

PRACTICE EXAM 9: OHIO BUSINESS AND LAW SIMULATION (50 QUESTIONS)

50 Questions — 120 Minutes Recommended

1. A commercial plumbing contractor has been operating as a sole proprietorship for eight years. Last year, a jobsite accident resulted in a \$400,000 lawsuit that exceeded the contractor's \$300,000 CGL policy limit. The contractor's personal savings of \$85,000 were used to pay the remaining \$100,000 judgment. The contractor asks an attorney how to prevent personal asset exposure in the future. What is the attorney's most likely recommendation?

- A. Increase the CGL policy limit to \$1,000,000 to ensure all future claims are fully covered by insurance
- B. Purchase an umbrella policy to provide a second layer of liability protection above the CGL limit
- C. Convert the business to an LLC or corporation to create a legal separation between business and personal assets
- D. Maintain a larger personal savings account to ensure adequate funds are available for future judgments

2. An Ohio contractor operates a multimember LLC taxed as a partnership. Member A contributes sixty percent of the capital and Member B contributes forty percent. The operating agreement specifies that profits are split fiftyfifty regardless of capital contributions. The LLC earns \$240,000 in net income. How much income does Member A report on their personal tax return?

- A. \$120,000 because the operating agreement specifies a fiftyfifty profit split regardless of capital contribution percentages
- B. \$144,000 because profits must be allocated in proportion to capital contributions under Ohio law
- C. \$240,000 because the majority capital contributor reports all partnership income
- D. \$96,000 because Member A's share is reduced by the amount of Member B's capital contribution

3. A contractor is developing the executive summary for a new business plan. The executive summary should be written at which stage of the business plan development process?

- A. First so that it guides the development of all subsequent sections of the plan
- B. Concurrently with the market analysis to ensure alignment between the two sections
- C. Immediately after the organizational structure section to reflect the management team's input
- D. Last after all other sections are completed because it summarizes the entire plan

4. An OCILB licensed electrical contractor fails to pay the annual workers' compensation premium to the Ohio BWC. The BWC notifies the OCILB of the lapse. What action can the OCILB take regarding the contractor's license?

- A. The OCILB has no authority to act because workers' compensation is administered by the BWC not the OCILB
- B. The OCILB can suspend or revoke the contractor's license because maintaining workers' compensation is a condition of licensure
- C. The OCILB can issue a written warning but cannot take action against the license for insurance related matters
- D. The OCILB must wait until the contractor fails to pay for twelve consecutive months before taking license action

5. A contractor applies for an OCILB plumbing license using the registered engineer pathway. The applicant is a registered professional engineer in Ohio with four years of business experience in the construction industry in the plumbing trade. Does the applicant meet the experience requirement?

- A. No because the registered engineer pathway requires at least three years of business experience and while four years exceeds three the experience must be verified by the Board
- B. No because registered engineers are categorically ineligible for OCILB trade licenses
- C. Yes because registered engineers are automatically licensed without any experience requirement
- D. No because the registered engineer pathway requires five years of experience identical to the tradesperson pathway

6. A contractor's estimator calculates direct costs of \$310,000 for a commercial HVAC project. The contractor typically applies job overhead at six percent and general overhead at fourteen percent of direct costs. For this project, the contractor decides to cut the general overhead allocation to eight percent to submit a more competitive bid. What is the financial risk of this decision?

- A. No risk because overhead rates are flexible and can be adjusted for each individual project
- B. The bid will be artificially inflated because reducing overhead increases the apparent profit margin
- C. The risk is limited to a minor accounting discrepancy that can be corrected at project completion
- D. The project may not recover its fair share of company overhead forcing other projects or the company's reserves to subsidize the shortfall

7. A contractor prepares a bid for a commercial project. The takeoff shows 8,500 linear feet of oneinch copper pipe. The estimator applies the unit cost for threequarterinch copper pipe instead. The price difference between oneinch and threequarterinch copper is \$2.40 per linear foot. What is the dollar amount of the pricing error?

- A. \$8,500 calculated by multiplying the total linear footage by one dollar per foot
- B. \$20,400 calculated by multiplying 8,500 linear feet by the \$2.40 perfoot price difference
- C. \$2,400 calculated by multiplying one thousand linear feet by the price difference
- D. \$12,750 calculated by multiplying the total footage by an average of the two unit prices

8. A commercial construction contract includes alternates — specified additions or deletions that the owner may select at bid time. The base bid is \$1,200,000. Alternate 1 adds an upgraded HVAC system for \$85,000. Alternate 2 deducts the courtyard landscaping for a credit of \$45,000. The owner accepts Alternate 1 and Alternate 2. What is the adjusted contract price?

- A. \$1,285,000 reflecting the base bid plus Alternate 1 only
- B. \$1,155,000 reflecting the base bid minus Alternate 2 only
- C. \$1,240,000 reflecting the base bid plus Alternate 1 (\$85,000) minus Alternate 2 (\$45,000)
- D. \$1,330,000 reflecting the base bid plus both alternates added together

9. A contractor enters into a subcontract with a concrete company for foundation work on a commercial project. The subcontract does not contain an indemnification clause. During construction, a concrete truck backs into a parked car belonging to a visitor at the jobsite. The car owner sues both the general contractor and the concrete subcontractor. Without an indemnification clause in the subcontract, what is the general contractor's position?

- A. The general contractor cannot contractually require the subcontractor to assume liability for the damage through the subcontract because no indemnification clause exists
- B. The general contractor is automatically protected because all subcontractors implicitly indemnify general contractors
- C. The general contractor has no liability because the concrete truck is owned by the subcontractor
- D. The general contractor can require the subcontractor to indemnify based on industry custom even without a written clause

10. An owner and contractor disagree about whether certain HVAC ductwork modifications constitute extra work requiring a change order or are part of the original contract scope. The contract requires the contractor to submit a written claim within fourteen days of the dispute arising. The contractor believes the architect's interpretation is wrong but does not submit the written claim within fourteen days because the contractor wants to resolve the issue informally first. Thirty days later, informal discussions fail and the contractor submits the written claim. What is the likely consequence?

- A. The informal discussions toll the fourteenday deadline and the claim is timely because goodfaith negotiations were in progress
- B. The architect's original interpretation becomes binding because the contractor did not dispute it within the required timeframe
- C. The claim can still proceed but the contractor must pay a late filing fee to the arbitrator
- D. The claim may be barred or limited because the contractor failed to submit the written claim within the contractually required fourteenday notice period

11. A contractor completes a commercial project and the architect conducts the substantial completion inspection. The architect determines that the building's fire alarm system is not operational — a condition that prevents the building from receiving a certificate of occupancy. The architect declines to issue the Certificate of Substantial Completion. Why is the architect's decision correct?

- A. The architect is incorrect because substantial completion requires only ninety percent of all systems to be operational
- B. The architect is biased against the contractor and should be replaced by a neutral thirdparty inspector
- C. The architect should issue the certificate and list the fire alarm as a punch list item for later resolution
- D. Substantial completion requires that the owner can occupy or use the building for its intended purpose and a nonfunctional fire alarm prevents occupancy

12. A general contractor holds a weekly progress meeting with all subcontractors. During the meeting, the electrical subcontractor states that their work will be delayed two weeks because the switchgear has not arrived from the manufacturer. The project manager records this information in the meeting minutes. Two months later, the owner claims the GC should have taken immediate corrective action to prevent the delay. What documentation supports the GC's position?

- A. The GC's original bid showing that switchgear procurement was the electrical subcontractor's responsibility
- B. The meeting minutes documenting when the delay was first reported and any corrective actions discussed
- C. The architect's monthly observation report which should have identified the switchgear delay
- D. The project schedule baseline showing the original delivery date for the switchgear before any delays occurred

13. A contractor's CGL policy contains an "earth movement" exclusion that eliminates coverage for property damage caused by earth subsidence, landslide, or soil settlement. The contractor is performing excavation work adjacent to an existing building when the excavation causes the adjacent building's foundation to settle, cracking the walls and displacing the windows. The building owner files a \$350,000 damage claim. Is the claim covered by the contractor's CGL?

- A. Yes because the damage was caused by the contractor's negligent excavation not by natural earth movement
- B. Yes because all property damage claims are covered by CGL regardless of the cause
- C. No because the earth movement exclusion eliminates coverage for all damage resulting from soil settlement regardless of cause
- D. No because excavation damage to adjacent properties is classified as professional liability not general liability

14. An Ohio contractor has an EMR of 1.05 and a base workers' compensation premium of \$55,000. A competing contractor in the same trade has an EMR of 0.75 and the same base premium. What is the annual premium difference between the two contractors?

- A. \$16,500 calculated as $(\$55,000 \times 1.05)$ minus $(\$55,000 \times 0.75)$ representing the competitive disadvantage of the higher EMR
- B. \$8,250 calculated as half the difference between the two EMR values applied to the base premium
- C. \$2,750 calculated as the 0.05 EMR surcharge on the first contractor's premium only
- D. \$30,000 calculated by applying the 0.30 EMR difference to the combined premiums of both contractors

15. A contractor furnishes a payment bond on a statefunded public library project. A material supplier provides \$32,000 in plumbing fixtures to a firsttier subcontractor. The subcontractor installs the fixtures but does not pay the supplier. The supplier contacts the general contractor requesting payment. The general contractor states that payment is the subcontractor's responsibility. What is the supplier's remedy?

- A. The supplier can sue the general contractor for unjust enrichment because the materials benefited the project
- B. The supplier can file a mechanic's lien against the public library property to secure the \$32,000 debt
- C. The supplier has no remedy because suppliers do not have rights under payment bonds on public projects
- D. The supplier can file a claim against the payment bond to recover the \$32,000 for materials furnished to the project

16. A contractor on a commercial project installs a mechanical system per the approved shop drawings. Six months after project completion, the system fails due to a design error in the engineer's original specifications. The owner sues the contractor for the cost of repairs. The contractor argues that the installation followed the approved shop drawings. Who is likely responsible for the design error?

- A. The contractor is responsible because shop drawing approval transfers design liability from the engineer to the contractor
- B. The design engineer is likely responsible because shop drawing approval by the architect does not relieve the design professional of liability for design errors in the original specifications

- C. The project owner is responsible because the owner selected the engineer and approved the design
- D. Responsibility cannot be determined without a formal arbitration proceeding between all three parties

17. A project manager tracks earned value on a commercial project. At month four, the planned value of work is \$400,000. The earned value (value of work actually completed) is \$350,000. The actual cost of the work completed is \$380,000. What do these numbers indicate about the project's status?

- A. The project is behind schedule because earned value is less than planned value and over budget because actual cost exceeds earned value
- B. The project is ahead of schedule because actual cost exceeds planned value indicating more work was performed
- C. The project is on schedule but under budget because earned value and actual cost are both below planned value
- D. The project status is favorable because the actual cost is less than the planned value

18. A contractor's project manager discovers that the roofing subcontractor has completed the roof installation but has not removed construction debris from the roof drains, causing water to pond on the roof during a rainstorm. The ponding water causes damage to the completed interior ceiling finishes below. Whose responsibility is the damage?

- A. The project owner because the owner should have inspected the roof before the rainstorm
- B. The architect because the roof drainage design should have prevented ponding from any debris
- C. The building inspector because the final roof inspection should have identified the blocked drains
- D. The roofing subcontractor and the general contractor because the sub failed to clean the drains and the GC has overall responsibility for all work on the project

19. A contractor on a commercial project uses a threeweek lookahead schedule to plan shortterm work activities. The lookahead schedule is updated weekly and distributed to all subcontractors. What is the primary purpose of the threeweek lookahead?

- A. To replace the project CPM schedule with a more manageable shortterm planning document

- B. To satisfy the contract requirement for a formal CPM schedule submission to the owner
- C. To coordinate nearterm activities among trades identifying resource needs, material deliveries, and potential conflicts before they cause delays
- D. To calculate the project's earned value and cost performance index for the monthly progress report

20. A contractor completes a commercial project and the owner takes occupancy. Fourteen months after substantial completion, the owner discovers that several HVAC dampers are not functioning properly. The contractor's standard oneyear warranty has expired. The manufacturer's warranty on the dampers is two years. Who is responsible for the repair?

- A. The damper manufacturer under the twoyear manufacturer's warranty because the defect appeared within the manufacturer's warranty period even though the contractor's warranty has expired
- B. The contractor because the oneyear workmanship warranty automatically extends to match the longest manufacturer warranty
- C. The project owner because both the contractor's and manufacturer's warranties have expired
- D. The architect because the specification of the dampers constitutes an implied warranty of fitness

21. An Ohio contractor is evaluating whether to lease or purchase a \$180,000 piece of excavation equipment. The contractor's accountant explains that purchasing allows Section 179 expensing in Year 1, while leasing spreads the cost over sixty monthly payments. The contractor has limited cash reserves but strong monthly cash flow from ongoing projects. Which factor most favors leasing in this situation?

- A. Leasing provides a larger total tax deduction over the life of the equipment than purchasing with Section 179
- B. Leasing preserves the contractor's limited cash reserves by avoiding a large upfront capital outlay
- C. Leasing transfers all maintenance and repair obligations to the leasing company for the lease term
- D. Leasing allows the contractor to claim both the lease payments and Section 179 expensing simultaneously

22. A contractor's income statement for the fiscal year shows revenue of \$2,600,000 and cost of revenue of \$2,028,000. General overhead is \$416,000. What is the contractor's net operating income and net profit margin?

- A. Net operating income is \$156,000 and net profit margin is six percent
- B. Net operating income is \$572,000 and net profit margin is twentytwo percent
- C. Net operating income is \$416,000 and net profit margin is sixteen percent
- D. Net operating income is \$2,028,000 and net profit margin is seventyeight percent

23. A contractor's bank requires an annual financial statement review as a condition of maintaining the company's \$200,000 line of credit. The contractor's accountant prepares the financial statements but the contractor delays submitting them to the bank for four months. The bank sends a notice that the line of credit will be frozen until the financial statements are received. What risk does the frozen line of credit create for the contractor?

- A. No risk because the contractor's existing cash reserves are sufficient to cover all operations
- B. Minimal risk because the bank will automatically reinstate the line once the statements are received
- C. The contractor may face immediate legal action from the bank to recover the outstanding balance
- D. The contractor loses access to shortterm borrowing capacity during a period when cash flow gaps may require draws on the line

24. A contractor's annual overhead is \$350,000 and the historical gross profit margin is thirty percent. A major commercial project with a \$500,000 contract price is unexpectedly cancelled. What is the impact on the contractor's breakeven analysis?

- A. Breakeven revenue increases because the cancelled project reduces the gross profit margin below thirty percent
- B. Breakeven revenue decreases because the contractor has one fewer project to manage reducing overhead costs
- C. Breakeven revenue remains at approximately \$1,166,667 but the contractor now has \$500,000 less revenue to cover the unchanged overhead
- D. Breakeven revenue is irrelevant because the cancellation eliminates all financial obligations associated with the project

25. OSHA's construction fall protection standard requires employers to provide fall protection at six feet. A contractor argues that the company's workers are experienced and do not need fall protection at heights between six and ten feet. The contractor provides harnesses only for work above ten feet. An OSHA inspector observes workers at eight feet without fall protection. What is the outcome?

- A. A citation because the sixfoot trigger height is an absolute requirement regardless of worker experience
- B. No citation because the contractor's tenfoot policy exceeds the general industry fourfoot standard
- C. A reduced citation because the contractor demonstrated a partial compliance effort with the tenfoot threshold
- D. No citation because experienced construction workers are exempt from fall protection requirements below ten feet

26. A contractor on a commercial project is required to maintain OSHA Form 300 throughout the year. In March, a worker sustains a recordable eye injury. In July, a different worker suffers a recordable hand fracture. In October, a third worker receives prescription medication for a back strain. The contractor records all three injuries. At year end, how many total entries should appear on the Form 300 log?

- A. One entry because only the most serious injury of the year is recorded on Form 300
- B. Two entries because the back strain treated with prescription medication does not qualify as recordable
- C. Four entries because each injury generates one entry plus a separate entry for the yearend summary
- D. Three entries because each recordable injury is logged as a separate line item on Form 300

27. A contractor assigns a crew to work in a confined space on a commercial project. The entry permit identifies atmospheric hazards including potential oxygen deficiency. OSHA's permitrequired confined space standard requires an attendant to be stationed at the entry point at all times while workers are inside. Midway through the shift, the attendant leaves the entry point to retrieve a tool from the supply truck. During the attendant's absence, a worker inside the space experiences dizziness. What OSHA violation has occurred?

- A. A recordkeeping violation because the attendant's departure was not documented in the entry permit

- B. A violation of the permitrequired confined space standard because the attendant must remain at the entry point at all times while workers are in the space
- C. No violation because the attendant's brief absence was reasonable and not a willful disregard of the standard
- D. A violation limited to the tool retrieval because OSHA permits attendants to leave for restroom breaks only

28. An Ohio employer hires twelve new construction workers over a twomonth period. For each worker, the employer completes the I9 form on the first day of employment. However, the employer does not verify the authenticity of the documents presented by examining them for obvious irregularities. Three months later, an ICE audit reveals that two workers presented fraudulent documents. What is the employer's exposure?

- A. The employer may face penalties for failing to properly examine the documents even though the I9 forms were completed because employers must examine documents for reasonableness
- B. The employer has no exposure because completing the I9 form satisfies all employer obligations regardless of document authenticity
- C. The employer is liable only if the employer knowingly hired unauthorized workers with deliberate intent
- D. The employer's only obligation is to terminate the unauthorized workers upon discovery with no further penalty

29. An Ohio contractor operating as a sole proprietorship earns \$195,000 in net business income. The contractor contributes \$20,000 to a SEPIRA retirement plan. What is the effect of the SEPIRA contribution on the contractor's taxable income?

- A. The contribution has no effect on taxable income because retirement plan contributions are not taxdeductible for sole proprietors
- B. The contribution reduces taxable income by \$10,000 because only fifty percent of retirement plan contributions are deductible
- C. The contribution reduces taxable income by \$20,000 because SEPIRA contributions are fully deductible as a business expense
- D. The contribution reduces taxable income by \$20,000 but increases selfemployment tax by the same amount

30. An Ohio contractor purchases \$18,000 in electrical materials from an Ohio supplier and pays Ohio sales tax. The contractor then learns that the project has been cancelled. The contractor returns the unused materials to the supplier for a full refund. The supplier refunds the material cost but does not refund the sales tax. What is the contractor's recourse for the sales tax paid on the returned materials?

- A. The contractor has no recourse because sales tax paid on construction materials is nonrefundable in Ohio
- B. The contractor may apply for a refund of the sales tax from the Ohio Department of Taxation or the supplier should refund the tax
- C. The contractor can deduct the unrefunded sales tax as a business expense on the federal tax return only
- D. The supplier is prohibited from refunding sales tax under Ohio law and the contractor must absorb the cost

31. A subcontractor on a private commercial project serves a Notice of Furnishing on the property owner on Day 19 after first furnishing labor. The subcontractor works for four months and is owed \$145,000. The general contractor goes bankrupt and cannot pay. The subcontractor files a mechanic's lien affidavit within sixty days of last furnishing and serves the owner within thirty days of filing. Is the subcontractor's lien valid?

- A. Yes because the subcontractor complied with all three procedural requirements — timely Notice of Furnishing within twentyone days, lien affidavit filed within sixty days of last furnishing, and service on the owner within thirty days of filing
- B. No because the general contractor's bankruptcy automatically voids all subcontractor lien rights
- C. Yes but only for the work performed after the Notice of Furnishing was served on Day 19
- D. No because the subcontractor must first pursue recovery through the general contractor's bankruptcy proceeding before filing a lien

32. A property owner on a commercial project obtains a construction loan. The bank records the mortgage on January 15. The contractor begins visible construction work on February 1. A subcontractor later files a mechanic's lien. Under Ohio's lien priority rules, what is the likely priority between the bank's mortgage and the subcontractor's lien?

- A. The subcontractor's lien has priority because mechanic's liens always take precedence over mortgages in Ohio

- B. The two claims share equal priority and proceeds from a sale would be split proportionally
- C. Priority is determined by which claim was filed first with the county recorder regardless of other dates
- D. The bank's mortgage likely has priority because it was recorded before the improvement commenced on February 1

33. A contractor files a mechanic's lien on a commercial property for \$78,000. The property owner disputes the lien and posts a surety bond to discharge the lien from the property. The contractor then files a foreclosure action to enforce the lien. After trial, the court determines that the contractor is owed \$55,000 — not the \$78,000 claimed. The court enters judgment for \$55,000 plus interest and attorney's fees. Against what is the judgment enforced?

- A. Against the property because the lien was filed against the real estate
- B. Against the general contractor personally because the GC failed to pay the subcontractor
- C. Against the surety bond because the bond replaced the property as the security for the contractor's claim when it was posted
- D. Against both the property and the bond with the contractor choosing which to execute against

34. Under the federal Miller Act, a firsttier subcontractor on a federal project valued at \$5,000,000 completes \$320,000 of plumbing work and is not paid. The subcontractor wants to file a lawsuit to enforce the payment bond claim. What is the earliest the lawsuit can be filed and what is the deadline?

- A. The lawsuit can be filed immediately upon nonpayment with no waiting period and must be filed within two years
- B. The lawsuit cannot be filed earlier than ninety days after the date of last furnishing and must be filed no later than one year after the date of last furnishing
- C. The lawsuit must be filed within sixty days of submitting written notice to the prime contractor
- D. The lawsuit can be filed at any time within three years of the project completion date

35. A contractor's balance sheet shows total assets of \$1,100,000 and total liabilities of \$780,000. The contractor applies for a \$400,000 performance bond. The surety's guideline requires net worth to equal at least ten percent of the bond amount. Does the contractor meet this guideline?

- A. Yes because net worth is \$320,000 which exceeds ten percent of the \$400,000 bond amount (\$40,000)
- B. No because net worth is \$320,000 which is below the fifty percent threshold required for performance bonds
- C. Yes because total assets of \$1,100,000 exceed the bond amount of \$400,000
- D. No because the debttoequity ratio exceeds the 2.0 maximum threshold for bonded contractors

36. An Ohio contractor with eighteen employees discovers that two employees have been engaging in racially hostile behavior toward a coworker — making derogatory comments, displaying offensive images on their phones, and excluding the coworker from crew activities. The affected employee reports the behavior to the superintendent, who tells the employee to "toughen up" and takes no action. Two weeks later, the behavior continues and the employee files a complaint with the Ohio Civil Rights Commission. What is the employer's primary legal exposure?

- A. No exposure because the superintendent's response constitutes a goodfaith attempt to address the complaint
- B. No exposure because hostile work environment claims require physical contact not verbal harassment
- C. Liability for hostile work environment harassment because the employer was notified of the harassment and failed to take prompt and effective corrective action
- D. Liability only if the employer can be shown to have explicitly authorized the harassing behavior

37. A nonexempt HVAC technician works fortysix hours in a single workweek. The technician receives a base hourly rate of \$31.00 and a nondiscretionary weekly production bonus of \$120.00 for the week. Under the FLSA, how is the overtime rate calculated when a nondiscretionary bonus is included?

- A. The overtime rate is \$46.50 calculated as 1.5 times the base hourly rate of \$31.00 only
- B. The overtime premium is calculated on the base rate only and the bonus is excluded from the regular rate
- C. The \$120 bonus is divided equally among all fortysix hours worked to reduce the overtime premium
- D. The \$120 bonus must be included in the regular rate calculation which increases both the regular rate and the overtime rate above the base wage

38. An Ohio sole proprietor contractor earns \$200,000 in net selfemployment income and has no employees. The contractor has not made any estimated tax payments for the current year. The contractor's prioryear total federal tax liability was \$48,000. What is the minimum estimated tax payment the contractor must make to avoid the underpayment penalty under the safe harbor rule?

- A. \$48,000 calculated as one hundred percent of the prioryear tax liability spread across four quarterly payments
- B. \$48,000 representing one hundred percent of the prior year's liability or if AGI exceeds \$150,000 then one hundred ten percent of prioryear liability
- C. \$43,200 representing ninety percent of the currentyear estimated tax liability
- D. \$60,000 representing thirty percent of the currentyear net selfemployment income

39. An Ohio contractor operating as a singlemember LLC elects Scorporation taxation. The contractor pays herself a salary of \$80,000 and takes \$70,000 in distributions. The contractor also contributes \$15,000 to a SEPIRA. Which amounts are subject to FICA payroll taxes?

- A. Only the \$80,000 salary is subject to FICA while the distributions and SEPIRA contribution are not
- B. Both the \$80,000 salary and \$70,000 distributions are subject to FICA totaling \$150,000
- C. The \$80,000 salary minus the \$15,000 SEPIRA contribution for a net of \$65,000 subject to FICA
- D. Only the \$70,000 in distributions is subject to FICA because salary is taxed as ordinary income only

40. An Ohio contractor purchases \$55,000 in mechanical equipment from a California manufacturer. The manufacturer ships the equipment directly to the Ohio jobsite and does not collect Ohio sales tax. The equipment is installed on a private commercial project. The contractor does not report or pay Ohio use tax on the purchase. Two years later, the Ohio Department of Taxation audits the contractor. What is the likely assessment?

- A. No assessment because equipment shipped from out of state is exempt from Ohio use tax
- B. An assessment for use tax on the \$55,000 purchase price plus two years of accrued interest
- C. An assessment limited to a flat \$500 penalty with no tax obligation because the manufacturer bears responsibility

D. A use tax assessment on the \$55,000 at the applicable Ohio rate plus interest and potentially penalties for failure to self-assess and remit the use tax

41. A subcontractor on a private commercial project completes work on March 15 and is owed \$62,000. The subcontractor served a timely Notice of Furnishing. The subcontractor files a mechanic's lien affidavit on May 10 — fiftysix days after last furnishing. The subcontractor serves the filed affidavit on the property owner on June 15 — thirtysix days after filing. Has the subcontractor preserved valid lien rights?

A. No because the lien affidavit was filed more than thirty days after last furnishing

B. No because the service on the owner exceeded the thirtyday postfiling deadline by six days

C. Yes because both the filing and service were within the sixtyday deadlines

D. The lien affidavit filing is timely at fiftysix days but the service on the owner at thirtysix days after filing exceeds the thirtyday service deadline potentially affecting enforceability

42. A contractor on a large commercial project maintains a change order log showing twentyfive approved change orders totaling \$380,000 in additional costs over twelve months. The contractor's original contract price was \$2,200,000. At a project review meeting, the owner expresses concern about the volume of changes. What does the change order log reveal about the project?

A. The project is poorly managed because any change orders indicate the contractor failed to estimate accurately

B. The change order log provides transparency showing that the contract has been modified by seventeen percent through documented and approved changes which may reflect design revisions, ownerdirected modifications, or unforeseen conditions

C. The volume of changes is normal and requires no discussion because all commercial projects experience similar rates

D. The change order log indicates the contractor has been performing unauthorized work and billing the owner through change orders

43. Under OSHA's electrical safety standards for construction, what is the primary hazard that groundfault circuit interrupters are designed to prevent?

- A. Electrocution from ground faults on temporary power circuits by interrupting the circuit when current leakage exceeds a safe threshold
- B. Overheating of electrical conductors caused by excessive current draw on permanent branch circuits
- C. Voltage fluctuations that can damage sensitive electronic equipment connected to construction power
- D. Arc flash explosions caused by short circuits in electrical distribution panels and switchgear

44. A contractor's superintendent observes that a recently erected scaffold on a commercial project does not have toeboards installed along the open edges of the working platform. Tools and materials are stored on the platform. What specific hazard does the absence of toeboards create?

- A. A fall hazard for workers because toeboards function as the primary guardrail system on scaffolds
- B. A fire hazard because toeboards contain fireresistant materials that protect the scaffold from ignition
- C. A struckby hazard because tools and materials can slide or roll off the platform edge and fall onto workers below
- D. No specific hazard because toeboards are an optional scaffold component recommended but not required by OSHA

45. An Ohio employer terminates an atwill employee. The employee had no written employment contract and no union representation. The employer states that the termination is based on a general "reduction in force." Two days after termination, the employer hires a replacement for the terminated employee's position. The terminated employee suspects the real reason for the termination was age discrimination — the employee is sixtytwo years old and the replacement is twentyeight. What law may the employee invoke?

- A. The FMLA because the termination occurred close to a qualifying medical event
- B. OSHA because the termination may have been related to a safety complaint
- C. The Ohio minimum wage law because the replacement was hired at a lower rate
- D. The Age Discrimination in Employment Act and the Ohio Civil Rights Act because both prohibit age discrimination against workers forty and older

46. A contractor's quarterly cash flow projection shows the following: Month 1 — net positive cash flow of \$35,000; Month 2 — net negative cash flow of \$80,000; Month 3 — net positive cash flow of \$60,000. The contractor's beginning cash balance is \$50,000 and the line of credit has \$100,000 available. Will the contractor maintain positive cash throughout the quarter without drawing on the line of credit?

A. No because the Month 2 deficit of \$80,000 exceeds the cumulative cash available of \$85,000 from the beginning balance plus Month 1 leaving a net balance of only \$5,000 which requires drawing on the line to maintain comfortable operations

B. Yes because the total quarterly net cash flow is positive at \$15,000

C. No because the beginning cash balance of \$50,000 is insufficient to cover any single month's expenses

D. Yes because the \$100,000 line of credit provides automatic coverage for any monthly shortfall

47. A commercial construction contract includes a retainage provision of ten percent on all progress payments until the project reaches fifty percent completion, at which point retainage is reduced to five percent for all subsequent payments. The total contract price is \$800,000. The contractor completes sixty percent of the work. What is the total retainage held by the owner?

A. \$80,000 representing ten percent of the total contract price

B. \$48,000 representing an average of ten percent and five percent across all billings

C. \$44,000 representing ten percent on the first \$400,000 of billings plus five percent on the next \$80,000 of billings

D. \$24,000 representing five percent of the \$480,000 in total billings to date

48. An Ohio contractor operates in Columbus and an employee works exclusively at a Columbus jobsite. Columbus has a municipal income tax rate of 2.5%. The employee lives in Westerville, which has a municipal income tax rate of 2.0% and provides a credit for taxes paid to other municipalities. What is the net municipal tax obligation for the employee?

A. 2.0% to Westerville only because the employee's city of residence collects all municipal income tax

B. 2.5% to Columbus only because employees pay municipal tax only to the city where work is performed

- C. 4.5% combined — 2.5% to Columbus plus 2.0% to Westerville with no credit available
- D. 2.5% to Columbus for work performed there plus any residual to Westerville after applying the credit for Columbus taxes against the Westerville obligation

49. A contractor's project has three concurrent activities in the CPM schedule. Activity X has eight days of total float. Activity Y has three days of total float. Activity Z has zero float. A materials delivery delay affects all three activities equally, causing a fiveday delay to each. What is the net impact on the project completion date?

- A. No impact because the delays are absorbed by the combined float of Activities X and Y
- B. A fiveday delay because Activity Z is on the critical path and the fiveday delay directly extends the project
- C. A threeday delay because Activity Y has the least float among the noncritical activities
- D. An eightday delay because Activity X's consumed float combines with the delay on Activity Z

50. A contractor's financial statements show a current ratio of 2.1, positive working capital of \$220,000, a debttoequity ratio of 1.8, and a net profit margin of 5.2%. The contractor applies for an increase in bonding capacity. Based on these financial metrics, what is the surety's likely assessment?

- A. The financial position is generally strong with adequate liquidity, moderate leverage, and positive profitability supporting an increase in bonding capacity
- B. The debttoequity ratio of 1.8 is too high for any bonding increase and the application will be denied
- C. The net profit margin of 5.2% is below the minimum ten percent threshold required for bonded contractors
- D. The current ratio of 2.1 is too high indicating the contractor is hoarding cash rather than investing in growth

Practice Exam 9: Answer Key and Explanations

1. **C** — While increasing insurance limits and purchasing an umbrella policy are important risk management steps, the fundamental problem is the sole proprietorship's lack of legal separation between the owner and the business. Converting to an LLC or corporation creates a separate legal

entity that shields the owner's personal assets from business liabilities. Insurance protects against covered claims, but entity protection covers the gaps that insurance does not.

2. A — Partnership profits are allocated according to the operating agreement, not in proportion to capital contributions. The operating agreement specifies a fifty-fifty split, so each member reports \$120,000 ($\$240,000 \times 50\%$) on their personal tax return regardless of capital contribution percentages. The operating agreement governs profit allocation, and without it, Ohio's default rules would split profits equally anyway.

3. D — The executive summary should be written last because it is a concise overview of the entire business plan — mission, services, market, financial projections, and competitive advantages. Writing it before the other sections are complete risks misalignment between the summary and the detailed content. Though it appears first in the document, it is developed last to ensure it accurately reflects all sections.

4. B — Maintaining workers' compensation coverage is a condition of OCILB licensure. When the BWC notifies the OCILB that a contractor's coverage has lapsed, the Board has the authority to suspend or revoke the license. The OCILB requires contractors to maintain both general liability insurance (\$500,000 minimum) and workers' compensation as ongoing conditions of holding an active license.

5. A — The registered engineer pathway requires at least three years of business experience in the construction industry in the applicable trade. The applicant has four years, which exceeds the three-year minimum. However, the Board verifies all experience claims, so the applicant meets the threshold but the experience must still be documented and approved. The registered engineer pathway is an alternative to the standard five-year tradesperson pathway.

6. D — Reducing the general overhead allocation below the actual overhead rate means the project will not recover its fair share of company-wide costs. The company's overhead — rent, office staff, insurance, marketing — exists regardless of how it is allocated to individual projects. Underbidding overhead on one project forces other projects or the company's reserves to absorb the shortfall, eroding overall profitability.

7. B — The pricing error equals the price difference per unit multiplied by the total quantity: $\$2.40 \times 8,500 = \$20,400$. Using the unit cost for three-quarter-inch pipe instead of one-inch pipe understates the material cost by \$20,400. This error directly reduces the contractor's profit by that amount since the lump-sum contract price does not change when the correct materials must be furnished.

8. C — The adjusted contract price incorporates both accepted alternates: base bid (\$1,200,000) plus Alternate 1 add (\$85,000) minus Alternate 2 deduction (\$45,000) = \$1,240,000. Alternates are prepriced options that the owner can accept or reject at bid time. Add alternates increase the contract price while deduct alternates reduce it.

9. A — Without an indemnification clause in the subcontract, the general contractor cannot contractually compel the subcontractor to assume the GC's defense and liability costs. The GC may still have contribution or common-law indemnity claims against the sub, but these are more difficult and uncertain than enforcing a contractual indemnification provision. This illustrates why every subcontract should contain an indemnification clause.

10. D — Contractual notice deadlines are strictly enforced. The fourteenday requirement exists to ensure timely documentation of disputes and to give both parties the opportunity to investigate and preserve evidence while conditions are still observable. Informal negotiations do not toll or extend the contractual deadline. The contractor's failure to submit the written claim within fourteen days may result in waiver of the claim.

11. D — Substantial completion means the project is sufficiently complete that the owner can occupy or use the building for its intended purpose. A nonfunctional fire alarm system prevents the building from receiving a certificate of occupancy, which means the owner cannot occupy the building. This is not a punch list item — it is a condition that prevents substantial completion. The architect's refusal to issue the certificate is correct.

12. B — The meeting minutes documenting the switchgear delay — including when it was first reported, who was present, and what corrective actions were discussed — provide contemporaneous evidence of the GC's awareness and response. This documentation demonstrates that the GC identified the issue, communicated it to stakeholders, and took whatever corrective actions were available at the time.

13. C — The earth movement exclusion in most CGL policies eliminates coverage for property damage caused by earth subsidence, landslide, mudflow, or soil settlement, regardless of whether the movement was caused by the contractor's operations or by natural forces. Even though the contractor's excavation caused the settlement, the exclusion applies to the resulting damage. Contractors performing excavation should obtain specific excavation liability or contractors pollution liability coverage.

14. A — Contractor 1 premium: $\$55,000 \times 1.05 = \$57,750$. Contractor 2 premium: $\$55,000 \times 0.75 = \$41,250$. Difference: $\$57,750 - \$41,250 = \$16,500$. The 0.30 EMR gap translates to \$16,500 per year in premium difference. The contractor with the higher EMR pays \$16,500 more annually for the same base premium, demonstrating the competitive cost of a poor safety record.

15. D — On public projects, mechanic's liens cannot be filed against governmentowned property. The payment bond is the supplier's remedy. Material suppliers who furnish materials incorporated into a public project can file claims against the payment bond. However, secondtier claimants (suppliers who furnished to a subcontractor rather than directly to the prime) may need to provide written notice to the prime contractor within the required timeframe to preserve bond claim rights.

16. B — Shop drawing approval by the architect does not transfer design liability from the design professional to the contractor. The architect's review verifies general conformance with the design intent, but the design professional remains responsible for the accuracy and adequacy of the original design specifications. When a system fails due to a design error in the original specifications, the design engineer bears responsibility for the defective design.

17. A — Earned value analysis reveals two problems: the project is behind schedule because earned value (\$350,000) is less than planned value (\$400,000) — meaning less work was completed than planned. The project is also over budget because actual cost (\$380,000) exceeds earned value (\$350,000) — meaning the work that was completed cost more than it should have. Both schedule and cost performance are unfavorable.

18. D — The roofing subcontractor is directly responsible for leaving debris in the roof drains — a failure to complete the work properly and maintain clean conditions. The general contractor also bears

responsibility because the GC is responsible to the owner for all work on the project, including subcontractor work. The GC's quality control and inspection processes should have identified the blocked drains before the rain event.

19. C — The threeweek lookahead schedule is a shortterm planning tool that coordinates nearterm activities among all trades. It identifies upcoming work, material delivery requirements, inspection schedules, equipment needs, and potential conflicts between trades before they cause delays. It supplements — but does not replace — the project's CPM schedule, providing the detail needed for daytoday coordination.

20. A — The contractor's oneyear workmanship warranty has expired, but the damper manufacturer's twoyear warranty is still in effect. The defective dampers should be addressed under the manufacturer's warranty, which typically covers defects in materials and equipment independent of the contractor's workmanship warranty. The contractor should assist the owner in submitting the warranty claim to the manufacturer.

21. B — The contractor has limited cash reserves, making a large upfront equipment purchase problematic. Leasing preserves cash by spreading the cost over monthly payments, avoiding the drain on reserves that purchasing would cause. While Section 179 provides a valuable tax deduction for purchases, the immediate cash preservation benefit of leasing outweighs the tax benefit when cash reserves are limited.

22. A — Revenue: \$2,600,000. Cost of revenue: \$2,028,000. Gross profit: \$572,000. General overhead: \$416,000. Net operating income: \$572,000 – \$416,000 = \$156,000. Net profit margin: \$156,000 ÷ \$2,600,000 = 6%. A six percent net margin is within the typical range for construction contractors, where net margins of three to ten percent are common for wellmanaged businesses.

23. D — A frozen line of credit eliminates the contractor's access to shortterm borrowing capacity at precisely the times when construction cash flow gaps require it. Progress payment timing, material purchases, and payroll obligations create regular cash flow fluctuations that the line of credit is designed to smooth. Losing this access can force the contractor to delay payments, miss payroll, or default on obligations.

24. C — Breakeven revenue = overhead ÷ gross profit margin = \$350,000 ÷ 0.30 = \$1,166,667. The breakeven revenue does not change because neither overhead nor the gross profit margin changed. However, the cancelled \$500,000 project means the contractor has \$500,000 less revenue available to cover the unchanged \$350,000 overhead. The contractor must generate the same breakeven revenue from a smaller pool of projects.

25. A — The sixfoot trigger height for fall protection in construction is an absolute requirement under 29 CFR 1926 Subpart M. Worker experience does not create an exemption. Workers at eight feet without fall protection are in clear violation of the standard, and OSHA will cite the contractor. The contractor's tenfoot internal policy is less protective than the OSHA standard and is therefore noncompliant.

26. D — Each recordable injury is entered as a separate line item on OSHA Form 300. The eye injury, hand fracture, and back strain treated with prescription medication are all recordable injuries (prescription medication constitutes medical treatment beyond first aid). Three separate incidents produce three separate entries on the Form 300 log. The yearend summary (Form 300A) compiles the totals but is a separate document.

27. B — OSHA's permitrequired confined space standard requires the attendant to remain stationed at the entry point at all times while workers are inside the space. The attendant's role is to monitor conditions, maintain communication with entrants, and initiate rescue if necessary. Leaving the entry point — even briefly — creates a gap in the safety system during which a worker could be overcome without anyone available to respond.

28. A — Employers must examine the documents presented by employees for reasonableness — checking that they appear genuine and relate to the person presenting them. Simply completing the I9 form without actually examining the documents does not satisfy the employer's verification obligation under IRCA. The employer may face civil penalties for failure to properly verify employment eligibility, even without knowledge that the documents were fraudulent.

29. C — SEPIRA contributions are fully taxdeductible as a business expense, reducing the contractor's taxable income dollarfordollar. A \$20,000 contribution reduces taxable income from \$195,000 to \$175,000, producing a corresponding reduction in federal income tax. The contribution does not affect selfemployment tax, which is calculated on net selfemployment income before the SEPIRA deduction.

30. B — When materials are returned for a refund, the sales tax paid on the original purchase should also be refunded. The contractor may request the refund from the supplier (who can then claim a credit from the state) or apply directly to the Ohio Department of Taxation for a refund. Ohio law generally provides mechanisms for recovering sales tax paid on returned merchandise.

31. A — The subcontractor complied with all three critical procedural requirements: the Notice of Furnishing was served on Day 19 (within the twentyoneday deadline), the lien affidavit was filed within sixty days of last furnishing, and the filed affidavit was served on the property owner within thirty days of filing. Full compliance with all statutory procedures preserves valid lien rights for the entire scope of work.

32. D — The bank recorded its mortgage on January 15, before visible construction began on February 1. Under Ohio's lien priority rules, a mechanic's lien relates back to the date the improvement commenced. Since the mortgage was recorded before the improvement commenced, the mortgage has priority over the subsequently arising mechanic's lien. Liens take priority over mortgages only when the improvement commenced before the mortgage was recorded.

33. C — When the property owner posted a surety bond to discharge the lien, the contractor's security interest transferred from the property to the bond. The bond replaced the property as the security for the claim. The court's \$55,000 judgment plus interest and fees is enforced against the surety bond, not against the property. The property was freed from the lien when the bond was posted.

34. B — Under the Miller Act, a payment bond lawsuit cannot be filed earlier than ninety days after the date of last furnishing labor or materials (to allow time for the contractor to resolve the payment) and must be filed no later than one year after the date of last furnishing. The ninetyday waiting period and oneyear deadline are specific Miller Act requirements that differ from state mechanic's lien deadlines.

35. A — Net worth = total assets – total liabilities = \$1,100,000 – \$780,000 = \$320,000. The surety's guideline requires net worth of at least ten percent of the bond amount: $10\% \times \$400,000 = \$40,000$. The contractor's \$320,000 net worth far exceeds the \$40,000 minimum. However, the surety evaluates multiple financial metrics beyond net worth, including working capital, liquidity, and debttoequity ratio.

36. C — The employer was notified of racial harassment through the employee's report to the superintendent. The superintendent's dismissive response — "toughen up" — demonstrates a failure to take the complaint seriously and initiate a proper investigation. The harassment continued after reporting, proving the employer's response was ineffective. Under both the Ohio Civil Rights Act and Title VII, an employer that fails to take prompt, effective corrective action after learning of harassment is liable.

37. D — Under the FLSA, a nondiscretionary bonus must be included in the regular rate calculation for the workweek in which it is earned. The regular rate = $(46 \text{ hours} \times \$31.00 + \$120.00) \div 46 \text{ hours} = (\$1,426 + \$120) \div 46 = \$1,546 \div 46 = \$33.61$ per hour. The overtime rate = $\$33.61 \times 1.5 = \50.41 for six overtime hours. Including the bonus increases both the regular rate and the overtime premium above the base wage calculation.

38. B — The safe harbor rule for estimated tax payments allows a taxpayer to avoid the underpayment penalty by paying at least one hundred percent of the prior year's tax liability in equal quarterly installments. However, for taxpayers with adjusted gross income exceeding \$150,000, the safe harbor requires one hundred ten percent of prior year liability. Since a sole proprietor earning \$200,000 likely exceeds the \$150,000 threshold, the required payment would be $110\% \times \$48,000 = \$52,800$.

39. A — In an S corporation, only the salary (\$80,000) is subject to FICA payroll taxes. Shareholder distributions (\$70,000) are not subject to FICA or selfemployment tax — this is the primary tax advantage of the Scorp structure. SEPIRA contributions reduce taxable income but do not affect the FICA calculation, which is based on W2 wages.

40. D — Outofstate purchases where Ohio sales tax was not collected are subject to Ohio use tax. The contractor must selfassess and remit the use tax on the \$55,000 purchase price at the applicable Ohio rate. Failure to selfassess results in an assessment of the full tax owed plus interest from the original purchase date and potentially penalties for noncompliance. The Ohio Department of Taxation actively audits contractors for use tax.

41. D — The lien affidavit was filed on May 10, fiftysix days after last furnishing on March 15 — within the sixtyday deadline. However, the service on the owner was on June 15, thirtysix days after the May 10 filing — exceeding the thirtyday postfiling service deadline by six days. The late service may affect the enforceability of the lien because Ohio requires service within thirty days of filing.

42. B — The change order log provides transparency into the project's modification history. Twentyfive approved changes totaling \$380,000 represent a seventeen percent increase over the \$2,200,000 original contract. This volume may reflect design revisions, ownerdirected changes, unforeseen conditions, or code requirement updates — all documented and approved through proper procedures. The log demonstrates that changes were managed through the contractual process.

43. A — Groundfault circuit interrupters detect current leakage — when current flows through an unintended path such as a worker's body — and interrupt the circuit within milliseconds. GFCIs are designed to prevent electrocution on temporary power circuits commonly used during construction. OSHA requires GFCIs on all 120volt, singlephase, 15 and 20ampere receptacle outlets used for temporary construction power.

44. C — Toeboards prevent tools, materials, and debris from sliding or rolling off the edge of a scaffold platform and falling onto workers below — a struckby hazard. When tools and materials are stored on a platform without toeboards, any item that shifts or rolls to the edge can fall, potentially causing

serious injury or death to workers at lower levels. OSHA requires toeboards along open edges where objects could fall.

45. D — Both the federal Age Discrimination in Employment Act (protecting workers forty and older with employers of twenty or more employees) and the Ohio Civil Rights Act (protecting workers forty and older with employers of four or more employees) prohibit agebased employment discrimination. Hiring a significantly younger replacement immediately after terminating an older worker under a pretextual "reduction in force" creates strong circumstantial evidence of age discrimination.

46. A — Month 1: \$50,000 beginning balance + \$35,000 positive cash flow = \$85,000. Month 2: \$85,000 – \$80,000 negative cash flow = \$5,000. The contractor technically maintains positive cash but with only \$5,000 remaining after Month 2, operations are dangerously exposed to any unexpected expense. Drawing on the line of credit during Month 2 would maintain a more comfortable cushion rather than risking operations on a \$5,000 balance.

47. C — The retainage structure changes at fifty percent completion. First fifty percent of work (\$400,000) at ten percent retainage = \$40,000. Next ten percent of work (\$80,000, from fifty to sixty percent completion) at five percent retainage = \$4,000. Total retainage at sixty percent completion = \$40,000 + \$4,000 = \$44,000. The reduced retainage rate applies only to billings after the fifty percent threshold is reached.

48. D — The employer withholds 2.5% Columbus municipal income tax from the employee's wages for work performed in Columbus. The employee, as a Westerville resident, also owes Westerville income tax at 2.0%. However, Westerville provides a credit for taxes paid to other municipalities, so the 2.5% paid to Columbus offsets and exceeds the 2.0% Westerville rate — meaning the employee likely owes nothing additional to Westerville.

49. B — Activity Z has zero float, meaning it is on the critical path. A fiveday delay to Activity Z directly extends the project completion date by five days. Activities X and Y have float that absorbs their respective delays — Activity X's eight days of float absorbs its fiveday delay with three days to spare, and Activity Y's three days of float is fully consumed but does not exceed the critical path delay.

50. A — The financial metrics are generally favorable: current ratio of 2.1 indicates strong liquidity, positive working capital of \$220,000 provides a cushion, debttoequity of 1.8 is moderate and within acceptable bonding thresholds (typically under 3.0), and a 5.2% net profit margin demonstrates consistent profitability. Together, these indicators support a surety's confidence in increasing the contractor's bonding capacity.