

PRACTICE EXAM 15: QUESTIONS 1-50

1. What distinguishes a markup from a margin?
 - A. A markup is a percentage of the selling price
 - B. A markup is a percentage added to cost
 - C. A markup and a margin are identical figures
 - D. A markup applies only to labor, never materials

2. Which bond protects subcontractors and suppliers if the contractor fails to pay them?
 - A. A bid bond
 - B. A performance bond
 - C. A payment bond
 - D. A license bond

3. Which dispute method is non-binding and simply helps the parties reach their own agreement?
 - A. Arbitration
 - B. Litigation
 - C. Mediation
 - D. Adjudication

4. What most distinguishes an employee from an independent contractor?
 - A. The degree of control the business exercises over the work
 - B. Whether the worker uses any tools at all

- C. The total dollar amount the worker is paid
- D. Whether the work occurs indoors or outdoors

5. Which describes quality assurance rather than quality control?

- A. The planned system designed to prevent defects
- B. Inspecting finished work for defects
- C. Testing a completed installation
- D. Rejecting a defective delivered product

6. Which best describes a material breach as opposed to a minor breach?

- A. A trivial delay that causes no real harm
- B. A small deviation the owner barely notices
- C. A failure that defeats the contract's essential purpose
- D. A breach automatically cured within one day

7. Which figure is what remains after all expenses are subtracted from revenue?

- A. Gross revenue
- B. Gross margin
- C. Total billings
- D. Net income

8. Which contract type pays the contractor for actual costs plus an added fee?

- A. A lump-sum contract
- B. A unit-price contract

- C. A guaranteed maximum price contract
- D. A cost-plus contract

9. Which of the following is an indirect cost rather than a direct job cost?

- A. Lumber for a specific house
- B. Wages of the framing crew on that house
- C. Office rent for the main business location
- D. Concrete poured for that project's foundation

10. Which warranty arises automatically by operation of law rather than from a written promise?

- A. An express written warranty
- B. An implied warranty of workmanlike performance
- C. An extended manufacturer warranty
- D. A negotiated warranty bond

11. In which structure is the owner personally liable for all business debts?

- A. A C corporation
- B. A multi-member LLC
- C. A sole proprietorship
- D. An S corporation

12. Which milestone is reached only when every punch-list item is finished and accepted?

- A. Notice to proceed
- B. Substantial completion

- C. The first progress payment
- D. Final completion

13. Which accounting method records revenue only when cash is actually received?

- A. The accrual method
- B. The cash-basis method
- C. The percentage-of-completion method
- D. The accrual-completion method

14. Which control is considered the last resort, lowest in OSHA's hierarchy?

- A. Eliminating the hazard
- B. Substituting a safer process
- C. Personal protective equipment
- D. Engineering controls

15. Which policy covers bodily injury to a member of the public caused by the work?

- A. General liability insurance
- B. Workers' compensation insurance
- C. Builder's risk insurance
- D. Disability insurance

16. Which bond guarantees the project will be completed according to the contract terms?

- A. A bid bond
- B. A payment bond

- C. A license bond
- D. A performance bond

17. A job costs \$8,000 and sells for \$10,000. What is the markup percentage on cost?

- A. 20%
- B. 25%
- C. 30%
- D. 80%

18. Which of the following is a fixed cost that does not change with job volume?

- A. The annual office lease payment
- B. Lumber purchased per project
- C. Hourly wages for project labor
- D. Fuel used by job-site equipment

19. Which best describes consequential damages?

- A. The direct cost to repair defective work
- B. Indirect losses such as the owner's lost rental income
- C. A pre-agreed daily amount for late completion
- D. The contractor's own cost overrun

20. Which contract element is the bargained-for exchange of value between the parties?

- A. Capacity
- B. Consideration

- C. Acceptance
- D. Legality

21. How does a surety bond differ from an insurance policy?

- A. A bond pays losses with no expectation of repayment
- B. A bond protects only the contractor who buys it
- C. With a bond, the contractor must repay the surety for claims paid
- D. A bond and an insurance policy are functionally identical

22. Which worker receives a Form W-2 with income and payroll taxes withheld?

- A. A properly classified independent contractor
- B. A material supplier paid by invoice
- C. An employee on the company payroll
- D. A subcontractor with its own license

23. Which best describes a bilateral contract?

- A. An exchange of mutual promises between the parties
- B. A promise accepted only by performing an act
- C. An agreement requiring no consideration
- D. A one-sided promise binding only one party

24. Which remedy attaches a claim directly to the improved real property?

- A. A mechanics' lien
- B. A claim against the payment bond

- C. A breach-of-contract lawsuit for damages
- D. A complaint to the licensing board

25. Which type of damages must be proven after the fact with evidence of real loss?

- A. Liquidated damages set in advance
- B. Actual (compensatory) damages
- C. Nominal damages of one dollar
- D. Stipulated damages in the contract

26. Which arrangement keeps the prime contractor fully responsible to the owner while another party does part of the work?

- A. A novation releasing the prime
- B. An assignment transferring all duties
- C. A full delegation ending the prime's liability
- D. Subcontracting a portion of the work

27. What does "float" mean in a project schedule?

- A. The single longest path through the schedule
- B. The total duration of the entire project
- C. The time an activity can slip without delaying the finish
- D. The cost reserve held for emergencies

28. A job brings in \$200,000 with \$140,000 in direct costs. What is the gross profit?

- A. \$200,000
- B. \$140,000

- C. \$340,000
- D. \$60,000

29. Which best describes a voidable contract?

- A. It is valid until one party elects to cancel it
- B. It is invalid from the very beginning
- C. It can never be enforced by anyone
- D. It requires no offer or acceptance

30. Which event must be reported to OSHA within a set deadline, beyond merely logging it?

- A. An employee's in-patient hospitalization
- B. A minor cut treated with a bandage
- C. A first-aid-only splinter removal
- D. A near-miss with no injury

31. A contractor adds 25% to cost to set the price. What gross margin does that produce?

- A. 25%
- B. 20%
- C. 33%
- D. 15%

32. Which describes apparent authority of an agent?

- A. Authority spelled out in a written agreement
- B. Authority a third party reasonably believes the agent has

- C. Authority the agent has no power to use
- D. Authority that requires board approval each time

33. Which best describes competitive sealed bidding on a public project?

- A. Award to the lowest responsible, responsive sealed bid
- B. Selecting a contractor through private negotiation
- C. Choosing whichever contractor applies first
- D. Picking the contractor with the highest price

34. Which of the following is a direct cost of a specific job?

- A. The rebar installed in that job's foundation
- B. The yearly business license fee
- C. The owner's office salary
- D. General advertising for the company

35. Which protects the owner against defects discovered after the project is completed?

- A. A bid bond
- B. A performance bond
- C. A payment bond
- D. A workmanship warranty

36. A job costs \$12,000 and sells for \$15,000. What is the gross margin on the sale?

- A. 25%
- B. 33%

- C. 15%
- D. 20%

37. Which alternative dispute method produces a binding, enforceable award by a neutral?

- A. Mediation
- B. Arbitration
- C. Negotiation
- D. Conciliation

38. Which milestone typically lets the owner occupy the building and often starts warranty periods?

- A. Notice to proceed
- B. Final completion
- C. Substantial completion
- D. Contract execution

39. Which figure represents an employee's take-home pay after all withholdings?

- A. Gross pay
- B. Overtime premium
- C. Net pay
- D. Total billable cost

40. Which risk-handling method keeps the risk in-house and sets aside funds to cover losses?

- A. Risk transfer through insurance
- B. Risk retention through a reserve

- C. Risk avoidance by declining the work
- D. Risk reduction through safety training

41. Which lien waiver releases the claimant's rights immediately, even before payment is confirmed?

- A. A conditional progress waiver
- B. A conditional final waiver
- C. A pending-payment waiver
- D. An unconditional waiver

42. Which form must an employer complete to verify a new employee's eligibility to work?

- A. Form W-2
- B. Form I-9
- C. Form 1099-NEC
- D. Form W-9

43. Which contract fixes a single total price for a fully defined scope of work?

- A. A lump-sum contract
- B. A unit-price contract
- C. A cost-plus contract
- D. A time-and-materials contract

44. Which damages are a reasonable pre-agreed sum for a specified breach such as late completion?

- A. Punitive damages
- B. Compensatory damages

- C. Nominal damages
- D. Liquidated damages

45. Which coverage responds to losses caused by a design or professional service error?

- A. General liability insurance
- B. Workers' compensation insurance
- C. Commercial property insurance
- D. Professional liability insurance

46. For the same job, how do markup and margin percentages compare?

- A. The margin is always larger than the markup
- B. They are always exactly equal
- C. The markup is always larger than the margin
- D. The margin is larger only on small jobs

47. A worker is crushed by collapsing trench walls. Which Focus Four hazard category applies?

- A. A fall from elevation
- B. An electrocution hazard
- C. A caught-in/between hazard
- D. A struck-by hazard

48. Which cost is typically recovered by building it into the markup on every job?

- A. Home-office overhead such as rent and administrative salaries
- B. The lumber installed on one specific house

- C. The wages of the crew on that single job
- D. A subcontractor's invoice for that project

49. Against which bond does an owner claim if the contractor abandons the project unfinished?

- A. The bid bond
- B. The license bond
- C. The payment bond
- D. The performance bond

50. Which dispute method resolves the matter in a public courtroom before a judge?

- A. Litigation
- B. Arbitration
- C. Mediation
- D. Negotiation

Practice Exam 15 – Answer Key and Explanations

1. B — A markup is a percentage added to cost, while a margin is a percentage of the selling price. The two use different bases, so they yield different figures for the same job. Confusing them leads to underpricing.
2. C — A payment bond protects subcontractors and suppliers by guaranteeing they are paid if the contractor fails to do so. A performance bond instead guarantees completion. Each bond serves a distinct party and purpose.
3. C — Mediation is non-binding; a neutral mediator helps the parties reach their own agreement but cannot impose one. Arbitration, by contrast, ends in a binding decision. Mediation preserves the parties' control over the outcome.
4. A — The degree of control the business exercises over the work is the central test distinguishing an employee from an independent contractor. Tools, pay amount, and location are secondary. Control determines tax and injury-coverage obligations.
5. A — Quality assurance is the planned system designed to prevent defects before they occur, while quality control inspects and tests finished work. QA is proactive; QC is reactive. Building QA in reduces costly rework.

6. C — A material breach defeats the contract's essential purpose, excusing the other party from performing. A minor breach does not, leaving the contract intact. The distinction determines whether a party may stop performance.
7. D — Net income is what remains after all expenses are subtracted from revenue. Gross figures sit higher on the income statement before expenses. Net income shows the true bottom-line profit.
8. D — A cost-plus contract pays the contractor for actual costs plus an added fee. A lump-sum fixes one price regardless of cost. Cost-plus shifts cost risk toward the owner.
9. C — Office rent for the main business location is an indirect cost (overhead), not tied to any single job. Job-specific lumber, crew wages, and concrete are direct costs. Overhead is recovered through markup across all jobs.
10. B — An implied warranty of workmanlike performance arises automatically by operation of law, without any written promise. Express warranties depend on a stated commitment. The implied warranty protects owners by default.
11. C — In a sole proprietorship the owner is personally liable for all business debts, with no separation between owner and business. Corporations and LLCs provide a liability shield. This exposure is the proprietorship's chief drawback.
12. D — Final completion is reached only when every punch-list item is finished and accepted, typically triggering release of all retainage. Substantial completion comes earlier, with minor items remaining. The two milestones carry different consequences.
13. B — The cash-basis method records revenue only when cash is received and expenses when paid. Accrual instead records them when earned or incurred. Cash basis is simpler but can distort timing on long projects.
14. C — Personal protective equipment is the last resort, lowest in OSHA's hierarchy of controls, because it relies on the hazard remaining present. Elimination and engineering controls rank higher. PPE is used when stronger controls cannot fully remove the risk.
15. A — General liability insurance covers bodily injury to a member of the public caused by the work. Workers' compensation covers employees, not third parties. GL protects against claims from outside the workforce.
16. D — A performance bond guarantees the project will be completed according to the contract terms. A payment bond instead protects those who supply labor and materials. The performance bond backs completion itself.
17. B — Markup on cost is profit divided by cost: $\$2,000 \div \$8,000 = 25\%$. Markup uses cost as the base, unlike margin. The 25% markup corresponds to a 20% margin.
18. A — The annual office lease payment is a fixed cost that stays constant regardless of job volume. Lumber, wages, and fuel vary with the work performed. Fixed costs must be covered even in slow periods.
19. B — Consequential damages are indirect losses flowing from a breach, such as the owner's lost rental income. Direct damages are the cost to repair the work itself. Contracts often limit or waive consequential damages.
20. B — Consideration is the bargained-for exchange of value that makes a contract binding. Capacity, acceptance, and legality are separate elements. Without consideration, a promise is generally unenforceable.
21. C — With a surety bond, the contractor must repay the surety for any claim paid, because a bond is a guarantee, not loss-absorbing coverage. Insurance pays the insured's losses without such repayment. This repayment duty is the key difference.

22. C — An employee on the company payroll receives a Form W-2 with income and payroll taxes withheld. Independent contractors and suppliers are not subject to withholding. The form follows from the worker's classification.
23. A — A bilateral contract is an exchange of mutual promises, each party promising to perform. A unilateral contract is accepted only by performing an act. Most construction agreements are bilateral.
24. A — A mechanics' lien attaches a claim directly to the improved real property, which can be foreclosed if unpaid. A bond claim and a lawsuit pursue other targets. The lien's tie to the property makes it powerful.
25. B — Actual (compensatory) damages must be proven after the fact with evidence of real loss. Liquidated damages are agreed in advance and need no such proof. Actual damages aim to make the injured party whole.
26. D — Subcontracting delegates part of the work while the prime contractor remains fully responsible to the owner. A novation or full delegation would instead release the prime. The prime's continuing liability defines subcontracting.
27. C — Float is the time an activity can slip without delaying the project's finish date. The critical path, by contrast, has zero float. Knowing float shows where schedule flexibility exists.
28. D — Gross profit is revenue minus direct costs: $\$200,000 - \$140,000 = \$60,000$. It precedes overhead and other deductions. Gross profit measures how much the job itself contributed.
29. A — A voidable contract is valid until one party with the right elects to cancel it, as with a minor's agreement. A void contract is invalid from the start. The distinction governs whether it can be enforced.
30. A — An employee's in-patient hospitalization must be reported to OSHA within a set deadline, not merely logged. Minor injuries, first-aid cases, and near-misses do not trigger that duty. Reportable events demand prompt notification.
31. B — A 25% markup on cost produces a margin of $25 \div 125 = 20\%$, because margin uses the higher selling price as its base. The markup percentage always exceeds the margin percentage. Mixing them up causes pricing errors.
32. B — Apparent authority is authority a third party reasonably believes an agent has, based on the principal's conduct. It can bind the principal even without express grant. This protects parties who deal in good faith with an agent.
33. A — Competitive sealed bidding awards the contract to the lowest responsible and responsive sealed bid. It is not private negotiation or first-come selection. The process promotes fairness and value on public work.
34. A — The rebar installed in a job's foundation is a direct cost, traceable to that specific project. License fees, office salaries, and general advertising are overhead. Direct costs are charged straight to the job.
35. D — A workmanship warranty protects the owner against defects discovered after completion. Bonds instead address bidding, completion, or payment during the project. The warranty covers the finished work's quality.
36. D — Gross margin is profit over the selling price: $\$3,000 \div \$15,000 = 20\%$. Margin uses the sale price as its base, unlike markup. The same job carries a 25% markup but a 20% margin.
37. B — Arbitration produces a binding, enforceable award decided by a neutral arbitrator. Mediation and negotiation produce no binding decision. Arbitration suits parties wanting a final out-of-court result.

38. C — Substantial completion typically lets the owner occupy the building for its intended use and often starts warranty periods, even with minor items remaining. Final completion comes later. This milestone affects warranties and payment.
39. C — Net pay is an employee's take-home pay after all withholdings and deductions. Gross pay is the amount before deductions. The difference is what the worker actually receives.
40. B — Risk retention keeps the risk in-house and sets aside a reserve to cover potential losses. Transfer, avoidance, and reduction handle risk differently. Retention is sensible for small, predictable exposures.
41. D — An unconditional waiver releases the claimant's lien rights immediately, even before payment is confirmed. Conditional waivers take effect only once payment actually clears. Signing an unconditional waiver prematurely is risky.
42. B — Form I-9 must be completed to verify a new employee's eligibility to work in the United States. The W-2 reports wages and 1099-NEC reports contractor pay. The I-9 documents work authorization.
43. A — A lump-sum contract fixes a single total price for a fully defined scope of work. Unit-price and cost-plus contracts adjust with quantities or costs. The lump sum places cost risk on the contractor.
44. D — Liquidated damages are a reasonable pre-agreed sum for a specified breach such as late completion. They must estimate likely harm, not punish. They give both parties certainty about that breach's cost.
45. D — Professional liability (errors and omissions) insurance responds to losses caused by a design or professional service error. General liability covers bodily injury and property damage instead. E&O fills the design-risk gap.
46. C — For the same job, the markup percentage is always larger than the margin percentage, because markup divides by the smaller cost base. Margin divides by the larger selling price. This relationship always holds.
47. C — A worker crushed by collapsing trench walls falls under the caught-in/between Focus Four hazard. Falls, electrocution, and struck-by are separate categories. Trench collapse is a leading caught-in fatality cause.
48. A — Home-office overhead such as rent and administrative salaries is recovered by building it into the markup on every job. Job-specific lumber, crew wages, and subcontractor invoices are direct costs. Markup spreads overhead across all work.
49. D — An owner claims against the performance bond when the contractor abandons the project unfinished, since it guarantees completion. The payment bond covers unpaid labor and suppliers instead. The performance bond backs the work itself.
50. A — Litigation resolves a dispute in a public courtroom before a judge. Arbitration, mediation, and negotiation occur outside the courtroom. Litigation is typically the slowest and most costly option.