

Practice Exam 16: Questions 1–50

1. A homeowner hires a contractor for a \$40,000 remodel, but the contractor is unlicensed. In many states, the unlicensed contractor's biggest risk is that:

- A. The work will automatically pass inspection
- B. The contract may be unenforceable for payment
- C. The homeowner must double the payment
- D. The licensing board will issue a refund

2. A worker reports at hours the company sets, uses company tools, and follows company supervision. How should the worker most likely be classified?

- A. Independent contractor
- B. Employee
- C. Material supplier
- D. Surety

3. Midway through a job, the owner verbally asks for an added bathroom. To protect payment for the extra work, the contractor should first:

- A. Finish the work and bill later
- B. Lower the original contract price
- C. Get a signed change order
- D. Notify the building inspector

4. A subcontractor last delivered materials 100 days ago, and the state lien-filing deadline is 90 days from last furnishing. The lien is most likely:

- A. Valid for up to one year
- B. Restarted by final payment

- C. Time-barred and unenforceable
- D. Enforceable only against the GC

5. Workers are framing a deck 8 feet above grade with no fall protection. Under OSHA, the contractor is:

- A. Compliant because it is under 10 feet
- B. In violation of fall-protection rules
- C. Exempt as residential framing
- D. Required only to post a warning sign

6. An employee falls and breaks an arm on the jobsite. Which coverage pays the medical and wage-loss benefits?

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

7. A contractor is owed \$120,000 in receivables and collects about \$40,000 each month. Roughly how long until the receivables are collected?

- A. 3 months
- B. 6 months
- C. 1 month
- D. 12 months

8. A low bidder on a public job refuses to sign the contract after award. The owner's protection comes from the:

- A. Payment bond
- B. Performance bond
- C. Bid bond
- D. Maintenance bond

9. Two parties want a private, binding decision from a neutral without going to court. They should choose:

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

10. A job costs \$16,000 and the contractor wants a 25% markup on cost. What price should the contractor quote?

- A. \$20,000
- B. \$18,000
- C. \$21,000
- D. \$12,000

11. On a \$90,000 progress payment, the owner withholds 10% retainage. How much does the contractor receive now?

- A. \$90,000
- B. \$81,000
- C. \$9,000
- D. \$99,000

12. A new contractor wants personal-asset protection but simple pass-through taxes. Which structure best fits?

- A. Sole proprietorship
- B. Limited liability company
- C. C corporation
- D. General partnership

13. A jobsite accident kills a worker. The contractor must report the fatality to OSHA within:

- A. 72 hours

- B. 48 hours
- C. 24 hours
- D. 8 hours

14. For emergency repairs where the full scope is unknown, the most suitable contract is:

- A. Lump-sum
- B. Stipulated-price
- C. Guaranteed maximum price
- D. Time-and-materials

15. A \$500,000 contract is 40% complete by cost. How much revenue is recognized to date?

- A. \$40,000
- B. \$400,000
- C. \$200,000
- D. \$500,000

16. A subcontractor on a city library project is unpaid. Because it cannot lien public property, the sub should pursue the:

- A. Performance bond
- B. Bid bond
- C. Payment bond
- D. Maintenance bond

17. A building inspector hints that a "small fee" would speed approval. The contractor should:

- A. Refuse and report the request
- B. Pay it to avoid the delay
- C. Offer an even larger amount
- D. Treat it as an overhead cost

18. As the owner makes each progress payment, the best practice to avoid paying twice is to collect:

- A. A new building permit
- B. A performance bond
- C. A signed lien waiver
- D. A certificate of occupancy

19. A contractor walks off the job at 50% complete. The owner's most direct remedy is to:

- A. File a workers' comp claim
- B. Report the issue to OSHA
- C. Apply for a new permit
- D. Recover breach-of-contract damages

20. An hourly worker earning \$26 logs 44 hours in a week, with overtime at time-and-a-half. What is the gross pay?

- A. \$1,196
- B. \$1,144
- C. \$1,716
- D. \$1,040

21. A project slips behind on its critical path. The most effective recovery method is to:

- A. Cut the project's overhead rate
- B. Reduce the agreed contract price
- C. Crash or fast-track critical tasks
- D. Lengthen the warranty term

22. A contractor pays a full-time helper as a 1099 contractor though the firm controls all the work. The biggest exposure is:

- A. Back taxes and penalties
- B. A reduced bonding limit

- C. A revoked occupancy permit
- D. Higher material costs

23. A new solvent arrives on site. Under hazard communication rules, what must be available to the workers using it?

- A. A surety bond
- B. A change order
- C. A building permit
- D. A safety data sheet

24. A contractor has \$160,000 in current assets and \$100,000 in current liabilities. What is the working capital?

- A. \$60,000
- B. \$260,000
- C. \$100,000
- D. \$160,000

25. Before bidding a large public job, the agency asks for the contractor's financials and references. This process is:

- A. Issuing a building permit
- B. Prequalifying the bidder
- C. Filing a mechanic's lien
- D. Closing out the project

26. Six months after closeout, a faucet the contractor installed leaks due to poor installation. Under a one-year workmanship warranty, the contractor should:

- A. Refer the owner to the manufacturer only
- B. Wait until the warranty expires
- C. Charge full price for the repair
- D. Repair the defect at no cost

27. Under a cost-plus contract for a custom home, who bears most of the cost-overrun risk?
- A. The contractor
 - B. The surety
 - C. The architect
 - D. The owner
28. A contract sets \$250 per day in liquidated damages, and the job finishes 6 days late. What amount is owed?
- A. \$250
 - B. \$1,500
 - C. \$1,250
 - D. \$1,800
29. A dispute arises over what was promised. Which set of documents governs the parties' obligations?
- A. The internal estimating worksheet
 - B. The contractor's private daily diary
 - C. The drawings, specs, and signed agreement
 - D. The company's marketing brochure
30. A flood declared a disaster halts work for ten days. Which clause most likely excuses the delay?
- A. Indemnification clause
 - B. Force majeure clause
 - C. Liquidated damages clause
 - D. Arbitration clause
31. A contractor with rising injury rates wants the most effective long-term fix. The best step is to:
- A. Implement a proactive safety and training program
 - B. Post one large warning sign at the gate
 - C. Pay injured workers a small bonus

D. Wait for the next OSHA inspection

32. Fixed monthly costs are \$9,000, and each job contributes \$300. How many jobs per month are needed to break even?

A. 30

B. 25

C. 45

D. 60

33. A contractor records revenue when it bills, not when cash arrives. This is which accounting method?

A. Cash basis

B. Completed-contract

C. LIFO inventory

D. Accrual basis

34. A contractor wants to hand its contract obligations to another firm. This generally requires:

A. Notifying OSHA

B. A new building permit

C. Nothing at all

D. The owner's consent

35. A \$40,000 machine has a \$4,000 salvage value and a 6-year life. What is the annual straight-line depreciation?

A. \$4,000

B. \$6,667

C. \$6,000

D. \$40,000

36. A toxic adhesive can be replaced with a non-toxic one. The strongest hazard control here is:

- A. Issuing respirators to workers
- B. Posting hazard warning signs
- C. Substituting the safer product
- D. Rotating the worker shifts

37. A surety reviewing a bond application weighs the contractor's character, capacity, and:

- A. Charisma
- B. Connections
- C. Celebrity
- D. Capital

38. On a bonded public job, who may make a claim on the payment bond?

- A. A neighbor near the site
- B. The city's mayor
- C. A random passerby
- D. An unpaid subcontractor

39. An employee's gross pay is \$2,000 with \$500 in total withholdings. What is the net take-home pay?

- A. \$1,500
- B. \$2,500
- C. \$500
- D. \$2,000

40. The owner moves in and uses the building while minor punch-list items remain. This stage is:

- A. Final completion
- B. Substantial completion
- C. Project initiation
- D. Notice to proceed

41. Current assets are \$180,000 and current liabilities are \$60,000. What is the current ratio?
- A. 3.0
 - B. 0.33
 - C. 1.5
 - D. 2.0
42. A contractor considering a C corporation should weigh which disadvantage?
- A. Double taxation of profits
 - B. Loss of limited liability
 - C. Inability to raise capital
 - D. Automatic dissolution yearly
43. Even where no specific standard applies, an employer must still provide a workplace that is:
- A. Profitable for the owner
 - B. Open to public tours
 - C. Staffed around the clock
 - D. Free of recognized hazards
44. A job bills \$60,000 and costs \$45,000 to complete. What is the gross margin percentage?
- A. 33%
 - B. 75%
 - C. 15%
 - D. 25%
45. A customer raises a legitimate complaint after the job. The best long-term response is to:
- A. Ignore it to avoid blame
 - B. Address it promptly and fairly
 - C. Delay until the warranty ends

D. Send the customer to a lawyer

46. A subcontract says the GC will pay the sub a reasonable time after the owner pays the GC. This clause is best called:

A. A pay-if-paid clause

B. A retainage waiver

C. A lump-sum clause

D. A pay-when-paid clause

47. A contractor with 8 employees is generally treated by OSHA as:

A. Subject to all heavy reporting

B. Required to hire a safety officer

C. Partially exempt from routine recordkeeping

D. Exempt from all safety rules

48. A surety allows single-project bonding of ten times working capital. With \$70,000 working capital, the single-project limit is:

A. \$70,000

B. \$700,000

C. \$7,000

D. \$350,000

49. At project closeout, which document gives the owner instructions for running the installed systems?

A. The original bid form

B. The operation and maintenance manuals

C. The performance bond

D. The notice to proceed

50. When a lender checks a property before financing, a mechanic's lien's priority often relates back to:

- A. The date work or materials first began
- B. The date the loan closes
- C. The date the owner sells
- D. The date the suit is filed

Practice Exam 16 – Answer Key and Explanations

- 1. B** — An unlicensed contractor often cannot enforce the contract to collect payment, since many states bar unlicensed parties from suing for their fee. Inspection results and refunds are unrelated. Licensing is a precondition to legal recovery.
- 2. B** — Company-set hours, company tools, and company supervision all show the firm controls the work, which defines employee status. Independent contractors control their own methods. The degree of control is the deciding test.
- 3. C** — A signed change order documents the added scope and price, protecting the right to be paid for the extra bathroom. A verbal request alone often leads to disputes. Written approval before work is the safeguard.
- 4. C** — Because the 90-day deadline passed at 100 days, the lien is generally time-barred. The clock runs from the last furnishing of labor or materials. Missing the window defeats the claim.
- 5. B** — OSHA requires fall protection at 6 feet in construction, so framing 8 feet up without it is a violation. The 10-foot figure and a residential exemption do not apply here. Protection is required above the 6-foot threshold.
- 6. B** — Workers' compensation pays an injured employee's medical care and wage-loss benefits regardless of fault. General liability covers third parties, not employees. Comp is the policy that responds to the broken arm.
- 7. A** — Months to collect equal receivables over monthly collections: $\$120,000 \div \$40,000 = 3$ months. The ratio shows how long cash is tied up. Shorter collection cycles ease cash flow.
- 8. C** — A bid bond guarantees the winning bidder will sign the contract and post the required bonds, protecting the owner if the bidder backs out. Performance and payment bonds cover later phases. The bid bond covers the commitment to contract.
- 9. C** — Arbitration delivers a private, binding decision from a neutral arbitrator outside court. Mediation is non-binding and litigation is public. Arbitration fits parties wanting a decisive yet confidential result.
- 10. A** — Markup on cost is $\$16,000 \times 1.25 = \$20,000$. The 25% adds \$4,000 to the base cost. Markup is figured on cost, not on price.

- 11. B** — The owner withholds $\$90,000 \times 0.10 = \$9,000$, leaving $\$90,000 - \$9,000 = \$81,000$ paid now. Retainage is held as security for completion. The balance is released later.
- 12. B** — An LLC gives personal-asset protection while passing profits through to the owner's return, matching the contractor's goals. A sole proprietorship and partnership lack the shield, and a C corporation faces double taxation. The LLC fits both aims.
- 13. D** — A workplace fatality must be reported to OSHA within 8 hours. Hospitalizations, amputations, and eye losses carry a 24-hour deadline. The shorter window reflects a death's severity.
- 14. D** — A time-and-materials contract suits emergency repairs of unknown extent because pay tracks actual labor and materials. Fixed-price forms need defined scope to price. T&M absorbs the uncertainty.
- 15. C** — Percentage-of-completion recognizes $\$500,000 \times 0.40 = \$200,000$ of revenue. The method matches earned revenue to progress. Full value is recognized at completion.
- 16. C** — A payment bond protects subcontractors and suppliers when public property cannot be liened. The sub claims against that bond for nonpayment. This is why public projects require payment bonds.
- 17. A** — Offering or paying a fee to speed approval is bribery, so the contractor must refuse and report it. Paying or escalating the amount is unlawful. Ethical dealing with officials is required.
- 18. C** — Collecting a signed lien waiver with each payment documents that the payee released its lien rights for that amount, preventing double payment. Permits and bonds do not serve this function. Waivers gathered as funds flow protect the owner.
- 19. D** — Walking off the job is a material breach, so the owner recovers breach-of-contract damages such as the cost to complete. OSHA and permits address other matters. Breach damages restore the owner's position.
- 20. A** — Regular pay is $40 \times \$26 = \$1,040$, overtime is $4 \times \$39 = \156 , totaling $\$1,196$. Hours over 40 earn time-and-a-half. Adding the parts gives gross pay.
- 21. C** — Crashing or fast-tracking critical-path tasks shortens the schedule and recovers lost time. Cutting overhead, price, or warranty does not move the finish date. Only action on the critical path recovers the schedule.
- 22. A** — Misclassifying an employee as a 1099 contractor exposes the firm to back payroll taxes, penalties, and interest. The government recovers unpaid withholding and employer taxes. Correct classification avoids that liability.
- 23. D** — Hazard communication rules require a safety data sheet for each hazardous chemical, detailing safe use and first aid. Bonds, change orders, and permits are unrelated. The SDS informs workers handling the solvent.

- 24. A** — Working capital is current assets minus current liabilities: $\$160,000 - \$100,000 = \$60,000$. It measures short-term cushion. Sureties weigh it when setting bonding limits.
- 25. B** — Submitting financials and references so the agency can screen bidders is prequalification. It ensures only capable contractors compete. Permits, liens, and closeout are separate steps.
- 26. D** — A one-year workmanship warranty obligates the contractor to repair its defective installation at no cost. Deflecting, delaying, or charging the owner breaches the warranty. The faucet leak is a covered workmanship defect.
- 27. D** — Under cost-plus, the owner pays the actual costs, so the owner bears most of the overrun risk. The contractor's fee is comparatively secure. This is the trade-off for flexibility on custom work.
- 28. B** — Liquidated damages are $\$250 \times 6 = \$1,500$. The clause sets a daily sum for late completion. Multiplying the rate by days late gives the total.
- 29. C** — The drawings, specifications, and signed agreement together form the contract documents that govern the parties' obligations. Worksheets, diaries, and brochures are not binding. These documents define the promised work.
- 30. B** — A force majeure clause excuses delay from extraordinary events beyond control, such as a declared flood disaster. Indemnification, liquidated damages, and arbitration address other issues. Force majeure relieves fault for the ten-day halt.
- 31. A** — A proactive safety and training program prevents injuries far more effectively than reactive measures. Signs, bonuses, and waiting for inspections do little. A safety culture yields lasting reductions in incidents.
- 32. A** — Break-even jobs equal fixed costs over contribution: $\$9,000 \div \$300 = 30$ jobs. Each job's margin offsets fixed costs until they are covered. Beyond 30, the firm earns profit.
- 33. D** — Recording revenue when billed rather than when cash arrives is accrual-basis accounting. It matches revenue to the period earned. Accrual gives a truer view than cash basis.
- 34. D** — Assigning contract obligations generally requires the owner's consent, since the owner contracted for a specific party's performance. Unilateral transfer is normally barred. Consent protects the owner's expectations.
- 35. C** — Straight-line depreciation is $(\text{cost} - \text{salvage}) \div \text{life}$: $(\$40,000 - \$4,000) \div 6 = \$6,000$ per year. The salvage value is excluded from the depreciable base. The method spreads cost evenly.
- 36. C** — Substituting a non-toxic adhesive is elimination by substitution, the strongest control in the hierarchy. Respirators, signs, and shift rotation rank lower. Removing the hazard beats managing exposure to it.

- 37. D** — The surety "three Cs" are character, capacity, and capital. Charisma, connections, and celebrity are not among them. Capital reflects the financial strength a surety requires.
- 38. D** — An unpaid subcontractor may claim on the payment bond, which exists to secure payment to subs and suppliers. Bystanders and officials have no claim. Lien-style protection on public work runs through this bond.
- 39. A** — Net pay is gross minus withholdings: $\$2,000 - \$500 = \$1,500$. Deductions reduce gross to take-home pay. The result is what the employee receives.
- 40. B** — Occupying the building while minor punch-list items remain marks substantial completion. Final completion requires finishing all items. Warranties often begin at substantial completion.
- 41. A** — Current ratio is current assets over current liabilities: $\$180,000 \div \$60,000 = 3.0$. A ratio above 1.0 signals strong short-term liquidity. Lenders watch this measure.
- 42. A** — Double taxation of profits, taxed at the corporate level and again as dividends, is a disadvantage of the C corporation. Limited liability and capital-raising are advantages, not drawbacks. The double tax is the trade-off.
- 43. D** — Under the General Duty Clause, an employer must furnish a workplace free of recognized hazards even where no specific standard applies. Profitability and public access are irrelevant to the duty. The clause is OSHA's broad safety backstop.
- 44. D** — Gross margin is profit over revenue: $(\$60,000 - \$45,000) \div \$60,000 = 25\%$. Margin uses the selling price as the base. The \$15,000 profit is one-quarter of the billed amount.
- 45. B** — Addressing a legitimate complaint promptly and fairly protects the relationship and future referrals. Ignoring, delaying, or deflecting damages reputation. Good complaint handling turns problems into repeat business.
- 46. D** — A pay-when-paid clause times the sub's payment to follow the owner's payment within a reasonable period without erasing the obligation. A pay-if-paid clause instead shifts nonpayment risk to the sub. The reasonable-time wording marks it as pay-when-paid.
- 47. C** — Employers with 10 or fewer employees are generally partially exempt from routine OSHA injury recordkeeping, so a firm with 8 qualifies. They must still report severe incidents. The exemption eases paperwork for small firms.
- 48. B** — Single-project bonding capacity is ten times working capital: $\$70,000 \times 10 = \$700,000$. Sureties tie capacity to financial strength. Stronger working capital supports larger projects.
- 49. B** — Operation and maintenance manuals give the owner instructions for running installed systems at closeout. Bids, bonds, and notices to proceed serve other roles. The O&M manuals transfer operating knowledge.

50. A — A mechanic's lien's priority often relates back to the date work or materials first began, which can outrank later interests. This is why lenders check a site for prior work before financing. The relation-back date sets the lien's standing.