

# PRACTICE EXAM 20: QUESTIONS 1-50

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1. A new contractor is unsure whether a project requires licensure. What is the soundest first step before bidding?

- A. Begin the work and apply for a license afterward
- B. Assume no license is needed for a first job
- C. Determine the work's type and value, then verify the requirement with the Board
- D. Rely on the property owner's opinion about licensing

2. A contractor's job costs \$16,000 and he wants a 20% gross margin. What price achieves it?

- A. \$20,000
- B. \$19,200
- C. \$18,000
- D. \$21,000

3. A worker whom the contractor directs, schedules, and equips is injured. Which coverage applies and why?

- A. General liability, since the worker is a third party
- B. Workers' compensation, since control makes him an employee
- C. No coverage, since the worker signed an independent agreement
- D. Builder's risk, since the injury occurred on the structure

4. A slab needs 270 cubic feet of concrete. After converting to cubic yards and adding a 10% waste allowance, how much should be ordered?

- A. 11 cubic yards
- B. 10 cubic yards
- C. 27 cubic yards
- D. 30 cubic yards

5. An Arkansas general finished work 100 days ago and remains unpaid. What action best preserves his claim against the property now?

- A. Wait past 120 days, then sue for breach
- B. File a claim against his own performance bond
- C. Report the matter to the licensing board only
- D. File a mechanics' lien before the 120-day deadline

6. Workers must enter a 7-foot trench. Which principle governs, and what must happen first?

- A. OSHA requires a protective system at 5 feet, so shoring or sloping must be in place first
- B. Trenches under 8 feet are exempt, so entry may proceed
- C. A warning sign satisfies the requirement before entry
- D. PPE alone makes entry compliant at that depth

7. Under a guaranteed maximum price contract, costs exceed the cap. What is the governing principle and the result?

- A. It functions as cost-plus, so the owner pays the excess
- B. The cap limits the owner's cost, so the contractor bears the excess
- C. The price floats, so both share the overage equally
- D. The surety covers any amount above the cap

8. A nonexempt employee earns \$30/hour and works 46 hours in a week. What is the correct gross pay with overtime?

- A. \$1,470
- B. \$1,380
- C. \$2,070
- D. \$1,440

9. An owner paid the general in full; an unpaid sub now liens the property. What is the exposure, and the standard safeguard?

- A. The owner may pay twice; collecting lien waivers prevents it
- B. The owner has no exposure once the general is paid
- C. Only the general faces the lien; the property is exempt
- D. The board satisfies the lien on the owner's behalf

10. Parties want a binding, enforceable resolution that avoids a public trial. Which method fits, and why?

- A. Mediation, because the mediator imposes a decision
- B. Arbitration, because a neutral renders a binding award out of court
- C. Litigation, because it is the fastest and cheapest path
- D. Negotiation, because it produces an enforceable judgment

11. The owner occupies a finished building though minor punch-list items remain. What is the milestone, and a key effect?

- A. Final completion, so all retainage is released at once
- B. Termination, so contractor duties end immediately
- C. Substantial completion, so warranty periods often begin

D. Notice to proceed, so the work is just starting

12. A firm wants to raise capital by selling shares and continue beyond its founders. Which structure fits both goals?

A. A corporation, which issues stock and has perpetual existence

B. A sole proprietorship, which ends with the owner

C. A general partnership, which cannot issue stock

D. A single-member LLC, which has one owner only

13. A serious hazard can be designed out or merely addressed with PPE. Which is correct under the hierarchy of controls?

A. Design it out, because elimination is the most effective control

B. Use PPE, because it ranks highest in the hierarchy

C. Either approach, since both are equally protective

D. Post signage, since it removes the hazard entirely

14. A \$300,000 contract has incurred \$90,000 of \$240,000 estimated costs. Under percentage-of-completion, how much revenue is recognized?

A. \$90,000

B. \$112,500

C. \$120,000

D. \$75,000

15. An owner verbally directs added work mid-project. What principle protects payment, and what should the contractor do?

A. Verbal direction binds the owner, so simply proceed

- B. Bill it quietly at the end to avoid friction
- C. File a lien now to secure the extra scope
- D. Extras need documentation, so obtain a signed change order first

16. One worker is killed and another is hospitalized in-patient. What are the respective OSHA reporting deadlines?

- A. 24 hours for both events
- B. 8 hours for both events
- C. 24 hours for the death, 8 hours for the hospitalization
- D. 8 hours for the death, 24 hours for the hospitalization

17. On a fixed-price contract, costs exceed the bid with no scope change. What is the principle, and who bears the loss?

- A. The price is fixed, so the contractor absorbs the overage
- B. Costs pass through, so the owner pays the difference
- C. The surety reimburses the overage to the contractor
- D. The contract automatically reopens for renegotiation

18. A surety pays a valid bond claim after the contractor defaults. What principle applies, and what follows?

- A. A bond is insurance, so the loss is simply absorbed
- B. The owner guaranteed the bond, so the owner repays
- C. The board backs the bond, so it reimburses the surety
- D. A bond is a guarantee, so the contractor must reimburse the surety

19. An owner cannot specify the quantity of rock to be removed. Which contract type fits, and why?

- A. Lump-sum, because it fixes a single total price
- B. Unit-price, because payment adjusts to units actually removed
- C. Cost-plus with no ceiling, because it caps the cost
- D. Guaranteed maximum price, because quantities are certain

20. A profitable contractor keeps running short of cash. What is the underlying issue, and the best remedy?

- A. A cash-flow timing problem; bill progress payments and manage retainage
- B. An unprofitable operation; raise markup on every job
- C. Excess working capital; reduce the cash reserve
- D. A tax problem; stop paying estimated taxes

21. A subcontract requires the sub to cover losses it causes the prime. What clause is this, and what does it do?

- A. A flow-down clause, which sets the schedule
- B. A liquidated-damages clause, which sets a daily penalty
- C. An indemnification clause, which shifts those losses to the sub
- D. A force-majeure clause, which excuses delay

22. A company reports \$620,000 in assets and \$395,000 in liabilities. What is the owner's equity?

- A. \$1,015,000
- B. \$395,000
- C. \$620,000
- D. \$225,000

23. An Arkansas employer fires an at-will worker for poor output. Is it lawful, and what is the boundary?

- A. Unlawful, because thirty days' notice is always required
- B. Lawful, unless the real reason is illegally discriminatory
- C. Unlawful, because only documented cause permits firing
- D. Lawful only after the board grants approval

24. A project depends on custom equipment with a long lead time. What principle governs, and what is the soundest action?

- A. Lead times are flexible, so order it after foundation work
- B. Suppliers absorb delays, so no early action is needed
- C. Lead time drives the schedule, so identify and order it early in planning
- D. Rushing shortens lead time, so order it at the last minute

25. A worker is exposed to an on-site chemical and needs handling and first-aid data. Where is it, and under what rule?

- A. On the OSHA 300 log, under injury recordkeeping
- B. In the bid documents, under the agreement terms
- C. On the Safety Data Sheet, under the Hazard Communication Standard
- D. On the surety bond, under the guarantee terms

26. A job costing \$10,000 is sold for \$12,500. What markup on cost does this represent?

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

27. An owner ends a well-performed contract under a clause allowing it. What is this, and what is owed?

- A. Termination for cause; nothing further is owed
- B. Termination for convenience; payment for work performed and certain costs
- C. A material breach; double damages are owed
- D. Fraud; all prior payments are forfeited

28. A contractor performed regulated work without a license and was not paid. What is his strongest realistic position?

- A. He recovers double the contract value automatically
- B. He is guaranteed full payment plus interest
- C. The board pays him from a contractor guarantee fund
- D. A court may bar him from collecting for the work

29. A critical-path task slips 6 days; a parallel non-critical task with 8 days of float slips 5 days. What is the net delay?

- A. 11 days late
- B. 5 days late
- C. 6 days late
- D. On schedule

30. A \$180,000 contract carries 10% retainage. How much is withheld, and until when?

- A. \$1,800, until the first inspection
- B. \$36,000, until the bond is released
- C. \$18,000, until satisfactory completion
- D. \$9,000, until the permit is issued

31. Which single measure most reduces the likelihood of a payment dispute, and why?

- A. Filing a preliminary lien first, to pressure the owner
- B. Demanding full prepayment, to remove all risk
- C. Sending weekly demand letters, to keep pressure on
- D. A written contract with clear scope and terms, because most disputes stem from undefined expectations

32. A worker is crushed when unsupported trench walls collapse. Which Focus Four category applies, and what was the failure?

- A. A struck-by hazard; an object hit the worker
- B. A caught-in/between hazard; no protective system was used
- C. A fall hazard; the worker fell into the trench
- D. An electrocution hazard; a buried line was struck

33. An owner alleges defective work though the contract states no quality promise. What principle still protects the owner?

- A. An express warranty, since it was written into the contract
- B. An implied warranty of workmanlike performance, arising by operation of law
- C. A bid bond, which guarantees the work's quality
- D. No protection exists without a written warranty

34. To move the financial risk of employee injuries off the business, which method and instrument apply?

- A. Risk retention, through a self-funded reserve
- B. Risk avoidance, by refusing all hazardous work
- C. Risk reduction, through builder's risk insurance
- D. Risk transfer, through workers' compensation insurance

35. All work and punch-list items are finished and accepted. What is the proper closing action, and why?

- A. Make final payment and release retainage, because final completion triggers it
- B. Withhold added retainage indefinitely, to ensure future service
- C. Require a lien before paying, to protect the owner
- D. Return the bid bond, since the project is done

36. A subcontract references the prime contract and adopts its obligations. What clause is this, and what does it accomplish?

- A. An indemnification clause, shifting losses to the prime
- B. A force-majeure clause, excusing delays
- C. A liquidated-damages clause, setting a penalty
- D. A flow-down clause, binding the sub to the prime's obligations to the owner

37. A contractor finishes one day late causing no real harm. What is the classification, and the owner's position?

- A. Material breach; the owner may stop performing entirely
- B. Fraud; the owner may seek to revoke the license
- C. No breach; deadlines impose no obligation
- D. Minor breach; the owner must perform but may claim actual damages

38. A \$400,000 bid requires a 5% bid bond. What is the amount, and what does it guarantee?

- A. \$20,000, guaranteeing the bidder will honor its price and enter the contract
- B. \$40,000, guaranteeing payment to all subcontractors
- C. \$4,000, guaranteeing completion of the project
- D. \$2,000, guaranteeing the warranty period

39. A wall area of 2,560 square feet is covered with 4-by-8 sheets (32 sq ft each). How many sheets are required?

- A. 64
- B. 72
- C. 80
- D. 90

40. A properly classified independent contractor is paid with no withholding. What year-end form applies, and why?

- A. A W-2, because all workers receive one
- B. A W-4, because it sets withholding allowances
- C. A 1099-NEC, because no taxes were withheld from a non-employee
- D. An I-9, because it reports annual earnings

41. A public owner must award a contract. Which bidder wins, and why is mere lowest price insufficient?

- A. The earliest to submit, to reward promptness
- B. The most experienced, regardless of bid
- C. The highest bidder, to ensure quality
- D. The lowest responsible, responsive bidder, because the firm must also be qualified

42. A profitable company nonetheless cannot pay its bills and risks failure. What best explains this, and what should be examined?

- A. Excess profit; review the markup downward
- B. Too much working capital; spend the reserve
- C. A tax overpayment; stop estimated payments

D. A cash-flow shortfall; examine cash flow, not just reported profit

43. An agreement lacks any consideration between the parties. What is its status, and the effect?

- A. Voidable; valid until one party cancels it
- B. Fully enforceable; consideration is optional
- C. Void; it cannot be enforced by either party
- D. Binding; only the offeror may enforce it

44. Subcontractors and suppliers go unpaid on a bonded public project. Which bond protects them, and why?

- A. The bid bond, because it guarantees the price
- B. The payment bond, because it guarantees they are paid
- C. The performance bond, because it guarantees completion
- D. The license bond, because it covers all claims

45. A sub signs an unconditional waiver before the payment clears. What principle applies, and the risk?

- A. Conditional waivers take effect immediately, so no risk exists
- B. The waiver is void until cash arrives, so rights are safe
- C. Unconditional waivers release rights at once, so the sub may lose them if payment fails
- D. The owner becomes personally liable once a waiver is signed

46. Among these measures for a serious hazard, which is most effective, and why?

- A. Issuing PPE, because it directly shields the worker
- B. Posting signage, because it warns everyone nearby
- C. Eliminating the hazard at its source, because removal outranks all other controls

D. Rotating workers, because it limits each person's exposure

47. A job earns \$260,000 in revenue against \$182,000 in direct costs. What is the gross profit?

A. \$442,000

B. \$78,000

C. \$182,000

D. \$130,000

48. A general is about to engage a subcontractor. What best protects the general before work begins, and why?

A. An advance payment, to secure the sub's commitment

B. A verbal assurance, to save time and paperwork

C. Verifying the sub's license and obtaining a certificate of insurance, to guard against an unqualified sub

D. Waiting until completion, to evaluate the result

49. Every punch-list item is now finished and formally accepted by the owner. Which milestone is this, and its effect?

A. Final completion; it triggers release of the remaining retainage

B. Substantial completion; the owner may now occupy the space

C. Notice to proceed; the work is authorized to begin

D. A material breach; the owner may withhold all payment

50. A contractor spots a serious math error in his submitted bid before award. What principle governs, and the best action?

A. Prompt notice may allow withdrawal, so inform the owner immediately

- B. A bid is irrevocable, so perform at the wrong price
- C. Errors self-correct, so take no action at all
- D. Inflate later invoices quietly to recover the loss

## Practice Exam 20 – Answer Key and Explanations

1. C — Determining the work's type and value, then verifying the requirement with the Board, is the soundest first step because those facts decide whether and which license applies. Starting work or guessing risks unlicensed contracting. Confirming first protects the contractor's right to be paid.
2. A — Margin uses the selling price as its base, so price = cost ÷ (1 - 0.20) = \$16,000 ÷ 0.80 = \$20,000. A 20% markup would yield only \$19,200. The margin formula prevents underpricing.
3. B — Control over the work, not the label, makes the worker an employee covered by workers' compensation. Direction, scheduling, and equipment all signal control. Misclassification exposes the contractor to penalties and injury liability.
4. A — Volume converts to  $270 \div 27 = 10$  cubic yards, and a 10% waste allowance gives  $10 \times 1.10 = 11$  cubic yards. Concrete is ordered in cubic yards with waste added. Ordering 11 covers spillage and overpour.
5. D — Filing a mechanics' lien before the 120-day Arkansas deadline preserves the unpaid general's claim against the property. Waiting past the deadline can defeat the lien. The lien is the strongest collection tool while the window remains open.
6. A — OSHA requires a protective system in trenches 5 feet or deeper, so shoring or sloping must be in place before workers enter a 7-foot trench. Signs and PPE do not prevent collapse. Trench protection prevents fatal cave-ins.
7. B — A guaranteed maximum price caps the owner's cost, so the contractor bears costs above the cap. It is not open-ended cost-plus. The GMP shifts overrun risk to the contractor beyond the ceiling.
8. A — Regular pay is  $40 \times \$30 = \$1,200$  and overtime is  $6 \times \$45 = \$270$ , totaling \$1,470. The 6 hours beyond 40 are paid at time-and-a-half. Splitting the rates yields the correct gross pay.
9. A — An unpaid sub can lien the property even after the owner paid the general, so the owner may have to pay twice, and collecting lien waivers prevents it. Full payment to the general does not bar the sub's claim. Waivers are the routine safeguard.
10. B — Arbitration produces a binding, enforceable award from a neutral, out of court and typically faster than a trial. Mediation is non-binding and litigation is the public process. Arbitration fits parties wanting a decisive private resolution.
11. C — Occupancy with minor punch-list items remaining is substantial completion, which often starts warranty periods. It is distinct from final completion and full retainage release. This milestone affects warranties and payment.
12. A — A corporation issues stock to raise capital and has perpetual existence, matching both goals. A proprietorship, partnership, and single-member LLC lack one or both features. The corporation fits a plan to sell shares and outlive its founders.
13. A — Designing the hazard out is correct because elimination ranks highest in the hierarchy of controls. PPE relies on the hazard remaining present. Removing the danger at its source gives the strongest protection.

14. B — Percent complete is  $\$90,000 \div \$240,000 = 37.5\%$ , so recognized revenue is  $0.375 \times \$300,000 = \$112,500$ . Percentage-of-completion ties revenue to costs incurred. This matches income to the work performed.
15. D — Extra work requires documentation, so the contractor should obtain a signed change order before performing it. Verbal direction and quiet billing leave no enforceable claim. The change order secures payment for the added scope.
16. D — A fatality must be reported to OSHA within 8 hours and an in-patient hospitalization within 24 hours. The death carries the shorter window. Knowing both deadlines ensures timely, lawful reporting.
17. A — On a fixed-price contract the price is fixed, so the contractor absorbs cost overruns when scope is unchanged. The owner pays the set price regardless. Accurate estimating is the safeguard against the loss.
18. D — A bond is a guarantee, so after paying a valid claim the surety seeks full reimbursement from the contractor, the principal. The owner and board do not repay it. The contractor remains financially responsible for the default.
19. B — A unit-price contract fits unknown quantities because payment adjusts to the units actually removed. The total tracks the real work performed. This protects both parties when quantities cannot be fixed at bid time.
20. A — A profitable but cash-short contractor faces a cash-flow timing problem, best remedied by billing progress payments and managing retainage. Raising markup does not fix timing. Aligning cash with costs keeps the business solvent.
21. C — A clause requiring the sub to cover losses it causes is an indemnification clause, which shifts those losses to the sub. It does not set schedule or penalties. Understanding it shows who bears which risk.
22. D — Owner's equity equals assets minus liabilities:  $\$620,000 - \$395,000 = \$225,000$ . The accounting equation always holds. Solving for equity confirms the figure.
23. B — At-will termination for poor output is lawful unless the real reason is illegally discriminatory. No notice or documented cause is required in an at-will state. Anti-discrimination law is the key boundary.
24. C — Lead time drives the schedule, so the soundest action is to identify and order long-lead equipment early in planning, with submittal time built in. Waiting leaves the project idle awaiting delivery. Early ordering keeps work flowing.
25. C — A Safety Data Sheet, kept accessible under the Hazard Communication Standard, provides the handling and first-aid data a worker needs. The 300 log and bid documents do not contain it. The SDS exists precisely for this purpose.
26. B — Markup on cost is profit divided by cost:  $\$2,500 \div \$10,000 = 25\%$ . Markup uses cost as the base, unlike margin. The 25% markup corresponds to a 20% margin.
27. B — Ending a well-performed contract under a permitting clause is termination for convenience, entitling the contractor to payment for work performed and certain costs. It does not depend on fault. The contractor is compensated despite no breach.
28. D — A court may bar an unlicensed contractor from collecting for the regulated work. Unlicensed work forfeits legal remedies and invites penalties. This is a strong reason never to work unlicensed.
29. C — The 6-day slip on the critical path delays the finish by 6 days, while the non-critical task's 5-day slip is absorbed by its 8 days of float. Only critical-path delays move the finish date. The net delay is 6 days.

30. C — Ten percent of \$180,000 is \$18,000 withheld until satisfactory completion. Retainage holds back a percentage to ensure the work is finished and corrected. The contractor receives it once the project is complete.
31. D — A written contract with clear scope and terms most reduces payment disputes, because most arise from undefined expectations. Liens and demand letters only react after a dispute. Defining terms up front prevents conflict.
32. B — A worker crushed by collapsing trench walls falls under the caught-in/between Focus Four hazard, and the failure was the absence of a protective system. Falls, struck-by, and electrocution are separate categories. Trench protection prevents this fatality.
33. B — An implied warranty of workmanlike performance arises by operation of law and protects the owner even without a written quality promise. Express warranties depend on a stated commitment. The implied warranty protects owners by default.
34. D — Carrying workers' compensation insurance is risk transfer, shifting the financial burden of employee injuries to the insurer. Retention, avoidance, and reduction handle risk differently. Workers' comp is the standard transfer tool for this exposure.
35. A — With all work and punch-list items finished and accepted, the proper action is to make final payment and release retainage, because final completion triggers it. Withholding further or demanding a lien would be improper. This closes out the contract.
36. D — A clause adopting the prime contract's obligations is a flow-down clause, binding the sub to the duties the prime owes the owner. It pushes those duties down the chain. This keeps the whole project aligned to the owner's requirements.
37. 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 from performing.
38. A — Five percent of \$400,000 is \$20,000, and the bid bond guarantees the bidder will honor its price and enter the contract. It is a percentage of the bid amount. The bond protects the owner against a bidder who backs out.
39. C — At 32 square feet per sheet,  $2,560 \div 32 = 80$  sheets. The count is total area divided by area per sheet. Counting full sheets prevents shortage.
40. C — A properly classified independent contractor paid with no withholding receives a Form 1099-NEC, since no taxes were withheld from a non-employee. Employees instead get a W-2. The form follows from the classification.
41. D — Public contracts go to the lowest responsible and responsive bidder, because the firm must also be qualified and meet the requirements. Price alone does not qualify a bidder. This standard protects the owner from unqualified low bids.
42. D — A profitable firm that cannot pay its bills faces a cash-flow shortfall, so the remedy is to examine cash flow, not just reported profit. Paper profit does not equal cash on hand. Many profitable construction firms fail from poor cash flow.
43. C — An agreement lacking any consideration is void and cannot be enforced by either party, because consideration is an essential element. A voidable contract differs, being valid until canceled. Without consideration, the promise has no legal force.
44. B — A payment bond protects subcontractors and suppliers by guaranteeing they are paid if the contractor does not pay them. A performance bond instead guarantees completion. Each bond serves a distinct party and purpose.

45. C — Unconditional waivers release lien rights at once, so a sub signing one before payment clears may lose those rights even if the payment fails. Conditional waivers take effect only once payment is confirmed. Waiting for cleared funds protects the claimant.
46. C — Eliminating the hazard at its source is the most effective control, because removal outranks PPE, signage, and rotation in the hierarchy. The lower measures rely on the hazard remaining present. Removal is always the strongest option.
47. B — Gross profit is revenue minus direct costs:  $\$260,000 - \$182,000 = \$78,000$ . It precedes overhead and other deductions. Gross profit measures the job's own contribution.
48. C — Verifying the sub's license and obtaining a certificate of insurance best protects the general before work begins, guarding against an unqualified or uninsured sub. Advances and verbal assurances leave the general exposed. Documentation manages the risk.
49. A — With every punch-list item finished and accepted, the milestone is final completion, which triggers release of the remaining retainage. Substantial completion comes earlier, with minor items outstanding. Final completion closes the project and the payment obligations.
50. A — A bid error caught before award allows the contractor to give the owner prompt notice, which may permit withdrawal. Performing at the wrong price or inflating later invoices is unsound. Prompt honesty preserves the contractor's standing and may avoid the loss.