

# CSLB Contractor's Law & Business Practice Exam (Sample)

## Study Guide



**Everything you need from our exam experts!**

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# Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

**Remember:** successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

# How to Use This Guide

**This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:**

## **1. Start with a Diagnostic Review**

**Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.**

## **2. Study in Short, Focused Sessions**

**Break your study time into manageable blocks (e.g. 30 - 45 minutes). Review a handful of questions, reflect on the explanations.**

## **3. Learn from the Explanations**

**After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.**

## **4. Track Your Progress**

**Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.**

## **5. Simulate the Real Exam**

**Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.**

## **6. Repeat and Review**

**Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.**

**There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!**

## Questions

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- 1. What effect does filing a stop notice have on construction funds for a public work of improvement?**
  - A. It creates a lien on the construction funds.**
  - B. It allows the contractor to claim additional work.**
  - C. It enables immediate payment from the prime contractor.**
  - D. It cancels the contract with the prime contractor.**
  
- 2. Is it acceptable for Bob Smith to operate his own construction business while being the RME for XYZ Construction Co.?**
  - A. Yes, he can qualify multiple licenses.**
  - B. Yes, provided he is actively involved at least 32 hours per week.**
  - C. No, he must obtain another qualifying exam.**
  - D. No, he can only qualify XYZ Co.'s license.**
  
- 3. Where do you report and pay sales tax?**
  - A. The Department of Revenue.**
  - B. The State Tax Commission.**
  - C. The Board of Equalization.**
  - D. The Internal Revenue Service.**
  
- 4. Who is responsible for the costs associated with a pre-employment physical?**
  - A. Employee**
  - B. Contractor**
  - C. Employer**
  - D. Insurance Company**
  
- 5. How should a contractor manage unexpected costs during a project?**
  - A. Ignore and continue work**
  - B. Communicate with the owner about adjustments**
  - C. Increase the scope of the project**
  - D. Cut costs in other areas**

- 6. When a notice of completion has been filed, how many days does the original contractor have to record a lien?**
- A. 30 days**
  - B. 45 days**
  - C. 60 days**
  - D. 90 days**
- 7. How can a qualifier inactivate an active contractor's license?**
- A. By contacting the local contractors board**
  - B. By submitting a request to CSLB**
  - C. Through a phone call to the CSLB**
  - D. By informing the owner of the license**
- 8. Which of the following is considered a fixed expense?**
- A. Office rent**
  - B. Wages**
  - C. Office supplies**
  - D. Materials**
- 9. Which financial statement summarizes revenues, cost of sales, and operating expenses over a specified period?**
- A. Profit plan**
  - B. Balance sheet**
  - C. Cash flow statement**
  - D. Income statement**
- 10. Which action is NOT a cause for disciplinary action against a contractor?**
- A. Allowing a license to be used by an unlicensed contractor**
  - B. Entering into a contract with an unlicensed contractor**
  - C. Settling obligations during bankruptcy for less than the owed amount**
  - D. Willful failure to pay for materials or services**

## **Answers**

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1. A
2. D
3. C
4. C
5. B
6. C
7. B
8. A
9. D
10. C

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## **Explanations**

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**1. What effect does filing a stop notice have on construction funds for a public work of improvement?**

- A. It creates a lien on the construction funds.**
- B. It allows the contractor to claim additional work.**
- C. It enables immediate payment from the prime contractor.**
- D. It cancels the contract with the prime contractor.**

Filing a stop notice is a legal mechanism used primarily in the context of public works projects to protect the interests of subcontractors, suppliers, or others who have provided labor or materials but have not been paid. By filing a stop notice, the claimant effectively creates a lien on the construction funds that are specifically allocated for the project. This means that the construction funds cannot be disbursed to the prime contractor or other parties without addressing the claims made in the stop notice first. This mechanism ensures that those who have contributed to the project have a defined recourse to obtain payment from the funds held by the public agency. It serves as a protective measure and helps prevent situations where those providing essential services or materials could be left uncompensated due to the contractual dynamics of the project. In contrast to other choices, which pertain to different aspects of the contractual relationship or payment processes, the creation of a lien on the construction funds directly aligns with the primary purpose and effect of filing a stop notice.

**2. Is it acceptable for Bob Smith to operate his own construction business while being the RME for XYZ Construction Co.?**

- A. Yes, he can qualify multiple licenses.**
- B. Yes, provided he is actively involved at least 32 hours per week.**
- C. No, he must obtain another qualifying exam.**
- D. No, he can only qualify XYZ Co.'s license.**

In the context of contractor licensing, a Responsible Managing Employee (RME) can only qualify one contractor's license at a time. When Bob Smith is serving as the RME for XYZ Construction Co., he is effectively the person responsible for the company's compliance with licensing laws and regulations. This role requires his full attention and engagement with that specific business. Bob operating his own construction business while also qualifying for XYZ Construction Co.'s license poses a conflict in terms of accountability and oversight. Since the RME is expected to be directly involved in managing the operations of the contractor's business for which they are responsible, managing two businesses simultaneously could lead to issues with compliance and effective management. Therefore, he can only qualify XYZ Co.'s license and cannot also run his own construction business in that capacity.

### **3. Where do you report and pay sales tax?**

- A. The Department of Revenue.**
- B. The State Tax Commission.**
- C. The Board of Equalization.**
- D. The Internal Revenue Service.**

The Board of Equalization is the correct agency for reporting and paying sales tax in California. This agency oversees sales and use tax administration and is responsible for collecting taxes on the sale of tangible goods and certain services. It provides guidance to businesses on how to comply with sales tax laws, including registration and filing requirements. Sales tax payments and reporting must be conducted with the Board of Equalization to ensure compliance with state tax regulations. This body offers resources and assistance for businesses to navigate the processes involved, including online systems for filing returns and making payments. The other entities mentioned focus on different tax aspects: the Department of Revenue may handle state-level tax matters in other contexts, the State Tax Commission's role can vary by state and may not specifically handle sales tax, and the Internal Revenue Service focuses on federal tax obligations rather than state sales tax issues.

### **4. Who is responsible for the costs associated with a pre-employment physical?**

- A. Employee**
- B. Contractor**
- C. Employer**
- D. Insurance Company**

The responsible party for the costs associated with a pre-employment physical is typically the employer. This is because pre-employment physicals are often required by employers to ensure that prospective employees are physically capable of performing the job they are being hired for. It is a part of the hiring process that aims to maintain workplace safety and health standards. In many cases, employers view the pre-employment screening as a necessary step in reducing workplace injuries and ensuring compliance with occupational health regulations. Therefore, covering the costs of such assessments aligns with the employer's duty to provide a safe working environment. While there may be specific circumstances or agreements in some workplaces regarding who bears these costs, the standard practice in most organizations is for the employer to be responsible. As for the other choices, an employee typically would not be expected to cover these costs as they are being evaluated for employment, and a contractor or insurance company is usually not directly involved in this phase of the hiring process unless stated otherwise in an employment agreement.

**5. How should a contractor manage unexpected costs during a project?**

- A. Ignore and continue work**
- B. Communicate with the owner about adjustments**
- C. Increase the scope of the project**
- D. Cut costs in other areas**

Managing unexpected costs during a project requires clear and open communication with the owner. When a contractor encounters unforeseen expenses, it is essential to inform the project owner about the changes and discuss potential adjustments to the budget or timeline. This approach fosters transparency, helps maintain trust, and allows for a collaborative solution to the financial challenges. Proper communication ensures that both parties are on the same page and can make informed decisions regarding the project's future. Ignoring unexpected costs can lead to worse financial complications down the line and damage the contractor-owner relationship. Unilaterally increasing the project scope without discussing it with the owner can lead to disputes and dissatisfaction, as it may not align with the owner's expectations or budget. Cutting costs in other areas without prior discussion might compromise the quality of the work or materials, which can also lead to issues later, including potential liability. By choosing to communicate about adjustments, the contractor positions themselves for more effective project management and preserves the collaborating spirit needed for successful completion.

**6. When a notice of completion has been filed, how many days does the original contractor have to record a lien?**

- A. 30 days**
- B. 45 days**
- C. 60 days**
- D. 90 days**

When a notice of completion is filed, the original contractor has 60 days to record a mechanic's lien. This timeframe is significant because it establishes a deadline for contractors to secure their right to payment after the completion of a project. The 60-day period begins from the date the notice of completion is recorded, allowing contractors to assert their claim against the property for unpaid work. This legal mechanism is crucial, as it provides some certainty and a method for contractors to protect their financial interests in a potentially precarious situation where payments might be delayed or denied. Understanding this timeline is essential for contractors to manage their cash flow and ensure they have a means of recourse if disputes arise regarding payment. Recording a lien after this period would jeopardize the contractor's ability to enforce payment through a lien, making it vital for them to act within the designated time frame.

**7. How can a qualifier inactivate an active contractor's license?**

- A. By contacting the local contractors board**
- B. By submitting a request to CSLB**
- C. Through a phone call to the CSLB**
- D. By informing the owner of the license**

The process of inactivating an active contractor's license requires the qualifier to submit a formal request to the Contractors State License Board (CSLB). This procedure ensures that there is an official record of the change and allows the CSLB to update its records appropriately. Submitting a request provides the necessary documentation and adherence to the established protocols, which helps maintain the integrity and accuracy of contractor licensing information. Other options do not align with the formal process required for inactivation. Merely contacting the local contractors board or informing the owner of the license lacks the necessary procedural integrity. Additionally, a phone call to the CSLB may not suffice as it does not provide a written record or request, which is a crucial aspect of the inactivation process. Thus, the requirement to submit a request formally ensures there is a clear, trackable action regarding the status of the contractor's license.

**8. Which of the following is considered a fixed expense?**

- A. Office rent**
- B. Wages**
- C. Office supplies**
- D. Materials**

Office rent is considered a fixed expense because it represents a consistent, recurring cost that does not fluctuate with the level of business activity. This type of expense is incurred regardless of how much work a contractor does, making it a predictable and stable financial commitment. Fixed expenses typically include payments that remain the same over a specified period, such as lease payments for office space or equipment. In contrast, wages can vary based on hours worked or employee performance, thus not qualifying as a fixed expense. Office supplies are subject to change in quantity and cost based on usage and purchasing decisions, and materials costs can fluctuate significantly depending on the projects undertaken and market prices. Therefore, office rent stands out as a reliable fixed expense essential for budgeting and financial planning in a contracting business.

**9. Which financial statement summarizes revenues, cost of sales, and operating expenses over a specified period?**

- A. Profit plan**
- B. Balance sheet**
- C. Cash flow statement**
- D. Income statement**

The income statement is the financial statement that summarizes revenues, cost of sales, and operating expenses over a specified period. This document provides a clear view of a company's financial performance, showing how much money the company earned during the period (revenues) and how much it spent to earn that money (cost of sales and operating expenses). The income statement culminates in a net income or loss, indicating whether the company was profitable for that period. This is essential for contractors and business owners to understand their operating efficiency, profitability, and overall financial health. The other options serve different functions: the profit plan is typically a projection of revenues and expenses rather than a summary of actual results, the balance sheet provides a snapshot of assets, liabilities, and equity at a specific point in time, and the cash flow statement summarizes the inflow and outflow of cash within the business, focusing on liquidity rather than profitability.

**10. Which action is NOT a cause for disciplinary action against a contractor?**

- A. Allowing a license to be used by an unlicensed contractor**
- B. Entering into a contract with an unlicensed contractor**
- C. Settling obligations during bankruptcy for less than the owed amount**
- D. Willful failure to pay for materials or services**

Settling obligations during bankruptcy for less than the owed amount is not typically a cause for disciplinary action against a contractor. In bankruptcy proceedings, individuals and businesses often negotiate that some debts be settled for less than the full amount owed, which is a lawful and accepted part of the bankruptcy process. This settlement may reflect a contractor's financial circumstances rather than poor business practices or misconduct. In contrast, the other actions outlined can reflect actions deemed unprofessional or unethical in the eyes of regulatory bodies. Allowing a license to be used by an unlicensed contractor undermines the integrity of the licensing system, and entering into a contract with an unlicensed contractor can expose both parties to legal risks and enforcement actions. Willful failure to pay for materials or services demonstrates a disregard for contractual obligations and can lead to severe ramifications, including disciplinary actions from licensing authorities.

## Next Steps

**Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.**

**As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.**

**If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at [hello@examzify.com](mailto:hello@examzify.com).**

**Or visit your dedicated course page for more study tools and resources:**

**<https://cslb-law-business.examzify.com>**

**We wish you the very best on your exam journey. You've got this!**

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