

# PRACTICE EXAM 17: QUESTIONS 1–50

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1. A contractor performs regulated work without the required license. What is the most likely legal consequence if a payment dispute arises?

- A. A court may refuse to enforce his claim for payment
- B. He automatically recovers double the contract amount
- C. The licensing board pays him from a guarantee fund
- D. He gains an extended deadline to file a lien

2. An employer misclassifies a true employee as an independent contractor. What is a likely result of this error?

- A. The worker loses all right to any pay
- B. The employer earns a tax credit for flexibility
- C. The employer faces back taxes, penalties, and liability
- D. The classification is automatically validated by the IRS

3. A contractor begins a large job on a verbal agreement with no written contract. What is the most likely consequence?

- A. Disputes over scope and payment become hard to resolve
- B. The work is automatically exempt from any lien
- C. The owner forfeits all right to inspect the work
- D. The contract gains stronger legal protection

4. A contractor performs owner-requested extra work without a signed change order. What is the likely outcome at billing time?

- A. The owner must pay double for undocumented work
  - B. The extra work is automatically added to the bond
  - C. The contractor gains an automatic time extension
  - D. The contractor may be unable to collect for the extra work
5. A contractor lets the statutory mechanics' lien deadline pass without filing. What is the consequence?
- A. The deadline automatically extends by ninety days
  - B. The lien converts into a performance bond claim
  - C. The contractor likely loses the right to lien the property
  - D. The owner becomes personally liable for the debt
6. A contractor applies a 20% figure to cost, believing it secures a 20% margin. What actually results?
- A. The job earns less than a true 20% margin
  - B. The job earns exactly a 20% margin as intended
  - C. The job earns more than a 20% margin
  - D. The markup and margin turn out identical
7. An employer fails to carry required workers' compensation coverage and a worker is injured. What is a likely consequence?
- A. The employer faces penalties and direct liability for the injury
  - B. The injury becomes the worker's sole financial burden
  - C. The state automatically covers all costs at no charge
  - D. The employer's general liability policy fully responds
8. A contractor underestimates costs on a lump-sum job. As work proceeds, costs exceed the price. What follows?

- A. The owner must cover the additional costs
- B. The surety reimburses the shortfall
- C. The price is automatically renegotiated upward
- D. The contractor absorbs the loss on the job

9. An owner pays the general in full, but a subcontractor goes unpaid and files a lien. What is the owner's exposure?

- A. The owner may have to pay a second time to clear the lien
- B. The owner has no exposure once the general is paid
- C. The subcontractor must sue only the general, never the owner
- D. The licensing board satisfies the lien for the owner

10. A crew demolishes interior finishes in a 1972 building without testing for hazardous materials. What is the likely consequence?

- A. The work proceeds faster with no added risk
- B. The building automatically loses its occupancy permit
- C. Workers may be exposed to asbestos or lead, creating liability
- D. The contractor earns a safety credit for speed

11. A contractor budgets as if full payment arrives with each invoice, ignoring retainage. What is the probable result?

- A. The contractor finishes with surplus cash on hand
- B. Retainage is waived because it was not budgeted
- C. The owner releases retainage early as a courtesy
- D. The contractor faces a cash shortfall during the job

12. A general pays a sub but collects no lien waiver. The sub later claims nonpayment and liens. What is the consequence?

- A. The lien is automatically invalid without a waiver
- B. The general owes nothing further under any circumstance
- C. The general may struggle to prove payment and face double exposure
- D. The owner alone bears the entire loss

13. An activity on the project's critical path is delayed by five days. What is the effect on the schedule?

- A. The delay is absorbed by available float
- B. Only that single activity is affected
- C. The project's finish date slips by about five days
- D. The total project duration shortens

14. A contractor redesigns a task to remove a fall hazard entirely instead of relying on harnesses. What is the outcome?

- A. Worker protection weakens compared with PPE alone
- B. Worker protection is strongest because the hazard is gone
- C. The change violates the hierarchy of controls
- D. The hazard simply shifts to another crew

15. An employer fails to report a workplace fatality to OSHA within the required window. What is the likely consequence?

- A. The reporting duty disappears after the funeral
- B. The case is closed automatically with no review
- C. The deadline extends to thirty days by default

D. The employer faces a citation and penalties for late reporting

16. A sole proprietor reorganizes the business as an LLC. What does this change accomplish?

A. Personal assets gain protection from most business debts

B. The owner becomes personally liable for all debts

C. The business loses pass-through taxation entirely

D. The owner can no longer hire employees

17. A contractor completes one day past the deadline with no real harm to the owner. What is the legal effect?

A. The owner may treat the entire contract as void

B. The contractor forfeits all payment earned

C. The license is automatically suspended

D. The owner must still perform but may claim actual damages

18. Workers enter a 6-foot trench with no protective system in place. What is the consequence?

A. The work is fully compliant at that depth

B. They face a serious cave-in risk and an OSHA violation

C. The trench is exempt because it is under 8 feet

D. A warning sign alone makes the entry compliant

19. A contractor consistently tracks each project's actual costs through job costing. What is the benefit?

A. Future estimates and bids become more accurate

B. Overhead no longer needs to be recovered

C. Profit is guaranteed on every job

D. Taxes on the business are eliminated

20. A low bidder refuses to sign the contract after being awarded the job. What is the likely consequence?

- A. The owner must accept a higher bid at no cost
- B. The bidder keeps the project at the same price
- C. The owner may claim against the bidder's bid bond
- D. The award automatically transfers to a competitor free

21. The owner occupies the finished building while a short punch list remains. What does reaching substantial completion trigger?

- A. Immediate release of the full retainage
- B. The start of warranty periods in many contracts
- C. Termination of all contractor obligations
- D. A new notice to proceed for the same work

22. A surety pays a valid claim after the contractor defaults. What is the financial consequence for the contractor?

- A. The amount is treated as a tax-free grant
- B. The owner repays the surety on the contractor's behalf
- C. The debt is forgiven as a cost of doing business
- D. The contractor must reimburse the surety in full

23. An owner uses a unit-price contract because the exact quantity of excavation is unknown. What results?

- A. The final payment adjusts to the units actually performed

- B. The price is fixed regardless of quantities removed
- C. The contractor bears all quantity risk alone
- D. The owner cannot be billed for any overage

24. A jobsite stores hazardous chemicals but keeps no accessible Safety Data Sheets. What is the consequence?

- A. The chemicals become exempt from regulation
- B. Workers are automatically protected by the supplier
- C. Workers lack critical safety information and the site violates HazCom
- D. The contractor earns a recordkeeping credit

25. A contractor ignores a customer's reasonable complaint after the job. What is the most likely consequence?

- A. The customer becomes a strong referral source
- B. The warranty obligation simply disappears
- C. The contractor loses repeat business and referrals
- D. The complaint converts into a bid bond claim

26. An owner awards to the cheapest bidder despite signs the firm lacks capacity. What is the likely outcome?

- A. The project is guaranteed to finish early
- B. The low price ensures the best result
- C. The bond becomes unnecessary for this job
- D. The project risks delays, defects, or default

27. A contractor uses the percentage-of-completion method on a three-year project. What is the effect on the financials?

- A. All revenue appears only in the final year
- B. Revenue is recognized only when cash is received
- C. No revenue is recognized until closeout
- D. Revenue is recognized gradually as work progresses

28. A subcontract requires the sub to indemnify the prime for losses the sub causes. What does this accomplish?

- A. It guarantees the sub a fixed profit margin
- B. It shifts responsibility for those losses to the sub
- C. It sets the project's completion date
- D. It releases the sub from all liability

29. An employer fires an at-will worker because of the worker's protected characteristic. What is the consequence?

- A. The termination is unlawful and exposes the employer to liability
- B. The at-will rule makes the firing fully lawful
- C. No consequence arises because notice was given
- D. The board automatically reinstates the worker

30. A contractor addresses a serious hazard with PPE only, though it could be engineered out. What is the result?

- A. Protection is maximized because PPE is the top control
- B. The hazard is fully removed from the site
- C. Protection is weaker than removing the hazard would provide
- D. The hierarchy of controls is satisfied at its highest level

31. A contractor uses a detailed written contract defining scope, schedule, and payment. What is the likely outcome?

- A. Disputes increase because of the added complexity
- B. Disputes are reduced because expectations are clear
- C. The contract becomes unenforceable for excess detail
- D. Lien rights are automatically waived

32. A contractor sets markup too low to cover home-office overhead. What is the probable result?

- A. The business builds reserves quickly
- B. The business struggles to cover its fixed costs
- C. Overhead is eliminated from the equation
- D. Profit per job rises automatically

33. Parties agree to arbitrate rather than litigate a dispute. What is the typical outcome of that choice?

- A. A faster, lower-cost binding decision outside court
- B. A public trial before a judge and jury
- C. A non-binding suggestion either side may ignore
- D. An indefinite delay with no resolution

34. A general hires a sub without verifying license or insurance. The sub turns out uninsured. What is the consequence?

- A. The general is fully protected by the sub's word
- B. The general may bear losses the sub cannot cover
- C. The owner alone absorbs any resulting loss
- D. The sub's status has no effect on the general

35. A contractor waits until mid-project to order custom steel with a long lead time. What is the likely outcome?

- A. The steel arrives ahead of schedule
- B. The project stalls waiting for delivery
- C. The lead time shortens because of the rush
- D. The supplier absorbs the schedule impact

36. A subcontractor signs an unconditional lien waiver before the payment check clears. What is the risk?

- A. The waiver has no effect until cash is confirmed
- B. The sub gains extra time to file a lien
- C. The sub may lose lien rights even if the payment fails
- D. The owner becomes personally liable for the amount

37. A contractor carries adequate liability and workers' compensation coverage. What does this accomplish?

- A. The financial risk of covered losses shifts to the insurer
- B. The contractor must still pay all claims out of pocket
- C. The coverage eliminates the need to work safely
- D. The business forfeits its right to any defense

38. A party tries to enforce an agreement that is void from the start. What is the outcome?

- A. A court enforces it like any valid contract
- B. The void contract converts into a binding one
- C. The agreement cannot be enforced by either party
- D. Only one party may enforce it at will

39. A company provides no safety training and keeps no program. What is the likely consequence over time?

- A. Injury rates fall as workers learn on their own
- B. Injury rates and citation exposure rise
- C. Insurance premiums automatically decrease
- D. OSHA exempts the firm from inspections

40. An owner releases final payment and retainage after all punch-list items are accepted. What does this signify?

- A. The project remains formally open and unfinished
- B. The project is closed out and the contractor is fully paid
- C. The contractor forfeits any earned warranty rights
- D. A new round of inspections must begin

41. A contractor builds a steady base of satisfied customers who refer others. What is the business outcome?

- A. Marketing costs rise sharply to sustain it
- B. The firm depends entirely on paid advertising
- C. The firm gains low-cost, steady new work
- D. Referrals reduce overall profitability

42. A C corporation earns a profit and distributes dividends to its shareholders. What tax consequence follows?

- A. The profit is taxed only once at the owner level
- B. Dividends are entirely exempt from taxation
- C. The corporation avoids all federal income tax

D. The profit is taxed at the corporate level and again as dividends

43. A subcontract contains a flow-down clause referencing the prime contract. What is the effect on the sub?

A. The sub is released from the prime's obligations

B. The sub is bound to the obligations the prime owes the owner

C. The sub's insurance limits are automatically lowered

D. The sub gains the right to bill the owner directly

44. A contractor overstates how complete a project is under percentage-of-completion accounting. What results?

A. Revenue is understated for the period

B. The financials become more conservative

C. Cash on hand increases immediately

D. Revenue and profit are overstated, requiring later correction

45. An owner ends a well-performed contract under a termination-for-convenience clause. What is the contractor entitled to?

A. Nothing, since the contract ended early

B. Double damages for the lost remainder

C. Only the return of the bid bond

D. Payment for work performed and certain costs

46. A contractor proceeds with work that requires a permit without obtaining one. What is the likely consequence?

A. The work gains expedited approval for initiative

- B. The permit requirement is waived after the fact
- C. The job risks stop-work orders, fines, and rework
- D. The inspector automatically approves completed work

47. A profitable contractor repeatedly runs short of cash to pay bills on time. What is the long-term risk?

- A. Profit alone guarantees the firm's survival
- B. The shortfall corrects itself without action
- C. Suppliers extend unlimited free credit
- D. The business may fail despite being profitable

48. A contractor documents every change with signed orders and keeps detailed records. If a dispute arises, what is the outcome?

- A. The records weaken the contractor's position
- B. The contractor's claims are easier to prove and defend
- C. Documentation has no bearing on disputes
- D. The owner is relieved of all payment duties

49. A contractor maintains the surety bond required for licensure. What does this provide?

- A. A financial guarantee protecting the obligee if the contractor defaults
- B. Insurance that pays the contractor's own losses
- C. A waiver of the contractor's repayment obligation
- D. Exemption from carrying any other coverage

50. An employer correctly pays nonexempt workers time-and-a-half beyond 40 hours. What is the result?

- A. The employer stays compliant and avoids wage claims

- B. The employer overpays and must seek a refund
- C. Overtime rules no longer apply to that worker
- D. The workers lose their exempt status permanently

## Practice Exam 17 – Answer Key and Explanations

1. A — A court may refuse to enforce an unlicensed contractor's claim for payment on regulated work. Working without a license forfeits legal remedies and invites penalties. This is a strong reason never to perform regulated work unlicensed.
2. C — Misclassifying a true employee as an independent contractor exposes the employer to back taxes, penalties, and injury liability. The facts of control, not the label, govern status. Correct classification avoids these costly outcomes.
3. A — Without a written contract, disputes over scope and payment become hard to resolve because there is no clear record of the parties' agreement. Most conflicts arise from undefined expectations. A written contract is the contractor's first line of protection.
4. D — Performing extra work without a signed change order leaves the contractor unable to prove an enforceable obligation, so payment may be denied. Verbal requests do not create a reliable claim. Documented change orders turn requests into paid work.
5. C — Letting the statutory lien deadline pass means the contractor likely loses the right to lien the property. Lien rights depend on strict, time-sensitive filing. Tracking the date of last work preserves this remedy.
6. A — Applying a 20% figure to cost yields a markup, which produces a margin smaller than 20% because margin uses the higher selling price as its base. The job earns less than intended. Confusing the two leads to underpricing.
7. A — Failing to carry required workers' compensation exposes the employer to penalties and direct liability for the injury, losing the no-fault protection comp normally provides. The shield disappears when coverage is absent. Maintaining coverage is both legal and protective.
8. D — On a lump-sum job, the contractor absorbs the loss when costs exceed the fixed price with no scope change. The owner pays the set price regardless. This is why accurate estimating is critical on fixed-price work.
9. A — An unpaid sub can lien the property even after the owner paid the general, so the owner may have to pay a second time to clear the lien. Full payment to the general does not bar the sub's claim. Lien waivers guard against this.
10. C — Demolishing finishes in a 1972 building without testing may expose workers to asbestos or lead, creating liability. Older buildings commonly contain these materials. Testing before disturbing them keeps the work safe and lawful.
11. D — Budgeting as if full payment arrives each invoice, while retainage is withheld, produces a cash shortfall during the job. Retainage holds back a percentage until completion. Planning for it keeps the business solvent.
12. C — Paying a sub without collecting a lien waiver leaves the general unable to easily prove payment, risking double exposure if the sub liens. The waiver documents the release of the claim. Collecting waivers is the routine safeguard.

13. C — A delay on the critical path slips the project's finish date by roughly the same amount, because critical-path activities have no float. Only these activities move the completion date. Protecting the critical path protects the schedule.
14. B — Redesigning the task to remove the fall hazard gives the strongest protection, because elimination ranks highest in the hierarchy of controls. PPE relies on the hazard remaining. Removing the danger at its source is most effective.
15. D — Failing to report a fatality within OSHA's required window exposes the employer to a citation and penalties. The reporting duty is strict and time-bound. Prompt notice satisfies the legal obligation after a workplace death.
16. A — Reorganizing as an LLC protects the owner's personal assets from most business debts by separating the business as a distinct entity. The proprietorship offered no such shield. This structural separation is the LLC's chief benefit.
17. D — Finishing one day late with no real harm is a minor breach; the owner must still perform but may claim any actual damages. It does not defeat the contract's purpose. Minor breaches do not excuse the other party.
18. B — Entering a 6-foot trench with no protective system creates a serious cave-in risk and violates OSHA, which requires protection at 5 feet. Signs and PPE do not prevent collapse. Trench protection saves lives.
19. A — Consistent job costing makes future estimates and bids more accurate by revealing each project's true costs. Tracking only totals hides per-job results. Better data sharpens pricing over time.
20. C — When a low bidder refuses to sign after award, the owner may claim against the bidder's bid bond. The bid bond guarantees the bidder will honor its price and enter the contract. It protects the owner from a backing-out bidder.
21. B — Reaching substantial completion, with the owner occupying the building, often starts warranty periods under many contracts. It is distinct from final completion and full retainage release. This milestone affects warranties and payment.
22. D — After paying a valid claim, the surety seeks full reimbursement from the contractor, because a bond is a guarantee, not loss-absorbing coverage. The owner does not repay it. The contractor remains financially responsible.
23. A — Under a unit-price contract, the final payment adjusts to the units actually performed, which fits unknown excavation quantities. The total tracks the real work done. This protects both parties when quantities cannot be fixed at bid time.
24. C — Storing hazardous chemicals without accessible Safety Data Sheets leaves workers without critical safety information and violates the Hazard Communication Standard. SDSs detail hazards and first aid. Accessible sheets are required for each chemical.
25. C — Ignoring a reasonable customer complaint causes the contractor to lose repeat business and referrals. Reputation drives most low-cost work. Strong complaint handling turns problems into loyalty.
26. D — Awarding to the cheapest bidder that lacks capacity risks delays, defects, or default. Price alone does not qualify a bidder. This is why the standard favors the lowest responsible, responsive bidder.
27. D — Under percentage-of-completion, revenue is recognized gradually as work progresses on a multi-year project. It is not deferred to the end or tied to cash receipts. The method matches income to work performed.

28. B — An indemnification clause shifts responsibility for the specified losses to the party that caused them, here the sub. It does not set scope, schedule, or profit. Understanding it shows who bears which risk.
29. A — Firing an at-will worker because of a protected characteristic is unlawful and exposes the employer to liability. The at-will rule never permits discrimination. Anti-discrimination law limits at-will termination.
30. C — Relying on PPE alone for a hazard that could be engineered out provides weaker protection than removing the hazard. Elimination ranks above PPE in the hierarchy of controls. The stronger control should be used when feasible.
31. B — A detailed written contract defining scope, schedule, and payment reduces disputes because expectations are clear. Most conflicts stem from undefined terms. Clarity up front prevents later disagreement.
32. B — Setting markup too low to cover home-office overhead leaves the business unable to cover its fixed costs. Overhead must be recovered across all jobs. Underpricing markup threatens the firm's survival.
33. A — Choosing arbitration over litigation typically yields a faster, lower-cost binding decision outside court. Litigation is the public, slower process. Arbitration suits parties wanting a decisive private resolution.
34. B — Hiring a sub without verifying license and insurance leaves the general to bear losses the sub cannot cover. Verification guards against an unlicensed or uninsured sub. Documentation protects the general from this exposure.
35. B — Ordering long-lead steel mid-project stalls the work while awaiting delivery. Long lead times must be planned around from the start. Early ordering keeps the schedule moving.
36. C — Signing an unconditional lien waiver before payment clears risks losing lien rights even if the payment fails. Unconditional waivers release rights immediately, unlike conditional ones. Waiting for cleared payment protects the claimant.
37. A — Carrying adequate liability and workers' compensation coverage shifts the financial risk of covered losses to the insurer, which is risk transfer. The contractor no longer bears those losses alone. This is the core purpose of insurance.
38. C — An agreement void from the start cannot be enforced by either party, because it never had legal effect. A voidable contract differs, being valid until canceled. A void contract offers no remedy to anyone.
39. B — Providing no safety training or program raises injury rates and citation exposure over time. Workers need information and procedures to stay safe. A safety program reduces both harm and liability.
40. B — Releasing final payment and retainage after punch-list acceptance signifies the project is closed out and the contractor is fully paid. Final completion triggers the release. It marks the formal end of the contract's payment obligations.
41. C — A steady base of satisfied customers who refer others gives the firm low-cost, steady new work, since referrals arrive pre-trusted. Paid channels cost more and convert less. Reputation is the most efficient source of work.
42. D — A C corporation's profit is taxed at the corporate level and again as dividends to shareholders, producing double taxation. This is a key disadvantage of the C corporation form. Pass-through entities avoid the second layer.

43. B — A flow-down clause binds the subcontractor to the obligations the prime owes the owner. It pushes the prime's duties down the chain. This keeps the whole project aligned to the owner's requirements.
44. D — Overstating completion under percentage-of-completion overstates revenue and profit for the period, which later financial reporting must restate. The figures must eventually align with true progress. Honest progress reporting avoids the distortion.
45. D — Under a termination-for-convenience clause, the contractor is entitled to payment for work performed and certain costs, even without any fault. It does not depend on a breach. The contractor is compensated despite the early end.
46. C — Proceeding without a required permit risks stop-work orders, fines, and rework. Permits and inspections are legal prerequisites for the work. Skipping them invites costly enforcement.
47. D — A profitable contractor who repeatedly runs short of cash risks business failure despite the profit. Paper profit does not equal cash on hand. Many profitable construction firms fail from poor cash flow.
48. B — Documenting every change with signed orders and detailed records makes the contractor's claims easier to prove and defend in a dispute. Records substantiate what was agreed and performed. Good documentation is the strongest protection in conflict.
49. A — A required surety bond provides a financial guarantee protecting the obligee if the contractor defaults, while the contractor remains liable to repay the surety. It is not coverage for the contractor's own losses. The bond protects the owner or public.
50. A — Correctly paying nonexempt workers time-and-a-half beyond 40 hours keeps the employer compliant and avoids wage claims. Overtime is required by the FLSA for nonexempt workers. Proper payment prevents back-pay liability and penalties.