

PRACTICE EXAM 19: QUESTIONS 1-50

1. Which statement best distinguishes markup from margin?
 - A. They are identical percentages on any job
 - B. Markup is based on cost; margin on selling price
 - C. Markup is always smaller than the margin
 - D. Margin is based on cost; markup on profit

2. How does arbitration differ from mediation?
 - A. Arbitration is always provided free of charge
 - B. Mediation produces a binding court ruling
 - C. Arbitration must take place in a courtroom
 - D. Arbitration is binding while mediation is not

3. A performance bond differs from a payment bond in that it:
 - A. Pays the project's subcontractors directly
 - B. Guarantees the contractor's bid will stand
 - C. Insures the contractor's tools and equipment
 - D. Guarantees completion of the work itself

4. The clearest distinction between an employee and an independent contractor is:
 - A. The degree of control over how work is done
 - B. Whether the worker owns a vehicle
 - C. The total dollars paid over a year
 - D. The number of years in the trade

5. A crew of 3 earns \$24 per hour each, with a 25% labor burden, for an 8-hour day. What is the burdened daily labor cost?

- A. \$576
- B. \$648
- C. \$720
- D. \$144

6. Which sequence correctly orders the project life cycle?

- A. Initiation, planning, execution, closeout
- B. Planning, closeout, execution, initiation
- C. Execution, initiation, planning, closeout
- D. Closeout, execution, planning, initiation

7. Compared with cost-plus, a lump-sum contract shifts cost-overrun risk to the:

- A. Contractor
- B. Owner
- C. Surety
- D. Lender

8. A job costing \$7,500 is priced for a 25% margin. Ignoring tax, what is the selling price?

- A. \$9,375
- B. \$9,000
- C. \$10,000
- D. \$5,625

9. Accrual accounting differs from cash accounting because it records revenue when:

- A. Cash is physically received
- B. It is earned or billed
- C. The owner withdraws funds

D. The bank statement clears

10. A statute of repose differs from a statute of limitations because the repose clock starts at:

A. The date a defect is discovered

B. The date of project completion

C. The date the lawsuit is filed

D. The date the contract is signed

11. Which orders hazard controls from most to least effective?

A. Elimination, engineering, administrative, PPE

B. PPE, administrative, engineering, elimination

C. Administrative, PPE, elimination, engineering

D. Engineering, PPE, elimination, administrative

12. A \$120,000 job is 50% billed with 10% retainage on billed work; the owner then releases \$2,000 of prior retainage. What net retainage is now held?

A. \$6,000

B. \$2,000

C. \$4,000

D. \$8,000

13. General liability differs from workers' compensation because general liability covers:

A. Third-party injury and property damage

B. The contractor's own injured employees

C. Damage to the structure being built

D. Theft of the contractor's vehicles

14. A bid bond differs from a performance bond in that the bid bond guarantees the bidder will:

A. Enter the contract and post required bonds

- B. Finish the project on schedule
- C. Pay all suppliers in full
- D. Repair defects for one year

15. An employee earns \$20 per hour and works 45 hours, with overtime at time-and-a-half. What is the gross pay before burden?

- A. \$900
- B. \$950
- C. \$1,350
- D. \$800

16. Compared with a sole proprietorship, an LLC primarily adds:

- A. A simpler tax filing process
- B. A requirement for a board of directors
- C. Automatic eligibility for public contracts
- D. Protection of the owner's personal assets

17. Which orders the typical lien steps correctly?

- A. File lien, furnish materials, serve preliminary notice
- B. Serve notice, file lien, furnish materials
- C. File lien, serve notice, furnish materials
- D. Furnish materials, serve preliminary notice, file lien

18. A \$400,000 contract is 35% complete by cost. How much revenue is recognized to date?

- A. \$35,000
- B. \$40,000
- C. \$140,000
- D. \$400,000

19. Substantial completion differs from final completion because at substantial completion:

- A. All punch-list items are finished
- B. The contract is fully closed out
- C. No warranties have yet begun
- D. Minor items may still remain

20. A pay-if-paid clause differs from a pay-when-paid clause because pay-if-paid:

- A. Always pays the sub within 30 days
- B. Requires the owner to pay the sub directly
- C. Guarantees the sub is paid regardless
- D. Can shift owner-nonpayment risk to the sub

21. Current assets are \$150,000 and current liabilities are \$60,000. After paying \$30,000 of liabilities with cash, what is the new working capital?

- A. \$120,000
- B. \$90,000
- C. \$60,000
- D. \$30,000

22. An EMR of 1.20 compared with one of 0.80 indicates:

- A. A lower workers' comp premium
- B. Fewer employees on the payroll
- C. A worse loss history and higher premium
- D. No effect on the premium at all

23. When a price cannot be agreed before disputed work must start, the correct first step is to issue a:

- A. Final change order
- B. Construction change directive

- C. Notice of contract termination
- D. Certificate of occupancy

24. A \$4,000 material order gets a 10% markup, then 5% sales tax on the marked-up amount. What does the customer pay?

- A. \$4,200
- B. \$4,400
- C. \$4,600
- D. \$4,620

25. Builder's risk differs from general liability because builder's risk covers:

- A. Injury to passersby near the site
- B. Lawsuits over completed-operations defects
- C. Auto accidents involving company trucks
- D. Physical loss to the structure under construction

26. Fixed costs are \$18,000, the price per job is \$1,200, and variable cost per job is \$900. How many jobs break even?

- A. 60
- B. 50
- C. 20
- D. 15

27. A subcontractor's remedy on unpaid public work differs from private work because on public work the sub must pursue the:

- A. Payment bond rather than a property lien
- B. Performance bond rather than the owner
- C. Bid bond filed by the agency
- D. Owner's homestead exemption

28. Which orders the estimating process correctly?

- A. Bid submission, takeoff, pricing, review
- B. Pricing, takeoff, review, bid submission
- C. Quantity takeoff, pricing, review, bid submission
- D. Review, bid submission, takeoff, pricing

29. A worker's base wage is \$30 per hour with a 40% burden, and the worker is on the job 8 hours. What is the burdened daily labor cost?

- A. \$240
- B. \$336
- C. \$420
- D. \$300

30. FUTA differs from FICA because FUTA is:

- A. Withheld from the employee's wages
- B. Split evenly between worker and firm
- C. Paid by the employer to fund unemployment
- D. Used to fund Social Security only

31. A \$36,000 machine with a \$6,000 salvage value and a 5-year life is depreciated straight-line. What is its book value after 2 years?

- A. \$30,000
- B. \$18,000
- C. \$24,000
- D. \$12,000

32. A mechanic's lien's priority often differs from a later mortgage because the lien can relate back to:

- A. The date work or materials first began

- B. The date the lien lawsuit is filed
- C. The date the owner refinances
- D. The date the project is completed

33. Which orders dispute methods from least to most formal?

- A. Litigation, arbitration, mediation, negotiation
- B. Negotiation, mediation, arbitration, litigation
- C. Arbitration, negotiation, litigation, mediation
- D. Mediation, litigation, negotiation, arbitration

34. Direct costs are \$50,000; overhead is 12% and profit is 8%, both on direct cost. What is the total bid?

- A. \$56,000
- B. \$58,000
- C. \$60,000
- D. \$54,000

35. A unit-price contract differs from a lump-sum contract because it pays based on:

- A. A single fixed total agreed in advance
- B. A percentage of the property's value
- C. Measured quantities actually installed
- D. The owner's available financing

36. A job bills \$40,000, costs \$30,000, and incurs \$4,000 in overhead. What is the net profit?

- A. \$10,000
- B. \$6,000
- C. \$4,000
- D. \$14,000

37. OSHA's fatality reporting deadline differs from the amputation deadline as:

- A. 24 hours versus 72 hours
- B. 48 hours versus 8 hours
- C. 8 hours versus 24 hours
- D. 72 hours versus 24 hours

38. Which orders a typical progress-payment flow correctly?

- A. Owner pays, sub bills, GC bills, lien filed
- B. Lien filed, GC bills, owner pays, sub paid
- C. GC pays sub, sub bills GC, owner pays GC
- D. Sub bills GC, GC bills owner, owner pays, GC pays sub

39. A \$200,000 job held 10% retainage. At closeout the owner releases it but deducts a \$3,000 punch-list credit. What does the contractor receive?

- A. \$20,000
- B. \$23,000
- C. \$17,000
- D. \$3,000

40. Indemnification differs from insurance because indemnification:

- A. Is always provided by a licensed carrier
- B. Shifts liability by contract between the parties
- C. Requires a monthly premium payment
- D. Covers only first-party property loss

41. A crew installs 250 square feet per day and must cover 2,000 square feet. How many crew-days are needed?

- A. 5
- B. 10

C. 6

D. 8

42. A guaranteed maximum price contract differs from a pure cost-plus contract because GMP:

A. Pays unlimited actual costs to the contractor

B. Removes the contractor's fee entirely

C. Is identical to a lump-sum contract

D. Caps the owner's cost at a set maximum

43. Which orders project closeout correctly?

A. Final payment, punch list, substantial completion

B. Substantial completion, punch list, final completion, final payment

C. Final payment, final completion, punch list

D. Punch list, final payment, substantial completion

44. A \$15,000 loan at 6% simple annual interest for 2 years requires what total repayment of principal plus interest?

A. \$15,900

B. \$1,800

C. \$16,200

D. \$16,800

45. The current ratio differs from working capital because the ratio is expressed as:

A. A proportion of assets to liabilities

B. A dollar amount of surplus

C. A percentage of annual revenue

D. The total of long-term debt

46. A floor is 20 feet by 30 feet, and material costs \$2.50 per square foot. What is the material cost?

- A. \$1,250
- B. \$1,500
- C. \$600
- D. \$300

47. A conditional lien waiver differs from an unconditional one because the conditional waiver:

- A. Takes effect only when payment clears
- B. Releases lien rights immediately on signing
- C. Cannot be used on private projects
- D. Applies only to public bonded work

48. Which orders the bidding-to-award steps correctly?

- A. Prequalify, bid, evaluate, award
- B. Award, bid, prequalify, evaluate
- C. Bid, award, prequalify, evaluate
- D. Evaluate, award, bid, prequalify

49. A job bills \$80,000 and costs \$60,000 to complete. What is the gross margin percentage?

- A. 33%
- B. 75%
- C. 20%
- D. 25%

50. At-will employment differs from for-cause employment because at-will allows termination:

- A. Only after a formal hearing
- B. For any lawful reason or none
- C. Solely for documented misconduct

D. Only with board approval

Practice Exam 19 – Answer Key and Explanations

- 1. B** — Markup is calculated on cost while margin is calculated on the selling price, so the same profit yields different percentages. Confusing the two causes consistent underpricing. The base of each ratio is the key distinction.
- 2. D** — Arbitration produces a binding decision from a neutral, while mediation only facilitates a voluntary agreement. The binding nature is the core difference. Parties choose arbitration when they want a final, enforceable ruling.
- 3. D** — A performance bond guarantees the work will be completed per the contract, whereas a payment bond guarantees subs and suppliers are paid. Completion versus payment is the distinction. The surety finishes the work if the contractor defaults.
- 4. A** — The degree of control over how and when work is performed is the central test separating employees from independent contractors. Vehicle ownership, pay totals, and tenure are not decisive. Control points to employee status.
- 5. C** — Base labor is $3 \times \$24 \times 8 = \576 , and adding the 25% burden gives $\$576 \times 1.25 = \720 . Burden captures taxes, insurance, and benefits on top of wages. The burdened figure is the true daily labor cost.
- 6. A** — The project life cycle runs initiation, planning, execution, and closeout in that order. Each phase builds on the prior one. Knowing the sequence keeps a project moving logically.
- 7. A** — A lump-sum contract fixes the price, so the contractor absorbs any overrun, unlike cost-plus where the owner pays actual costs. The fixed price shifts overrun risk to the contractor. Accurate estimating is therefore critical.
- 8. C** — Price for a 25% margin equals cost divided by 0.75: $\$7,500 \div 0.75 = \$10,000$. Margin is based on the selling price, so cost is 75% of it. Marking up on cost alone would miss the target.
- 9. B** — Accrual accounting records revenue when it is earned or billed, while cash accounting waits until cash is received. Matching revenue to the period earned is the difference. Accrual gives a truer view of performance.
- 10. B** — A statute of repose starts at project completion and runs regardless of when a defect appears, unlike a limitations period that starts at discovery. The fixed start date is the distinction. Repose gives a firm end to liability.

11. A — The hierarchy of controls ranks elimination first, then engineering, administrative, and finally PPE. Higher controls remove or reduce the hazard itself. PPE is the last line because it only manages exposure.

12. C — Retainage on billed work is 50% of \$120,000 = \$60,000 billed, times 10% = \$6,000, less the \$2,000 released, leaving \$4,000. Retainage accrues on billing and is reduced by releases. The net held is the running balance.

13. A — General liability covers third-party bodily injury and property damage, while workers' comp covers the contractor's own employees. The third-party focus is the distinction. Each loss type needs the matching policy.

14. A — A bid bond guarantees the winning bidder will enter the contract and post the performance and payment bonds, unlike a performance bond that guarantees completion. The commitment to contract is the distinction. It protects the owner if the bidder backs out.

15. B — Regular pay is $40 \times \$20 = \800 , overtime is $5 \times \$30 = \150 , totaling \$950. Hours over 40 earn time-and-a-half. Adding the components gives gross pay before burden.

16. D — An LLC adds protection of the owner's personal assets, which a sole proprietorship lacks. Both can have simple taxation, but only the LLC shields the owner. Liability protection is the primary added benefit.

17. D — The lien process runs furnish materials, serve a preliminary notice, then file the lien if unpaid. Each step precedes the next in time. Following the order preserves lien rights.

18. C — Percentage-of-completion recognizes $\$400,000 \times 0.35 = \$140,000$ of revenue. The method matches earned revenue to progress by cost. Full value is recognized only at completion.

19. D — At substantial completion, minor punch-list items may still remain, while final completion requires finishing all items. The remaining minor work is the distinction. The owner may occupy at substantial completion.

20. D — A pay-if-paid clause can make the owner's payment a condition precedent, shifting nonpayment risk to the sub, unlike pay-when-paid, which only delays timing. The risk shift is the distinction. Courts scrutinize pay-if-paid clauses closely.

21. B — Paying \$30,000 of liabilities with cash drops current assets to \$120,000 and current liabilities to \$30,000, leaving working capital of \$90,000 — unchanged. Paying a current liability with a current asset reduces both equally. Working capital is unaffected by such a transfer.

22. C — An EMR of 1.20 reflects a worse-than-average loss history and raises premiums, while 0.80 lowers them. The factor scales the premium up or down. A strong safety record drives the EMR below 1.0.

23. B — A construction change directive lets the owner order disputed work to proceed before the price is agreed. A final change order requires agreed terms. The directive keeps the job moving during pricing disputes.

24. D — The marked-up amount is $\$4,000 \times 1.10 = \$4,400$, and adding 5% tax gives $\$4,400 \times 1.05 = \$4,620$. Markup and tax compound in sequence on the running total. The customer pays the final figure.

25. D — Builder's risk covers physical loss to the structure under construction, while general liability covers third-party claims. Coverage of the building itself is the distinction. Each policy answers a different exposure.

26. A — Contribution per job is $\$1,200 - \$900 = \$300$, and break-even is $\$18,000 \div \$300 = 60$ jobs. Each job's margin offsets fixed costs until they are covered. Beyond 60 jobs, the firm earns profit.

27. A — On public work the sub cannot lien public property, so it pursues the payment bond instead. The bond replaces the lien remedy. This is why public projects require payment bonds.

28. C — Estimating runs quantity takeoff, pricing, review, then bid submission. Quantities must be measured before they can be priced. Following the order produces an accurate bid.

29. B — The burdened wage is $\$30 \times 1.40 = \42 , and over 8 hours that is $\$42 \times 8 = \336 . Burden is applied to the base wage before multiplying by hours. The result is the burdened daily cost.

30. C — FUTA is paid by the employer to fund unemployment compensation, while FICA is withheld from wages for Social Security and Medicare. Who pays and what it funds are the distinctions. FUTA is an employer-only tax.

31. C — Annual depreciation is $(\$36,000 - \$6,000) \div 5 = \$6,000$, so two years is $\$12,000$, leaving a book value of $\$36,000 - \$12,000 = \$24,000$. Book value declines by accumulated depreciation. Salvage is excluded from the depreciable base.

32. A — A mechanic's lien's priority can relate back to the date work or materials first began, potentially outranking a later mortgage. The relation-back date is the distinction. Lenders check a site for prior work before financing.

33. B — From least to most formal, dispute methods run negotiation, mediation, arbitration, then litigation. Each step adds formality and binding power. The ladder guides escalation of a dispute.

34. C — Overhead is $\$50,000 \times 0.12 = \$6,000$ and profit is $\$50,000 \times 0.08 = \$4,000$, so the bid is $\$50,000 + \$10,000 = \$60,000$. Both add-ons apply to the direct-cost base. The bid covers direct cost plus overhead and profit.

35. C — A unit-price contract pays for measured quantities actually installed, while a lump-sum sets one fixed total. Payment by measured quantity is the distinction. Unit-price suits work of uncertain quantity.

36. B — Gross profit is $\$40,000 - \$30,000 = \$10,000$, less $\$4,000$ overhead, leaving net profit of $\$6,000$. Overhead is subtracted from gross profit to reach net. The net figure is the bottom line.

37. C — A fatality must be reported within 8 hours and an amputation within 24 hours, so the deadlines differ as 8 versus 24. The fatality window is the shorter one. Distinguishing them meets OSHA's reporting duties.

38. D — The payment flow runs sub bills the GC, GC bills the owner, the owner pays the GC, then the GC pays the sub. Money moves up the billing chain and back down as payment. Following the order keeps the chain funded.

39. C — Retainage is $\$200,000 \times 0.10 = \$20,000$, less the $\$3,000$ punch-list credit, leaving $\$17,000$. The credit offsets unfinished items before release. The contractor nets the reduced retainage.

40. B — Indemnification shifts liability between parties by contract, while insurance transfers risk to a carrier for a premium. The contractual versus carrier mechanism is the distinction. Indemnity clauses reallocate who bears a loss.

41. D — Crew-days equal area over the daily rate: $2,000 \div 250 = 8$ days. The production rate sets the pace. Dividing the quantity by the rate gives the duration.

42. D — A guaranteed maximum price caps the owner's cost at a set ceiling, while pure cost-plus has no cap. The cost ceiling is the distinction. The contractor absorbs overruns above the maximum.

43. B — Closeout runs substantial completion, punch list, final completion, then final payment. Each step precedes release of the final funds. Following the order completes the handover.

44. D — Interest is $\$15,000 \times 0.06 \times 2 = \$1,800$, so total repayment is $\$15,000 + \$1,800 = \$16,800$. Simple interest accrues on the original principal each year. The total combines principal and interest.

45. A — The current ratio is expressed as a proportion of current assets to current liabilities, while working capital is a dollar amount. The ratio form is the distinction. Both measure short-term liquidity differently.

46. B — Material cost is area times unit price: $20 \times 30 = 600$ square feet, and $600 \times \$2.50 = \$1,500$. Area is found first, then multiplied by the rate. The product is the material cost.

47. A — A conditional lien waiver takes effect only when the referenced payment clears, while an unconditional waiver releases rights on signing. The clearing condition is the distinction. Conditional waivers protect the payee if a check bounces.

48. A — The bidding-to-award sequence runs prequalify, bid, evaluate, then award. Screening precedes bidding, and evaluation precedes the award. Following the order ensures a qualified winner.

49. D — Gross margin is profit over revenue: $(\$80,000 - \$60,000) \div \$80,000 = 25\%$. Margin uses the selling price as the base. The \$20,000 profit is one-quarter of the billed amount.

50. B — At-will employment allows termination for any lawful reason or none, while for-cause requires a documented reason. The absence of a required cause is the distinction. Unlawful, discriminatory reasons remain prohibited even at will.