

Florida General Contractor Practice Exam (Sample)

Study Guide



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SAMPLE

Questions

- 1. Which of the following statements is false according to the Builder's Guide to Accounting?**
 - A. Revenue can only be recognized when received.**
 - B. All expenses are deducted at the end of the year.**
 - C. Cash method allows for expense recognition as cash is paid.**
 - D. Accrual method recognizes income when earned.**
- 2. In financial terms, fixed expenses are best described as?**
 - A. Costs that fluctuate based on sales**
 - B. Constant costs that do not change with production levels**
 - C. Variable costs associated with specific projects**
 - D. Expenses that are incurred only when revenue is generated**
- 3. How can a construction company determine its net worth?**
 - A. By adding total liabilities to assets**
 - B. By subtracting total expenses from revenues**
 - C. By subtracting total liabilities from total assets**
 - D. By analyzing cash flow statements**
- 4. Which type of insurance is primarily concerned with protecting a contractor's equipment on the job site?**
 - A. General liability insurance**
 - B. Workers' compensation insurance**
 - C. Inland marine insurance**
 - D. Property insurance**
- 5. Which method of inventory assumes that the first materials purchased are the first used?**
 - A. FIFO (First In, First Out)**
 - B. LIFO (Last In, First Out)**
 - C. Average Cost Method**
 - D. Specific Identification Method**

- 6. When a change order is issued and it is not a constructive directive or a minor change, who must sign it to make it a legal instrument?**
- A. Project manager**
 - B. General contractor**
 - C. Owner**
 - D. Architect**
- 7. By when are deposits for FUTA taxes due?**
- A. Quarterly**
 - B. Annually**
 - C. Monthly**
 - D. Biweekly**
- 8. Which of the following is NOT a category included in the income statement according to the contractor's manual?**
- A. Revenue from Sales**
 - B. Operating Expenses**
 - C. Liabilities**
 - D. Net Profit**
- 9. If a company has a current ratio of 2.5 to 1 and current assets of 200,000, what are the current liabilities?**
- A. 80,000**
 - B. 100,000**
 - C. 120,000**
 - D. 150,000**
- 10. What does the contractor's purchase journal record?**
- A. Total revenue from projects**
 - B. Total charge purchases**
 - C. Total expenses incurred**
 - D. Total assets owned**

Answers

SAMPLE

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

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Explanations

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1. Which of the following statements is false according to the Builder's Guide to Accounting?

- A. Revenue can only be recognized when received.**
- B. All expenses are deducted at the end of the year.**
- C. Cash method allows for expense recognition as cash is paid.**
- D. Accrual method recognizes income when earned.**

The statement indicating that revenue can only be recognized when received is false because in accounting practices, particularly under the accrual method, revenue is recognized when it is earned, not necessarily when cash is received. This means that if a service has been performed or goods have been delivered, revenue should be recorded at that point, regardless of when payment is received. The other statements reflect accurate principles of accounting. Expenses being deducted at the end of the year applies to the cash method, where expenses are recorded when cash is paid. The cash method indeed allows for expense recognition as cash is paid, which is a key characteristic of this method. Meanwhile, the accrual method's recognition of income when earned aligns with generally accepted accounting principles (GAAP), emphasizing that businesses should report revenues and expenses in the period in which they are incurred, making financial statements more accurate.

2. In financial terms, fixed expenses are best described as?

- A. Costs that fluctuate based on sales**
- B. Constant costs that do not change with production levels**
- C. Variable costs associated with specific projects**
- D. Expenses that are incurred only when revenue is generated**

Fixed expenses are best described as constant costs that do not change with production levels. These types of expenses remain stable regardless of the volume of goods or services a business produces. Common examples include rent, salaries, and insurance premiums. Unlike variable costs, which fluctuate based on sales or production volume, fixed expenses must be paid regardless of business activity, allowing for more straightforward budgeting and financial planning. This characteristic is crucial for businesses as it helps them understand their baseline costs and forecast profitability over time, irrespective of sales fluctuations.

3. How can a construction company determine its net worth?

- A. By adding total liabilities to assets**
- B. By subtracting total expenses from revenues**
- C. By subtracting total liabilities from total assets**
- D. By analyzing cash flow statements**

Determining a construction company's net worth involves calculating the difference between its total assets and total liabilities. This is essential for assessing the financial health of the company. When total liabilities are subtracted from total assets, the resulting figure reflects the company's net worth, also known as equity or owner's equity. This measure shows how much of the company is owned outright, providing insight into the value retained by the owners after settling all debts. The other methods have specific purposes but do not accurately represent net worth. Merely adding total liabilities to assets would yield a sizable figure without providing meaningful insight into worth or value ownership. Subtracting total expenses from revenues speaks to profitability over a period, which is different from net worth calculations. Analyzing cash flow statements focuses on the cash transactions within the company rather than determining overall financial standing at a point in time. Each method has its importance, but calculating net worth specifically requires the difference between total assets and total liabilities.

4. Which type of insurance is primarily concerned with protecting a contractor's equipment on the job site?

- A. General liability insurance**
- B. Workers' compensation insurance**
- C. Inland marine insurance**
- D. Property insurance**

Inland marine insurance is specifically designed to cover movable equipment and property that is in transit or used at various locations, making it particularly relevant to contractors. This type of insurance protects tools, machinery, and other equipment that contractors use on job sites or transport between locations. It addresses the unique risks associated with equipment that is not fixed to a location, thereby providing critical coverage for contractors who might face losses due to theft, damage, or other unforeseen incidents while their equipment is on the job site. General liability insurance primarily covers claims related to bodily injury and property damage resulting from the contractor's operations, but it does not specifically cover equipment. Workers' compensation insurance deals with workplace injuries affecting employees and does not cover equipment. Property insurance may protect buildings and physical assets but doesn't focus on movable equipment in the same way inland marine insurance does. Thus, inland marine insurance is the most suitable choice for protecting a contractor's equipment.

5. Which method of inventory assumes that the first materials purchased are the first used?

- A. FIFO (First In, First Out)**
- B. LIFO (Last In, First Out)**
- C. Average Cost Method**
- D. Specific Identification Method**

The method of inventory that assumes the first materials purchased are the first used is known as FIFO, which stands for First In, First Out. This approach is based on the principle that the oldest inventory items are sold or used before any newer items. As a result, during periods of rising prices, FIFO typically reports higher inventory values on the balance sheet and lower cost of goods sold (COGS), which can lead to a higher taxable income. This method is particularly beneficial for perishable goods or items with limited shelf life, as it ensures that older stock is used first, minimizing waste. In contrast, LIFO (Last In, First Out) assumes that the most recently purchased items are the first to be sold, which can result in different financial impacts, particularly under inflationary conditions. The Average Cost Method calculates the cost of goods sold based on the average cost of all inventory items available for sale during the period, while the Specific Identification Method tracks the actual cost of each specific item sold. Each of these methods serves different business needs and accounting strategies, but FIFO specifically aligns with the principle of using the oldest inventory first.

6. When a change order is issued and it is not a constructive directive or a minor change, who must sign it to make it a legal instrument?

- A. Project manager**
- B. General contractor**
- C. Owner**
- D. Architect**

For a change order to be considered a legal instrument, it is essential that it is signed by the owner. This signature indicates that the owner has formally agreed to the modifications in the scope of work, costs, or timeline as outlined in the change order. Change orders are significant as they can impact the overall contract, and the owner's approval is necessary to validate any alterations made to the original contract terms. While project managers, general contractors, and architects play critical roles in facilitating the change order process—such as proposing changes, estimating costs, and ensuring compliance with design specifications—they do not hold the authority to finalize the change without the owner's consent. The owner's signature is crucial as it signifies acceptance and acknowledgment of the changes, thereby establishing the legal binding effect necessary for enforcing the change order.

7. By when are deposits for FUTA taxes due?

- A. Quarterly**
- B. Annually**
- C. Monthly**
- D. Biweekly**

The correct timing for deposits for FUTA (Federal Unemployment Tax Act) taxes is based on a specific schedule set forth by the IRS. Employers who accumulate a FUTA tax liability of \$500 or more during the calendar year are required to pay these taxes quarterly. However, for businesses with an annual liability of less than \$500, they can simply report the tax on their annual tax return rather than making quarterly payments. The remaining response options imply different frequency schedules. While some employers may feel tempted to align FUTA tax deposits with monthly payrolls or biweekly cycles, those schedules do not align with the IRS's guidelines for FUTA tax deposit timing. These taxes specifically require either quarterly or annual reporting, and understanding this requirement helps ensure compliance with federal tax laws.

8. Which of the following is NOT a category included in the income statement according to the contractor's manual?

- A. Revenue from Sales**
- B. Operating Expenses**
- C. Liabilities**
- D. Net Profit**

The income statement primarily includes categories that reflect a company's performance over a specific accounting period, focusing on revenues and expenses to determine net profit. The categories typically featured include revenue from sales, operating expenses, and the resulting net profit. Liabilities, on the other hand, are not included in the income statement; instead, they are recorded on the balance sheet, which captures a company's financial position at a given point in time. Liabilities represent what a company owes and is part of the broader financial health assessment, but they do not contribute directly to the determination of profit or loss within the income statement framework. Thus, recognizing that liabilities belong to the balance sheet rather than the income statement accurately identifies why this answer is correct. The other categories—revenue from sales, operating expenses, and net profit—are fundamental to the construction of income statements, reflecting the company's revenue generation and expense management during the reporting period.

9. If a company has a current ratio of 2.5 to 1 and current assets of 200,000, what are the current liabilities?

- A. 80,000**
- B. 100,000**
- C. 120,000**
- D. 150,000**

To find the current liabilities based on the given current ratio and current assets, we start by understanding what the current ratio means. The current ratio is defined as the ratio of current assets to current liabilities. In this case, a current ratio of 2.5 to 1 indicates that for every dollar of current liabilities, the company has \$2.50 in current assets. Given that the current assets are \$200,000, we can set up the equation based on the current ratio: $\text{Current Ratio} = \text{Current Assets} / \text{Current Liabilities}$. Substituting the given values into the formula, we have: $2.5 = 200,000 / \text{Current Liabilities}$. To solve for current liabilities, we can rearrange the equation: $\text{Current Liabilities} = \text{Current Assets} / \text{Current Ratio}$. Now substituting the values: $\text{Current Liabilities} = 200,000 / 2.5$. Calculating this gives: $\text{Current Liabilities} = 80,000$. This provides a clear understanding of how the current ratio relates to current assets and current liabilities, confirming that the correct answer is that the current liabilities amount to \$80,000.

10. What does the contractor's purchase journal record?

- A. Total revenue from projects**
- B. Total charge purchases**
- C. Total expenses incurred**
- D. Total assets owned**

The contractor's purchase journal specifically records total charge purchases made by the contractor, which includes all transactions where goods and services have been acquired on credit. This journal is critical for managing accounts payable as it helps contractors keep track of what they owe to suppliers and subcontractors for materials and services purchased. Unlike other financial tracking methods, the purchase journal focuses solely on purchases related to the operational activities necessary for completing projects, rather than total revenue, expenses, or assets. Understanding this function is essential for maintaining accurate financial records and ensuring cash flow management within a contracting business.