

PRACTICE EXAM 18: QUESTIONS 1-50

1. What is a mechanic's lien?
 - A. A legal claim against property for unpaid labor or materials
 - B. A type of insurance covering jobsite tools
 - C. A bond guaranteeing project completion
 - D. A permit allowing construction to begin

2. What does OSHA stand for?
 - A. Office of Safety and Hazard Awareness
 - B. Occupational Safety and Health Administration
 - C. Operational Standards for Health Agencies
 - D. Official Site Hazard Authority

3. In contract law, "consideration" refers to:
 - A. Careful review of the contract terms
 - B. Something of value exchanged by each party
 - C. The time allowed to complete the work
 - D. The signatures of two outside witnesses

4. Retainage is best defined as:
 - A. A penalty for finishing a job late
 - B. The contractor's profit on a project
 - C. A deposit paid before work begins
 - D. A portion of payment withheld until completion

5. A surety bond is:

- A. An insurance policy covering jobsite injuries
- B. A loan the contractor takes to start work
- C. A discount offered to repeat customers
- D. A three-party guarantee of the contractor's performance

6. Which term describes a business owned and run by one person with no separate legal entity?

- A. Partnership
- B. Sole proprietorship
- C. Corporation
- D. Limited liability company

7. Gross margin is:

- A. Total revenue before any costs
- B. The markup applied to material only
- C. Profit expressed as a percentage of selling price
- D. The total dollar amount of overhead

8. The FLSA, which governs minimum wage and overtime, stands for:

- A. Federal Licensing and Safety Act
- B. Final Labor Settlement Agreement
- C. Fair Lending and Standards Authority
- D. Fair Labor Standards Act

9. Liquidated damages are:

- A. Damages a court awards after a trial
- B. The contractor's lost profit on a job
- C. Funds set aside for material waste
- D. A preset daily sum for late completion

10. A change order is:

- A. A request to switch subcontractors
- B. A written modification to scope, price, or schedule
- C. An order to stop all work immediately
- D. A revised version of the building permit

11. A lien waiver is a document in which a party:

- A. Files a claim against the property
- B. Requests an extension of the deadline
- C. Gives up the right to file a lien
- D. Transfers the project to a new owner

12. Which bond guarantees the project will be completed per the contract?

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

13. Working capital equals:

- A. Total assets minus total revenue
- B. Cash on hand at year-end
- C. Current assets minus current liabilities
- D. Owner's equity plus long-term debt

14. An independent contractor is generally one who:

- A. Controls how and when the work is performed
- B. Works only the hours the firm sets
- C. Uses only the company's tools

D. Receives a W-2 from the company

15. Markup is the amount added to:

A. Cost to arrive at the selling price

B. Profit to arrive at overhead

C. Revenue to arrive at gross margin

D. Wages to arrive at net pay

16. A breach of contract occurs when:

A. A contract is properly completed

B. A party fails to perform its obligations

C. Two parties agree to new terms

D. A permit is issued for the work

17. Accrual accounting records revenue when it is:

A. Deposited in the bank

B. Earned or billed, regardless of cash

C. Withdrawn by the owner

D. Reported to the licensing board

18. Arbitration is a process in which:

A. Parties negotiate directly with no help

B. A mediator suggests a non-binding solution

C. A neutral renders a binding decision out of court

D. A judge decides the case in court

19. In hazard communication, an "SDS" is a:

A. Safety data sheet

- B. Site disposal schedule
- C. Standard daily summary
- D. Subcontractor default statement

20. Overhead refers to:

- A. The indirect costs of running the business
- B. The direct labor on a single job
- C. The profit added to a bid
- D. The materials installed in a project

21. Which bond guarantees that subcontractors and suppliers will be paid?

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

22. Net profit is:

- A. Revenue before any expenses
- B. The markup percentage on cost
- C. What remains after all expenses
- D. The total of the fixed costs

23. A force majeure clause addresses:

- A. The maximum allowable markup
- B. The order of payment to subs
- C. Delays from events beyond a party's control
- D. The transfer of a license

24. Depreciation is:

- A. An increase in equipment value over time
- B. The allocation of an asset's cost over its life
- C. A cash payment made to the lender
- D. A tax owed on gross revenue

25. Prequalification is the process of:

- A. Issuing a permit before bidding
- B. Screening a bidder's finances and references
- C. Filing a lien on public work
- D. Closing out a completed project

26. A contractor's "EMR" in workers' compensation is the:

- A. Equipment maintenance record
- B. Estimated material requirement
- C. Experience modification rate
- D. Employee monthly report

27. Substantial completion means the project is:

- A. Usable for its intended purpose with minor items left
- B. Fully finished with no remaining work
- C. Just beginning the closeout phase
- D. Stopped due to a contract dispute

28. Contribution margin is:

- A. Selling price minus variable costs
- B. Total revenue minus total assets
- C. Fixed costs divided by units

D. Net profit plus depreciation

29. An indemnification clause:

- A. Sets the project completion date
- B. Fixes the contract price
- C. Shifts certain liability from one party to another
- D. Waives all warranties on the work

30. In a general partnership, the partners:

- A. Have full limited liability protection
- B. Pay corporate income tax on profits
- C. Cannot share in management
- D. Are personally liable for partnership debts

31. A bid bond guarantees that the:

- A. Winning bidder will sign the contract and post bonds
- B. Project will be completed on time
- C. Subcontractors will all be paid
- D. Materials will meet specifications

32. The federal unemployment tax is known by the acronym:

- A. FUTA
- B. FICA
- C. FMLA
- D. OSHA

33. A cash-flow projection is a tool that:

- A. Records past payroll only

- B. Lists all installed materials
- C. Forecasts future inflows and outflows
- D. Calculates the markup on a job

34. A time-and-materials contract pays the contractor based on:

- A. A single fixed price
- B. A percentage of the property value
- C. Labor hours and materials used, plus markup
- D. The owner's available budget

35. A statute of repose sets:

- A. The minimum wage rate
- B. The markup allowed on a bid
- C. The order of lien priority
- D. An absolute deadline for claims from completion

36. FICA taxes withheld from employee wages fund:

- A. Federal building inspections
- B. State unemployment benefits
- C. Workers' compensation claims
- D. Social Security and Medicare

37. A schedule of values is:

- A. A breakdown of the contract sum into billable line items
- B. A list of the contractor's owned equipment
- C. A ranking of the subcontractor bids
- D. A calendar of the inspection dates

38. The current ratio is found by dividing:

- A. Net profit by total revenue
- B. Total assets by total liabilities
- C. Owner's equity by long-term debt
- D. Current assets by current liabilities

39. At-will employment generally means:

- A. Employees may never be terminated
- B. Either party may end it for any lawful reason
- C. The employer must show cause to fire
- D. Termination requires board approval

40. In contracting, a "GMP" contract refers to a:

- A. General Material Purchase
- B. Guaranteed Maximum Price
- C. Gross Margin Plan
- D. Government Mandated Permit

41. In the hierarchy of controls, the most effective method is:

- A. Personal protective equipment
- B. Administrative controls
- C. Elimination of the hazard
- D. Posting warning signs

42. "Net 30" payment terms mean payment is due:

- A. Within 30 days of the invoice
- B. After 30 jobs are completed
- C. In 30 equal installments

D. Only after a 30% deposit

43. A lump-sum contract is one in which:

- A. The owner pays all actual costs plus a fee
- B. Payment is based on units installed
- C. The contractor performs the work for a fixed price
- D. The price floats with material markets

44. An "LLC" is a:

- A. Licensed Labor Contractor
- B. Long-term Liability Certificate
- C. Local Licensing Code
- D. Limited Liability Company

45. OSHA's "Focus Four" are the four leading causes of:

- A. Project cost overruns
- B. Contract disputes
- C. Permit denials
- D. Construction worker deaths

46. Which party may file a mechanic's lien against an improved property?

- A. A passerby who admired the work
- B. A supplier who furnished materials
- C. The property owner's personal banker
- D. A neighbor living near the site

47. A construction change directive is used to:

- A. Cancel the contract entirely

- B. Waive the contractor's lien rights
- C. Record the project's final payment
- D. Order work to proceed before price is agreed

48. "PPE" in jobsite safety refers to:

- A. Personal protective equipment
- B. Project performance estimate
- C. Preliminary permit examination
- D. Payment processing entry

49. A contractor's bonding capacity is:

- A. The maximum bonded work a surety will back
- B. The number of employees on payroll
- C. The total of all unpaid invoices
- D. The square footage of the office

50. Payroll "withholding" refers to amounts:

- A. Added to gross pay as a bonus
- B. Paid to subcontractors each month
- C. Deducted from gross pay for taxes
- D. Set aside for material purchases

Practice Exam 18 – Answer Key and Explanations

- 1. A** — A mechanic's lien is a legal claim against the improved property securing payment for labor or materials furnished. It attaches to the real estate, pressuring payment at sale or refinance. Lien rights arise from contributing to the improvement.
- 2. B** — OSHA stands for the Occupational Safety and Health Administration, the federal agency that sets and enforces workplace safety standards. It issues regulations and conducts inspections. Knowing the agency clarifies who governs jobsite safety.
- 3. B** — Consideration is something of value each party exchanges, one of the essential elements of a valid contract. Without it, a promise is unenforceable as a gift. The bargained exchange is what binds the parties.
- 4. D** — Retainage is a portion of each payment the owner withholds until the work is satisfactorily completed. It provides security that the job will be finished and corrected. The held funds are released at completion.
- 5. D** — A surety bond is a three-party guarantee among the obligee, principal, and surety that the contractor will perform. If the contractor defaults, the surety responds and then seeks reimbursement. It is a guarantee, not insurance for the contractor.
- 6. B** — A sole proprietorship is a business owned and run by one person with no separate legal entity. The owner and the business are legally the same. This simplicity comes with full personal liability.
- 7. C** — Gross margin expresses profit as a percentage of the selling price. It uses the sale price as the base, unlike markup, which uses cost. The ratio shows how much of each sales dollar is profit.
- 8. D** — The FLSA is the Fair Labor Standards Act, the federal law governing minimum wage and overtime. It sets the 40-hour overtime threshold. Knowing the law identifies the source of wage rules.
- 9. D** — Liquidated damages are a preset daily sum the parties agree to for late completion. The amount is fixed in the contract rather than proved at trial. The clause provides a predictable remedy for delay.
- 10. B** — A change order is a written modification altering the scope, price, or schedule of the contract. It documents agreed changes and protects payment for added work. Verbal changes without one invite disputes.
- 11. C** — A lien waiver is a document by which a party gives up the right to file a lien for work that has been paid. Owners collect them as payments flow. The waiver prevents later claims for those amounts.
- 12. D** — A performance bond guarantees the project will be completed according to the contract, with the surety stepping in on default. Bid and payment bonds cover other risks. Performance bonds secure completion.
- 13. C** — Working capital equals current assets minus current liabilities. It measures the short-term financial cushion available. Sureties weigh it when setting bonding limits.

- 14. A** — An independent contractor controls how and when the work is performed, directing his own methods. Set hours, company tools, and a W-2 instead indicate an employee. Control is the deciding factor.
- 15. A** — Markup is the amount added to cost to arrive at the selling price. It is figured on the cost base, unlike margin. The markup converts cost into the price charged.
- 16. B** — A breach of contract occurs when a party fails to perform its contractual obligations. The non-breaching party may then seek remedies such as damages. Performance, not modification, is what a breach violates.
- 17. B** — Accrual accounting records revenue when it is earned or billed, regardless of when cash is received. It matches revenue to the period in which work occurs. This gives a truer picture than cash basis.
- 18. C** — Arbitration is a process in which a neutral arbitrator renders a binding decision outside of court. Mediation is non-binding, and litigation is public. Arbitration offers a decisive yet private resolution.
- 19. A** — An SDS is a safety data sheet, required under hazard communication rules to describe a chemical's hazards and safe handling. It informs workers how to use the product safely. Each hazardous chemical must have one.
- 20. A** — Overhead refers to the indirect costs of running the business, such as office rent, insurance, and administrative salaries. These costs are not tied to a single job. Bids must recover overhead to stay solvent.
- 21. B** — A payment bond guarantees that subcontractors and suppliers will be paid. It protects the lower tiers when they cannot lien public property. The owner requires it to secure the supply chain.
- 22. C** — Net profit is what remains after all expenses, including overhead and taxes, are subtracted from revenue. It is the bottom-line measure of profitability. Revenue before costs is not profit.
- 23. C** — A force majeure clause addresses delays caused by extraordinary events beyond a party's control, such as storms or disasters. It excuses performance for the duration of the event. The clause allocates the risk of such delays.
- 24. B** — Depreciation is the allocation of an asset's cost over its useful life. It spreads the expense across the years the asset is used. The asset's book value declines as depreciation accumulates.
- 25. B** — Prequalification is the process of screening a bidder's finances and references before allowing it to bid. It ensures only capable contractors compete. Public owners use it to reduce performance risk.
- 26. C** — EMR is the experience modification rate, a factor adjusting workers' comp premiums based on a contractor's loss history. A rate above 1.0 raises premiums; below 1.0 lowers them. It rewards strong safety records.
- 27. A** — Substantial completion means the project is usable for its intended purpose, with only minor punch-list items left. The owner may occupy it and warranties often begin. Final completion requires finishing all items.

- 28. A** — Contribution margin is selling price minus variable costs. It is the amount each sale contributes toward fixed costs and profit. Knowing it drives break-even and pricing decisions.
- 29. C** — An indemnification clause shifts certain liability from one party to another, reallocating who bears specified losses. It is common between owner and contractor or contractor and sub. Reading it carefully avoids unexpected exposure.
- 30. D** — In a general partnership, the partners are personally liable for the partnership's debts. There is no liability shield as with an LLC or corporation. This unlimited liability is a defining feature.
- 31. A** — A bid bond guarantees that the winning bidder will sign the contract and furnish the required performance and payment bonds. It protects the owner if the low bidder backs out. The bond secures the commitment to contract.
- 32. A** — FUTA is the acronym for the Federal Unemployment Tax Act, which funds unemployment compensation. The employer pays this tax, not the employee. It is distinct from FICA and other payroll items.
- 33. C** — A cash-flow projection forecasts future inflows and outflows, revealing shortfalls before they occur. It lets a contractor arrange financing ahead of a gap. Past records and material lists do not forecast cash.
- 34. C** — A time-and-materials contract pays the contractor for labor hours and materials used, plus an agreed markup. There is no single fixed price; cost rises with the work. It suits jobs of uncertain scope.
- 35. D** — A statute of repose sets an absolute deadline for claims measured from project completion, regardless of when a defect is found. A statute of limitations runs from discovery. Repose gives a firm end to liability.
- 36. D** — FICA taxes fund Social Security and Medicare, withheld from employee wages and matched by the employer. They are separate from income tax. The taxes support federal retirement and health programs.
- 37. A** — A schedule of values breaks the contract sum into billable line items, forming the basis for progress billing. Each line is billed as its work completes. It ties payment to measurable progress.
- 38. D** — The current ratio is current assets divided by current liabilities. A ratio above 1.0 signals enough short-term assets to cover short-term debts. Lenders and sureties watch this liquidity measure.
- 39. B** — At-will employment means either party may end the relationship at any time for any lawful reason. Unlawful, discriminatory reasons remain prohibited. The doctrine gives flexibility within legal limits.
- 40. B** — A GMP contract is a Guaranteed Maximum Price contract, capping the owner's cost while the contractor absorbs overruns above the cap. It blends cost-plus flexibility with a ceiling. The owner's exposure is limited to the maximum.

- 41. C** — Elimination of the hazard is the most effective level of the hierarchy of controls because it removes the danger at its source. PPE, administrative controls, and signs rank lower. Removing a hazard beats managing exposure to it.
- 42. A** — "Net 30" means payment is due within 30 days of the invoice date. It is a common commercial payment term. Tracking such terms helps manage cash flow and collections.
- 43. C** — A lump-sum contract has the contractor perform the work for a fixed price agreed up front. The contractor absorbs any cost overrun above that price. Accurate estimating is essential on lump-sum work.
- 44. D** — An LLC is a Limited Liability Company, a structure combining liability protection with pass-through taxation. Owners are shielded from business debts while profits flow to personal returns. It is a popular choice for small contractors.
- 45. D** — OSHA's Focus Four are the four leading causes of construction worker deaths: falls, struck-by, caught-in/between, and electrocution. They guide where hazard controls are concentrated. Reducing them saves the most lives.
- 46. B** — A supplier who furnished materials to the project may file a mechanic's lien, since lien rights flow from improving the property. Bystanders, neighbors, and the owner's banker have no such rights. Furnishing labor or materials is the basis.
- 47. D** — A construction change directive orders work to proceed before the price is agreed, keeping the project moving during a dispute. A change order, by contrast, reflects agreed terms. The directive prevents delay while pricing is resolved.
- 48. A** — PPE stands for personal protective equipment, such as hard hats, gloves, and eye protection. It is the last line of defense in the hierarchy of controls. Employers must supply required PPE to workers.
- 49. A** — Bonding capacity is the maximum amount of bonded work a surety will back for a contractor, based on financial strength. It limits the size and number of projects a contractor can take. Stronger finances raise the capacity.
- 50. C** — Withholding refers to amounts deducted from an employee's gross pay for taxes such as income, Social Security, and Medicare. The employer remits these to the government. Withholding reduces gross pay to net take-home pay.