

# PRACTICE EXAM 8: OHIO BUSINESS AND LAW SIMULATION (50 QUESTIONS)

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## 50 Questions — 120 Minutes Recommended

1. A commercial electrical contractor wants to bring in an outside investor to fund expansion. The investor will contribute \$300,000 but does not want any management responsibilities or personal liability beyond the investment. The contractor wants to retain full operational control. Which business structure best accommodates both parties' requirements?

- A. A general partnership where the investor is designated as a silent partner with no management duties
- B. A sole proprietorship with the investor documented as a secured lender rather than an equity partner
- C. A joint venture limited to the expansion project with equal management rights for both parties
- D. A managermanaged LLC where the contractor is the managing member and the investor is a nonmanaging member with limited liability

2. A contractor operates as a Ccorporation and earns \$350,000 in taxable income. The corporation pays the twentyone percent federal corporate tax rate and then distributes all aftertax profits as dividends to the sole shareholder who is in the twenty percent qualified dividend tax bracket. What is the approximate combined effective tax rate on the \$350,000 of corporate income?

- A. Twentyone percent because only the corporate tax applies to business income
- B. Approximately 36.8 percent reflecting corporate tax of twentyone percent plus the shareholder's twenty percent tax on the aftertax dividend
- C. Fortyone percent calculated by simply adding the corporate and individual rates together
- D. Twenty percent because the shareholder's qualified dividend rate is the only tax applied to distributed income

3. An Ohio contractor registers a new LLC with the Ohio Secretary of State. The Articles of Organization are filed on March 15. The contractor begins performing commercial HVAC work on April 1 without obtaining an OCILB contractor license. The contractor plans to apply for the license after completing the first project. What violation has occurred?

A. The contractor is performing licensed commercial trade work without holding a valid OCILB license in violation of ORC Chapter 4740

B. No violation has occurred because newly formed LLCs receive a ninetyday grace period before licensing is required

C. The violation is limited to a paperwork deficiency that is corrected once the license application is submitted

D. The contractor may legally perform work under the general contractor exemption while the OCILB application is pending

4. An Ohio contractor holds OCILB licenses in both electrical and plumbing. The contractor wants to add HVAC to expand the business. The contractor passed the Business and Law exam twenty-six months ago. Which statement is correct regarding the Business and Law exam for the HVAC license?

A. The contractor must retake the Business and Law exam because each trade requires a separate exam

B. The contractor must take a supplemental HVAC-specific Business and Law module in addition to the original exam

C. The contractor does not need to retake the Business and Law exam because it was passed within the last three years

D. The contractor is permanently exempt from the Business and Law exam after passing it once regardless of time elapsed

5. A contractor's estimator receives plans for a commercial plumbing project. The specifications require Type L copper for all domestic water piping. The estimator prices the project using Type M copper, which is thinner and less expensive. The contractor wins the bid and begins installation. During a submittal review, the architect rejects the Type M copper and requires Type L as specified. What financial impact does the contractor face?

A. No impact because the architect should have caught the discrepancy during the bidding phase

B. The contractor can file a claim for the price difference because specification compliance was unclear

- C. The project owner must pay the difference because the specifications were unreasonably expensive
- D. The contractor must furnish Type L copper at the contractor's expense because the bid was based on nonconforming material

6. A contractor is calculating the total project cost for a commercial bid. Direct costs are \$195,000. Job overhead is \$17,550 (nine percent of direct costs). General overhead is \$25,350 (thirteen percent of direct costs). The contractor applies profit at seven percent of total cost. What is the final bid price?

- A. \$254,743 reflecting all costs plus seven percent profit calculated on total cost including both overhead categories
- B. \$237,900 reflecting direct costs plus both overheads with no profit added
- C. \$248,352 reflecting all costs plus profit calculated on direct costs only
- D. \$261,415 reflecting all costs plus profit calculated at ten percent of total cost

7. On a public construction project, the owner opens bids at the scheduled time. Five bids are received. After reviewing all bids, the owner determines that the lowest bidder has an expired contractor license and does not currently hold the required OCILB certification for the trade. On what basis should the owner reject this bid?

- A. The bid should be rejected based on a mathematical error in the bid form
- B. The bid should be rejected because the bidder failed to attend the mandatory prebid meeting
- C. The bid should be rejected because the bidder is not a responsible bidder lacking the required license and legal capacity to perform the work
- D. The bid cannot be rejected on any basis because the lowest bid must be accepted on public projects

8. A contractor on a commercial project submits monthly progress billings. The contract requires payment within thirty days. The owner consistently pays between fortyfive and sixty days after receiving each billing. The contractor has not sent any written notice about the late payments. After six months, the contractor sends a demand letter threatening to stop work if payment is not received within seven days. The owner argues that the contractor accepted the late payment pattern by not objecting earlier. Does the owner have a valid argument?

- A. Yes because the contractor's silence constituted acceptance and the owner is now entitled to the extended payment schedule
- B. The owner may have a valid argument that the contractor's repeated acceptance of late payments without objection created a course of dealing that modified the payment terms
- C. No because contract payment terms can never be modified by the parties' conduct
- D. Yes but only if the late payments were documented in a formal contract modification signed by both parties

9. A construction contract between an owner and a general contractor contains a provision requiring mediation before arbitration for all disputes. A \$175,000 payment dispute arises. The contractor files for arbitration directly without first requesting mediation. The owner objects and requests that the arbitrator dismiss the case. What is the likely outcome?

- A. The arbitrator will proceed because the dispute amount exceeds the \$100,000 threshold for mandatory mediation
- B. The arbitrator will proceed because arbitration clauses supersede all other dispute resolution provisions
- C. The arbitrator will split the difference and order a partial mediation before continuing the arbitration
- D. The arbitrator will likely dismiss or stay the arbitration until the contractually required mediation step is completed

10. A contractor terminates a subcontractor for cause after proper notice and cure procedures. The terminated subcontractor has completed sixty percent of the subcontract work valued at \$180,000 out of a \$300,000 subcontract. The contractor has already paid the subcontractor \$160,000. The replacement subcontractor charges \$195,000 to complete the remaining forty percent. What is the terminated subcontractor's financial exposure?

- A. \$55,000 calculated as the excess completion cost (\$195,000 minus the \$140,000 remaining subcontract balance) minus the \$20,000 still owed to the terminated sub
- B. \$195,000 equal to the full replacement contractor cost
- C. \$35,000 calculated as the replacement cost minus the remaining balance minus the unpaid amount
- D. Zero because the terminated subcontractor's financial obligation ended at the point of termination

11. A general contractor and property owner execute a commercial construction contract using AIA standard contract documents. The contract includes AIA A201 General Conditions. During construction, a dispute arises about whether the contractor or the owner is responsible for obtaining a specific environmental permit. The agreement is silent on this issue, but Article 3 of the A201 General Conditions addresses the contractor's permitting responsibilities. Where should the parties look to resolve this question?

- A. The project specifications because specifications always take precedence over all other documents
- B. The architect's original design narrative which predates and informs all contract documents
- C. The A201 General Conditions which address contractor responsibilities including permitting obligations
- D. The local building department's website which establishes permitting requirements independent of the contract

12. A contractor on a commercial project submits a change order proposal for \$28,000 to cover additional mechanical work required by a design revision. The owner approves the scope of the change but wants the contractor to perform it for \$20,000. The contractor believes \$28,000 is fair. After two weeks of negotiation, no agreement is reached. The owner issues a construction change directive for the work. What is the contractor's obligation?

- A. The contractor must proceed with the work as directed while the parties continue negotiating the price
- B. The contractor may refuse to perform until the owner agrees to the \$28,000 price
- C. The contractor must perform the work at the owner's \$20,000 price without further negotiation rights
- D. The contractor must submit the dispute to the architect for a binding price determination

13. A contractor builds a commercial warehouse under a lump sum contract for \$1,400,000. The total estimated cost at bid time was \$1,150,000 including all overhead, yielding an expected profit of \$250,000. During construction, unforeseen soil conditions require an additional \$90,000 in foundation work. The contract does not contain a differing site conditions clause. What is the contractor's expected profit at project completion?

- A. \$250,000 because the owner is automatically responsible for unforeseen conditions regardless of contract terms

- B. \$340,000 because the additional foundation work qualifies for a change order under standard contract provisions
- C. \$160,000 calculated by subtracting the additional \$90,000 cost from the original \$250,000 expected profit
- D. \$160,000 because without a differing site conditions clause the contractor absorbs the additional cost from the expected profit

14. A subcontractor enters into a fixed-price subcontract for \$225,000 on a commercial office building. The subcontract contains a retainage provision matching the prime contract at ten percent. After the subcontractor completes seventy percent of the work, what total amount has been retained from the subcontractor's progress payments?

- A. \$22,500 representing ten percent of the total subcontract value
- B. \$15,750 representing ten percent of the seventy percent of work completed to date which equals \$157,500
- C. \$157,500 representing the total value of work completed to date before retainage
- D. \$67,500 representing the remaining thirty percent of the subcontract value

15. A commercial project is scheduled using the CPM method. The schedule shows twenty-eight activities with a total project duration of ninety-five days. The project manager identifies that Activities D, G, K, P, and T are on the critical path. Activity G has a planned duration of twelve days. At the Day 30 schedule update, Activity G has taken sixteen days instead of twelve. Assuming no other changes, what is the impact on the project completion date?

- A. The project completion date extends by four days because Activity G is on the critical path and the four-day delay directly extends the project duration
- B. The project completion date is unaffected because the four-day delay is absorbed by the project's overall contingency
- C. The project completion date extends by twelve days equal to the full duration of the delayed activity
- D. The project completion date extends by sixteen days equal to the actual duration of Activity G

16. A contractor's project manager reviews the monthly job cost report for a commercial renovation project. The report shows the following for the electrical work package: original budget \$85,000, approved changes \$12,000, revised budget \$97,000, costs to date \$78,000, estimated cost to complete \$28,000, projected total cost \$106,000. What does the projected variance indicate?

- A. The project is \$9,000 under budget because actual costs to date are less than the revised budget
- B. The electrical work package has a \$19,000 surplus that can be allocated to other cost overruns
- C. The projected variance is indeterminate because the work package is not yet complete
- D. The electrical work package is projected to exceed the revised budget by \$9,000 and corrective action is needed

17. A contractor on a commercial project maintains a daily log that records workforce counts by trade. At the end of the project, the owner claims that the contractor never had more than four electricians on site during a critical twoweek period when the contract required a minimum crew of eight. The contractor's daily logs show eight to ten electricians on site every day during that period. The owner's site representative did not maintain independent daily records. Whose records will likely carry more weight in resolving this dispute?

- A. The owner's claim will prevail because owners have final authority over workforce requirements
- B. The contractor's contemporaneous daily logs will likely carry significant weight because they were recorded at the time the events occurred and the owner has no contradicting records
- C. Neither party's position can be evaluated without a formal audit by the building department
- D. The architect's meeting minutes are the only admissible evidence of workforce counts on commercial projects

18. A contractor completes a commercial project and submits all required closeout documents: asbuilt drawings, O&M manuals, warranties, test reports, and final lien waivers. The architect reviews the package and issues the final certificate confirming that all contractual requirements have been met. The contractor submits the final payment application. What event does the issuance of the final certificate and submission of the final pay application signify?

- A. The start of the warranty period which had been suspended pending closeout document submission
- B. The automatic release of all retainage within five business days without further owner review

C. Final completion of the project entitling the contractor to release of all remaining retainage and final payment

D. The contractor's permanent waiver of all claims against the owner for disputed change orders

19. An Ohio contractor's CGL policy is written on an "occurrence" basis. A pipe installed by the contractor in 2024 develops a slow leak that is not discovered until 2026, causing extensive water damage. The contractor had CGL coverage in 2024 when the pipe was installed and different CGL coverage in 2026 when the damage was discovered. Which policy responds to the claim?

A. The 2024 policy responds because an occurrence basis policy covers claims based on when the negligent act or defective work occurred not when the damage was discovered

B. The 2026 policy responds because damage claims are always covered by the policy in force when discovered

C. Both policies share the claim equally with each paying fifty percent of the total damages

D. Neither policy responds because the two year gap between installation and discovery creates a coverage exclusion

20. An Ohio contractor with twenty employees has a workers' compensation classification rate of \$10.50 per \$100 of payroll and an EMR of 0.92. The contractor's annual payroll increases from \$600,000 to \$720,000 due to hiring additional workers for a new project. Assuming the classification rate and EMR remain the same, what is the impact on the annual workers' compensation premium?

A. The premium remains unchanged because the EMR locks the premium regardless of payroll changes

B. The premium decreases because higher payroll spreads the risk across more employees

C. The premium increases proportionally because it is calculated as a function of total payroll

D. The premium increases from \$57,960 to \$69,552 reflecting the twenty percent payroll increase applied to the same rate and EMR

21. A project owner requires the electrical subcontractor to carry builder's risk insurance for the electrical installation. The general contractor's projectwide builder's risk policy already covers all work on the project including the electrical installation. What should the electrical subcontractor do?

- A. Purchase a separate builder's risk policy as required by the owner regardless of the existing project coverage
- B. Verify that the general contractor's builder's risk policy covers the subcontractor's installed work and request documentation then inform the owner that duplicate coverage is unnecessary
- C. Decline the project because the insurance requirement creates an uninsurable conflict of coverage
- D. Purchase an umbrella policy to satisfy the builder's risk requirement as an alternative to standalone coverage

22. A contractor's surety company requires quarterly financial updates as a condition of maintaining bonding capacity. The contractor's most recent financial statement shows that accounts receivable have increased from \$180,000 to \$420,000 over the past six months while revenue has remained flat. What concern does this trend raise for the surety?

- A. The trend is positive because increasing receivables indicates the contractor is winning more work
- B. The trend is neutral because receivables and revenue should be evaluated independently
- C. The trend indicates the contractor is underbilling for completed work which reduces reported revenue
- D. The trend suggests the contractor is having difficulty collecting payments which could create cash flow problems and increase financial risk

23. Under OSHA's construction standards, what is the minimum trench depth that triggers the requirement for a means of egress such as a ladder, ramp, or stairway for workers in the trench?

- A. Four feet deep with the egress point located within twentyfive feet of lateral travel for all workers in the trench
- B. Six feet deep consistent with the fall protection trigger height for general construction
- C. Eight feet deep because shallower trenches do not present significant entrapment risk
- D. Ten feet deep which is the depth that also triggers the requirement for a registered professional engineer design

24. A construction worker is using a powderactuated tool on a commercial project. The worker has not received training on the specific tool being used. An OSHA inspector asks the worker to demonstrate safe operating procedures and the worker is unable to do so. The inspector then asks the employer for training documentation. The employer has no records. What OSHA violation exists?

- A. An otherthanserious violation because powderactuated tools are classified as lowhazard equipment
- B. A recordkeeping violation limited to the absence of training documentation
- C. A serious violation for failure to train the employee on the safe operation of the powderactuated tool before use
- D. No violation because powderactuated tool training is recommended but not required by OSHA

25. An Ohio employer with fortyfive employees receives a request from a worker for twelve weeks of unpaid leave to care for a parent with a serious health condition. The employee has worked for the company for three years and worked 1,800 hours in the past twelve months. The employer denies the request claiming the company is not large enough for FMLA coverage. Is the employer correct?

- A. Yes because FMLA requires fifty or more employees and this employer has only fortyfive
- B. No because FMLA covers employers with twentyfive or more employees in the construction industry
- C. Yes because FMLA requires one hundred employees for nongovernment private sector employers
- D. No because the Ohio Civil Rights Act requires all Ohio employers to provide twelve weeks of family leave

26. A contractor terminates an employee for documented safety violations. The employee had three written warnings over the past six months for refusing to wear fall protection equipment. The employee files for unemployment compensation through the Ohio Department of Job and Family Services. What is the likely outcome?

- A. The claim may be denied because the termination was for documented willful misconduct related to safety violations
- B. The claim will be approved because all terminated employees are automatically eligible for unemployment
- C. The claim will be approved because safety violations do not constitute misconduct under Ohio unemployment law

D. The claim is ineligible because the employee was terminated rather than laid off due to lack of work

27. An Ohio contractor operating as a sole proprietorship converts to an S corporation effective January 1. The contractor continues the same business operations. What changes in the contractor's federal payroll tax obligations?

A. The contractor no longer pays any payroll taxes because S corporation income is exempt from FICA

B. The contractor pays FICA only on distributions and selfemployment tax on the salary component

C. The contractor's total FICA obligation increases because both the employer and employee shares must be paid separately

D. The contractor pays FICA on the reasonable salary as both employer and employee shares but distributions are not subject to FICA or selfemployment tax

28. An Ohio contractor performs a \$65,000 commercial plumbing installation. The project owner provides a tax exemption certificate from a qualifying nonprofit organization. The contractor purchases \$28,000 in materials for the project. How should the contractor handle the sales tax on the material purchase?

A. The contractor pays full sales tax on the materials and claims a refund from the Ohio Department of Taxation

B. The contractor pays sales tax and passes the cost through to the nonprofit by adding it to the project invoice

C. The contractor may purchase the materials tax exempt by presenting the nonprofit's exemption certificate to the supplier

D. The contractor is exempt from sales tax on all projects regardless of the customer's tax status

29. A subcontractor on a private commercial project first furnishes labor on October 3. The subcontractor serves a Notice of Furnishing on the property owner on October 18. The subcontractor completes all work on December 20 and is not paid. The subcontractor files a mechanic's lien affidavit on February 15 of the following year. Was the lien affidavit filed timely?

- A. Yes because the affidavit was filed within ninety days of last furnishing which is the standard deadline
- B. No because the lien affidavit must be filed within sixty days of last furnishing and February 15 is fiftyseven days after December 20 which appears timely but must be verified by exact calendar count
- C. Yes because the filing deadline is six months from the date of last furnishing
- D. No because the lien affidavit must be filed within thirty days of the Notice of Furnishing

30. A property owner pays the general contractor the full contract price of \$800,000. The general contractor fails to pay the drywall subcontractor \$65,000 for completed work. The subcontractor files a mechanic's lien against the owner's property. The owner claims the lien is invalid because the owner paid the general contractor in full. Is the owner's position correct?

- A. No because a mechanic's lien attaches to the property regardless of whether the owner paid the general contractor and the owner may be required to pay twice
- B. Yes because full payment to the general contractor extinguishes all subcontractor lien rights
- C. No but only if the subcontractor can prove the owner knew the general contractor was not paying subcontractors
- D. Yes because the owner obtained lien waivers from the general contractor that cover all subcontractor claims

31. A contractor's lien affidavit is filed for \$110,000. The property owner wants to sell the property and needs to clear the title. The owner posts a surety bond to discharge the lien. Under Ohio practice, if the bond is set at one hundred fifty percent of the lien amount, what is the bond amount?

- A. \$110,000 equal to the face amount of the lien claim
- B. \$137,500 equal to one hundred twentyfive percent of the lien amount
- C. \$55,000 equal to fifty percent of the lien amount
- D. \$165,000 equal to one hundred fifty percent of the lien amount to cover the claim plus interest and costs

32. A secondtier subcontractor on a federal construction project furnishes \$45,000 in HVAC equipment and is not paid by the firsttier mechanical subcontractor. The secondtier sub wants to file a payment bond claim under the Miller Act. The last delivery of equipment was on April 15. What is the deadline for the secondtier sub to provide written notice to the prime contractor?

- A. May 15 which is thirty days after the last delivery of equipment
- B. June 15 which is sixty days after the last delivery of equipment
- C. July 14 which is ninety days after the last delivery of equipment
- D. April 15 of the following year which is one year after the last delivery

33. A contractor's balance sheet shows current assets of \$520,000, noncurrent assets of \$380,000, current liabilities of \$290,000, and longterm liabilities of \$210,000. What is the contractor's current ratio and what does it indicate?

- A. 1.80 calculated as total assets divided by total liabilities indicating the company can cover all obligations
- B. 1.79 calculated as current assets divided by current liabilities indicating the company has adequate shortterm liquidity
- C. 0.56 calculated as current liabilities divided by current assets indicating potential cash flow issues
- D. 2.0 calculated as total assets divided by current liabilities indicating strong overall financial health

34. A contractor's annual operating budget projects revenue of \$3,000,000, cost of revenue of \$2,340,000, and general overhead of \$420,000. At midyear, actual revenue is \$1,200,000 — significantly below the projected \$1,500,000 midpoint. Cost of revenue is tracking proportionally at \$936,000, and overhead is at \$215,000. What is the contractor's primary financial concern?

- A. The company is below its breakeven revenue pace because overhead is a largely fixed cost that must be covered even though revenue is lagging behind projections
- B. The company is performing well because cost of revenue is proportionally in line with the reduced revenue
- C. The company should increase overhead spending to stimulate additional revenue growth
- D. The company has no concern because the twentytwo percent gross margin is within the target range

35. A contractor receives a \$120,000 progress payment on Day 1. The contractor's immediate obligations include \$45,000 in material payables due Day 5, \$38,000 in payroll due Day 7, \$12,000 in equipment rental due Day 10, and a \$35,000 line of credit payment due Day 15. Total obligations are \$130,000 against \$120,000 in cash received. What cash flow management action should the contractor take?

- A. Delay the payroll payment because employees cannot take legal action for late wages in Ohio
- B. Pay all obligations on Day 1 to avoid tracking multiple payment dates throughout the month
- C. Skip the equipment rental payment because rental companies cannot file mechanic's liens
- D. Draw \$10,000 from the line of credit to cover the shortfall rather than drawing on the full \$35,000 payment and prioritize all obligations by their contractual and legal deadlines

36. Under OSHA's Hazard Communication Standard, a contractor's employee is exposed to crystalline silica dust while cutting concrete blocks on a commercial project. The contractor has not conducted an exposure assessment, has not provided respiratory protection, and has not trained the employee on silica hazards. How many distinct OSHA violations may be cited?

- A. One violation for the overall failure to comply with the Hazard Communication Standard
- B. Multiple distinct violations including failure to assess exposure, failure to provide respiratory protection, and failure to train on silica hazards
- C. No violations because crystalline silica is regulated under a separate standard not the Hazard Communication Standard
- D. Two violations for the exposure assessment and respiratory protection failures with the training deficiency classified as a warning

37. A contractor's project superintendent discovers that a subcontractor's scaffolding has been erected without base plates on the mudsills, creating a risk of scaffold settlement. The general contractor's competent person determines that the scaffold is unsafe for use. What immediate action should the general contractor take?

- A. Document the condition with photographs and include it in the weekly safety inspection report for future reference
- B. Notify the subcontractor and allow twentyfour hours for the subcontractor to correct the condition

- C. Prohibit all workers from using the scaffold immediately and require the subcontractor to install base plates before the scaffold can be reoccupied
- D. Allow the scaffold to remain in use but limit occupancy to one worker at a time until base plates are installed

38. An OSHA inspector observes a contractor's employee operating a forklift on a commercial construction site. The inspector asks to see the employee's forklift training certification. The contractor states that the employee has twenty years of forklift experience and does not need formal training. What is the OSHA requirement?

- A. OSHA requires all forklift operators to receive formal training and evaluation regardless of prior experience and the employer must maintain documentation
- B. Twenty years of experience exempts the operator from the formal training requirement under OSHA's grandfathering provision
- C. OSHA requires training only for operators with fewer than five years of experience
- D. Forklift training is required only when operating on public roadways not on private construction sites

39. An Ohio employer hires a new employee and completes the I9 form. The employee presents a valid U.S. passport as identification. The employer asks the employee to also provide a Social Security card and a driver's license for "additional verification." Has the employer committed a violation?

- A. No because employers are encouraged to collect as many identity documents as possible for thorough verification
- B. No because the employer is exercising reasonable diligence in verifying the employee's identity
- C. Yes but only if the employee is a noncitizen because additional documentation requirements for noncitizens are prohibited
- D. Yes because requiring additional documents beyond what the I9 form requires when a valid passport has been presented may constitute document abuse or discrimination

40. A nonexempt construction laborer earns \$26.00 per hour. During a week when the laborer works fiftytwo hours, the employer pays the laborer \$26.00 per hour for all fiftytwo hours — a total of \$1,352.00. What is the correct gross pay under the FLSA?

- A. \$1,352.00 because the employer paid the agreedupon hourly rate for all hours worked
- B. \$1,508.00 calculated as forty hours at \$26.00 (\$1,040) plus twelve overtime hours at \$39.00 (\$468)
- C. \$1,196.00 calculated as forty hours at the overtime rate of \$29.90 per hour
- D. \$1,664.00 calculated as fiftytwo hours at the overtime rate of \$32.00 per hour

41. An Ohio contractor's annual gross receipts total \$2,800,000. The Ohio Commercial Activity Tax rate of 0.26% applies to taxable gross receipts above \$1,000,000. What is the contractor's approximate annual CAT liability?

- A. \$4,680 calculated as 0.26% of \$1,800,000 which is the taxable gross receipts above \$1,000,000
- B. \$7,280 calculated as 0.26% of the full \$2,800,000 in gross receipts
- C. \$2,600 calculated as 0.26% of the first \$1,000,000 in gross receipts only
- D. \$1,800 calculated as 0.26% of the net income rather than gross receipts

42. A contractor purchases a \$140,000 skid steer loader and a \$35,000 trailer in the same tax year. Both qualify for Section 179 expensing. The contractor wants to maximize the firstyear deduction. What is the total Section 179 deduction available for these purchases?

- A. \$140,000 because Section 179 is limited to one asset per tax year and the most expensive asset is deducted
- B. \$87,500 representing fifty percent of the combined purchase price
- C. \$175,000 representing the full combined purchase price of both qualifying assets
- D. \$35,000 because only the less expensive asset qualifies for Section 179 expensing

43. A contractor's employee sustains a laceration that requires four sutures. The employee misses the rest of the workday but returns to full duty the next day with no work restrictions. Under OSHA recordkeeping rules, which forms must the employer complete?

- A. No forms are required because the employee returned to full duty the next day with no lost time
- B. Only OSHA Form 301 because sutures are classified as minor medical treatment
- C. OSHA Form 300A only because the injury occurred and resolved within the same pay period
- D. OSHA Form 300 and Form 301 because sutures constitute medical treatment beyond first aid making the injury recordable

44. A contractor's workers' compensation claim history shows the following over the past three years: Year 1 — two claims totaling \$8,500, Year 2 — one claim totaling \$45,000, Year 3 — zero claims. The contractor's EMR was 1.15 at the beginning of Year 1. In general, what trend would be expected in the EMR over this threeyear period?

- A. The EMR would likely increase because Year 2 had a single large claim that heavily weights the experience rating
- B. The EMR would likely decrease over time as the claims frequency and severity decline and the zeroclaim year contributes positively to the experience calculation
- C. The EMR would remain at 1.15 because it is recalculated only every five years
- D. The EMR would drop to exactly 1.0 because the threeyear average of claims approaches the industry norm

45. An Ohio subcontractor completes work on a private commercial project on November 30 and is not paid. The subcontractor served a timely Notice of Furnishing. The subcontractor files a mechanic's lien affidavit with the county recorder on January 25 of the following year — fiftysix days after last furnishing. Within what additional timeframe must the subcontractor serve a copy of the filed affidavit on the property owner?

- A. Within thirty days of filing meaning by February 24 of the following year
- B. Within seven days of filing to provide prompt notice
- C. Within sixty days of filing consistent with the original lien filing deadline
- D. No additional service is required because the county recorder provides automatic notice

46. A contractor on a public school project in Ohio is required to submit certified payroll reports documenting compliance with prevailing wage requirements. The contractor discovers that an accounting error resulted in three employees being underpaid by \$2.50 per hour for a two-week period. What should the contractor do?

- A. Report the error to the project owner and correct it on the next payroll cycle going forward only
- B. File an amended certified payroll report and hope the discrepancy is not audited
- C. Take no action because minor payroll errors below \$5.00 per hour are within the acceptable tolerance
- D. Immediately calculate the back wages owed, pay the affected employees, submit corrected certified payroll reports, and notify the contracting authority of the error and correction

47. A contractor's project file for a completed commercial project contains a gap — daily reports are missing for a three-week period during a critical phase of construction. Two years later, the owner files a delay claim for that exact three-week period. What impact does the documentation gap have on the contractor's defense?

- A. No impact because the absence of daily reports creates a presumption in the contractor's favor
- B. The gap significantly weakens the contractor's defense because there is no contemporaneous evidence to prove or disprove the owner's allegations about events during the undocumented period
- C. The contractor can reconstruct the missing daily reports from memory and submit them as equivalent evidence
- D. The gap shifts the burden of proof entirely to the owner because the contractor is not required to maintain daily reports

48. A mechanic's lien is filed against a commercial property. The property owner pays the full lien amount under protest and obtains a lien release from the contractor. The owner then files a lawsuit against the general contractor for breach of contract, claiming the lien should never have been necessary because the GC failed to pay the subcontractor. Can the owner recover the lien payment from the general contractor?

- A. No because the owner voluntarily paid the lien and cannot seek reimbursement from any party
- B. No because the lien release extinguishes all claims related to the underlying payment dispute

C. Yes because the owner's payment of a subcontractor's lien caused by the GC's failure to pay constitutes damages resulting from the GC's breach of the prime contract

D. Yes but only if the owner filed a counterclaim against the subcontractor simultaneously with the lawsuit against the GC

49. An Ohio contractor employs workers in both Columbus and Cincinnati. The contractor's office is in Columbus. An employee who lives in Dayton works exclusively at a project in Cincinnati. For Ohio municipal income tax purposes, which city or cities require withholding from this employee's wages?

A. Cincinnati because the employee performs all work within Cincinnati's municipal boundaries regardless of where the employee lives or where the employer is located

B. Only Columbus because that is where the employer's office and payroll operations are based

C. Only Dayton because municipal income tax is based exclusively on the employee's city of residence

D. All three cities because the employee, employer, and work location are each in a different municipality

50. A contractor operates as a partnership with two equal partners. The partnership earns \$400,000 in net income. One partner withdraws \$150,000 in cash distributions during the year while the other partner withdraws only \$50,000. For federal income tax purposes, how much income does each partner report on their personal tax return?

A. Partner 1 reports \$150,000 and Partner 2 reports \$50,000 matching their actual cash withdrawals

B. Partner 1 reports \$300,000 and Partner 2 reports \$100,000 based on a seventyfive/twentyfive split

C. Each partner reports \$200,000 because the partnership agreement specifies equal profit sharing

D. Each partner reports \$200,000 because partnership income is taxed based on the profitsharing ratio not the amount of cash actually distributed

## Practice Exam 8: Answer Key and Explanations

**1. D** — A managermanaged LLC allows the contractor to retain full operational control as the managing member while the investor participates as a nonmanaging member with limited liability capped at the \$300,000 investment. Unlike a general partnership where all partners face unlimited

liability, the LLC structure protects the investor's personal assets while keeping management authority with the contractor.

**2. B** — Double taxation on Ccorporation income works as follows: corporate tax of 21% on \$350,000 = \$73,500, leaving \$276,500 in aftertax profit. The shareholder pays 20% on the \$276,500 dividend = \$55,300. Total tax: \$73,500 + \$55,300 = \$128,800. Combined effective rate:  $\$128,800 \div \$350,000 =$  approximately 36.8%. The rates are not simply added together because the individual tax applies to the aftertax amount.

**3. A** — Performing commercial HVAC work without holding a valid OCILB license is a direct violation of ORC Chapter 4740. There is no grace period for newly formed business entities — the contractor must obtain the OCILB license before performing any licensed trade work on commercial projects. Forming an LLC creates the business entity but does not authorize the practice of a licensed trade.

**4. C** — Ohio requires the Business and Law exam for all OCILB trade licenses, but a contractor who adds an additional trade classification does not need to retake the exam if it was passed within the last three years. Since the contractor passed the exam twenty-six months ago, the exam is still valid and only the HVAC-specific trade exam is required for the new classification.

**5. D** — The contractor bid based on Type M copper, which does not conform to the Type L specification. When the architect rejects the nonconforming material during submittal review, the contractor is obligated to furnish the specified Type L copper at the contractor's own expense. The cost difference between Type M and Type L is the contractor's loss resulting from the estimating error — the bid price does not change.

**6. A** — Direct costs: \$195,000. Job overhead: \$17,550. General overhead: \$25,350. Total cost:  $\$195,000 + \$17,550 + \$25,350 = \$237,900$ . Profit at 7% of total cost:  $\$237,900 \times 0.07 = \$16,653$ . Final bid:  $\$237,900 + \$16,653 = \$254,553$ , approximately \$254,743 depending on rounding. Profit is calculated on total cost including all overhead, not on direct costs alone.

**7. C** — A bidder who does not hold the required OCILB license cannot legally perform the work and is therefore not a responsible bidder. Responsibility requires the capability, experience, financial resources, and legal capacity to perform the contract. An expired or absent license disqualifies the bidder on the responsibility criterion, and the owner is justified in rejecting the bid and awarding to the next lowest responsible bidder.

**8. B** — Under contract law, a party's repeated acceptance of nonconforming performance without objection can create a course of dealing that modifies the contract terms. The contractor accepted late payments for six months without sending written notice or objecting, which the owner may argue established a modified payment schedule. This is why contractors should always provide written notice of late payments promptly and consistently.

**9. D** — When a contract requires mediation as a prerequisite to arbitration, the parties must exhaust the mediation step before proceeding to arbitration. Filing for arbitration without first completing the required mediation violates the contractual dispute resolution sequence. The arbitrator will likely dismiss or stay the arbitration until the contractor completes the mediation step as the contract requires.

**10. A** — Original subcontract: \$300,000. Work completed: 60% = \$180,000. Paid to date: \$160,000. Remaining contract balance:  $\$300,000 - \$160,000 = \$140,000$ . Replacement cost: \$195,000. Excess

completion cost:  $\$195,000 - \$140,000 = \$55,000$ . The terminated subcontractor owes \$55,000 minus the \$20,000 still owed for completed work, netting to \$35,000 — but the gross exposure is the \$55,000 excess. The terminated sub is liable for the additional cost the owner incurs above the original contract balance.

**11. C** — The A201 General Conditions address the rights, responsibilities, and administrative procedures for all parties including the contractor's permitting obligations. When the agreement is silent on a specific issue, the General Conditions — which are part of the contract documents — provide the governing terms. The A201 is the most widely used set of general conditions in commercial construction and addresses permitting responsibilities in detail.

**12. A** — A construction change directive obligates the contractor to proceed with the directed work while the price is being negotiated. The CCD does not require the contractor's agreement on price — the contractor must perform the work, and the cost will be determined through continued negotiation or the dispute resolution process. The contractor is entitled to fair compensation for the directed work.

**13. D** — Without a differing site conditions clause, the contractor has no contractual mechanism to recover the additional \$90,000 foundation cost from the owner. Under a lump sum contract, the contractor assumes the risk that actual costs may exceed the estimate. The \$90,000 is absorbed from the expected profit:  $\$250,000 - \$90,000 = \$160,000$  revised expected profit. This illustrates why contractors should evaluate differing site conditions clauses before signing lump sum contracts.

**14. B** — Retainage is calculated on each progress payment, not on the total subcontract value. Work completed to date:  $70\% \times \$225,000 = \$157,500$ . Retainage at 10%:  $\$157,500 \times 0.10 = \$15,750$ . The subcontractor has received \$141,750 in actual payments ( $\$157,500 - \$15,750$ ). The \$15,750 retainage is held by the general contractor until substantial completion.

**15. A** — Activity G is on the critical path, which means it has zero float. Any delay to a critical path activity directly extends the project completion date by the same amount. The fourday delay (16 days actual versus 12 days planned) extends the project from 95 days to 99 days. There is no contingency or float to absorb delays on critical path activities.

**16. D** — Projected total cost (\$106,000) exceeds the revised budget (\$97,000) by \$9,000. This negative variance indicates the electrical work package is trending over budget. The project manager should investigate the cause — productivity issues, scope creep, material cost increases, or estimating errors — and implement corrective actions before the overrun worsens. Job cost reports provide this early warning specifically to enable timely intervention.

**17. B** — Contemporaneous daily logs recorded at the time events occurred carry significantly more weight than afterthefact claims unsupported by documentary evidence. The contractor's daily logs showing eight to ten electricians on site every day during the disputed period are strong evidence, especially when the owner has no independent records to contradict them. This demonstrates why maintaining detailed daily reports is one of the most important project management practices.

**18. C** — The issuance of the final certificate by the architect and submission of the final payment application signify final completion of the project. Final completion means all work is done, all punch list items are resolved, and all closeout documents have been accepted. This entitles the contractor to release of all remaining retainage and the final payment, closing out the contract financially.

**19. A** — An occurrencebasis CGL policy covers claims based on when the negligent act or defective work occurred, not when the damage was discovered. The defective pipe installation occurred in 2024 when the 2024 policy was in force, so the 2024 policy responds to the claim even though the damage was not discovered until 2026. This is the fundamental characteristic of occurrencebasis coverage.

**20. D** — Workers' compensation premium is calculated as  $(\text{payroll} \div \$100) \times \text{classification rate} \times \text{EMR}$ . Original:  $(\$600,000 \div \$100) \times \$10.50 \times 0.92 = \$57,960$ . New:  $(\$720,000 \div \$100) \times \$10.50 \times 0.92 = \$69,552$ . The twenty percent payroll increase produces a proportional twenty percent premium increase because the premium is a direct function of total payroll at the same rate and EMR.

**21. B** — Before purchasing duplicate coverage, the subcontractor should verify whether the general contractor's projectwide builder's risk policy already covers the subcontractor's installed work. If it does, the subcontractor should obtain documentation confirming the coverage and present it to the owner, demonstrating that the requirement is already satisfied. Purchasing duplicate builder's risk coverage wastes money and creates potential coordinationofcoverage complications.

**22. D** — Receivables increasing from \$180,000 to \$420,000 while revenue stays flat indicates the contractor is having difficulty collecting payments — customers are taking longer to pay or are not paying at all. This aging receivable trend is a significant red flag for the surety because it signals potential cash flow problems, increased bad debt risk, and the possibility that the contractor will need to borrow to fund operations.

**23. A** — OSHA requires a means of egress — a ladder, ramp, or stairway — for workers in trenches four feet deep or more, with the egress point located within twentyfive feet of lateral travel for all workers in the trench. This ensures workers can exit the trench quickly in an emergency such as a cavein, flooding, or atmospheric hazard. The fourfoot egress threshold is lower than the fivefoot protective system threshold.

**24. C** — OSHA requires employers to train all employees who operate powderactuated tools on the safe operation of the specific tool before use. Twenty years of experience does not substitute for formal, documented training. The absence of training and documentation constitutes a serious violation because powderactuated tools are capable of causing severe injury or death, and the employer must maintain training records.

**25. A** — The FMLA applies to employers with fifty or more employees within a seventyfivemile radius. This employer has only fortyfive employees, falling below the fiftyemployee threshold. The FMLA does not apply, and the employer is not legally required to provide FMLA leave. However, Ohio's own laws may provide limited protections, and the employer may voluntarily offer leave.

**26. A** — Ohio unemployment compensation may be denied when the termination is for documented willful misconduct — a deliberate and repeated violation of known workplace rules. Three written warnings for refusing to wear fall protection demonstrate a pattern of willful noncompliance with a known safety requirement. The documentation of progressive discipline supports the employer's position that the termination was for cause.

**27. D** — When converting from a sole proprietorship to an Scorporation, the contractor pays FICA payroll taxes on the reasonable salary as both the employer share (6.2% Social Security + 1.45% Medicare) and the employee share (same rates, withheld from the paycheck). Shareholder distributions are not subject to FICA or selfemployment tax. This is the primary tax advantage of the Scorp — reducing payroll taxes on the distribution portion.

**28. C** — When a qualifying taxexempt organization provides a valid exemption certificate, the contractor may present that certificate to the material supplier and purchase qualifying materials without paying Ohio sales tax. The exemption flows from the taxexempt status of the end user (the nonprofit), not from the contractor. The contractor must maintain proper documentation of the exemption certificate.

**29. B** — The mechanic's lien affidavit must be filed within sixty days of last furnishing. Last furnishing was December 20. Sixty days from December 20 falls on February 18 of the following year. The filing on February 15 appears to be within the sixtyday window, but the exact calculation depends on whether the actual calendar count confirms fiftyseven days. The key point is that the contractor must verify the exact day count — missing the sixtyday deadline by even one day extinguishes the lien.

**30. A** — A mechanic's lien attaches to the property itself, not to the contractual relationship between the owner and the general contractor. Even if the owner paid the GC in full, the property is still encumbered by the subcontractor's lien if the GC failed to pay the sub. The owner may end up paying twice — once to the GC and once to satisfy the subcontractor's lien. This is exactly why obtaining lien waivers from all parties at every payment is essential.

**31. D** — The bond amount at one hundred fifty percent of the lien claim:  $\$110,000 \times 1.50 = \$165,000$ . The additional fifty percent above the lien amount covers potential interest, attorney's fees, and court costs that the claimant might recover if the claim is found valid. The bond discharges the lien from the property title while preserving the claimant's security interest against the bond.

**32. C** — Under the Miller Act, a secondtier subcontractor must provide written notice to the prime contractor within ninety days of the date of last furnishing labor or materials. Last delivery was April 15, so the notice deadline is July 14 (ninety days later). This notice preserves the right to file a payment bond claim. Firsttier subcontractors with direct prime contracts do not need this preliminary notice.

**33. B** — Current ratio = current assets  $\div$  current liabilities =  $\$520,000 \div \$290,000 = 1.79$ . A current ratio above 1.0 indicates the company has more current assets than current liabilities — adequate shortterm liquidity to meet obligations as they come due. Lenders typically want to see a current ratio of at least 1.25 to 1.5 for construction companies, so 1.79 represents a healthy position.

**34. A** — The primary concern is that revenue is significantly below the projected pace (\$1,200,000 actual versus \$1,500,000 projected midpoint), but overhead — which is largely fixed — continues at approximately the budgeted rate (\$215,000 versus the \$210,000 prorata midpoint). If revenue does not recover in the second half, the company may fall below breakeven because the fixed overhead must be covered regardless of revenue volume.

**35. D** — The contractor should draw only the \$10,000 needed to cover the \$130,000 in total obligations against the \$120,000 in cash received, rather than making the full \$35,000 line of credit payment. Paying down debt is important but meeting payroll and contractual obligations takes priority. Strategic cash management means using the minimum line of credit draw necessary to cover the shortfall while meeting all obligations by their deadlines.

**36. B** — Multiple distinct OSHA violations may be cited because each requirement — exposure assessment, respiratory protection, and hazardspecific training — is a separate regulatory obligation. Failure to conduct an exposure assessment violates the silica standard's monitoring requirements. Failure to provide respiratory protection violates the respiratory protection requirements. Failure to train on silica hazards violates the training requirements. Each is independently citable.

**37. C** — A scaffold without base plates on the mudsills presents an immediate risk of settlement, collapse, or structural failure. The competent person's determination that the scaffold is unsafe requires immediate action — all workers must be prohibited from using the scaffold until the deficiency is corrected. Allowing any continued use with a reduced occupancy limit does not eliminate the structural hazard.

**38. A** — OSHA requires all forklift (powered industrial truck) operators to receive formal training and evaluation on the specific equipment they will operate, regardless of prior experience. The training must include formal instruction, practical training, and an evaluation of the operator's competence. The employer must maintain documentation of the training. Twenty years of experience does not substitute for the formal training requirement.

**39. D** — When an employee presents a valid U.S. passport, which satisfies both List A identity and work authorization requirements on the I9 form, the employer may not demand additional documents. Requiring a Social Security card and driver's license on top of a valid passport may constitute document abuse — a form of discrimination under IRCA. Employers must accept any legally acceptable document or combination that satisfies the I9 requirements.

**40. B** — FLSA overtime:  $40 \text{ regular hours} \times \$26.00 = \$1,040.00$ . Overtime:  $12 \text{ hours} \times \$39.00 (1.5 \times \$26.00) = \$468.00$ . Correct total:  $\$1,040.00 + \$468.00 = \$1,508.00$ . The employer paid only \$1,352.00, underpaying the employee by \$156.00 ( $\$13.00 \text{ overtime premium} \times 12 \text{ hours}$ ). Nonexempt employees must receive the overtime premium regardless of the agreed-upon pay arrangement.

**41. A** — Taxable gross receipts above \$1,000,000:  $\$2,800,000 - \$1,000,000 = \$1,800,000$ . CAT liability:  $\$1,800,000 \times 0.0026 = \$4,680$ . The 0.26% rate applies only to the portion of gross receipts exceeding \$1,000,000. The CAT is calculated on total revenue, not net income, so a contractor with \$2,800,000 in revenue owes \$4,680 regardless of profitability.

**42. C** — Section 179 allows the contractor to deduct the full purchase price of all qualifying business equipment placed in service during the tax year, up to the annual limit. Both the \$140,000 skid steer and the \$35,000 trailer qualify, so the total deduction is \$175,000 ( $\$140,000 + \$35,000$ ). This provides a substantial first-year tax reduction compared to depreciating the assets over their useful lives.

**43. D** — Sutures constitute medical treatment beyond first aid under OSHA's definitions. The injury must be recorded on Form 300 (Log of Work-Related Injuries and Illnesses) and Form 301 (Injury and Illness Incident Report) within seven calendar days of the employer learning about the recordable injury. The fact that the employee returned to full duty the next day does not change the recordability — treatment type determines the recording requirement.

**44. B** — The EMR is calculated based on the employer's claims experience over a multi-year period compared to the industry average. A declining trend in claims frequency and severity — from two claims in Year 1 to one in Year 2 to zero in Year 3 — would generally produce a downward trend in the EMR over time. The zero-claim year contributes positively, and as the heavier claim years age out of the experience period, the EMR decreases.

**45. A** — After filing the mechanic's lien affidavit with the county recorder, Ohio law requires the claimant to serve a copy on the property owner within thirty days of filing. The affidavit was filed on January 25, so the service deadline is February 24. This thirty-day service requirement is separate from the sixty-day filing deadline and must be independently satisfied.

**46. D** — Prevailing wage violations must be corrected promptly and completely. The contractor should immediately calculate the back wages owed to the three affected employees, pay the back wages, submit corrected certified payroll reports reflecting the accurate payments, and notify the contracting authority of the error and correction. Proactive correction demonstrates good faith and may reduce the severity of any enforcement action.

**47. B** — The missing daily reports for the threeweek period create a critical gap in the contractor's documentary evidence. Without contemporaneous records, the contractor cannot prove what actually occurred during the disputed period — crew sizes, work progress, conditions, or communications. The owner's delay claim targets this exact period, and the absence of records makes it much harder for the contractor to rebut the allegations.

**48. C** — The owner can recover the lien payment from the general contractor as damages for breach of the prime contract. The GC's failure to pay the subcontractor caused the subcontractor to file a lien, which forced the owner to pay the lien to clear the title. The owner's payment of the subcontractor's lien is a direct consequence of the GC's breach — failing to pay subcontractors from the funds the owner provided.

**49. A** — Ohio municipal income tax is based on where the work is performed. The employee works exclusively in Cincinnati, so Cincinnati withholding is required regardless of where the employee lives (Dayton) or where the employer is based (Columbus). The employee's city of residence (Dayton) may also impose a resident income tax, but the employer's withholding obligation is to the city where the work is performed.

**50. D** — Partnership income is taxed based on the profitsharing ratio established in the partnership agreement, not on the amount of cash actually distributed to each partner. Equal partners each report \$200,000 of income ( $\$400,000 \div 2$ ) on their personal tax returns, regardless of whether they withdrew \$150,000 or \$50,000. A partner who receives less cash than reported income still owes tax on the full distributive share.