unpaid progress payments. The owner argues that the arbitration clause requires the contractor to pursue the payment claim through arbitration rather than filing a lien. Is the owner correct?

- A. Yes because the arbitration clause overrides all other remedies including mechanic's liens
- B. No because a mechanic's lien is a statutory right that secures payment and is not a dispute resolution process — the contractor can file the lien to protect the claim while simultaneously pursuing arbitration for resolution
- C. Yes because filing a lien while an arbitration clause is in effect constitutes a breach of the contract
- D. No because mechanic's liens automatically convert to arbitration claims once an arbitration clause exists

10. A contractor on a commercial project submits a change order proposal for \$24,000 covering additional work required by a design revision. The contract allows fifteen percent markup on selfperformed change order work for overhead and profit. The contractor's proposal shows \$16,000 in direct labor costs, \$4,800 in materials, and \$3,200 in the fifteen percent overhead and profit markup. The owner's reviewer notes that the markup was applied to the total of labor and materials ($\$20,800 \times 15\% = \$3,120$) not \$3,200 as stated. What is the correct change order amount?

- A. \$23,920 calculated as \$20,800 in direct costs plus the mathematically correct fifteen percent markup of \$3,120
- B. \$24,000 as originally proposed because the \$80 rounding difference is immaterial

- C. \$20,800 representing direct costs only with no markup permitted on change order work
- D. \$27,600 representing direct costs plus a twentyfive percent markup which is the standard for designrevision changes

11. A contractor enters into a subcontract for electrical work on a commercial project. The subcontract requires the subcontractor to begin work on April 15 and complete by June 30. Due to delays by the general contractor in completing the preceding structural work, the subcontractor cannot begin until May 10. The subcontractor completes the work by July 15 — the same seventysixday duration originally planned. The GC assesses liquidated damages against the subcontractor for completing fifteen days past the June 30 deadline. Is the assessment proper?

- A. Yes because the subcontract specifies June 30 as the completion date regardless of when work actually begins
- B. No because the subcontractor completed the work in the same duration originally planned and the delay was caused by the GC's failure to provide timely access
- C. Yes because subcontractors are responsible for their own completion dates regardless of predecessor delays
- D. No but only if the subcontractor filed a formal delay claim within seven days of the access delay

12. A commercial project has a CPM schedule showing a total project duration of 140 days. At the Day 70 midpoint update, the schedule analysis reveals that fourteen activities have consumed all their float and two activities on the original critical path were completed three days ahead of schedule. The project manager notes that the critical path has shifted. What is the most likely explanation?

- A. A software error has corrupted the schedule logic and the critical path cannot shift during construction
- B. The two early completions on the original critical path created three days of float on that path while delays on parallel paths consumed their float making a different path critical
- C. The critical path always shifts at the midpoint of every construction project as a normal scheduling phenomenon
- D. The fourteen activities that consumed their float caused the project to be delayed by fourteen days creating a new critical path

13. A contractor on a commercial project receives the architect's punch list containing sixtytwo items after the substantial completion inspection. The contractor reviews the list and believes that eight of the items were not part of the original contract scope but were added by the architect as enhancements. What should the contractor do?

- A. Complete all sixtytwo items without objection because the architect has final authority over the punch list
- B. Refuse to complete any punch list items until the eight disputed items are resolved through formal arbitration
- C. Complete the fiftyfour undisputed items promptly while providing written notice to the owner and architect that the eight items constitute additional work requiring change order authorization
- D. Deduct the cost of the eight disputed items from the subcontractor responsible for that scope

14. A contractor's project manager tracks the cost of rework on a commercial project. Over the twelvemonth project, the total rework cost — removing and replacing defective work — totals \$67,000. The total project cost is \$1,340,000. What percentage of the total project cost was consumed by rework, and what does this indicate?

- A. Rework consumed five percent of total project cost indicating significant quality control deficiencies that the contractor should address through improved inspection and supervision
- B. Rework consumed ten percent of total project cost which is within the acceptable industry standard
- C. Rework consumed two percent of total project cost which is negligible and requires no corrective action
- D. Rework consumed five percent of total project cost which is the standard allowance built into all construction estimates

15. A general contractor on a commercial project discovers that the concrete subcontractor has been using a concrete mix design that does not meet the specified twentyeightday compressive strength requirement. The deficient concrete has been placed in the foundation and firstfloor slab. Testing confirms the concrete is below specification. What is the general contractor's primary responsibility?

- A. Notify the architect immediately and stop all work in the affected areas until the structural engineer evaluates the deficiency and provides direction

- B. Allow the concrete subcontractor to apply a surface hardener to bring the existing concrete up to specification
- C. Stop the concrete subcontractor's work immediately and notify the architect that the deficient concrete must be evaluated but the subcontractor bears all remediation costs
- D. Direct the concrete subcontractor to demolish and replace all deficient concrete immediately without waiting for engineering evaluation

16. A contractor's CGL policy has a peroccurrence limit of \$2,000,000 and a productscompleted operations aggregate of \$2,000,000. The contractor completes three commercial projects during the policy year. Claims arising from completed operations on each project total \$900,000, \$700,000, and \$600,000 respectively. Each claim is from a separate occurrence. What total amount does the CGL pay for these three claims?

- A. \$900,000 because only the largest claim is covered under the productscompleted operations aggregate
- B. \$2,000,000 per claim for a total of \$6,000,000 because each is a separate occurrence
- C. \$2,200,000 because each claim is within the peroccurrence limit but the aggregate caps the total payout
- D. \$2,000,000 total because the productscompleted operations aggregate limits all completed operations claims to \$2,000,000 during the policy period

17. An Ohio contractor's workers' compensation premium is based on an annual payroll of \$750,000, a classification rate of \$11.20 per \$100, and an EMR of 1.08. What is the annual premium?

- A. \$84,000 calculated as the payroll divided by one hundred multiplied by the classification rate only
- B. \$90,720 calculated as $(\$750,000 \div \$100) \times \$11.20 \times 1.08$
- C. \$81,000 calculated as the payroll multiplied by the EMR with the classification rate excluded
- D. \$97,200 calculated as the payroll divided by one hundred multiplied by the classification rate multiplied by an EMR of 1.15

18. A contractor on a commercial project hires a specialized testing laboratory to perform concrete cylinder compression tests as required by the specifications. The testing lab reports that three of twelve test cylinders failed to meet the twenty-eight-day strength requirement. The contractor argues that three failures out of twelve (twenty-five percent) is within acceptable statistical variation. The architect disagrees and requires further evaluation. Under standard construction practice, who typically retains the testing laboratory?

A. The project owner or architect typically retains the testing laboratory to ensure independent quality assurance free from contractor influence

B. The general contractor always retains the testing laboratory because testing is the contractor's quality control responsibility

C. The concrete subcontractor retains the testing laboratory because the concrete supplier provides all quality testing

D. The testing laboratory operates independently with no contractual relationship to any project participant

19. A contractor on a time-and-materials contract submits weekly invoices. The contract specifies labor at \$85 per hour inclusive of overhead and profit, and materials at cost plus twelve percent markup. In week three, the contractor bills for 160 labor hours and \$14,500 in materials. The owner reviews the invoice and questions a \$3,200 charge for materials that appears to be for the contractor's personal vehicle repair, not for project materials. How should this be resolved?

A. The full invoice should be paid because T&M contracts reimburse all costs incurred during the billing period

B. The owner should pay the invoice but deduct the \$3,200 in questionable charges pending further investigation

C. The contractor should withdraw the entire invoice and resubmit after correcting the error

D. The \$3,200 charge should be removed from the invoice because personal vehicle repairs are not reimbursable project costs and the corrected invoice should be processed

20. A subcontractor's foreman observes a significant crack forming in a newly poured concrete retaining wall on a commercial project. The crack appears to be widening over the course of the day. The subcontractor's scope does not include concrete work. The subcontractor has no contractual responsibility for the retaining wall. Should the foreman report the crack?

- A. The foreman should report the crack to the general contractor or site superintendent immediately because failing to report an observed structural deficiency could endanger workers and the public
- B. The foreman has no reporting obligation because the retaining wall is outside the subcontractor's contractual scope
- C. The foreman should report the condition to the general contractor's superintendent but only in writing through a formal RFI
- D. The foreman should photograph the crack for the subcontractor's records but take no further action

21. An Ohio contractor operates a refrigeration business with annual payroll of \$420,000. The BWC classification rate for refrigeration contractors is \$8.40 per \$100 of payroll. The contractor has had zero workers' compensation claims for five consecutive years. The contractor's EMR has dropped to 0.72. What is the annual premium and what does the low EMR indicate?

- A. The annual premium is approximately \$25,402 and the 0.72 EMR indicates the contractor's safety record is significantly better than average resulting in a twentyeight percent discount on the base premium
- B. The annual premium is approximately \$35,280 calculated using the classification rate only without the EMR adjustment
- C. The annual premium is approximately \$42,000 because zero claims produce an EMR of 1.0 which applies no adjustment
- D. The annual premium is approximately \$15,000 because the fiveyear claimfree record triggers a flatrate minimum premium

22. A surety company reviews a contractor's application for a \$500,000 performance bond. The contractor's financial statements show strong profitability and adequate working capital, but the contractor has only completed projects up to \$200,000 in value. The surety is concerned that the \$500,000 project is two and a half times larger than any project the contractor has completed. Which of the surety's "three Cs" does this concern relate to?

- A. Capital because the financial statements may not support the cash flow demands of a larger project
- B. Character because the contractor may not have the integrity to manage a project beyond their experience level
- C. Capacity because the contractor lacks demonstrated experience completing projects of this size and complexity

D. All three Cs equally because project size affects every aspect of the surety's evaluation

23. Under OSHA's construction electrical safety standards, a contractor is performing electrical work on a commercial building. The work requires deenergizing a circuit and applying lockout/tagout procedures. A journeyman electrician deenergizes the circuit, locks the breaker in the off position with a personal padlock, and tests the circuit with a voltage tester to verify zero energy. What element of the lockout/tagout procedure does the voltage verification step serve?

A. It satisfies the employer's documentation requirement for OSHA Form 300 recordkeeping

B. It verifies that the circuit is truly deenergized after lockout confirming that the lockout was effective and the worker can safely proceed

C. It tests the integrity of the padlock mechanism to ensure it will hold during the work

D. It establishes the circuit's rated voltage for the purpose of selecting the correct wire gauge

24. An Ohio contractor receives an OSHA citation classified as "willful" for repeatedly ignoring fall protection requirements on a commercial roofing project after multiple prior warnings and citations. The penalty is \$145,000. A worker subsequently falls from the same project and dies from the injuries. What additional consequence may the contractor face beyond the OSHA penalty?

A. A mandatory twelvemonth suspension of the contractor's OCILB license

B. An additional \$145,000 penalty doubling the original citation amount

C. A requirement to implement a safety program but no additional financial or legal consequences

D. Criminal prosecution because a willful violation that results in a worker's death can trigger criminal penalties under the OSH Act

25. Under the FMLA, an eligible employee at a covered employer takes eight weeks of leave to care for a spouse recovering from major surgery. During the leave, the employer discovers a legitimate performance issue that predates the leave — specifically, the employee failed to complete required safety certifications that were due before the leave began. Can the employer discipline the employee for the preexisting performance issue?

- A. Yes because the employer may take action for legitimate reasons unrelated to the FMLA leave provided the action would have occurred regardless of whether the employee took leave
- B. No because all disciplinary actions are prohibited during FMLA leave regardless of when the underlying issue arose
- C. Yes but only after the employee returns from leave and is given a thirtyday grace period to complete the certifications
- D. No because the performance issue was discovered during the leave period creating an automatic presumption of retaliation

26. An Ohio employer with twenty employees classifies three field electricians as independent contractors. The workers use the employer's tools, follow the employer's daily schedule, wear the employer's uniforms, work exclusively for this employer, and receive weekly paychecks at an hourly rate. The employer does not withhold taxes or provide benefits. An IRS audit determines the workers are employees. In addition to back FICA and income tax withholding, what other agency is likely to assess the employer?

- A. Only the OCILB for employing unlicensed individuals to perform electrical work
- B. Only the Ohio Attorney General's office for consumer fraud in the construction industry
- C. The Ohio BWC for unpaid workers' compensation premiums on the misclassified workers
- D. Only the federal Department of Labor for minimum wage violations on the hourly pay rate

27. A nonexempt plumbing technician earns \$33.00 per hour. The technician works fortytwo hours in Week 1 and thirtyeight hours in Week 2. The employer pays the technician for eighty hours at the regular rate of \$33.00 per hour for the twoweek pay period — a total of \$2,640.00 — arguing that the hours average to forty per week. Is this payment correct under the FLSA?

- A. Yes because the FLSA allows employers to average hours across a twoweek pay period for biweekly payroll
- B. Yes because the total pay of \$2,640 exceeds the minimum wage for eighty hours of work
- C. No because the employer should have paid double time for the two overtime hours in Week 1
- D. No because overtime must be calculated on a singleworkweek basis and the two hours exceeding forty in Week 1 must be paid at timeandahalf regardless of Week 2 hours

28. An Ohio contractor operating as a sole proprietorship earns \$175,000 in net business income and makes estimated tax payments of \$40,000 throughout the year. At filing time, the contractor's total federal tax liability is \$58,000 (income tax plus selfemployment tax). The contractor owes a balance of \$18,000 with the return. Under the estimated tax rules, will the contractor face an underpayment penalty?

- A. No if the \$40,000 in estimated payments equals or exceeds one hundred percent of the prior year's total tax liability or ninety percent of the current year's liability
- B. Automatically yes because any balance due at filing triggers the underpayment penalty regardless of estimated payments made
- C. No because the contractor paid more than fifty percent of the total liability through estimated payments
- D. Automatically no because balances under \$25,000 are exempt from the underpayment penalty

29. An Ohio contractor purchases \$62,000 in mechanical equipment from an Ohio distributor for a commercial project. The contractor pays full Ohio sales tax on the purchase. After installation, the contractor discovers that \$15,000 of the equipment is defective and returns it to the distributor for a full refund of the purchase price. The distributor refunds the \$15,000 but not the sales tax paid on the returned equipment. What recourse does the contractor have for the unreimbursed sales tax?

- A. The contractor can request a sales tax refund from the distributor or file a refund claim with the Ohio Department of Taxation for the tax paid on the returned equipment
- B. The contractor has no recourse because sales tax on construction materials becomes nonrefundable upon installation
- C. The contractor must absorb the tax cost as a business expense with no refund available from any source
- D. The contractor can deduct the unreimbursed sales tax from the next progress payment to the project owner

30. A subcontractor on a private commercial project serves a Notice of Furnishing on the property owner on Day 20 after first furnishing labor — within the twentyoneday deadline. The subcontractor works for five months. On the last day of work, the subcontractor provides a final walkthrough and training session on the installed equipment at no additional charge. Under Ohio lien law, does the training session constitute "furnishing" that resets the sixtyday lien filing clock?

- A. No because training is not furnishing labor or materials within the meaning of the mechanic's lien statute
- B. Yes because the training session resets the sixtyday clock and the subcontractor should calculate the filing deadline from the training date rather than the last physical installation work
- C. No because only work that has a separately invoiced value qualifies as furnishing under the lien statute
- D. Yes but only if the training was specifically required by the subcontract rather than provided voluntarily

31. A general contractor on a private commercial project makes the final payment to the plumbing subcontractor and collects an unconditional final lien waiver. Six months later, the subcontractor files a mechanic's lien against the property for \$28,000 in alleged unpaid extra work. The property owner contacts the GC. What is the GC's strongest defense against this lien?

- A. The GC can argue that the sixmonth delay in filing the lien makes it untimely
- B. The GC can file a crossclaim against the owner for failing to verify the subcontractor's payment status
- C. The GC has no defense because subcontractors can file liens for extra work independent of lien waivers
- D. The GC can present the unconditional final lien waiver which permanently released all of the subcontractor's lien rights including claims for extra work

32. A contractor on a federal project valued at \$4,000,000 furnishes a payment bond as required by the Miller Act. A secondtier material supplier provides \$48,000 in plumbing fixtures to a firsttier subcontractor. The subcontractor does not pay the supplier. The supplier provides written notice to the prime contractor on Day 85 after the last delivery — within the ninetyday Miller Act notice period. The supplier then files a lawsuit on Day 100. Is the lawsuit timely?

- A. Yes because the lawsuit was filed within one year of the last furnishing which is the Miller Act deadline
- B. No because the lawsuit must be filed within ninety days of the last furnishing to be timely
- C. Yes but only because the supplier provided written notice within the ninetyday period and is automatically deemed timely

D. No because the lawsuit cannot be filed earlier than ninety days after the last furnishing and Day 100 falls within the waiting period

33. A property owner hires a contractor to build a commercial office building for \$1,800,000. The contractor is halfway through the project when the owner decides the project is no longer financially viable and terminates the contract for convenience. The contractor has completed \$900,000 of work, been paid \$810,000, and incurred \$35,000 in demobilization costs. Under a standard termination for convenience provision, what is the contractor entitled to receive?

A. Payment for all work completed (\$900,000), reimbursement of demobilization costs (\$35,000), and reasonable profit on the completed work — minus the \$810,000 already paid

B. The full contract price of \$1,800,000 because the owner's termination was not caused by the contractor's breach

C. Payment for work completed and demobilization costs but no profit because termination for convenience eliminates profit entitlement

D. Only the \$90,000 unpaid balance for work completed with no additional compensation for demobilization

34. A contractor's project superintendent observes that a subcontractor's workers are not wearing required hard hats in an active construction area. The superintendent directs the subcontractor's foreman to ensure all workers comply with PPE requirements. The foreman refuses, stating that the subcontractor has its own safety policies. Under OSHA's multiemployer citation policy, what responsibility does the general contractor have?

A. No responsibility because each subcontractor is solely responsible for its own employees' safety compliance

B. Responsibility only if the GC's own employees are also not wearing hard hats in the same area

C. Responsibility as the controlling employer to enforce reasonable safety measures across the jobsite including requiring subcontractor compliance with site safety rules

D. Responsibility only if the GC has a written safety plan that specifically addresses subcontractor PPE requirements

35. An Ohio employer terminates an employee who is fiftyfive years old and replaces the employee with a thirtyyearold worker at a lower salary. The terminated employee had satisfactory performance

reviews and no documented disciplinary history. The employer states the termination was part of a "restructuring" but no other positions were eliminated. The employee files an age discrimination complaint. What fact pattern most strongly supports the employee's claim?

- A. The employee had satisfactory performance reviews and no documentation supporting termination which undermines the employer's stated reason
- B. The employer failed to provide a severance package which is required for all terminated employees over age fifty
- C. The employee was replaced by a substantially younger worker with no evidence of poor performance by the terminated employee suggesting the "restructuring" was pretextual
- D. The employee's satisfactory reviews combined with the immediate replacement by a younger worker at lower salary and the absence of other eliminated positions strongly suggest the restructuring explanation is pretext for age discrimination

36. Under OSHA's Hazard Communication Standard, a construction employer maintains Safety Data Sheets for all hazardous chemicals on the jobsite. A worker needs to find the SDS for a specific adhesive product during the work shift. Under the HazCom standard, how quickly must the employer make the SDS available?

- A. Within twentyfour hours of the worker's request consistent with the standard document retrieval timeframe
- B. Immediately because SDSs must be readily accessible to employees during their work shifts
- C. Within one business day because the standard allows time for the employer to locate the specific SDS
- D. Within one week because the employer must verify the SDS is current before providing it to the worker

37. A contractor's financial statements show the following: revenue \$2,800,000, cost of revenue \$2,240,000, general overhead \$392,000. The contractor's bonding company asks for the breakeven revenue and the current profit margin. What are these values?

- A. Breakeven revenue is \$1,960,000 and net profit margin is six percent
- B. Breakeven revenue is \$2,800,000 and net profit margin is zero percent indicating the contractor is at breakeven

C. Breakeven revenue is \$1,400,000 and net profit margin is twenty percent

D. Breakeven revenue is \$2,240,000 and net profit margin is two percent

38. An Ohio contractor's current ratio has declined from 1.8 to 1.1 over two years while revenue has grown by thirty percent. The contractor asks the accountant to explain the declining ratio despite revenue growth. What is the most likely explanation?

A. The contractor has been using shortterm debt to finance growth creating rapid increases in current liabilities

B. The contractor's gross profit margin has increased which always reduces the current ratio

C. The revenue growth caused an automatic reduction in current assets through accelerated depreciation

D. The declining ratio is caused by high revenue growth outpacing the contractor's ability to build current assets while current liabilities from accounts payable, accrued wages, and shortterm borrowing have increased proportionally or faster

39. An Ohio contractor earns \$5,200,000 in annual gross receipts. The Ohio CAT rate of 0.26% applies to taxable gross receipts above \$1,000,000. The contractor also has \$250,000 in gross receipts from a subsidiary retail operation. For CAT purposes, how are the receipts calculated?

A. Only the \$5,200,000 in construction receipts are subject to CAT because retail operations are exempt

B. Only the \$250,000 in retail receipts are subject to CAT because construction receipts are exempt under a contractor exclusion

C. The total \$5,450,000 in combined gross receipts from all business activities is subject to CAT

D. The two businesses file separate CAT returns because they operate in different industries

40. An Ohio contractor performs a \$95,000 commercial plumbing installation for a county government building. The county provides a valid sales tax exemption certificate. The contractor purchases \$38,000 in materials from an Ohio supplier. How should the sales tax be handled?

- A. The contractor presents the county's exemption certificate to the supplier and purchases the qualifying materials without paying Ohio sales tax
- B. The contractor pays full sales tax and bills the county for reimbursement as a separate line item
- C. The contractor pays sales tax at a reduced government rate of fifty percent of the standard rate
- D. No exemption applies because the contractor is the final consumer regardless of the project owner's status

41. A subcontractor on a private commercial project first furnishes labor on March 1. The subcontractor does not serve a Notice of Furnishing on the property owner. The subcontractor continues working through August 31 and is owed \$210,000. On October 15, the subcontractor files a mechanic's lien affidavit — fortyfive days after last furnishing. What is the maximum lien amount?

- A. Zero because the subcontractor failed to serve a Notice of Furnishing and has no lien rights
- B. The lien is limited to the value of work performed from September 24 onward — twentyone days before the October 15 filing date — plus any work after October 15
- C. The full \$210,000 because the lien was filed within sixty days of last furnishing
- D. The lien is limited to the value of work performed during the last sixty days before the filing date

42. A contractor files a mechanic's lien on a commercial property for \$145,000. The property owner retains an attorney who reviews the lien and discovers that the contractor's lien affidavit contains an incorrect legal description of the property — the affidavit references Lot 47 when the actual parcel is Lot 74. What is the legal effect of this error?

- A. The error is a minor clerical mistake that does not affect the validity of the lien
- B. The error may be correctable through an amendment if Ohio procedure allows it and it is filed before the enforcement deadline
- C. The lien is valid because the property address was correctly stated even though the lot number is wrong
- D. The error may render the lien invalid because Ohio's mechanic's lien statute requires strict compliance with statutory requirements including an accurate property description

43. Under the Miller Act, what is the minimum federal construction project value that triggers the requirement for the prime contractor to furnish performance and payment bonds?

- A. \$25,000 for performance bonds and \$100,000 for payment bonds
- B. \$100,000 for both performance and payment bonds
- C. \$250,000 for both types of bonds consistent with the federal acquisition simplified threshold
- D. \$150,000 for both performance and payment bonds as established by the Miller Act

44. A contractor's workers' compensation claim file shows the following over a four-year period: Year 1 — three claims totaling \$62,000; Year 2 — two claims totaling \$28,000; Year 3 — one claim totaling \$5,500; Year 4 — zero claims. The contractor's EMR started at 1.35 at the beginning of Year 1. What trend in the EMR is expected over this period?

- A. A steady decline from 1.35 toward or below 1.0 as the claims frequency and severity decrease and the high-claims Year 1 ages out of the experience period
- B. An immediate drop to 0.70 in Year 2 because Year 1's claims are removed from the calculation
- C. No change because the EMR is set at the beginning of a four-year cycle and is not recalculated until the cycle ends
- D. An increase in Year 2 because the Year 1 claims have their peak impact on the EMR one year after they occur

45. A contractor on a commercial project reaches substantial completion and the architect issues the Certificate of Substantial Completion. The contract provides for release of fifty percent of accumulated retainage at substantial completion and the remaining fifty percent at final completion. Total accumulated retainage is \$120,000. What amount is released at substantial completion?

- A. The full \$120,000 because substantial completion triggers complete release of all retainage
- B. \$60,000 with the remaining \$60,000 released after all punch list items are completed and final completion is certified
- C. \$60,000 representing fifty percent of accumulated retainage as specified in the contract
- D. Zero because retainage is released only at final completion after all punch list items are resolved

46. A contractor operating as a partnership files Ohio Commercial Activity Tax returns quarterly. The partnership's quarterly gross receipts for each quarter are: Q1 \$620,000, Q2 \$810,000, Q3 \$950,000, Q4 \$720,000. Total annual gross receipts are \$3,100,000. The CAT rate of 0.26% applies to annual gross receipts above \$1,000,000. Approximately what is the annual CAT liability on the taxable portion?

- A. \$8,060 calculated as 0.26% of the full \$3,100,000 in annual gross receipts
- B. \$3,100 calculated as 0.26% of the first \$1,000,000 plus the minimum tax
- C. \$1,612 calculated as 0.26% of \$620,000 which is the lowest quarterly amount
- D. \$5,460 calculated as 0.26% of \$2,100,000 which is the taxable gross receipts above the \$1,000,000 threshold

47. An Ohio employer's payroll includes the following for the current pay period: gross wages \$48,000, federal income tax withheld \$7,200, employee FICA withheld \$3,672, employer FICA match \$3,672, and Ohio state income tax withheld \$1,920. The employer deposits the federal withholding and both FICA shares with the IRS on schedule. What total amount must the employer deposit with the IRS for this pay period?

- A. \$7,200 representing only the federal income tax withheld from employees
- B. \$14,544 representing the federal income tax withheld (\$7,200) plus both the employee and employer FICA shares (\$3,672 + \$3,672)
- C. \$10,872 representing the federal income tax withheld plus only the employee FICA share
- D. \$18,144 representing all federal and state withholding combined in a single IRS deposit

48. An Ohio contractor discovers that a competitor has been performing commercial HVAC work without an OCILB license. The unlicensed contractor is underbidding legitimate licensed contractors by significant margins because they do not carry the insurance, pay the licensing fees, or maintain the workers' compensation coverage required of licensed contractors. What recourse does the licensed contractor have?

- A. Report the unlicensed activity to the OCILB and the local building department because performing licensed trade work on commercial projects without an OCILB license violates Ohio law
- B. File a lawsuit against the unlicensed contractor for unfair competition in the court of common pleas
- C. Report the unlicensed contractor to OSHA because operating without a license is a safety violation

D. No recourse exists because contractor licensing is voluntary and enforcement is limited to the OCILB

49. A contractor's project file for a completed commercial building contains an RFI log showing that thirtytwo RFIs were submitted during the project. Twentyeight received responses within the contractual tenday period. Four RFIs received responses between fifteen and twentyfive days — five to fifteen days late. The contractor did not submit delay claims for any of the late RFI responses at the time they occurred. Can the contractor submit a consolidated delay claim after project completion for the four late responses?

A. Yes because delay claims can be aggregated and submitted at project completion regardless of individual notice deadlines

B. Yes because the RFI log constitutes contemporaneous documentation that substitutes for timely individual delay notices

C. No because the contractor is limited to claiming delays only for RFIs that exceeded the tenday period by thirty or more days

D. The claim may be barred if the contract required delay claims to be submitted within a specified timeframe after each delay event and the contractor failed to provide timely notice for each individual late response

50. A contractor on a commercial project uses the completed contract method of revenue recognition. The project has a \$650,000 contract price. At the end of the fiscal year, the project is eighty percent complete with \$480,000 in costs incurred to date. How much revenue does the contractor recognize in the current fiscal year?

A. \$520,000 representing eighty percent of the contract price

B. \$480,000 equal to the costs incurred to date because revenue matches cost under the completed contract method

C. Zero because the completed contract method defers all revenue recognition until the project is substantially complete

D. \$170,000 representing the expected profit on the project recognized proportionally at the eighty percent completion point

Practice Exam 12: Answer Key and Explanations

- 1. C** — When an LLC operating agreement is silent on profit distribution, Ohio's default LLC rules allocate profits in proportion to each member's ownership interest. With ownership at fifty, thirty, and twenty percent, profits follow the same split. This is why a well-drafted operating agreement should explicitly address profit allocation rather than relying on default rules that may not reflect the members' actual intentions.
- 2. B** — In a C corporation, shareholders owe personal income tax on corporate profits only when those profits are distributed as dividends. If the corporation retains all after-tax earnings and distributes nothing, the shareholder has zero personal tax obligation on the corporate income for that year. The retained earnings remain in the corporation and are taxed at the individual level only when eventually distributed.
- 3. A** — The company description section details the business's unique characteristics, history, competitive advantages, and distinguishing capabilities. Proprietary software, LEED-certified personnel, and exclusive distribution agreements are competitive differentiators that define what makes the company distinct in its market. These elements tell lenders, bonding companies, and partners why this company stands out from competitors.
- 4. D** — Fire suppression system installation may require certifications beyond the standard OCILB plumbing license depending on Ohio's specific regulatory framework. Fire suppression systems are specialized life safety installations that may be regulated by the Ohio State Fire Marshal's office or require NICET certification. The contractor should verify whether the plumbing license scope includes fire suppression before accepting the work.
- 5. B** — Ohio requires a sixty-day waiting period before retesting after a failed exam attempt. The contractor can take the exam up to five times within the one-year eligibility period. Each retake requires paying the \$69 examination fee. The sixty-day waiting period is designed to allow adequate study time before the next attempt.
- 6. A** — If the project specifications name a specific manufacturer without an "or equal" clause, the contractor is obligated to furnish that product. Using the lower-priced alternative in the bid creates risk because if the architect rejects the substitution during the submittal process, the contractor must furnish the specified \$42,000 fixtures and absorb the \$14,000 cost difference from the bid.
- 7. D** — All listed items are company-wide costs that exist regardless of any specific project: office rent (\$36,000), office staff (\$125,000), owner's nonfield salary (\$95,000), insurance (\$48,000), vehicles (\$22,000), marketing (\$18,000), professional services (\$15,000), and depreciation (\$24,000). Total: \$383,000. Each is a general overhead cost that must be recovered through the overhead allocation applied to all projects.
- 8. C** — This is bid shopping. The GC used Subcontractor A's bid to win the project and then pressured Subcontractor A to reduce their price by introducing a postaward competing quote from Subcontractor B. The fact that Subcontractor B was not available during the original bidding does not change the ethics — using a postaward quote to leverage a price reduction from the original bidder is the definition of bid shopping.

9. B — A mechanic's lien is a statutory security right that protects the contractor's right to payment by encumbering the property. It is not a dispute resolution mechanism — it is a collection tool. The contractor can file the lien to secure the payment claim while simultaneously pursuing the underlying dispute through the contractually mandated arbitration process. The two remedies serve different purposes and operate in parallel.

10. A — The correct calculation: direct costs ($\$16,000 + \$4,800 = \$20,800$) plus fifteen percent markup ($\$20,800 \times 0.15 = \$3,120$) = $\$23,920$. The contractor's proposal of $\$24,000$ contained an $\$80$ mathematical error in the markup calculation. Change order pricing must be mathematically accurate, and the owner's reviewer correctly identified the discrepancy.

11. B — The subcontractor completed the work in the same duration (seventysix days) originally planned. The fiftenday overrun past June 30 was caused entirely by the GC's twentyfiveday delay in providing access. The subcontractor cannot be penalized for a delay that originated with the GC. Liquidated damages should be assessed only for contractorcaused delays, not for delays attributable to other parties.

12. D — When activities on parallel paths consume all their float, those paths become critical. Simultaneously, early completions on the original critical path created float on that path. The combination shifts the critical path from the original sequence to a previously noncritical path that now has zero or negative float. Critical path shifts during construction are normal consequences of actual progress differing from the baseline plan.

13. C — The contractor should complete the undisputed fiftyfour items promptly to demonstrate good faith and progress toward final completion. For the eight disputed items, the contractor should provide written notice that these items constitute additional scope requiring change order authorization. This approach maintains momentum on closeout while preserving the contractor's right to additional compensation for work outside the original scope.

14. A — Rework cost percentage: $\$67,000 \div \$1,340,000 = 5\%$. Five percent of total project cost consumed by rework represents a significant quality control problem. While some rework is unavoidable, five percent indicates systemic issues — potentially inadequate supervision, insufficient inspection, untrained workers, or unclear specifications — that the contractor should analyze and address to prevent similar losses on future projects.

15. A — The immediate priority when discovering nonconforming structural concrete is to notify the architect and structural engineer so they can evaluate the extent and impact of the deficiency. Stopping work in affected areas prevents additional work from being placed on a potentially inadequate foundation. The structural engineer must determine whether the concrete can remain in place with modifications, needs supplemental reinforcement, or must be removed and replaced.

16. D — Each claim is within the $\$2,000,000$ peroccurrence limit (the largest is $\$900,000$), so the peroccurrence limit does not cap any individual claim. However, the productscompleted operations aggregate limits total payouts for all completed operations claims during the policy period to $\$2,000,000$. The three claims total $\$2,200,000$, but the aggregate caps payment at $\$2,000,000$ — leaving $\$200,000$ uncovered.

17. B — Base premium: $(\$750,000 \div \$100) \times \$11.20 = 7,500 \times \$11.20 = \$84,000$. Adjusted premium: $\$84,000 \times 1.08 \text{ EMR} = \$90,720$. The 1.08 EMR indicates the contractor's claims experience is eight

percent worse than average, adding an \$6,720 surcharge to the base premium. Improving safety to reduce the EMR would produce direct premium savings.

18. A — On most commercial construction projects, the testing laboratory is retained by the project owner or architect — not by the contractor — to ensure independent, unbiased quality testing. Having the contractor retain the testing lab creates a conflict of interest because the contractor has a financial incentive for test results to pass. Independent testing is a cornerstone of the quality assurance system.

19. D — A personal vehicle repair is clearly not a reimbursable project cost under a T&M contract. The \$3,200 charge should be removed from the invoice, and the corrected invoice should be processed for payment at the accurate amount. T&M contracts reimburse only legitimate, documented project costs — the contractor cannot pass personal expenses through as project charges.

20. C — Even though the retaining wall is outside the subcontractor's scope, the foreman should report the observed structural deficiency to the general contractor or site superintendent immediately. A widening crack in a retaining wall represents a potential safety hazard to all workers on the site. Reporting observed hazards is both a professional obligation and a safety responsibility.

21. A — Base premium: $(\$420,000 \div \$100) \times \$8.40 = 4,200 \times \$8.40 = \$35,280$. Adjusted premium: $\$35,280 \times 0.72 \text{ EMR} = \$25,402$. The 0.72 EMR reflects an excellent safety record — twentyeight percent better than average — producing a \$9,878 annual discount. Five consecutive years of zero claims is the foundation for achieving and maintaining a low EMR.

22. C — The surety's concern relates to Capacity — the contractor's demonstrated ability to perform work at the proposed scale. Completing projects up to \$200,000 does not prove the contractor can manage a \$500,000 project, which involves different challenges in workforce management, cash flow, material procurement, and project complexity. Financial strength (Capital) is adequate, but the experience gap (Capacity) is the primary concern.

23. B — The voltage verification step confirms that the lockout was effective — that the circuit is truly deenergized and safe to work on. Even after locking the breaker, voltage testing is required because the lockout may not have deenergized the correct circuit, a backfeed may exist, or the breaker may have malfunctioned. Testing is the final safety verification before the worker makes contact with the conductors.

24. D — Under the Occupational Safety and Health Act, a willful violation that results in the death of an employee can trigger criminal prosecution. Upon conviction, the employer can face fines and imprisonment. The criminal penalty is separate from and in addition to the civil OSHA penalty. This represents the most severe consequence in OSHA's enforcement arsenal.

25. A — The FMLA prohibits retaliation for taking leave, but it does not immunize employees from legitimate disciplinary actions for preexisting performance issues. If the employer can demonstrate that the performance issue predated the leave and would have resulted in the same action regardless of whether the employee took leave, the discipline is permissible. Thorough documentation of the preexisting issue is essential to support this defense.

26. C — When the BWC reclassifies workers from independent contractors to employees, the contractor owes back workers' compensation premiums for the entire period of misclassification plus penalties and interest. The IRS will assess back FICA and income tax withholding. The Ohio BWC

audit is one of the most financially significant enforcement actions because construction classification rates are high and multiyear back premiums accumulate rapidly.

27. D — The FLSA requires overtime to be calculated on a singleworkweek basis. Hours cannot be averaged across two or more weeks. Week 1 has fortytwo hours — two hours of overtime at 1.5 times the regular rate. The employer owes the twohour overtime premium ($\$33.00 \times 0.5 \times 2 = \33.00 additional) regardless of the fact that Week 2 was only thirtyeight hours.

28. A — The safe harbor rules protect taxpayers from the underpayment penalty if estimated payments meet either of two thresholds: one hundred percent of the prior year's total tax liability (one hundred ten percent if AGI exceeds \$150,000) or ninety percent of the current year's tax liability. If the \$40,000 in estimated payments meets either threshold, no penalty applies even though a balance is due at filing.

29. A — When equipment is returned for a refund, the sales tax paid on the original purchase should also be refundable. The contractor can request the refund from the distributor (who then claims a credit from the state) or file a refund claim directly with the Ohio Department of Taxation. Ohio law generally provides mechanisms for recovering sales tax on returned merchandise.

30. B — Whether a training session constitutes "furnishing" under the mechanic's lien statute depends on whether it is a contractually required service that contributes to the improvement of the property. If the training was required by the subcontract as part of the scope of work, it may qualify as furnishing that resets the sixtyday clock. The contractor should calculate the filing deadline from the later of the last physical work or the last contractually required service.

31. D — An unconditional final lien waiver permanently releases all lien rights — including claims for extra work, disputed amounts, and any other potential claims. By signing the unconditional final waiver and accepting final payment, the subcontractor surrendered all rights to file a lien against the property. The GC can present this waiver to the court to have the improperly filed lien discharged.

32. B — Under the Miller Act, a secondtier claimant must provide written notice to the prime contractor within ninety days of last furnishing (which the supplier did on Day 85 — timely) and must file the lawsuit no earlier than ninety days and no later than one year after the last furnishing. Day 100 falls within the ninetyday waiting period, which means the lawsuit was filed too early and is premature.

33. A — Under a standard termination for convenience, the contractor is entitled to payment for all work satisfactorily completed (\$900,000), reimbursement of terminationrelated costs (\$35,000 demobilization), and reasonable profit on the completed work — minus the \$810,000 already paid. The contractor is not entitled to lost profit on the unperformed portion, which is the key distinction from termination for cause by the contractor.

34. C — Under OSHA's multiemployer citation policy, the general contractor is the controlling employer with responsibility to enforce reasonable safety measures across the entire jobsite. This includes requiring subcontractor compliance with site safety rules such as hard hat requirements. The GC can be cited for failing to enforce PPE requirements even when the violation involves the subcontractor's employees.

35. D — The strongest evidence of age discrimination combines multiple factors: satisfactory performance (undermining the stated reason for termination), immediate replacement by a substantially younger worker (suggesting age was a factor), lower salary for the replacement (suggesting costmotivated discrimination), and no other eliminated positions (undermining the

"restructuring" explanation). Together, these facts create a compelling inference that age was the real reason for the termination.

36. B — The Hazard Communication Standard requires SDSs to be readily accessible to employees during their work shifts. "Readily accessible" means immediately available — not within twentyfour hours or one business day. Workers must be able to access hazard information whenever they need it, including in emergencies. Employers should maintain organized, easily locatable SDS files at every work location.

37. A — Gross profit: $\$2,800,000 - \$2,240,000 = \$560,000$. Gross profit margin: $\$560,000 \div \$2,800,000 = 20\%$. Net operating income: $\$560,000 - \$392,000 = \$168,000$. Net profit margin: $\$168,000 \div \$2,800,000 = 6\%$. Breakeven: $\$392,000 \div 0.20 = \$1,960,000$. The contractor is above breakeven with a six percent net margin.

38. D — Rapid revenue growth typically requires increased spending on labor, materials, equipment, and working capital — all of which increase current liabilities (accounts payable, accrued wages, shortterm borrowing). If current liabilities grow faster than current assets, the current ratio declines even as the business grows. This is a common challenge for fastgrowing contractors who finance growth with shortterm debt.

39. C — The Ohio CAT applies to all taxable gross receipts from all business activities, not just construction. The contractor's $\$5,200,000$ in construction receipts plus $\$250,000$ in retail receipts equals $\$5,450,000$ in total gross receipts. The CAT is calculated on the combined total because it is a businesslevel tax on all commercial activity, not a tradespecific tax.

40. A — When a qualifying government entity provides a valid sales tax exemption certificate, the contractor can present that certificate to the supplier and purchase materials for the exempt project without paying Ohio sales tax. The exemption flows from the government entity's taxexempt status, and the contractor acts as the purchasing agent for materials incorporated into the exempt entity's property.

41. B — Without a Notice of Furnishing, the subcontractor's lien rights are severely restricted. The lien covers only the value of work performed within the twentyone days before the lien filing date plus any work after the filing date. The filing date is October 15, so the lien covers work from September 24 onward. All work performed from March 1 through September 23 is not protected — a significant loss on a $\$210,000$ claim.

42. D — Ohio's mechanic's lien statute requires strict compliance with all procedural requirements, including an accurate property description. Referencing Lot 47 when the actual parcel is Lot 74 is a material error that could render the lien invalid if challenged. The property owner can petition the court to discharge the lien based on the defective description, and Ohio courts generally enforce strict compliance.

43. D — The Miller Act requires prime contractors on federal construction projects exceeding $\$150,000$ to furnish both a performance bond and a payment bond. This threshold applies to the total contract value. Projects below $\$150,000$ are not subject to the Miller Act bonding requirements, though the contracting agency may still require bonds at its discretion.

44. A — The declining claims trend — from three claims totaling $\$62,000$ in Year 1 to zero claims in Year 4 — will produce a steady decline in the EMR over time. As the highclaims Year 1 ages out of

the experience period and is replaced by lower claims years, the EMR calculation reflects the improving safety performance. The decline is gradual because the EMR is based on a multiyear weighted average.

45. C — The contract provides for release of fifty percent of accumulated retainage at substantial completion. With \$120,000 in total retainage, fifty percent (\$60,000) is released when the Certificate of Substantial Completion is issued. The remaining \$60,000 is held until final completion — after all punch list items are resolved, closeout documents are submitted, and the architect certifies final completion.

46. D — Taxable gross receipts above \$1,000,000: $\$3,100,000 - \$1,000,000 = \$2,100,000$. CAT on taxable portion: $\$2,100,000 \times 0.0026 = \$5,460$. The contractor also owes the annual minimum tax for gross receipts between \$150,000 and \$1,000,000, but the \$5,460 represents the primary percentage-based liability on the taxable portion above the \$1,000,000 threshold.

47. B — The employer deposits federal income tax withheld (\$7,200) plus the employee's FICA share (\$3,672) plus the employer's matching FICA share (\$3,672) with the IRS. Total IRS deposit: $\$7,200 + \$3,672 + \$3,672 = \$14,544$. Ohio state income tax (\$1,920) is deposited separately with the Ohio Department of Taxation, not with the IRS.

48. A — Performing licensed commercial trade work without an OCILB license violates ORC Chapter 4740. The licensed contractor should report the unlicensed activity to the OCILB, which has authority to investigate and pursue enforcement actions. The local building department should also be notified because departments are required to verify OCILB licensing before issuing commercial permits.

49. D — Most contracts require delay claims to be submitted within a specified timeframe after each delay event — commonly seven to fourteen days. If the contractor did not submit individual delay claims for each late RFI response within the required notice period, the right to claim those specific delays may be barred. The RFI log documents the delays but does not substitute for timely contractual notice.

50. C — The completed contract method defers all revenue and profit recognition until the project is substantially complete. At eighty percent completion, no revenue is recognized even though \$480,000 in costs have been incurred. The costs accumulate on the balance sheet as work in progress, and the full contract revenue is recognized only when the project reaches substantial completion.