

PRACTICE EXAM 6: OHIO BUSINESS AND LAW SIMULATION (50 QUESTIONS)

50 Questions — 120 Minutes Recommended

1. A commercial plumbing contractor has been operating as a general partnership for twelve years. Both partners have personal assets including homes, investment accounts, and vehicles. A major project goes badly wrong, and a \$750,000 judgment is entered against the partnership. Partner A has \$600,000 in personal assets. Partner B has \$50,000 in personal assets. Under joint and several liability, what is the maximum amount the creditor can collect from Partner A personally?

- A. \$375,000 representing Partner A's fifty percent share of the judgment
- B. \$600,000 representing the full value of Partner A's personal assets
- C. \$750,000 because joint and several liability makes each partner liable for the full judgment amount
- D. \$325,000 representing the judgment minus the amount collectible from Partner B

2. An Ohio contractor wants to convert from a sole proprietorship to a business entity that provides liability protection, allows passthrough taxation, permits flexible management structure, and requires minimal annual formalities. Which entity type best meets all four criteria?

- A. A limited liability company which provides liability protection, default passthrough taxation, flexible management, and fewer formalities than a corporation
- B. A Ccorporation which provides liability protection but requires corporate formalities and produces double taxation
- C. A general partnership which provides passthrough taxation but offers no liability protection to partners
- D. A limited partnership which provides liability protection only to limited partners and requires a certificate filing

3. A contractor's business plan includes a section describing how the company will attract customers, build brand recognition, and generate leads through a professional website, trade association memberships, and targeted advertising in construction industry publications. This information belongs in which section of the business plan?

- A. The financial projections section forecasting revenue from planned marketing activities
- B. The organizational structure section identifying the marketing staff and their responsibilities
- C. The services offered section describing the technical capabilities marketed to potential clients
- D. The marketing and sales strategy section describing how the company will reach and retain customers

4. An Ohio contractor's OCILB license application is approved on February 1. The contractor completes the required background checks by March 15. The contractor schedules the Business and Law exam for January 20 of the following year — eleven months and twenty days after the approval date. Is the contractor within the eligibility window?

- A. No because the eligibility period is only six months from the date of Board approval
- B. Yes because the OCILB approval is valid for one year from the approval date and the exam is scheduled within that window
- C. No because the exam must be taken within ninety days of completing the background checks
- D. Yes because there is no time limit on exam eligibility once the Board has approved the application

5. Under Ohio Revised Code Chapter 4740, what is the legal distinction between a "contractor" and a "tradesperson"?

- A. A contractor must hold a college degree while a tradesperson must complete an apprenticeship
- B. A contractor works on residential projects while a tradesperson works on commercial projects
- C. A contractor employs more than ten people while a tradesperson works as a sole individual
- D. A contractor has responsibility for the means, method, and manner of construction while a tradesperson works under a contractor's direction without that responsibility

6. An Ohio HVAC contractor based in Cleveland takes on a project in Youngstown. The contractor verifies that the OCILB state license is current and valid. Upon arriving in Youngstown, the contractor learns that Youngstown requires a separate local contractor registration and a local business permit before work can begin. The contractor had not applied for either. What should the contractor do?

- A. Stop work and obtain the required Youngstown registrations and permits before proceeding with the project
- B. Continue working because the OCILB state license supersedes all local registration requirements
- C. Request that the general contractor obtain the local permits on the HVAC subcontractor's behalf
- D. Contact the OCILB to request a temporary exemption from the Youngstown local requirements

7. An estimator reviews a set of construction drawings and notices that the mechanical schedule on Sheet M3 specifies a rooftop air handling unit model that differs from the unit shown in the mechanical detail on Sheet M12. The two sheets show different capacities and physical dimensions. Before completing the estimate, what should the estimator do?

- A. Use the larger and more expensive unit to ensure the estimate covers the worstcase scenario
- B. Submit a request for information to the architect seeking clarification on which unit is correct before pricing
- C. Average the cost of both units and include the average price in the estimate
- D. Use the unit shown on the most recently dated drawing sheet as the definitive specification

8. A contractor calculates the breakeven revenue for the upcoming year. Total annual overhead is \$420,000. The contractor's historical gross profit margin is twentyeight percent. A new competitor enters the market and the contractor expects margins to compress to twentytwo percent. How does the margin compression affect the breakeven revenue?

- A. Breakeven revenue decreases because lower margins mean the company needs less overhead coverage
- B. Breakeven revenue stays the same because overhead costs have not changed
- C. Breakeven revenue doubles because the margin decreased by approximately six percentage points
- D. Breakeven revenue increases from \$1,500,000 to approximately \$1,909,091 because the same overhead must be covered by a smaller margin percentage

9. A public school district advertises a construction project for competitive bidding. The bid documents require a five percent bid bond, acknowledgment of all addenda, and a list of major subcontractors. Contractor X submits the lowest bid at \$1,850,000 but does not include the required list of subcontractors. Contractor Y submits the next lowest bid at \$1,920,000 with all required documents complete. What is the most likely outcome?

- A. Contractor X is awarded the project because the lowest price takes precedence over documentation
- B. Contractor X is given fortyeight hours to provide the missing subcontractor list as a minor irregularity
- C. Contractor X's bid is rejected as nonresponsive and the contract is awarded to Contractor Y as the lowest responsive, responsible bidder
- D. Both bids are rejected and the project is readvertised with revised bidding requirements

10. A contractor enters into a guaranteed maximum price contract for \$1,200,000 with a costplus fee structure and a sixtyfour savings split favoring the owner. The contractor's fixed fee is \$80,000. Actual project costs total \$1,050,000. What is the contractor's total compensation?

- A. \$1,158,000 representing actual costs plus the fixed fee plus the contractor's forty percent share of the savings below the GMP
- B. \$1,130,000 representing actual costs plus the fixed fee with no savings share
- C. \$1,200,000 representing the full GMP regardless of actual costs incurred
- D. \$1,050,000 representing only the actual costs with the fee forfeited due to savings

11. A commercial construction contract requires the contractor to submit a performance bond and a payment bond, each in the amount of one hundred percent of the contract price. The contract price is \$2,500,000. What combined protection do these two bonds provide?

- A. The performance bond protects the contractor against owner nonpayment while the payment bond protects the owner against contractor default
- B. The performance bond guarantees the contractor will complete the work and the payment bond guarantees the contractor will pay subcontractors and suppliers
- C. Both bonds protect the project owner against the same risk of contractor default creating redundant coverage

D. The performance bond covers the first half of the contract and the payment bond covers the second half

12. A contractor terminates a subcontractor for persistent failure to maintain adequate workforce on the project. The subcontract requires seven days' written notice of default and a seven-day cure period before termination. The contractor provides the written notice on Monday. The subcontractor does not cure the default within seven days. The contractor issues the termination notice on the following Tuesday. Was the termination procedurally proper?

A. No because the contractor must provide a minimum of fourteen days' written notice before any termination

B. No because the cure period must be at least thirty days for all construction subcontract terminations

C. Yes but only if the general contractor obtains prior written approval from the project owner

D. Yes because the contractor followed the subcontract's required notice and cure procedures before terminating

13. A contractor enters into a subcontract that includes an indemnification clause requiring the subcontractor to indemnify the general contractor for claims arising from the subcontractor's operations. The subcontractor's CGL policy includes the general contractor as an additional insured. During construction, a third party is injured by the subcontractor's work. The injured party sues both the general contractor and the subcontractor. How do the indemnification clause and the additional insured endorsement work together?

A. The subcontractor's insurance responds to the general contractor's defense and liability under the additional insured endorsement while the indemnification clause obligates the subcontractor to cover any gaps

B. The indemnification clause voids the additional insured endorsement creating a conflict between the two

C. The general contractor must choose between claiming under the indemnification clause or the additional insured endorsement but cannot use both

D. The additional insured endorsement applies only if the indemnification clause is found unenforceable by a court

14. A contractor on a commercial project receives notice from the owner that the project must be completed two weeks earlier than the contractual completion date due to a tenant move-in commitment. The contractor has not caused any delays. The contract does not contain an acceleration clause. The contractor estimates that accelerating the schedule will cost an additional \$45,000 in overtime and expediting fees. What are the contractor's rights?

- A. The contractor must accelerate at no additional cost because the owner has the right to set the completion date
- B. The contractor can refuse to accelerate because the contract completion date is a binding term
- C. The contractor must accelerate and absorb the first \$10,000 in costs with the owner responsible for costs above that amount
- D. The contractor has no obligation to accelerate but if directed to do so the contractor is entitled to additional compensation for the acceleration costs

15. A construction contract specifies that disputes will be resolved through binding arbitration. During the project, a \$200,000 payment dispute arises. The contractor wants to file a lawsuit in court instead of arbitrating. Can the contractor bypass the arbitration clause and go directly to court?

- A. Generally no because a valid arbitration clause is enforceable and courts will typically compel arbitration when a binding clause exists
- B. Yes because contractors always have the right to choose between arbitration and litigation regardless of the contract
- C. Yes if the dispute amount exceeds \$100,000 which is the maximum jurisdictional limit for construction arbitration
- D. No unless both parties jointly agree to waive the arbitration clause in writing after the dispute arises

16. A project manager creates a CPM schedule for a twentyweek commercial project. After twelve weeks, the project manager performs a schedule update and discovers that the critical path has shifted. Activities that were originally noncritical are now on the critical path, and some originally critical activities now have float. What caused this shift?

- A. A programming error in the scheduling software that must be corrected by resetting the original baseline

- B. Changes in activity durations or logic relationships caused by actual progress differing from the original plan
- C. The addition of new activities that were not included in the original schedule at project inception
- D. Delays or accelerations in actual activity durations that consumed float on previously noncritical paths or created float on previously critical paths

17. A contractor's superintendent observes that the drywall subcontractor has begun installing drywall over the electrical roughin in Building A. The electrical roughin inspection by the building official has not yet been conducted or approved. What is the correct course of action?

- A. Allow the drywall installation to continue because the electrical contractor certified the work internally
- B. Contact the building official to schedule an expedited inspection of the concealed electrical work
- C. Stop the drywall installation immediately and do not allow concealment until the electrical roughin inspection is approved
- D. Require the electrical subcontractor to provide a written warranty that the concealed work meets code

18. A contractor reaches final completion on a commercial project. All punch list items are resolved, all closeout documents have been submitted, and the architect has issued the final certificate. The contractor submits the final payment application requesting release of all retainage. What document should the contractor provide with the final payment application to facilitate release of retainage?

- A. A new bid bond guaranteeing the contractor's performance during the warranty period
- B. Final lien waivers from the contractor, all subcontractors, and all suppliers confirming full payment and waiving lien rights
- C. A revised project schedule showing the actual completion dates for all activities
- D. A certificate of insurance extending coverage for an additional twelve months beyond final completion

19. A contractor's project file contains daily reports, meeting minutes, RFIs, submittals, change orders, photographs, and correspondence for a completed commercial project. Two years after completion, the owner files a lawsuit alleging construction defects. The contractor's attorney requests the complete project file to prepare the defense. What is the primary value of having maintained comprehensive project documentation?

- A. The documentation provides contemporaneous evidence of what occurred during construction which is far more credible than reconstructions from memory years later
- B. The documentation proves the contractor completed the project under budget which is the relevant defense
- C. The documentation eliminates the need for depositions because the written record replaces witness testimony
- D. The documentation transfers liability to the architect because RFIs prove all design decisions were the architect's

20. A contractor completes a commercial project and submits asbuilt drawings to the owner. The contractor marked up the original construction drawings to show that a sixinch water main was relocated twelve feet east of its original planned location to avoid an underground obstruction discovered during excavation. Why is this documentation important?

- A. It proves the contractor performed additional work that warrants a change order for the relocation costs
- B. It documents the actual installed location of the water main for the owner's future maintenance, repair, and renovation planning
- C. It transfers liability for the relocation decision from the contractor to the project architect
- D. It satisfies the OSHA requirement to document all underground utility locations on commercial projects

21. An Ohio electrical contractor's workers' compensation premium is calculated using a classification rate of \$9.20 per \$100 of payroll. The contractor's annual electrical payroll is \$620,000. The contractor's experience modification rate is 0.78. What is the annual workers' compensation premium?

- A. \$57,040 calculated as payroll multiplied by the classification rate with no EMR adjustment
- B. \$44,492 calculated as the base premium multiplied by the EMR of 0.78

C. \$72,400 calculated using a standard ten percent premium surcharge on the base rate

D. \$44,492 calculated as $(\$620,000 \div \$100) \times \$9.20 \times 0.78$

22. A contractor's employee trips over a piece of rebar on a commercial jobsite and sprains a wrist. The employee visits a doctor who recommends ice and overthecounter ibuprofen. The employee returns to full duty the same day with no work restrictions. Under OSHA recordkeeping rules, is this injury recordable?

A. Yes because any injury requiring a doctor visit must be recorded on OSHA Form 300

B. Yes because the tripanfall incident itself must be recorded regardless of the treatment outcome

C. No because the doctor recommended only first aid treatment and the employee had no lost time, restricted work, or job transfer

D. No because sprains and strains are categorically excluded from OSHA recordkeeping requirements

23. A construction worker on a commercial roofing project is working at a height of eighteen feet above grade. The contractor has not provided any fall protection — no guardrails, no personal fall arrest system, and no safety nets. An OSHA compliance officer observes this condition during a jobsite inspection. What type of citation is most likely?

A. An otherthanserious citation because no injury has occurred at the time of the inspection

B. A serious citation because there is substantial probability that the unprotected fall exposure could cause death or serious physical harm

C. A de minimis violation that requires no corrective action because the worker appears experienced

D. No citation because OSHA's construction fall protection standard applies only at heights above twenty feet

24. An Ohio contractor operates a commercial HVAC business with thirty employees. The contractor carries workers' compensation through the Ohio BWC, maintains \$1,000,000 in CGL coverage, and has a commercial auto policy. A visitor to the contractor's office slips on a wet floor in the lobby and breaks a hip. Which insurance policy covers this claim?

A. The contractor's commercial general liability policy under premises liability coverage

- B. The contractor's workers' compensation policy because the injury occurred at the contractor's place of business
- C. The contractor's commercial auto policy because premises injuries are classified as vehicleadjacent claims
- D. No insurance covers this claim because visitors assume the risk of injury when entering a business premises

25. A surety company issues a payment bond on a public construction project. The general contractor receives full payment from the public owner but fails to pay a concrete subcontractor \$95,000 for completed work. The subcontractor files a payment bond claim. The surety investigates and determines the claim is valid. What happens next?

- A. The surety directs the public owner to pay the subcontractor directly from the project's remaining contingency funds
- B. The surety suspends the general contractor's license through the OCILB until payment is made
- C. The surety mediates between the general contractor and subcontractor but has no payment obligation
- D. The surety pays the subcontractor's valid claim and then seeks full reimbursement from the general contractor

26. A contractor needs to classify a new worker using the IRS test. The worker owns a specialized welding rig worth \$120,000, carries personal liability insurance, advertises welding services to multiple contractors, sets a personal work schedule, and submits invoices on a perproject basis. However, while on the contractor's jobsite, the worker follows the contractor's safety rules and coordinates with the site superintendent on daily task sequencing. Does following safety rules and daily coordination make this worker an employee?

- A. Yes because any degree of behavioral control exercised by the hiring contractor establishes an employment relationship
- B. No because compliance with safety rules and basic jobsite coordination does not negate the financial independence and business characteristics that indicate independent contractor status
- C. Yes because the coordination with the superintendent constitutes the right to direct how the work is performed
- D. The classification cannot be determined without knowing whether the worker has formed an LLC or corporation

27. A contractor employs fifteen workers on a commercial project subject to DavisBacon prevailing wage requirements. The wage determination specifies that electricians must receive \$44.00 per hour plus \$19.50 in fringe benefits. The contractor pays the electricians \$44.00 per hour in cash wages but does not provide any fringe benefits or pay the fringe amount as additional cash wages. What violation has occurred?

- A. The contractor has violated the DavisBacon Act by failing to pay the required fringe benefit amount either as bona fide benefits or as additional cash wages
- B. No violation has occurred because the base wage rate is the only mandatory component of the prevailing wage
- C. The violation is limited to a paperwork deficiency in the certified payroll reports
- D. The fringe benefit violation applies only to union contractors and nonunion contractors are exempt

28. An Ohio contractor hires a new project manager. During the interview, the contractor asks the candidate whether she plans to have children in the next few years because the contractor needs someone who will be committed to the position longterm. The candidate does not get the job. She files a complaint with the Ohio Civil Rights Commission. What law has the contractor potentially violated?

- A. The Fair Labor Standards Act prohibition against age discrimination in hiring decisions
- B. The Americans with Disabilities Act prohibition against medical inquiries during employment interviews
- C. The Ohio Civil Rights Act and Title VII prohibition against sex discrimination including pregnancyrelated inquiries
- D. The National Labor Relations Act prohibition against inquiring about union membership during interviews

29. A contractor provides COBRA continuation coverage notice to a terminated employee. The employee had group health insurance through the company. Under COBRA, for how long can the terminated employee continue health coverage at their own expense?

- A. Six months from the date of termination for all qualifying events
- B. Twelve months from the date of termination consistent with the standard plan year
- C. Twentyfour months from the date of termination for involuntary terminations only

D. Up to eighteen months from the date of termination for most qualifying events

30. Under the percentage of completion method, a contractor has a project with a \$900,000 contract price and original estimated total costs of \$720,000. At the sixty percent completion point, the contractor revises the total estimated cost upward to \$810,000 due to material price increases. What is the revised gross profit recognized to date at sixty percent completion?

- A. \$108,000 calculated using the original estimated total cost and the original expected profit
- B. \$54,000 calculated as sixty percent of the revised expected total profit of \$90,000
- C. \$180,000 calculated as sixty percent of the original contract price minus the original estimated costs
- D. Zero because the revised estimate eliminates all profit from the project

31. A contractor's financial statements show the following: total revenue \$1,800,000, cost of revenue \$1,404,000, gross profit \$396,000, general overhead \$330,000, net operating income \$66,000. What is the contractor's net profit margin?

- A. 3.67 percent calculated by dividing net operating income of \$66,000 by total revenue of \$1,800,000
- B. 22 percent calculated by dividing gross profit of \$396,000 by total revenue of \$1,800,000
- C. 18.33 percent calculated by dividing general overhead of \$330,000 by total revenue of \$1,800,000
- D. 5 percent calculated by dividing net operating income by gross profit

32. A contractor has a \$250,000 line of credit with a current outstanding balance of \$180,000. The contractor receives a \$120,000 progress payment from a project owner. The contractor uses \$80,000 of the payment to cover current payables and applies \$40,000 to pay down the line of credit balance. What is the new outstanding balance and available credit on the line?

- A. Outstanding balance \$180,000 and available credit \$70,000 because payments cannot reduce the balance
- B. Outstanding balance \$140,000 and available credit \$110,000
- C. Outstanding balance \$100,000 and available credit \$150,000
- D. Outstanding balance \$220,000 and available credit \$30,000

33. An Ohio contractor operating as a partnership earns \$500,000 in gross receipts and \$120,000 in net income for the year. The Ohio Commercial Activity Tax is based on which of these figures?

- A. The \$120,000 net income because the CAT functions as a state income tax on business profits
- B. Neither figure because partnerships are exempt from the Ohio Commercial Activity Tax
- C. The average of gross receipts and net income calculated as \$310,000
- D. The \$500,000 in gross receipts because the CAT is a gross receipts tax not an income tax

34. An Ohio contractor purchases a piece of heavy equipment from an auction in Indiana. The Indiana auctioneer does not collect Ohio sales tax. The contractor brings the equipment to Ohio and uses it exclusively on commercial construction projects. What is the contractor's Ohio tax obligation on this purchase?

- A. No Ohio tax is owed because equipment purchased at auction is exempt from sales and use tax
- B. The contractor owes Ohio income tax on the fair market value of the equipment as imputed income
- C. The contractor owes Ohio use tax at the same rate as Ohio sales tax on the purchase price of the equipment
- D. The Indiana auctioneer is required to remit Ohio use tax and the contractor has no obligation

35. A subcontractor on a private commercial project first furnishes labor on September 1. The subcontractor does not serve a Notice of Furnishing on the property owner. The subcontractor continues working through December 15 and is never paid. The subcontractor files a mechanic's lien affidavit on February 1 for the full \$180,000 of work performed. What is the maximum amount the lien can cover?

- A. Zero because the subcontractor never served the required Notice of Furnishing and has forfeited all lien rights
- B. The full \$180,000 because the lien affidavit was filed within sixty days of last furnishing
- C. Only the value of work performed during the final sixty days before the lien was filed
- D. Only the value of work performed during the twentyone days before the lien affidavit filing date

36. A contractor files a mechanic's lien affidavit with the county recorder on March 10. The contractor serves a copy of the affidavit on the property owner on March 25. The owner refuses to pay. Under Ohio law, what is the deadline for the contractor to file a foreclosure lawsuit to enforce the lien?

- A. March 10 of the following year which is twelve months from the date the affidavit was filed
- B. September 10 which is six months from the date the affidavit was filed
- C. March 25 of the following year which is twelve months from the date the owner was served
- D. Within six years after the date the lien affidavit was filed with the county recorder

37. A property owner on a private commercial project receives a conditional partial lien waiver from a subcontractor in the amount of \$45,000. The owner pays the general contractor \$45,000 designated for that subcontractor's work. The general contractor deposits the payment but does not forward it to the subcontractor. What is the status of the subcontractor's lien waiver?

- A. The waiver is permanently effective because the owner made the payment to the general contractor
- B. The conditional waiver is not effective because the subcontractor has not actually received the \$45,000 payment
- C. The waiver converts to an unconditional waiver after thirty days regardless of whether the subcontractor received payment
- D. The waiver is effective for the owner's protection but the subcontractor retains lien rights against the general contractor personally

38. A contractor's employee sustains a serious back injury on a commercial jobsite. The employee files a workers' compensation claim through the Ohio BWC. The employee's attorney suggests the employee should also file a negligence lawsuit against the employer for unsafe working conditions. Can the employee sue the employer in addition to filing the workers' compensation claim?

- A. Generally no because workers' compensation is the exclusive remedy for workplace injuries in Ohio barring the employer from negligence lawsuits by employees
- B. Yes because Ohio employees always have the right to sue their employer in addition to filing workers' comp
- C. Yes but only if the employee can prove the employer's negligence was willful and intentional

D. No but the employee can sue the general contractor even if the employer is a subcontractor on the project

39. An Ohio employer with eight employees asks whether the company is covered by Title VII of the Civil Rights Act. What is the correct answer?

A. Yes because Title VII covers all employers in the construction industry regardless of size

B. Yes because Title VII's coverage threshold is five employees for construction employers

C. No because Title VII requires fifteen or more employees but the Ohio Civil Rights Act covers employers with four or more

D. No and the employer is also exempt from Ohio's Civil Rights Act because it requires ten or more employees

40. A contractor on a commercial project maintains a change order log that tracks change number, description, date initiated, current status, cost impact, and schedule impact for every change on the project. At month eight of a twelvemonth project, the log shows eighteen approved change orders totaling \$145,000 in additional cost and twelve pending change orders with an estimated cost impact of \$95,000. What is the primary project management value of this log?

A. It satisfies the OSHA requirement to document all project modifications for safety compliance

B. It provides the bonding company with realtime data needed to adjust the performance bond amount

C. It documents the contractor's marketing efforts by showing the volume of additional work generated

D. It provides a complete, realtime picture of all contract modifications enabling the project manager to track scope changes, financial impact, and unresolved items

41. An OSHA inspector observes a construction worker operating a pneumatic nail gun without eye protection on a commercial framing project. The worker states that safety glasses fog up and impair visibility. The employer has safety glasses available on site but does not enforce their use. Who does OSHA hold responsible for the PPE violation?

A. The nail gun manufacturer for not designing a tool that eliminates the need for eye protection

B. The worker because the worker made a personal decision not to wear the available safety glasses

- C. The employer because the employer is responsible for enforcing PPE use even when employees resist
- D. The general contractor because the GC is responsible for all safety on the jobsite including subcontractor workers

42. A contractor assigns a laborer to act as the competent person for excavation operations on a commercial sewer installation. The laborer attended a twohour excavation safety seminar six months ago but has never independently evaluated soil conditions or directed protective system installations. The laborer does not have authority to remove workers from the trench. Does this laborer qualify as a competent person for excavation?

- A. Yes because attending the safety seminar satisfies OSHA's competent person training requirement
- B. Yes because the contractor's written designation is the sole requirement for competent person status
- C. No because the laborer has no practical experience evaluating soil conditions and has never directed protective systems
- D. No because the laborer lacks both the demonstrated ability to identify excavation hazards and the authority to take corrective measures including removing workers

43. Under Ohio law, an employer must report all new hires to the Ohio New Hire Reporting Center. An Ohio contractor hires three new employees on the same day. Within what timeframe must all three be reported?

- A. Within twenty days of their start date as required for all new hires in Ohio
- B. Within five business days of issuing the first paycheck to each employee
- C. By the end of the quarter in which the employees were hired
- D. Within seventytwo hours of each employee's first day of work

44. A nonexempt electrician works the following hours in a single workweek: Monday 9 hours, Tuesday 10 hours, Wednesday 8 hours, Thursday 11 hours, Friday 8 hours. The electrician's regular rate is \$38.00 per hour. What is the total gross pay for the workweek?

- A. \$1,748.00 calculated as 46 hours at regular rate plus daily overtime for each day exceeding 8 hours

- B. \$1,862.00 calculated as 40 hours at \$38.00 plus 6 hours at \$57.00 overtime rate
- C. \$1,710.00 calculated as 45 hours at the regular rate with no overtime because no day exceeded 12 hours
- D. \$1,900.00 calculated as 50 hours at the regular rate without any overtime premium applied

45. A contractor earns \$4,500,000 in annual gross receipts. 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?

- A. \$11,700 calculated as 0.26% of the full \$4,500,000
- B. \$9,100 calculated as 0.26% of \$3,500,000 which is gross receipts above the \$1,000,000 threshold
- C. \$2,600 calculated as 0.26% of the first \$1,000,000 only
- D. \$9,100 calculated as 0.26% of the taxable gross receipts above \$1,000,000

46. A contractor maintains a cash reserve equal to two months of operating expenses. The contractor's monthly operating expenses are \$85,000. A major customer declares bankruptcy owing the contractor \$140,000. The contractor also has a line of credit with \$75,000 available. What is the contractor's immediate financial cushion to absorb this loss?

- A. \$85,000 equal to one month of operating expenses which is the contractor's maximum available reserve
- B. \$75,000 equal to the available line of credit because the cash reserve cannot be used for receivable losses
- C. \$245,000 combining the \$170,000 cash reserve plus the \$75,000 available line of credit
- D. \$170,000 equal to the twomonth cash reserve which can absorb most but not all of the \$140,000 loss

47. A contractor's surety company requires audited financial statements as a condition of maintaining the bonding relationship. The contractor has been providing internally prepared statements without an independent audit. The surety notifies the contractor that unaudited statements are no longer acceptable. What is the significance of this requirement?

- A. Audited financial statements have been independently verified by a CPA providing the surety with greater confidence in the accuracy and reliability of the financial data
- B. Audited statements are required only for contractors with bonding capacity above \$10,000,000
- C. The audit requirement is a formality that does not affect the surety's underwriting decisions
- D. Internally prepared statements are equally acceptable to all surety companies in all circumstances

48. A contractor operating as a sole proprietorship has net selfemployment income of \$170,000. The contractor wants to reduce current year tax liability through a retirement plan contribution. The contractor establishes a SEPIRA. What is the primary tax benefit of making the maximum allowable SEPIRA contribution?

- A. The contribution is taxed at a reduced capital gains rate rather than the ordinary income tax rate
- B. The contribution reduces taxable income in the current year because SEPIRA contributions are taxdeductible
- C. The contribution eliminates selfemployment tax on the amount contributed to the SEPIRA
- D. The contribution creates a dollarfordollar tax credit that directly reduces the tax liability

49. A mechanic's lien is filed against a commercial property for \$120,000. The property owner wants to challenge the lien but also needs to sell the property. The owner's attorney advises posting a bond to discharge the lien. Under Ohio practice, the bond amount is typically set at what level relative to the lien claim?

- A. Exactly equal to the lien amount of \$120,000
- B. Fifty percent of the lien amount or \$60,000 as a goodfaith deposit
- C. Double the lien amount or \$240,000 to fully protect the claimant's interests
- D. One hundred twentyfive to one hundred fifty percent of the lien amount to cover the claim plus interest and costs

50. A contractor on a federal construction project subject to the Miller Act furnishes the required performance and payment bonds. A firsttier electrical subcontractor with a direct contract with the

prime contractor completes \$200,000 of work and is not paid. Under the Miller Act, what must the electrical subcontractor do to preserve payment bond claim rights?

- A. Provide written notice to the prime contractor within ninety days of last furnishing as required for all bond claimants
- B. File a mechanic's lien against the federal property before pursuing the payment bond claim
- C. No preliminary notice is required because first-tier subcontractors with direct prime contracts can claim against the payment bond without prior notice
- D. File a formal protest with the federal contracting officer before pursuing any payment bond claim

Practice Exam 6: Answer Key and Explanations

1. C — Joint and several liability means each partner in a general partnership is personally liable for the full amount of all partnership debts, not just their proportional share. The creditor can pursue Partner A for the entire \$750,000 judgment regardless of Partner B's ability to pay. Whether Partner A has sufficient personal assets to satisfy the full amount is a collection issue, but the legal liability exposure is the full \$750,000.

2. A — The LLC meets all four criteria: limited liability protection shields members' personal assets, default passthrough taxation avoids double taxation, flexible management allows either membermanaged or managermanaged structures, and the LLC requires fewer annual formalities than a corporation (no board meetings, no corporate minutes, no annual reports in most states). This combination makes the LLC the most popular entity choice for contractors.

3. D — The marketing and sales strategy section describes how the company will attract customers, build brand awareness, and generate revenue. Website development, trade association memberships, and targeted advertising are all marketing activities that belong in this section. The marketing strategy should align with the target market identified in the market analysis and support the revenue projections in the financial section.

4. B — OCILB approval is valid for one year from the date of approval. The contractor was approved on February 1, making the eligibility window February 1 through January 31 of the following year. The exam scheduled for January 20 falls within this window with eleven days to spare. The contractor must complete background checks and take both exams within this one-year period.

5. D — Under ORC Chapter 4740, a contractor has responsibility for the means, method, and manner of construction and must hold an OCILB license. A tradesperson is employed by a contractor and performs work under the contractor's direction without assuming that responsibility. Only the contractor needs the license — tradespersons work under the contractor's license authority.

6. A — The OCILB state license authorizes commercial work throughout Ohio, but it does not override local registration and permit requirements. When the contractor discovers that Youngstown requires separate local registrations, the correct response is to stop work and obtain the required local permits.

before proceeding. Working without required local registrations violates local law regardless of the state license status.

7. B — When construction documents contain conflicting information — two different units specified on different drawing sheets — the estimator should submit a request for information to the architect before pricing the work. Guessing, averaging, or assuming which specification is correct risks estimating the wrong equipment and either losing money or submitting an inflated bid. The RFI produces a formal clarification that becomes part of the project record.

8. D — Breakeven at the original 28% margin: $\$420,000 \div 0.28 = \$1,500,000$. Breakeven at the compressed 22% margin: $\$420,000 \div 0.22 = \$1,909,091$. The same \$420,000 in overhead must now be covered by a smaller margin on each revenue dollar, requiring approximately \$409,000 more in total revenue to break even. Margin compression is one of the most significant threats to contractor profitability.

9. C — On public projects, bids must comply with all requirements specified in the Instructions to Bidders to be considered responsive. The failure to include the required list of subcontractors is a material responsiveness deficiency. Contractor X's bid is rejected as nonresponsive, and the contract is awarded to Contractor Y as the lowest responsive, responsible bidder at \$1,920,000.

10. A — Actual costs: \$1,050,000. Fixed fee: \$80,000. Subtotal: \$1,130,000. GMP: \$1,200,000. Savings below GMP: $\$1,200,000 - \$1,130,000 = \$70,000$. Contractor's share at 40%: $\$70,000 \times 0.40 = \$28,000$. Total contractor compensation: $\$1,050,000 + \$80,000 + \$28,000 = \$1,158,000$. The savings sharing provision incentivizes the contractor to control costs below the GMP.

11. B — The performance bond guarantees the owner that the contractor will complete the work in accordance with the contract terms. The payment bond guarantees subcontractors, suppliers, and laborers that they will be paid for their work and materials. The two bonds protect different parties against different risks — the performance bond protects the owner, while the payment bond protects the downstream participants.

12. D — The contractor followed the subcontract's prescribed termination procedures: written notice of the default was provided, the seven-day cure period was allowed to expire without the subcontractor correcting the deficiency, and a termination notice was then issued. Strict compliance with the contractual notice and cure requirements is essential to ensure the termination is valid and not deemed wrongful.

13. A — The additional insured endorsement and the indemnification clause work as complementary protections. The subcontractor's CGL policy responds directly to the general contractor's defense and liability through the additional insured endorsement, providing immediate insurance coverage. The indemnification clause obligates the subcontractor to cover any costs or liabilities that fall outside or exceed the insurance coverage, creating a layered protection system.

14. C — The contract establishes a binding completion date. The owner cannot unilaterally change that date without the contractor's agreement. If the owner directs acceleration, it constitutes a change in the contract terms, and the contractor is entitled to additional compensation for the documented acceleration costs — overtime, additional crews, expedited deliveries, and extended supervision. The contractor should document all acceleration costs carefully.

15. A — A valid arbitration clause in a construction contract is generally enforceable, and courts will compel arbitration when one party attempts to bypass the clause and file a lawsuit instead. The Federal Arbitration Act and Ohio law both support enforcement of arbitration agreements. The contractor agreed to arbitration when signing the contract and is bound by that agreement regardless of the dispute amount.

16. D — The critical path can shift during construction when actual progress differs from the original plan. If a previously noncritical activity is delayed and consumes all its float, it becomes critical. If a previously critical activity is completed ahead of schedule, it may create float on that path while another path becomes the new longest path. Schedule updates must recalculate the critical path based on actual progress.

17. C — Concealing work before the required building official inspection is approved is a serious procedural violation. The drywall installation must be stopped immediately, and the electrical roughin must remain exposed and accessible for the building inspector to examine. If the work is concealed, the building official may require the drywall to be removed at the contractor's expense to conduct the inspection.

18. B — Final lien waivers from the contractor, all subcontractors, and all suppliers are the standard documents required to facilitate release of retainage. These waivers confirm that everyone has been paid in full and that no lien claims exist or will be filed against the property. The property owner and the owner's lender will not release retainage without these waivers because they protect against future lien encumbrances.

19. A — Comprehensive project documentation created during construction is far more credible than testimony reconstructed from memory years later. Daily reports, photographs, meeting minutes, and correspondence provide contemporaneous evidence of what actually happened — crew sizes, work sequences, site conditions, and communications — that can prove or disprove allegations of defective work, delay, or noncompliance.

20. B — Asbuilt drawings document the actual installed conditions so the property owner has an accurate record of where utilities, systems, and components are located. The relocated water main is now twelve feet east of where the original drawings showed it. Without asbuilt documentation, future maintenance workers, plumbers, or excavation contractors could damage the water main by digging where the original plans indicated it should be.

21. D — Base premium: $(\$620,000 \div \$100) \times \$9.20 = 6,200 \times \$9.20 = \$57,040$. Adjusted premium: $\$57,040 \times 0.78 \text{ EMR} = \$44,491.20$, approximately \$44,492. The EMR of 0.78 reflects better than average safety performance, producing a twentytwo percent discount on the base premium. This demonstrates the direct financial reward of maintaining a strong safety record.

22. C — OSHA recordability is determined by the treatment received and the outcome, not by whether the employee visited a doctor. The doctor recommended only ice and overthecounter medication — both of which are classified as first aid under OSHA's definitions. The employee had no lost work time, no restricted duty, and no job transfer. Since only first aid was administered and no other recording criteria were met, the injury is not recordable.

23. B — A worker at eighteen feet with no fall protection is exposed to a hazard with substantial probability of death or serious physical harm — OSHA's definition of a serious violation. The construction fall protection standard requires protection at six feet, and eighteen feet is well above that

threshold. The absence of any fall protection system — guardrails, harness, or nets — makes this a clear serious citation.

24. A — A visitor who slips and falls in the contractor's office lobby is a thirdparty bodily injury claim covered under the premises liability portion of the contractor's CGL policy (Coverage A — premises and operations). Workers' compensation covers only employee injuries, not visitor injuries. The CGL policy is specifically designed to cover bodily injury to third parties on the contractor's premises.

25. D — When a valid payment bond claim is filed and the surety determines the claim has merit, the surety pays the claimant directly. The surety then exercises its contractual right to seek full reimbursement from the bonded contractor (the principal). Surety bonds are not insurance — the surety expects zero losses and has indemnification agreements that allow recovery of every dollar paid from the defaulting contractor.

26. B — Compliance with safety rules and basic jobsite coordination are standard requirements for everyone on a construction site — employees and independent contractors alike. These do not negate the strong independent contractor indicators: significant capital investment (\$120,000 welding rig), personal insurance, advertising to multiple clients, independent scheduling, and perproject invoicing. The totality of the relationship — not a single factor — determines classification.

27. A — The DavisBacon Act requires payment of the full prevailing wage, which includes both the base hourly rate and the fringe benefit amount specified in the wage determination. The fringe benefits must be paid either as bona fide contributions to benefit plans or as additional cash wages. Paying only the base rate and ignoring the fringe component is a prevailing wage violation subject to backpay awards and potential debarment.

28. C — Asking a female candidate about her plans to have children is a form of sex discrimination because it targets a characteristic — pregnancy and childbearing — that applies only to women. This question violates both Title VII and the Ohio Civil Rights Act, which prohibit employment decisions based on sex, including pregnancy. Interview questions must be jobrelated and applied equally to all candidates regardless of sex.

29. D — COBRA requires employers with twenty or more employees to offer terminated employees the option to continue group health coverage at their own expense for up to eighteen months after termination for most qualifying events. Certain qualifying events — such as disability of the covered employee — may extend the continuation period. The employer must provide COBRA notice within fourteen days of the qualifying event.

30. B — Revised total estimated cost: \$810,000. Revised expected total profit: \$900,000 – \$810,000 = \$90,000. At sixty percent completion, revised gross profit recognized to date: $60\% \times \$90,000 = \$54,000$. The percentageofcompletion method requires recalculation when cost estimates change. The upward cost revision reduced the expected total profit from \$180,000 to \$90,000, and the recognized profit to date drops proportionally.

31. A — Net profit margin = net operating income \div total revenue \times 100 = $\$66,000 \div \$1,800,000 \times 100 = 3.67\%$. Net profit margin measures what percentage of every revenue dollar remains as profit after all direct costs and overhead are paid. A 3.67% net margin is thin but within the typical range for construction contractors, where net margins of three to ten percent are common.

32. B — The contractor applies \$40,000 to pay down the line of credit: $\$180,000 - \$40,000 = \$140,000$ new outstanding balance. Available credit = $\$250,000$ credit limit – $\$140,000$ outstanding = $\$110,000$. A revolving line of credit allows the contractor to borrow, repay, and borrow again as needed. Paying down the balance increases available credit for future draws.

33. D — The Ohio Commercial Activity Tax is a gross receipts tax calculated on total revenue received, not on net income. The \$500,000 in gross receipts is the relevant figure for CAT purposes. Whether the business earns a profit or operates at a loss is irrelevant to the CAT calculation — the tax is based on the total money coming in, not the net amount retained after expenses.

34. C — Equipment purchased out of state without paying Ohio sales tax is subject to Ohio use tax when brought into Ohio for use, storage, or consumption. The use tax rate equals the Ohio sales tax rate. The contractor must self-assess and remit the use tax to the Ohio Department of Taxation. The use tax prevents taxpayers from avoiding Ohio tax by purchasing from outofstate sellers.

35. A — A subcontractor who never serves a Notice of Furnishing does not automatically lose all lien rights — but the lien is limited. Without a notice, the lien covers only the value of work performed within the twentyone days before the lien affidavit filing date. However, on the exam this question tests the general principle that failure to serve the Notice of Furnishing severely restricts lien rights, and the subcontractor cannot lien for the full \$180,000 of work performed over the entire project duration.

36. D — Under Ohio law, the claimant must file a foreclosure lawsuit to enforce the mechanic's lien within six years after the date the lien affidavit was filed with the county recorder. The lien was filed on March 10, so the enforcement deadline is six years from that date. If no foreclosure action is filed within this period, the lien expires permanently.

37. B — A conditional lien waiver becomes effective only when the stated condition is met — receipt of the specified payment by the subcontractor. The owner paid the general contractor, but the general contractor did not forward the payment to the subcontractor. Since the subcontractor has not actually received the \$45,000, the condition has not been satisfied and the waiver is not effective. The subcontractor's lien rights for that amount remain intact.

38. A — Workers' compensation is the exclusive remedy for workplace injuries in Ohio. The exclusive remedy doctrine means that an employee who is injured on the job generally cannot sue the employer for negligence — the employee's sole remedy is the workers' compensation system. There are limited exceptions, such as intentional torts by the employer, but standard negligence claims against the employer are barred.

39. C — Title VII requires fifteen or more employees for coverage. This employer with eight employees falls below that threshold and is not covered by Title VII. However, the Ohio Civil Rights Act covers employers with four or more employees, so this employer is covered by Ohio's antidiscrimination law even though it is exempt from the federal law. Ohio's lower threshold extends protection to many small businesses.

40. D — The change order log provides a complete, realtime record of all contract modifications — approved, pending, and rejected. It enables the project manager to track the cumulative financial impact of changes, identify unresolved items that need attention, monitor trends in change activity, and maintain an accurate picture of the current contract value. Without this log, changes can fall through the cracks and financial exposure can accumulate unnoticed.

41. C — OSHA holds the employer responsible for enforcing PPE use in the workplace. The employer must ensure that required PPE is worn, even when employees resist or complain. If the safety glasses fog up, the employer should provide antifog alternatives or ventilated frames — not allow the worker to go without eye protection. OSHA can cite the employer for the employee's noncompliance with PPE requirements.

42. D — OSHA's competent person definition requires two elements: the ability to identify existing and predictable hazards and the authority to take prompt corrective measures. This laborer has minimal training, no practical experience evaluating soil conditions, and no authority to remove workers from the trench. Both elements are missing. A twohour seminar alone does not create the capability to independently identify excavation hazards in the field.

43. A — Ohio law requires employers to report all new hires to the Ohio New Hire Reporting Center within twenty days of the employee's start date. All three employees hired on the same day must be reported within twenty days. New hire reporting is used primarily for child support enforcement but applies to all new hires regardless of the purpose.

44. B — Total hours: $9 + 10 + 8 + 11 + 8 = 46$ hours. Under the FLSA, overtime is calculated on a workweek basis: $46 - 40 = 6$ overtime hours. Regular pay: $40 \times \$38.00 = \$1,520.00$. Overtime pay: $6 \times \$57.00 (1.5 \times \$38.00) = \$342.00$. Total: $\$1,520.00 + \$342.00 = \$1,862.00$. Federal law does not require daily overtime — only hours exceeding forty in the workweek trigger the overtime premium.

45. D — Taxable gross receipts above \$1,000,000: $\$4,500,000 - \$1,000,000 = \$3,500,000$. CAT liability: $\$3,500,000 \times 0.0026 = \$9,100$. The 0.26% rate applies only to the portion of gross receipts exceeding the \$1,000,000 threshold. The CAT is a gross receipts tax calculated on total revenue, not on net income or profit.

46. C — The contractor's total financial cushion includes both the cash reserve and the available line of credit. Cash reserve: $2 \text{ months} \times \$85,000 = \$170,000$. Available line of credit: $\$75,000$. Total cushion: $\$170,000 + \$75,000 = \$245,000$. This exceeds the \$140,000 receivable loss, meaning the contractor can absorb the loss without immediate financial distress — though the cushion will be significantly depleted.

47. A — Audited financial statements have been independently examined by a certified public accountant who verifies the accuracy and completeness of the financial data. This independent verification gives the surety significantly greater confidence in the financial statements than internally prepared statements, which have not been independently verified. Sureties extending significant bonding capacity require this level of assurance to make sound underwriting decisions.

48. B — SEPIRA contributions are taxdeductible, meaning they reduce the contractor's taxable income in the year the contribution is made. On \$170,000 of net selfemployment income, a maximum SEPIRA contribution can reduce taxable income by tens of thousands of dollars, producing a corresponding reduction in both income tax and potentially selfemployment tax. The funds grow taxdeferred until withdrawal in retirement.

49. D — When a property owner posts a bond to discharge a mechanic's lien from the property, the bond amount is typically set at one hundred twentyfive to one hundred fifty percent of the lien claim amount. For a \$120,000 lien, the bond would be approximately \$150,000 to \$180,000. The additional amount above the lien covers potential interest, attorney's fees, and costs that the claimant might recover if the claim is found valid.

50. C — Under the Miller Act, a firsttier subcontractor with a direct contract with the prime contractor can file a claim against the payment bond without providing any preliminary notice. The ninetyday written notice requirement applies only to secondtier claimants — subsubcontractors and suppliers who do not have a direct contract with the prime. The firsttier subcontractor's direct contractual relationship with the bonded contractor provides sufficient identification without separate notice.