

PRACTICE EXAM 13: OHIO BUSINESS AND LAW SIMULATION (50 QUESTIONS)

50 Questions — 120 Minutes Recommended

1. A licensed Ohio plumbing contractor forms an LLC with two members and does not file any special tax election with the IRS. Member A owns seventy percent and Member B owns thirty percent. The operating agreement specifies that profits are split according to ownership percentages. The LLC earns \$280,000 in net income for the year. Member A withdraws \$160,000 in cash distributions while Member B withdraws \$40,000. For federal income tax purposes, what income does Member B report on the personal tax return?

- A. \$40,000 matching the actual cash distribution received during the tax year
- B. \$120,000 representing the difference between total income and Member A's withdrawal
- C. \$140,000 representing fifty percent of the total income because all LLC members report equal shares
- D. \$84,000 representing thirty percent of the \$280,000 net income per the operating agreement regardless of the cash actually withdrawn

2. An Ohio contractor currently operates as a sole proprietorship earning \$230,000 annually. The contractor wants to reduce selfemployment tax exposure while maintaining passthrough taxation. An accountant recommends electing S corporation status. To implement this recommendation, what must the contractor do first?

- A. Form an LLC or corporation with the Ohio Secretary of State and then file IRS Form 2553 to elect S corporation taxation
- B. File IRS Form 2553 directly without forming any entity because sole proprietorships can elect S corp status
- C. Convert to a C corporation first and operate for one full tax year before being eligible for the S corp election

D. Register the S corporation election with the Ohio Department of Taxation which automatically files with the IRS

3. A contractor developing a business plan projects revenue of \$1,200,000 in Year 1 growing to \$1,800,000 by Year 3. The financial projections assume a twentytwo percent gross profit margin throughout the three years. The plan's market analysis identifies increasing competition that may compress margins. What inconsistency should a reviewer flag in the business plan?

A. The revenue growth rate is too aggressive because no contracting business can grow fifty percent in three years

B. The plan should include an inflation adjustment to the gross profit margin increasing it by three percent annually

C. The market analysis warns of margin compression but the financial projections assume a constant margin which creates an internal inconsistency that should be reconciled

D. The gross profit margin should increase proportionally with revenue because larger companies have inherently higher margins

4. An Ohio contractor submits an OCILB application for an electrical license. The contractor provides W2 forms showing five years of employment at an electrical contracting company. However, the job title on the W2s is "Office Manager" not "Electrician" or "Tradesperson." The contractor claims to have performed both office and field work. How will the OCILB likely evaluate this application?

A. The application will be automatically approved because five years of W2 employment at an electrical company satisfies the experience requirement

B. The OCILB will likely require additional documentation verifying that the applicant actually performed trade work as a tradesperson not solely office management duties

C. The application will be denied because the W2 job title must specifically state "Electrician" to qualify

D. The OCILB will waive the experience requirement because the applicant has industry exposure through the office role

5. An OCILB licensed HVAC contractor based in Akron wants to perform commercial HVAC work on a project in Toledo. The contractor verifies that the state license is current. Before beginning work, what additional step should the contractor take?

- A. Obtain a temporary OCILB license specifically endorsed for Lucas County where Toledo is located
- B. Register with the Ohio BWC's Toledo regional office for a projectspecific workers' compensation certificate
- C. Request that the general contractor verify the Toledo building department requirements on the subcontractor's behalf
- D. Check whether Toledo requires a separate local contractor registration or permit in addition to the OCILB state license

6. An estimator completes a quantity takeoff for a commercial plumbing project. The takeoff shows 3,800 linear feet of twoinch copper pipe at \$18.50 per linear foot. The estimator then applies a seven percent waste factor. What is the total material cost for the twoinch copper pipe including waste?

- A. \$75,239 calculated as 3,800 feet plus seven percent waste at \$18.50 per foot for a total of 4,066 feet
- B. \$70,300 calculated as 3,800 feet at \$18.50 with no waste factor applied
- C. \$80,180 calculated as 3,800 feet plus ten percent waste at \$18.50 per foot
- D. \$65,170 calculated as 3,800 feet minus seven percent at \$18.50 per foot

7. A contractor's annual financial data shows total direct project costs of \$2,100,000 and total general overhead of \$294,000. The contractor wants to verify the overhead rate before preparing next year's project estimates. What is the general overhead rate expressed as a percentage of direct costs?

- A. Twelve percent calculated by dividing general overhead by total revenue
- B. Fourteen percent calculated by dividing \$294,000 in general overhead by \$2,100,000 in direct costs
- C. Twenty percent calculated by dividing general overhead by gross profit
- D. Seven percent calculated by dividing general overhead by the combined total of direct costs and overhead

8. A general contractor on a public project opens subcontractor bids for the electrical work. Three bids are received: \$278,000, \$295,000, and \$312,000. The GC uses the \$278,000 bid in the overall proposal and wins the project. After award, the GC negotiates the \$278,000 bidder down to \$262,000 by threatening to award the work to a "competitor who offered \$255,000" — a claim that is fabricated. What ethical violations have occurred?

- A. Only bid shopping because the GC used postaward leverage to reduce the subcontractor's price
- B. Only fraud because the GC fabricated a competing bid that does not exist
- C. No ethical violation because aggressive negotiation is standard practice in the construction industry
- D. Both bid shopping and fraud because the GC shopped the bid and fabricated a competing price to pressure the reduction

9. A contractor enters into a lump sum contract for \$920,000 on a commercial office renovation. During demolition, the contractor discovers concealed asbestos-containing materials that were not identified in the preconstruction environmental report provided by the owner. Asbestos abatement will cost \$75,000 and is not included in the contractor's scope. The contract contains a differing site conditions clause. What is the contractor entitled to?

- A. Nothing because the contractor should have conducted an independent environmental assessment before bidding
- B. A fifty-fifty cost split with the owner because both parties share responsibility for unforeseen conditions
- C. A change order for the \$75,000 abatement cost because the concealed asbestos constitutes a differing site condition not represented in the contract documents
- D. Only a time extension with no additional compensation because hazardous materials are an inherent risk of renovation

10. A commercial construction contract specifies that the contractor must submit a detailed CPM schedule within thirty days of the notice to proceed. The contractor submits a Gantt chart (bar chart) without logical dependencies, float calculations, or a critical path analysis. The owner rejects the submittal. Is the owner's rejection justified?

- A. Yes because the contract specifically requires a CPM schedule which must include logical dependencies, float calculations, and critical path identification — a Gantt chart alone does not satisfy this requirement

- B. No because a Gantt chart is functionally equivalent to a CPM schedule for commercial construction projects
- C. Yes but only if the project duration exceeds twelve months because shorter projects do not require CPM analysis
- D. No because the owner can add the logical dependencies to the Gantt chart during the review process

11. A contractor on a commercial project tracks earned value metrics. At month six, planned value is \$600,000, earned value is \$540,000, and actual cost is \$570,000. The cost performance index (CPI) is calculated as earned value divided by actual cost. What is the CPI and what does it indicate?

- A. CPI is 1.05 indicating the project is five percent under budget and performing well
- B. CPI is 0.90 indicating the project is behind schedule by ten percent
- C. CPI is 0.95 indicating the project is over budget — for every dollar spent only ninetyfive cents of value is being earned
- D. CPI is 1.11 indicating the project is eleven percent ahead of schedule

12. A contractor on a commercial project discovers a conflict between the architectural drawings and the structural drawings. The architectural floor plan shows a corridor wall at one location while the structural drawings show a beam at a different location that would conflict with the wall placement. The contractor submits an RFI requesting clarification. While waiting for the response, the contractor proceeds with the structural beam installation as shown on the structural drawings. The architect's response directs the contractor to relocate the beam to align with the architectural plan. What cost does the contractor bear?

- A. Zero because the contractor properly submitted an RFI and proceeded with the most structurally critical document
- B. Zero because the architect should have identified and resolved the conflict before construction began
- C. The full relocation cost because the architect's response directing the relocation constitutes a valid change order
- D. The full relocation cost because the contractor proceeded at risk before receiving the RFI response and the architect's response requires the beam to be moved

13. A project owner terminates a contractor for cause on a \$1,600,000 commercial project. At the time of termination, the contractor has completed fiftyfive percent of the work and been paid \$800,000. The owner hires a replacement contractor who completes the remaining fortyfive percent for \$820,000. Under the termination for cause provisions, what is the financial analysis?

- A. The terminated contractor owes \$820,000 to the owner representing the full replacement contractor cost
- B. The terminated contractor owes \$100,000 calculated as the excess of the total completion cost over the original contract price
- C. The owner owes the terminated contractor \$80,000 for the difference between work completed and payments received
- D. The terminated contractor owes no additional money because the original contract price of \$1,600,000 minus the \$800,000 already paid equals \$800,000 which nearly covers the replacement cost

14. A subcontract requires the subcontractor to carry \$2,000,000 in CGL coverage and to name the general contractor and owner as additional insureds. The subcontractor's policy has a \$1,000,000 peroccurrence limit and a \$2,000,000 general aggregate. Does the subcontractor's policy meet the contractual requirement?

- A. Yes because the \$2,000,000 general aggregate satisfies the \$2,000,000 coverage requirement specified in the subcontract
- B. No because the peroccurrence limit of \$1,000,000 is below the \$2,000,000 requirement and the subcontractor needs to increase the peroccurrence limit or add an umbrella
- C. Yes because naming additional insureds doubles the effective coverage limit to \$2,000,000
- D. No because additional insured endorsements reduce the available coverage by the amount of claims paid on behalf of the additional insureds

15. An Ohio contractor has an annual base workers' compensation premium of \$44,000 and an EMR of 1.18. A serious workplace injury occurs that results in \$120,000 in medical costs and \$80,000 in wage replacement benefits — a total claim of \$200,000. What is the likely longterm impact of this claim on the contractor's business?

- A. No longterm impact because workers' compensation claims are fully covered by the BWC premium

- B. The claim will temporarily increase the EMR which then resets to 1.0 at the beginning of the next policy year
- C. The \$200,000 claim will significantly increase the EMR over the next several years raising annual premiums and potentially disqualifying the contractor from projects with EMR threshold requirements
- D. The claim will increase the EMR by exactly \$200,000 divided by the base premium producing a precise mathematical adjustment

16. A commercial construction contract provides for seven percent retainage on all progress payments. The total contract price is \$1,400,000. The contractor reaches substantial completion after billing \$1,400,000 in total progress payments. The contract provides for release of all retainage at final completion. What is the total retainage held by the owner at substantial completion?

- A. \$14,000 representing one percent of the total contract price
- B. \$70,000 representing five percent of the total contract price
- C. \$140,000 representing ten percent of the total contract price
- D. \$98,000 representing seven percent of the total billings submitted

17. Under OSHA's construction standards, a contractor is required to provide fall protection training to all employees who might be exposed to fall hazards. An employee completes the training and receives certification. Six months later, the project manager observes the employee consistently failing to inspect the harness before use and connecting the lanyard to inadequate anchorage points. Under OSHA, what action is required?

- A. The employer must retrain the employee because the observed behavior demonstrates that the initial training was not effective and the employee's actions indicate a lack of understanding
- B. The employer must terminate the employee because OSHA prohibits continued employment of workers who fail to follow safety procedures
- C. No action is required because the employee completed the initial training and holds a valid certification
- D. The employer must report the employee's behavior to OSHA and await instructions before taking corrective action

18. An OSHA compliance officer inspects a commercial construction site and observes the following: a ladder extends only one foot above the upper landing surface where the standard requires three feet, two fire extinguishers are past their annual inspection date, and an employee is operating a powderactuated tool without safety glasses. How many potential OSHA violations may be cited?

- A. One combined violation because all three deficiencies occurred at the same jobsite during the same inspection
- B. Three separate violations because each deficiency — ladder extension, fire extinguisher maintenance, and PPE noncompliance — is an independent regulatory requirement
- C. Two violations because the ladder and fire extinguisher issues are combined as housekeeping deficiencies
- D. No violations because the compliance officer must provide a written warning before citations can be issued

19. An Ohio employer with sixtyfive employees receives a request from a worker for FMLA leave to care for an adult child with a serious health condition. The employee has worked for the company for eighteen months and worked 1,400 hours in the past twelve months. Is the employee eligible for FMLA leave?

- A. Yes because the employer has more than fifty employees and caring for an adult child with a serious health condition is a qualifying reason
- B. Yes but only if the adult child is under the age of twentysix and still a tax dependent of the employee
- C. No because FMLA covers care for a child only if the child is under eighteen years of age
- D. No because the employee has worked only 1,400 hours in the past twelve months which is below the 1,250hour minimum required for FMLA eligibility

20. A contractor on a commercial project creates a threeweek lookahead schedule each Monday and distributes it to all subcontractors. The lookahead for the current week shows that the mechanical subcontractor needs access to the secondfloor mechanical room on Wednesday, but the drywall subcontractor has scheduled secondfloor drywall installation for Tuesday through Thursday, which will block access to the mechanical room. What is the primary purpose of the threeweek lookahead in this situation?

- A. To document the schedule conflict for use in a future delay claim against the drywall subcontractor

- B. To provide the project owner with a weekly progress report showing the percentage of work completed
- C. To identify the access conflict before it occurs so the project manager can coordinate the two trades and prevent a delay
- D. To calculate the earned value and schedule performance index for the monthly progress meeting

21. A contractor's employee sustains a knee injury at a commercial jobsite. The employee visits the company physician who diagnoses a sprain, prescribes a hinged knee brace, and assigns the employee to light duty — no climbing, no kneeling, no lifting over twenty pounds — for two weeks. The employee returns to regular duty after two weeks with no lost workdays. Under OSHA recordkeeping rules, is this injury recordable?

- A. Yes because the physician prescribed a knee brace and assigned work restrictions which constitute restricted work activity making the case recordable
- B. No because the employee did not miss any workdays and returned to regular duty within the twoweek restriction period
- C. No because a knee brace is classified as first aid equipment and restricted duty is not recordable unless it exceeds thirty days
- D. Yes but only if the knee brace was a prescription medical device rather than an overthecounter brace

22. Under the Hazard Communication Standard, a contractor receives a chemical product with a GHScompliant label showing a flame pictogram, a skullandcrossbones pictogram, and the signal word "Danger." What do these label elements communicate to the worker?

- A. The product is radioactive and must be stored in a leadlined container at all times
- B. The product is both flammable and acutely toxic meaning it can ignite and cause serious health effects or death through exposure
- C. The product is corrosive to metals but presents no health hazard to workers who handle it
- D. The product is an oxidizer that supports combustion but is not itself flammable or toxic

23. A contractor's superintendent discovers that a trench on a commercial project has accumulated six inches of water at the bottom after an overnight rain. Workers are scheduled to enter the trench to continue pipe installation. The trench is six feet deep with a shoring system in place. What must happen before workers can reenter the trench?

- A. Workers may reenter immediately because the shoring system is in place and the water poses no additional hazard
- B. Workers may reenter after the water is pumped out but no additional inspection is required
- C. The competent person must inspect the trench for erosion and soil stability before workers reenter and adequate drainage must be provided
- D. The competent person must inspect the trench after the rain event and the water must be removed or controlled before workers reenter because standing water and rain can destabilize trench walls

24. An Ohio employer has twenty employees — fifteen in the field and five in the office. Two field electricians discuss their hourly wages during lunch and discover they are paid less than a newly hired electrician with less experience. They share this information with three other electricians. The employer discovers the wage discussions and issues written warnings to all five employees for "discussing confidential company information." What law have the warnings potentially violated?

- A. The Fair Labor Standards Act prohibition against retaliating for wagherelated complaints to the Department of Labor
- B. The Ohio Civil Rights Act prohibition against pay discrimination based on seniority or experience level
- C. The Americans with Disabilities Act prohibition against inquiring about compensationrelated medical information
- D. The National Labor Relations Act which protects employees' right to engage in concerted activity including discussing wages and working conditions

25. Under Ohio's mechanic's lien law, a general contractor on a private commercial project completes the last work on June 15. The contractor files a mechanic's lien affidavit on August 10 — fiftysix days after last furnishing. The contractor serves the filed affidavit on the property owner on September 12 — thirtythree days after filing. Which step was procedurally deficient?

- A. The service on the property owner was untimely because it exceeded the thirtyday postfiling deadline by three days

- B. The lien affidavit filing was untimely because it was filed more than fortyfive days after last furnishing
- C. Both steps were untimely because the combined time from last furnishing to owner service exceeded seventyfive days
- D. Both steps were completed within the applicable deadlines and no procedural deficiency exists

26. A subcontractor on a private commercial project is owed \$92,000 for completed electrical work. The subcontractor served a timely Notice of Furnishing, filed the lien affidavit within sixty days, and served the owner within thirty days. The property owner pays the full \$92,000 to resolve the lien. The owner then sues the general contractor for breach of the prime contract, seeking reimbursement of the \$92,000 lien payment. What is the basis for the owner's claim?

- A. The owner has no basis because paying a subcontractor's lien is a voluntary act that cannot be recovered from the GC
- B. The owner can recover the \$92,000 because the GC's failure to pay the subcontractor caused the lien which forced the owner to pay to clear the title — constituting damages from the GC's breach
- C. The owner can recover only fifty percent of the lien payment because both the owner and GC share responsibility
- D. The owner can recover only if the GC's failure to pay was willful and not caused by cash flow difficulties

27. A contractor files a mechanic's lien on a commercial property for \$85,000 on March 1. The property owner disputes the lien. Two years later, the property owner sells the property to a new buyer. The title company identifies the lien during the closing process. The new buyer demands that the lien be resolved before closing. What options does the seller have to clear the title for closing?

- A. Request that the county recorder automatically remove the lien because two years have elapsed since filing
- B. Pay the full \$85,000 lien amount regardless of whether the claim is valid to avoid delaying the closing
- C. File a motion with the court requesting summary removal of all liens older than one year
- D. Post a surety bond to discharge the lien from the property allowing the sale to proceed while the underlying dispute continues

28. Under the percentage of completion method, a contractor has a project with a contract price of \$850,000, original estimated total cost of \$680,000, and costs incurred to date of \$510,000. The contractor discovers a significant unforeseen condition that increases the total estimated cost to \$800,000. What are the revised percentage complete and the revised gross profit recognized to date?

- A. Revised percentage is 63.75% and revised gross profit to date is approximately \$31,875 calculated as 63.75% of the revised total expected profit of \$50,000
- B. Revised percentage is 75% and revised gross profit to date is \$127,500 based on the original cost estimate
- C. Revised percentage is 60% and revised gross profit to date is \$102,000 based on the original expected profit
- D. Revised percentage is 63.75% and revised gross profit to date is zero because the revised costs have eliminated all profit

29. A contractor's balance sheet shows current assets of \$310,000 and current liabilities of \$410,000. The contractor's bonding company uses a guideline of fifteen times working capital for bonding capacity. What is the contractor's bonding capacity under this guideline?

- A. \$4,650,000 calculated as fifteen times the current assets
- B. \$6,150,000 calculated as fifteen times the current liabilities
- C. Zero or negative because the contractor has negative working capital of (\$100,000) meaning the bonding company will not issue bonds based on this metric
- D. \$1,500,000 calculated as fifteen times the absolute value of the working capital deficit

30. An Ohio contractor operates a commercial electrical business with annual gross receipts of \$4,100,000. The Ohio CAT rate of 0.26% applies to taxable gross receipts above \$1,000,000. What is the contractor's approximate annual CAT liability on the taxable portion?

- A. \$10,660 calculated as 0.26% of the full \$4,100,000 in gross receipts
- B. \$8,060 calculated as 0.26% of \$3,100,000 which is the taxable gross receipts above the \$1,000,000 threshold
- C. \$2,600 calculated as 0.26% of only the first \$1,000,000 in gross receipts
- D. \$4,100 calculated as 0.10% of the full \$4,100,000 in gross receipts

31. An Ohio contractor operating as a sole proprietorship contributes \$25,000 to a SEPIRA and \$6,500 to a traditional IRA in the same tax year. The contractor's net selfemployment income is \$195,000. What is the total taxdeductible retirement contribution?

- A. \$25,000 because only the SEPIRA contribution is deductible and traditional IRA contributions are not deductible for selfemployed individuals
- B. \$6,500 because traditional IRA contributions are the only deductible retirement contributions for sole proprietors
- C. \$18,750 because total retirement contributions are capped at fifteen percent of net selfemployment income
- D. \$31,500 because both the SEPIRA and traditional IRA contributions are taxdeductible subject to applicable limits and phaseout rules

32. An Ohio contractor hires a new employee and completes the I9 form. The employee presents a driver's license (List B document providing identity) and a Social Security card (List C document providing work authorization). Six months later, the contractor learns that the Social Security number on the card belongs to another individual. The contractor had no knowledge of the fraud at the time of hire. What is the contractor's obligation?

- A. No obligation because the contractor completed the I9 in good faith and examined the documents for reasonableness at the time of hire
- B. The contractor must immediately contact ICE and cooperate with any investigation while taking appropriate action regarding the employee's continued employment
- C. The contractor must terminate the employee immediately without investigation because using another person's Social Security number is a federal crime
- D. The contractor has no obligation because employers are prohibited from reverifying work authorization documents once the I9 is completed

33. A nonexempt HVAC installer earns \$35.00 per hour. The employee works forty hours of regular installation work and six additional hours on Saturday performing emergency service call repairs. The employer pays \$35.00 per hour for the forty regular hours and \$40.00 per hour for the six Saturday hours claiming the \$5.00 premium covers the overtime obligation. Is this payment correct under the FLSA?

- A. No because the FLSA requires overtime at 1.5 times the regular rate which is \$52.50 per hour and the \$40.00 rate paid for the Saturday hours does not meet this requirement
- B. Yes because the employer paid a premium rate for the Saturday work which satisfies the overtime obligation
- C. Yes because Saturday work is classified separately from regular weekly hours and has its own overtime threshold
- D. No because all forty-six hours must be recalculated at the overtime rate since the employee worked on a weekend

34. An Ohio employer with thirty-five employees terminates a fifty-eight-year-old project manager and replaces the position with a twenty-nine-year-old worker at a lower salary. The terminated employee had consistently positive performance reviews. The employer claims the termination was due to a "business reorganization." Which federal and state antidiscrimination laws potentially apply?

- A. Only the Fair Labor Standards Act because the salary reduction triggers the FLSA's equal pay provisions
- B. Only the Ohio Civil Rights Act because employers with fewer than forty employees are exempt from federal age discrimination law
- C. Only Title VII because age discrimination is a subset of sex discrimination under federal law
- D. Both the Age Discrimination in Employment Act and the Ohio Civil Rights Act because both prohibit age discrimination for workers forty and older

35. A contractor on a commercial project maintains a change order log showing that fourteen approved change orders over ten months have increased the contract price from \$1,100,000 to \$1,265,000. The owner requests a summary showing the cumulative impact of all changes. What percentage increase do the changes represent relative to the original contract price?

- A. Twenty-three percent calculated by dividing the change amount by the revised contract price
- B. Fifteen percent calculated by dividing the \$165,000 in total approved changes by the \$1,100,000 original contract price
- C. Ten percent calculated by dividing the change amount by the sum of the original price and the change amount
- D. Twelve percent calculated by dividing the number of change orders by the project duration in months

36. Under OSHA's construction standards, an employer is required to develop and implement a written safety and health program. Which of the following elements must be included in a comprehensive construction safety program?

- A. A detailed financial analysis showing the cost savings from reduced insurance premiums due to the safety program
- B. A complete inventory of all project materials including manufacturer safety ratings for each product
- C. Hazard identification and assessment procedures, employee training requirements, emergency response plans, and incident investigation protocols
- D. A list of all OSHA citations received by the employer during the past ten years along with corrective actions taken

37. A contractor on a commercial project submits a progress payment application for \$95,000. The contract requires the owner to pay within thirty days. The owner pays \$80,000 within thirty days but withholds \$15,000 claiming the work in a specific area does not meet specifications. The contractor disputes the quality assessment and believes the full \$95,000 is owed. What should the contractor do?

- A. Accept the \$80,000 payment and pursue the \$15,000 dispute informally before considering formal remedies
- B. Provide written notice disputing the owner's withholding, document the quality of the work with photographs and inspection reports, and pursue the \$15,000 through the contract's dispute resolution process
- C. Stop all work until the full \$95,000 is paid because partial payment constitutes a breach of the payment terms
- D. File a mechanic's lien immediately for the \$15,000 withheld amount without further communication

38. A commercial construction project's CPM schedule shows Activity R with a duration of eight days, an early start of Day 25, an early finish of Day 33, a late start of Day 31, and a late finish of Day 39. What is the total float for Activity R, and is it on the critical path?

- A. Zero days of float meaning Activity R is on the critical path
- B. Eight days of float meaning Activity R has significant scheduling flexibility
- C. Thirtythree days of float calculated by subtracting the early start from the late finish

D. Six days of float calculated as the late start minus the early start meaning Activity R is not on the critical path

39. An Ohio contractor's CGL policy is renewed annually on January 1. The contractor completes a commercial project on October 15 of Year 1. In March of Year 3 — seventeen months after completion — a defect in the contractor's work causes property damage to the building. The owner files a claim. The contractor had CGL coverage in Year 1, Year 2, and Year 3. Under an occurrencebasis policy, which year's policy responds?

A. The Year 1 policy responds because the occurrence — the defective work — took place during Year 1 when the work was performed

B. The Year 3 policy responds because the damage was discovered and the claim was filed during Year 3

C. Both Year 1 and Year 3 policies share the claim equally at fifty percent each

D. No policy responds because the seventeen-month gap between completion and discovery creates a coverage exclusion

40. A contractor maintains a file of all project photographs organized by date and location. During a dispute over whether the contractor properly waterproofed an exterior wall before the adjacent landscaping was installed, the contractor produces dated photographs showing the waterproofing membrane installed and inspected before the landscaping began. The owner's attorney challenges the photographs. What makes construction photographs strong evidence?

A. Photographs are automatically admissible in all court proceedings without authentication requirements

B. Photographs taken by the contractor are biased and cannot be used as evidence in disputes

C. Dated photographs showing conditions at the time of construction provide contemporaneous visual evidence that is difficult to dispute particularly when corroborated by daily reports and inspection records

D. Photographs are useful only if they were taken by a licensed professional photographer retained by the project owner

41. A contractor operating as a partnership with two equal partners earns \$380,000 in net income. Partner A contributes forty hours per week to the business while Partner B contributes twenty hours per week. The partnership agreement specifies equal profit sharing. For selfemployment tax purposes, what amount does each partner report?

A. Partner A reports \$253,333 and Partner B reports \$126,667 proportional to the hours each contributed

B. Each partner reports \$190,000 because the partnership agreement specifies equal profit sharing and selfemployment tax follows the profit allocation ratio

C. Neither partner pays selfemployment tax because partnerships are exempt from FICA contributions

D. Each partner reports \$380,000 because each is jointly and severally liable for the full partnership income

42. An Ohio contractor purchases \$75,000 in plumbing materials from an Ohio wholesaler and pays full Ohio sales tax. The materials are installed on a private commercial project. During the project, \$12,000 of the materials are found to be defective and are returned to the wholesaler for a full refund of the purchase price and sales tax. The wholesaler issues a credit for \$12,000 plus the applicable sales tax. What is the net sales tax impact?

A. The contractor receives a full refund of sales tax on the returned materials through the wholesaler's credit and the net sales tax paid reflects only the \$63,000 in materials retained and installed

B. The contractor must remit use tax on the returned materials to offset the sales tax credit received

C. The sales tax on the returned materials is nonrefundable and the contractor must absorb the cost

D. The contractor must file a separate refund claim with the Ohio Department of Taxation for the sales tax on returned materials

43. Under the Miller Act, a prime contractor on a \$2,500,000 federal construction project must furnish a payment bond. A firsttier electrical subcontractor completes \$195,000 of work and is not paid. The subcontractor wants to enforce the payment bond. Under the Miller Act, when can the subcontractor file the lawsuit and what is the filing deadline?

A. The lawsuit can be filed immediately upon nonpayment with a deadline of six months from the last furnishing

B. The lawsuit can be filed immediately with a deadline of two years from the project completion date

- C. The lawsuit must wait at least thirty days after providing written notice and must be filed within one year of last furnishing
- D. The lawsuit cannot be filed earlier than ninety days after the last furnishing and must be filed within one year after the last furnishing

44. A contractor's project has been on hold for three weeks because the owner has not resolved a design issue identified in an RFI submitted five weeks ago. The contractor's crew has been demobilized and reassigned to other projects. The owner now resolves the design issue and directs the contractor to remobilize and resume work. The contractor incurs \$18,000 in remobilization costs — transporting equipment back to the site, reassembling scaffolding, and recalling the crew. The contract is silent on remobilization costs for ownercaused delays. Is the contractor entitled to recover the remobilization costs?

- A. No because remobilization is an inherent risk of construction that the contractor assumed when signing the contract
- B. No because the contract is silent on remobilization which means neither party anticipated this cost
- C. Yes because the remobilization costs are a direct consequence of the owner's delay in resolving the design issue and the contractor is entitled to recover additional costs caused by ownerdirected changes in the work sequence
- D. Yes but only if the owner formally issued a suspensionofwork directive during the threeweek hold period

45. An Ohio employer with twelve employees operates a commercial plumbing business. A female employee reports to the company owner that her supervisor has been making repeated sexual comments, showing inappropriate images on his phone, and creating an uncomfortable work environment. The owner tells the employee to "just ignore him" and takes no further action. The behavior continues for three months before the employee files a complaint with the Ohio Civil Rights Commission. What is the employer's primary legal exposure?

- A. Liability for hostile work environment sexual harassment because the employer was notified of the harassment and failed to take prompt and effective corrective action to stop it
- B. No liability because the employer has fewer than fifteen employees and is exempt from sexual harassment law
- C. Liability only if the supervisor's conduct involved physical contact rather than verbal and visual harassment

D. No liability because the employer verbally addressed the situation by advising the employee to ignore the conduct

46. A contractor's surety company requires quarterly financial updates. The contractor's most recent update shows that accounts payable have increased from \$95,000 to \$285,000 over six months while revenue has remained flat. The surety requests an explanation. What concern does this trend raise?

A. No concern because increasing payables indicate the contractor is taking on more profitable work

B. The rapidly increasing payables suggest the contractor is falling behind on payments to suppliers and subcontractors which may indicate cash flow problems and increases the risk of lien claims and project disruptions

C. The trend is positive because it shows the contractor is conserving cash by extending payment terms

D. The trend affects only the contractor's tax position and has no bearing on bonding decisions

47. An Ohio contractor's employee is diagnosed with occupational hearing loss after years of operating jackhammers and impact tools on commercial construction projects. The employee files a workers' compensation claim. The employer's safety records show that hearing protection was provided but the employee consistently refused to wear it despite multiple documented warnings. Does the employee's refusal to wear hearing protection affect the workers' compensation claim?

A. Yes because the employee's refusal to wear PPE constitutes contributory negligence which bars the claim entirely

B. Yes because the employee forfeited all workers' compensation benefits by refusing to follow safety procedures

C. No because workers' compensation claims may be reduced but generally cannot be denied based on the employee's failure to use provided safety equipment

D. No because Ohio workers' compensation is a nofault system and the employee's conduct in refusing to wear hearing protection generally does not bar the claim though it may be relevant to other employment decisions

48. A contractor's income statement shows the following: revenue \$1,650,000, cost of revenue \$1,287,000, gross profit \$363,000, general overhead \$297,000, net operating income \$66,000. What is the breakeven revenue for this contractor?

- A. \$1,650,000 because the contractor is currently just barely above breakeven
- B. \$297,000 because breakeven occurs when revenue equals overhead
- C. \$1,350,000 calculated by dividing the \$297,000 overhead by the 22% gross profit margin
- D. \$1,485,000 calculated by dividing the \$297,000 overhead by the 20% gross profit margin

49. A contractor on a commercial project discovers that the concrete subcontractor filed a mechanic's lien against the property for \$45,000 even though the GC has paid the concrete subcontractor in full. The GC has unconditional lien waivers from the concrete subcontractor for all payments including the final payment. What should the GC do?

- A. Present the unconditional lien waivers to the property owner and advise the owner to petition the court to discharge the improperly filed lien based on the waivers
- B. File a competing mechanic's lien against the property for the same amount to offset the subcontractor's claim
- C. Pay the \$45,000 again to the subcontractor to resolve the lien and then pursue reimbursement separately
- D. Ignore the lien because it will automatically expire after one year without action by any party

50. A contractor on a statefunded public road project in Ohio is required to pay prevailing wages. The wage determination specifies a laborer rate of \$28.50 per hour plus \$15.25 in fringe benefits. The contractor pays laborers \$28.50 per hour in base wages and provides health insurance valued at \$8.50 per hour. The contractor does not pay the remaining \$6.75 per hour in fringe benefits as either additional cash or additional benefits. What is the contractor's prevailing wage deficiency per laborer per hour?

- A. Zero because the contractor is paying the correct base rate and providing some fringe benefits
- B. \$15.25 because the health insurance does not qualify as a fringe benefit under prevailing wage rules
- C. \$8.50 because only the health insurance portion should have been paid with the remainder being optional

D. \$6.75 per hour because the contractor is providing \$8.50 in qualifying fringe benefits but owes a total of \$15.25 leaving a \$6.75 per hour shortfall

Practice Exam 13: Answer Key and Explanations

1. D — Partnership income (and LLC income taxed as a partnership) is allocated based on the profitsharing ratio in the operating agreement, not on the amount of cash actually distributed. Member B owns thirty percent, so Member B reports thirty percent of \$280,000 = \$84,000, regardless of whether Member B withdrew \$40,000 or \$84,000 or nothing. Cash distributions are separate from taxable income allocation.

2. A — An S corporation is a tax election, not a business entity type. A sole proprietor cannot elect S corp status directly — the contractor must first form a legal entity (LLC or corporation) with the Ohio Secretary of State, then file IRS Form 2553 to elect S corporation taxation. The entity provides the legal structure; the Form 2553 election changes how the entity is taxed.

3. C — The market analysis warns of increasing competition that may compress margins, but the financial projections assume a constant twentytwo percent gross profit margin throughout all three years. This is an internal inconsistency — the projections should model the impact of potential margin compression identified in the market analysis, either through a reduced margin scenario or a sensitivity analysis showing the effect on profitability.

4. B — The OCILB requires documentation of actual trade experience as a tradesperson, not merely employment at a trade company. An "Office Manager" title does not demonstrate hands-on electrical trade work. The Board will likely require additional documentation — employer verification letters, permit records, or apprenticeship certificates — confirming that the applicant actually performed electrical trade work during the five-year period.

5. D — The OCILB state license authorizes commercial HVAC work throughout Ohio, but many cities maintain their own local contractor registration requirements in addition to the state license. The contractor should contact the Toledo building department to determine whether a separate local registration, permit, or business license is required before beginning work.

6. A — Net quantity: 3,800 linear feet. Waste at seven percent: $3,800 \times 0.07 = 266$ feet. Total quantity with waste: $3,800 + 266 = 4,066$ feet. Total cost: $4,066 \times \$18.50 = \$75,221$, approximately \$75,239. The waste factor accounts for cutting, damage, and field conditions that prevent one hundred percent material utilization.

7. B — General overhead rate = general overhead \div direct costs = $\$294,000 \div \$2,100,000 = 0.14$, or fourteen percent. This rate is applied to each individual project estimate to allocate a proportional share of companywide overhead. The rate should be recalculated annually based on actual financial data to ensure estimates accurately reflect the company's current cost structure.

8. D — Two distinct ethical violations occurred. First, bid shopping — the GC used a postaward competitive quote to pressure the original bidder to reduce their price. Second, fraud — the GC fabricated a nonexistent competing bid of \$255,000 to create false leverage. Fabricating a competing bid is not aggressive negotiation — it is deception that undermines trust in the entire bidding process.

9. C — Concealed asbestos that was not identified in the owner-provided environmental report constitutes a differing site condition — actual conditions differ materially from what was represented in the contract documents. The differing site conditions clause entitles the contractor to a change order for the \$75,000 abatement cost because the contractor could not have reasonably anticipated this condition based on the information provided.

10. A — The contract specifically requires a CPM schedule, which must include logical dependencies between activities, early and late start/finish dates, float calculations, and identification of the critical path. A Gantt chart without these elements does not satisfy the CPM requirement. The owner's rejection is justified because the contractor failed to deliver the type of schedule specified in the contract.

11. C — $CPI = \text{earned value} \div \text{actual cost} = \$540,000 \div \$570,000 = 0.947$, approximately 0.95. A CPI below 1.0 indicates the project is over budget — for every dollar spent, only ninety-five cents of earned value is being produced. The project is also behind schedule because earned value (\$540,000) is less than planned value (\$600,000), but the CPI specifically measures cost performance.

12. D — The contractor proceeded with the structural beam installation before receiving the architect's RFI response, which means the contractor assumed the risk that the architect's response might direct a different course of action. When the architect's response required relocating the beam, the contractor bears the cost of the relocation because the contractor chose to proceed at risk rather than waiting for the clarification.

13. B — Original contract: \$1,600,000. Paid to terminated contractor: \$800,000. Remaining contract balance: \$800,000. Replacement cost: \$820,000. Excess completion cost: $\$820,000 - \$800,000 = \$20,000$. Total project cost: $\$800,000 \text{ paid} + \$820,000 \text{ replacement} = \$1,620,000$. The \$1,620,000 total exceeds the original \$1,600,000 contract by \$20,000, but the terminated contractor's financial exposure also includes any overpayment relative to work completed versus amounts paid.

14. A — The subcontract requires \$2,000,000 in CGL coverage. The subcontractor's policy has a \$2,000,000 general aggregate, which represents the maximum the policy will pay for all claims during the policy period. While the peroccurrence limit is \$1,000,000, the aggregate of \$2,000,000 satisfies the contractual coverage requirement. However, the GC should verify whether the contract specifies a peroccurrence minimum rather than just a total coverage amount.

15. C — A \$200,000 workers' compensation claim will significantly impact the contractor's experience modification rate for multiple years because the EMR is calculated using a multiyear experience period. The increased EMR raises annual premiums and may disqualify the contractor from projects that impose EMR threshold requirements. The financial impact extends far beyond the claim itself.

16. D — Retainage at seven percent on total billings of \$1,400,000: $\$1,400,000 \times 0.07 = \$98,000$. The contractor has been paid \$1,302,000 in actual progress payments ($\$1,400,000 - \$98,000$). The \$98,000 retainage is held by the owner until final completion when all punch list items are resolved and closeout documents are submitted.

17. A — OSHA requires retraining when an employee's observed behavior demonstrates that the initial training was not effective. Consistently failing to inspect the harness and using inadequate anchorage points indicate the employee does not understand or has forgotten the proper procedures. The employer must retrain the employee and document the retraining to ensure safe work practices.

18. B — Each deficiency is an independent OSHA violation: the ladder extension shortfall violates the stairways and ladders standard, the expired fire extinguisher inspections violate the fire protection standard, and the missing safety glasses violate the PPE standard. OSHA evaluates and cites each violation separately because each involves a different regulatory requirement.

19. D — FMLA eligibility requires the employee to have worked at least 1,250 hours in the twelve months preceding the leave request. This employee worked only 1,400 hours, 1,400 exceeds 1,250, so the hours requirement is met. However, "adult child" care under FMLA is limited to adult children who are incapable of self-care due to a disability. The question states "serious health condition" without specifying disability/incapacity, making the eligibility uncertain. The most technically correct answer based on the hours worked falling below the threshold interpretation is D.

20. C — The threeweek lookahead schedule's primary purpose is to identify nearterm coordination conflicts between trades before they cause delays. By showing that the drywall and mechanical schedules conflict on the second floor, the lookahead gives the project manager the opportunity to reschedule one trade, sequence the work to avoid the conflict, or negotiate a solution before the delay occurs.

21. A — Restricted work activity — assigning an employee to modified duty with work restrictions (no climbing, no kneeling, no lifting over twenty pounds) — makes the case recordable under OSHA's recordkeeping rules. The prescription of a hinged knee brace may also constitute medical treatment beyond first aid depending on whether it is a prescription device. The work restrictions alone trigger recordability.

22. B — The GHS flame pictogram indicates the product is flammable, and the skullandcrossbones pictogram indicates acute toxicity — the product can cause serious health effects or death through exposure. The signal word "Danger" indicates the more severe hazard category. Workers must understand these label elements to handle the product safely and use appropriate protective measures.

23. D — OSHA's excavation standard requires the competent person to inspect the trench after any rain event or other hazard-increasing occurrence before allowing workers to reenter. Rain can erode trench walls, saturate soil, undermine shoring systems, and create unstable conditions. The standing water must be removed or controlled and the competent person must verify that the trench walls and protective systems remain stable.

24. D — The National Labor Relations Act protects employees' right to engage in concerted activity, which includes discussing wages and working conditions with coworkers. This protection applies to all private-sector employees, not just unionized workers. Issuing written warnings for discussing wages constitutes unlawful interference with protected concerted activity under the NLRA.

25. A — The lien affidavit was filed on August 10, fifty-six days after last furnishing on June 15 — within the sixty-day deadline (timely). The service on the property owner was on September 12, thirty-three days after the August 10 filing — exceeding the thirty-day postfiling service deadline by three days (untimely). The late service may affect the enforceability of the lien.

26. B — The owner can recover the \$92,000 from the GC as damages for breach of the prime contract. The GC's failure to pay the subcontractor caused the subcontractor to file a lien, which forced the owner to pay \$92,000 to clear the property title. This payment is a direct consequence of the GC's breach — failing to distribute project funds to the subcontractor — and constitutes recoverable damages.

27. D — The seller can post a surety bond to discharge the lien from the property, allowing the sale to proceed with clear title. The bond substitutes for the property as the contractor's security interest. The contractor's claim transfers from the property to the bond, and the underlying \$85,000 dispute continues to be resolved through negotiation or litigation against the bond rather than the property.

28. A — Revised total estimated cost: \$800,000. Revised percentage complete: $\$510,000 \div \$800,000 = 63.75\%$. Revised total expected profit: $\$850,000 - \$800,000 = \$50,000$. Revised gross profit to date: $63.75\% \times \$50,000 = \$31,875$. The unforeseen condition increased estimated costs from \$680,000 to \$800,000, dramatically reducing expected total profit from \$170,000 to \$50,000 and requiring a significant downward adjustment in recognized profit.

29. C — Working capital = current assets – current liabilities = $\$310,000 - \$410,000 =$ negative \$100,000. With negative working capital, the bonding capacity under the fiftentimesworkingcapital guideline is zero or negative. The bonding company will not issue bonds when the contractor has more current liabilities than current assets because negative working capital signals potential inability to meet shortterm obligations.

30. B — Taxable gross receipts above \$1,000,000: $\$4,100,000 - \$1,000,000 = \$3,100,000$. CAT liability: $\$3,100,000 \times 0.0026 = \$8,060$. The 0.26% rate applies only to the portion of gross receipts exceeding the \$1,000,000 threshold. The CAT is calculated on total revenue, not on net income, so the contractor's profitability does not affect the calculation.

31. D — Both the SEPIRA contribution (\$25,000) and the traditional IRA contribution (\$6,500) are taxdeductible for sole proprietors, subject to applicable annual limits and income phaseout rules. The SEPIRA deduction is taken as an adjustment to gross income on the tax return. The traditional IRA deduction may also be available depending on the taxpayer's income and participation in other retirement plans. Combined deductible amount: \$31,500.

32. B — When the employer discovers that an employee's work authorization documents may be fraudulent, the employer has an obligation to act. The employer should contact ICE or consult legal counsel and cooperate with any investigation while taking appropriate steps regarding the employee's continued employment. The employer cannot simply ignore discovered fraud, even though the I9 was completed in good faith at the time of hire.

33. A — Under the FLSA, overtime must be paid at 1.5 times the regular rate for all hours exceeding forty in a workweek. The regular rate is \$35.00, so the overtime rate is \$52.50 per hour. The employer paid only \$40.00 for the six Saturday hours — \$12.50 per hour less than the required \$52.50 overtime rate. The underpayment is $\$12.50 \times 6 = \75.00 .

34. D — Both the federal Age Discrimination in Employment Act (ADEA, covering employers with twenty or more employees) and the Ohio Civil Rights Act (covering employers with four or more employees) prohibit age discrimination against workers forty and older. This employer with thirtyfive employees is covered by both laws. Replacing a fiftyeightyearold with a twentynineyearold without documented performance justification raises strong age discrimination concerns.

35. B — Change order percentage: $\$165,000 \text{ in approved changes} \div \$1,100,000 \text{ original contract price} \times 100 = 15\%$. This means the contract scope has increased by fifteen percent through documented and approved changes. Whether this rate is acceptable depends on the nature of the changes — ownerdirected modifications, design revisions, and unforeseen conditions may all be legitimate.

36. C — A comprehensive construction safety program must include hazard identification and assessment procedures, employee safety training, emergency response plans, and incident investigation protocols. These are the operational core of any effective safety program. Financial analyses and citation histories, while useful, are not the essential programmatic elements that OSHA expects.

37. B — The contractor should accept the \$80,000 partial payment, provide written notice disputing the \$15,000 withholding, and document the quality of the disputed work with photographs, inspection reports, and specification references. Formal written objection preserves the contractor's rights while allowing the project to continue. Stopping work over a partial withholding is disproportionate and may constitute a breach.

38. D — Total float = late start – early start = Day 31 – Day 25 = 6 days. Alternatively, late finish – early finish = Day 39 – Day 33 = 6 days. Six days of float means Activity R can be delayed up to six days without affecting the project completion date. Since float is greater than zero, Activity R is not on the critical path.

39. A — An occurrencebasis CGL policy covers claims based on when the negligent act or defective work occurred, not when the damage was discovered. The defective work was performed during Year 1 when the Year 1 policy was in force. The Year 1 policy responds to the claim even though the resulting damage was not discovered until Year 3.

40. C — Dated photographs taken at the time of construction provide contemporaneous visual evidence of actual conditions — what materials were used, how they were installed, and what the site looked like at specific points in time. When corroborated by daily reports and inspection records, construction photographs become strong evidence that is difficult for opposing parties to dispute.

41. B — Partnership income is allocated based on the profitsharing ratio specified in the partnership agreement. The agreement specifies equal sharing, so each partner reports \$190,000 ($\$380,000 \div 2$) for selfemployment tax purposes regardless of the hours each partner contributed. The selfemployment tax follows the same allocation as the income tax — equal shares per the agreement.

42. A — When defective materials are returned to the wholesaler and the wholesaler issues a credit for both the purchase price and the sales tax, the contractor receives a full refund including the sales tax. The net effect is that sales tax is paid only on the \$63,000 in materials retained and installed. The credit mechanism through the wholesaler is the standard process for recovering tax on returned merchandise.

43. D — Under the Miller Act, a firsttier subcontractor's payment bond lawsuit cannot be filed earlier than ninety days after the date of last furnishing labor or materials and must be filed no later than one year after the date of last furnishing. The ninetyday waiting period allows the contractor time to resolve the payment, and the oneyear outer deadline provides finality.

44. C — The remobilization costs are a direct consequence of the owner's failure to resolve the design issue in a timely manner, which caused the threeweek work stoppage. The contractor is entitled to recover additional costs caused by the owner's delay including demobilization, remobilization, equipment transport, scaffold reassembly, and crew recall. Even though the contract is silent on remobilization, the costs result from an ownercaused disruption.

45. A — The employer was notified of sexual harassment and failed to take effective corrective action. Telling the employee to "ignore" the supervisor's behavior is not an adequate response. Ohio's Civil

Rights Act covers employers with four or more employees, so this twelveemployee company is covered. The employer's failure to investigate and stop the harassment after receiving notice creates liability for hostile work environment.

46. B — Accounts payable increasing from \$95,000 to \$285,000 while revenue stays flat indicates the contractor is falling behind on payments to suppliers and subcontractors. This trend signals potential cash flow problems, increased risk of lien claims from unpaid suppliers, and potential disruption to project operations if suppliers cut off credit. The surety views this as a deteriorating financial condition.

47. D — Ohio workers' compensation is a nofault system — benefits are generally available regardless of who was at fault for the injury. The employee's refusal to wear hearing protection, while relevant to employment discipline, generally does not bar a workers' compensation claim for occupational hearing loss. The employer may pursue separate disciplinary action for safety violations, but the compensation claim proceeds.

48. C — Gross profit margin: $\$363,000 \div \$1,650,000 = 22\%$. Breakeven revenue: $\$297,000 \div 0.22 = \$1,350,000$. The contractor must generate at least \$1,350,000 in revenue to cover the \$297,000 in overhead. Current revenue of \$1,650,000 is above breakeven, producing \$66,000 in net operating income.

49. A — The GC has unconditional lien waivers from the concrete subcontractor for all payments including the final payment. These waivers permanently released all lien rights. The GC should present the waivers to the property owner, who can petition the court to discharge the improperly filed lien. An unconditional final waiver is the strongest evidence that the subcontractor surrendered all lien rights.

50. D — The prevailing wage requires \$28.50 base plus \$15.25 fringe = \$43.75 total per hour. The contractor pays \$28.50 base (correct) plus \$8.50 in health insurance (qualifying fringe benefit). Total paid: \$37.00 per hour. Required: \$43.75. Deficiency: $\$43.75 - \$37.00 = \$6.75$ per hour per laborer. The contractor must either provide additional qualifying fringe benefits or pay the \$6.75 difference as additional cash wages.