

# PRACTICE EXAM 7: OHIO BUSINESS AND LAW SIMULATION (50 QUESTIONS)

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**50 Questions — 120 Minutes Recommended**

1. A licensed plumbing contractor forms an LLC and designates it as managermanaged in the operating agreement. The contractor appoints a nonmember professional manager to handle daily operations while the contractormember focuses on field work. A supplier extends \$50,000 in credit to the LLC and the manager signs the credit agreement on behalf of the LLC. The LLC defaults on the payment. What is the contractormember's personal financial exposure for this debt?

- A. The full \$50,000 because the contractor is the sole member and ultimately controls the LLC
- B. Generally limited to the contractor's capital investment in the LLC because the LLC's debts are the entity's obligations not the member's
- C. Half of the \$50,000 because the manager who signed the agreement shares personal liability equally
- D. The full \$50,000 plus the manager's salary because the member is vicariously liable for all manager actions

2. An Ohio contractor operates a refrigeration business as an Scorporation. The contractorshareholder pays herself a salary of \$85,000 and takes \$65,000 in shareholder distributions. For federal tax purposes, what is the total amount subject to FICA payroll taxes?

- A. \$150,000 because all Scorporation income is subject to FICA regardless of how it is distributed
- B. \$65,000 because only shareholder distributions are subject to FICA in an Scorporation
- C. \$85,000 because only the salary portion is subject to FICA while distributions are not
- D. Zero because Scorporation income is exempt from all payroll taxes including FICA

3. A contractor's business plan includes a SWOT analysis identifying Strengths, Weaknesses, Opportunities, and Threats. The analysis notes that a new state infrastructure program will fund \$500 million in commercial construction over the next five years. This finding is classified as which element of the SWOT analysis?

- A. An opportunity because it represents an external factor that could positively affect the business
- B. A strength because it demonstrates the contractor's ability to secure government contracts
- C. A threat because increased government spending typically leads to labor shortages in the market
- D. A weakness because the contractor has not yet secured any contracts from the program

4. An applicant for an OCILB electrical contractor license provides documentation of four years of experience as a licensed electrical contractor in Pennsylvania, plus one year as an electrical tradesperson in Ohio. The applicant applies under the standard fiveyear experience pathway. Does this combination satisfy the OCILB experience requirement?

- A. Yes because any combination of licensed contractor and tradesperson experience totaling five years qualifies
- B. Yes because Pennsylvania experience is automatically recognized under interstate reciprocity agreements
- C. No because only Ohio-based experience counts toward the OCILB fiveyear requirement
- D. The OCILB evaluates outofstate experience on a casebycase basis and may accept it if it meets the Board's criteria for equivalent experience

5. A contractor's OCILB license is suspended for failure to maintain the required \$500,000 general liability insurance. The contractor immediately obtains new coverage and submits the certificate of insurance to the OCILB. During the threeday gap between suspension and reinstatement, the contractor continued working on an active commercial project. What is the legal consequence?

- A. No consequence because the threeday gap is within the standard grace period for insurance lapses
- B. The contractor performed licensed work without a valid license during the suspension period in violation of Ohio law
- C. The consequence is limited to a written warning from the OCILB with no further penalty

D. The project owner assumes all liability for work performed during the contractor's suspension period

6. A contractor's estimator discovers that the project specifications require a specific manufacturer's valve that is fifty percent more expensive than the standard valve typically used for the same application. The estimator substitutes the standard valve in the estimate to submit a more competitive bid, planning to request a substitution after award. What is the risk of this approach?

- A. No risk because postaward substitution requests are routinely approved by architects
- B. The approach creates only a schedule risk because substitutions add time to the submittal review process
- C. The contractor is bound to furnish the specified valve and if the substitution is denied the contractor absorbs the cost difference
- D. The project owner will automatically approve the substitution if the contractor provides documentation of equal performance

7. An estimator calculates that a project requires 2,400 labor hours to complete. The estimator uses a base wage of \$36.00 per hour in the bid but forgets to include payroll taxes, workers' compensation, benefits, and paid time off — the fully loaded burden. The actual fully loaded rate is \$54.00 per hour. What is the dollar amount of the estimating error?

- A. \$43,200 calculated as 2,400 hours multiplied by the \$18.00 difference between the base wage and fully loaded rate
- B. \$86,400 calculated as 2,400 hours multiplied by the base wage of \$36.00
- C. \$129,600 calculated as 2,400 hours multiplied by the fully loaded rate of \$54.00
- D. \$21,600 calculated as half the difference between the two rates applied to the total hours

8. A contractor submits a bid on a public highway project. The bid includes a five percent bid bond as required. After bid opening, the contractor discovers a \$180,000 mathematical error that makes the project unprofitable. The bid bond amount is \$95,000. If the contractor refuses to execute the contract and the next lowest bid is \$120,000 higher, what is the surety's maximum payment obligation?

- A. \$180,000 equal to the full amount of the contractor's estimating error
- B. \$120,000 equal to the difference between the defaulting bid and the next lowest bid
- C. Zero because mathematical errors are an accepted exception to bid bond forfeiture
- D. \$95,000 which is the penal amount of the bid bond regardless of the actual cost difference

9. A construction contract requires the owner to provide the contractor with access to the building's existing mechanical room by March 1 so the contractor can begin the HVAC retrofit. The owner does not provide access until March 22 due to a delay in relocating existing tenants. The contractor's work is delayed by twentyone days. The contract requires written notice of delay claims within seven days of the event. The contractor sends written notice on March 28. Has the contractor preserved the delay claim?

- A. No because the notice was sent twentyseven days after the originally promised access date of March 1
- B. Yes because the notice was sent within seven days of the actual date access was provided on March 22
- C. No because delay claims arising from owner actions are not compensable under standard contract provisions
- D. Yes because the seven day notice period begins when the contractor first discovers the financial impact of the delay

10. A general contractor awards a mechanical subcontract to an HVAC company. The subcontract includes a flowdown clause incorporating the prime contract by reference. The prime contract requires all contractors to maintain a sitespecific safety plan and conduct weekly toolbox talks. The HVAC subcontractor does not maintain a safety plan or conduct toolbox talks. Who is primarily liable for the subcontractor's safety noncompliance?

- A. The project owner because the owner established the safety requirements in the prime contract
- B. The prime contract architect because the architect administers the contract and approves all safety plans
- C. Both the general contractor and the subcontractor because the GC has overall site safety responsibility and the subcontractor is bound by the flowdown clause
- D. Only the subcontractor because the flowdown clause makes the subcontractor solely responsible for its own compliance

11. A commercial construction project has a contract price of \$2,000,000 with ten percent retainage held on all progress payments. The contractor has completed ninety percent of the work and submitted progress billings totaling \$1,800,000. How much retainage has the owner accumulated?

- A. \$200,000 representing ten percent of the total contract price
- B. \$20,000 representing ten percent of the remaining contract balance
- C. \$1,800,000 representing the total billed amount before any retainage deduction
- D. \$180,000 representing ten percent of the total progress billings submitted to date

12. A contractor on a commercial project discovers that the foundation walls are six inches out of plumb — a significant deviation from the structural drawings. The framing subcontractor refuses to begin work until the foundation issue is resolved. The contractor believes the foundation subcontractor is responsible. Before taking any other action, what should the general contractor do?

- A. Document the condition with photographs and measurements and immediately notify the project owner and architect in writing
- B. Direct the framing subcontractor to proceed with work and adapt the framing to the outofplumb foundation
- C. Withhold all future payments to the foundation subcontractor until the deficiency is corrected at no cost
- D. File a mechanic's lien against the property to secure compensation for the anticipated delay costs

13. A contractor enters into a costplusfixedfee contract with a fee of \$60,000. During the project, the owner requests numerous changes that increase the total project cost from the original estimate of \$400,000 to \$580,000. The contractor's fee remains at \$60,000 as stated in the contract. What is the contractor's financial concern with this arrangement?

- A. The contractor has no concern because the increased costs are fully reimbursed by the owner
- B. The contractor's overhead costs have increased proportionally but the fixed fee does not increase to cover them
- C. The contractor is obligated to absorb costs above \$400,000 because the original estimate functions as a guaranteed maximum
- D. The contractor must reduce the fixed fee proportionally as project costs exceed the original estimate

14. A property owner hires a designbuild contractor to design and construct a commercial warehouse. The designbuild contract makes the contractor responsible for both design and construction. A design error causes a structural failure that requires \$200,000 in repairs. Under this contract structure, who is responsible for the design error?

- A. The project architect who prepared the structural drawings under the designbuild team
- B. The designbuild contractor because the single contract makes the contractor responsible for both design and construction errors
- C. The property owner because the owner selected the designbuild delivery method accepting the associated risks
- D. The structural engineer's professional liability insurer regardless of the contract structure

15. A contractor on a commercial office project discovers that the specifications require fire-rated assemblies in locations where the drawings show standard nonrated assemblies. The contractor submits an RFI to the architect. While waiting for the response, the contractor installs the less expensive nonrated assemblies to maintain the schedule. The architect's RFI response confirms that fire-rated assemblies are required. What is the consequence for the contractor?

- A. The owner must pay for the cost of replacing the nonrated assemblies because the documents were conflicting
- B. The contractor bears no cost because the RFI response came after the installation was complete
- C. The architect is responsible for the replacement cost because the architect created the conflicting documents
- D. The contractor must remove the nonrated assemblies and install fire-rated assemblies at the contractor's expense because the contractor proceeded at risk before receiving the RFI response

16. A contractor on a large commercial project creates a resource-loaded CPM schedule. The schedule shows that weeks six through eight require eighty-five workers across all trades, while weeks nine through eleven require only thirty workers. The project manager wants to reduce this staffing peak. Which scheduling technique should the project manager apply?

- A. Resource leveling by shifting noncritical activities within their available float to redistribute workforce demand more evenly

- B. Schedule compression by adding a second shift during weeks six through eight to reduce the peak crew count
- C. Fasttracking by overlapping sequential activities to eliminate the need for the peak workforce entirely
- D. Scope reduction by deferring nonessential work packages to a separate future phase of the project

17. A contractor reaches substantial completion on a commercial project on June 15. The architect issues the Certificate of Substantial Completion on June 15 with a punch list of thirtytwo items. The contract requires punch list completion within fortyfive days. On August 5 — fiftyone days after substantial completion — eight punch list items remain unresolved. The contractor has not communicated with the owner about the delay. What professional consequences may the contractor face?

- A. Automatic termination of the contract because the punch list deadline constitutes a material milestone
- B. Delayed release of retainage and potential damage to the contractor's professional reputation and future bid opportunities
- C. Reinstatement of liquidated damages at the full daily rate for each day beyond the fortyfiveday deadline
- D. Forfeiture of the entire contract balance including all previously earned progress payments

18. A general contractor's project manager holds weekly coordination meetings with all subcontractors on a commercial project. The project manager distributes meeting minutes within fortyeight hours of each meeting. One subcontractor claims they were never told about a schedule change discussed at the meeting three weeks ago. The meeting minutes clearly document the schedule change discussion and the subcontractor's representative is listed as an attendee. What is the value of the meeting minutes in this situation?

- A. The minutes are irrelevant because verbal communication at the meeting is the binding form of notice
- B. The minutes can be used as marketing materials to demonstrate the project manager's organizational skills
- C. The minutes serve as a contemporaneous written record that the schedule change was communicated to all attendees including the subcontractor's representative

D. The minutes are admissible only if every attendee signed the minutes at the conclusion of the meeting

19. A contractor's CGL policy has a \$2,000,000 peroccurrence limit and a \$4,000,000 general aggregate limit. During the policy year, a scaffold collapse injures three workers from other trades resulting in total claims of \$3,500,000. The contractor also has a separate slipandfall claim from a project visitor for \$800,000. What is the total the CGL policy will pay across both incidents?

A. \$2,800,000 because the peroccurrence limit caps the scaffold claim at \$2,000,000 and the slipandfall at \$800,000

B. \$4,000,000 because the general aggregate limits all claim payments during the policy year regardless of peroccurrence limits

C. \$3,500,000 because the scaffold collapse claim is paid in full and the slipandfall is excluded as a separate occurrence

D. \$4,300,000 because each incident is paid up to the peroccurrence limit independently of the aggregate

20. An Ohio contractor's workers' compensation experience modification rate improves from 1.20 to 0.85 over four years. The contractor's annual base premium before EMR adjustment is \$65,000. What is the annual premium difference between the old and new EMR?

A. \$22,750 calculated by comparing the premium at 1.20 EMR to the premium at 1.0 EMR only

B. \$35,000 calculated by multiplying the base premium by the difference in EMR values

C. \$12,025 calculated by multiplying the new EMR by the base premium difference

D. \$22,750 calculated as  $(\$65,000 \times 1.20)$  minus  $(\$65,000 \times 0.85)$  representing the full premium swing

21. A project owner requires the general contractor to add the owner as an additional insured on the contractor's CGL policy. The contractor's insurance agent adds the owner using an endorsement that provides coverage for the owner only during the contractor's ongoing operations — not after project completion. Two years after project completion, a defect in the contractor's work causes damage, and the owner is sued. Is the owner covered under the additional insured endorsement?

- A. No because the endorsement covers only ongoing operations and the claim arose after project completion
- B. Yes because all additional insured endorsements automatically extend to completed operations
- C. No because additional insured status cannot extend beyond one year from the date of policy issuance
- D. Yes because the owner's name on the endorsement provides unlimited coverage regardless of timing

22. An Ohio electrical contractor's total annual payroll is \$480,000. The BWC classification rate for electrical contractors is \$7.80 per \$100 of payroll. The contractor's EMR is 1.10. After implementing a comprehensive safety program, the EMR drops to 0.90 in the following year. Assuming the same payroll and classification rate, what is the annual premium savings from the EMR improvement?

- A. \$7,488 calculated by multiplying the payroll by the difference in classification rates
- B. \$3,744 calculated by applying the EMR difference to half the annual payroll
- C. \$7,488 calculated as the base premium of \$37,440 multiplied by the 0.20 EMR reduction
- D. \$9,360 calculated by multiplying the EMR difference by the total payroll divided by one hundred

23. A surety company declines to issue a performance bond for a contractor on a \$1,500,000 public project. The surety cites the contractor's declining working capital, high accounts receivable aging, and a debttoequity ratio of 4.5. Which of the "three Cs" of surety underwriting is the primary concern?

- A. Character because the financial decline suggests poor management judgment and business practices
- B. Capital because the financial metrics — working capital, receivables aging, and debttoequity — all relate to financial strength
- C. Capacity because the contractor's financial weakness limits the ability to take on new project commitments
- D. All three Cs are equally concerning because financial weakness affects every aspect of the surety evaluation

24. A contractor's insurance broker recommends adding a waiver of subrogation endorsement to the contractor's CGL policy for a specific project. What does a waiver of subrogation prevent?

- A. It prevents the contractor from filing claims against the owner's property insurance for jobsite damage
- B. It prevents the project owner from requiring additional insured status on the contractor's policy
- C. It prevents the contractor's employees from filing workers' compensation claims for jobsite injuries
- D. It prevents the contractor's insurance company from suing another project participant to recover amounts paid on a claim

25. Under OSHA's construction standards, a competent person is required for scaffold operations. The competent person must inspect the scaffold before each work shift and after certain events. Which of the following events requires an additional competent person inspection?

- A. Any occurrence that could affect the scaffold's structural integrity such as a severe storm, impact damage, or unauthorized modification
- B. Any change in the number of workers using the scaffold during the work shift
- C. The end of each twohour work period during which the scaffold is continuously occupied
- D. The arrival of any new trade that was not present when the scaffold was originally erected

26. A contractor employs twenty workers on a commercial project. During the year, one worker sustains a recordable injury — a fractured wrist that requires medical treatment and results in five days away from work. The contractor records the injury on OSHA Form 300 and completes Form 301. At year end, the contractor prepares Form 300A but forgets to post it. What OSHA violation has occurred?

- A. No violation because the contractor maintained Forms 300 and 301 and the posting requirement is advisory
- B. A recordkeeping violation because the 300A summary was prepared but the employer failed to comply with the requirement to post it
- C. A recordkeeping violation because Form 300A must be posted from February 1 through April 30 of the following year
- D. No violation because employers with fewer than twentyfive workers are exempt from posting the 300A summary

27. A contractor provides fall protection training to all workers at the beginning of a project. Four months later, the contractor introduces a new type of selfretracting lifeline that the workers have not used before. The contractor distributes the new equipment without additional training. An OSHA inspector asks to see documentation that the workers were trained on the new equipment. What OSHA requirement has the contractor potentially violated?

- A. The initial training requirement because the original training should have covered all possible equipment types
- B. The competent person requirement because only a competent person can distribute fall protection equipment
- C. The annual refresher training requirement mandating retraining every twelve months regardless of equipment changes
- D. The retraining requirement triggered when new equipment is introduced that the workers have not been previously trained on

28. A construction foreman notices that a worker from another trade has entered a trench that is seven feet deep with no protective system in place. The foreman's company did not excavate the trench and has no contractual relationship with the other trade's employer. Does the foreman have any obligation under OSHA?

- A. No because the foreman's employer did not create the hazard and has no authority over the other trade
- B. Yes because all construction workers have a general duty to report observed hazardous conditions to the site superintendent or the responsible employer
- C. No because OSHA holds only the excavating contractor responsible for trench safety conditions
- D. Yes but only if the foreman holds a formal competent person designation for excavation operations

29. An Ohio employer classifies a group of drywall installers as independent contractors. The installers work exclusively for this employer, use the employer's tools and materials, follow the employer's daily work schedule, receive detailed instructions on installation methods, and are paid an hourly rate. A BWC audit reclassifies the workers as employees. In addition to back premiums and penalties, what other agencies may pursue the employer for misclassification?

- A. Only the OCILB because misclassification is exclusively a licensing violation

- B. Only the Ohio Department of Taxation because misclassification is exclusively a tax issue
- C. The IRS for unpaid payroll taxes, the Ohio Department of Taxation for state withholding, and the Ohio Department of Job and Family Services for unemployment insurance
- D. Only the U.S. Department of Labor because misclassification is exclusively a federal wage and hour issue

30. An Ohio contractor's nonexempt field supervisor works fortyfive hours in a single workweek. The supervisor's regular rate is \$42.00 per hour. The employer pays the supervisor a flat weekly salary of \$1,890.00 regardless of hours worked. Under the FLSA, is the supervisor's compensation compliant for this workweek?

- A. No because the supervisor earned only \$1,890 but is owed \$2,205 which includes 40 hours at \$42.00 plus 5 hours at \$63.00 overtime
- B. Yes because salaried employees are automatically exempt from overtime requirements under federal law
- C. No because nonexempt employees cannot legally be paid a salary and must be converted to hourly pay
- D. Yes because the \$1,890 salary exceeds the minimum wage for fortyfive hours at the federal rate

31. A contractor on a DavisBacon covered project pays a plumber \$48.00 per hour — the required base rate — plus \$14.00 per hour in cash in lieu of fringe benefits. The prevailing wage determination requires \$48.00 base plus \$21.50 in fringe benefits. Is the contractor in compliance?

- A. Yes because the contractor is paying the correct base rate and fringe benefits are optional
- B. No because the contractor paid only \$48.00 base plus \$14.00 fringe totaling \$62.00 which is less than the required \$48.00 plus \$21.50 totaling \$69.50
- C. The contractor is in compliance because total compensation of \$62.00 exceeds the base rate by \$14.00
- D. Compliance cannot be determined without knowing whether the plumber is a union member

32. An Ohio employer with twelve employees receives a complaint from a worker alleging racial harassment by a coworker. The employer investigates and determines the complaint has merit. The employer counsels the offending employee but takes no further disciplinary action. The harassment continues. The victim files a complaint with the Ohio Civil Rights Commission. What is the employer's primary legal exposure?

- A. No exposure because the employer investigated the complaint and counseling satisfies the legal obligation
- B. Liability for hostile work environment harassment because the employer failed to take effective corrective action to stop the harassment after learning about it
- C. Liability only if the employer can be shown to have directly participated in the harassing conduct
- D. No exposure because employers with fewer than fifteen employees are exempt from all harassment liability

33. Under the percentage of completion method, a contractor has a project with a contract price of \$750,000. The original estimated total cost is \$600,000. Costs incurred to date total \$450,000. A change order adds \$50,000 to the contract price and \$40,000 to the estimated total cost. What are the revised percentage complete and revenue recognized to date?

- A. Seventy percent complete with \$560,000 in revenue recognized based on the revised contract price and cost estimates
- B. Seventyfive percent complete with \$562,500 in revenue recognized based on the original estimates only
- C. Sixty percent complete with \$480,000 in revenue recognized using only the original contract figures
- D. Sixtyfive percent complete with \$520,000 in revenue recognized using an average of original and revised estimates

34. A contractor's cash flow projection shows that the company will exhaust its cash reserve and line of credit within sixty days if a major customer does not pay a \$220,000 outstanding invoice that is ninety days past due. The contractor has sent three written collection notices with no response. What is the most aggressive legal collection tool available to the contractor if the project was on private commercial property?

- A. Filing a complaint with the Ohio Attorney General's consumer protection division for commercial fraud

- B. Withholding all warranty service on the customer's property until the outstanding invoice is satisfied
- C. Filing a lawsuit in the court of common pleas for breach of contract and money damages
- D. Filing a mechanic's lien against the customer's property to encumber the title and force resolution

35. An Ohio contractor earns \$280,000 in net selfemployment income and makes no estimated tax payments throughout the year. At filing time, the contractor owes \$52,000 in federal income tax and \$39,000 in selfemployment tax. The contractor pays the full \$91,000 balance with the tax return filed on time. What penalty applies?

- A. No penalty because the full tax liability was paid by the April filing deadline
- B. An estimated tax underpayment penalty calculated on the quarterly amounts that should have been paid throughout the year
- C. A failure to file penalty of five percent per month on the unpaid balance
- D. A trust fund recovery penalty for failing to deposit selfemployment tax quarterly

36. An Ohio contractor purchases \$22,000 in HVAC equipment from an outofstate online retailer. The retailer collects \$1,430 in Ohio sales tax at the point of purchase and remits it to Ohio. The contractor installs the equipment on a private commercial project in Columbus. Does the contractor owe Ohio use tax on this purchase?

- A. Yes because use tax applies to all outofstate purchases regardless of whether the retailer collected sales tax
- B. Yes because the retailer's collection of sales tax does not satisfy the contractor's separate use tax obligation
- C. No because the retailer already collected and remitted Ohio sales tax eliminating the contractor's use tax obligation
- D. No because HVAC equipment installed on commercial projects is categorically exempt from both sales and use tax

37. A contractor's income statement for the year shows: revenue \$2,100,000, cost of revenue \$1,680,000, general overhead \$315,000, interest expense \$18,000, and income tax provision \$26,100. What is the contractor's gross profit and gross profit margin?

- A. Gross profit is \$420,000 and gross profit margin is twenty percent calculated as gross profit divided by revenue
- B. Gross profit is \$105,000 and gross profit margin is five percent calculated after deducting overhead from gross profit
- C. Gross profit is \$87,000 and gross profit margin is 4.1 percent calculated after all expenses including taxes
- D. Gross profit is \$60,900 and gross profit margin is 2.9 percent calculated as net income divided by revenue

38. A contractor reviews the company's balance sheet and finds a debttoequity ratio of 4.8. The contractor is planning to apply for an increase in bonding capacity. What does a debttoequity ratio of 4.8 indicate about the company's financial structure?

- A. The company has nearly five dollars of debt for every dollar of owner's equity indicating a heavily leveraged balance sheet
- B. The company has positive working capital equal to 4.8 times its monthly operating expenses
- C. The company has nearly five dollars of assets for every dollar of liability indicating strong financial health
- D. The company's annual profit margin is 4.8 percent which meets the minimum bonding threshold

39. A subcontractor on a private commercial project last furnishes labor on July 10. The subcontractor is not paid and files a mechanic's lien affidavit with the county recorder on September 5. The subcontractor serves a copy of the filed affidavit on the property owner on October 20 — fortyfive days after filing. Under Ohio law, was the service on the owner timely?

- A. Yes because the service was within sixty days of the last furnishing of labor
- B. No because Ohio law requires service of the filed affidavit on the property owner within thirty days of filing and October 20 is fortyfive days after the September 5 filing

- C. Yes because there is no statutory deadline for serving the lien affidavit on the property owner
- D. No because service must be completed simultaneously with the filing at the county recorder's office

40. A firsttier subcontractor on a statefunded public project in Ohio furnishes \$175,000 of electrical work and is not paid by the general contractor. The subcontractor has a direct contract with the prime contractor. The subcontractor wants to file a payment bond claim. Under Ohio's public improvement bond requirements, what is the subcontractor's first step?

- A. Review the payment bond terms to determine the specific claim procedures and notice requirements then file a claim against the bond
- B. File a mechanic's lien against the stateowned property as a prerequisite to the bond claim
- C. Request that the public owner withhold future progress payments from the general contractor
- D. File a complaint with the OCILB requesting suspension of the general contractor's license

41. An Ohio contractor places a new \$95,000 work truck into service on October 1. The contractor wants to maximize the firstyear tax deduction using Section 179 expensing. If the truck qualifies under Section 179 and the annual deduction limit has not been reached, what deduction can the contractor claim?

- A. The full \$95,000 purchase price as a Section 179 deduction in the year the truck is placed in service
- B. \$47,500 representing fifty percent of the purchase price with the remainder depreciated over five years
- C. \$19,000 representing straightline depreciation over five years for the first partial year of service
- D. The full \$95,000 but only if the truck is used exclusively for business with zero personal use

42. A contractor's employee works at commercial jobsites in four different Ohio municipalities during the same workweek. Each municipality has its own income tax rate. How does the contractor determine the correct municipal income tax withholding?

- A. Withhold at the rate of the municipality where the contractor's office is located for all hours worked

- B. Withhold at the rate for each municipality based on the hours actually worked in that jurisdiction during the week
- C. Withhold at the highest municipal rate among the four cities and apply it to all hours worked
- D. No withholding is required because employees working in multiple municipalities are exempt from local tax

43. A contractor maintains comprehensive safety records including training logs, inspection reports, incident investigation files, and toolbox talk attendance sheets. During an OSHA inspection following a reportable injury, the compliance officer requests these records. What is the primary benefit of having wellmaintained safety documentation?

- A. The documentation proves the contractor maintained adequate workers' compensation coverage through the BWC
- B. The documentation satisfies the OSHA poster requirement eliminating the need to display the workplace safety poster
- C. The documentation demonstrates the contractor's goodfaith commitment to safety compliance which may reduce the severity of any citations and penalties assessed
- D. The documentation automatically prevents OSHA from issuing any citations regardless of the conditions observed

44. An Ohio employer hires a worker and completes the I9 employment eligibility verification form. The worker presents a state driver's license and a Social Security card as identity and work authorization documents. The employer notices that the name on the Social Security card has a slightly different spelling than the name on the driver's license. What should the employer do?

- A. Ask the employee to explain the discrepancy and if the explanation is reasonable accept the documents because minor variations do not automatically invalidate them
- B. Refuse to hire the worker because any name discrepancy between documents is grounds for automatic rejection
- C. Contact the Social Security Administration to verify the worker's identity before allowing the employee to start
- D. Accept both documents without question because employers are prohibited from questioning identity documents

45. A general contractor on a commercial project receives a claim from a concrete subcontractor for \$85,000 in additional costs due to winter weather conditions that required heated enclosures and accelerated curing methods. The subcontract states that the subcontractor is responsible for "all weatherrelated costs necessary to perform the Work within the Contract schedule." The general contractor denies the claim. Is the denial justified?

- A. No because winter weather is an unforeseeable condition that entitles all subcontractors to additional compensation
- B. No because the general contractor has an implied duty to protect subcontractors from weatherrelated costs
- C. Yes only if the subcontract was executed during the summer months when winter conditions were not contemplated
- D. Yes because the subcontract expressly assigns weatherrelated cost responsibility to the subcontractor

46. A contractor's project has four parallel activity paths through the CPM schedule. Path 1 has a duration of 85 days, Path 2 has 78 days, Path 3 has 91 days, and Path 4 has 83 days. Which path is the critical path and what is the project duration?

- A. Path 1 at 85 days because it contains the most individual activities of any path
- B. Path 3 at 91 days because the critical path is the longest path through the network determining the minimum project duration
- C. Path 2 at 78 days because the critical path is the shortest path allowing the earliest possible completion
- D. All four paths are critical because the project cannot be complete until all paths are finished

47. A contractor on a commercial project performs \$40,000 of extra work at the owner's verbal direction. The contractor documents the work with daily reports, photographs, and timesheets but does not submit a written change order request until three months later. The contract requires change order requests within fourteen days of performing the changed work. The owner refuses to pay. What is the contractor's primary procedural problem?

- A. The daily reports and photographs are inadmissible because they were not countersigned by the owner

- B. The contractor lacks a building permit for the extra work which invalidates any right to payment
- C. The contractor failed to submit the change order request within the contractually required fourteen-day period potentially waiving the right to additional compensation
- D. The contractor must prove the extra work increased the property value before any payment can be claimed

48. An Ohio contractor's workers' compensation annual base premium is \$42,000. The contractor's EMR is 0.88. What is the contractor's actual annual premium after the EMR adjustment?

- A. \$36,960 calculated by multiplying the base premium of \$42,000 by the EMR of 0.88
- B. \$47,727 calculated by dividing the base premium by the EMR
- C. \$42,000 because the EMR adjustment applies only to premiums above \$50,000
- D. \$36,960 minus a \$5,040 safety credit for a net premium of \$31,920

49. A contractor files a mechanic's lien affidavit on a commercial property for \$65,000 on April 15. The property owner pays \$40,000 to settle part of the dispute on June 1 and the contractor accepts the payment. The remaining \$25,000 remains in dispute. What should the contractor do regarding the filed lien?

- A. The original lien is automatically reduced to \$25,000 when the partial payment is received
- B. File an amended lien affidavit reflecting the reduced claim amount of \$25,000 or risk the lien being challenged as overstated
- C. The lien remains at \$65,000 until a court orders the reduction through a formal modification proceeding
- D. File a partial release of lien for the \$40,000 received and maintain the lien for the remaining \$25,000

50. Under the FMLA, an eligible employee at a covered employer takes twelve weeks of unpaid leave to care for a newborn child. When the employee returns to work, what is the employer's obligation regarding the employee's position?

- A. The employer must offer the employee any available position within the company at the same or lower pay grade
- B. The employer must restore the employee to the same position or an equivalent position with equivalent pay, benefits, and terms of employment
- C. The employer has no reinstatement obligation because the leave was unpaid and voluntary
- D. The employer must restore the employee only if the position has not been filled during the twelve-week absence

## Practice Exam 7: Answer Key and Explanations

- 1. B** — An LLC provides limited liability protection to its members. When the LLC incurs a debt — even one signed by an authorized manager — the members' personal assets are generally shielded from the entity's obligations. The contract member's exposure is limited to the capital invested in the LLC, not the full amount of the debt, unless the member personally guaranteed the obligation or the LLC veil is pierced.
- 2. C** — In an S corporation, only the shareholder-employee's salary is subject to FICA payroll taxes (Social Security and Medicare). The \$65,000 in shareholder distributions is not subject to FICA or self-employment tax. This salary-versus-distribution split is the primary tax advantage of the S corp structure, though the salary must meet the IRS reasonable compensation standard.
- 3. A** — In a SWOT analysis, opportunities are external factors that could positively affect the business. A \$500 million state infrastructure program creates new market demand that the contractor can pursue — this is an external opportunity, not an internal strength. Strengths are internal capabilities the company already possesses, while opportunities are external conditions the company can capitalize on.
- 4. D** — The OCILB evaluates out-of-state experience on a case-by-case basis under the equivalent experience pathway. The Board has discretion to accept experience from other states if it finds the experience acceptable as a substitute for Ohio-specific trade experience. There is no automatic acceptance of out-of-state experience, nor is out-of-state experience categorically rejected — the Board reviews the specifics.
- 5. B** — Performing licensed trade work during a period when the OCILB license is suspended is a violation of Ohio law, regardless of how brief the suspension or how quickly coverage is restored. The three-day gap means the contractor operated without a valid license. Consequences can include fines, disciplinary action, and potential loss of lien rights for work performed during the suspension.
- 6. C** — If the architect denies the substitution request, the contractor is contractually obligated to furnish the specified valve at the specified price. The contractor bid based on a less expensive product that was not specified, and the risk of substitution denial falls entirely on the contractor. Bidding based on anticipated substitutions without disclosing the intent in the bid is a risky strategy that can produce significant cost exposure.

**7. A** — The estimating error equals the difference between the base wage and the fully loaded rate multiplied by the total labor hours:  $(\$54.00 - \$36.00) \times 2,400 = \$18.00 \times 2,400 = \$43,200$ . This \$43,200 shortfall represents labor costs that the bid does not cover. Using the base wage instead of the fully loaded rate is one of the most common and costly estimating errors in construction.

**8. D** — The surety's maximum payment obligation under a bid bond is limited to the penal amount of the bond — \$95,000 in this case. Even though the difference between the defaulting bid and the next lowest bid is \$120,000, the surety pays only up to the bond amount. The remaining \$25,000 beyond the bond is the owner's unrecovered loss, which is why some owners require higher bid bond percentages.

**9. B** — The seven-day notice period begins when the event giving rise to the claim occurs. The contractor's claim is based on the owner's failure to provide access, which became actionable when access was finally provided on March 22. Written notice sent on March 28 is within seven days of March 22. The relevant date is when the delay-causing event occurred, not the originally scheduled access date.

**10. C** — Both parties bear responsibility. The general contractor has overall site safety responsibility under the prime contract and OSHA's multiemployer citation policy. The subcontractor is bound by the flowdown clause to comply with the prime contract's safety requirements. The GC can be cited as the controlling employer, and the subcontractor can be cited as the exposing or creating employer for its own noncompliance.

**11. D** — Retainage is calculated as a percentage of each progress billing. At ten percent retainage on \$1,800,000 in total billings, the accumulated retainage is \$180,000 ( $\$1,800,000 \times 0.10$ ). The contractor has received \$1,620,000 in actual payments ( $\$1,800,000 - \$180,000$ ). The \$180,000 retainage remains with the owner until substantial completion and satisfaction of closeout requirements.

**12. A** — The first step when discovering a significant construction deficiency is to document the condition thoroughly with photographs and measurements, then immediately notify the project owner and architect in writing. Written documentation creates the project record, triggers the architect's obligation to evaluate the condition, and preserves the contractor's rights regarding schedule and cost impacts. Acting unilaterally — withholding payments or filing liens — before proper notification is premature.

**13. C** — In a cost-plus-fixed-fee contract, the fee is fixed regardless of how much the project costs. When the project scope expands significantly, the contractor's management effort and overhead increase proportionally, but the fixed fee does not. The contractor is effectively providing more management and oversight for the same fee. Contractors should negotiate fee adjustment provisions for significant scope increases in cost-plus-fixed-fee contracts.

**14. B** — In a design-build contract, a single entity is responsible for both design and construction under one contract. When a design error causes a failure, the design-build contractor bears responsibility because the contract assigns both design and construction liability to the same party. This is a fundamental characteristic of design-build delivery — single-point responsibility — and one of the reasons owners choose this method.

**15. D** — The contractor proceeded with installation before receiving the architect's RFI response, assuming the less expensive non-rated assembly would be acceptable. When the architect confirmed that fire-rated assemblies are required per the specifications, the contractor must remove and replace

the nonrated work at the contractor's own expense. Proceeding with work before an RFI is answered is proceeding at the contractor's risk.

**16. A** — Resource leveling reduces staffing peaks by shifting noncritical activities within their available float to redistribute labor demand more evenly across the project timeline. Activities with float can be delayed without affecting the project completion date, so moving them to weeks with lower demand smooths the labor curve. This reduces hiring and layoff cycles and improves overall productivity.

**17. B** — Failing to complete the punch list within the contractual timeframe delays final completion, which delays release of retainage and final payment. Additionally, the contractor's failure to communicate about the delay or provide a corrective plan damages the professional relationship with the owner and architect. Punch list tardiness is one of the most common causes of damaged contractor reputations and lost future bid opportunities.

**18. C** — Meeting minutes distributed promptly after the meeting and not corrected by attendees serve as a contemporaneous written record of what was discussed and communicated. The minutes documenting the schedule change discussion — with the subcontractor's representative listed as present — are strong evidence that the subcontractor received notice. This is precisely why distributing meeting minutes and maintaining the project file is so valuable.

**19. A** — The scaffold collapse is one occurrence: claims total \$3,500,000 but the peroccurrence limit caps the payout at \$2,000,000. The slipandfall is a separate occurrence: the \$800,000 claim is within the peroccurrence limit and paid in full. Total CGL payout:  $\$2,000,000 + \$800,000 = \$2,800,000$ . This total is within the \$4,000,000 general aggregate, so the aggregate does not further limit payments.

**20. D** — Premium at old EMR:  $\$65,000 \times 1.20 = \$78,000$ . Premium at new EMR:  $\$65,000 \times 0.85 = \$55,250$ . Annual savings:  $\$78,000 - \$55,250 = \$22,750$ . The EMR improvement from 1.20 to 0.85 represents a swing of 0.35 in the modification factor, translating to \$22,750 per year in premium savings — a direct financial return on the contractor's investment in safety programs.

**21. A** — The additional insured endorsement covers the owner only for the contractor's ongoing operations — not for completed operations after project turnover. The claim arose two years after completion, which falls outside the scope of the ongoingoperationsonly endorsement. Owners should require an additional insured endorsement that includes both ongoing and completed operations coverage to avoid this gap.

**22. C** — Base premium:  $(\$480,000 \div \$100) \times \$7.80 = 4,800 \times \$7.80 = \$37,440$ . Premium at 1.10 EMR:  $\$37,440 \times 1.10 = \$41,184$ . Premium at 0.90 EMR:  $\$37,440 \times 0.90 = \$33,696$ . Savings:  $\$41,184 - \$33,696 = \$7,488$ . The 0.20 reduction in EMR produces \$7,488 in annual premium savings, demonstrating the direct financial benefit of improved safety performance.

**23. B** — The surety's primary concern is Capital — the contractor's financial strength. Declining working capital, aging accounts receivable, and a high debttoequity ratio of 4.5 are all financial metrics that fall directly under the Capital evaluation. While financial weakness may indirectly affect Capacity, the specific metrics cited by the surety — working capital, receivables aging, and debttoequity — are Capital indicators.

**24. D** — A waiver of subrogation prevents the contractor's insurance company from exercising its right to sue another party on the project to recover amounts paid on a claim. After paying a claim, an insurer

normally has the right to pursue (subrogate against) the party who caused the loss. The waiver eliminates this right, preventing insurers from suing project team members and preserving collaborative relationships.

**25. A** — OSHA requires a competent person to inspect scaffolds before each work shift and after any event that could affect the scaffold's structural integrity. This includes severe weather (storms, high winds, heavy rain), impact damage from equipment or materials, unauthorized modifications, and any other occurrence that could compromise the scaffold's safety. The inspection must be completed before workers are permitted on the scaffold.

**26. C** — OSHA Form 300A must be posted in a conspicuous workplace location from February 1 through April 30 of the year following the year covered by the summary. Preparing the form without posting it violates the posting requirement. The purpose of posting is to inform employees about the workplace injury and illness experience, and the posting obligation exists even if there were zero recordable injuries.

**27. D** — OSHA requires retraining when new equipment or methods are introduced that the workers have not been previously trained on. Distributing new selfretracting lifelines without training workers on their proper use, fit, inspection, and limitations creates a hazard because workers may not know how to use the equipment correctly. The retraining requirement is triggered by the change in equipment, not by a calendar schedule.

**28. B** — While the foreman's employer did not create the trench hazard, all construction workers have a general responsibility to report observed hazardous conditions. The foreman should immediately notify the site superintendent, the responsible employer, or the competent person for excavation. Under OSHA's multiemployer policy, the controlling employer (typically the GC) can also be cited for hazards they could have prevented or corrected through reasonable diligence.

**29. C** — Worker misclassification triggers enforcement actions from multiple agencies simultaneously. The IRS pursues unpaid federal payroll taxes (FICA, FUTA, federal income tax withholding). The Ohio Department of Taxation pursues unpaid state income tax withholding. The Ohio Department of Job and Family Services pursues unpaid state unemployment insurance. The BWC has already assessed back workers' compensation premiums. The financial exposure from multiagency enforcement can be devastating.

**30. A** — A nonexempt employee must receive overtime at 1.5 times the regular rate for hours over forty, regardless of whether the employee is paid hourly or salary. For 45 hours: regular pay =  $40 \times \$42.00 = \$1,680$ . Overtime =  $5 \times \$63.00 = \$315$ . Total owed =  $\$1,995$ . The employer paid only  $\$1,890$ , underpaying the supervisor by  $\$105$ . Being salaried does not automatically make an employee exempt — the duties and salary tests must both be met.

**31. C** — A mechanic's lien is limited to the amount that is actually just and due — the unpaid balance. Since the contractor accepted  $\$40,000$  in partial payment, only  $\$25,000$  remains unpaid. The original  $\$65,000$  lien is now overstated and could be challenged. The contractor should file a partial release or amended affidavit reflecting the reduced claim to maintain the lien's validity.

**32. B** — The employer has liability for hostile work environment harassment because it learned about the harassment, investigated, but failed to take effective corrective action to stop it. Counseling alone was insufficient because the harassment continued. An employer that knows about harassment and

fails to take prompt, effective corrective action can be held liable under both Ohio's Civil Rights Act (which covers employers with four or more employees) and Title VII.

**33. A** — Revised contract price:  $\$750,000 + \$50,000 = \$800,000$ . Revised total estimated cost:  $\$600,000 + \$40,000 = \$640,000$ . Revised percentage complete:  $\$450,000 \div \$640,000 = 70.3\%$ , approximately seventy percent. Revised revenue to date:  $70\% \times \$800,000 = \$560,000$ . The percentage of completion method must incorporate change orders into both the contract price and the estimated total cost when recalculating.

**34. D** — A mechanic's lien is one of the most powerful collection tools available on private commercial projects because it encumbers the property title, making it difficult for the owner to sell or refinance. Filing a lien creates immediate pressure for the owner to resolve the debt. If a timely lien can still be filed (within sixty days of last furnishing), it should be pursued in addition to other collection remedies.

**35. B** — The federal tax system is pay as you go, requiring quarterly estimated payments as income is earned. Even though the contractor paid the full \$91,000 by the filing deadline, the IRS assesses an underpayment penalty for failing to make adequate quarterly estimated payments throughout the year. The penalty is essentially interest on the amounts that should have been paid each quarter.

**36. C** — Use tax applies to out-of-state purchases where Ohio sales tax was not collected. However, when the out-of-state retailer has already collected and remitted Ohio sales tax on the purchase, the contractor's use tax obligation is satisfied. The purpose of use tax is to prevent tax avoidance through out-of-state purchases — once Ohio tax has been paid, the purpose is fulfilled and no additional use tax is owed.

**37. A** — Gross profit = revenue minus cost of revenue =  $\$2,100,000 - \$1,680,000 = \$420,000$ . Gross profit margin =  $\$420,000 \div \$2,100,000 = 20\%$ . Gross profit measures the profitability of the construction work itself before general overhead, interest, and taxes are deducted. The other calculations represent operating income, pretax income, and net income — all of which come after gross profit in the income statement.

**38. D** — A debt-to-equity ratio of 4.8 means the company has \$4.80 in debt for every \$1.00 of owner's equity — a heavily leveraged financial structure. Most surety companies prefer a debt-to-equity ratio below 3.0 for construction contractors. A ratio of 4.8 signals that the company is relying heavily on borrowed money rather than retained earnings and owner investment, which increases financial risk.

**39. B** — Ohio law requires the claimant to serve a copy of the filed lien affidavit on the property owner within thirty days of filing. The affidavit was filed on September 5, making the service deadline October 5. Service on October 20 — forty-five days after filing — exceeds the thirty-day requirement by fifteen days. Late service may affect the enforceability of the lien.

**40. A** — On public projects, the payment bond is the subcontractor's primary remedy for nonpayment because mechanic's liens cannot be filed against government-owned property. The first step is to review the payment bond terms and the applicable statutory requirements to determine the specific claim procedures, notice requirements, and deadlines. First-tier subcontractors with direct prime contracts typically can claim without preliminary notice, but the specific bond terms should be verified.

**41. D** — Section 179 allows the full purchase price of qualifying business equipment to be deducted in the year it is placed in service. However, the deduction applies to the business-use percentage of the

asset. If the truck has any personal use, only the business use portion qualifies for Section 179. For the full \$95,000 deduction, the truck must be used one hundred percent for business purposes.

**42. B** — Ohio municipal income tax is based on where the work is performed. When an employee works in multiple municipalities during the same week, the contractor must withhold for each municipality based on the actual hours worked in that jurisdiction. This requires tracking employee time by location — a particular compliance challenge for construction contractors with crews that move between jobsites in different cities.

**43. C** — Wellmaintained safety documentation — training logs, inspection reports, incident investigations, and toolbox talk records — demonstrates the employer's goodfaith commitment to safety compliance. OSHA considers goodfaith efforts when determining the severity of citations and the amount of penalties. While documentation does not prevent citations for observed hazards, it can significantly reduce the financial penalties assessed.

**44. A** — Minor discrepancies between documents — different spellings, maiden versus married names, or typographical variations — do not automatically invalidate identity documents. The employer should ask the employee for a reasonable explanation and, if the explanation makes sense, accept the documents. Employers must avoid both overdocumentation (which may constitute discrimination) and underdocumentation (which violates IRCA).

**45. D** — The subcontract expressly assigns responsibility for weatherrelated costs to the subcontractor. When the contract language clearly allocates a specific risk to one party, that party bears the financial consequence. The subcontractor agreed to this allocation when signing the subcontract. Winter weather in Ohio is foreseeable, and the subcontract makes the subcontractor responsible for the costs of dealing with it.

**46. B** — The critical path is the longest continuous path through the project schedule network, and it determines the minimum possible project duration. Path 3 at 91 days is the longest of the four paths, making it the critical path. The project cannot be completed in fewer than 91 days because Path 3 must be fully completed. The other three paths have float equal to the difference between their duration and 91 days.

**47. C** — The contract requires change order requests within fourteen days of performing the changed work. The contractor waited three months — far beyond the contractual deadline. Failure to submit timely change order documentation may constitute a waiver of the right to additional compensation, even though the contractor has daily reports and photographs documenting the work. Contractual notice deadlines must be followed regardless of the quality of the underlying documentation.

**48. A** — The actual annual premium equals the base premium multiplied by the EMR:  $\$42,000 \times 0.88 = \$36,960$ . The EMR of 0.88 reflects betterthanaverage safety performance, producing a twelve percent discount (\$5,040) off the base premium. This demonstrates the direct financial reward of maintaining a strong safety record through the workers' compensation experience rating system.

**49. D** — When a partial payment is received on a liened claim, the contractor should file a partial release of lien for the \$40,000 paid and maintain the lien for the remaining \$25,000 in dispute. This accurately reflects the current status of the claim and prevents the property owner from challenging the lien as overstated. Maintaining an inflated lien amount after receiving partial payment can expose the contractor to claims of lien abuse.

**50. B** — The FMLA requires the employer to restore the returning employee to the same position or an equivalent position with equivalent pay, benefits, and other terms and conditions of employment. The employer cannot demote, reassign to a lesser position, or reduce pay or benefits because the employee took FMLA leave. This reinstatement right is one of the core protections of the FMLA.