PrepPass CSLB Law & Business Study Guide — 2026 Edition

The source-verified knowledge base behind the California Contractor State License Board Law & Business examination.

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- **Verify before you rely.** California contractor law changes frequently — dollar thresholds, bond amounts, fees, and deadlines are amended by the Legislature and by regulation. Every figure in this book was checked against the official source at the time of writing (see "How this book is sourced and verified"), but you must **confirm the current law yourself** at leginfo.legislature.ca.gov and cslb.ca.gov before making any business, legal, or exam-preparation decision.
- **No copied exam content.** This book contains **no real, recalled, or reconstructed CSLB exam questions.** All practice questions are original, written from the official content outline to teach the underlying knowledge.
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Currency note as of this edition: the minor-work license threshold is **$1,000** (B&P §7048), the contractor's bond is **$25,000** (§7071.6), and the no-employee workers'-compensation exemption is **phasing out** —

already gone for several classifications and ending for all by **January 1, 2028** (SB 216 as amended by SB 1455). If a study aid still shows $500, a $15,000 bond, or a blanket "all contractors need workers' comp as of 2026," it is out of date.

About PrepPass

PrepPass is a free, multilingual (English · 中文 · Español · Tiếng Việt) practice-test and study-guide project for U.S. professional licensing and certification exams. We publish free practice questions, timed mock exams, and topic study guides so that anyone — regardless of budget or first language — can prepare for the license that changes their career.

Everything in this book has a companion online: free CSLB practice questions, a timed mock exam, and this study guide, all at **PrepPass.org** (search "PrepPass.org" — with two P's).

How this book is sourced and verified

Most exam-prep material is written from memory or copied from older guides, which is exactly how stale figures spread. We built this book the opposite way:

1. **Official sources first.** Every topic is traced to a public, authoritative source — the California Business & Professions Code, the California Code of Regulations, the Labor, Civil, and Public Contract Codes, and the CSLB's own Law & Business study guide — recorded in a source index with the version and the date we verified it.
2. **A structured knowledge base, not a question pile.** The exam's official content outline was broken into a knowledge graph of individual, cited concepts. The chapters and the practice questions are both written from that verified base.

3. **Live fact-checking against the statute.** Every recently-changed figure and a sample of citations were checked against the *live* text on leginfo — not from memory. This is how we caught, for example, that the workers'-comp "all classifications" mandate was postponed from 2026 to **2028**, and that the minor-work threshold is now **$1,000**, not $500.
4. **Honest gaps.** Where a concept has no specific statute (accounting and estimating math, general business practice), we say so rather than attach a fake citation.

Sources are listed at the end of each chapter and consolidated in the online source index.

How to use this book

- Each chapter maps to one official exam area, and the areas are weighted the way the exam is (see the table of contents). Spend your time in proportion to the weights.
- Watch the **"Key numbers & deadlines"** callout in each chapter — dollar figures and time limits are the most heavily tested and the most commonly gotten wrong from old material.
- After each chapter, do the matching free practice set at PrepPass.org to test recall.

Table of Contents

7. Chapter 7 — Safety Part II — Practice Questions (160)

Chapter 1 — Business Organization and Licensing

CSLB Law & Business Study Book · Section #1 (13% of the exam)

Introduction

Everything else in California contractor law starts here. Before a bond matters, before a contract binds anyone, before a lien can be filed, one question has to be answered: *is this person legally a contractor, and are they licensed to do the work?* Section 1 is where the exam builds that foundation, and roughly one question in eight comes from it.

The material is mostly memorization, which makes it some of the most reliable points on the test — if you learn the current numbers. That is the catch. More figures changed in this section recently than in almost any other, and the changes run directly against what older study guides (and stale memory) say. The minimum job size that triggers a license is now **$1,000**, not the $500 that appears everywhere in outdated material. The contractor's bond is **$25,000**, not $15,000. License fees were rewritten effective January 1, 2026. A candidate who studies the right values here banks easy points; one who trusts old numbers loses them.

This chapter walks through what legally counts as a contractor and who must be licensed, then the license classifications and the limits they impose, the qualifying individual who stands behind every license, the four bonds the license law requires, the choice of business structure, and finally the advertising and consumer-notice rules that tie licensing back to the public. Wherever a dollar figure or deadline appears, it reflects law in force today.

Learning objectives

After working through this chapter you should be able to:

- State the legal **definition of a "contractor"** and explain why it reaches specialty trades, subcontractors, and hourly workers, not just "general contractors" (B&P §§7025–7026).
- Explain that contracting without a required license is a **misdemeanor**, and that an unlicensed contractor generally **cannot sue to collect** and may have to **refund** money already paid (B&P §7028).
- Apply the **minor-work exemption** — no license needed when the whole job is **under $1,000** in combined labor and materials — and know you cannot split a larger job to fit under it (B&P §7048).
- Distinguish the license **classifications**: Class **A** (general engineering), Class **B** (general building), **B-2** (residential remodeling), and **C** specialty trades, including the "two unrelated trades" rule for a B (B&P §§7055–7059).
- Explain how a contractor may lawfully handle work **outside their classification** — subcontract it, or keep it "incidental and supplemental" (B&P §7059).
- Describe the role of the **qualifying individual** (sole owner, RMO, or RME) and the current **bona fide employee / actively engaged** standard: at least **32 hours per week or 80%** of the business's operating hours (B&P §§7068, 7068.1).
- State the four license-law bond amounts: **$25,000** contractor's license bond, **$25,000** qualifier's bond, **$100,000** LLC worker bond, and the LLC's **$1M–$5M** liability insurance (B&P §§7071.6, 7071.9, 7071.6.5, 7071.19).
- Compare the **business structures** — sole proprietor, partnership, corporation, LLC — and know the license is issued to the **entity**.
- Apply the current **advertising rules** and the mandatory **CSLB consumer notice** (B&P §§7027.1, 7027.2, 7030, 7030.5).

Part A — Who is a contractor, and who must be licensed

What legally counts as a "contractor"

The starting definition is deliberately broad. Under California law a **contractor** is anyone who, for others, **builds, alters, repairs, adds to, or improves** a building, road, or other structure — or **who submits a bid** to do so (B&P §§7025, 7026). The breadth is the point. It does not matter whether you are paid a lump sum, an hourly rate, or through a markup on materials; it does not matter whether you call yourself a "general contractor," a "handyman," or a "specialty trade." If the work improves real property and it is done **for someone else**, you are acting as a contractor, and you generally need a license.

Two misconceptions trip candidates here. The first is that only "general contractors" are contractors — in fact specialty trades and subcontractors are equally covered. The second is that being paid **by the hour** rather than by the project somehow takes you outside the definition. It does not; the method of payment is irrelevant.

Why does this matter so much? Because almost every other rule on the exam — licensing, bonds, contracts, liens — only switches on once a person is legally a "contractor." Get the definition wrong and you will mislabel handymen, maintenance workers, and material suppliers all the way through the test.

California example. A homeowner in Bakersfield hires a worker at $45 an hour to reframe and re-tile a bathroom. The worker insists he is "just labor, paid hourly, not a contractor." The law disagrees: he is repairing and improving a structure for another, so he is acting as a contractor and needs the appropriate license, hourly pay notwithstanding.

Covers: cslb-org-1.

The license requirement and unlicensed contracting as a misdemeanor

The core consumer-protection rule of the entire license law is short: you must hold a **valid CSLB license before you contract for, bid on, or perform** work that requires one. Contracting without that license is a **misdemeanor** (B&P §7028), and penalties escalate for repeat offenses and for unlicensed work performed in a **declared disaster area**.

The civil consequence is even more powerful than the criminal one, and the exam leans on it. An unlicensed contractor generally **cannot use the courts to collect payment** for the work — no matter how well the job was done or how clearly the customer agreed to pay. Worse, a customer can sometimes recover **money already paid** to an unlicensed contractor. So the two ideas to hold together are: unlicensed contracting is a crime, *and* it forfeits the right to be paid.

Do not fall for the two traps. It is not true that an unlicensed contractor can still sue "as long as the work was good" — generally they cannot. And a first offense is not merely a fine with no criminal label; it is classified as a misdemeanor.

California example. An unlicensed operator completes a $28,000 deck-and-patio project in Riverside. The homeowner refuses to pay. When the operator sues, the court dismisses the claim: an unlicensed contractor has no standing to collect for work requiring a license — and the homeowner may even be able to recover amounts already paid.

Covers: cslb-org-2.

The minor-work exemption — the $1,000 threshold

Not every small job requires a license. A license is **not required** where the **total contract price for labor and materials combined is less than $1,000**, provided **all** of §7048's conditions are met: the work is genuinely **casual or minor**, it does **not require a building permit**, the person does **not employ others** to perform or assist with the work, and the person does **not hold themselves out as a contractor** (B&P §7048(a),(c)).

Three details decide the exam questions. First, the threshold is measured on the **whole project**, labor **plus** materials — not labor alone. Second, you **cannot split** one larger job into several sub-$1,000 contracts to dodge the requirement; a $3,000 job is a $3,000 job even if written as three papers. Third — and this is the single most important number in the section — the current figure is **$1,000**, raised from the old **$500** that still appears throughout stale study material.

That change is recent and worth pinning down. AB 2622 (Stats. 2024, Ch. 240) raised the threshold from $500 to $1,000 effective January 1, 2025, and AB 1170 (Stats. 2025, Ch. 67) re-enacted §7048 at $1,000 effective January 1, 2026. Any source citing "$500" is out of date. This same $1,000 figure also controls when an **unlicensed person may advertise** (Part F), so it is worth memorizing once and using twice.

California example. A homeowner wants a single fence-repair job done for **$950** total — labor and materials combined. Because the whole job is under $1,000 and the work is minor, no license is required, so long as the worker does not advertise or present themselves as licensed. Bump the same job to **$1,050**, or discover it is really one phase of a larger $3,000 project, and a license is required.

Covers: cslb-org-3.

Part B — License classifications and their limits

The classifications: A, B, B-2, and C specialty

CSLB does not issue one all-purpose license; it issues licenses **by classification**, and you may only contract for and perform work **within**

the classifications you hold (B&P §§7055–7059; Cal. Code Regs. tit. 16, §872).

- **Class A — General Engineering.** Fixed works requiring specialized engineering knowledge: roads, bridges, dams, pipelines, and utilities (§7056).
- **Class B — General Building.** Structures that require **at least two unrelated trades**. The important exception: a B may take a project involving only framing or carpentry on its own. Otherwise the two-unrelated-trades condition is what defines a general building job (§7057).
- **B-2 — Residential Remodeling.** A newer classification tailored to residential remodel work, sitting between the general building license and single-trade specialties.
- **Class C — Specialty.** Single-trade licenses, each limited to its own craft — for example **C-10 electrical**, **C-36 plumbing**, C-20 HVAC (§7058). A specialty contractor works within its trade, not across trades.

The high-yield idea, and a frequent exam target, is the **two-unrelated-trades rule** for a B license, paired with the fact that C classes are **single-trade**. A Class B general building license does **not** license you to take just any single-trade job, and a specialty contractor cannot wander outside its trade simply because the other work happens to be on the same project.

California example. A developer needs a highway on-ramp built — grading, paving, drainage. That is Class **A** general engineering work, not general building. Separately, a company holding only a **C-36 plumbing** license cannot self-perform the electrical rough-in on a remodel just because its crew is already on site; electrical is a different trade requiring a C-10.

Covers: cslb-org-4.

Working outside your classification and subletting work

A contractor will often win a prime contract that includes work outside their own classification. The law provides exactly two compliant ways to handle it (B&P §7059; Cal. Code Regs. tit. 16, §872): **subcontract** the out-of-class portion to an appropriately licensed contractor, or perform it only if it is **incidental and supplemental** to the work of your own classification. What you may **not** do is simply self-perform trades you are not licensed for.

This is why a general building contractor assembles a team of licensed specialty subs rather than doing every trade in-house — and it is the mechanism that keeps a multi-trade project compliant. Watch the two traps: holding a general license does **not** let you self-perform every specialty trade on the job, and "incidental and supplemental" is a **narrow** allowance — it does not authorize a large volume of unrelated-trade work dressed up as incidental.

California example. A Class B general building contractor is building a custom home and the job includes electrical work the company is not classified for. The compliant move is to **subcontract** the electrical to a licensed C-10. Running the wiring with its own unlicensed-for-that-trade crew would violate §7059 — unless the electrical were genuinely minor, incidental, and supplemental to the framing and building work, which a full-house rough-in is not.

Covers: cslb-org-5.

Part C — Qualifying the license: the exam and the qualifying individual

Every license must stand behind a real, examined person. That person is the **qualifying individual**, and understanding the role — plus the anti-sham rules around it — is a reliable source of exam points.

To obtain a license, the qualifying individual must **pass the trade and law examinations** and must be **responsible for supervising** the licensee's construction operations (B&P §§7065, 7068; Cal. Code Regs. tit. 16, §823). Depending on the entity, the qualifier can be:

- a **sole owner** who qualifies their own license;
- a **Responsible Managing Officer (RMO)** — an officer of a corporation;
- a **Responsible Managing Employee (RME)** — a bona fide employee; or
- a qualifying **partner or manager**, depending on the entity form.

The crucial modern rule is that a qualifier **cannot be a "paper" name** who merely lends a license number. An RME in particular must be a **bona fide employee actively engaged** in the business — roughly **at least 32 hours per week, or 80% of the business's total operating hours, whichever is less** (B&P §§7068, 7068.1). This standard was clarified by **AB 830 (Stats. 2021, Ch. 376)**, effective January 1, 2022, and it remains current. A qualifier also cannot freely qualify multiple firms at once except in narrow ownership situations.

The two misconceptions to bury: that a qualifier can lend their license number without real involvement (they cannot), and that one person can qualify many unrelated companies simultaneously (they generally cannot). The "actively engaged / bona fide employee" standard is a classic trap answer.

California example. A newly formed corporation pays an experienced license holder a small monthly fee to list him as its RME, though he never sets foot on a job and works elsewhere full time. This is an unlawful "paper" qualifier: an RME must be a bona fide employee actively engaged at least 32 hours a week or 80% of the firm's operating hours. The arrangement exposes both parties to discipline.

Covers: cslb-org-6.

Part D — The four bonds of the license law

Bond amounts are prime memorization items, and the exam deliberately tests whether candidates can keep **four different bonds** straight — each with a different amount and a different trigger. Learn them as a set.

The contractor's license bond — $25,000

Every active license must maintain a **contractor's license bond**, currently **$25,000**, filed with CSLB (B&P §7071.6). Understand what it is and is not. The bond **protects certain consumers, employees, and subcontractors** from specified violations of the license law — it is **not liability insurance**, and it is **not a fund the contractor can draw on**. When the surety pays a valid claim, the contractor must **reimburse the surety**. That three-party structure (principal, surety, and the protected public) is the difference between a bond and insurance, and it is tested.

The amount changed recently: **SB 607 (Stats. 2021, Ch. 367)** raised it from **$15,000 to $25,000**, effective January 1, 2023. Any material listing "$15,000" is outdated.

California example. A licensed contractor commits a license-law violation that harms a homeowner, who collects $10,000 from the contractor's license bond. That payout is not a benefit to the contractor — the surety now looks to the contractor to **repay** the $10,000, and the contractor must restore the bond to keep the license active.

Covers: cslb-org-7.

The bond of the qualifying individual — $25,000

A **separate** bond of the qualifying individual, currently **$25,000**, is required **unless the qualifier is the proprietor, a general partner, or owns at least 10% of the voting stock (RMO) or membership interest (LLC)** (B&P §7071.9). In other words, a **non-owner or small-stake RMO/RME** triggers the bond, while a qualifier who owns **10% or more is exempt** — the tested line is the **10% ownership stake, not "majority" ownership**. The logic: a qualifier with little ownership has less at risk in the firm's compliance, so the law demands an additional bond. This figure also rose in step with the license bond under SB 607 (from a legacy $12,500) and is **in addition to**, not a replacement for, the contractor's license bond.

Two traps: not every license needs the qualifier's bond — it is triggered only in the specified RMO/ownership situations — and when required, it does not substitute for the main license bond.

Covers: cslb-org-8.

LLC bonds and insurance — $100,000 worker bond and $1M liability

A **limited liability company** applying for a contractor license carries **extra** requirements beyond the standard license bond (B&P §§7065.1, 7071.6.5, 7071.19). It must file a separate **$100,000 LLC employee/worker bond**, which protects the LLC's **workers** for unpaid wages and fringe benefits — not consumers. And it must carry **liability insurance of at least $1,000,000**, scaling upward with the number of LLC members up to a **$5,000,000** maximum. These exist because the LLC form limits the members' personal liability, so the state requires additional financial protection for workers and the public.

The distinct figures matter: the **$100,000** worker bond is not the **$25,000** license bond, and an LLC needs both. And the $100,000 bond protects the LLC's **own workers**, not its customers.

California example. A four-member LLC applies for a Class B license. Beyond the $25,000 license bond every licensee posts, it must file the **$100,000** LLC worker bond and carry at least **$1,000,000** in liability insurance (more as the membership grows). If it later fails to pay wages, its workers can claim against that $100,000 bond.

Covers: cslb-org-9.

Part E — Company organization: choosing a business structure

Sole proprietor, partnership, corporation, LLC

A contracting business can be organized as a **sole proprietorship**, a **general or limited partnership**, a **corporation**, or an **LLC**, and the choice drives personal liability, taxation, and how the license is qualified (B&P §§7065, 7071.6.5).

- A **sole proprietor** has **unlimited personal liability** for business debts but the simplest taxes and setup.
- **Partnerships** spread ownership but, for general partners, also spread personal liability.
- **Corporations** and **LLCs limit owners' personal liability**, but cost more to form, owe annual state **minimum taxes/fees**, and — for LLCs — trigger the extra CSLB **worker bond and liability insurance** covered in Part D.

The rule the exam most wants here: the **license is issued to the specific entity**, not to a person floating between entities. So a sole proprietor who incorporates cannot simply carry the old license into the corporation — changing entity form generally requires a **new or reissued license**. Do not assume a license moves freely between a sole proprietorship and a corporation, and do not assume an LLC and a corporation have identical CSLB requirements; the LLC has extra bond and insurance obligations.

California example. A successful sole proprietor in San Jose incorporates to limit personal liability. He assumes his existing license simply follows him. It does not — the license belonged to the sole proprietorship (the individual), so the new corporation must obtain its own license, with its own qualifier on record.

Covers: cslb-org-10.

License application and renewal fees

CSLB charges statutory fees to apply for and renew a license, and these were **updated by SB 861 (Stats. 2025, Ch. 592), effective January 1, 2026** (B&P §7137). Under current law:

- **Original application** (single classification): **$450** (the statute lets CSLB raise it up to **$563**).
- **Active-license renewal**: **$450** (cap **$563**).
- **Inactive-license renewal**: **$300** (cap **$375**).

Active licenses renew on a **two-year cycle**, not annually. Because the schedule changed recently, older study material quotes lower amounts; use the current figures. Two traps: renewal is **biennial, not annual**, and the fee schedule **did** change recently.

Covers: cslb-org-13.

Part F — Advertising and subcontracting; the consumer notice

Advertising rules and unlicensed-advertising limits

Advertising is where licensing meets the public, and the rules are specific (B&P §§7027.1, 7027.2, 7030.5; Cal. Code Regs. tit. 16, §861). A **licensed** contractor must include their **license number in all advertising** — business cards, truck signage, websites, and printed and online ads alike. Leaving the number off, or advertising for work **outside your classification**, is a violation.

An **unlicensed** person faces a tighter rule. They may advertise **only for work that does not require a license** — that is, minor jobs under the current **$1,000** threshold — and any such ad **must clearly state that the advertiser is not a licensed contractor**. (The unlicensed-advertising ceiling in §7027.2 tracks the §7048 minor-work figure, so it moved from $500 to $1,000 along with it.) The two traps: the license number is **not optional** on small ads or vehicle signage, and an unlicensed person cannot advertise freely just because each job stays small — they must **also disclose** that they are unlicensed.

California example. A licensed contractor runs a Facebook ad for kitchen remodels but omits his license number — a violation, even online. Separately, an unlicensed handyman advertises "small repairs, under $1,000": to be lawful, every such ad must state plainly that he is **not a licensed contractor**, and he must keep each job genuinely under the threshold.

Covers: cslb-org-11.

The required consumer notice

Finally, contractors must give consumers a **required notice** stating that the contractor is **licensed and regulated by CSLB**, explaining how to **check a license and file a complaint**, and providing information about the contractor's **bond** (B&P §7030). This disclosure appears in home-improvement and residential contracts, and it exists so consumers can verify licensure and pursue remedies.

It is a **mandated element, not optional boilerplate**. Omitting it is a documentation defect that can undermine a contract's enforceability and expose the contractor to discipline — and a **verbal** assurance of licensure does **not** satisfy the written-notice requirement. This notice is the bridge from Section 1 (licensing) into Section 5 (contracts), where the same §7030 disclosure reappears.

Covers: cslb-org-12.

Key numbers & deadlines

Minor-work exemption (no license required): total job **under $1,000** (labor **and** materials), truly minor, **no building permit required**, the person **employs no one else** to do the work, and does not hold out as a contractor (B&P §7048(a),(c)). **$1,000, not $500** — AB 2622 (eff. 1/1/2025), re-enacted by AB 1170 (eff. 1/1/2026). Cannot split a larger job to fit.

Unlicensed contracting: a **misdemeanor**; the unlicensed contractor generally **cannot sue to collect** and may have to **refund** payments (B&P §7028).

Contractor's license bond: $25,000 (B&P §7071.6). Raised from $15,000 by SB 607, eff. 1/1/2023.

Bond of qualifying individual: $25,000, required in specified RMO/non-owner situations (B&P §7071.9).

LLC worker/employee bond: $100,000 (B&P §7071.6.5). **LLC liability insurance: $1,000,000–$5,000,000**, scaling with membership (B&P §7071.19).

Qualifier / RME standard: bona fide employee **actively engaged ≥ 32 hours/week or 80%** of the business's operating hours, whichever is less (B&P §§7068, 7068.1; AB 830, eff. 1/1/2022).

License fees (SB 861, eff. 1/1/2026): original application **$450** (cap $563); active renewal **$450** (cap $563); inactive renewal **$300** (cap $375) (B&P §7137). Active licenses renew every **2 years**.

Classifications: A = general engineering; **B** = general building (**two unrelated trades**, framing/carpentry excepted); **B-2** = residential remodeling; **C** = single-trade specialty (B&P §§7055–7059).

Advertising: licensees must show the **license number** on all ads; unlicensed persons may advertise only for under-$1,000 work and must state they are **not licensed** (B&P §§7027.1, 7027.2).

Summary

Section 1 lays the groundwork for the whole exam by settling two questions: who is a contractor, and who must be licensed. The **definition** is broad — anyone who builds, alters, repairs, or improves a structure for others, or bids to, regardless of how they are paid (B&P §§7025–7026) — so specialty trades, subcontractors, and hourly workers are all captured. Contracting without a required license is a **misdemeanor**, and the unlicensed contractor generally **cannot collect** and may have to **refund** (B&P §7028). The one exemption is genuinely **minor work under $1,000**, combined labor and materials, with no splitting allowed (B&P §7048) — and $1,000, not the stale $500, is the figure that earns the point.

The rest of the section is structure and numbers. Licenses come in **classifications** — A engineering, B building (two unrelated trades), B-2 residential remodeling, and C single-trade specialties — and a contractor stays inside them, subcontracting out-of-class work or keeping it incidental (§§7055–7059). Every license stands behind an examined **qualifying individual** who must be genuinely, actively engaged (≥32 hrs/week or 80% of operating hours), never a paper name (§§7068, 7068.1). Four **bonds** must be kept apart: the **$25,000** license bond, the **$25,000** qualifier's bond, the **$100,000** LLC worker bond, and the LLC's **$1M–$5M** liability insurance (§§7071.6, 7071.9, 7071.6.5, 7071.19). The **business structure** chosen — sole proprietor, partnership, corporation, or LLC — sets personal liability and tax cost, and the license belongs to the **entity**. Finally, **advertising** must carry the license number (or, for the unlicensed, disclose the lack of one and stay under $1,000), and the mandatory **CSLB consumer notice** (§7030) hands the section off to the contracts material in Section 5.

Key takeaways

- **"Contractor" is broad.** Anyone who builds, alters, repairs, or improves a structure for others — or bids to — is a contractor, whether paid hourly, by the job, or by markup (B&P §§7025–7026).

- **No license = misdemeanor + no pay.** Unlicensed contracting is a crime, the contractor generally **cannot sue to collect**, and may have to **refund** money already paid (B&P §7028).
- **Minor-work exemption is $1,000, not $500.** Under $1,000 total (labor **plus** materials), truly minor, no job-splitting (B&P §7048).
- **Know the classifications.** A = engineering; **B = two unrelated trades** (framing/carpentry excepted); B-2 = residential remodeling; **C = single trade** only (B&P §§7055–7059).
- **Handle out-of-class work correctly.** Subcontract it to a licensed contractor, or keep it **incidental and supplemental** — never self-perform a trade you aren't licensed for (B&P §7059).
- **The qualifier must be real.** An RME must be a **bona fide employee actively engaged ≥32 hrs/week or 80%** of operating hours — no paper qualifiers (B&P §§7068, 7068.1).
- **Four bonds, four amounts:** $25,000 license bond · $25,000 qualifier's bond · $100,000 LLC worker bond · $1M–$5M LLC liability insurance. A bond protects the public and the contractor must **repay the surety** — it is not insurance.
- **The license belongs to the entity.** Changing from sole proprietor to corporation or LLC generally requires a **new or reissued license**; an LLC carries extra bond/insurance obligations (B&P §§7065, 7071.6.5).
- **Current fees (eff. 1/1/2026):** $450 application, $450 active renewal, $300 inactive renewal; active licenses renew every **two years** (B&P §7137).
- **Advertising rules bite.** Licensees show the **license number** on every ad; unlicensed advertisers must disclose they're **not licensed** and stay under $1,000 (B&P §§7027.1, 7027.2). The **CSLB consumer notice** is mandatory, not optional (B&P §7030).

Sources

Official California primary law, cited to the Legislative Information site (leginfo.legislature.ca.gov) and the CSLB Law Book. Statutory figures reflect law in force as of the 2026 edition; recently amended provisions are flagged with their enacting bill and effective date.

- Cal. Bus. & Prof. Code § 7025; § 7026 — definition of "contractor."
- Cal. Bus. & Prof. Code § 7028 — unlicensed contracting as a misdemeanor; bar on suing to collect.
- Cal. Bus. & Prof. Code § 7048 — minor-work / small-operations exemption (under **$1,000**, labor and materials combined; raised from $500 by AB 2622, Stats. 2024, Ch. 240, eff. 1/1/2025, re-enacted by AB 1170, Stats. 2025, Ch. 67, eff. 1/1/2026).
- Cal. Bus. & Prof. Code §§ 7055–7059 — license classifications (A general engineering, B general building, C specialty) and the rule limiting and subletting work outside a classification (§7059).
- Cal. Bus. & Prof. Code § 7065; § 7065.1 — issuance of licenses by entity; LLC licensure requirements.
- Cal. Bus. & Prof. Code § 7068; § 7068.1 — the qualifying individual (RMO/RME); bona fide employee "actively engaged" standard (≥32 hrs/week or 80% of operating hours) (AB 830, Stats. 2021, Ch. 376, eff. 1/1/2022).
- Cal. Bus. & Prof. Code § 7071.6 — contractor's license bond (**$25,000**; raised from $15,000 by SB 607, Stats. 2021, Ch. 367, eff. 1/1/2023).
- Cal. Bus. & Prof. Code § 7071.9 — bond of the qualifying individual (**$25,000**).
- Cal. Bus. & Prof. Code § 7071.6.5 — LLC employee/worker bond (**$100,000**).
- Cal. Bus. & Prof. Code § 7071.19 — LLC liability insurance (**$1,000,000–$5,000,000**, scaling with membership).
- Cal. Bus. & Prof. Code § 7137 — license application and renewal fees (original $450 / cap $563; active renewal $450 / cap $563; inactive renewal $300 / cap $375; amended by SB 861, Stats. 2025, Ch. 592, eff. 1/1/2026).

- Cal. Bus. & Prof. Code § 7027.1; § 7027.2; § 7030.5 — advertising must include the license number; limits and disclosure for unlicensed advertising (ceiling tracks the §7048 $1,000 figure).
- Cal. Bus. & Prof. Code § 7030 — mandatory consumer notice (CSLB regulation, license/bond, and complaint information).
- Cal. Code Regs. tit. 16, § 823 — qualifier (RMO/RME) duties and written statement of responsibility.
- Cal. Code Regs. tit. 16, § 861 — advertising regulations.
- Cal. Code Regs. tit. 16, § 872 — classification descriptions and limitations.
- CSLB, *California Contractors License Law & Reference Book* (2026 ed.) — reprints B&P Code Chapter 9 and CSLB regulations (CCR Title 16, Div. 8) with commentary.
- CSLB, *Law and Business Study Guide* — official exam content outline (Section 1: Business Organization and Licensing; subtopics: company organization, licensing requirements, advertising and subcontracting).

The business-structure comparison in Part E (sole proprietor, partnership, corporation, LLC) draws on the Corporations Code and general entity-tax principles as background; the CSLB-specific consequences — that the license is issued to the entity and that an LLC carries extra bond and insurance obligations — rest on the B&P Code sections cited above.

Chapter 2 — Business Finances

CSLB Law & Business Study Book · Section #2 (15% of the exam)

Introduction

About one exam question in seven comes from Business Finances, and it is the section where purely conceptual studying fails. The material blends two very different demands: memorized tax rules — who deposits what, and when — and live arithmetic you have to set up correctly with the calculator the exam provides. Candidates who read the words but never work the numbers reliably underperform here.

That is the section's reputation, and it is deserved. The blueprint rates Business Finances **High** difficulty even though it is only the fourth-largest slice of the exam, because the questions punish two specific weaknesses: confusing **markup with margin**, and **mis-classifying a cost** — dropping office or sales-vehicle depreciation into direct job cost, for instance. Both are traps the official study guide builds sample questions around.

A word on how to read this chapter. Much of Business Finances is ordinary accounting and estimating — markup, margin, break-even, working capital, cash flow, financial statements. These are **business concepts, not California law**; there is no code section behind "a 20% markup is not a 20% margin," and this chapter presents that material as professional practice, not statute. Where the section *does* touch law — payroll-tax deposits, sales and use tax, the state franchise tax, PACE financing — real citations exist, and this chapter uses them. The line between "practice" and "law" is drawn deliberately throughout, because on a Your-Money-or-Your-Life topic it matters that you know which is which.

Learning objectives

After working through this chapter you should be able to:

- Distinguish **markup from margin**, convert between them, and price a job to hit a **target margin** rather than under-earning by treating a markup number as a margin.
- Classify a cost correctly as **direct (job) cost, overhead, or general and administrative (G&A)** — and know why sales-vehicle or office depreciation belongs in G&A.
- Compute a **break-even** point from fixed costs and contribution margin, and separate **fixed from variable** costs.
- Read the two core financial statements — the **balance sheet** (a snapshot) and the **income statement** (a period) — and state the **accounting equation**.
- Calculate the **current ratio, quick ratio, and working capital**, and explain what each says about a contractor's ability to pay bills and obtain bonding.
- Explain **cash management** and how **over-billing and under-billing** affect cash even on a profitable job.
- Identify who pays each payroll tax — **FICA, FUTA, and the four California EDD taxes (UI, ETT, SDI, PIT)** — and how the **federal deposit schedule** is set by the lookback period, not by headcount.
- Describe **California sales and use tax** on materials (the "contractor as consumer" rule), the **$800 minimum** franchise/LLC tax, **depreciation**, and the special duties that attach to arranging **PACE financing**.

Part A — Estimating and pricing: the math that pays

Markup versus margin — the single most-tested trap

Start here, because more candidates lose points to this one confusion than to any other idea in the section. **Markup and margin are not the same number.** Markup is profit expressed as a percentage of **cost** — it is added *on top of* cost. Margin is profit expressed as a percentage of the **selling price**. The two use **different denominators**, so the same dollar of profit produces a *larger* markup percentage than margin percentage. This is a cost-accounting concept with **no California code section** — it is business practice, and the exam tests whether you understand the arithmetic, not a statute.

Work it once and the pattern sticks. Suppose a job costs the contractor **$10,000** and the contractor applies a **20% markup**:

- Price = $10,000 + (20% × $10,000) = **$12,000**. Profit is $2,000.
- The **margin** on that job is $2,000 ÷ $12,000 = **16.7%** — *not* 20%.

So a 20% markup is only about a 16.7% margin. A contractor who wanted a true 20% margin but marked up 20% just quietly under-earned. To price *to a target margin*, divide cost by (1 – margin):

- To earn a **20% margin** on a $10,000 job, price = $10,000 ÷ (1 – 0.20) = $10,000 ÷ 0.80 = **$12,500**, which is a **25% markup**.
- Check: profit $2,500 ÷ price $12,500 = 20% margin. ✔

The reliable conversion: **margin = markup ÷ (1 + markup)**, and **markup = margin ÷ (1 – margin)**. If you remember nothing else, remember that markup rides on cost and margin rides on price, and that a markup percentage is always the *bigger* of the two.

California example. A San Jose remodeler figures direct costs of $80,000 on a job and wants to clear a 25% profit margin. Marking up 25% would price the job at $100,000 — but that yields only a 20% margin ($20,000 ÷ $100,000). To actually earn 25%, the contractor must price at $80,000 ÷ 0.75 = **$106,667**, a 33.3% markup. Treating the target margin as if it were a markup would have left roughly $6,667 of intended profit on the table.

Covers: cslb-fin-6.

Classifying costs: direct, overhead, and G&A

You cannot price a job or read a financial statement correctly until every cost is sorted into the right bucket. Three categories matter, and the exam builds a sample question on getting them right:

- **Direct (job) costs** are traceable to a **specific project** — the labor on that job, the materials installed in it, the subcontractors working on it. If you can point to the job the dollar belongs to, it is a direct cost.
- **Overhead (indirect construction cost)** supports jobs **generally** but not any single one — a foreman covering several projects at once, or a piece of equipment shared across jobs.
- **General and administrative (G&A) costs** run the **company** whether or not any job is underway — office rent, office staff salaries, and the **depreciation on the office computer or the sales vehicle**.

The tested trap is precise: **depreciation on a sales vehicle or office equipment is G&A, not a direct job cost.** Dump it into direct cost and you distort the price of every bid and misread profitability. Overhead and G&A are also *not* interchangeable — one is indirect *construction* cost that supports field work, the other is the cost of simply keeping the doors open. This is a construction cost-accounting concept, **not a code section**.

California example. A Bakersfield contractor's estimator loads the annual depreciation on the owner's pickup — used for sales calls and estimating, never assigned to one job — into the direct-cost column of a bid. The bid now looks more expensive than the work actually is, and the company's job-cost reports overstate what each project costs to build. That truck's depreciation belongs in **G&A**, recovered through markup spread across all work, not charged to a single customer.

Covers: cslb-fin-8.

Depreciation

Depreciation spreads the cost of a long-lived asset — a truck, a backhoe — across the **years it is used**, instead of expensing the whole purchase at once. The **straight-line** method charges an equal amount each year; **accelerated** methods front-load the expense into the early years. Two features matter for the exam. First, depreciation is a **non-cash expense**: it lowers reported (and taxable) income without any cash leaving the bank that year — the cash left when the asset was bought. Second, depreciation must be **classified to the correct cost category** — often **G&A** for an office or sales asset, per the rule above. This is an accounting and tax concept with **no California code section**.

Straight-line is easy to compute: **(cost − salvage value) ÷ useful life**. A **$60,000** truck with a **$10,000** salvage value and a **5-year** life depreciates ($60,000 − $10,000) ÷ 5 = **$10,000 per year**. That $10,000 reduces taxable income annually, but no cash moves — which is exactly why a profitable, depreciating company can still show plenty of cash, and why depreciation is added back when you analyze cash flow.

Covers: cslb-fin-13.

Break-even analysis

The **break-even point** is the sales volume at which **total revenue equals total cost**, so profit is exactly zero. Below it the business loses money; above it, each additional dollar of sales contributes to profit. You find it by dividing **fixed costs by the contribution margin** — where contribution margin is selling price minus variable cost, expressed per unit or as a ratio of revenue. A prerequisite is telling **fixed** costs (rent, salaried office staff, insurance — they do not move with volume) from **variable** costs (job labor and materials that rise and fall with the work). This is a managerial-accounting concept with **no California code section**.

Put numbers on it. Suppose a contractor's **fixed annual overhead (G&A) is $120,000**, and on the work it performs, **variable (direct)**

costs run 70% of revenue — leaving a **30% contribution margin**. Break-even revenue = $120,000 ÷ 0.30 = **$400,000**. The company must book $400,000 of work just to cover its overhead; the first dollar of profit comes only after that.

- Check: $400,000 revenue – $280,000 variable cost (70%) = $120,000 contribution – $120,000 fixed cost = **$0 profit**. ✔

Two misconceptions to bury: break-even is where revenue equals **total cost**, not where "revenue equals profit"; and **not all overhead is variable** — much of it (rent, administrative salaries) is fixed and must be covered before you earn a cent.

Covers: cslb-fin-7.

Budgeting and planning

A **budget** is a **forward-looking plan** — an estimate of revenue and expenses that lets the contractor set prices, control spending, and anticipate when cash will be tight. It is not a rear-view record of what was already spent; that is a mistaken but common view. Good planning **separates fixed from variable costs**, deliberately **builds overhead recovery and profit into the markup**, and then **compares actual results against the plan** so overruns surface early, while there is still time to react. Budgets feed straight into the two calculations above: the markup needed to hit a target margin, and the break-even volume the company must reach. This is a business-planning concept with **no California code section**.

One idea the exam rewards: **overhead must be spread across all work**, not recovered from a single large job. A contractor who assumes "the big job will carry the office" and bids small jobs at bare cost will fail to recover overhead on most of the year's volume. Every job should carry its share.

Covers: cslb-fin-12.

Part B — Financial reporting: reading the numbers

The two core financial statements

Two reports tell **different stories**, and the exam tests which is which. The **balance sheet** is a **snapshot at a single point in time** — it lists **assets, liabilities, and owner's equity** as of a given date. It is governed by the **accounting equation: Assets = Liabilities + Equity** (equity, not "liabilities minus equity"). The **income statement** — also called the **profit-and-loss (P&L) statement** — covers a **period of time** (a month, a quarter, a year) and shows **revenue minus expenses** to arrive at **net profit or loss**. These are GAAP financial-reporting concepts with **no California code section**.

The distinction is more than bookkeeping trivia: **sureties and lenders read both statements** to decide how much bonding capacity or credit to extend. A balance sheet that shows healthy equity and a P&L that shows consistent profit is what unlocks a larger bonding line.

California example. A contractor applying for a $2 million bonding line hands the surety a balance sheet dated December 31 — assets of $500,000, liabilities of $300,000, and therefore **$200,000 of equity** ($500,000 – $300,000) — plus a P&L for the year showing $1.8 million of revenue and $150,000 of net profit. The snapshot proves what the company *is worth today*; the P&L proves what it *earned over the year*. The surety needs both.

Covers: cslb-fin-9.

Liquidity: current ratio, quick ratio, and working capital

Liquidity measures answer one question: **can the business pay its near-term bills?** Three figures do the work, all drawn from **current assets** (cash and things convertible to cash within a year) and **current liabilities** (bills due within a year). These are standard financial-ratio concepts — **no California code section** — and they show up as calculator problems.

- **Current ratio = current assets ÷ current liabilities.** A ratio of 2.0 means two dollars of current assets for every dollar of current bills.
- **Quick (acid-test) ratio** = the same idea but **excluding inventory**, using only the most liquid assets. It is deliberately stricter because inventory may not convert to cash quickly.
- **Working capital = current assets − current liabilities**, as a **dollar amount** — not a ratio.

Run one set of numbers. A contractor has **current assets of $200,000** (of which **$40,000 is inventory**) and **current liabilities of $100,000**:

- Current ratio = $200,000 ÷ $100,000 = **2.0**
- Quick ratio = ($200,000 − $40,000) ÷ $100,000 = $160,000 ÷ $100,000 = **1.6**
- Working capital = $200,000 − $100,000 = **$100,000**

Higher values generally signal a stronger ability to meet short-term obligations, which — like the statements above — **affects bonding capacity**. Two misconceptions the exam probes: the **quick ratio excludes inventory** (it does not include it), and **working capital is a dollar figure, not a ratio**.

Covers: cslb-fin-10.

Recordkeeping and the cash-versus-accrual distinction

Contractors must keep **organized books** — job-cost records, ledgers, payroll records, and tax filings — both to run the business and to satisfy **tax and bonding** requirements. Job-cost records are **not optional** just because taxes get filed; they are how a contractor knows whether each job actually made money. This is an accounting-methods concept with **no California code section**.

The tested distinction is **cash versus accrual** accounting. **Cash-basis** accounting records revenue and expenses **when money changes hands**. **Accrual-basis** accounting records revenue **when it is earned** and expenses **when they are incurred**, regardless of when cash moves — which does a far better job of **matching costs to the jobs that generated them**. The key point: the two methods **do not report the same profit in a given period**, because timing differs. Accrual generally gives the truer picture of a construction company's performance, which is why sureties prefer it.

Covers: cslb-fin-15.

Part C — Cash management

Keeping cash on hand — and why a profitable job can still fail

Cash management is the discipline of keeping **enough cash on hand** to pay workers, suppliers, and taxes **on time**. The counterintuitive truth the exam wants you to internalize: **a profitable job can still run a company out of cash.** Profit is earned over the life of a job, but cash comes in on the owner's payment schedule and goes out on payroll and supplier terms — and if the outflows lead the inflows, even a job that will ultimately profit can trigger a cash crisis that sinks the business. Timing, not just profitability, decides survival. This is a construction financial-management concept with **no California code section**.

Over-billing and under-billing

On **progress-billed** jobs, the billing rarely lines up exactly with the work in place, and the exam tests both directions:

- **Over-billing** means you have **billed more than the value of the work completed** to date. It brings in cash early, but that cash represents **work not yet earned** — it is effectively a **liability**, and it

can **mask trouble** on a job (the money looks fine while the work falls behind). On a **consumer home improvement contract**, billing ahead of the work is not just a cash tactic — it can **violate B&P §7159.5**, which bars payments exceeding the value of work performed (see Chapter 5). Over-billing is therefore never simply "good."
- **Under-billing** means you have **completed more work than you have billed for**. You are effectively **financing the owner** with your own cash, and even a profitable job can leave you short.

The corrective discipline is to **track billings against cost-to-date and percent complete**, so the money collected stays lined up with the value actually installed. This links Business Finances directly to the progress-payment and retention rules in the Contracts section.

Covers: cslb-fin-11.

Part D — Taxes

This is the part of Business Finances with real legal citations. Where a rule below rests on the Internal Revenue Code, the California Revenue & Taxation Code, or the Unemployment Insurance Code, treat it as **law**; the estimating math in Parts A–C is practice.

Federal payroll-tax deposits and the lookback period

Every employer must **deposit** — with the IRS — the federal **income tax withheld** from employees plus **both shares of Social Security and Medicare (FICA)**. The trap the CSLB guide builds a sample question around is *how often* you must deposit: the schedule is **monthly or semiweekly, set by the total tax reported during a prior "lookback" period — not by how many employees you have** (IRS Publication 15, *Circular E*; Internal Revenue Code).

The standard figures, stable from the federal rules:

- If your reported employment tax in the lookback period was **$50,000 or less**, you are a **monthly** depositor; **more than $50,000** makes you a **semiweekly** depositor.
- A very large single-day liability — **$100,000 or more accumulated** — triggers a **next-business-day** deposit regardless of your normal schedule.
- If your total quarterly liability is **under $2,500**, you may generally **pay it with the return** rather than deposit separately.

The misconceptions the exam targets: that deposit frequency depends on **headcount** (it depends on the **dollar amount** of accumulated liability), and that **federal and California deposits follow the same schedule** (they do not — the state has its own EDD schedule).

California example. A Riverside contractor with three employees assumes "we're small, so we deposit monthly." But the frequency turns on the lookback dollar amount, not the three workers — and a single large bonus run that pushes accumulated liability to $100,000 in a day would force a **next-business-day** deposit no matter how few employees are on the payroll.

Covers: cslb-fin-1.

FICA and FUTA — who pays what

The core concept is **who bears each tax**: matched, employer-only, or employee-only.

- **FICA** funds **Social Security and Medicare**. The employer **withholds the employee's share** from wages **and pays a matching employer share**. Social Security is taxed at **6.2%** on each side (employer and employee) **up to an annual wage base** that the IRS adjusts each year; **Medicare is 1.45%** on each side with **no wage cap** (a small additional Medicare tax applies to high earners and is withheld from the employee only).
- **FUTA** — federal **unemployment** tax — is **paid by the employer only** and is **never withheld from the employee's pay**.

Two misconceptions the exam probes directly: that **FUTA comes out of the worker's check** (it does not — employer only), and that **Medicare stops at the same wage base as Social Security** (it does not — Medicare has no cap). Source: IRS Publication 15 (*Circular E*).

For payroll-cost estimating, the matching matters. On a worker earning **$5,000** in a month (below the Social Security wage base), the **employer's FICA match** is $5,000 × 6.2% ($310 Social Security) + $5,000 × 1.45% ($72.50 Medicare) = **$382.50** — a real cost on top of the wage, before FUTA and the state taxes below. Labor "costs" more than the wage rate, and a bid must carry that burden.

Covers: cslb-fin-2.

California payroll taxes: UI, ETT, SDI, PIT

California layers **four** state payroll taxes on top of the federal ones, all administered by the **Employment Development Department (EDD)** and explained in the *California Employer's Guide (DE 44)*. The tested point is which are **employer-paid** and which are **withheld from the employee**:

- **Unemployment Insurance (UI)** — **employer-paid** (Cal. Unemployment Insurance Code §976).
- **Employment Training Tax (ETT)** — **employer-paid** (Cal. Unemployment Insurance Code §976.6 / §984 framework).
- **State Disability Insurance (SDI)** — **withheld from the employee** (Cal. Unemployment Insurance Code §984).
- **Personal Income Tax (PIT) withholding** — **withheld from the employee** and remitted by the employer (Cal. Unemployment Insurance Code §13020).

Two misconceptions to correct: that **SDI or ETT are federal** taxes (they are **California** state taxes, separate from and additional to the federal deposits), and that **the employer pays SDI** (it is **withheld from the employee** — the employer's California payroll taxes are UI and ETT). A clean way to remember it: **employer pays UI and ETT; the employee's check funds SDI and PIT.**

Covers: cslb-fin-3.

Sales and use tax on materials

California imposes **sales and use tax** on the sale and use of **tangible materials** (Cal. Rev. & Tax. Code §6001 et seq.). For most construction work, a special rule applies: the **contractor is treated as the consumer of the materials** it furnishes and installs. That means the contractor generally **pays sales tax on the cost of the materials** — to its supplier — rather than charging the customer sales tax on the installed price of the finished work. (Certain items classified as **fixtures** are treated differently, with the contractor acting more like a retailer; this is the nuance the exam hints at but rarely drills.) **Use tax** fills the gap when materials are bought **out of state** without California tax paid — so buying across the state line does not escape the tax.

The misconceptions: that a contractor **always charges the customer sales tax on the full installed price** (usually it does not — it paid the tax on the materials as the consumer), and that **out-of-state purchases avoid California tax** (use tax captures them). For estimating, the lesson is to **build the materials tax into the bid as a cost**, since the contractor — not the customer — typically bears it.

Covers: cslb-fin-4.

State income and franchise tax — the $800 minimum

California taxes **business income**, and **how** depends on the **entity form**. **Sole proprietors and partners** report business income on their **personal** returns. **Corporations and LLCs** face **entity-level** taxes administered by the **Franchise Tax Board (FTB)** (Cal. Rev. & Tax. Code §17000 et seq. and §23000 et seq.):

- A **corporation** owes an **$800 minimum franchise tax** — even in a year with **no profit** (corporations are generally exempt from the minimum only in their **first** taxable year; confirm current FTB guidance).
- An **LLC** owes an **$800 annual tax plus** an **income-based LLC fee** once gross receipts exceed set thresholds. (The temporary first-year $800 exemption for LLCs applied only to 2021–2023 under AB 85 and has **expired** — an LLC formed in 2024 or later owes the $800 in its first year. Corporations remain first-year-exempt from the $800 minimum.)

The tested misconceptions: that an **LLC owes only the $800** (it also owes the **income-based fee** above certain revenue), and that a **corporation with no profit owes no state tax** (the **$800 minimum** still applies). The practical takeaway for the budgeting subtopic: **choosing an entity carries a recurring annual tax cost**, and the $800 floor is the figure to remember. Sources: FTB *Limited Liability Company* and *Corporations* guidance.

Covers: cslb-fin-5.

Part E — PACE financing

PACE (Property Assessed Clean Energy) lets a property owner **finance** energy- or water-efficiency and certain resilience improvements and **repay through an assessment on the property-tax bill** — not through an ordinary bank loan. Because the CSLB study guide expressly names PACE, it is fair game, and it sits at the intersection of Business Finances and consumer protection.

The exam-relevant point is that a contractor who **solicits or arranges PACE-financed work acts as a PACE solicitor** and takes on **strict duties**: **assessing the owner's ability to repay**, delivering **required disclosures**, and complying with **home-improvement contract rules** (Cal. Financial Code §22000 et seq. and §22680 et seq.;

Cal. Streets & Highways Code §5898.20 et seq.; and B&P §7159, the home-improvement contract statute from Chapter 5). Misusing PACE — **pressuring seniors** or **misrepresenting terms** — carries serious liability.

Two misconceptions the exam can probe: that **PACE is just a bank loan** (it is repaid as a **property-tax assessment tied to the property**, and can transfer with the property), and that a contractor **arranging PACE has no special duties** (it has **suitability and disclosure obligations** beyond an ordinary job).

Covers: cslb-fin-14.

Key numbers & deadlines

Markup vs. margin: markup rides on **cost**, margin rides on **price**. **margin = markup ÷ (1 + markup)**; **markup = margin ÷ (1 − margin)**. A **20% markup ≈ 16.7% margin**; to earn a **20% margin**, mark up **25%** (price = cost ÷ 0.80). *(Business concept — no code section.)*

Break-even: fixed costs ÷ contribution-margin ratio. $120,000 fixed ÷ 30% = **$400,000** of revenue to break even. *(No code section.)*

Liquidity: current ratio = current assets ÷ current liabilities; **quick ratio** excludes **inventory**; **working capital = current assets − current liabilities** (a **dollar amount**, not a ratio). *(No code section.)*

Financial statements: balance sheet = snapshot, **Assets = Liabilities + Equity**; **income statement (P&L)** = performance over a **period**. *(GAAP — no code section.)*

Depreciation (straight-line): (cost − salvage) ÷ useful life; a **non-cash** expense; classify office/sales assets to **G&A**. *(No code section.)*

Cost buckets: Direct (traceable to one job) · **Overhead** (indirect construction cost across jobs) · **G&A** (runs the company — office rent, sales-vehicle depreciation). *(No code section.)*

Federal payroll deposits: schedule set by the **lookback period, not headcount — ≤ $50,000 → monthly**, **> $50,000 → semiweekly**; **$100,000** one-day rule → **next business day**; **< $2,500/quarter** may pay with the return (IRS Pub. 15).

FICA: Social Security **6.2%** each side (to an annual wage base), Medicare **1.45%** each side (**no cap**), employer **matches**. **FUTA = employer only**, never withheld.

California EDD taxes: employer pays UI + ETT; **employee's check funds SDI + PIT** (Unemp. Ins. Code §§976, 984, 13020; DE 44).

Sales & use tax: contractor is generally the **consumer of materials** and pays tax on **material cost**; **use tax** captures out-of-state purchases (R&T §6001 et seq.).

State entity tax: $800 minimum franchise tax (corporations) / **$800 annual** LLC tax **plus** an income-based **LLC fee** (R&T §17000 / §23000 et seq.; FTB).

PACE: repaid as a **property-tax assessment**; solicitor owes **ability-to-pay, disclosure, and §7159** duties (Fin. Code §22000 / §22680 et seq.; Sts. & Hy. §5898.20 et seq.; B&P §7159).

Summary

Business Finances is only 15% of the exam but rated **High** difficulty, because it demands two skills at once: setting up **arithmetic** correctly and recalling **tax rules** precisely. The math half is business practice, not law. The single most important idea is that **markup and margin are different** — markup rides on cost, margin on price, so a 20% markup is only about a 16.7% margin, and pricing to a target margin means dividing cost by (1 – margin). Close behind is **cost classification**: direct job costs, indirect construction overhead, and company-wide G&A are three separate buckets, and sales-vehicle or office depreciation belongs in G&A. From those two foundations flow **break-even**, **budgeting**, the **financial statements** (balance-sheet snapshot vs. income-statement period, with Assets = Liabilities + Equity), the **liquidity measures** (current ratio, quick ratio excluding inventory, and working capital as a dollar figure), and **cash management** — where the hard lesson is that even a profitable job can run out of cash, and that over-billing can violate §7159.5 on consumer work.

The tax half is where real citations live. **Federal payroll deposits** run on a schedule set by the **lookback dollar amount, not headcount**; **FICA** is matched by the employer while **FUTA** is employer-only; and California adds **four EDD taxes** — employer-paid **UI and ETT**, employee-withheld **SDI and PIT**. Materials generally carry **sales or use tax with the contractor as consumer**, corporations and LLCs owe the **$800 minimum**, and arranging **PACE** financing pulls the contractor into home-improvement disclosure and suitability duties. Learn the math cold and keep the who-pays-what tax map straight, and this section turns from a trap into reliable points.

Key takeaways

- **Markup ≠ margin.** Markup is a percent of **cost**; margin is a percent of **price**. A 20% markup is ~16.7% margin; to earn a 20% margin, mark up 25% (price = cost ÷ 0.80).
- **Sort costs into three buckets.** Direct (one job), overhead (across jobs), and G&A (whole company) — and **sales-vehicle/office depreciation is G&A**, never direct cost.
- **Break-even = fixed costs ÷ contribution margin.** It is where revenue equals **total cost**, and not all overhead is variable.
- **Two statements, two stories.** Balance sheet = snapshot with **Assets = Liabilities + Equity**; income statement = profit over a **period**.
- **Know the liquidity three.** Current ratio (CA ÷ CL); quick ratio **excludes inventory**; working capital is a **dollar amount** (CA – CL).
- **Cash ≠ profit.** A profitable job can still fail on timing; **over-billing** can violate §7159.5 on consumer work, and **under-billing** finances the owner.
- **Federal deposit frequency keys off the lookback dollar amount, not employee count** (≤ $50,000 monthly, > $50,000 semiweekly; $100,000 next-day rule).
- **FICA is matched; FUTA is employer-only.** Social Security 6.2% each to a wage base; Medicare 1.45% each with no cap.
- **California adds four EDD taxes:** employer pays **UI + ETT**; the employee's check funds **SDI + PIT**.
- **Contractor is usually the consumer of materials** (pays sales/use tax on material cost), and corporations/LLCs owe the **$800 minimum** state tax.

- **PACE is a property-tax assessment, not a bank loan**, and the arranging contractor owes ability-to-pay, disclosure, and §7159 duties.

Sources

Estimating, accounting, and financial-reporting topics in this chapter — markup vs. margin, cost classification, depreciation, break-even, budgeting, the financial statements, liquidity ratios, cash management, and over/under-billing — are standard business and construction-management concepts with no single California code section, and are presented as business practice rather than as statutory law. The tax topics below rest on official primary law and agency guidance.

- **IRS Publication 15 (Circular E), Employer's Tax Guide** — federal payroll-tax deposit schedules (monthly vs. semiweekly by lookback period; $100,000 next-day rule), income-tax withholding, and FICA (Social Security 6.2% / Medicare 1.45%) and FUTA (employer-only).
- **Internal Revenue Code** — federal employment-tax obligations underlying Publication 15.
- **Cal. Unemployment Insurance Code § 976; § 984; § 13020** — California EDD payroll taxes: employer-paid UI and ETT; employee-withheld SDI and PIT.
- **EDD, *California Employer's Guide* (DE 44)** — mechanics and current rates for California payroll taxes.
- **Cal. Rev. & Tax. Code § 6001 et seq.** — California sales and use tax; the "contractor as consumer of materials" rule and use tax on out-of-state purchases.
- **Cal. Rev. & Tax. Code § 17000 et seq.; § 23000 et seq.** — California personal and corporate/franchise income tax; the $800 minimum franchise tax and LLC annual tax.
- **FTB, *Limited Liability Company* guidance; FTB, *Corporations* guidance** — $800 minimum tax, the income-based LLC fee, and first-year rules.

- **Cal. Financial Code § 22000 et seq.; § 22680 et seq.** — PACE program administration and PACE solicitor/contractor duties.
- **Cal. Streets & Highways Code § 5898.20 et seq.** — the contractual assessment (PACE) program authority.
- **Cal. Bus. & Prof. Code § 7159** — home-improvement contract statute that PACE-financed home-improvement work must satisfy (see Chapter 5); its § 7159.5 rule that payments may not exceed the value of work performed underlies the over-billing discussion.
- **CSLB, *Law and Business Study Guide*** — official exam content outline (Section 2: Business Finances — cash management, budget and planning, taxes, financial reporting) and the section's sample questions on payroll-deposit frequency and cost classification.

Federal payroll rates (Social Security 6.2%, Medicare 1.45%, the $50,000 lookback and $100,000 one-day thresholds) are the stable figures from IRS Publication 15; the Social Security wage base and California's SDI, UI, and ETT rates are adjusted annually and should be confirmed against the current-year IRS Pub. 15 and EDD DE 44 before relying on a specific dollar figure.

Chapter 3 — Employment Requirements

CSLB Law & Business Study Book · Section #3 (20% of the exam — the second-highest-weight section)

Introduction

One in five questions on the Law & Business exam comes from this section, and there is a reason it carries so much weight: the moment a contractor hires help, an entire body of California employment law switches on. Who counts as an employee, how they must be paid, what you must withhold and remit, how you supervise and train them, and what records you have to keep — all of it is regulated, and much of it is regulated more strictly in California than under federal law.

The section rewards a particular instinct that trips up candidates trained on federal norms or on out-of-state experience: **when California and federal rules disagree, the more protective rule almost always wins, and that rule is usually California's.** Daily overtime, higher minimum wages, mandatory meal and rest breaks, and a worker-classification test that presumes employee status are all places where the California answer is the correct answer even when a federally trained test-taker "knows" otherwise.

One current-law note before we begin, because it is the single most-tested trap in this material. The default test for **employee versus independent contractor** is now the **ABC test** codified at **Labor Code §2775** (from AB 5 in 2019, refined by AB 2257 in 2020). It replaced the older, more flexible *Borello* balancing test. If a question is written as though *Borello*'s multi-factor weighing still decides classification by default, that is the wrong answer. This chapter reflects the ABC test throughout.

Learning objectives

After working through this chapter you should be able to:

- Apply the **ABC test (Lab. Code §2775)** to decide whether a worker is an employee or an independent contractor, and explain why part B so often makes construction trade workers employees.
- State the **consequences of willful misclassification** and explain why a 1099 or a signed "independent contractor" agreement does **not** change a worker's legal status.
- List the federal and state **onboarding steps** for a new hire: **Form I-9** verification, **new-hire reporting** to the EDD, and payroll-tax registration.
- Identify the protected characteristics and the **five-employee threshold** under California's **FEHA**, and the **harassment-prevention training** duty at five or more employees.
- Explain California's **daily overtime** rule (over 8/day and over 12/day) and how it differs from the federal 40-hour-only rule.
- Apply the **meal- and rest-period** rules and the **one-hour premium** for a missed break.
- State the **pay-timing**, **itemized pay-stub**, and **final-pay/waiting-time-penalty** rules.
- Separate what is **withheld from the employee** from what the **employer pays**, and name the **two agencies** (IRS and EDD) that receive payroll taxes.
- Explain the **recordkeeping** and **personnel-file access** duties, and why hiring employees triggers **workers' compensation** as both a legal duty and a bid cost.

Part A — Hiring employees

Employee or independent contractor? The ABC test

This is the most important — and most frequently missed — rule in the section. Under **Labor Code §2775**, California **presumes every worker is an employee**, and a hiring business can rebut that presumption only by proving **all three** parts of the ABC test:

- **(A)** the worker is **free from the hirer's control and direction** in performing the work, both under the contract and in fact;
- **(B)** the work is **outside the usual course** of the hiring business; and
- **(C)** the worker is **customarily engaged in an independently established trade, occupation, or business** of the same nature as the work performed.

All three must be satisfied. Fail any single prong and the worker is an **employee**. This codified the California Supreme Court's *Dynamex* decision and displaced the older *Borello* multi-factor balancing test as the default rule (Lab. Code §2775).

Part **B** is the quiet killer in construction. If a framing contractor hires framers, the work those framers do **is** the usual course of the business — so prong B fails and they are employees, no matter how the paperwork reads.

California example. A licensed framing contractor in Bakersfield brings on three framers, pays them by the piece, issues 1099s, and calls them "independent subs." Because framing is the very trade the company is in, prong B is not met — the workers are **employees** under §2775. The 1099 label is legally irrelevant.

Covers: cslb-emp-1.

What misclassification costs you

Getting classification wrong is not a paperwork foot-fault. Willfully misclassifying an employee as an independent contractor exposes the business to **civil penalties under Labor Code §226.8** on top of back liability for unpaid payroll taxes, unpaid overtime, and missing workers'-

compensation coverage (Lab. Code §§226.8, 2775). Enforcement can arrive from several directions at once — the Labor Commissioner, the EDD, and the workers'-compensation system — because each agency applies the employee presumption independently.

The trap the exam loves: **paperwork does not defeat the test.** Issuing a Form 1099 or having the worker sign an "independent contractor agreement" does nothing if the ABC test makes them an employee. The economic reality controls, not the label.

California example. After an injury on the job, a Riverside contractor's "1099 subcontractor" files a workers'-comp claim. The contractor has no coverage for the worker because he was treated as independent. Because the ABC test makes the worker an employee, the contractor now faces the claim, back payroll taxes, and civil misclassification penalties — the signed agreement is no shield.

Covers: cslb-emp-2.

The hiring process: job descriptions and lawful selection

Sound hiring starts with a **clear, written job description** and **job-related selection criteria**, then moves through required onboarding. Interview questions and hiring decisions must steer clear of protected-characteristic bias (Cal. Gov. Code §12900 et seq.), and the practical onboarding checklist — **I-9** verification, **new-hire reporting**, tax-withholding setup, and safety orientation — should be completed at the start of employment, not weeks later (Federal IRCA — Form I-9). A well-defined role is also the foundation for later evaluation and, if it comes to it, defensible discipline.

California example. A plumbing company writes a one-page job description for a C-36 apprentice listing the physical tasks, licenses, and safety duties, and screens applicants only against those job-related criteria. It avoids questions about age, family plans, or national origin, and completes the I-9 and new-hire paperwork on day one.

Covers: cslb-emp-18.

Form I-9: federal work-authorization verification

Federal law requires **every employer** to verify each new hire's **identity and authorization to work** in the United States by completing **Form I-9** and examining acceptable documents within the first days of employment (Federal Immigration Reform and Control Act — Form I-9). Two details are tested. First, the completed I-9 is **retained by the employer**, not mailed to the government, and must be produced on request. Second, the **worker chooses** which acceptable documents to present; the employer may not demand specific documents, which would itself be a form of discrimination. The requirement applies to all employees regardless of citizenship.

California example. A drywall contractor keeps a binder of completed I-9 forms in the office rather than sending them anywhere. When a new hire offers a driver's license and Social Security card from the acceptable-documents list, the employer accepts them and does not insist on a passport instead.

Covers: cslb-emp-3.

New-hire reporting and EDD registration

California layers its own onboarding duties on top of the federal I-9. Once an employer pays wages over the statutory threshold, it must **register with the EDD** and set up accounts to withhold and remit state payroll taxes. It must also report every **newly hired or rehired employee** to the state new-employee registry on **Form DE 34** within a short window after the start-of-work date (Cal. Unemployment Insurance Code §13000 et seq.; EDD, *California Employer's Guide* (DE 44)). New-hire reporting exists mainly to enforce child-support obligations and detect fraud.

Do not confuse the two systems: the **I-9 is a retained federal form**, while **new-hire reporting is a state filing to the EDD**. They are separate obligations with separate purposes.

California example. A concrete contractor hires a finisher on Monday, completes the federal I-9, and separately files the DE 34 with the EDD within the reporting window — two distinct steps satisfying two different laws.

Covers: cslb-emp-4.

Nondiscrimination in hiring — FEHA and its federal counterparts

California's **Fair Employment and Housing Act (FEHA)** prohibits discrimination and harassment based on protected characteristics — race, sex, religion, disability, age, national origin, and others — and it requires employers to reasonably accommodate disabilities (Cal. Gov. Code §12900 et seq.). The tested threshold: **most FEHA provisions apply to employers with five or more employees**, though the **harassment provisions reach smaller employers**. Federal law runs in parallel and sets a floor: **Title VII** bars discrimination on protected classes and the **Americans with Disabilities Act (ADA)** requires reasonable accommodation (Federal Title VII; Federal ADA). Where California is more protective, the California rule governs (Federal Fair Labor Standards Act; Cal. Gov. Code §12900 et seq.).

California example. A four-person electrical shop is below the five-employee line for most FEHA provisions, but it is still bound by the harassment rules — so a harassment complaint by one of its workers is actionable even though the shop is small.

Covers: cslb-emp-5, cslb-emp-16.

Part B — Supervising and training employees

The duty to supervise and train, including mandated training

Employers are responsible for **competent supervision** and for **training workers to do their jobs safely and correctly** — onboarding, job-specific instruction, and progressive oversight of less-experienced crew. Some of that training is **legally mandated, not optional**. Two categories matter for the exam:

- **Harassment-prevention training.** An employer with **five or more employees** must provide harassment-prevention training to its workforce (Cal. Gov. Code §12950.1).
- **Safety training.** Every employer must train employees on workplace hazards as part of its **Injury and Illness Prevention Program** (Cal. Lab. Code §6401.7) — which ties this section to the Safety material in Section 7.

A related point the exam tests: ultimate responsibility for supervising the licensee's construction operations rests with the licensed contractor and its **qualifying individual**, and cannot simply be delegated away (Cal. Lab. Code §6401.7). Good supervision and training are not just good management — they reduce defects, injuries, and legal exposure.

California example. A roofing company that has grown to seven employees rolls out the required harassment-prevention training and documents that each worker completed the mandatory fall-protection and hazard training under its IIPP. Both are legal requirements at that size, not perks.

Covers: cslb-emp-13.

Part C — Payroll: wage-and-hour rules and the mechanics of paying people

Minimum wage

Every hour worked must be paid at **at least the applicable minimum wage** (Cal. Lab. Code §§1182.12, 1197). Two rules are tested. First, **California's minimum is higher than the federal minimum**, so the federal floor does not control in California. Second, **many cities and counties set local minimums that are higher still**, and the employer must pay whichever rate is **highest** for the job's location. Minimum wage cannot be averaged across a week or offset by a generous piece rate — **each hour** must independently meet the floor.

California example. A landscaping contractor with crews in two cities must pay each crew the **higher of** the state or that city's local minimum wage. A high piece rate on a fast day does not excuse paying below minimum on a slow one — every hour stands on its own.

Covers: cslb-emp-6.

Daily and weekly overtime

This is the signature California-versus-federal distinction, and a reliable exam trap. Under **Labor Code §510**, nonexempt employees earn overtime on a **daily** basis, not just a weekly one:

- **1.5× (time-and-a-half)** for hours over **8 in a workday**, over **40 in a workweek**, and for the **first 8 hours on the seventh consecutive workday**; and
- **2× (double time)** for hours over **12 in a workday**, and for hours over **8 on the seventh consecutive workday** (Cal. Lab. Code §510; IWC Wage Order No. 16).

Federal law requires overtime only after **40 hours in a week** — it has no daily overtime and no double time. A candidate applying the federal rule to a 10-hour California workday will get the question wrong.

California example. A laborer works 10 hours Monday on a Fresno job site. Even though he is nowhere near 40 hours for the week, California owes him **two hours at time-and-a-half** for the hours past 8 that day. If he had worked 13 hours, the thirteenth hour would be **double time**.

Covers: cslb-emp-7.

Meal and rest periods

Nonexempt employees are generally entitled to a **30-minute unpaid meal period** that must **begin before the end of the fifth hour** of work, with a **second meal period** for shifts longer than 10 hours, plus a **paid 10-minute rest period** for roughly every four hours worked (Cal. Lab. Code §512; IWC Wage Order No. 16). If the employer fails to **provide** a compliant meal or rest period, it owes **one additional hour of pay** — a "premium" — for **each day** a break was denied.

Two tested details: the first meal must generally start **before the end of the fifth hour**, not just anytime during the shift; and a missed break is **not free** — it carries per-day premium liability.

California example. On a long pour day, a concrete crew works straight through without a lunch break starting before the fifth hour. The contractor owes each affected worker **one extra hour of pay** for that day — a cost that recurs for every day a compliant break is not provided.

Covers: cslb-emp-8.

Wage Order 16: the construction-specific rules

The wage-and-hour rules above are tailored for field construction by **IWC Wage Order No. 16**, the industry order for **on-site construction, drilling, logging, and mining** (Cal. Code Regs. tit. 8, §11160). It sets how overtime, meal and rest periods, reporting-time pay, and tools-and-equipment obligations apply to construction field workers, and it contains provisions specific to crews and remote job sites. The exam expects you to know that **construction uses Wage Order 16**, not the general wage order — and that Wage Order 16 **tailors** these requirements rather than eliminating them.

California example. A grading contractor applies Wage Order 16 to its field crews. When it schedules a remote desert site, it follows Wage Order

16's specific provisions rather than assuming the office or retail wage order applies.

Covers: cslb-emp-12.

Pay timing and itemized pay stubs

Wages must be paid on **regular, scheduled paydays** — most non-overtime wages **at least twice a month** on designated dates (Cal. Lab. Code §§200, 204). Each payment must come with an **itemized wage statement (pay stub)** showing the required details: **gross wages, total hours worked, all deductions, net pay, the pay-period dates, applicable hourly rates, and the employer's identity** (Cal. Lab. Code §226). Missing or inaccurate pay stubs carry **their own penalties**, separate from any unpaid-wage liability.

California example. A contractor who pays correctly but hands out a check with only the net amount printed on it still violates the law: §226 requires the full itemized breakdown, and the defective stub is separately penalized even though the wages themselves were right.

Covers: cslb-emp-9.

Final pay and waiting-time penalties

The timing of final wages depends on **how the employment ends** (Cal. Lab. Code §§201, 202, 203):

- An employee who is **fired or laid off** must be paid **all final wages immediately** at termination.
- An employee who **quits with at least 72 hours' notice** is paid **on their last day**.
- An employee who **quits without notice** must be paid **within 72 hours**.

If the employer pays late, a **waiting-time penalty** accrues at the employee's **daily wage rate for each day** the pay is late, up to a maximum of **30 days** (Cal. Lab. Code §203). This penalty is routinely underestimated — 30 days of wages for a single late final check is a large, avoidable cost.

California example. A contractor fires a carpenter on Friday but waits until the next regular payday two weeks later to cut the final check. The carpenter is owed **waiting-time penalties** at his daily rate for those late days — potentially far more than the amount originally in dispute.

Covers: cslb-emp-10.

Payroll taxes: withholding and remittance to two governments

Running payroll means correctly **withholding from each paycheck**, adding the **employer's own taxes**, and remitting everything to **two different agencies on their own schedules** (IRS Publication 15 (Circular E); Cal. Unemployment Insurance Code §13020; EDD, *California Employer's Guide* (DE 44)). Sort the pieces:

- **Withheld from the employee:** federal income tax and California **Personal Income Tax (PIT)**; the employee's share of **FICA** (Social Security and Medicare); and California **State Disability Insurance (SDI)**.
- **Paid by the employer:** the matching **FICA** share; federal unemployment tax (**FUTA**); and California **Unemployment Insurance (UI)** and **Employment Training Tax (ETT)**.

The federal deposits go to the **IRS** (reported on the quarterly **Form 941** or annual **Form 944**, with year-end **W-2s** to workers and **W-4s** collected from them); the California deposits go to the **EDD** (IRS Publication 15 (Circular E); EDD, *California Employer's Guide* (DE 44)). A tested subtlety carried over from Business Finances: **federal deposit frequency keys off the dollar amount of accumulated tax liability during a lookback period — not the number of employees** (IRS Publication 15 (Circular E)). Withheld taxes are held in trust and must be **deposited on schedule**, not kept until year-end.

California example. A contractor with four employees withholds federal income tax, PIT, the workers' FICA share, and SDI from each check; adds the employer FICA match, FUTA, UI, and ETT; then deposits the federal portion with the IRS and the state portion with the EDD on their separate schedules. Having only four employees does not by itself make the deposits infrequent — the dollar liability does.

Covers: cslb-emp-15.

Workers' compensation as a cost and duty of hiring

Hiring employees triggers the duty to **secure workers' compensation coverage** — every California employer must carry it (Cal. Lab. Code §3700), and a contractor must keep a current **Certificate of Workers' Compensation** (or a valid exemption) on file with CSLB as a condition of licensure (Cal. Bus. & Prof. Code §7125). Workers' comp is **both a legal requirement and a real payroll cost** that must be built into every bid; the premium generally scales with **payroll and the risk class** of the trade.

The **no-employee exemption is phasing out**, and the exact status is heavily tested. Under **SB 216 (2022), as amended by SB 1455 (Stats. 2024, Ch. 485)**, the old "no employees, no coverage" exemption has **already ended for certain higher-risk classifications — C-8 (concrete), C-20 (HVAC), C-22 (asbestos), C-39 (roofing), and D-49/C-61 (tree service)** — and it ends for **all remaining classifications on January 1, 2028** (Cal. Bus. & Prof. Code §7125). A blanket claim that "as of 2026 every no-employee contractor must carry workers' comp" is **wrong** — most classifications keep the exemption until 2028. (Workers' comp coverage, the uninsured-employer consequences, and who counts as an "employee" for coverage are developed further in Section 4, Insurance and Liens.)

California example. A sole-owner roofer (C-39) with no employees can no longer claim the exemption and must carry workers' comp today, while a sole-owner painter (C-33) with no employees may still claim it until the 2028 all-classifications deadline arrives.

Covers: cslb-emp-17.

Part D — Evaluation and record-keeping

Payroll recordkeeping

Employers must keep **accurate payroll records** — hours worked, wages paid, deductions, and employee information — and **retain them for the period the law requires**, generally several years (Cal. Lab. Code §§1174, 1174.5). Employees have the right to **inspect or receive copies** of their own records within a set time after a request, and a **failure to keep or produce records is separately penalized**. Beyond compliance, good records protect the employer: in a wage dispute, missing records shift the evidentiary burden onto the employer.

California example. A contractor sued over unpaid overtime cannot produce time records for the period in question. Because the law required those records, the gap works **against the contractor**, who now struggles to rebut the worker's account of the hours.

Covers: cslb-emp-11.

Performance evaluation and personnel-file access

Employers should **evaluate performance and document it in writing**, and they must maintain **personnel records the employee has a right to inspect**. California gives employees the right to **review their personnel file** and to **obtain copies of documents they signed**, within a set time after a written request (Cal. Lab. Code §1198.5; and, for payroll-record copies, Cal. Lab. Code §226). Consistent, dated, written evaluations support fair discipline and promotion decisions and are the contractor's best defense against wrongful-termination or discrimination claims — an undocumented verbal warning is worth little in a dispute.

California example. When a laborer requests his personnel file, the contractor must make it available within the statutory window (Lab. Code §1198.5). Because the contractor kept **written, dated** performance notes, a later termination is far easier to defend than if it rested on unrecorded verbal warnings.

Covers: cslb-emp-14.

Key numbers & deadlines

Worker classification (ABC test): a worker is an **employee** unless the hirer proves **all three** prongs — **(A)** free from control, **(B)** outside the usual course of business, **(C)** independently established trade (Cal. Lab. Code §2775). Failing any one prong = employee. A **1099 or written agreement does not change the result.**

Misclassification penalty: willful misclassification carries civil penalties (Cal. Lab. Code §226.8) plus back taxes, overtime, and workers'-comp liability.

FEHA: most provisions apply at **5 or more employees**; **harassment provisions reach smaller employers**; **harassment-prevention training** required at **5+** (Cal. Gov. Code §§12900 et seq., 12950.1).

Overtime (Cal. Lab. Code §510): 1.5× over **8/day**, over **40/week**, and first 8 hours on the **7th consecutive day**; **2×** over **12/day** and over 8 on the 7th consecutive day. (Federal: 40/week only.)

Meal/rest (Cal. Lab. Code §512): 30-min unpaid meal **before end of the 5th hour** (second meal for shifts >10 hrs); paid 10-min rest per ~4 hrs; **1 hour of premium pay per day** for a missed meal or rest period.

Pay timing / pay stubs: most wages paid **at least twice a month** (§204); itemized wage statement required (§226).

Final pay (Cal. Lab. Code §§201–203): fired = immediately; **quit with 72 hrs' notice = last day**; **quit without notice = within 72 hrs**. **Waiting-time penalty** = daily wage rate per late day, **up to 30 days**.

Payroll taxes — two agencies: IRS (federal income tax, FICA both shares, FUTA; Forms 941/944, W-2/W-4) and **EDD** (UI + ETT employer-paid; SDI + PIT employee-withheld) (IRS Pub. 15; UI Code §13020; DE 44). Federal deposit frequency depends on **dollar liability**, not headcount.

Onboarding: federal **Form I-9** (retained by employer) + California **new-hire report DE 34** to the EDD.

Workers' comp (current-law flag): required for every employer (Cal. Lab. Code §3700; B&P §7125). The **no-employee exemption is phasing out** — already gone for **C-8, C-20, C-22, C-39, D-49/C-61**; **all classifications by 1/1/2028** (SB 216 as amended by SB 1455). "All no-employee contractors need WC as of 2026" is **wrong**.

Records: retain payroll records (Lab. Code §§1174, 1174.5); employee **personnel-file access** (Lab. Code §1198.5).

Summary

Employment Requirements is the second-largest slice of the exam because hiring even one worker switches on California's demanding wage-and-hour, tax, and recordkeeping regime. The governing instinct is to lead with **classification**: under the **ABC test (Lab. Code §2775)**, a worker is an **employee** unless the hirer proves all three prongs, and in construction prong B usually settles it — a framer working for a framing contractor is an employee, 1099 or not. Misclassification is not a paperwork issue; it draws civil penalties plus back taxes, overtime, and workers'-comp exposure (Lab. Code §226.8), and no label defeats the test.

Onboarding pairs a **federal Form I-9** (kept by the employer) with **California new-hire reporting to the EDD**, all inside **FEHA's** nondiscrimination rules, which reach most employers at **five employees** and require **harassment-prevention training** at that size (Gov. Code §§12900, 12950.1). Paying people correctly means mastering the California-specific rules that differ from federal law: **daily overtime** at 8 and 12 hours (§510), **meal and rest breaks** with a one-hour premium for misses (§512), **twice-monthly pay** with **itemized stubs** (§§204, 226), and strict **final-pay timing** backed by **waiting-**

time penalties up to 30 days (§§201–203). Payroll taxes flow to **two governments** — the IRS and the EDD — with a clear split between what is **withheld** and what the **employer pays**. Finally, hiring triggers **workers' compensation** as both a duty and a bid cost, with the **no-employee exemption phasing out for all classifications by 2028**, and it obligates the contractor to **keep records** and honor employees' **personnel-file access** rights.

Key takeaways

- **Classification first, and the presumption is "employee."** The ABC test (§2775) requires **all three** prongs to treat a worker as an independent contractor; in construction, prong B (work outside the usual business) usually fails.
- **Labels don't work.** A 1099 or a signed "independent contractor" agreement does not change status; willful misclassification is penalized (§226.8) and drags in back taxes, overtime, and workers' comp.
- **Onboard on two tracks.** Complete the **federal I-9** (retained by the employer, worker picks the documents) **and** the **California DE 34 new-hire report** to the EDD.
- **FEHA at five.** Most FEHA protections and the **harassment-prevention training** duty apply at **5+ employees**; harassment rules reach even smaller shops (§§12900, 12950.1).
- **California pays daily overtime.** 1.5× over **8/day** and 2× over **12/day** (§510) — not the federal 40-hour-only rule.
- **Missed breaks cost an hour.** Meal before the 5th hour, rest every ~4 hours, **one hour of premium pay per day** for a denied break (§512).
- **Final pay is fast.** Fired = **immediately**; quit-with-notice = last day; quit-without-notice = **within 72 hours**; **waiting-time penalties up to 30 days** (§§201–203).
- **Two agencies, two roles.** IRS (FICA both shares, FUTA, federal income tax) and EDD (UI/ETT employer-paid; SDI/PIT employee-

withheld); federal deposit frequency turns on **dollar liability, not headcount**.

- **Workers' comp is mandatory and a bid cost.** Every employer needs it (§3700; B&P §7125); the **no-employee exemption is ending — already gone for C-8/C-20/C-22/C-39/D-49, all classifications by 1/1/2028** (SB 216 / SB 1455). Do **not** say every no-employee contractor needs WC as of 2026.
- **Keep records and open the file.** Retain payroll records (§§1174, 1174.5) and honor employees' right to inspect their **personnel file** (§1198.5); written, dated evaluations are your best defense.

Sources

Official California and federal primary law, cited to the California Legislative Information site (leginfo.legislature.ca.gov), the CSLB Law Book, and the responsible federal/state agencies. Statutory rules reflect law in force as of the 2026 edition.

- Cal. Lab. Code § 2775 — worker classification: the **ABC test** (codifying *Dynamex*; AB 5 (2019), refined by AB 2257 (2020)); replaced the *Borello* balancing test as the default.
- Cal. Lab. Code § 226.8 — civil penalties for **willful misclassification** of an employee as an independent contractor.
- Cal. Lab. Code § 510 — **daily and weekly overtime** (1.5× over 8/day and 40/week; 2× over 12/day; seventh-consecutive-day rules).
- Cal. Lab. Code § 512 — **meal periods** (and, with the wage orders, rest periods) and the one-hour premium for noncompliance.
- Cal. Lab. Code §§ 1182.12, 1197 — **minimum wage** (applicable state/local minimum must be paid).
- Cal. Lab. Code §§ 200, 204 — wage definitions and **timing of wage payment** (most wages at least twice a month).
- Cal. Lab. Code § 226 — **itemized wage-statement (pay stub)** content requirements and copies of payroll records.

- Cal. Lab. Code §§ 201, 202, 203 — **final-pay timing** and **waiting-time penalties** (up to 30 days).
- Cal. Lab. Code §§ 1174, 1174.5 — employer **payroll-recordkeeping** and retention obligations.
- Cal. Lab. Code § 1198.5 — employee right to **inspect the personnel file**.
- Cal. Lab. Code § 6401.7 — employer **safety-training** duty under the Injury and Illness Prevention Program.
- Cal. Lab. Code § 3700 — every employer must **secure workers' compensation** coverage.
- Cal. Bus. & Prof. Code § 7125 — contractor must keep a **Certificate of Workers' Compensation** (or valid exemption) on file with CSLB; the **no-employee exemption is phasing out under SB 216, as amended by SB 1455 (Stats. 2024, Ch. 485) — already ended for C-8, C-20, C-22, C-39, D-49/C-61; all classifications by 1/1/2028**.
- Cal. Gov. Code § 12900 et seq. (FEHA) — **anti-discrimination and harassment** in hiring and employment (most provisions at 5+ employees).
- Cal. Gov. Code § 12950.1 — mandatory **harassment-prevention training** for employers with 5 or more employees.
- Cal. Unemployment Insurance Code § 13020 — employer **PIT withholding and remittance**.
- Cal. Unemployment Insurance Code § 13000 et seq. — **new-hire reporting** (DE 34) and related employer duties.
- IWC Wage Order No. 16 (Cal. Code Regs. tit. 8, § 11160) — the **on-site construction** wage order (overtime, meal/rest, reporting-time, tools).
- IRS Publication 15 (Circular E) — federal **payroll-tax withholding, FICA and FUTA, and deposit schedules** (frequency keyed to lookback-period liability; Forms 941/944, W-2/W-4).
- Federal Immigration Reform and Control Act (IRCA) — **Form I-9** employment-eligibility verification.

- Federal Title VII; Federal Americans with Disabilities Act (ADA); Federal Fair Labor Standards Act (FLSA) — federal **anti-discrimination, disability-accommodation, and minimum-wage/overtime** floors; the more protective California rule governs where the two differ.
- EDD, *California Employer's Guide* (DE 44) — California payroll-tax mechanics, employer registration, and the DE 34 new-employee report.
- CSLB, *California Contractors License Law & Reference Book* (2026 ed.) and *Law and Business Study Guide* — official exam content outline (Section 3: Employment Requirements).

The four official CSLB subtopics for this section — Hiring employees; Supervising and training employees; Evaluation and record-keeping; Payroll — are mapped to the parts above.

Chapter 4 — Insurance and Liens

CSLB Law & Business Study Book · Section #4 (12% of the exam)

Introduction

This section is small on paper and large in consequence. Only about one question in eight comes from Insurance and Liens, yet it is one of the highest-error areas on the whole exam — because almost every point turns on a precise rule, a precise deadline, or a distinction that sounds like a technicality until it costs someone their license or their payment.

The section splits cleanly into two worlds. The first is **insurance**: workers' compensation (which California treats as a licensing condition, not just a business decision) and the other policies a contractor carries — general liability, builder's risk, commercial property and auto — plus the often-misunderstood difference between a surety **bond** and an insurance **policy**. The second is **liens and remedies**: the mechanics lien and its cousins — the preliminary notice, the stop payment notice, and the payment bond — each governed by a strict clock under California's Civil Code §8000 framework. Get the clocks wrong and a perfectly valid debt becomes uncollectible.

Two currency notes before we begin, because stale study material gets both wrong. First, California's workers'-compensation mandate for contractors is **in the middle of a phase-in**: the old "no employees, no coverage needed" exemption is being eliminated classification by classification under **SB 216 (2022)**, and **SB 1455 (Stats. 2024, Ch. 485)** pushed the all-classifications deadline back to **January 1, 2028**. Any answer that says every no-employee contractor must already carry workers' comp "as of 2026" is wrong for most classifications. Second, the mechanics-lien rules cited here are the **modern §8000 et seq.** scheme (operative July 1, 2012), not the old §3082 numbering that older books still use. This chapter reflects current law.

Learning objectives

After working through this chapter you should be able to:

- State that **every California employer must secure workers' compensation** for its employees, that **one employee triggers** the duty, and that the system is **no-fault** and generally the employee's **exclusive remedy** (Lab. Code §3700).
- Explain that a contractor must keep a **current workers'-comp certificate (or valid exemption) on file with CSLB**, that a lapse causes **automatic license suspension**, and exactly **which classifications have already lost** the no-employee exemption and **when it ends for all** (B&P §7125; SB 216/SB 1455).
- Describe the **consequences of being an uninsured employer** — civil suit, loss of the exclusive-remedy shield, penalties, and the Uninsured Employers Benefit Trust Fund (Lab. Code §§3706, 3715).
- Identify **who counts as an "employee"** for workers' comp, including the presumption that **unlicensed workers hired to do licensed work are employees** (Lab. Code §§3351, 3352).
- Match the right **business-insurance policy** to the right risk — general liability, builder's risk, commercial property, commercial auto — and know that **none of them covers employee injuries** (that is workers' comp).
- Explain the structural difference between a **surety bond (three parties, contractor repays)** and **insurance (two parties, risk transfer)**.
- State the **LLC liability-insurance requirement — $1 million scaling up to $5 million** with the number of members (B&P §7071.19).

- Explain the **mechanics lien**, who may claim it, and that it attaches only to **private** property (Civ. Code §§8400, 8402).
- Apply the lien **clocks**: the **20-day preliminary notice** (required by §8200; the 20-day deadline is set by §8204), the **90/60/30-day recording deadlines** (§§8412, 8414), and the separate **90-day deadline to foreclose** (§8460).
- Distinguish the **stop payment notice** (§8500) and the **payment bond claim** (§8600) from the lien, and state the **prompt-payment and retention-release** rules (§§8800, 8802, 8814), including that **only disputed amounts** may be withheld.

Part A — Workers' compensation

Every employer must carry it, and one employee is enough

California law is blunt: **every employer must secure the payment of workers' compensation** for its employees, either by buying a policy from an insurer (including the State Compensation Insurance Fund) or by qualifying with the state to **self-insure** (Lab. Code §3700). There is no headcount threshold to cross first — **a single employee triggers the duty**. The idea that a business needs some minimum number of workers before coverage kicks in is a common and costly misconception.

Two features of the system define it. It is **no-fault**: an injured worker collects medical care, disability payments, and death benefits without having to prove the employer did anything wrong. And in exchange, workers' comp is generally the employee's **exclusive remedy** — the worker takes the guaranteed benefits and gives up the right to sue the employer in civil court for the injury. That trade — guaranteed no-fault benefits for the employee, immunity from lawsuits for the employer — is the entire logic of the system, and the exam tests it directly.

California example. A small drywall contractor in Modesto hires his first helper — one part-time employee. From that first hire, the contractor must have a workers' comp policy in force. If the helper hurts his back on the job, he files a comp claim and is paid regardless of whose fault the injury was; he does not have to prove the contractor was negligent, and ordinarily he cannot sue the contractor in court instead.

Covers: cslb-ins-1.

The workers'-comp certificate as a licensing condition — and the phase-out you must know

Here California goes a step further than most states: workers' comp is not just an employment obligation, it is a **condition of holding a contractor's license**. A licensee must keep a **current Certificate of Workers' Compensation Insurance — or a valid certificate of exemption — on file with CSLB** (B&P §7125; §7125.2). Let the coverage lapse and the certificate expire, and the license is **automatically suspended**. This is not a "you'll get a warning" or "you'll pay a small fine" situation; the suspension is automatic, and an unlicensed contractor cannot legally contract or collect for the work.

Now the part that stale materials get wrong. Historically, a contractor **with no employees** could file an *exemption* instead of a policy — the "I work alone, so there's no one to insure" rule. California is **phasing that exemption out** under **SB 216 (2022)**. The phase-out is staggered by classification, and — critically — **SB 1455 (Stats. 2024, Ch. 485) postponed the all-classifications deadline from January 1, 2026 to January 1, 2028.** As of 2026, the no-employee exemption is **already gone** for the higher-risk trades — **C-8 (concrete), C-20 (HVAC), C-22 (asbestos abatement), C-39 (roofing), and D-49/C-61 (tree service)** — so contractors in those classifications must carry a policy even if they truly have no employees. **Every other classification keeps the exemption until January 1, 2028**, when it ends for everyone.

The exam trap is a blanket statement: "As of 2026, any contractor with no employees must carry workers' comp." That is **wrong** for most classifications right now. The correct picture is the schedule: a named set of trades already covered, the rest covered on 1/1/2028.

California example. Two sole proprietors, each working alone with no employees. One holds a **C-39 roofing** license; the other holds a **C-10 electrical** license. In 2026 the roofer's no-employee exemption is already gone — a roofing contractor must carry workers' comp regardless — so he files a policy or his license is suspended. The electrician may still file the no-employee **exemption** for now, but on **January 1, 2028** that door closes for his classification too.

Covers: cslb-ins-2.

What happens if you go uninsured

Going without required coverage is far worse than paying a premium late. An uninsured employer faces a stacked set of consequences (Lab. Code §§3706, 3715):

- The injured worker can **sue the employer in civil court** for the injury — and in that suit the employer **loses key defenses** it would normally have, so the worker's path to a judgment is much easier.
- The worker can **simultaneously claim benefits** from the state's **Uninsured Employers Benefit Trust Fund (UEBTF)**, which pays the worker and then pursues the employer for reimbursement.
- The state can issue **stop-work orders** and impose **substantial penalties**.

The through-line is that being uninsured **strips away the exclusive-remedy shield**. The whole benefit an employer gets from the workers'-comp bargain — immunity from being sued — evaporates the moment the required coverage is missing. So the misconception that "an uninsured employer still can't be sued" is exactly backward, and the notion that "the only downside is buying coverage late" badly understates the exposure.

California example. A landscaping contractor lets his policy lapse to save money. A crew member is injured. The worker sues the contractor directly — and because the contractor was uninsured, the contractor cannot raise the usual workers'-comp defenses. Meanwhile the UEBTF pays the worker's benefits and comes after the contractor to recover every dollar, on top of state penalties and a possible stop-work order.

Covers: cslb-ins-3.

Who counts as an "employee"

Because the duty attaches to *employees*, coverage turns on who qualifies. California law defines "employee" **broadly** and resolves doubt in favor of coverage (Lab. Code §§3351, 3352). Most workers are included. A trap the exam likes: an **unlicensed worker hired to perform work that requires a license is generally presumed to be an employee** — so a contractor who hands a licensed-scope task to an unlicensed "independent contractor" has likely just created an employee (and a coverage obligation), not avoided one.

The statute carves out **narrow** exclusions — certain **corporate officers and directors who own the business**, some **working family members**, and **true independent contractors** — but these are limited and conditional. Two misconceptions to bury: calling someone an "independent contractor" does **not** by itself remove them from workers' comp — the **ABC test** (Lab. Code §2775, from Section 3) still decides status, and most workers default to *employee*; and **not all corporate officers are automatically excluded** — the exclusion is specific and often requires an ownership stake and an affirmative election to opt out.

California example. A framing contractor pays a day-laborer crew in cash and calls them "independent contractors," carrying no comp coverage. Because the framing work requires a license and the laborers are unlicensed, the law presumes they are **employees**. When one is hurt, the contractor is treated as an uninsured *employer* — exposed to the civil suit, penalties, and UEBTF recovery described above.

Covers: cslb-ins-4.

Part B — Business insurance

Matching the policy to the risk

Beyond workers' comp, a contractor carries a portfolio of insurance, and the exam's business-insurance questions are almost always "match the right policy to the right loss." Learn what each one **does**, and — just as important — what it does **not** cover. There is no single California code section here; these are insurance-coverage concepts (with one licensing exception, the LLC requirement below).

- **Commercial General Liability (CGL):** covers **third-party bodily injury and property damage** arising from the contractor's operations — a passerby hurt on the site, a client's property damaged by the work. It responds to claims by *outsiders*.
- **Builder's risk (course-of-construction):** covers **the project itself** — the structure under construction — against loss (fire, wind, theft of installed materials) **while the work is in progress**.
- **Commercial property:** covers the contractor's **own** buildings, tools, and equipment.
- **Commercial auto:** covers the contractor's **vehicles**.

The single most important negative rule: **general liability does not cover injuries to the contractor's own employees** — that is what **workers' comp** is for. Confusing those two is the classic error. A second common mix-up is treating **builder's risk** and **commercial property** as the same thing; builder's risk covers the **project being built**, while commercial property covers the contractor's **own existing assets**. And none of these policies substitutes for workers' comp.

California example. A general contractor building a custom home suffers a fire that destroys the half-framed structure; **builder's risk** responds to the loss of the project. Separately, a delivery driver is injured when the contractor's truck backs into him on the sidewalk — a **general liability** (and commercial auto) matter, because he is a third party. If instead the contractor's **own carpenter** had been hurt framing that house, neither policy applies — that claim goes to **workers' comp**.

Covers: cslb-ins-5.

Surety bonds versus insurance — a structural difference

Candidates constantly treat a bond as a kind of insurance that protects the contractor. It is not. The two are built differently.

Insurance is a two-party arrangement. The insurer accepts and prices a risk from the insured, **expects** to pay some losses, and pools premiums to cover them. When the insurer pays a covered claim, it does **not** turn around and bill the insured for the payout. Risk has genuinely been **transferred** to the insurer.

A surety bond is a three-party arrangement — the **principal** (the contractor), the **obligee/beneficiary** (the party protected by the bond, such as a project owner or, for the license bond, the public), and the **surety** (who issues the bond). The surety **guarantees the contractor's performance or obligations** to the beneficiary. Here is the pivotal point: if the surety pays a claim, the **contractor must reimburse the surety in full**. A bond is essentially a **credit guarantee** — the surety is vouching for the contractor, not absorbing the loss. The contractor stays on the hook.

So two misconceptions to reject: that a bond "protects the contractor like insurance" (it protects the **beneficiary**; the contractor repays), and that a bond involves only **two** parties (it involves **three**). The **$25,000 contractor's license bond** (B&P §7071.6) is the everyday example — it protects the public, not the contractor, and the surety who pays a valid claim will seek repayment from the licensee.

California example. A homeowner wins a CSLB claim against a contractor's **$25,000 license bond**, and the surety pays her. The contractor does not walk away clean: the surety demands the full amount back from the contractor. Contrast that with the contractor's **general liability** policy, where a covered payout to an injured third party is not charged back to the contractor. Same word — "covered" — completely different economics.

Covers: cslb-ins-6.

The LLC liability-insurance requirement

One business-insurance rule is a hard **licensing condition**, and it applies only to contractors organized as **limited liability companies**. An LLC licensee must carry **liability insurance starting at $1,000,000**, and that required amount **scales up with the number of LLC members, to a maximum of $5,000,000** (B&P §7071.19). This coverage exists **on top of** the LLC's separate **$100,000 employee/worker bond** — the two are different requirements, and the insurance does not replace the bond. The policy exists because an LLC gives its members a **limited-liability shield**, and the extra insurance protects the public who deal with the LLC.

Two misconceptions to avoid: that the requirement is a flat **$1,000,000 regardless of size** (it **scales up to $5,000,000** with member count), and that the liability insurance **replaces** the worker bond (**both** are required).

California example. A contracting business licensed as an LLC adds members as it grows. At formation it carries the $1,000,000 minimum liability policy; as membership increases, the required limit rises toward the $5,000,000 cap — and throughout, the LLC must **also** maintain its $100,000 worker bond. Dropping either one puts the license out of compliance.

Covers: cslb-ins-7.

Part C — Liens and other remedies

This is the deadline-arithmetic half of the section, governed by California's **Civil Code §8000 et seq.** (the modern works-of-improvement law, operative since July 1, 2012). The remedies form a toolkit — mechanics lien, stop payment notice, payment bond — and almost all of them share one gatekeeper: the **preliminary notice**. Learn the tools, then learn the clocks.

The mechanics lien — the core private-work remedy

A **mechanics lien** is a **security interest recorded against privately owned real property** to secure payment for the **labor, services, equipment, or materials** that improved that property (Civ. Code §8400 et seq.). It is not just for general contractors: **direct (prime) contractors, subcontractors, material suppliers, and laborers** who contributed to the work of improvement may all claim one, provided they follow the required steps and deadlines. If the claimant remains unpaid and enforces the lien, the remedy is powerful — it can ultimately force a **sale of the property** to satisfy the debt.

Two misconceptions the exam targets: that **only the general contractor** can lien (subs, suppliers, and laborers can too), and that a lien can attach to **public** property (it **cannot** — you cannot lien a school or a highway; public-works claimants use a payment bond or public stop notice instead, which is Section 6 material). The mechanics lien is a **private-property** remedy, and it is **strictly procedural**: the substance of the debt does not save a claimant who misses a step.

California example. A tile supplier delivers $12,000 of material to a private home remodel and is never paid by the subcontractor who ordered it. Even though the supplier never signed a contract with the homeowner, it contributed to the improvement of that private property and — if it served its preliminary notice and meets the recording deadline — can record a mechanics lien against the home.

Covers: cslb-ins-8, cslb-ins-15.

The preliminary (20-day) notice — the gateway to every remedy

Before most claimants have **any** lien, stop-notice, or bond right, they must serve a **preliminary notice** — the "20-day notice" (required by Civ. Code §8200; the 20-day deadline itself is set by §8204). It goes to the **owner, the direct contractor, and the construction lender** (if any), and it must be served **within 20 days after the claimant first furnishes** labor or materials to the job. This is a **condition precedent**, not optional paperwork: a subcontractor or supplier who never serves it generally **loses its mechanics-lien, stop-payment-notice, and bond-claim rights entirely**. Serving it **late** does not cure the miss completely either — it limits recovery to amounts attributable to the **20 days before** the notice was served, and afterward, cutting off everything earlier.

This single requirement is the most common way subs and suppliers destroy their own rights, which is why it is high-value on the exam. The person who most often *doesn't* need to serve it is the **direct contractor dealing straight with the owner** (the owner already knows about them); nearly everyone below that level must serve it to preserve any remedy.

California example. An electrician subcontractor starts wiring a private office build on March 1 but never sends a preliminary notice. When the general contractor fails to pay him in June, he discovers he has **no lien rights at all** — the missing 20-day notice cut them off before the job even progressed. His neighbor on the same site, a plumbing sub who served the notice on day 5, kept full lien rights for everything he furnished.

Covers: cslb-ins-9.

Deadlines to record a mechanics lien — 90 / 60 / 30

Once a claimant has preserved its rights with the preliminary notice, it must **record** the lien within a hard window, and the window depends on **who** is claiming and whether a **notice of completion or cessation** has been recorded (Civ. Code §§8412, 8414):

- **Direct (prime) contractor: 90 days** after completion of the work of improvement — **shortened to 60 days** if the owner records a **notice of completion or cessation**.
- **Subcontractor or supplier: 90 days** after completion — **shortened to 30 days** if a **notice of completion or cessation** is recorded.

The recording clock runs from **completion** (or the recorded notice), **not** from the day the claimant was last paid — a frequent wrong answer. And the trigger that shortens everyone's window is the **recorded notice of completion**: it compresses the prime's window to 60 days and the subs'/suppliers' to 30, which is precisely why owners record one. Miss the recording deadline and the lien is void **even though the debt is real**.

California example. A framing subcontractor finishes a private home and the debt goes unpaid. If nothing is recorded, he has 90 days from completion to record his lien. But the owner records a **notice of completion** three days after the job ends — now the sub has only **30 days** from that recording to get his lien on file. A sub who assumes he still has the full 90 days will blow the deadline and lose the lien entirely.

Covers: cslb-ins-10.

The separate deadline to foreclose — another 90 days

Recording the lien is only **step one**. To actually enforce it, the claimant must **file a lawsuit to foreclose the lien within 90 days after the lien is recorded** (Civ. Code §8460). Miss that, and the lien **expires** and becomes unenforceable — the cloud on title effectively self-clears.

The exam deliberately tests whether you keep the **two clocks** straight:

- **Clock 1 — record the lien:** measured from **completion** (or a recorded notice of completion): 90/60/30 days (§§8412, 8414).
- **Clock 2 — foreclose the lien: 90 days measured from the date the lien was recorded** (§8460).

They are both "90-day-anchored" in the common case, which is exactly the confusion the test exploits — but they measure from **different events**, and **missing either one voids the remedy**. Recording a lien and then sitting on it does **not** preserve it indefinitely.

California example. A supplier records a valid mechanics lien on day 80 after completion — inside the recording window. Then, believing the recorded lien protects him, he waits eight months trying to negotiate. By the time he sues, the **90-day foreclosure deadline** has long passed and the lien is dead. He met the first clock and missed the second, and the result is the same as never having filed.

Covers: cslb-ins-11.

The stop payment notice — reaching the money, not the property

A **stop payment notice** is a different remedy aimed at a different target (Civ. Code §8500 et seq.). Instead of encumbering the **property**, an unpaid claimant notifies the **owner or the construction lender** to **withhold (freeze) undisbursed construction funds** up to the amount owed. On a lender-financed job, a claimant who serves a **bonded** stop payment notice can compel the **lender** to hold back money from the loan for the claimant's benefit. It can be used **instead of, or in addition to,** a mechanics lien.

The distinction the exam wants: a **mechanics lien attaches to the real property**; a **stop payment notice reaches the pool of undisbursed construction funds**. And like the lien, the stop payment notice generally **depends on the preliminary notice** having been served and has **its own deadlines** — it is not a way around the §8200 gateway.

California example. A subcontractor on a lender-financed private project is unpaid but knows the construction loan still has undisbursed funds. Rather than lien the property, he serves a **bonded stop payment notice** on the lender, forcing it to freeze enough of the remaining loan proceeds to cover his claim — capturing the money before it is paid out to the general contractor.

Covers: cslb-ins-12.

Payment bond claims on private work

Some private projects carry a **payment bond** obtained by the owner or prime contractor that **guarantees payment to subs and suppliers** (Civ. Code §8600 et seq.). If a bonded project goes unpaid, a claimant can make a **claim against the payment bond** — again, instead of or in addition to recording a lien. The advantage is that the claimant pursues a **solvent surety** rather than fighting over the property, which is especially useful where a lien would be hard to enforce (for example, where the owner has already paid the prime). As with the other remedies, the **preliminary notice is generally a prerequisite**.

Two things not to confuse: a **payment bond claim is not the same remedy as a mechanics lien** (one pursues a surety, the other encumbers property), and the bond **does not eliminate the preliminary-notice requirement**. This private-work payment bond is also the conceptual bridge to Section 6, where on **public** works — because you cannot lien public property — the **payment bond claim becomes the primary remedy**.

California example. A supplier on a bonded private commercial project isn't paid. Rather than record a lien and wait to foreclose, it files a **claim against the project's payment bond** and collects from the **surety**, which had guaranteed payment to subs and suppliers. Because the supplier served its preliminary notice, the bond claim is available.

Covers: cslb-ins-13.

Prompt payment and retention release

California's **prompt-payment** statutes require owners and prime contractors to **pay down the chain within set timeframes** after they receive payment or hit a progress or retention milestone, with **penalties (often including interest)** for wrongful delay (Civ. Code §§8800, 8802). **Retention** — money withheld from each progress payment as security that the job gets finished and defects corrected — must be **released within a defined period** after the triggering event, commonly completion and acceptance (Civ. Code §8814).

The rule the exam most often tests: when a payment is **only partly disputed**, the paying party may withhold **only the disputed amount** — not the entire payment. Freezing the whole payment over a partial dispute is **improper withholding** and creates liability (often for interest and penalties). And retention **cannot be held indefinitely** — the clock to release it starts at the defined triggering event. (Retention mechanics also appear in Section 5, on the payments side of the contract.)

California example. A general contractor is satisfied with all but one item of a subcontractor's $50,000 billing, disputing $4,000 of it. Prompt-payment law lets the GC hold back the **$4,000** in genuine dispute but requires it to **pay the other $46,000** on time. Withholding the full $50,000 to pressure the sub would be improper and expose the GC to penalties and interest.

Covers: cslb-ins-14.

Limits that protect the paid-up homeowner

Lien rights are strong but **not unlimited**, and the exam tests the boundaries (Civ. Code §§8400, 8402). Two limits matter most. First, for an **owner-occupied dwelling** whose owner has **paid the direct contractor in full**, special rules can **limit what unpaid subcontractors may recover** against the home — the law is reluctant to make a good-faith homeowner pay **twice** for the same work, and homeowners have specific notice protections built into the scheme. Second, a claimant may lien only for the **reasonable value of what it actually furnished** — not an inflated number and not more than was really provided.

So the misconception that "a homeowner who fully paid the general can always be forced to pay the subs again through liens" overstates it — the paid-up owner-occupant has protections. (It is not an absolute shield, which is exactly why the §7159 **mechanics-lien warning** in Section 5 exists — an owner *can* still face exposure, so the rules balance both interests.) And a lien padded beyond the reasonable value furnished is vulnerable to challenge.

California example. A homeowner pays her general contractor the full contract price for a kitchen remodel. The GC pockets the money and never pays the cabinet subcontractor. Because this is an owner-occupied dwelling and she paid the direct contractor in full, lien-law protections limit the sub's ability to force her to pay a second time — one reason she was required to receive a mechanics-lien warning in her contract in the first place.

Covers: cslb-ins-15.

Key numbers & deadlines

Workers' comp — who must carry it: every employer, from the **first employee** (no minimum headcount); no-fault; generally the employee's **exclusive remedy** (Lab. Code §3700).

Workers'-comp certificate on file with CSLB: required as a **licensing condition**; lapse = **automatic license suspension** (B&P §7125, §7125.2).

No-employee exemption phase-out: already gone for **C-8, C-20, C-22, C-39, D-49/C-61**; **ends for ALL classifications on 1/1/2028** (SB 216, as amended by **SB 1455**, Stats. 2024, Ch. 485). A blanket "every no-employee contractor must carry WC as of 2026" is **wrong**.

LLC liability insurance: $1,000,000 minimum, scaling up to $5,000,000 with member count — **plus** a separate **$100,000 worker bond** (B&P §7071.19; §7071.6.5).

Contractor's license bond: $25,000 — a **bond** (three-party; contractor repays claims), **not** insurance (B&P §7071.6).

Preliminary (20-day) notice: serve within **20 days** of first furnishing; **condition precedent** to lien / stop-notice / bond rights (Civ. Code §8200 requires it; §8204 sets the 20-day deadline).

Record a mechanics lien: prime contractor — 90 days after completion (**60** if notice of completion/cessation recorded); **sub/supplier — 90 days** (**30** if notice of completion/cessation recorded) (Civ. Code §§8412, 8414).

Foreclose the lien: file suit within **90 days after the lien is recorded**, or it expires — a **separate clock** from recording (Civ. Code §8460).

Stop payment notice: freezes **undisbursed construction funds** (Civ. Code §8500 et seq.). **Payment bond claim:** pursue the **surety** (Civ. Code §8600 et seq.). Both generally need the 20-day notice.

Prompt payment / retention: withhold **only the disputed amount**; release **retention** within the statutory window (Civ. Code §§8800, 8802, 8814).

> **Current-law flags:** WC phase-out per **SB 1455** (all classes **1/1/2028**); liens use the **modern Civ. Code §8000 et seq.** numbering (operative 7/1/2012), not the old §3082 scheme.

Summary

Section 4 is compact but unforgiving, and it rewards precision. On the **insurance** side, start from the rule that **every California employer must secure workers' compensation from its very first employee** — a no-fault system that is the employee's exclusive remedy (Lab. Code §3700) and, for contractors, a **licensing condition** whose lapse triggers **automatic suspension** (B&P §7125). The one moving part you must track is the **no-employee exemption phase-out**: gone already for C-8, C-20, C-22, C-39, and D-49/C-61, and gone for **everyone on January 1, 2028** under SB 216 as amended by SB 1455. Round that out by knowing the **penalties for going uninsured** (civil suit, lost exclusive-remedy shield, UEBTF, stop-work orders), the **broad definition of employee** (including the presumption that unlicensed workers doing licensed work are employees), the **portfolio of business policies** (general liability, builder's risk, property, auto — none of which covers employee injuries), the **bond-versus-insurance** distinction (three parties and repayment versus two parties and risk transfer), and the **LLC's $1M–$5M liability requirement**.

On the **liens** side, the mechanics lien is the core private-property remedy, open to primes, subs, suppliers, and laborers — but everything hinges on **clocks**. The **20-day preliminary notice** is the gateway; miss it and most claimants lose all remedies. Recording deadlines run **90/60/30 days** from completion (shortened by a recorded notice of completion), and a **separate 90-day clock** governs the foreclosure suit — two clocks, both fatal if missed. The **stop payment notice** reaches undisbursed funds and the **payment bond** reaches a surety, giving claimants alternatives to the lien, while **prompt-payment and retention** rules keep cash flowing and forbid withholding more than the disputed amount. Finally, **owner-occupied dwelling limits** protect the homeowner who already paid the direct contractor in full. Master the two lists — the insurances and the clocks — and this small section becomes reliable points.

Key takeaways

- **One employee triggers workers' comp.** Every California employer must secure it from the first hire; it is **no-fault** and generally the employee's **exclusive remedy** (Lab. Code §3700).
- **The WC certificate is a license condition.** A lapse causes **automatic license suspension** (B&P §7125, §7125.2).
- **The no-employee exemption is phasing out, not gone.** Already eliminated for **C-8/C-20/C-22/C-39/D-49-C-61**; **all classifications by 1/1/2028** (SB 216 / SB 1455). Reject any "every no-employee contractor must carry WC as of 2026" answer.
- **Uninsured is catastrophic.** Civil suit with lost defenses, **loss of the exclusive-remedy shield**, UEBTF recovery, penalties, stop-work orders (Lab. Code §§3706, 3715).
- **"Employee" is broad.** Unlicensed workers hired for licensed work are **presumed employees**; the ABC test still governs; not all officers are excluded (Lab. Code §§3351, 3352).
- **Match the policy to the risk.** General liability = third parties; builder's risk = the project under construction; property = the contractor's own assets; auto = vehicles — and **none covers employee injuries** (that's workers' comp).
- **A bond is not insurance.** Surety bond = **three parties**, and the **contractor repays** paid claims; insurance = **two parties**, risk transferred, no chargeback (B&P §7071.6).
- **LLCs carry more.** Liability insurance **$1M scaling to $5M** with member count, **plus** a separate **$100,000 worker bond** (B&P §7071.19).
- **A mechanics lien is a private-property remedy** open to primes, subs, suppliers, and laborers — never against **public** property (Civ.

Code §§8400, 8402).
- **The 20-day preliminary notice is the gateway.** Miss it and most claimants lose lien, stop-notice, and bond rights entirely (Civ. Code §8200).
- **Two lien clocks, both fatal.** Record within **90/60/30 days** of completion (§§8412, 8414); then **foreclose within 90 days of recording** (§8460).
- **Stop payment notice vs. payment bond.** One freezes **undisbursed funds** (§8500); the other pursues a **surety** (§8600) — both usually require the 20-day notice.
- **Withhold only what's disputed;** release **retention** on time (Civ. Code §§8800, 8802, 8814).

Sources

Official California primary law, cited to the Legislative Information site (leginfo.legislature.ca.gov) and the CSLB Law Book. Statutory figures reflect law in force as of the 2026 edition. The workers'-comp no-employee exemption phase-out reflects SB 216 (2022) as amended by SB 1455 (Stats. 2024, Ch. 485), moving the all-classifications date to 1/1/2028. Mechanics-lien citations use the modern Civil Code §8000 et seq. scheme (operative 7/1/2012).

- Cal. Lab. Code § 3700 — every employer must secure workers' compensation (insure or self-insure); no-fault, exclusive-remedy framework.
- Cal. Lab. Code §§ 3351, 3352 — definition of "employee" for workers' comp; broad inclusion, narrow exclusions, presumption for unlicensed workers doing licensed work.
- Cal. Lab. Code §§ 3706, 3715 — consequences of being an uninsured employer: civil suit with lost defenses, loss of exclusive-remedy protection, Uninsured Employers Benefit Trust Fund, penalties.

- Cal. Bus. & Prof. Code § 7125; § 7125.2 — workers'-comp certificate (or valid exemption) on file with CSLB as a licensing condition; automatic suspension on lapse. No-employee exemption phase-out: SB 216 (Stats. 2022), as amended by **SB 1455 (Stats. 2024, Ch. 485)** — already effective for C-8, C-20, C-22, C-39, D-49/C-61; all classifications 1/1/2028.
- Cal. Bus. & Prof. Code § 7071.6 — $25,000 contractor's license bond (illustrating the surety-bond structure).
- Cal. Bus. & Prof. Code § 7071.6.5 — LLC $100,000 employee/worker bond (separate from the liability insurance).
- Cal. Bus. & Prof. Code § 7071.19 — LLC liability insurance: $1,000,000 minimum, scaling with membership up to $5,000,000.
- Cal. Civ. Code § 8200 & § 8204 — preliminary notice: §8200 requires it, §8204 sets the 20-day deadline; condition precedent to lien, stop-payment-notice, and bond-claim rights.
- Cal. Civ. Code §§ 8400, 8402 — who may claim a mechanics lien; owner-occupied dwelling and reasonable-value limitations.
- Cal. Civ. Code §§ 8412, 8414 — deadlines to record a mechanics lien: prime contractor 90 days after completion (60 if a notice of completion/cessation is recorded); subcontractor/supplier 90 days (30 if a notice of completion/cessation is recorded).
- Cal. Civ. Code § 8460 — deadline to file suit to foreclose (enforce) a recorded lien: 90 days after recording, or the lien expires.
- Cal. Civ. Code § 8500 et seq. — stop payment notice (withholding of undisbursed construction funds).
- Cal. Civ. Code § 8600 et seq. — payment bond claims on private works of improvement.
- Cal. Civ. Code §§ 8800, 8802, 8814 — prompt-payment obligations down the chain and retention-release timing; only disputed amounts may be withheld.
- CSLB, *California Contractors License Law & Reference Book* (2026 ed.) — reprints B&P Code Chapter 9 and CSLB regulations with commentary.

- CSLB, *Law and Business Study Guide* — official exam content outline (Section 4: Insurance and Liens).

The business-insurance coverage concepts in Part B — general liability, builder's risk, commercial property, commercial auto, and the surety-vs-insurance distinction — are standard insurance principles with no single California code section (except the LLC insurance/bond requirements, which are statutory), and are presented as business practice.

Chapter 5 — Contract Requirements and Execution

CSLB Law & Business Study Book · Section #5 (21% of the exam — the highest-weight section)

Introduction

More exam questions come from this section than from any other, and there is a simple reason: the contract is where California's contractor law becomes concrete. Everything you learn elsewhere — licensing, bonds, liens, payment rules — is enforced through what the contract must say and how the money must move. About one in five questions on the Law & Business exam lands here.

The good news is that this material is *learnable*. Unlike the judgment-heavy safety or employment questions, most of Section 5 rewards knowing exact rules: what a home improvement contract must contain, how large a down payment you may collect, how many days a customer has to cancel, and how progress payments must track the work. The numbers are stable from year to year, and the traps are predictable. This chapter walks through the statutes that govern consumer construction contracts, then covers the business-side skills the exam folds into the same section: bidding, estimating, change orders, scheduling, and progress billing.

One current-law note before we begin. The master home improvement contract statute, **Business & Professions Code §7159**, was amended by **SB 517 (Stats. 2025, Ch. 585)**, effective **January 1, 2026**. This chapter reflects the current requirements. Whenever a figure or deadline appears, treat it as the value in force today.

Learning objectives

After working through this chapter you should be able to:

- State the elements that make any contract valid, and explain California's added rule that consumer construction contracts must be **in writing and signed before work begins**.
- List the disclosures a **home improvement contract** must contain under B&P §7159, including the mechanics-lien warning and the CSLB/bond notice.
- Apply the **down-payment cap** for home improvement — the **lesser of $1,000 or 10%** of the contract price — to specific jobs.
- Explain why **progress payments may not exceed the value of work performed**, and how that rule differs from ordinary business billing.
- Distinguish a **home improvement contract** from a **new residential construction** contract and a **service and repair** contract, and know which rules apply to each.
- Calculate the **three-day right to cancel** and its **five-day (age 65+)** and **seven-day (declared disaster)** extensions.
- Describe the common **bid structures** (lump-sum, unit-price, cost-plus) and who bears the risk under each.
- Explain **change orders**, **cost control**, **critical-path scheduling**, **retention**, and **over/under-billing** as project-management concepts the exam tests.

Part A — Contracts: the legal backbone (B&P §7159 and related law)

What makes a contract valid, and California's writing rule

Every enforceable contract rests on the same general elements: an **offer**, an **acceptance**, **consideration** (something of value exchanged by each side), parties who are legally **capable** of contracting, and a **lawful purpose**. Drop any one of these and there may be no contract to enforce. Consideration in particular trips people up: a signed document alone is not enough if nothing of value passes between the parties.

For consumer construction, California adds a demanding layer on top of these basics. A **home improvement contract** and a contract to build a new home must be **in writing and signed by the parties before the work begins** (B&P §7159). This is not a mere formality or best practice — it is a licensing requirement. Starting a job on a verbal understanding, no matter how sincere, exposes the contractor to discipline and can wreck the contractor's ability to enforce the deal or collect. The reliable exam instinct: *for consumer work, the contract is written and signed up front, or it is a problem.*

California example. A licensed general contractor shakes hands with a Sacramento homeowner on a $40,000 kitchen remodel and starts demolition the next morning, planning to "write it up later." Even if both sides agree on price and scope, the contractor has already violated §7159 by beginning work without a signed written home improvement contract. If a dispute arises, the missing paperwork can leave the contractor unable to enforce the terms and facing a CSLB complaint.

Covers: cslb-contract-16, cslb-contract-1.

What a home improvement contract must contain

A home improvement contract is far more than a price and a signature. Under §7159 it must be in writing and must carry an extensive list of mandated terms and disclosures, including:

- The **contract price** and a clear **description of the work and materials**.
- The **total agreed to be paid**, with a **payment schedule tied to work actually performed**.

- The **approximate start and completion dates**.
- Required **notices**, presented with the prominence the statute demands — the **three-day right to cancel**, the **mechanics-lien warning**, and the contractor's **license and CSLB contact information**.

Missing these elements is not a technicality. An incomplete contract can be **unenforceable** and can be grounds for **discipline** against the license. Because §7159 is the most "know-the-statute" rule in the most heavily weighted section, the disclosure list is worth memorizing.

Covers: cslb-contract-1.

The required notices: mechanics-lien warning and the CSLB/bond disclosure

Two mandated notices appear again and again on the exam, and they are **separate requirements** — do not treat them as one.

The **mechanics-lien warning** tells the homeowner, in plain terms, that **subcontractors and material suppliers who go unpaid may place a lien on the home even if the owner already paid the contractor in full** (B&P §7159). This warning exists precisely to correct the intuition that "paying the general in full ends my exposure." It does not. The warning links this section directly to the liens material in Section 4, and it is required text, not optional consumer education.

Separately, the contract must carry the **CSLB consumer notice** — the statement that the contractor is licensed, is regulated by the Contractors State License Board, carries a bond, and that consumers can **check a license and file a complaint with CSLB** (B&P §7030; §7159). This disclosure gives the consumer the tools to verify the contractor and seek remedies. Leaving it out of a signed contract is a violation.

California example. A Fresno homeowner pays her general contractor the full contract price for a bathroom remodel. The contractor never pays the tile subcontractor. Because the mechanics-lien warning was in the contract, the homeowner was warned that the unpaid sub could record a lien against her home — which is exactly what happens. The warning did its job: it disclosed a real risk the owner might otherwise have assumed was impossible.

Covers: cslb-contract-8, cslb-contract-15.

Definitions and the home improvement salesperson

The statute defines its own terms — **"home improvement," "home improvement contract,"** and **"home improvement salesperson"** — and those definitions matter because they decide which rules apply (B&P §§7151, 7151.2, 7152, 7153). A **home improvement salesperson** is a person who **solicits, negotiates, or executes home improvement contracts on a contractor's behalf away from the contractor's fixed place of business** — the classic example being someone selling door-to-door or at a home show. Such salespersons **must be registered**. Registration keeps the people selling the work accountable under the license law. A home improvement salesperson is *not* the same as a licensed contractor, and not just anyone may sell home improvement work in the field.

California example. A roofing company hires a commissioned rep to knock on doors after a hailstorm and sign up homeowners for new roofs. That rep is acting as a home improvement salesperson and must be registered; the company cannot simply turn an unregistered person loose to negotiate and sign contracts in customers' living rooms.

Covers: cslb-contract-6.

The three-day right to cancel — and the 5-day and 7-day extensions

When a contract is sold at the buyer's home or otherwise **away from the seller's place of business** — a **home-solicitation sale** — the buyer gets a **three-business-day right to cancel** without penalty (Civ.

Code §§1689.5–1689.7). The contract must **disclose this right and include the cancellation forms**.

Two extensions are frequent trap answers:

- **Five business days** for a buyer who is **65 years of age or older**.
- **Seven business days** for certain contracts to **repair or restore a residence following a declared disaster**.

Two details the exam loves: the period is measured in **business days**, not calendar days, and not every buyer gets only three — age and disaster circumstances can extend the window.

California example. A 70-year-old homeowner in San Diego signs a home-solicitation contract for gutter work at her kitchen table. She is entitled to **five** business days to cancel, not three, because of her age. If the same signing followed a governor-declared wildfire disaster and involved repairing her fire-damaged home, a **seven-day** window could apply.

Covers: cslb-contract-7.

The service and repair contract exception

Not every small job needs the full §7159 home improvement paperwork. The **service and repair contract** is a **narrow exception** for small, quick jobs the **consumer initiates** (B&P §7159.10). To qualify, a set of conditions must all be met — for example, the **amount is capped**, the **contractor did not solicit** the work outside statutory limits, the work is to be **completed within a short set period**, and the **consumer contacted the contractor first**, not the other way around. Miss any condition and the job falls **back under the full home improvement rules**. The exam tests both halves: recognizing when the narrow exception applies, and understanding that failing its conditions restores the standard requirements.

California example. A homeowner calls a plumber because a water heater failed; the plumber replaces it the same day for a modest, capped amount. That can fit the service and repair contract exception. But if the plumber had knocked on the door uninvited and *sold* the homeowner a larger job, the exception is gone and the full home improvement contract rules apply.

Covers: cslb-contract-5.

New residential construction is a different statute

Building a **new single-family residence** is governed by its **own writing statute, separate from the home improvement rules** (B&P §7164). These contracts must also be **in writing with specified terms**. Down-payment rules are commonly confused: the **lesser of $1,000 or 10%** cap is the **home-improvement** rule (§7159/§7159.5); §7164 governs the new-dwelling written contract, and its exact down-payment limit should be **confirmed against the live statute** rather than assumed to match the home-improvement cap. The exam point is structural: **home improvement (existing home)** and **new residential construction (new home)** are governed by **different code sections**. Answering a new-construction question with the home-improvement rule — or vice versa — is a classic wrong turn.

Covers: cslb-contract-4.

Part B — Payments: how the money must move

The down-payment cap: the lesser of $1,000 or 10%

This is one of the most frequently tested numbers on the entire exam, and candidates routinely get it wrong. For a **home improvement contract**, the down payment a contractor may collect is limited to the **lesser of $1,000 or 10% of the contract price** (B&P §7159.5; §7159).

It is **not** a flat 10%, and it is **not** always $1,000 — you always take **whichever figure is smaller**.

Work two examples until the pattern is automatic:

- **$6,000 job:** 10% is $600. Since $600 is less than $1,000, the cap is **$600**.
- **$30,000 job:** 10% is $3,000, but $1,000 is less. The cap is **$1,000**.

Notice the crossover point: once 10% of the job exceeds $1,000 — that is, on any contract above **$10,000** — the $1,000 ceiling controls and the down payment is capped at $1,000 no matter how large the job. Below $10,000, the 10% figure controls. The three trap answers to reject: "flat 10%," "always $1,000," and "whichever is *greater*."

California example. A contractor signs a $50,000 whole-house repipe. Tempted to ask for 10% ($5,000) up front, the contractor may legally collect only **$1,000** as a down payment, because $1,000 is the lesser figure. The rest must be collected through payments tied to completed work.

Covers: cslb-contract-2.

Progress payments may not exceed the value of work performed

After the down payment, **every payment on a home improvement contract must be tied to work actually completed**. A contractor **may not collect payments that run ahead of the value of the work and materials delivered to date** (B&P §7159.5). The payment schedule must reflect the value of work in place at each stage. The purpose is consumer protection: the rule stops contractors from front-loading collections and then walking off an underperformed job with the customer's money.

A key misconception to bury: it is **not** enough that the total stays within the contract price. Even if you never collect more than the full price overall, collecting *ahead of the work at any stage* violates the rule. On a consumer job, billing must track the work as it happens.

California example. On a $24,000 remodel, a contractor finishes roughly a quarter of the work and bills for it — appropriate. What the contractor may **not** do is demand half the contract price when only a quarter of the job is complete, even though half is still under the total. The bill must not outrun the work.

Covers: cslb-contract-3.

Progress payments and retention on larger jobs

On larger projects, the contractor is paid in **progress payments** as work is completed — typically against a **schedule of values** that breaks the job into priced components — rather than in one lump at the end. The owner commonly withholds a **retention**: a percentage of each progress payment held back until the work is **complete and accepted**, as security that the contractor will finish and correct any defects.

Understand what retention *is*: it is **money the contractor has already earned but that the owner holds back temporarily** — not an extra charge added to the job. When the work is done and accepted, the retention must be **released within the time the law allows** (Cal. Civ. Code §8814 governs retention release on private works). As with all progress billing, the amounts billed must reflect **work actually in place**.

California example. On a commercial tenant-improvement job, the owner pays each monthly progress billing minus a retention withheld from the earned amount. The contractor completes the punch list; the owner accepts the work; the withheld retention must then be released to the contractor within the statutory window.

Covers: cslb-contract-13.

Over-billing and under-billing

On progress-billed jobs, the billings can drift ahead of or behind the actual work, and the exam expects you to know the consequences of each.

- **Over-billing** means billing **more than the value of the work completed** to date. It flatters near-term cash flow, but it represents work **not yet earned**, it can **hide trouble** on a job, and on a **consumer** contract it can **violate the law** that payments may not exceed work performed (B&P §7159.5). Over-billing is not simply a clever cash strategy — on a home improvement job it can be a legal violation.
- **Under-billing** means the contractor has **done more work than it has billed for**. The contractor is effectively **financing the owner** and may run into a **cash squeeze** even on a profitable job.

The discipline that keeps a job both honest and solvent is **tracking billings against percent complete** — so the money collected stays lined up with the value actually installed.

Covers: cslb-contract-17.

Part C — Bidding

Contractors price work through several **bid structures**, and the exam tests **who bears the risk** under each. There is no single California code section here — this is an **estimating and business concept**, not a statute.

- **Lump-sum (fixed-price):** one total price for a **defined scope**. The contractor bears the **quantity risk** — if the job takes more material or labor than expected, that is the contractor's loss (and any savings, the contractor's gain). Best when the scope and quantities are well defined.
- **Unit-price:** a price **per unit** — per cubic yard of excavation, per fixture, per linear foot. The **final total depends on the actual quantities** installed. Useful when the scope is known but the exact quantities are uncertain.

- **Cost-plus:** the owner reimburses the contractor's **actual costs plus a fee or percentage**. This shifts **cost risk toward the owner**, because the final number is not fixed. It does **not** cap the owner's exposure the way a fixed-price bid does.

California example. A grading contractor bidding an excavation of uncertain depth prices it **per cubic yard** (unit-price), so both sides are protected if the dirt quantity turns out higher or lower than estimated. Had the contractor bid a single **lump sum**, an unexpectedly large excavation would come straight out of the contractor's margin.

Covers: cslb-contract-9.

Part D — Cost control, change orders, and purchasing

Estimating and cost control

Sound cost control **starts with an accurate estimate** and **continues as active tracking**. A good estimate builds up from **material and labor takeoffs**, **subcontractor quotes**, **equipment**, and a **markup that recovers overhead and profit** — not just direct costs. Then, throughout the job, the contractor **tracks actual costs against the estimate**, comparing committed and actual spending to the budget so that **overruns are caught early**, while there is still time to adjust. Two ideas the exam rewards: an estimate is a **living benchmark**, not a one-time document; and **covering direct costs alone is not profit** — overhead and profit markup must also be recovered. Poor estimating and unmonitored spending are leading causes of contractor failure. (Cost-control math overlaps the markup and overhead-recovery calculations in Section 2, Business Finances.)

Covers: cslb-contract-11.

Change orders

A **change order** is a **written amendment** to the contract documenting a change in **scope, price, or schedule** after work has begun. Change orders should be **in writing and signed before the extra work proceeds**, and they should spell out the **added or deleted work, the price adjustment, and any time impact**. This is a contract-administration best practice rather than a single code section, but it is heavily tested because **oral change orders are a classic source of disputes and nonpayment**: months later the parties disagree about what was actually authorized, and the contractor who did extra work on a handshake may not get paid. Do not rely on papering a change *after* the extra work is finished.

California example. Mid-remodel, a homeowner asks the contractor to add recessed lighting. The contractor writes a change order describing the added work, the extra cost, and the added days, both parties sign it, *then* the electrician proceeds. When the final invoice arrives, there is a signed record of exactly what was authorized — no dispute over the extra charge.

Covers: cslb-contract-10.

Purchasing materials — sale-of-goods terms

When a contractor **buys materials**, that transaction is a **sale of goods** governed by the **Commercial Code — California's version of UCC Article 2** (Cal. Commercial Code, Division 2). A few concepts matter for managing supplier relationships:

- **Warranties**, both **express** and **implied** — including the implied warranties of **merchantability** and of **fitness for a particular purpose**. Implied warranties can attach **even when nothing is written down**.
- **When title and risk of loss pass** from seller to buyer, which is **not** simply "when the buyer physically uses the goods" — it turns on the delivery terms of the sale.

- **Remedies for nonconforming goods** when what is delivered does not match what was ordered.

Understanding these terms helps a contractor handle supplier disputes and price materials with the right risk in mind. This is **background law** for the purchasing side of cost control, but it is testable.

Covers: cslb-contract-14.

Part E — Project organization and scheduling

Organizing a project means **sequencing the work** and **coordinating labor, materials, and subcontractors** so tasks happen in the right order. The scheduling tool the exam names is the **critical path method (CPM)**. The **critical path** is the **longest chain of dependent tasks** that determines the project's **minimum possible duration**. Two consequences follow:

- A **delay to any task on the critical path delays the whole project.**
- Tasks that are **not** on the critical path have **float** (slack) — they can slip somewhat **without pushing the completion date**.

Watch two misconceptions: delaying *any* single task does **not** automatically delay the whole job — **only critical-path tasks** do — and the critical path is the longest **chain of dependent activities**, not simply the single longest-duration activity. Good scheduling reduces idle crews, missed deadlines, and cost overruns. Like bidding and estimating, this is a **project-management concept with no California code section**.

California example. On a small commercial build, framing → rough electrical → drywall sit on the critical path; a two-day slip in framing pushes the finish date by two days. Meanwhile, ordering the final landscaping has plenty of float — it can wait without affecting completion, so the superintendent focuses attention on the critical chain.

Covers: cslb-contract-12.

Key numbers & deadlines

Down-payment cap (home improvement): the **lesser of $1,000 or 10%** of the contract price (B&P §7159.5). Below a $10,000 job, 10% controls; above it, the $1,000 ceiling controls.

New residential construction (§7164): written contract required; do **not** assume the home-improvement down-payment cap applies — confirm §7164's own limit against leginfo before relying on a figure.

Progress payments: may **never exceed the value of work performed** to date (B&P §7159.5).

Right to cancel a home-solicitation sale: 3 business days (standard) · **5 business days** if the buyer is **65 or older** · **7 business days** for certain **declared-disaster** residence repairs (Civ. Code §§1689.5–1689.7). Counted in **business days**.

Home improvement contract: must be **in writing and signed before work begins**, with §7159 disclosures — mechanics-lien warning, 3-day cancellation notice, and CSLB/license/bond information (B&P §7159; §7030).

Home improvement salesperson: must be **registered** (B&P §§7151.2, 7153).

Retention (private works): released within the statutory window after completion and acceptance (Cal. Civ. Code §8814).

Current-law flag: §7159 was amended by **SB 517 (Stats. 2025, Ch. 585)**, effective **1/1/2026** — figures above reflect current law.

Summary

Section 5 is the largest slice of the exam because the contract is where California contractor law is put into practice. For consumer work the governing instinct is simple: the deal must be **in writing and signed before work begins**, and the writing must carry the §7159 disclosures — most importantly the **mechanics-lien warning**, the **three-day cancellation notice**, and the **CSLB/bond information**. The money is regulated too: the down payment is capped at the **lesser of $1,000 or 10%**, and every later payment must **track the work actually performed**. Different jobs follow different statutes — **home improvement** (§7159), **new residential construction** (§7164), and the narrow **service and repair** exception (§7159.10) — and matching the right rule to the right job is half the battle.

Woven through the same section are the business skills a contractor uses to execute the work profitably: choosing the right **bid structure** for the risk, building and then **tracking an estimate**, documenting every change with a **signed change order**, understanding **warranties and risk of loss** when buying materials, sequencing the job along the **critical path**, and keeping **progress billings and retention** lined up with the value in place. Master the statutes for the exam points, and the business concepts for the questions that ask you to reason like a working contractor.

Key takeaways

- **Write it and sign it first.** Home improvement and new-home contracts must be in writing and signed **before work begins** — a licensing requirement, not just good practice (B&P §7159).
- **Down payment = the lesser of $1,000 or 10%.** Not flat 10%, not always $1,000, and never the *greater* of the two (B&P §7159.5).
- **Payments must track the work.** Progress payments may never exceed the value of work performed, even if the total stays under the contract price (B&P §7159.5).

- **Know the three notices.** Mechanics-lien warning, 3-day cancellation right, and CSLB/bond disclosure are all required §7159/ §7030 contract elements — and they are separate items.
- **3 / 5 / 7 days to cancel.** Three business days standard; five if the buyer is 65+; seven for certain declared-disaster repairs (Civ. Code §§1689.5–1689.7).
- **Right job, right statute.** Home improvement (§7159), new residential construction (§7164), and service and repair (§7159.10) are governed by different sections with different rules.
- **Home improvement salespersons must register** (B&P §§7151.2, 7153).
- **Bid risk differs by structure:** lump-sum puts quantity risk on the contractor; unit-price floats with actual quantities; cost-plus shifts cost risk to the owner.
- **Document every change** with a signed change order before doing the extra work; oral change orders are a dispute waiting to happen.
- **Only critical-path delays move the finish date;** tasks with float can slip without pushing completion.
- **Watch billing drift:** over-billing can be a legal violation on consumer jobs and hides trouble; under-billing quietly finances the owner and squeezes cash.

Sources

Official California primary law, cited to the Legislative Information site (leginfo.legislature.ca.gov) and the CSLB Law Book. Statutory figures reflect law in force as of the 2026 edition; §7159 was amended by SB 517 (Stats. 2025, Ch. 585), eff. 1/1/2026.

- Cal. Bus. & Prof. Code § 7030 — mandatory consumer notice (CSLB, bond, contact/complaint information).
- Cal. Bus. & Prof. Code § 7151; § 7151.2; § 7152; § 7153 — definitions of "home improvement," "home improvement contract," and "home

improvement salesperson," and salesperson registration.

- Cal. Bus. & Prof. Code § 7159 — home improvement contract: required writing, terms, and notices (amended by SB 517, Stats. 2025, Ch. 585, eff. 1/1/2026).
- Cal. Bus. & Prof. Code § 7159.5 — home improvement down-payment cap (lesser of $1,000 or 10%) and rule that payments may not exceed the value of work performed.
- Cal. Bus. & Prof. Code § 7159.10 — service and repair contract exception and its conditions.
- Cal. Bus. & Prof. Code § 7164 — required written contract for new single-family residential construction (confirm its down-payment limit against leginfo before publishing).
- Cal. Civ. Code §§ 1689.5–1689.7 — Home Solicitation Sales Act: three-business-day cancellation right, with five-day (age 65+) and seven-day (declared-disaster residence repair) extensions.
- Cal. Civ. Code § 8814 — release of retention on private works of improvement.
- Cal. Commercial Code, Division 2 (Sales) — California's UCC Article 2: warranties, passage of title and risk of loss, and remedies for nonconforming goods.
- CSLB, *California Contractors License Law & Reference Book* (2026 ed.) — reprints B&P Code Chapter 9 and CSLB regulations with commentary.
- CSLB, *Law and Business Study Guide* — official exam content outline (Section 5: Contract Requirements and Execution).

Business and project-management topics in this chapter — bid structures, estimating and cost control, change orders, critical-path scheduling, and over/under-billing — are standard construction-management concepts with no single California code section, and are presented as business practice rather than as statutory law.

Chapter 6 — Public Works

CSLB Law & Business Study Book · Section #6 (5% of the exam — a smaller but conceptually distinct section)

Introduction

Public works make up only about 5% of the Law & Business exam — roughly six questions — but they are worth studying carefully, because on a public job almost every rule you learned for private work **flips**. The wage you must pay is different, the paperwork you must keep is different, and the remedy an unpaid subcontractor uses is different. Candidates who breeze through this section on the assumption that "a job is a job" tend to miss these questions, because the intuition they built studying private contracts leads them straight to the wrong answer.

A **public work** is, broadly, a construction project paid for in whole or in part with **public funds** — a school, a road, a county building, a water district pump station. Three things change the moment a project is public. First, workers must be paid the **prevailing wage**, a government-set rate that is usually well above the ordinary minimum wage. Second, the contractor must be **registered with the Department of Industrial Relations (DIR)** before it can even bid — a step entirely separate from holding a CSLB license. Third, because you **cannot record a mechanics lien against public property**, unpaid subs and suppliers are protected by a required **payment bond** and by public-works **stop-payment-notice** rights instead. Learn those three flips and you have the backbone of the section.

One current-law note before we begin. California's public-works **registration** regime comes from the **SB 854** reforms, and its fee and renewal mechanics are adjusted periodically; the penalty dollar figures below are likewise set by statute and can change. Treat the numbers in this chapter as the values in force under current law, and confirm any figure against the live code or the DIR public-works pages before relying on it in practice.

Learning objectives

After working through this chapter you should be able to:

- Define a **public work** and state the general **$1,000 project trigger** above which **prevailing wage** (not the ordinary minimum wage) must be paid (Lab. Code §§1720, 1720.2, 1771).
- Explain that prevailing-wage rates are **determined and published by the DIR Director** per craft and locality — not negotiated — and that they **include fringe benefits** (Lab. Code §§1773, 1773.1).
- State that a contractor or subcontractor must be **registered with DIR before bidding** public work, separate from CSLB licensure (Lab. Code §§1725.5, 1771.1).
- Describe the obligation to keep and furnish **certified payroll records** (Lab. Code §1776).
- Explain the **apprenticeship** ratio and dispatch obligations on public works (Lab. Code §1777.5).
- Identify the **penalties** for underpaying prevailing wages and for failing to pay public-works overtime, and explain **debarment** (Lab. Code §§1775, 1813).
- Explain why an unpaid sub **cannot lien public property**, and how the required **payment bond** and public-works **stop-payment notice** replace the lien (Civ. Code §§9550 et seq., 9100).
- Distinguish a **bid bond**, a **performance bond**, and a **payment bond** on a public contract (PCC §§7103, 10221; CCP §995.311).
- Recognize the **skilled-and-trained-workforce** requirement imposed on certain public projects and how it differs from ordinary apprenticeship ratios (PCC §2600 et seq.).

Part A — Prevailing wage and the public-works wage regime

What a public work is, and the prevailing-wage requirement

A **public work** is generally a construction, alteration, demolition, installation, or repair project **paid for in whole or in part out of public funds** (Lab. Code §§1720, 1720.2). On public works, contractors and subcontractors must pay their workers the applicable **prevailing wage** — a government-set minimum **wage-and-benefit** rate for each craft and locality — rather than merely the ordinary state minimum wage (Lab. Code §1771). The requirement generally attaches once the **project exceeds $1,000**. Prevailing wage is typically **substantially higher** than minimum wage, and it must be paid to **all covered workers** on the project.

The exam's favorite trap here is the wage standard itself. Paying the California minimum wage does **not** satisfy a public-works obligation; the standard is the published prevailing rate, which is usually much higher. A second trap is the idea that prevailing wage only reaches giant projects — it does not. The trigger is a modest **$1,000**, so even fairly small public jobs are covered.

California example. A licensed contractor wins a $60,000 contract to repaint a county-owned community center. Because the job is paid with public funds and far exceeds $1,000, every painter on the crew must be paid the prevailing wage for the painting classification in that county — not the contractor's usual private-job rate, and not the state minimum wage. Paying anything less is an underpayment the state can pursue.

Covers: cslb-pw-1.

Determining the prevailing-wage rate

The rate is **not** something the contractor picks or negotiates with the worker. The **Director of the Department of Industrial Relations (DIR)** determines the applicable prevailing-wage rates for each **craft, classification, and locality** and publishes **wage determinations** that are updated periodically (Lab. Code §§1773, 1773.1). The contractor's job is to **look up the correct current rate** for the trade and location of the project and pay at least that rate — including the required **fringe-benefit** component — to every covered worker.

Two misconceptions get tested. The first is that a contractor and a willing worker can simply **agree** on a lower number; they cannot, because the published determination is a floor. The second is that prevailing wage is only a base hourly figure — in fact the determination includes an **employer-paid benefits** component on top of the base rate, so "just the hourly cash wage" is an incomplete answer.

California example. Before bidding a public school reroofing job in a particular county, a roofing contractor pulls the DIR Director's current wage determination for the roofer classification in that locality. The determination lists both a base hourly rate and a fringe-benefit amount. The contractor must build its bid around paying at least that combined figure — not a rate it negotiates with its crew.

Covers: cslb-pw-2.

DIR contractor and subcontractor registration

Holding a CSLB license is **not enough** to work public jobs. Separately, a contractor or subcontractor must be **registered with DIR** to bid on or perform public works (Lab. Code §§1725.5, 1771.1). This registration regime — a product of the **SB 854** reforms — requires paying a fee and **maintaining current registration**, and it is a **prerequisite to bidding**: an unregistered contractor generally **cannot lawfully be awarded** a public-works contract. Public projects are also reported to DIR (through the PWC-100 project registration).

The exam tests two points. First, DIR registration is a **distinct step**, independent of CSLB licensure — a CSLB license alone does **not** qualify you to bid public work. Second, registration must be **in place before bidding**; a contractor cannot win the award first and register afterward. Missing or lapsed registration **disqualifies the bid**.

California example. A general contractor with a valid Class B license assumes its CSLB license is all it needs and submits a bid on a city public-works project. Because it never registered with DIR as a public-works contractor, its bid is not eligible for award. A competitor with the same license class — but current DIR registration — is the one that can actually be awarded the job.

Covers: cslb-pw-3.

> **Verify-often flag.** The DIR public-works **registration fee and renewal mechanics** (SB 854 regime) are adjusted from time to time. The *requirement* to register before bidding is stable; confirm the current fee/renewal specifics at the DIR public-works pages before relying on them.

Certified payroll records

Public works run on **proof**. Contractors and subcontractors must keep **certified payroll records** showing each worker's **classification, hours worked, and the wages and benefits paid**, and must **furnish** those records as required — commonly by submitting them **electronically to DIR** (Lab. Code §1776). Certified payroll is the mechanism by which the state **verifies that prevailing wages were actually paid**. Failing to keep or submit the records, or **falsifying** them, carries penalties and can support a finding of underpayment.

The tested points are simple but easy to miss. Ordinary private-job payroll records do **not** satisfy the certified-payroll requirement — the certified form and the certification itself are what the law demands. And certified payroll is **not optional** just because a contractor believes it paid everyone correctly; the obligation to document and furnish is independent of good intentions.

California example. A subcontractor on a public transit project pays its electricians the correct prevailing rate but keeps only its usual internal timesheets and never submits certified payroll to DIR. Even though the wages were right, the failure to maintain and furnish certified payroll is itself a violation and exposes the sub to penalties.

Covers: cslb-pw-4.

Apprenticeship requirements on public works

Public-works projects generally require contractors to **employ apprentices** from **state-approved apprenticeship programs** in a set **ratio** to journey-level workers for each apprenticeable craft, and to make the required **apprenticeship contributions** (Lab. Code §1777.5). Practically, the contractor must **request dispatch** of apprentices from the approved program and meet the applicable **ratio**. The goal is workforce training. Failing to use apprentices as required is a **violation with its own penalties**, separate from the wage rules.

Watch the boundary the exam draws: apprenticeship ratios of this kind are a **public-works** obligation and do **not** apply to ordinary private jobs the same way. And a contractor cannot simply **decline** to use apprentices without consequence — the dispatch request and ratio are mandatory where the rule applies.

California example. On a public library construction project, an electrical subcontractor must request apprentice electricians from a state-approved apprenticeship program and staff the job so that apprentices work in the required ratio to its journey-level electricians. Skipping that step — running an all-journeyman crew because it is simpler — is a §1777.5 violation.

Covers: cslb-pw-5.

Penalties for prevailing-wage and overtime violations

Getting the wages wrong on a public job costs **more than the shortfall**. Underpaying prevailing wages triggers **penalties in addition to** paying the **back wages** owed: the law imposes a **per-day, per-worker** penalty for underpayment — **up to $200 per day, per underpaid worker** under Lab. Code §1775 — assessed on top of the wages themselves. Separately, failing to pay the required **overtime** rate on public work carries its own penalty — **$25 per worker, per day** of overtime violation, under Lab. Code §1813. And for **serious or repeated** violations, enforcement can lead to **debarment**: a period during which the contractor is **barred from bidding on public works** at all.

Two misconceptions are tested. The first is that the only consequence of underpayment is quietly **paying the difference later** — in reality the penalties and possible debarment stack on top. The second is that **overtime rules do not apply** to public jobs — they do, with their own §1813 penalty.

California example. A contractor underpays five laborers on a public road project for a stretch of the job. Beyond repaying the back wages to all five, the contractor faces a per-day, per-worker penalty under §1775 (up to $200/day each), plus §1813 overtime penalties for any unpaid overtime, and — if the violations are serious or repeated — a period of debarment that keeps it off public bids entirely.

Covers: cslb-pw-6.

> **Verify-often flag.** The **§1775 maximum penalty** (up to $200/day/worker) is a statutory ceiling the Labor Commissioner applies within a range based on the nature of the violation, and penalty figures are subject to legislative change. The **§1813** overtime penalty is $25 per worker per day. Confirm both against the live Labor Code before relying on exact dollar figures.

Part B — Bonds and payment remedies on public works

No mechanics lien on public property — the payment bond and stop notice instead

This is the **single most important remedies concept** in the section, and the one candidates most often get wrong by importing private-work habits. **You cannot record a mechanics lien against public property.** A courthouse, a school, a public road — none of it can be encumbered by a private lien. Instead, public works are protected by a **required payment bond** that the **prime contractor must furnish** on public projects above a statutory threshold, **guaranteeing payment to subcontractors and suppliers** (Civ. Code §9550 et seq.). An unpaid claimant pursues a **claim against that payment bond**, and may **also** serve a public-works **stop payment notice** to reach **undisbursed public funds** still held by the public agency (Civ. Code §9100). These bond and stop-notice remedies **replace** the lien that simply is not available on a public job.

The exam's trap is the mirror image of the private-work rule you learned in Section 4. There, an unpaid sub can lien the owner's private property. Here, that door is closed — so answering a public-works nonpayment question with "record a mechanics lien" is wrong. The other misconception to bury is that subs have **no protection at all** on public work; they are protected, just through the **payment bond and stop notice** rather than a lien.

California example. A drywall subcontractor finishes its work on a new public elementary school and is never paid by the prime. It cannot lien the school — it is public property. Its remedy is to make a **claim on the prime's payment bond**, and, if the district still holds undisbursed funds, to serve a **public-works stop payment notice** to freeze money the agency has not yet paid out.

Covers: cslb-pw-7.

Bid, performance, and payment bonds on public contracts

Public contracts commonly require **several surety bonds**, and the exam tests the distinct **purpose** of each. All three are **three-party surety arrangements** — the **principal** (contractor), the **obligee** (the public agency or, for a payment bond, the protected claimants), and the **surety** — and if the surety has to pay out, the **contractor must reimburse it** (PCC §§7103, 10221; CCP §995.311):

- **Bid bond (bid security):** guarantees that a **winning bidder will actually enter into the contract** (and post the required bonds). If the low bidder backs out, the bid bond covers the agency's cost of going to the next bidder.
- **Performance bond:** guarantees that the contractor will **complete the work according to the contract**. If the contractor defaults, the surety arranges or funds completion.
- **Payment bond:** guarantees **payment to subcontractors and suppliers** — the bond that unpaid claimants pursue when there can be no lien (tying back to the previous subtopic).

The classic trap is mixing up the **performance** and **payment** bonds: a **performance** bond does **not** protect subs' right to payment — that is the **payment** bond's job. Another is thinking a **bid** bond obligates the surety to **complete the work** — it does not; it only backs the bidder's promise to sign the contract.

California example. A general contractor is the low bidder on a county public-works job. To bid, it posted a **bid bond**; to sign the contract, it must furnish a **performance bond** guaranteeing completion and a **payment bond** guaranteeing its subs and suppliers get paid. When a paving subcontractor later goes unpaid, it looks to the **payment bond** — not the performance bond — for recovery.

Covers: cslb-pw-8.

Part C — Skilled-and-trained-workforce requirements

A higher workforce standard on certain public projects

Beyond the ordinary apprenticeship ratios, **certain** public projects require the contractor and its subcontractors to use a **skilled and trained workforce** (PCC §2600 et seq.). This means a **set percentage** of the workers in each apprenticeable craft must be **graduates of, or apprentices in, state-approved apprenticeship programs**, and the contractor must provide **monthly compliance reports** where the requirement applies. It is an **additional** workforce mandate, imposed on top of — and higher than — the basic apprenticeship ratio, on the specific projects where the law requires it.

Two points are testable. First, the skilled-and-trained-workforce rule does **not** apply to **all** public works — it applies to **specified** projects (for example, certain large or particular categories the Legislature designates). Second, meeting the **basic apprenticeship ratio** does **not** automatically satisfy the skilled-and-trained standard; the skilled-and-trained rule sets a distinct, higher bar tied to a percentage of program-trained workers, plus reporting.

California example. A contractor on a public project that carries a skilled-and-trained-workforce requirement must ensure that a required percentage of its workers in each craft graduated from (or are enrolled in) state-approved apprenticeship programs, and must file **monthly reports** demonstrating compliance. A contractor that met only the ordinary apprentice-to-journeyman ratio, without hitting the skilled-and-trained percentage, would still be out of compliance on that project.

Covers: cslb-pw-9.

Key numbers & deadlines

Prevailing wage applies: on public works generally where the **project exceeds $1,000** (Lab. Code §§1720, 1720.2, 1771). The standard is the **published prevailing rate**, not the state minimum wage.

Who sets the rate: the **DIR Director**, per **craft and locality**, in published wage determinations that **include fringe benefits** (Lab. Code §§1773, 1773.1). It is **not** negotiable.

DIR registration: contractor and subcontractor must be **registered with DIR before bidding** public work — separate from the CSLB license (Lab. Code §§1725.5, 1771.1). *SB 854 regime; confirm current fee/renewal mechanics.*

Certified payroll: must be **kept and furnished** (often electronically to DIR) showing classification, hours, wages, and benefits (Lab. Code §1776).

Apprenticeship: required **ratio** of state-approved-program apprentices to journey workers; contractor must **request dispatch** (Lab. Code §1777.5).

Penalties: underpayment — **up to $200 per worker, per day** (Lab. Code §1775); public-works overtime failure — **$25 per worker, per day** (Lab. Code §1813); serious/repeated violations can lead to **debarment** from public bidding. *Confirm dollar figures against the live code.*

No lien on public property. Remedies are the required **payment bond** (Civ. Code §9550 et seq.) and the **public-works stop payment notice** reaching **undisbursed public funds** (Civ. Code §9100).

Three public-contract bonds: bid bond (bidder will sign) · **performance bond** (work will be completed) · **payment bond** (subs and suppliers will be paid) — three-party surety arrangements (PCC §§7103, 10221; CCP §995.311).

Skilled-and-trained workforce: on **specified** public projects, a **percentage** of each craft must be apprenticeship-program

> graduates/apprentices, with **monthly compliance reports** (PCC §2600 et seq.) — a higher bar than the basic apprenticeship ratio.

Summary

Public Works is a small section, but it tests a genuinely different world from private construction, and the whole section rewards spotting the **flips**. On a public job — any project paid with public funds and generally over **$1,000** — workers must be paid the **prevailing wage**, a **DIR-published** rate per craft and locality that **includes fringe benefits** and is far above the ordinary minimum wage (Lab. Code §§1720, 1771, 1773). Before it can even bid, a contractor must be **registered with DIR**, a step entirely separate from its CSLB license (Lab. Code §1725.5). Once on the job, it must keep and furnish **certified payroll** (Lab. Code §1776) and staff the work with **apprentices** in the required ratio (Lab. Code §1777.5). Getting the wages wrong costs **more than the back pay**: per-day, per-worker **penalties** under §1775, overtime penalties under §1813, and possible **debarment** from future public work.

The other pillar of the section is **remedies**. Because you **cannot lien public property**, the law substitutes a required **payment bond** and a public-works **stop payment notice** as the way unpaid subs and suppliers recover (Civ. Code §§9550, 9100). Public contracts also layer in a family of **surety bonds** — the **bid** bond backs the promise to sign, the **performance** bond backs completion, and the **payment** bond backs payment to subs — and confusing the performance bond with the payment bond is the most common error. Finally, some **specified** projects impose a **skilled-and-trained-workforce** standard (PCC §2600 et seq.) stricter than the ordinary apprenticeship ratio. Learn the wage flip, the registration step, and the no-lien/payment-bond remedy, and you will capture the bulk of this section's points.

Key takeaways

- **Prevailing wage, not minimum wage.** Public works (generally **over $1,000**) require the **published prevailing rate**, which includes **fringe benefits** and is set by the **DIR Director** — never negotiated (Lab. Code §§1720, 1771, 1773).
- **DIR registration comes before bidding.** A CSLB license alone does **not** qualify you for public work; you must be **registered with DIR first** (Lab. Code §§1725.5, 1771.1).
- **Keep certified payroll.** Classification, hours, wages, and benefits, furnished as required — ordinary private-job records do not count (Lab. Code §1776).
- **Use apprentices in the required ratio,** dispatched from state-approved programs (Lab. Code §1777.5).
- **Underpayment costs more than back wages.** Up to **$200/day/worker** (§1775) plus **$25/day/worker** overtime penalties (§1813), and serious or repeated violations can trigger **debarment**.
- **No mechanics lien on public property.** The remedy is a claim on the required **payment bond** (Civ. Code §9550 et seq.) and, for undisbursed funds, a **public-works stop payment notice** (Civ. Code §9100).
- **Know the three bonds. Bid** bond = the bidder will sign; **performance** bond = the work will be finished; **payment** bond = the subs get paid. Do not swap performance and payment (PCC §§7103, 10221; CCP §995.311).
- **Skilled-and-trained workforce** is a **higher, project-specific** standard requiring apprenticeship-program-trained workers plus monthly reporting — meeting the basic ratio is not enough (PCC §2600 et seq.).

Sources

Official California primary law, cited to the Legislative Information site (leginfo.legislature.ca.gov), with agency guidance from the Department *of Industrial Relations (dir.ca.gov). Statutory figures reflect law in force as of the 2026 edition. The DIR public-works registration regime derives from SB 854; its fee and renewal mechanics are adjusted periodically — confirm current specifics on the DIR public-works pages.*

- Cal. Lab. Code § 1720; § 1720.2 — definition of "public works" (projects paid in whole or part with public funds).
- Cal. Lab. Code § 1771 — requirement to pay prevailing wages on public works (general $1,000 project trigger).
- Cal. Lab. Code § 1773; § 1773.1 — DIR Director determines and publishes prevailing-wage rates per craft and locality, including the fringe-benefit component.
- Cal. Lab. Code § 1725.5; § 1771.1 — mandatory DIR contractor/subcontractor registration to bid or work on public works (SB 854 regime); registration required before bid award.
- Cal. Lab. Code § 1776 — certified payroll records: must be kept and furnished.
- Cal. Lab. Code § 1777.5 — apprenticeship ratio and dispatch requirements on public works.
- Cal. Lab. Code § 1775 — penalties for underpayment of prevailing wages (up to $200 per worker, per day; a statutory ceiling applied within a range — confirm current figure against the live code).
- Cal. Lab. Code § 1813 — penalty for failure to pay required overtime on public works ($25 per worker, per day).
- Cal. Civ. Code § 9550 et seq. — required payment bond on public works (no mechanics lien available against public property).
- Cal. Civ. Code § 9100 — public-works stop payment notice claimants (reaching undisbursed public funds).
- Cal. Pub. Contract Code § 7103; § 10221 — performance and payment bond requirements on public contracts.
- Cal. Code Civ. Proc. § 995.311 — surety bonds / bid security for public contracts.
- Cal. Pub. Contract Code § 2600 et seq. — skilled-and-trained-workforce requirements on specified public projects, including

monthly compliance reporting.

- DIR, *Public Works* (https://www.dir.ca.gov/public-works/publicworks.html) — registration, certified payroll, and the $1,000 prevailing-wage threshold.
- DIR, *Prevailing Wage* and DIR/OPRL, *Prevailing Wage Determinations* — official current wage rates by craft and locality.
- DLSE, *Prevailing Wage Manual* — enforcement and compliance guidance.
- CSLB, *Law and Business Study Guide* — official exam content outline (Section 6: Public Works).
- CSLB, *California Contractors License Law & Reference Book* (2026 ed.) — reprints related code and commentary.

Penalty dollar figures (§§ 1775, 1813) and the DIR registration fee/renewal mechanics are subject to legislative and administrative change; verify against the live Labor Code and DIR pages before relying on exact amounts.

Chapter 7 — Safety

CSLB Law & Business Study Book · Section #7 (14% of the exam)

Introduction

Safety is worth roughly one in seven questions on the Law & Business exam, and it is one of the most reliable places to earn points — if you memorize a short list of thresholds and time limits. Unlike the judgment-heavy contract and employment questions, most of Section 7 rewards flat recall: what a written safety program must contain, how fast a serious injury must be reported, at what depth a trench needs a permit, at what height fall protection kicks in. The numbers do not move much from year to year, and the wrong answers are predictable.

There is one idea that unlocks the whole section, and it is worth internalizing before any single rule: **California runs its own occupational safety program, and its standards are often stricter than the federal floor.** Candidates who reason from federal OSHA numbers walk into trap after trap — a 6-foot fall-protection trigger, a 24-hour reporting window, an exemption for tiny employers. In California, none of those federal instincts are safe. When a safety question offers a "federal" number and a "California" number, the California number is usually the answer.

Two current-law notes before we begin. First, the serious-injury **reporting rule** was tightened: Labor Code §6409.1 now says report **"immediately,"** and the familiar **8-hour outer limit** lives in the Cal/OSHA regulation, **8 CCR §342** — this chapter cites both correctly. Second, California adopted a new **indoor heat-illness standard (8 CCR §3396)** in **2024**, alongside the long-standing outdoor rule. Both are reflected below as current law.

Learning objectives

After working through this chapter you should be able to:

- Explain why **Cal/OSHA** — not federal OSHA — governs California job sites, and why its standards are often stricter (Lab. Code §6300).
- State that every employer must maintain a **written Injury and Illness Prevention Program (IIPP)** regardless of company size, and list its required elements (Lab. Code §6401.7; 8 CCR §3203).
- Give the **serious-injury/illness/fatality reporting window** correctly — **immediately, and no later than 8 hours** — and cite it to **8 CCR §342** (with Lab. Code §6409.1 for the "immediately" trigger).
- Distinguish the **8-hour serious-injury report** from the ongoing **Form 300 injury-log recordkeeping** (8 CCR §14300 et seq.).
- Describe how Cal/OSHA **grades violations** and when a willful violation causing death can become **criminal** (Lab. Code §6425).
- Apply the **trench/excavation** thresholds: permit at **5 feet** (Lab. Code §6500), protective systems against cave-in, and **registered-engineer** design for excavations deeper than **20 feet** (8 CCR §1541.1(c)).
- State the **fall-protection** trigger in California construction — **generally 7.5 feet** — and name the approved protection methods (8 CCR §1670).
- Explain the **heat-illness** requirements for outdoor and indoor work — water, shade, rest, training, plan (8 CCR §§3395, 3396).
- Describe employer duties under the **Hazard Communication Standard** — SDS, labels, inventory, training (8 CCR §5194) — and the rule that **unknown materials are treated as hazardous** until identified.
- Recognize the **substance-specific** standards for **asbestos, lead, and silica** (Lab. Code §6501.5; 8 CCR §§1529, 1532.1, 1532.3) and the separate **Proposition 65** warning duty (Health & Safety Code §25249.5 et seq.).

Part A — The Cal/OSHA framework

California is a state-plan state

The most important safety fact on the exam is jurisdictional. California operates its **own** occupational safety and health program — **Cal/OSHA**, the Division of Occupational Safety and Health — under the **California Occupational Safety and Health Act** (Lab. Code §6300 and following). It is not a pass-through of federal OSHA. Cal/OSHA writes and enforces its own standards, **inspects** job sites, and **issues citations and penalties** (Lab. Code §§6314, 6317). Because California is a **state-plan state**, its rules must be **at least as effective** as the federal minimum — and in practice they are frequently **stricter**. On a California job site, **California rules control**, not federal OSHA rules.

Two misconceptions to bury early. First, federal OSHA standards do **not** automatically govern California construction — the state plan does. Second, Cal/OSHA does **not** need to give advance notice before an inspection; in fact, advance notice of an inspection is generally prohibited. An inspector may arrive without warning, whether prompted by a complaint, an accident, or a targeted program.

California example. A contractor who trained under federal OSHA rules out of state assumes the federal 6-foot fall-protection trigger applies to his Bakersfield framing crew. He is wrong on the number and wrong on the framework: Cal/OSHA's construction standard governs the site, and its fall-protection trigger is generally **7.5 feet**. Reasoning from the federal number would have cost him the point — and, on a real job, a citation.

Covers: cslb-safety-1.

How Cal/OSHA grades violations — and when they turn criminal

Cal/OSHA does not treat every violation alike. It **classifies** them by severity — from **regulatory** and **general** violations up through **serious**, **willful**, and **repeat** — with **escalating civil penalties** as the category worsens. The most severe civil exposure is reserved for employers who **knowingly disregard** safety requirements.

The point the exam most wants you to remember is that enforcement is not always merely civil. A **willful** violation that causes a worker's **death or permanent injury** can bring **criminal** charges against the employer, including fines and possible imprisonment (Lab. Code §6425). So the two misconceptions to reject are that safety violations "only ever" result in civil fines, and that all violations carry the same penalty regardless of the employer's knowledge or intent. Severity and intent drive the consequence.

California example. A grading contractor is repeatedly warned that an unshored 12-foot trench is unsafe, keeps sending workers into it to save time, and a cave-in kills an employee. Beyond civil penalties, the employer faces potential **criminal** liability under Labor Code §6425 because the violation was **willful** and caused a death — a categorically different exposure than an ordinary first-time general violation.

Covers: cslb-safety-4.

Part B — Training and reporting requirements

The written Injury and Illness Prevention Program (IIPP)

If one safety rule appears more than any other on this exam, it is the **IIPP**. Every California employer must **establish, implement, and maintain** a **written** Injury and Illness Prevention Program (Lab. Code §6401.7; 8 CCR §3203). Two features are tested relentlessly: the program must be **written**, and it is required **regardless of company size** — there is no small-employer exemption from having an IIPP.

The regulation specifies the **required elements**, and the exam expects you to recognize them:

- A **responsible person** with authority and responsibility for the program.
- A **system for identifying and evaluating workplace hazards** — including scheduled inspections.
- **Procedures to correct** unsafe conditions and to **investigate** injuries and illnesses.
- **Safety and health training** — general and job-specific.
- A **system for communicating** with employees about safety, in a form they understand.
- **Recordkeeping** documenting the program's inspections and training.

Two misconceptions to reject: that small employers are exempt (they are not), and that an informal, unwritten safety practice is enough (it is not — the program must be **written**).

California example. A three-person drywall company figures it is too small to bother with paperwork and runs on verbal "be careful out there" habits. On inspection, Cal/OSHA cites it for having **no written IIPP** — the requirement applies no matter how few employees, and an unwritten practice does not satisfy §3203.

Covers: cslb-safety-2.

Reporting serious injuries, illnesses, and fatalities — immediately, no later than 8 hours

This is a high-frequency exam point, and the distractors are always the same. When a **serious** work-related injury or illness, or a **death**, occurs, the employer must report it to Cal/OSHA **immediately, and no later than 8 hours** after the employer knows or should have known of it. Get both halves right: the **trigger** is "immediately," and the **outer limit** is **8 hours — not 24 hours**, and **not the next business day**.

A citation detail worth getting exactly right, because it recently changed: **Labor Code §6409.1 now requires reporting "immediately"** (tightened by **AB 1804**), while the **"no longer than 8 hours"** cap is set by the Cal/OSHA regulation, **8 CCR §342**. Do **not** attribute the 8-hour deadline to §6409.1 alone — the 8-hour figure lives in **§342**. Failing to report in time is itself a **separate violation**, independent of whatever caused the incident. And note that it is not only fatalities that must be reported — **serious injuries and illnesses** trigger the duty too.

California example. A worker falls from a scaffold on a San Jose job site and is hospitalized with serious injuries at 9:00 a.m. The employer must notify Cal/OSHA **immediately, and in no event later than about 5:00 p.m. that day** — the 8-hour outer limit. Waiting until "tomorrow morning" or assuming a 24-hour window is a reporting violation on top of the underlying incident.

Covers: cslb-safety-3.

Injury and illness recordkeeping — the Form 300 log

Do not confuse the fast serious-injury **report** with the year-round **recordkeeping** obligation. Employers above the small-employer exemptions must record work-related injuries and illnesses on the **Cal/OSHA Form 300 log**, complete an incident report for each recordable case, and **post the annual summary (Form 300A)** for employees to see during the required posting period (8 CCR §14300 et seq.). The log tracks the **broader pattern** of recordable injuries and illnesses across the year; the 8-hour report handles a single **serious** event in real time.

The two misconceptions the exam probes: that the Form 300 log is the "same thing" as reporting a serious injury within 8 hours (they are **separate** obligations — one is an ongoing log, the other an immediate notification), and that the annual summary never has to be **posted** (it does — the 300A is posted for employees during the required window).

California example. A roofing company reports a serious fall to Cal/OSHA within the 8-hour window **and** logs it on its Form 300, along with the year's other recordable injuries. When the posting period arrives, it displays the **Form 300A** summary where workers can see it. Doing one of these does not excuse the other — the immediate report and the annual log-and-post are distinct duties.

Covers: cslb-safety-10.

Where safety-training duties come from

Cal/OSHA does not put all safety-training rules in one place; the exam expects you to know that the duty arises from **several** sources at once. Training obligations flow from the **IIPP** (general and job-specific training — at **hire**, for **new assignments**, and whenever **new hazards** appear), from the **Hazard Communication Standard** (chemical hazards — §5194), and from **specific standards** (fall protection, excavation, silica, and more). Training must be **documented**, and **untrained workers exposed to hazards** are a frequent source of citations (Lab. Code §6401.7; 8 CCR §§3203, 5194).

Two misconceptions to reject: that safety training is a **one-time** event (it is **ongoing** — at hire, for new tasks, and when hazards change), and that **undocumented** training is fine (Cal/OSHA expects **documentation**).

California example. A concrete cutter is moved to a task that generates silica dust without any new training, because he "already had orientation last year." That gap is exactly what draws a citation: training must be **job-specific and refreshed** when the hazard changes, and the employer must be able to **document** it.

Covers: cslb-safety-13.

Part C — General safety

The Construction Safety Orders

The practical rulebook behind the "general safety" subtopic is the **Construction Safety Orders (CSO)** — the body of Cal/OSHA regulations written specifically for **construction** (8 CCR §1500 and following). They cover **scaffolding**, **ladders**, **fall protection**, **excavation**, **cranes and hoisting**, **personal protective equipment (PPE)**, safe **access**, and **housekeeping**. A contractor must comply with the orders that apply to the activities actually on the site, **provide required PPE**, and keep access and housekeeping safe.

The distinction the exam draws: a **construction** site is governed by the **Construction Safety Orders**, not by the **General Industry Safety Orders** (which govern non-construction workplaces). And **PPE is not optional** because a crew is experienced — if the standard requires hard hats, eye protection, or respirators for the task, they must be provided and used.

California example. On a mid-rise job, the superintendent tries to apply general-industry scaffold habits he learned in a warehouse. The correct reference is the **Construction Safety Orders** — including their scaffold rules (8 CCR §1637) — which govern the construction site and set the specific requirements his crew must follow.

Covers: cslb-safety-12.

Fall protection — generally 7.5 feet in California construction

Falls are a leading cause of construction deaths, so Cal/OSHA requires fall protection above set heights. In California construction, fall protection is **generally required at 7.5 feet** (8 CCR §1670) — say "**generally**," because the exact trigger varies by the type of work and the specific standard (scaffolds, floor and wall openings, steel erection, and elevated platforms each carry their own rules). The key trap is the **federal** 6-foot general-construction trigger: it does **not** automatically apply in California, where the general construction figure is **7.5 feet**.

Fall protection is also **not just guardrails**. Approved methods include **guardrails**, **personal fall-arrest systems**, **safety nets**, and other approved means. Any of these can satisfy the requirement when properly used for the situation.

California example. A crew works on an elevated platform about **8 feet** up. In California construction that is **above the general 7.5-foot threshold**, so fall protection is required — the foreman rigs **personal fall-arrest harnesses** because guardrails are impractical there. A worker who assumed the federal "6 feet, guardrails only" rule would both misjudge the trigger and overlook the other approved methods.

Covers: cslb-safety-6.

Trenches and excavations — permit at 5 feet, engineer design past 20 feet

Excavation and trenching are among the deadliest construction activities, so the thresholds here are pure memorization — and heavily tested. A **Cal/OSHA permit is required** for a trench or excavation **5 feet or deeper** that a person will **enter**, and for certain shoring/construction work (Lab. Code §6500). Every excavation must be **protected against cave-in** by **sloping, shoring, or shielding** (8 CCR §1541.1). And protective systems for **very deep** excavations — **deeper than 20 feet** — must be **designed or approved by a registered professional engineer** (8 CCR §1541.1(c)). *(Separately, Lab. Code §6705 requires a registered-engineer trench plan on public-works contracts of $25,000 or more for excavations 5 ft or deeper — a different rule.)*

Lock in the two numbers and reject the two misconceptions: that a permit is needed only for "very deep" work (**no** — the permit trigger is **5 feet**), and that "any competent person" can design protection for excavations deeper than 20 feet (**no** — a **registered engineer** is required past 20 feet).

California example. A plumbing contractor digs a **6-foot** trench for a sewer line that a worker will enter. He needs a **Cal/OSHA permit** (5-

foot trigger) and **cave-in protection** — sloping, shoring, or a trench shield. If the excavation were deeper than **20 feet**, the protective system would have to be **engineered** by a registered professional engineer, not improvised on site.

Covers: cslb-safety-5.

Heat illness prevention — outdoor and, now, indoor

Cal/OSHA has long required **heat illness prevention for outdoor workers** (8 CCR §3395): access to **fresh drinking water**, **shade** available at set temperatures, **rest and cool-down breaks**, **training**, **emergency procedures**, and a **written heat illness prevention plan**. As of **2024**, a newer **indoor heat-illness standard (8 CCR §3396)** extends similar protections to **many indoor workplaces** where temperatures climb — a current-law update worth knowing.

Two misconceptions to reject: that heat rules apply **only outdoors** (an **indoor** standard now applies too), and that **water alone** satisfies the standard (it does not — **shade, rest, and training** are all required). Remember the shorthand **water–shade–rest**, plus training and a plan.

California example. A framing crew works through a Central Valley heat wave. The contractor must provide **cool drinking water**, **shade** to rest in when it gets hot, and **cool-down breaks**, and must have **trained** the crew on heat-illness symptoms under an established plan (§3395). If the same employer runs a hot indoor fabrication shop, the **indoor** standard (§3396) now imposes comparable duties there.

Covers: cslb-safety-11.

Part D — Hazardous and unknown materials

Hazard communication and Safety Data Sheets

The core of the "hazardous/unknown materials" subtopic is the **Hazard Communication Standard** (8 CCR §5194), California's worker **right-to-know** rule. An employer must **inform and train** workers about the hazardous chemicals they may be exposed to. Concretely, the employer must:

- Maintain a **Safety Data Sheet (SDS)** for each hazardous product on site.
- **Label** containers with their contents and hazards.
- Keep an **inventory** of the hazardous substances present.
- **Train** employees on the hazards and safe handling.

Two misconceptions the exam targets: that SDS are "only for the manufacturer," not the job-site employer (**wrong** — the **employer** must keep them on site and accessible), and that **labeling and training are optional** once SDS are on file (**wrong** — labels and training are **separate, required** duties).

California example. A painting contractor stocks solvents and coatings on a job. He keeps the **SDS** for each product accessible to the crew, **labels** every container, keeps a **chemical inventory**, and **trains** his painters on safe handling and what to do on exposure. Filing the SDS in a binder is not enough by itself — the labeling and training obligations stand on their own.

Covers: cslb-safety-7.

Treating unknown materials as hazardous

A short, commonly tested precautionary rule: when workers encounter a material of **unknown composition** — an **unlabeled container**, unidentified debris, or suspect building material in an older structure — the safe and required practice is to **treat it as hazardous until it is properly identified** (8 CCR §5194). Work should **stop**, or proceed only with **appropriate precautions**, **identification**, and, where needed, **testing**. This matters most in **older buildings**, where materials like **asbestos** or **lead** may be present with no obvious labeling.

The misconceptions to reject are the intuitive-but-wrong ones: that an unlabeled or unidentified material can be **assumed safe** until proven otherwise (it must be assumed **hazardous**), and that **only clearly labeled** products require precautions.

California example. During a 1950s-era remodel, a demolition crew hits a gray, fibrous pipe wrap no one can identify. The correct move is to **stop and treat it as hazardous** — potentially **asbestos** — and have it identified before disturbing it further, rather than assuming it is harmless because nothing on it says "danger."

Covers: cslb-safety-14.

Asbestos, lead, and silica — substance-specific standards

Some hazardous materials carry their **own strict standards** on top of general hazard communication, and the exam expects you to know the named three:

- **Asbestos** — asbestos-related work requires special **registration/certification**, training, and controls (Lab. Code §6501.5; 8 CCR §1529). This certification point is distinctive and tested.
- **Lead** in construction — regulated **exposure limits** and protective requirements (8 CCR §1532.1).
- **Respirable crystalline silica** — generated by **cutting concrete, stone, or masonry** — regulated with **exposure controls, dust suppression, and respiratory protection** (8 CCR §1532.3).

Two misconceptions to reject: that **general** hazard-communication training is enough to perform **asbestos** work (it is **not** — asbestos work needs **special certification/registration**), and that **silica dust** from cutting masonry is "not really" a regulated hazard (it **is** — §1532.3 governs it).

California example. A contractor bidding a concrete-cutting job must plan for **silica** controls — **wet-cutting or dust capture** and respiratory protection under §1532.3 — not just hand out generic SDS. And if the same demolition might disturb **asbestos**, he cannot self-perform the abatement on general HazCom training alone; **asbestos work requires the specific registration/certification** the standard demands.

Covers: cslb-safety-9.

Proposition 65 warnings — a separate right-to-know duty

Distinct from the Cal/OSHA hazard rules that protect **workers**, **Proposition 65** requires businesses to give a **clear and reasonable warning** before knowingly **exposing people** to chemicals the state has listed as causing **cancer or reproductive harm** (Health & Safety Code §25249.5 and following). In construction this can mean **warnings** about substances encountered or used on the job. Prop 65 is a **warning** law, and it operates **alongside**, not instead of, the Cal/OSHA **Hazard Communication Standard**.

The exam wants you to keep the two apart. Prop 65 and HazCom are **not** the same requirement: HazCom is about **informing and training workers** (SDS, labels, training); Prop 65 is about **warning people** of exposure to listed chemicals. And Prop 65 is **not** limited to consumer products — it can reach **worksite exposures** too.

California example. A remodeler working with materials that release a Prop 65-listed chemical must ensure the required **warning** is given for the exposure — a duty that exists **on top of** the SDS, labeling, and worker training he already owes under the Hazard Communication Standard. Satisfying one does not satisfy the other.

Covers: cslb-safety-8.

Key numbers & deadlines

Serious injury / illness / fatality report: immediately, and no later than 8 hours to Cal/OSHA. The **"immediately" trigger** is **Lab. Code §6409.1** (AB 1804); the **8-hour outer limit** is **8 CCR §342**. Not 24 hours, not next business day.

Written IIPP: required of **every** employer, **regardless of size**, and it must be **written** (Lab. Code §6401.7; 8 CCR §3203).

Trench / excavation permit: required at **5 feet or deeper** for excavations a worker will enter (Lab. Code §6500). Cave-in protection — slope, shore, or shield (8 CCR §1541.1).

Deep-excavation design: protective systems for excavations **deeper than 20 feet** must be designed/approved by a **registered professional engineer** (8 CCR §1541.1(c)).

Fall protection: generally 7.5 feet in California construction (8 CCR §1670) — say "generally," as the trigger varies by work type. Methods: guardrails, personal fall-arrest, safety nets, or other approved means. (Federal 6-foot general trigger does **not** control in California.)

Heat illness: water–shade–rest, plus training and a written plan — **outdoor §3395** and **indoor §3396** (indoor standard adopted **2024**).

Injury log: record on **Form 300**; **post the 300A** annual summary (8 CCR §14300 et seq.) — separate from the 8-hour report.

HazCom: SDS on site, container **labels**, chemical **inventory**, and worker **training** (8 CCR §5194). **Unknown materials = treat as hazardous** until identified.

Substance-specific: asbestos needs special **certification/registration** (Lab. Code §6501.5; 8 CCR §1529); **lead** (§1532.1); **silica** from cutting masonry (§1532.3).

Willful violation causing death: can be **criminal**, not just civil (Lab. Code §6425).

Jurisdiction: Cal/OSHA — a **state plan** — governs California job sites; standards are often **stricter** than federal (Lab. Code §6300).

Summary

Section 7 is a recall section, and it starts with a single orienting fact: **Cal/OSHA governs California job sites**, its standards are often **stricter** than federal, and reasoning from federal numbers is the fastest way to miss points. Build from there to the rules that appear again and again. Every employer, no matter how small, must maintain a **written IIPP** (§3203). A **serious injury, illness, or death** must be reported **immediately, no later than 8 hours** — the "immediately" trigger in Labor Code §6409.1 and the **8-hour cap in 8 CCR §342** — and that fast report is a **different** duty than the ongoing **Form 300** injury log. Enforcement is graded by severity, and a **willful** violation causing death can be **criminal** (§6425).

On the job-site side, memorize the thresholds: trench/excavation **permit at 5 feet**, cave-in protection always, **engineered** design past **20 feet**; fall protection **generally at 7.5 feet** in California construction; and heat-illness protection — **water, shade, rest**, training, and a plan — now for **indoor** (§3396) as well as **outdoor** (§3395) work. On the materials side, the **Hazard Communication Standard** drives the duties — **SDS, labels, inventory, training** — **unknown materials are treated as hazardous** until identified, **asbestos/lead/silica** carry their own strict standards (asbestos needs **special certification**), and **Proposition 65** adds a separate **warning** obligation that is not the same as HazCom. Get the numbers and the framework right, and this is one of the most dependable sections on the exam.

Key takeaways

- **Cal/OSHA controls, and it's often stricter.** California is a **state-plan** state; California standards — not federal OSHA — govern its job sites (Lab. Code §6300).
- **Every employer needs a written IIPP.** Required **regardless of size**, and it must be **written**, with the §3203 elements (Lab. Code

§6401.7).

- **Report serious injuries immediately — no later than 8 hours.** "Immediately" is §6409.1; the **8-hour cap is 8 CCR §342**. Not 24 hours, not next business day.
- **The injury log is separate.** Record on **Form 300** and **post the 300A** annual summary (8 CCR §14300 et seq.) — distinct from the 8-hour report.
- **Willful can be criminal.** A willful violation causing death or serious injury can bring **criminal** charges, not just civil penalties (Lab. Code §6425).
- **Trenches: 5 and 20.** Permit at **5 feet** (Lab. Code §6500); always protect against cave-in; **registered-engineer** design past **20 feet** (8 CCR §1541.1(c)).
- **Fall protection generally at 7.5 feet** in California construction — not the federal 6 feet; guardrails, fall-arrest, or nets all qualify (8 CCR §1670).
- **Heat illness: water–shade–rest, plus training and a plan** — now **indoor (§3396)** as well as **outdoor (§3395)**.
- **HazCom = SDS + labels + inventory + training** (8 CCR §5194); **treat unknown materials as hazardous** until identified.
- **Asbestos/lead/silica have their own standards** — asbestos needs **special certification** (Lab. Code §6501.5; 8 CCR §§1529, 1532.1, 1532.3); **Prop 65** adds a separate **warning** duty (Health & Safety Code §25249.5 et seq.).

Sources

Official California primary law and regulation, cited to the Legislative Information site (leginfo.legislature.ca.gov), the California Code of Regulations (Title 8, the Cal/OSHA safety orders), and the CSLB Law Book. Figures reflect law in force as of the 2026 edition. Two current-law items: Labor Code §6409.1 was tightened to "immediately" by AB

1804, with the 8-hour outer limit set by 8 CCR §342; and the indoor heat-illness standard (8 CCR §3396) was adopted in 2024.

- Cal. Lab. Code § 6300 — California Occupational Safety and Health Act; Cal/OSHA as the state-plan program governing California workplaces.
- Cal. Lab. Code §§ 6314, 6317 — Cal/OSHA inspection authority; citations and civil penalties.
- Cal. Lab. Code § 6401.7 — employer duty to establish a written Injury and Illness Prevention Program (IIPP).
- Cal. Code Regs., tit. 8, § 3203 — IIPP required elements (written program required regardless of employer size).
- Cal. Lab. Code § 6409.1 — serious-injury/illness/death reporting to Cal/OSHA; "immediately" trigger (as amended by AB 1804).
- Cal. Code Regs., tit. 8, § 342 — Cal/OSHA reporting rule; the **8-hour outer limit** for reporting a serious injury, illness, or death.
- Cal. Code Regs., tit. 8, § 14300 et seq. — recording and reporting of occupational injuries and illnesses (Form 300 log; Form 300A annual summary posting).
- Cal. Lab. Code § 6425 — criminal penalties for willful violations causing death or serious/permanent injury.
- Cal. Lab. Code § 6500 — permits for trenches/excavations 5 feet or deeper (and certain shoring/construction).
- Cal. Code Regs., tit. 8, § 1541.1(c) — protective systems for excavations deeper than 20 feet must be designed/approved by a registered professional engineer. (Lab. Code § 6705 separately requires registered-engineer trench plans on public-works contracts ≥ $25,000.)
- Cal. Code Regs., tit. 8, § 1541.1 — excavation cave-in protection (sloping, shoring, shielding).
- Cal. Code Regs., tit. 8, § 1670 — fall protection in construction (generally required at 7.5 feet; approved methods).
- Cal. Code Regs., tit. 8, § 1500 et seq. — Construction Safety Orders (general construction job-site safety); § 1637 (scaffolds).

- Cal. Code Regs., tit. 8, § 3395 — outdoor heat illness prevention (water, shade, rest, training, plan).
- Cal. Code Regs., tit. 8, § 3396 — indoor heat illness prevention standard (adopted 2024).
- Cal. Code Regs., tit. 8, § 5194 — Hazard Communication Standard (SDS, labels, inventory, training); basis for treating unknown materials as hazardous.
- Cal. Lab. Code § 6501.5 — asbestos-related work registration/certification.
- Cal. Code Regs., tit. 8, §§ 1529, 1532.1, 1532.3 — asbestos (§1529), lead (§1532.1), and respirable crystalline silica (§1532.3) construction standards.
- Cal. Health & Safety Code § 25249.5 et seq. — Proposition 65 (Safe Drinking Water and Toxic Enforcement Act); clear-and-reasonable warning before exposure to listed chemicals.
- CSLB, *California Contractors License Law & Reference Book* (2026 ed.) — reprints B&P Code Chapter 9 and related codes with commentary.
- CSLB, *Law and Business Study Guide* — official exam content outline (Section 7: Safety).
- Cal/OSHA (DIR, Division of Occupational Safety and Health) — *Occupational Safety and Health* and *Heat Illness Prevention* guidance pages (dir.ca.gov).

General job-site safety practices in this chapter are grounded in the Cal/OSHA safety orders (Title 8) and the Labor Code cited above; the substance-specific and reporting citations reflect current California law as of the 2026 edition, including the AB 1804 amendment to §6409.1 (with the 8-hour cap in 8 CCR §342) and the 2024 indoor heat-illness standard (§3396).

Part II — Practice Questions

160 original practice questions, written from the verified knowledge base. Answers and explanations follow each question. These are original teaching questions — **not** real, recalled, or reconstructed CSLB exam items.

Business Organization and Licensing

1. Which of the following activities makes a person a 'contractor' who generally needs a CSLB license? *(easy)*

- A. Selling lumber and hardware from a retail store to the public
- B. Remodeling a homeowner's kitchen for pay, including altering the plumbing and cabinets
- C. Sweeping and hauling away debris from a jobsite after the builder has finished
- D. Delivering a load of ready-mix concrete to a jobsite for another company

Answer: B. Under B&P §7025–7026 a contractor is anyone who builds, alters, repairs, adds to, or improves a structure for others, so remodeling a kitchen (b) is contracting. Selling materials from a store (a) is a retail sale, not improving another's property; jobsite cleanup (c) and material delivery (d) do not alter or improve the structure and are not, by themselves, contracting. — *Cal. Bus. & Prof. Code §§ 7025, 7026*

2. A worker is paid by the hour, rather than a lump sum, to remodel a homeowner's bathroom. How does California law treat this worker? *(medium)*

- A. As a contractor, because the definition does not depend on how the worker is paid
- B. As an employee of the homeowner, because hourly pay always creates employment

- C. As a material supplier, because hourly labor is not covered by the license law
- D. As exempt from licensing, because only lump-sum jobs require a license

Answer: A. The definition of contractor in B&P §7026 turns on doing improvement work for others, not on the method of payment; hourly, lump-sum, or cost-plus all count, so (a) is correct. Hourly pay does not automatically make someone the homeowner's employee (b). The person is providing labor to improve property, not merely supplying materials (c), and the licensing requirement is not limited to lump-sum work (d). — *Cal. Bus. & Prof. Code §§ 7025, 7026*

3. Contracting for work that requires a license without holding that license is classified in California as what type of offense? *(easy)*

- A. An infraction with no possible jail exposure
- B. A misdemeanor
- C. A felony for any first offense
- D. A purely civil matter with no criminal classification

Answer: B. B&P §7028 makes unlicensed contracting a misdemeanor, so (b) is correct. It is more serious than an infraction (a) and is not treated as a felony on a first offense (c); while civil consequences also apply, the conduct is criminally classified, so (d) is wrong. — *Cal. Bus. & Prof. Code § 7028*

4. An unlicensed person performs work that required a license, the customer refuses to pay, and the person sues to collect. What is the likely outcome? *(medium)*

- A. The person may collect the full contract price through the courts like any creditor
- B. The person generally cannot use the courts to collect and may even be ordered to refund money already paid
- C. The person may collect only the cost of materials but not labor

- D. The court will automatically award the person the reasonable value of the work

Answer: B. Under the license law an unlicensed contractor generally forfeits the right to sue for compensation and can be forced to return money already received, making (b) correct. That bar defeats (a) and (d), and the law does not carve out a materials-only recovery (c). — *Cal. Bus. & Prof. Code § 7028*

5. Under current California law, what is the total-contract dollar threshold below which truly minor or casual work is exempt from the contractor licensing requirement? *(easy)*

- A. Less than $500 in labor and materials combined
- B. Less than $750 in labor only
- C. Less than $1,000 in labor and materials combined
- D. Less than $2,500 in labor and materials combined

Answer: C. B&P §7048 now sets the minor-work exemption at a total contract of less than $1,000 for labor and materials combined, so (c) is correct. The $500 figure (a) is outdated; the threshold counts labor plus materials, not labor only (b); and $2,500 (d) is not the figure. — *Cal. Bus. & Prof. Code § 7048*

6. A homeowner wants a single small job done for a total of $950 covering both labor and materials. The worker does not claim to be licensed and the work is casual. Is a contractor's license required? *(medium)*

- A. Yes, because any construction work requires a license
- B. No, because the total is under the $1,000 minor-work threshold and the work is casual
- C. No, but only because materials are excluded from the calculation
- D. Yes, because the threshold applies to labor only and labor exceeds $500

Answer: B. Because the combined labor-and-materials price is below $1,000 and the work is genuinely minor with no holding-out as licensed, §7048 exempts it, so (b) is correct. That defeats the absolute rule in (a). The $1,000 includes materials, so (c) and (d) misstate the calculation. — *Cal. Bus. & Prof. Code § 7048*

7. Which license classification is appropriate for constructing a highway, bridge, or public utility line? *(easy)*

- A. Class A, general engineering contractor
- B. Class B, general building contractor
- C. A single Class C specialty classification
- D. Class B-2, residential remodeling contractor

Answer: A. Class A general engineering (B&P §7056) covers fixed works requiring specialized engineering knowledge such as roads, bridges, and utilities, so (a) is correct. Class B (b) is for buildings, a single C class (c) is a single trade, and B-2 (d) is residential remodeling. — *Cal. Bus. & Prof. Code §§ 7055, 7056, 7057, 7058*

8. In general, under what condition may a Class B general building contractor contract for a project that involves only a single trade? *(medium)*

- A. Any single trade is allowed, because a B license covers all trades
- B. Only when that single trade is framing or carpentry
- C. A B contractor may never take a single-trade project under any circumstances
- D. Only when the single-trade job is worth less than $500

Answer: B. A Class B license generally requires a project involving two or more unrelated trades; the recognized exception where a B may take a single-trade job is framing/carpentry, so (b) is correct. It does not cover every single trade (a); a B can take single-trade framing/carpentry so 'never' (c) is wrong; and the limit is not a $500 rule (d). — *Cal. Bus. & Prof. Code § 7057; Cal. Code Regs. tit. 16, § 872*

9. A general building contractor's prime contract includes substantial electrical work the contractor is not classified to perform. What is the compliant way to handle that portion? *(medium)*

- A. Self-perform it, because a general contractor may do any trade on its own project
- B. Subcontract it to an appropriately licensed contractor (or handle it only if truly incidental and supplemental)
- C. Perform it after obtaining verbal permission from the owner
- D. Ignore classification limits as long as the work passes inspection

Answer: B. B&P §7059 lets a contractor take work outside its classification only by subcontracting it to an appropriately licensed contractor or where the outside work is truly incidental and supplemental, so (b) is correct. A general contractor may not self-perform every trade (a), owner permission does not waive classification law (c), and passing inspection does not cure an unlicensed-trade violation (d). — *Cal. Bus. & Prof. Code § 7059; Cal. Code Regs. tit. 16, § 872*

10. To lawfully qualify a contractor's license, what is the minimum ongoing involvement required of a Responsible Managing Employee (RME)? *(hard)*

- A. The RME need only lend their license number and be available by phone
- B. The RME must be a bona fide employee actively engaged in the business, generally at least 32 hours per week or 80% of the business's operating hours
- C. The RME must own at least 51% of the company
- D. The RME must visit each jobsite daily regardless of hours worked

Answer: B. An RME must be a bona fide employee actively engaged in the business, roughly 32 hours per week or 80% of the operating hours, so (b) is correct. Merely lending a number is the prohibited 'paper qualifier' arrangement (a); an RME need not be a majority owner (that describes ownership, not the RME standard) (c); and there is no daily-jobsite-visit rule (d). — *Cal. Bus. & Prof. Code §§ 7068, 7068.1; Cal. Code Regs. tit. 16, § 823*

11. What is the current required amount of the contractor's license bond? *(easy)*

- A. $12,500
- B. $15,000
- C. $25,000
- D. $100,000

Answer: C. B&P §7071.6 sets the contractor's license bond at $25,000, so (c) is correct. $15,000 (b) is the outdated legacy figure, $12,500 (a) was a legacy qualifier-bond amount, and $100,000 (d) is the separate LLC worker bond. — *Cal. Bus. & Prof. Code § 7071.6*

12. If a surety pays a valid claim on a contractor's $25,000 license bond, what is the contractor's obligation? *(medium)*

- A. Nothing; the bond works like insurance and absorbs the loss
- B. The contractor must reimburse the surety for the amount paid
- C. The consumer who made the claim must repay the surety
- D. CSLB reimburses the surety from license fees

Answer: B. A bond is a credit guarantee, not insurance for the contractor; the surety that pays a claim seeks full reimbursement from the contractor, so (b) is correct. That defeats the 'insurance absorbs it' idea (a); the injured consumer does not repay (c); and CSLB does not reimburse sureties (d). — *Cal. Bus. & Prof. Code § 7071.6*

13. In what situation is a separate bond of the qualifying individual (currently $25,000) most commonly required? *(medium)*

- A. On every license, in addition to the license bond

- B. When the qualifying individual (RMO/RME) is not the proprietor, a general partner, or a 10%-or-more owner of the company
- C. Only for sole proprietors who qualify their own license
- D. Only when the license bond has been exhausted by a claim

Answer: B. Under §7071.9 the qualifier's bond is required unless the qualifier is the proprietor, a general partner, or owns at least 10% of the voting stock (RMO) or membership interest (LLC); a non-owner or small-stake RMO/RME therefore triggers it, so (b) is correct. It is not required on every license (a), is not limited to sole proprietors (c), and is not triggered by exhaustion of the license bond (d). — *Cal. Bus. & Prof. Code § 7071.9*

14. Beyond the standard license bond, what additional bond must a contractor organized as an LLC file, and in what amount? *(medium)*

- A. A $25,000 disciplinary bond
- B. A $12,500 qualifier bond
- C. A $100,000 LLC employee/worker bond
- D. A $500,000 consumer protection bond

Answer: C. An LLC licensee must file a $100,000 employee/worker bond (B&P §7071.6.5) that protects the LLC's workers for unpaid wages and benefits, so (c) is correct. There is no $25,000 disciplinary bond or $12,500 add-on required here (a and b), and $500,000 (d) is not a defined LLC bond amount. — *Cal. Bus. & Prof. Code §§ 7065.1, 7071.6.5, 7071.19*

15. What minimum liability insurance must a contractor organized as an LLC carry as a condition of licensure? *(medium)*

- A. At least $100,000
- B. At least $1,000,000, scaling up to $5,000,000 with additional members
- C. A flat $250,000 regardless of members

- D. No liability insurance is required if the LLC bond is filed

Answer: B. B&P §7071.19 requires an LLC to carry liability insurance beginning at $1,000,000 and increasing with the number of members up to $5,000,000, so (b) is correct. $100,000 (a) is the worker bond, not the insurance; the insurance is not a flat $250,000 (c); and the insurance is required in addition to the bond (d). — *Cal. Bus. & Prof. Code §§ 7071.19, 7071.6.5*

16. Which business structure exposes the owner to unlimited personal liability for the business's debts? *(easy)*

- A. A C corporation
- B. A limited liability company (LLC)
- C. A sole proprietorship
- D. A limited partnership, for its limited partners

Answer: C. A sole proprietor and the business are legally the same, so the owner bears unlimited personal liability, making (c) correct. Corporations (a) and LLCs (b) limit owners' personal liability, and limited partners (d) generally have liability capped at their investment. — *Cal. Bus. & Prof. Code § 7065*

17. A sole proprietor who holds a contractor's license decides to incorporate the business. What generally happens to the existing license? *(medium)*

- A. The license automatically transfers to the new corporation with no action
- B. The license belongs to the entity, so the corporation generally needs its own new or reissued license
- C. The sole proprietor keeps the license and the corporation operates under it
- D. The license is permanently revoked upon incorporation

Answer: B. A license is issued to a specific entity, so changing entity form generally requires a new or reissued license for the corporation, making (b) correct. It does not transfer automatically (a), the corporation cannot simply operate under the individual's license (c), and incorporating does not revoke a license (d). — *Cal. Bus. & Prof. Code § 7065*

18. What must a licensed contractor include in all advertising, including business cards, vehicle signage, and websites? *(easy)*

- A. The contractor's home address
- B. The contractor's license number
- C. The CSLB inspector's name
- D. The contractor's bond policy number

Answer: B. B&P §7027.1 requires the license number in all advertising, so (b) is correct. The law does not require publishing a home address (a), an inspector's name (c), or the bond policy number (d) in ads. — *Cal. Bus. & Prof. Code §§ 7027.1, 7030.5*

19. An unlicensed person wants to advertise for handyman jobs. What dollar limit and disclosure apply? *(medium)*

- A. They may advertise for any size job as long as they never mention a license
- B. They may advertise only for jobs under $1,000 and must state that they are not a licensed contractor
- C. They may advertise for jobs up to $5,000 with no disclosure
- D. They may not advertise at all under any circumstances

Answer: B. An unlicensed person may advertise only for work that does not require a license (jobs under the $1,000 §7048 threshold) and must disclose that they are not licensed, so (b) is correct. Silence about licensure does not cure advertising for larger jobs (a), the ceiling is $1,000 not $5,000 (c), and unlicensed persons may advertise for exempt minor work with the required disclosure (d). — *Cal. Bus. & Prof. Code §§ 7027.2, 7048*

20. The required consumer notice a contractor must provide informs the consumer of which of the following? *(medium)*

- A. That the contractor is licensed and regulated by CSLB, how to check a license and file a complaint, and information about the contractor's bond
- B. The contractor's personal credit score
- C. The names of every subcontractor on the project
- D. The retail cost the contractor paid for each material

Answer: A. The B&P §7030 notice tells consumers the contractor is licensed and regulated by CSLB, how to verify a license and file a complaint, and gives bond information, so (a) is correct. It does not require disclosing the contractor's credit score (b), a subcontractor roster (c), or material cost (d). — *Cal. Bus. & Prof. Code § 7030*

21. How often must an active contractor's license be renewed? *(easy)*

- A. Every year
- B. Every two years
- C. Every three years
- D. Every five years

Answer: B. Active licenses renew on a two-year cycle, so (b) is correct. Annual (a), three-year (c), and five-year (d) cycles are incorrect. — *Cal. Bus. & Prof. Code § 7137*

Business Finances

22. What determines whether an employer must deposit federal payroll taxes on a monthly or a semiweekly schedule? *(medium)*

- A. The number of employees on payroll
- B. The total tax reported during a prior 'lookback' period

- C. The physical size of the business's office
- D. Whether the business is a corporation or a sole proprietorship

Answer: B. The IRS sets deposit frequency based on the total tax reported during a prior lookback period, not headcount, so (b) is correct. Deposit frequency does not depend on employee count (a), office size (c), or entity type (d). — *IRS Publication 15 (Circular E)*

23. Which federal payroll tax is paid by the employer only and is NOT withheld from the employee's wages? *(medium)*

- A. The employee's share of Social Security
- B. Federal income tax withholding
- C. FUTA (federal unemployment tax)
- D. The employee's share of Medicare

Answer: C. FUTA is a federal unemployment tax paid solely by the employer and never withheld from workers, so (c) is correct. The Social Security and Medicare employee shares (a and d) are withheld from wages, and federal income tax (b) is withheld from the employee. — *IRS Publication 15 (Circular E)*

24. Among California's EDD payroll taxes, which is withheld from the EMPLOYEE rather than paid by the employer? *(medium)*

- A. Unemployment Insurance (UI)
- B. Employment Training Tax (ETT)
- C. State Disability Insurance (SDI)
- D. The employer's federal FUTA tax

Answer: C. SDI is withheld from the employee's wages, so (c) is correct. UI (a) and ETT (b) are employer-paid California taxes, and FUTA (d) is a federal employer tax, not an EDD tax. — *Cal. Unemp. Ins. Code §§ 976, 984, 13020*

25. For most construction materials a contractor furnishes and installs, who is generally treated as the consumer for California sales-tax purposes? *(medium)*

- A. The property owner, who is charged sales tax on the installed price
- B. The contractor, who generally pays tax on the cost of the materials
- C. The material supplier, who absorbs the tax
- D. No one, because installed materials are exempt from tax

Answer: B. For most construction, the contractor is treated as the consumer of the materials it furnishes and installs and pays tax on the material cost, so (b) is correct. The contractor does not simply charge the owner sales tax on the full installed price (a); the supplier does not absorb it (c); and installed materials are not broadly exempt (d). — *Cal. Rev. & Tax. Code § 6001 et seq.*

26. What is the annual minimum franchise tax owed by most California corporations, even in a year with no profit? *(easy)*

- A. $0 if there is no profit
- B. $250
- C. $800
- D. $1,600

Answer: C. Most California corporations owe an $800 minimum franchise tax regardless of profit, so (c) is correct. It is not waived for an unprofitable year (a), and $250 (b) and $1,600 (d) are not the minimum. — *Cal. Rev. & Tax. Code § 23000 et seq.*

27. Beyond the $800 annual tax, what additional charge can a California LLC owe? *(medium)*

- A. An income-based LLC fee once revenue passes certain levels
- B. A second $800 payment every quarter
- C. A federal LLC surtax
- D. Nothing; the $800 is the only possible charge

Answer: A. An LLC owes the $800 annual tax plus an income-based LLC fee above certain revenue levels, so (a) is correct. The $800 is annual, not a quarterly repeat (b); there is no federal 'LLC surtax' (c); and the LLC fee means the $800 is not the only charge (d). — *Cal. Rev. & Tax. Code § 17000 et seq.*

28. A job costs a contractor $10,000, and the contractor applies a 25% markup. What is the selling price and the resulting profit margin? *(hard)*

- A. Selling price $12,500; margin 20%
- B. Selling price $12,500; margin 25%
- C. Selling price $13,300; margin 25%
- D. Selling price $12,500; margin 30%

Answer: A. Markup is on cost: $10,000 x 1.25 = $12,500 selling price. Margin is profit over price: $2,500 / $12,500 = 20%. So (a) is correct. The margin is not equal to the 25% markup (b), the price math in (c) is wrong, and 30% (d) is not the margin. — *business/accounting concept — no CA code section*

29. A contractor wants a 20% profit margin (percentage of the selling price) on a job that costs $8,000. What selling price achieves this? *(hard)*

- A. $9,600, because that is cost plus 20%
- B. $10,000, because price = cost divided by (1 minus the margin)
- C. $9,600, because a 20% margin equals a 20% markup
- D. $8,200, because the margin adds to cost directly

Answer: B. For a margin (share of price), price = cost / (1 - margin) = $8,000 / 0.80 = $10,000, so (b) is correct. Adding 20% to cost ($9,600) produces a 20% markup, not a 20% margin (a and c), and (d) miscomputes entirely. — *business/accounting concept — no CA code section*

30. A contractor has $60,000 in annual fixed costs and a contribution margin of 40%. What sales volume is needed to break even? *(hard)*

- A. $24,000
- B. $100,000
- C. $150,000
- D. $240,000

Answer: C. Break-even sales = fixed costs / contribution-margin ratio = $60,000 / 0.40 = $150,000, so (c) is correct. $24,000 (a) multiplies instead of divides, and (b) and (d) use the wrong ratio. — *business/accounting concept — no CA code section*

31. At the break-even point, what is the relationship between revenue and cost? *(medium)*

- A. Total revenue equals total cost, so profit is zero
- B. Revenue equals profit
- C. Revenue exceeds total cost by the profit margin
- D. Fixed costs equal variable costs

Answer: A. Break-even is where total revenue equals total cost and profit is zero, so (a) is correct. Revenue does not equal profit (b), there is no profit above cost at break-even (c), and break-even does not require fixed costs to equal variable costs (d). — *business/accounting concept — no CA code section*

32. Depreciation on the company's sales vehicle should be classified as which type of cost? *(medium)*

- A. A direct (job) cost
- B. A general and administrative (G&A) cost
- C. A material cost on the current job
- D. A subcontractor cost

Answer: B. A sales vehicle supports the company generally, not a specific project, so its depreciation is a general and administrative cost, making (b) correct. It is not traceable to one job (a and c), and it is not a subcontractor cost (d). — *business/accounting concept — no CA code section*

33. Which of the following is a DIRECT (job) cost rather than a general and administrative cost? *(easy)*

- A. Office rent for the company headquarters
- B. Salary of the front-office receptionist
- C. Framing lumber purchased for a specific project
- D. Depreciation on the owner's company car

Answer: C. Framing lumber bought for a specific project is traceable to that job, so it is a direct cost, making (c) correct. Office rent (a), office staff salary (b), and company-car depreciation (d) run the company generally and are G&A. — *business/accounting concept — no CA code section*

34. Which financial statement reports a company's financial position (assets, liabilities, and equity) at a single point in time? *(easy)*

- A. The income statement
- B. The balance sheet
- C. The cash-flow forecast
- D. The job-cost report

Answer: B. The balance sheet is a point-in-time snapshot of assets, liabilities, and equity, so (b) is correct. The income statement (a) covers a period of time, and the cash-flow forecast (c) and job-cost report (d) serve other purposes. — *business/accounting concept — no CA code section*

35. What is the fundamental accounting equation reflected on the balance sheet? *(medium)*

- A. Assets = Liabilities minus Equity
- B. Assets = Liabilities plus Equity
- C. Assets = Revenue minus Expenses
- D. Equity = Assets plus Liabilities

Answer: B. The balance sheet is built on Assets = Liabilities + Equity, so (b) is correct. Subtracting equity (a) is wrong, revenue minus expenses (c) describes the income statement, and (d) rearranges the equation incorrectly. — *business/accounting concept — no CA code section*

36. A contractor has current assets of $200,000 and current liabilities of $100,000. What is the current ratio? *(medium)*

- A. 0.5 to 1
- B. 2.0 to 1
- C. $100,000
- D. 20%

Answer: B. Current ratio = current assets / current liabilities = $200,000 / $100,000 = 2.0 to 1, so (b) is correct. (a) inverts the ratio, $100,000 (c) is working capital (a dollar figure, not the ratio), and 20% (d) is unrelated. — *business/accounting concept — no CA code section*

37. A contractor has current assets of $150,000 and current liabilities of $90,000. What is the working capital? *(medium)*

- A. 1.67 to 1
- B. $60,000
- C. $240,000
- D. $135,000

Answer: B. Working capital is a dollar figure: current assets minus current liabilities = $150,000 - $90,000 = $60,000, so (b) is correct. 1.67 to 1 (a) is the current ratio, not working capital, and (c) and (d) miscompute. — *business/accounting concept — no CA code section*

38. Why can a profitable contractor still face a cash shortage? *(medium)*

- A. Profit and cash are the same thing, so this cannot happen
- B. The timing of receipts and payments can leave too little cash on hand even when the job is profitable
- C. Because profitable jobs never require paying suppliers
- D. Because depreciation is a large cash outflow

Answer: B. Cash and profit differ; if money goes out (payroll, suppliers, taxes) before receivables come in, a profitable business can run short of cash, so (b) is correct. Profit is not identical to cash (a), profitable jobs still require paying suppliers (c), and depreciation is a non-cash expense (d). — *business/accounting concept — no CA code section*

39. A contractor has billed a customer more than the value of the work completed to date. This condition is called what? *(medium)*

- A. Under-billing
- B. Over-billing
- C. Retention
- D. A change order

Answer: B. Billing ahead of completed work is over-billing, so (b) is correct. Under-billing (a) is the opposite, retention (c) is money withheld from payments, and a change order (d) documents a scope change. — *business/accounting concept — no CA code section*

40. What is the primary purpose of preparing an operating budget? *(easy)*

- A. To record only what was spent last year
- B. To plan forward, estimating revenue and expenses so the contractor can set prices and control spending
- C. To replace the need for job-cost tracking
- D. To satisfy a CSLB filing requirement

Answer: B. A budget is a forward-looking plan for revenue and expenses used to set prices and control spending, so (b) is correct. It is not merely a record of past spending (a), it complements rather than replaces job-cost tracking (c), and CSLB does not require budget filings (d). — *business/accounting concept — no CA code section*

41. Which depreciation method expenses an equal amount of an asset's cost each year of its useful life? *(easy)*

- A. Straight-line depreciation
- B. Double-declining-balance depreciation
- C. Sum-of-the-years'-digits depreciation
- D. Units-of-production depreciation

Answer: A. Straight-line spreads an equal amount of cost across each year, so (a) is correct. Double-declining-balance (b) and sum-of-the-years'-digits (c) are accelerated methods that front-load expense, and units-of-production (d) varies with usage. — *business/accounting concept — no CA code section*

42. Why is depreciation described as a non-cash expense? *(medium)*

- A. Because it requires a cash payment each year
- B. Because it allocates the cost of an asset already purchased, without a new cash outflow in the expense year
- C. Because it is never deductible for tax purposes
- D. Because it only applies to land

Answer: B. Depreciation allocates the cost of an asset over time without a new cash payment in the year the expense is recorded, so (b) is correct. It does not require an annual cash outlay (a), it does reduce taxable income (c), and land is generally not depreciated (d). — *business/accounting concept — no CA code section*

43. How does a property owner repay a PACE (Property Assessed Clean Energy) financed improvement? *(medium)*

- A. Through an assessment added to the owner's property tax bill
- B. Through a lump-sum payment to the contractor at completion
- C. Through the contractor's license bond
- D. Through monthly payments deducted from the owner's paycheck

Answer: A. PACE financing is repaid as an assessment on the owner's property tax bill, so (a) is correct. It is not a lump sum to the contractor (b), it does not run through the license bond (c), and it is not a payroll deduction (d). — *Cal. Streets & Highways Code § 5898.20 et seq.; Cal. Financial Code § 22000 et seq.*

44. A contractor who solicits or arranges PACE-financed home improvements takes on which of the following duties? *(medium)*

- A. None; PACE is an ordinary bank loan with no special duties
- B. Assessing the owner's ability to pay, giving required disclosures, and complying with home-improvement contract rules
- C. Only the duty to complete the work on time
- D. The duty to personally guarantee repayment of the assessment

Answer: B. PACE solicitors must assess ability to pay, provide required disclosures, and follow home-improvement contract rules, so (b) is correct. PACE is not an ordinary loan free of duties (a), the duties go well beyond timely completion (c), and the contractor does not personally guarantee the assessment (d). — *Cal. Financial Code § 22680 et seq.; Cal. Bus. & Prof. Code § 7159*

45. Which statement best describes the difference between cash-basis and accrual-basis accounting? *(medium)*

- A. Accrual records revenue when earned and expenses when incurred; cash records them when money changes hands
- B. They always report identical profit in any given period
- C. Cash-basis records revenue when earned; accrual records it when cash is received
- D. Accrual accounting is illegal for contractors in California

Answer: A. Accrual recognizes revenue when earned and expenses when incurred, while cash recognizes them when money moves, so (a) is correct. The two methods can report different profit in a period (b), (c) reverses the definitions, and accrual accounting is permitted (d). — *business/accounting concept — no CA code section*

Employment Requirements

46. Under California's ABC test, how many of the three conditions must the hiring business prove to classify a worker as an independent contractor? *(medium)*

- A. Any one of the three
- B. Any two of the three
- C. All three
- D. None; the label in the contract controls

Answer: C. Labor Code §2775 requires the hirer to prove all three prongs (A, B, and C); failing any one makes the worker an employee, so (c) is correct. Proving one (a) or two (b) is not enough, and a contract label does not control (d). — *Cal. Lab. Code § 2775*

47. A framing contractor hires framers to do framing, its core business. Which prong of the ABC test most often makes these workers employees? *(hard)*

- A. Prong A (freedom from control)
- B. Prong B (work outside the usual course of the hirer's business)
- C. Prong C (independently established trade)
- D. None; framers are always independent contractors

Answer: B. Prong B fails when the work is within the hirer's usual business; framers doing framing for a framing company cannot satisfy it, so (b) is correct. Control (a) and independent-trade status (c) may sometimes be met, but B alone defeats independent-contractor status here, and framers are not automatically independent (d). — *Cal. Lab. Code § 2775*

48. Does issuing a worker a Form 1099 and writing 'independent contractor' in the agreement make the worker an independent contractor under California law? *(medium)*

- A. Yes, the 1099 conclusively establishes independent-contractor status
- B. Yes, as long as both parties sign the agreement
- C. No, the ABC test controls regardless of paperwork labels
- D. No, unless the worker also has a business card

Answer: C. Paperwork labels do not change the legal reality; the ABC test determines status, so (c) is correct. A 1099 (a) and a signed label (b) do not override §2775, and a business card (d) is irrelevant to the test. — *Cal. Lab. Code §§ 226.8, 2775*

49. What can result from willfully misclassifying an employee as an independent contractor? *(medium)*

- A. Nothing, because it is only a paperwork issue
- B. Civil penalties plus back liability for unpaid payroll taxes, overtime, and workers' compensation coverage
- C. A warning letter with no financial consequence
- D. Only a small filing fee

Answer: B. Willful misclassification exposes the business to civil penalties and back liability for payroll taxes, overtime, and workers' comp, so (b) is correct. It is not a consequence-free paperwork matter (a), it is more than a warning (c), and it is far more than a filing fee (d). — *Cal. Lab. Code §§ 226.8, 2775*

50. What is the purpose of Form I-9, and where is it kept? *(easy)*

- A. It verifies a new hire's identity and work authorization and is retained by the employer
- B. It reports wages to the IRS and is mailed to the government
- C. It registers the employee with the EDD and is filed with the state
- D. It is a tax-withholding election kept by the employee

Answer: A. Form I-9 verifies identity and authorization to work and is retained on file by the employer, so (a) is correct. It is not a wage report (b), not an EDD registration (c), and not a withholding election (d). — *Federal Immigration Reform and Control Act (IRCA) — Form I-9*

51. When completing Form I-9, who chooses which acceptable documents to present? *(medium)*

- A. The employer, who may demand a specific document
- B. The worker, who chooses among the lists of acceptable documents
- C. The EDD, which assigns the documents
- D. The CSLB, as part of licensing

Answer: B. The worker selects which acceptable documents to present, and the employer may not demand specific ones, so (b) is correct. Demanding a particular document (a) can be unlawful, and neither the EDD (c) nor CSLB (d) is involved in I-9 documentation. — *Federal Immigration Reform and Control Act (IRCA) — Form I-9*

52. After hiring a new employee, an employer must report the new hire to which California agency, using which form? *(medium)*

- A. The FTB, using Form 540
- B. The EDD, using the DE 34 new-employee report
- C. The CSLB, using a license amendment
- D. Cal/OSHA, using the Form 300 log

Answer: B. New hires are reported to the EDD on the DE 34, so (b) is correct. The FTB Form 540 (a) is a personal income tax return, CSLB (c) does not receive new-hire reports, and the Form 300 log (d) records injuries, not hires. — *Cal. Unemp. Ins. Code § 13000 et seq.; EDD DE 44*

53. How do the federal I-9 and California new-hire reporting differ? *(medium)*

- A. They are the same requirement filed together
- B. The I-9 is a federal form retained by the employer; new-hire reporting is a state report submitted to the EDD
- C. Both are mailed to the IRS
- D. Both are filed with CSLB

Answer: B. The I-9 is a federal verification form kept by the employer, while new-hire reporting is a state report sent to the EDD, so (b) is correct. They are separate requirements (a), neither goes to the IRS (c), and neither is filed with CSLB (d). — *Cal. Unemp. Ins. Code § 13000 et seq.; IRCA — Form I-9*

54. At how many employees do most of California's FEHA anti-discrimination provisions begin to apply to an employer? *(medium)*

- A. One employee
- B. Five employees
- C. Fifteen employees
- D. Fifty employees

Answer: B. Most FEHA anti-discrimination provisions apply to employers with five or more employees, so (b) is correct. (Harassment provisions reach smaller employers, but the general threshold is five.) One (a), fifteen (c), and fifty (d) are incorrect thresholds. — *Cal. Gov. Code § 12900 et seq.*

55. Which of the following is a protected characteristic under California's FEHA? *(easy)*

- A. The employee's favorite sports team

- B. Religion
- C. The employee's commute distance
- D. The brand of tools the worker owns

Answer: B. FEHA protects characteristics such as race, sex, religion, disability, and age; religion (b) is protected. A favorite team (a), commute distance (c), and tool brand (d) are not protected characteristics. — *Cal. Gov. Code § 12900 et seq.*

56. When a city's local minimum wage is higher than the California state minimum wage, which must the employer pay for work performed in that city? *(medium)*

- A. The federal minimum wage
- B. The state minimum wage
- C. The higher local minimum wage
- D. Whichever the employer chooses

Answer: C. The employer must pay whichever applicable minimum is highest, so a higher local wage governs, making (c) correct. The federal (a) and state (b) minimums are lower here, and the employer cannot simply choose the lower rate (d). — *Cal. Lab. Code §§ 1182.12, 1197*

57. May an employer pay below minimum wage for some hours if the average pay across the workweek exceeds minimum wage? *(medium)*

- A. Yes, averaging across the week is permitted
- B. Yes, if the worker is on a piece rate
- C. No, each hour worked must meet at least the applicable minimum wage
- D. No, unless the worker agrees in writing

Answer: C. California does not allow averaging; each hour must independently meet minimum wage, so (c) is correct. Weekly averaging (a) and piece-rate arrangements (b) cannot excuse sub-minimum hours, and a worker cannot waive the minimum by agreement (d). — *Cal. Lab. Code §§ 1182.12, 1197*

58. Under California law, after how many hours in a single workday does a nonexempt employee begin earning overtime (1.5x)? *(medium)*

- A. After 6 hours
- B. After 8 hours
- C. After 10 hours
- D. Only after 40 hours in the week

Answer: B. California requires daily overtime after 8 hours in a workday, so (b) is correct. It is not 6 (a) or 10 (c) hours, and unlike federal law, California pays daily overtime, not just after 40 weekly hours (d). — *Cal. Lab. Code § 510; IWC Wage Order No. 16*

59. Under California law, at what point in a single workday does double-time (2x) pay begin for a nonexempt employee? *(medium)*

- A. After 8 hours
- B. After 10 hours
- C. After 12 hours
- D. Double time is never required

Answer: C. California requires double time for hours worked beyond 12 in a workday, so (c) is correct. Overtime at 1.5x begins after 8 hours (a), 10 hours (b) is not a threshold, and double time is required (d). — *Cal. Lab. Code § 510; IWC Wage Order No. 16*

60. A nonexempt construction worker works 14 hours in one workday. How are those hours paid under California daily-overtime rules? *(hard)*

- A. 14 hours at straight time
- B. 8 hours straight, 6 hours at 1.5x

- C. 8 hours straight, 4 hours at 1.5x, 2 hours at 2x
- D. 12 hours straight, 2 hours at 1.5x

Answer: C. The first 8 hours are straight time, hours 9 through 12 (four hours) are at 1.5x, and hours beyond 12 (two hours) are at 2x, so (c) is correct. Options (a), (b), and (d) misapply the daily-overtime and double-time thresholds. — *Cal. Lab. Code § 510; IWC Wage Order No. 16*

61. By what point in the workday must a nonexempt employee's first 30-minute meal period generally begin? *(medium)*

- A. Before the end of the fifth hour of work
- B. Any time before the shift ends
- C. Before the end of the eighth hour of work
- D. Only after 10 hours of work

Answer: A. The first meal period must generally begin before the end of the fifth hour of work, so (a) is correct. It cannot be provided at any arbitrary time (b), the deadline is the fifth hour, not the eighth (c), and it is required long before 10 hours (d). — *Cal. Lab. Code § 512; IWC Wage Order No. 16*

62. What does an employer owe when it fails to provide a legally required meal or rest period? *(medium)*

- A. Nothing, as long as the work got done
- B. One additional hour of pay (a premium) for each day a compliant break was not provided
- C. A flat $50 fine to the state
- D. A written apology to the employee

Answer: B. A missed compliant meal or rest period requires one hour of premium pay per day it was denied, so (b) is correct. It is not consequence-free (a), it is not a flat state fine (c), and an apology (d) does not satisfy the obligation. — *Cal. Lab. Code § 512; IWC Wage Order No. 16*

63. Which of the following must appear on a California itemized wage statement (pay stub)? *(medium)*

- A. Net pay only
- B. Gross wages, total hours, all deductions, net pay, pay-period dates, and applicable hourly rates
- C. The employee's home mortgage balance
- D. The employer's profit for the pay period

Answer: B. Labor Code §226 requires an itemized statement showing gross wages, hours, deductions, net pay, pay-period dates, hourly rates, and employer identity, so (b) is correct. Net pay alone (a) is insufficient, and mortgage balance (c) and employer profit (d) are not required. — *Cal. Lab. Code §§ 200, 204, 226*

64. How frequently must most non-overtime wages be paid to employees in California? *(easy)*

- A. Once a year
- B. At least twice a month on designated paydays
- C. Only when the job is finished
- D. At the employer's discretion

Answer: B. Most non-overtime wages must be paid at least semimonthly on designated paydays, so (b) is correct. Annual (a), pay-at-completion (c), and fully discretionary (d) schedules do not comply. — *Cal. Lab. Code §§ 204, 200*

65. When must an employer pay final wages to an employee who is fired or laid off? *(medium)*

- A. On the next regular payday
- B. Within 72 hours
- C. Immediately at the time of termination
- D. Within 30 days

Answer: C. An employee who is fired or laid off must be paid all final wages immediately at termination, so (c) is correct. Waiting for the next payday (a), 72 hours (b, which applies to a quit without notice), or 30 days (d) does not comply. — *Cal. Lab. Code §§ 201, 203*

66. What is the maximum number of days of waiting-time penalties for late final pay? *(medium)*

- A. 3 days
- B. 10 days
- C. 30 days
- D. 90 days

Answer: C. Waiting-time penalties accrue at the employee's daily wage rate for each late day up to a maximum of 30 days, so (c) is correct. Three (a), ten (b), and ninety (d) days are incorrect caps. — *Cal. Lab. Code § 203*

67. What is an employer's obligation regarding retention of payroll records? *(medium)*

- A. They may be discarded at the end of each calendar year
- B. They must be kept for the period the law requires (generally at least several years), and failing to keep or produce them is separately penalized
- C. They need not be kept if taxes were filed
- D. They must be kept only for salaried employees

Answer: B. Employers must retain accurate payroll records for the required period, and failing to keep or produce them carries separate penalties, so (b) is correct. They cannot be discarded yearly (a), tax filing does not excuse recordkeeping (c), and the duty is not limited to salaried workers (d). — *Cal. Lab. Code §§ 1174, 1174.5*

68. Which Industrial Welfare Commission wage order governs on-site construction employees in California? *(easy)*

- A. Wage Order 4 (professional/office)
- B. Wage Order 7 (mercantile)
- C. Wage Order 16 (on-site construction, drilling, logging, and mining)
- D. Wage Order 5 (public housekeeping)

Answer: C. IWC Wage Order 16 covers on-site construction, drilling, logging, and mining, so (c) is correct. Wage Orders 4 (a), 7 (b), and 5 (d) apply to other industries. — *IWC Wage Order No. 16 (Cal. Code Regs. tit. 8, § 11160)*

69. Which types of employee training are legally mandated rather than left entirely to the employer's discretion? *(medium)*

- A. All training is optional
- B. Certain training, such as safety training under the IIPP and harassment-prevention training, is legally required
- C. Only advanced technical certification is required
- D. Training is required only for union employees

Answer: B. Some training is mandated, including safety training under the IIPP and harassment-prevention training, so (b) is correct. Training is not entirely optional (a), the mandate is not limited to technical certification (c), and it is not limited to union workforces (d). — *Cal. Gov. Code § 12950.1; Cal. Lab. Code § 6401.7*

70. What right do California employees generally have regarding their personnel file? *(medium)*

- A. No right to see it under any circumstances
- B. The right to review the file and obtain copies of documents they signed, within a set time after a written request
- C. The right to alter or delete negative entries at will
- D. The right only to see it after employment ends

Answer: B. Employees may inspect their personnel file and obtain copies of documents they signed within a statutory time after a written request, so (b) is correct. They are not barred from access (a), they cannot unilaterally alter records (c), and the right is not limited to post-employment (d). — *Cal. Lab. Code §§ 1198.5, 226*

71. To which two agencies does a California employer remit payroll taxes? *(medium)*

- A. The IRS for federal taxes and the EDD for California taxes
- B. The FTB and the CSLB
- C. The IRS and Cal/OSHA
- D. The CSLB and the EDD

Answer: A. Federal payroll taxes go to the IRS and California payroll taxes go to the EDD, so (a) is correct. The CSLB (b and d) and Cal/OSHA (c) do not collect payroll taxes, and the FTB handles income/franchise tax, not payroll deposits. — *IRS Publication 15 (Circular E); Cal. Unemp. Ins. Code § 13020*

72. Which of the following is withheld from the EMPLOYEE'S paycheck rather than paid solely by the employer? *(medium)*

- A. FUTA
- B. California UI
- C. The employee's SDI and income-tax withholding
- D. California ETT

Answer: C. SDI and income-tax withholding come out of the employee's pay, so (c) is correct. FUTA (a), UI (b), and ETT (d) are employer-paid taxes not withheld from the worker. — *IRS Publication 15 (Circular E); Cal. Unemp. Ins. Code § 13020*

73. When federal (FLSA) and California overtime rules differ, which applies to a California employee? *(medium)*

- A. The federal rule, because federal law always preempts
- B. The more protective California rule, including daily overtime
- C. Whichever rule the employer selects
- D. Neither; the employee must negotiate overtime individually

Answer: B. Where the state law is more protective, it governs, so California's daily overtime applies over the FLSA's 40-hour-only rule, making (b) correct. Federal law does not preempt more protective state wage law (a), the employer cannot pick the weaker rule (c), and overtime is a legal entitlement, not a negotiation (d). — *Federal Fair Labor Standards Act (FLSA); Cal. Lab. Code § 510*

74. Which federal law requires reasonable accommodation of qualified employees with disabilities? *(easy)*

- A. The Fair Labor Standards Act (FLSA)
- B. The Americans with Disabilities Act (ADA)
- C. Title VII of the Civil Rights Act
- D. The Immigration Reform and Control Act (IRCA)

Answer: B. The ADA requires reasonable accommodation of qualified individuals with disabilities, so (b) is correct. The FLSA (a) covers wages and hours, Title VII (c) covers discrimination based on protected classes generally, and IRCA (d) governs work-authorization verification. — *Federal Americans with Disabilities Act (ADA)*

75. As of 2026, which statement about workers' compensation for licensed contractors with NO employees is correct? *(hard)*

- A. Every contractor with no employees must already carry workers' comp
- B. Only certain classifications (such as C-8, C-20, C-22, C-39, and D-49) have lost the no-employee exemption so far; all classifications must carry it by 1/1/2028
- C. No contractor is ever required to carry workers' comp without employees
- D. The workers' comp requirement was repealed entirely by SB 1455

Answer: B. The no-employee exemption is phasing out: certain higher-risk classifications have already lost it, and all classifications lose it by 1/1/2028 under SB 216 as amended by SB 1455, so (b) is correct. A blanket 2026 requirement (a) is wrong, the exemption is disappearing so 'never required' (c) is wrong, and SB 1455 postponed rather than repealed the mandate (d). — *Cal. Lab. Code § 3700; Cal. Bus. & Prof. Code § 7125*

76. Generally, how is a workers' compensation premium calculated? *(medium)*

- A. A flat fee that is the same for every contractor
- B. Based on the company's payroll and the risk classification of the work
- C. Based only on the number of vehicles owned
- D. Based on the contractor's advertising budget

Answer: B. Workers' comp premiums generally scale with payroll and the risk class of the work, so (b) is correct. It is not a flat fee (a), not based on vehicle count (c), and not tied to advertising (d). — *Cal. Lab. Code § 3700*

77. Which onboarding steps must an employer complete when hiring a new construction employee? *(medium)*

- A. Only a handshake and a start date
- B. I-9 verification, new-hire reporting, tax-withholding setup, and safety orientation
- C. Only the I-9, with everything else optional
- D. Only registering the worker with the CSLB

Answer: B. Lawful onboarding includes I-9 verification, new-hire reporting, setting up tax withholding, and safety orientation, so (b) is correct. A handshake alone (a) is insufficient, the other steps are not optional (c), and workers are not registered with CSLB (d). — *Cal. Gov. Code § 12900 et seq.; IRCA — Form I-9*

Insurance and Liens

78. How many employees must a California business have before workers' compensation coverage is required? *(easy)*

- A. At least 5 employees
- B. At least 10 employees
- C. Even one employee triggers the requirement
- D. At least 3 employees

Answer: C. Labor Code §3700 requires coverage as soon as a business has any employee; there is no minimum headcount, so (c) is correct. Thresholds of 5 (a), 10 (b), or 3 (d) employees are incorrect. — *Cal. Lab. Code § 3700*

79. Workers' compensation in California operates on what kind of fault standard? *(medium)*

- A. The worker must prove the employer was negligent
- B. No-fault; benefits are paid regardless of who was at fault
- C. The employer must prove the worker was at fault
- D. Fault is decided by a jury in every case

Answer: B. Workers' comp is a no-fault system that pays for job-related injuries regardless of fault, and it is generally the employee's exclusive remedy, so (b) is correct. The worker need not prove negligence (a), fault is not the employer's burden (c), and claims are not jury trials (d). — *Cal. Lab. Code § 3700*

80. By what date must ALL contractor license classifications carry workers' compensation, regardless of whether they have employees? *(medium)*

- A. January 1, 2023
- B. January 1, 2026
- C. January 1, 2028
- D. There is no such deadline

Answer: C. SB 216, as amended by SB 1455, postponed the all-classifications date to January 1, 2028, so (c) is correct. Some higher-risk trades lost the exemption starting 2023 (a), but the all-in date is not 2026 (b, the original date that was postponed), and a deadline does exist (d). — *Cal. Bus. & Prof. Code §§ 7125, 7125.2*

81. What happens to a contractor's license if the required Certificate of Workers' Compensation lapses? *(medium)*

- A. Nothing, as long as the bond stays current
- B. The license is automatically suspended
- C. The contractor receives a small fine but keeps the license
- D. The license converts to inactive status voluntarily

Answer: B. A lapsed workers' comp certificate (where coverage is required) triggers automatic license suspension under B&P §7125.2, so (b) is correct. A current bond does not cure it (a), it is more than a small fine (c), and the change is a suspension, not a voluntary inactive election (d). — *Cal. Bus. & Prof. Code §§ 7125, 7125.2*

82. What remedies does an injured worker have against an employer who illegally failed to carry required workers' compensation? *(medium)*

- A. Only a workers' comp claim with reduced benefits
- B. The worker may sue the employer in civil court and may claim from the Uninsured Employers Benefit Trust Fund
- C. No remedy, because the employer was uninsured
- D. Only a complaint to CSLB

Answer: B. Against an uninsured employer the worker can sue in civil court (where the employer loses key defenses) and claim from the Uninsured Employers Benefit Trust Fund, so (b) is correct. The worker is not limited to reduced benefits (a), does have remedies (c), and is not limited to a CSLB complaint (d). — *Cal. Lab. Code §§ 3706, 3715*

83. For workers' compensation purposes, how is an unlicensed worker hired to perform work that requires a license generally treated? *(medium)*

- A. As an independent contractor with no coverage
- B. As an employee of the hirer, who is presumed to owe coverage
- C. As a volunteer
- D. As exempt from the workers' comp system

Answer: B. The law presumes an unlicensed worker hired to do licensed work is an employee for workers' comp, so (b) is correct. Labeling them an independent contractor (a) does not defeat that presumption, they are not volunteers (c), and they are not exempt (d). — *Cal. Lab. Code §§ 3351, 3352*

84. Which insurance covers the structure being built against loss (such as fire or theft) while it is under construction? *(medium)*

- A. Commercial general liability (CGL)
- B. Builder's risk (course-of-construction) insurance
- C. Workers' compensation
- D. Commercial auto insurance

Answer: B. Builder's risk (course-of-construction) insurance covers the project itself against loss during construction, so (b) is correct. CGL (a) covers third-party injury/property damage, workers' comp (c) covers employee injuries, and commercial auto (d) covers vehicles. — *Insurance-coverage concept (no single California code section)*

85. A passerby is injured when material falls from the contractor's scaffold. Which policy is designed to respond to that third-party bodily-injury claim? *(medium)*

- A. Workers' compensation
- B. Commercial general liability (CGL)
- C. Builder's risk insurance

- D. Commercial property insurance

Answer: B. CGL covers third-party bodily injury and property damage caused by the contractor's operations, so (b) is correct. Workers' comp (a) covers the contractor's own employees, builder's risk (c) covers the project under construction, and property insurance (d) covers the contractor's own buildings, tools, and equipment. — *Insurance-coverage concept (no single California code section)*

86. How does a surety bond differ from an insurance policy?

(medium)

- A. A bond is a two-party contract that shifts risk to the insurer
- B. A bond is a three-party arrangement in which the contractor must reimburse the surety for any claim paid
- C. A bond and an insurance policy are identical
- D. A bond never requires repayment by anyone

Answer: B. A surety bond involves three parties (principal, obligee, surety), and the contractor must repay the surety for claims paid, so (b) is correct. Insurance, not a bond, is the two-party risk-shifting arrangement (a); they are not identical (c); and the contractor must repay bond claims (d). — *Cal. Bus. & Prof. Code § 7071.6 (license bond); surety-vs-insurance concept*

87. What factor increases the required liability-insurance amount for a contractor LLC above the $1,000,000 minimum?

(medium)

- A. The number of vehicles owned
- B. The number of LLC members, up to a $5,000,000 maximum
- C. The age of the license
- D. The number of active jobs

Answer: B. The LLC liability-insurance requirement scales up with the number of LLC members, to a $5,000,000 maximum, so (b) is correct. It is not tied to vehicles (a), license age (c), or active job count (d). — *Cal. Bus. & Prof. Code § 7071.19*

88. Against what type of property can a mechanics lien be recorded? *(easy)*

- A. Only public property such as schools and roads
- B. Privately owned real property that was improved by the work
- C. The contractor's own equipment
- D. Any property in the county regardless of the work

Answer: B. A mechanics lien attaches to the private real property that the labor or materials improved, so (b) is correct. It cannot attach to public property (a), it is not a lien on the contractor's equipment (c), and it must relate to the improved property (d). — *Cal. Civ. Code §§ 8400, 8402*

89. Who is entitled to record a mechanics lien on a private construction project? *(medium)*

- A. Only the direct (general) contractor
- B. Direct contractors, subcontractors, material suppliers, and laborers who contributed to the improvement
- C. Only the property owner
- D. Only the construction lender

Answer: B. Direct contractors, subcontractors, suppliers, and laborers who contributed to the work of improvement may claim a lien if they follow the procedures, so (b) is correct. It is not limited to the general contractor (a), and the owner (c) and lender (d) are not lien claimants. — *Cal. Civ. Code §§ 8400, 8402*

90. Within how many days of first furnishing labor or materials must a claimant generally serve the preliminary notice to preserve lien rights? *(medium)*

- A. 10 days

- B. 20 days
- C. 60 days
- D. 90 days

Answer: B. The preliminary notice (commonly the 20-day notice) is generally served within 20 days after first furnishing labor or materials, so (b) is correct. Ten (a) is too short, and 60 (c) and 90 (d) days relate to recording/foreclosure deadlines, not the preliminary notice. — *Cal. Civ. Code § 8200*

91. What generally happens to a subcontractor's mechanics-lien rights if the required preliminary notice is never served? *(medium)*

- A. Nothing; the notice is optional
- B. The subcontractor generally loses its mechanics-lien, stop-payment-notice, and bond-claim rights
- C. The deadline to record simply doubles
- D. The owner must serve the notice instead

Answer: B. The preliminary notice is a condition precedent, so failing to serve it generally destroys the subcontractor's lien, stop-notice, and bond-claim rights, making (b) correct. It is not optional (a), missing it does not extend deadlines (c), and the claimant, not the owner, must serve it (d). — *Cal. Civ. Code § 8200*

92. A direct (prime) contractor's general deadline to record a mechanics lien is how long after completion of the work? *(medium)*

- A. 30 days
- B. 60 days
- C. 90 days
- D. 6 months

Answer: C. A direct contractor generally has 90 days after completion to record a lien (shortened to 60 days if a notice of completion or cessation is recorded), so (c) is correct. Thirty days (a) is the subcontractor window when a notice of completion is recorded, 60 (b) is the prime's shortened window, and 6 months (d) is not a lien recording deadline. — *Cal. Civ. Code §§ 8412, 8414*

93. How does the recording of a notice of completion affect a SUBCONTRACTOR's deadline to record a mechanics lien? *(hard)*

- A. It has no effect on the subcontractor's deadline
- B. It shortens the subcontractor's window to 30 days after the notice is recorded
- C. It extends the deadline to 120 days
- D. It shortens the window to 60 days

Answer: B. When a notice of completion (or cessation) is recorded, a subcontractor's window to record shrinks from 90 days to 30 days, so (b) is correct. It does have an effect (a), it does not extend the deadline (c), and 60 days (d) is the shortened window for the direct contractor, not the subcontractor. — *Cal. Civ. Code §§ 8412, 8414*

94. After recording a mechanics lien, within how many days must the claimant file a lawsuit to foreclose it, or the lien expires? *(medium)*

- A. 30 days
- B. 60 days
- C. 90 days
- D. 1 year

Answer: C. Civil Code §8460 gives the claimant 90 days after recording to file suit to foreclose, or the lien expires, so (c) is correct. Thirty (a), 60 (b), and one year (d) are incorrect for the foreclosure deadline. — *Cal. Civ. Code § 8460*

95. What does a stop payment notice direct the owner or construction lender to do? *(medium)*

- A. Sell the property immediately
- B. Withhold (freeze) undisbursed construction funds up to the amount owed
- C. Pay the claimant twice the amount owed
- D. Cancel the construction contract

Answer: B. A stop payment notice directs the owner or lender to withhold undisbursed construction funds up to the amount owed, so (b) is correct. It does not force a sale (a), award double damages (c), or cancel the contract (d). — *Cal. Civ. Code § 8500 et seq.*

96. On a bonded private project, what remedy can an unpaid subcontractor pursue besides recording a mechanics lien? *(medium)*

- A. A claim against the project's payment bond
- B. A criminal complaint against the owner
- C. A lien against the owner's personal bank account
- D. Nothing; the bond eliminates all other remedies

Answer: A. On a bonded job the unpaid claimant can make a claim against the payment bond, giving a solvent surety to pursue, so (a) is correct. Nonpayment is not a crime against the owner (b), a lien does not attach to a personal bank account (c), and the bond adds a remedy rather than eliminating others (d). — *Cal. Civ. Code § 8600 et seq.*

97. When a progress payment is only partly disputed, how much may the paying party generally withhold under California prompt-payment law? *(medium)*

- A. The entire payment
- B. Only the amount reasonably in dispute
- C. Twice the disputed amount
- D. Nothing; the full amount must always be paid

Answer: B. Prompt-payment law allows withholding only the disputed amount; the rest must be paid on time, so (b) is correct. Withholding the entire payment (a) or double the dispute (c) is improper, and some withholding of genuinely disputed sums is allowed (d). — *Cal. Civ. Code §§ 8800, 8802*

98. Which statement about lien limitations for an owner-occupied dwelling is most accurate? *(hard)*

- A. A homeowner who has fully paid the direct contractor can always be forced to pay subcontractors a second time
- B. Special rules can limit what unpaid subcontractors may recover against an owner who has already paid the direct contractor in full
- C. Owner-occupied dwellings are completely immune from any lien
- D. A claimant may lien for more than the reasonable value of what was furnished

Answer: B. Lien law includes protections that can limit recovery against an owner-occupied dwelling where the owner already paid the direct contractor in full, so (b) is correct. Homeowners are not always forced to pay twice (a), owner-occupied dwellings are not fully immune (c), and a lien is limited to the reasonable value furnished (d). — *Cal. Civ. Code §§ 8400, 8402*

Contract Requirements and Execution

99. What form must a home improvement contract take, and when must it be signed relative to the start of work? *(medium)*

- A. It may be oral, as long as work begins promptly
- B. It must be in writing and signed by the parties before work begins
- C. It must be in writing but may be signed after the job is completed
- D. It must be notarized but can be verbal until then

Answer: B. B&P §7159 requires a home improvement contract to be in writing and signed before work begins, so (b) is correct. An oral agreement (a) and post-completion signing (c) do not comply, and notarization is not the requirement (d). — *Cal. Bus. & Prof. Code § 7159*

100. Which of the following must a home improvement contract include? *(medium)*

- A. Only the total price
- B. The contract price, a description of the work, a payment schedule tied to work performed, approximate start/completion dates, and required notices
- C. Only the contractor's phone number
- D. The homeowner's credit report

Answer: B. Section 7159 requires an extensive set of terms and disclosures, including price, scope, a payment schedule tied to work performed, dates, and required notices, so (b) is correct. Price alone (a) or a phone number alone (c) is insufficient, and a homeowner credit report (d) is not required. — *Cal. Bus. & Prof. Code § 7159*

101. On a $20,000 home improvement contract, what is the maximum lawful down payment a contractor may collect? *(hard)*

- A. $2,000 (a flat 10%)
- B. $1,000
- C. $2,000 or $1,000, whichever is greater
- D. $500

Answer: B. The cap is the lesser of $1,000 or 10%. Here 10% is $2,000, but $1,000 is smaller, so the maximum is $1,000, making (b) correct. A flat 10% (a) and the 'greater of' formulation (c) misstate the rule, and $500 (d) is not the cap. — *Cal. Bus. & Prof. Code §§ 7159.5, 7159*

102. On a $6,000 home improvement contract, what is the maximum lawful down payment? *(hard)*

- A. $1,000
- B. $600
- C. $60
- D. $1,600

Answer: B. The cap is the lesser of $1,000 or 10%. For a $6,000 job, 10% is $600, which is less than $1,000, so the maximum is $600, making (b) correct. $1,000 (a) exceeds 10% here, $60 (c) is 1%, and $1,600 (d) is unrelated. — *Cal. Bus. & Prof. Code §§ 7159.5, 7159*

103. What is the correct rule for the maximum down payment on a home improvement contract? *(medium)*

- A. A flat 10% of the contract price
- B. Always $1,000 regardless of contract size
- C. The lesser of $1,000 or 10% of the contract price
- D. The greater of $1,000 or 10% of the contract price

Answer: C. The home improvement down-payment cap is the lesser of $1,000 or 10% of the contract price, so (c) is correct. It is not a flat 10% (a), not always $1,000 (b), and not the greater of the two (d). — *Cal. Bus. & Prof. Code §§ 7159.5, 7159*

104. On a home improvement contract, may a progress payment exceed the value of the work performed and materials delivered to date? *(medium)*

- A. Yes, as long as the total stays within the contract price
- B. Yes, if the customer agrees verbally
- C. No, each payment must be tied to the value of work actually performed
- D. Yes, for the final payment only

Answer: C. Payments after the down payment must be tied to work actually completed and may not run ahead of it, so (c) is correct. Staying within the total price (a) or verbal agreement (b) does not permit front-loading, and the rule applies to progress payments generally (d). — *Cal. Bus. & Prof. Code § 7159.5*

105. Which statute governs the required written contract for building a NEW single-family residence, as distinct from the home-improvement rules? *(medium)*

- A. B&P §7159 (home improvement)
- B. B&P §7164
- C. Civ. Code §8200 (preliminary notice)
- D. B&P §7048 (minor-work exemption)

Answer: B. B&P §7164 governs the required written contract for new single-family residential construction, so (b) is correct. Section 7159 (a) governs home improvement (existing homes), §8200 (c) is the preliminary notice, and §7048 (d) is the minor-work exemption. — *Cal. Bus. & Prof. Code § 7164*

106. Which statement about home-improvement versus new-residential-construction contracts is correct? *(medium)*

- A. They are governed by the same statute with identical down-payment caps
- B. They are governed by different statutes (§7159 for home improvement, §7164 for new residential construction)
- C. New residential construction contracts need not be in writing
- D. Home improvement contracts may be oral, but new construction must be written

Answer: B. Home improvement (existing homes) is governed by §7159 and new single-family construction by §7164, so (b) is correct. They are not the same statute with identical caps (a), new construction contracts must be in writing (c), and home improvement contracts must also be written (d). — *Cal. Bus. & Prof. Code §§ 7159, 7164*

107. What happens if a purported 'service and repair' contract fails to meet the statutory conditions for that narrow exception? *(medium)*

- A. The contract becomes automatically void
- B. The standard home improvement contract requirements apply
- C. The contractor may keep any down payment as a penalty
- D. The job becomes exempt from all contract rules

Answer: B. If the service-and-repair conditions are not met, the full home improvement contract rules apply, so (b) is correct. The contract is not automatically void (a), the contractor gains no penalty windfall (c), and the job is not exempt from contract rules (d). — *Cal. Bus. & Prof. Code § 7159.10*

108. Which condition is required for a job to qualify under the service and repair contract exception? *(medium)*

- A. The contractor must have solicited the work door-to-door
- B. The consumer initiated the request, the amount is capped, and the contractor did not solicit the work outside statutory limits
- C. The contract price must exceed $25,000
- D. The work must take at least six months to complete

Answer: B. The service-and-repair exception requires a consumer-initiated request, a capped amount, quick completion, and no prohibited solicitation, so (b) is correct. Door-to-door solicitation (a) disqualifies it, the amount is capped rather than large (c), and the work is short-duration, not lengthy (d). — *Cal. Bus. & Prof. Code § 7159.10*

109. Who must register as a home improvement salesperson? *(medium)*

- A. Any licensed contractor selling their own work at their fixed place of business
- B. A person who solicits, negotiates, or executes home improvement contracts for a contractor away from the contractor's fixed place of business
- C. A material supplier delivering goods
- D. The property owner requesting the work

Answer: B. A home improvement salesperson who sells contracts on a contractor's behalf away from its fixed place of business must be registered, so (b) is correct. A licensed contractor selling at their own place of business (a), a supplier (c), and the owner (d) are not home improvement salespersons. — *Cal. Bus. & Prof. Code §§ 7151.2, 7152, 7153*

110. For a standard home-solicitation contract, how long is the buyer's right to cancel without penalty? *(medium)*

- A. Three business days
- B. Five business days
- C. Seven business days
- D. Thirty calendar days

Answer: A. The standard home-solicitation right to cancel is three business days, so (a) is correct. Five days (b) applies to buyers 65 or older, seven days (c) applies to certain post-disaster repair contracts, and 30 days (d) is not a cancellation period. — *Cal. Civ. Code §§ 1689.5, 1689.6, 1689.7*

111. A 70-year-old homeowner signs a home-solicitation contract to repair her house after a declared disaster. Which cancellation periods apply? *(hard)*

- A. Three business days only, regardless of age or disaster
- B. Five business days because she is 65 or older, and seven business days apply to certain post-declared-disaster repair contracts
- C. A flat thirty calendar days for all buyers
- D. No cancellation right applies to disaster repairs

Answer: B. Buyers 65 or older get five business days, and certain contracts to repair a residence after a declared disaster carry a seven-day right, so (b) correctly identifies the applicable extended periods. The base three days (a) is extended here, there is no flat 30-day rule (c), and a cancellation right does apply (d). — *Cal. Civ. Code §§ 1689.5, 1689.6, 1689.7*

112. What does the mechanics-lien warning in a home improvement contract inform the consumer about? *(medium)*

- A. That the contractor's price is final and cannot change
- B. That unpaid subcontractors and suppliers may place a lien on the home even if the owner paid the contractor
- C. That the owner must buy title insurance
- D. That the contractor's license never expires

Answer: B. The mechanics-lien warning tells the owner that unpaid subs and suppliers may lien the home even if the owner already paid the contractor, so (b) is correct. It is not a price-finality clause (a), a title-insurance mandate (c), or a statement about license expiration (d). — *Cal. Bus. & Prof. Code §§ 7159, 7030*

113. Which of the following is a required notice in a home improvement contract? *(medium)*

- A. A statement of the contractor's political affiliation
- B. The mechanics-lien warning and information about the contractor's license, bond, and how to contact CSLB
- C. A list of the contractor's competitors
- D. The homeowner's social security number

Answer: B. Required notices include the mechanics-lien warning and CSLB/license/bond information, so (b) is correct. Political affiliation (a), a competitor list (c), and the homeowner's SSN (d) are not required contract notices. — *Cal. Bus. & Prof. Code §§ 7159, 7030*

114. Under a unit-price contract, what determines the final contract total? *(medium)*

- A. A single fixed lump sum agreed in advance
- B. The actual quantities installed multiplied by the agreed price per unit
- C. The contractor's actual costs plus a fee
- D. The owner's budget cap

Answer: B. A unit-price bid quotes a price per unit, so the final total depends on the actual quantities installed, making (b) correct. A single lump sum (a) describes a fixed-price bid, cost plus a fee (c) describes cost-plus, and a budget cap (d) does not set the total. — *Estimating/bidding concept (no California code section)*

115. Which bid type places quantity risk on the CONTRACTOR rather than the owner? *(medium)*

- A. A cost-plus contract
- B. A unit-price contract
- C. A lump-sum (fixed-price) contract
- D. A time-and-materials contract

Answer: C. A lump-sum bid names one total for a defined scope, so if quantities run high the contractor absorbs the overrun, making (c) correct. Cost-plus (a) and time-and-materials (d) shift cost risk toward the owner, and unit-price (b) adjusts the total with actual quantities. — *Estimating/bidding concept (no California code section)*

116. Why should a change order be in writing and signed before the extra work begins? *(medium)*

- A. Because oral change orders are just as enforceable and clear
- B. Because a written, signed change order documents the added work, price adjustment, and time impact, avoiding later disputes
- C. Because CSLB must approve every change order in advance
- D. Because change orders eliminate the need for the original contract

Answer: B. A written, signed change order records the scope, price, and schedule change up front and prevents disputes over what was authorized, so (b) is correct. Oral change orders are a classic source of disputes (a), CSLB does not pre-approve change orders (c), and a change order amends rather than replaces the contract (d). — *Contract-administration concept (no single California code section)*

117. What information should a properly documented change order contain? *(easy)*

- A. Only the new total price
- B. A description of the added or deleted work, the price adjustment, and any effect on the schedule
- C. The contractor's tax return
- D. The names of all past customers

Answer: B. A change order should describe the added or deleted work, the price adjustment, and any time impact, so (b) is correct. A new price alone (a) is incomplete, and a tax return (c) or customer list (d) is irrelevant. — *Contract-administration concept (no single California code section)*

118. To maintain cost control on a job, what should a contractor compare actual job costs against? *(medium)*

- A. The competitor's advertised prices
- B. The original estimate/budget, tracking actual and committed costs against it throughout the job
- C. Last year's tax refund
- D. The retail price of tools

Answer: B. Cost control means tracking actual and committed costs against the original estimate/budget to catch overruns early, so (b) is correct. Competitors' prices (a), a tax refund (c), and tool retail prices (d) are not the cost-control benchmark. — *Estimating/cost-control concept (no California code section)*

119. Besides direct costs, what must a bid's markup recover for a job to be profitable? *(medium)*

- A. Only sales tax
- B. Overhead and profit
- C. Only the down payment
- D. Nothing; covering direct costs guarantees a profit

Answer: B. The markup must recover overhead and profit on top of direct costs, so (b) is correct. Sales tax (a) is a material cost issue, the down payment (c) is a payment-timing matter, and covering direct costs alone does not yield profit (d). — *Estimating/cost-control concept (no California code section)*

120. In a project schedule, what does the critical path represent? *(medium)*

- A. The single longest-duration individual activity
- B. The longest chain of dependent tasks that determines the project's minimum duration
- C. The tasks with the most float
- D. The cheapest sequence of tasks

Answer: B. The critical path is the longest chain of dependent activities that sets the project's minimum duration, so (b) is correct. It is not a single activity (a), not the tasks with the most float (c), and not defined by cost (d). — *Project-scheduling concept (no California code section)*

121. A task that is NOT on the critical path is delayed, but the delay stays within the task's available float. What is the effect on the project completion date? *(hard)*

- A. The completion date is delayed by the full amount of the delay
- B. The completion date is unaffected, because the delay is absorbed by the task's float
- C. The completion date moves earlier
- D. The entire project must be rescheduled from the start

Answer: B. A non-critical task can slip within its float without affecting the end date, so (b) is correct. Only critical-path delays push the completion date, so it is not delayed (a); a delay does not accelerate completion (c); and no full reschedule is required (d). — *Project-scheduling concept (no California code section)*

122. What is retention on a construction contract, and why is it withheld? *(medium)*

- A. An extra fee added on top of the contract price to increase profit
- B. A percentage withheld from each progress payment as security that the contractor will finish and correct defects
- C. A deposit the contractor pays to the owner before starting
- D. The contractor's profit margin

Answer: B. Retention is a percentage held back from progress payments (money already earned) as security for completion and correction of defects, so (b) is correct. It is not an added fee (a), not a deposit paid by the contractor (c), and not the profit margin (d). — *Cal. Civ. Code § 8814; progress-payment concept*

123. Progress payments on a construction contract should correspond to what? *(easy)*

- A. The contractor's cash-flow needs, regardless of work done
- B. The value of the work actually completed to date
- C. A fixed calendar schedule unrelated to progress
- D. The owner's available credit

Answer: B. Progress payments should reflect the value of work actually in place, so (b) is correct. They are not set by the contractor's cash needs (a), a progress-independent calendar (c), or the owner's credit (d). — *Progress-payment concept (no California code section)*

124. Which body of law governs a contractor's purchase of construction materials as a sale of goods? *(medium)*

- A. The Business and Professions Code license law
- B. The California Commercial Code, Division 2 (Sales)
- C. The Labor Code
- D. The Public Contract Code

Answer: B. A purchase of materials is a sale of goods governed by the Commercial Code (UCC Article 2), so (b) is correct. The license law (a), Labor Code (c), and Public Contract Code (d) govern other subjects. — *Cal. Commercial Code, Division 2 (Sales)*

125. Where can a consumer verify a contractor's license and file a complaint, according to the required contract notice? *(medium)*

- A. With the local building inspector only
- B. With the Contractors State License Board (CSLB)
- C. With the contractor's surety company
- D. With the federal OSHA office

Answer: B. The required notice directs consumers to CSLB to check a license and file a complaint, so (b) is correct. The building inspector (a), the surety (c), and OSHA (d) are not where the notice directs consumers for license verification and complaints. — *Cal. Bus. & Prof. Code §§ 7030, 7159*

126. Which of the following are essential elements of a valid contract? *(easy)*

- A. Offer, acceptance, consideration, capable parties, and a lawful purpose
- B. Only a signature and a date
- C. A notary stamp and two witnesses
- D. A verbal promise and a handshake

Answer: A. A valid contract requires offer, acceptance, consideration, capable parties, and a lawful purpose, so (a) is correct. A signature and date alone (b), notarization and witnesses (c), or a handshake (d) do not by themselves establish these elements. — *Cal. Bus. & Prof. Code § 7159; contract-formation concept*

127. For consumer home improvement work, when must the agreement be reduced to writing and signed? *(medium)*

- A. Any time before final payment
- B. Before work begins
- C. Only if the customer requests it
- D. Within 30 days after completion

Answer: B. California requires the home improvement agreement to be in writing and signed before work begins, so (b) is correct. Signing before final payment (a), only on request (c), or after completion (d) does not satisfy the writing-before-work requirement. — *Cal. Bus. & Prof. Code § 7159*

128. On a consumer home improvement job, why can over-billing be a legal problem and not just an accounting choice? *(hard)*

- A. Over-billing is always illegal on every type of contract
- B. It can violate the rule that payments may not exceed the value of work performed
- C. It automatically voids the contractor's license
- D. It is only a problem if the customer complains to the IRS

Answer: B. On consumer jobs, billing ahead of completed work can violate the §7159.5 rule that payments not exceed the value of work performed, so (b) is correct. It is not illegal on every contract type (a), it does not automatically void a license (c), and the IRS is not the relevant enforcer (d). — *Cal. Bus. & Prof. Code § 7159.5*

129. What cash-flow risk does chronic under-billing create for a contractor? *(medium)*

- A. None; under-billing always improves cash flow
- B. The contractor is effectively financing the owner and may face a cash squeeze
- C. It forces the owner to pay double
- D. It increases the contractor's profit automatically

Answer: B. Under-billing means the contractor has done more work than it has billed, effectively financing the owner and risking a cash shortage, so (b) is correct. It does not improve cash flow (a), does not make the owner pay double (c), and does not raise profit (d). — *Construction accounting concept (no California code section)*

Public Works

130. On a public works project, which wage standard must contractors pay their covered workers? *(medium)*

- A. The ordinary state minimum wage
- B. The federal minimum wage
- C. The applicable prevailing wage for the craft and locality
- D. Any wage the parties negotiate

Answer: C. Public works require paying the government-set prevailing wage for each craft and locality, not merely the minimum wage, so (c) is correct. The state (a) and federal (b) minimum wages are insufficient, and prevailing wage cannot be negotiated below the determination (d). — *Cal. Lab. Code §§ 1720, 1771*

131. Who determines the prevailing-wage rates for public works in California? *(medium)*

- A. The individual contractor for each job
- B. The Director of the Department of Industrial Relations (DIR)
- C. The CSLB
- D. The project's general contractor and workers by agreement

Answer: B. The DIR Director determines and publishes prevailing-wage rates by craft and locality, so (b) is correct. Contractors (a and d) do not set the rate, and CSLB (c) does not determine prevailing wages. — *Cal. Lab. Code §§ 1773, 1773.1*

132. Besides holding a CSLB license, what must a contractor generally have to bid on or work on public works? *(medium)*

- A. Current registration with the Department of Industrial Relations (DIR)
- B. A membership in a trade association
- C. A federal contractor number only

- D. Nothing beyond the CSLB license

Answer: A. A contractor must be registered with DIR (the SB 854 regime) to bid or work on public works, separate from CSLB licensure, so (a) is correct. Trade-association membership (b) and a federal number alone (c) are not the requirement, and a CSLB license by itself is not enough (d). — *Cal. Lab. Code §§ 1725.5, 1771.1*

133. What records must a contractor keep and furnish to document prevailing-wage compliance on public works? *(medium)*

- A. Only the general contractor's summary invoice
- B. Certified payroll records showing each worker's classification, hours, and wages/benefits paid
- C. The contractor's personal bank statements
- D. Only a signed statement that wages were paid correctly

Answer: B. Public works require certified payroll records documenting each worker's classification, hours, and wages/benefits, so (b) is correct. A summary invoice (a), personal bank statements (c), or a bare signed statement (d) does not satisfy the certified-payroll requirement. — *Cal. Lab. Code § 1776*

134. What apprenticeship obligation generally applies to contractors on public works projects? *(medium)*

- A. None; apprentices are prohibited on public works
- B. Contractors must employ apprentices from state-approved programs in a set ratio to journey-level workers for each apprenticeable craft
- C. Contractors may use only apprentices and no journey-level workers
- D. Apprenticeship rules apply the same on private jobs

Answer: B. Public works generally require employing state-approved-program apprentices in a set ratio to journey workers per apprenticeable craft, so (b) is correct. Apprentices are not prohibited (a), the requirement is a ratio, not an apprentice-only crew (c), and private jobs are not subject to the same rule (d). — *Cal. Lab. Code § 1777.5*

135. Besides paying the back wages owed, what can result from underpaying prevailing wages on public works? *(medium)*

- A. Nothing further; paying the shortfall ends the matter
- B. Per-day, per-worker penalties, and for serious or repeated violations, debarment from bidding public works
- C. A federal tax credit
- D. An automatic increase in the contractor's bond amount

Answer: B. Underpayment triggers per-day, per-worker penalties beyond the back wages, and serious or repeated violations can lead to debarment, so (b) is correct. Paying the shortfall alone does not end exposure (a), there is no tax credit (c), and the bond is not automatically increased (d). — *Cal. Lab. Code §§ 1775, 1813*

136. An unpaid subcontractor on a public school project wants to secure payment. Why can't it record a mechanics lien, and what is the alternative? *(medium)*

- A. It can record a lien on the school like any private job
- B. Public property cannot be liened; the remedy is a claim against the required payment bond (and a public stop-payment notice)
- C. There is no payment protection on public works
- D. It must sue the individual students

Answer: B. Mechanics liens cannot attach to public property, so unpaid claimants pursue the required public-works payment bond and may use a public stop-payment notice, making (b) correct. A lien on the school (a) is not available, payment protection does exist (c), and suing students (d) is nonsensical. — *Cal. Civ. Code §§ 9550 et seq., 9100*

137. What does a performance bond guarantee, and how does it differ from a payment bond? *(medium)*

- A. A performance bond guarantees payment to subcontractors; a payment bond guarantees completion
- B. A performance bond guarantees the contractor will complete the work per the contract; a payment bond guarantees payment to subcontractors and suppliers
- C. They guarantee exactly the same thing
- D. A performance bond guarantees the contractor will submit a bid

Answer: B. A performance bond guarantees completion of the work, while a payment bond guarantees payment to subs and suppliers, so (b) is correct. Option (a) reverses the two, they are not identical (c), and guaranteeing a bid describes a bid bond, not a performance bond (d). — *Cal. Pub. Contract Code §§ 7103, 10221; Cal. Code Civ. Proc. § 995.311*

138. What does a 'skilled and trained workforce' requirement demand on the public projects where it applies? *(medium)*

- A. That every worker hold a contractor's license
- B. That a set percentage of workers in each apprenticeable craft be graduates of, or apprentices in, state-approved apprenticeship programs, with monthly compliance reporting
- C. That the contractor use only out-of-state labor
- D. That workers pass a CSLB exam

Answer: B. The skilled-and-trained-workforce rule requires a set percentage of apprenticeship-program graduates or apprentices in each craft, plus monthly reporting, so (b) is correct. It does not require every worker to be licensed (a), out-of-state labor (c), or a CSLB exam (d). — *Cal. Pub. Contract Code § 2600 et seq.*

Safety

139. Which agency's safety standards govern a California construction site? *(easy)*

- A. Federal OSHA standards only

- B. Cal/OSHA, because California is a state-plan state with its own (often stricter) standards
- C. The CSLB safety division
- D. The local fire department exclusively

Answer: B. California operates its own Cal/OSHA program as a state-plan state, and its standards (often stricter than federal) control, so (b) is correct. Federal OSHA (a) does not directly govern California sites, CSLB (c) does not set safety standards, and the fire department (d) does not govern occupational safety generally. — *Cal. Lab. Code §§ 6300, 6314, 6317*

140. What written safety program must every California employer establish, implement, and maintain, regardless of company size? *(easy)*

- A. An Injury and Illness Prevention Program (IIPP)
- B. A federal Hazard Analysis plan filed with OSHA
- C. A workers' compensation policy summary
- D. A quarterly financial safety audit

Answer: A. Every California employer must maintain a written IIPP regardless of size under Labor Code §6401.7 and 8 CCR §3203, so (a) is correct. There is no such federal-filed 'Hazard Analysis plan' requirement here (b), a workers' comp policy summary (c) is not the IIPP, and no quarterly financial safety audit is mandated (d). — *Cal. Lab. Code § 6401.7; Cal. Code Regs. tit. 8, § 3203*

141. Which of the following is a required element of an IIPP? *(medium)*

- A. A system for identifying and correcting workplace hazards
- B. A minimum advertising budget
- C. A list of the company's competitors
- D. A guarantee of zero injuries

Answer: A. Required IIPP elements include a responsible person, hazard identification and correction, injury investigation, training, communication, and recordkeeping, so (a) is correct. An advertising budget (b), competitor list (c), and an impossible zero-injury guarantee (d) are not IIPP elements. — *Cal. Code Regs. tit. 8, § 3203; Cal. Lab. Code § 6401.7*

142. Within what time must an employer report a serious work-related injury, illness, or a death to Cal/OSHA? *(medium)*

- A. Within 24 hours
- B. By the next business day
- C. Immediately, and no later than 8 hours after the employer knows or should have known
- D. Within 72 hours

Answer: C. The employer must report immediately, and no later than 8 hours, under 8 CCR §342 and Labor Code §6409.1, so (c) is correct. Twenty-four hours (a), next business day (b), and 72 hours (d) are all too long. — *8 CCR § 342; Cal. Lab. Code § 6409.1*

143. A worker is hospitalized after a serious job-site injury. What is the employer's reporting obligation to Cal/OSHA? *(medium)*

- A. None, because only fatalities must be reported
- B. Report immediately, no later than 8 hours after learning of it
- C. Report at the next scheduled OSHA inspection
- D. Report only if the worker misses more than a week of work

Answer: B. Serious injuries and illnesses, not just fatalities, must be reported immediately and no later than 8 hours, so (b) is correct. Reporting is not limited to fatalities (a), cannot wait for an inspection (c), and does not hinge on lost-time duration (d). — *8 CCR § 342; Cal. Lab. Code § 6409.1*

144. What additional exposure can an employer face for a willful safety violation that causes a worker's death? *(medium)*

- A. Only a small civil fine
- B. Criminal charges, including possible fines and imprisonment, in addition to civil penalties
- C. A warning letter only
- D. Loss of the workers' comp premium discount only

Answer: B. A willful violation causing death or permanent injury can bring criminal charges (fines and possible imprisonment) on top of civil penalties, so (b) is correct. It is far more than a small fine (a), a warning (c), or a premium-discount issue (d). — *Cal. Lab. Code § 6425*

145. How does Cal/OSHA differentiate the severity of violations? *(medium)*

- A. All violations carry the same penalty regardless of intent
- B. By classification, from regulatory and general up to serious, willful, and repeat, with escalating penalties
- C. Only by the size of the company
- D. Only by whether the worker filed a complaint

Answer: B. Cal/OSHA classifies violations by severity (regulatory, general, serious, willful, repeat) with escalating penalties, so (b) is correct. Penalties are not uniform (a) and are not determined solely by company size (c) or whether a complaint was filed (d). — *Cal. Lab. Code § 6425*

146. At what depth does an excavation that a worker will enter require a Cal/OSHA permit? *(medium)*

- A. 3 feet or deeper
- B. 5 feet or deeper
- C. 10 feet or deeper
- D. 20 feet or deeper

Answer: B. A Cal/OSHA permit is required for trenches or excavations five feet or deeper that a person will enter, so (b) is correct. Three feet (a) is too shallow, and 10 (c) and 20 (d) feet are not the permit threshold (20 feet triggers the engineer-design requirement). — *Cal. Lab. Code § 6500; Cal. Code Regs. tit. 8, § 1541.1*

147. Who must design or approve the protective system for an excavation deeper than 20 feet? *(medium)*

- A. Any competent person on the crew
- B. A registered professional engineer
- C. The property owner
- D. The Cal/OSHA inspector on arrival

Answer: B. Protective systems for excavations deeper than 20 feet must be designed or approved by a registered professional engineer, so (b) is correct. A crew member (a), the owner (c), or an inspector (d) cannot substitute for that requirement. — *Cal. Code Regs. tit. 8, § 1541.1(c)*

148. At approximately what height does California construction generally require fall protection? *(medium)*

- A. 4 feet
- B. 6 feet
- C. 7.5 feet
- D. 15 feet

Answer: C. In California construction, fall protection is generally required at 7.5 feet, so (c) is correct. Four feet (a) is a general-industry figure, 6 feet (b) is the federal construction trigger, and 15 feet (d) is too high. — *Cal. Code Regs. tit. 8, §§ 1670, 1500 et seq.*

149. Which of the following methods can satisfy a fall-protection requirement on a construction site? *(easy)*

- A. Guardrails, personal fall-arrest systems, or safety nets
- B. A verbal warning to be careful

- C. Posting a sign that says 'watch your step'
- D. Requiring workers to sign a liability waiver

Answer: A. Fall protection can be provided by guardrails, personal fall-arrest systems, safety nets, or other approved means, so (a) is correct. A verbal warning (b), a sign (c), or a waiver (d) does not satisfy the requirement. — *Cal. Code Regs. tit. 8, §§ 1670, 1500 et seq.*

150. Under the Hazard Communication Standard, what must an employer maintain and provide for each hazardous chemical on the job site? *(medium)*

- A. A Safety Data Sheet (SDS), proper container labels, and worker training
- B. Only a locked cabinet
- C. A separate insurance policy for each chemical
- D. Nothing, if workers are experienced

Answer: A. HazCom requires maintaining SDSs, labeling containers, keeping an inventory, and training workers on hazards, so (a) is correct. A locked cabinet alone (b), per-chemical insurance (c), or relying on experience (d) does not satisfy the standard. — *Cal. Code Regs. tit. 8, § 5194*

151. What are an employer's core duties under the Hazard Communication Standard? *(medium)*

- A. Keep SDSs, label containers, maintain a hazardous-substance inventory, and train employees
- B. Only tell workers verbally which chemicals are dangerous
- C. Ship all chemicals off-site each night
- D. Provide SDSs only to management

Answer: A. Core HazCom duties are maintaining SDSs, labeling, keeping a hazardous-substance inventory, and training employees, so (a) is correct. A verbal-only approach (b), nightly off-site shipping (c), and restricting SDSs to management (d) do not meet the standard. — *Cal. Code Regs. tit. 8, § 5194*

152. What does Proposition 65 require a business to provide before knowingly exposing people to a listed chemical? *(medium)*

- A. A clear and reasonable warning
- B. A federal permit
- C. A workers' comp certificate
- D. A building permit

Answer: A. Prop 65 requires a clear and reasonable warning before knowingly exposing people to a listed carcinogen or reproductive toxicant, so (a) is correct. It is not a federal permit (b), workers' comp certificate (c), or building permit (d) requirement. — *Cal. Health & Safety Code § 25249.5 et seq.*

153. What special requirement applies to a contractor performing asbestos-related work? *(medium)*

- A. Only ordinary hazard-communication training
- B. Special registration/certification, training, and controls specific to asbestos
- C. No special requirement if the building is old
- D. A verbal notice to the owner is sufficient

Answer: B. Asbestos work requires special registration/certification, training, and controls beyond general HazCom, so (b) is correct. Ordinary HazCom training alone (a), building age (c), or a verbal notice (d) does not satisfy the asbestos requirements. — *Cal. Lab. Code § 6501.5; Cal. Code Regs. tit. 8, § 1529*

154. Which common construction activity generates the regulated hazard of respirable crystalline silica? *(easy)*

- A. Painting a wall with latex paint

- B. Cutting or grinding concrete, stone, or masonry
- C. Hanging drywall with screws
- D. Installing carpet

Answer: B. Cutting or grinding concrete, stone, or masonry releases respirable crystalline silica, a regulated hazard, so (b) is correct. Latex painting (a), drywall screwing (c), and carpet installation (d) do not generate regulated silica dust. — *Cal. Code Regs. tit. 8, § 1532.3*

155. How does injury-log recordkeeping (the Form 300 log) differ from the 8-hour serious-injury report? *(medium)*

- A. They are the same requirement
- B. The Form 300 log tracks recordable injuries and illnesses over the year, while the 8-hour report is an immediate notification of a serious injury or death
- C. The Form 300 log must be submitted within 8 hours
- D. The serious-injury report is filed annually

Answer: B. The Form 300 log is ongoing annual recordkeeping of recordable cases, while the serious-injury report is an immediate (no later than 8 hours) notification, so (b) is correct. They are separate obligations (a), the log is not an 8-hour filing (c), and the serious-injury report is not annual (d). — *Cal. Code Regs. tit. 8, § 14300 et seq.*

156. What core elements must a heat illness prevention program provide to outdoor workers? *(medium)*

- A. Only bottled water
- B. Access to fresh drinking water, shade at set temperatures, rest/cool-down breaks, training, and emergency procedures
- C. Only a shaded break area, with no water requirement
- D. A one-time safety video and nothing more

Answer: B. The heat-illness standard requires water, shade at set temperatures, cool-down rest breaks, training, and emergency procedures, so (b) is correct. Water alone (a), shade alone (c), or a single video (d) does not satisfy the standard. — *Cal. Code Regs. tit. 8, § 3395*

157. Does California's heat-illness requirement apply to indoor workplaces? *(medium)*

- A. No, only outdoor work is covered
- B. Yes, a newer indoor heat-illness standard now extends protections to many indoor workplaces
- C. Only for restaurants
- D. Only for government buildings

Answer: B. A newer indoor heat-illness standard (8 CCR §3396) now extends protections to many indoor workplaces alongside the outdoor standard, so (b) is correct. Coverage is no longer outdoor-only (a) and is not limited to restaurants (c) or government buildings (d). — *Cal. Code Regs. tit. 8, §§ 3395, 3396*

158. Which set of Cal/OSHA regulations specifically governs construction activities such as scaffolding, ladders, and excavation? *(medium)*

- A. The General Industry Safety Orders
- B. The Construction Safety Orders
- C. The Elevator Safety Orders
- D. The Mine Safety Orders

Answer: B. The Construction Safety Orders (8 CCR §1500 et seq.) are the Cal/OSHA regulations specific to construction, so (b) is correct. The General Industry (a), Elevator (c), and Mine (d) Safety Orders govern other settings. — *Cal. Code Regs. tit. 8, §§ 1500 et seq., 1637*

159. When must an employer provide safety training under the IIPP? *(medium)*

- A. Only once, at the time the company is formed

- B. At hire, when employees are assigned new tasks with new hazards, and when new hazards are introduced
- C. Only after an injury occurs
- D. Only for supervisors

Answer: B. IIPP training must be provided at hire, when new tasks or hazards arise, and when new hazards are introduced, so (b) is correct. It is not a one-time event (a), not only post-injury (c), and not limited to supervisors (d). — *Cal. Lab. Code § 6401.7; Cal. Code Regs. tit. 8, § 3203*

160. How should workers treat a material of unknown composition found on a job site (for example, an unlabeled container or suspect material in an old building)? *(easy)*

- A. Assume it is safe until proven otherwise
- B. Treat it as hazardous until it is properly identified
- C. Dispose of it immediately in the regular trash
- D. Ignore it unless it has an odor

Answer: B. The precautionary rule is to treat unknown materials as hazardous until properly identified, so (b) is correct. Assuming safety (a), tossing it in the trash (c), or waiting for an odor (d) risks exposure to hazards like asbestos or lead. — *Cal. Code Regs. tit. 8, § 5194 (Hazard Communication)*