

# Utah Contractor Practice Exam (Sample)

## Study Guide



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**SAMPLE**

## **Questions**

- 1. What is the most important factor with respect to a schedule of payments?**
  - A. Date**
  - B. Amount**
  - C. Keeping lender informed of job progress**
  - D. Phase**
- 2. If a contract is made between a contractor and an unlicensed person who is in violation of the law, who is liable?**
  - A. The contractor**
  - B. Both the contractor and the unlicensed person**
  - C. The unlicensed person**
  - D. Only the unlicensed person if he didn't notify the contractor**
- 3. If a homeowner wishes to have additional work done after a job is completed, what should the contractor do?**
  - A. Get the owner to sign a change order**
  - B. Do the additional work for free**
  - C. Make an oral agreement with the owner**
  - D. Write a new contract and ask the owner to sign it**
- 4. What is the most effective way for a contractor to reduce insurance costs without increasing risk?**
  - A. Compare premiums and coverage yearly**
  - B. Decrease the coverage**
  - C. Increase the deductible**
  - D. Get a policy for overlapping coverage**
- 5. When bidding, how should the contractor proceed if he/she finds incorrect specifications on a design?**
  - A. Submit the bid with change orders**
  - B. Tell the owner to get specifications that are correct**
  - C. Refrain from submitting the bid**
  - D. Tell the owner to call in an architect**

- 6. Which term refers to businesses collaborating to manipulate the bidding process?**
- A. Bid rigging**
  - B. Bid shopping**
  - C. Joint venture**
  - D. Subcontracting**
- 7. What is the primary purpose of an Employer Identification Number (EIN)?**
- A. Employee identification**
  - B. Tax reporting**
  - C. Business loans**
  - D. Insurance purposes**
- 8. What does the acronym GAAP stand for?**
- A. General Accepted Accounting Principles**
  - B. Government Accounting and Auditing Procedures**
  - C. Global Accounting Assessment Practices**
  - D. General Accounting Analysis Program**
- 9. What is the best way to reduce insurance costs without increasing risk?**
- A. Compare premiums and coverage yearly**
  - B. Decrease the coverage**
  - C. Increase the deductible**
  - D. Get a policy for overlapping coverage**
- 10. Where should a statement about the contractor's responsibilities regarding delays from weather be placed in a contract?**
- A. Before the job description**
  - B. After the signatures**
  - C. After the change order clause**
  - D. After the approximate work period**

## **Answers**

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

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## **Explanations**

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**1. What is the most important factor with respect to a schedule of payments?**

**A. Date**

**B. Amount**

**C. Keeping lender informed of job progress**

**D. Phase**

The most important factor in a schedule of payments is the amount. This is because the payment amount directly influences cash flow, budgeting, and the financial management of a project. Precise amounts ensure that the contractor is compensated fairly for the work completed at various stages, which is crucial for maintaining liquidity and covering project costs. Additionally, clearly defined amounts help avoid disputes between parties regarding compensation. Knowing the specific amounts at each phase allows both contractors and clients to plan their finances more effectively, ensuring that all parties have clearly understood what is owed at different points in time. While the date, keeping lenders informed, and project phases are all relevant factors that contribute to effective project management, without a clear and agreed-upon amount, the payment schedule would lack clarity and could lead to financial difficulties for the contractor or misunderstandings with the client.

**2. If a contract is made between a contractor and an unlicensed person who is in violation of the law, who is liable?**

**A. The contractor**

**B. Both the contractor and the unlicensed person**

**C. The unlicensed person**

**D. Only the unlicensed person if he didn't notify the contractor**

In situations where a contract is made between a licensed contractor and an unlicensed person, the liability is typically shared between both parties because the contract is considered illegal. The unlicensed person is in violation of licensing laws and is engaging in activities that require a license, thereby rendering the contract unenforceable. From the contractor's perspective, even though they are licensed, entering into a contract with someone who is unlicensed puts them at risk because it violates statutory regulations. The law aims to protect the public by ensuring that only qualified individuals can perform certain types of work, primarily for safety and quality assurance reasons. As such, since both parties are involved in the creation of the illegal contract, they can be held liable for the implications arising from that agreement. This scenario emphasizes the importance of ensuring that all parties involved in a construction project comply with licensing requirements to protect not only the public but also the interests of the contractors themselves. In contrast, if the contractor had chosen to work solely with licensed individuals, they would minimize exposure to such liabilities.

**3. If a homeowner wishes to have additional work done after a job is completed, what should the contractor do?**

- A. Get the owner to sign a change order**
- B. Do the additional work for free**
- C. Make an oral agreement with the owner**
- D. Write a new contract and ask the owner to sign it**

When a homeowner requests additional work after the initial job has been completed, the contractor should ideally write a new contract and ask the owner to sign it. This approach ensures that all parties have a clear understanding of the new scope of work, the associated costs, and the timeline for completion. A written contract protects both the contractor and the homeowner by providing legal documentation of the agreed terms. While change orders can sometimes be suitable for minor alterations to the original contract, when the scope of work has substantially changed, a new contract is often the most appropriate route. It allows for detailed specifications and prevents misunderstandings that could arise from incomplete or vague agreements. This formal process ensures that the contractor is compensated fairly for the additional work, and it minimizes the potential for disputes.

**4. What is the most effective way for a contractor to reduce insurance costs without increasing risk?**

- A. Compare premiums and coverage yearly**
- B. Decrease the coverage**
- C. Increase the deductible**
- D. Get a policy for overlapping coverage**

Choosing to compare premiums and coverage yearly is the most effective method for a contractor to reduce insurance costs while maintaining their current level of risk. Regularly reviewing and comparing insurance policies allows contractors to identify potential savings by finding more cost-effective options with similar coverage, enabling them to maintain their protection while ensuring that they are not overpaying for their insurance. This strategy also enables contractors to stay informed about changes in the market, including the introduction of new providers or different policy offerings that could provide better value. By evaluating premiums and coverage on a yearly basis, contractors can make informed decisions that balance cost-efficiency with the adequacy of protection, which is essential for managing their business effectively. Decreasing coverage may seem like a way to reduce costs, but it inherently increases risk, which is counterproductive. Similarly, increasing the deductible might lower premiums temporarily, but it can expose the contractor to more financial risk in the event of a claim. Obtaining overlapping coverage might also complicate the insurance situation and could lead to increased costs without added benefit. Thus, comparing premiums and coverage offers a balanced approach to cost reduction without compromising risk management.

**5. When bidding, how should the contractor proceed if he/she finds incorrect specifications on a design?**

- A. Submit the bid with change orders**
- B. Tell the owner to get specifications that are correct**
- C. Refrain from submitting the bid**
- D. Tell the owner to call in an architect**

In the context of bidding, if a contractor discovers incorrect specifications on a design, it is essential to maintain professional integrity and clarity in the bidding process. The correct approach is to refrain from submitting the bid. Submitting a bid based on incorrect specifications can lead to misunderstandings, scope changes, and potential financial losses for the contractor. By choosing not to submit the bid, the contractor ensures that they do not enter into a contractual agreement based on flawed information, which could create disputes down the line. This decision also provides an opportunity for the contractor to communicate the identified discrepancies to the owner or project manager, allowing for the specifications to be reviewed and corrected before the bidding process continues. This proactive measure ultimately protects the interests of all parties involved in the project and fosters clearer communication and collaboration moving forward.

**6. Which term refers to businesses collaborating to manipulate the bidding process?**

- A. Bid rigging**
- B. Bid shopping**
- C. Joint venture**
- D. Subcontracting**

Bid rigging is a term that specifically describes the illegal practice where businesses conspire to manipulate the bidding process in order to achieve favorable outcomes, often at the expense of competition and fairness. In this scheme, two or more contractors may agree to set prices or designate one of them as the winner, ensuring that they gain the project without genuine competition. This undermines the integrity of the bidding system, leading to inflated costs and reduced quality of work for clients. In contrast, bid shopping involves discussing or revealing a contractor's bid to other contractors to secure a better deal, which can create a competitive environment but does not involve collusion like bid rigging does. Joint ventures refer to a collaborative partnership between businesses to work on a project, typically involving shared resources and responsibilities, while subcontracting means hiring another business to perform specific tasks under the main contract terms. Each of these terms has distinct meanings and implications in the context of contracting but does not carry the same connotation of unethical manipulation as bid rigging.

**7. What is the primary purpose of an Employer Identification Number (EIN)?**

- A. Employee identification**
- B. Tax reporting**
- C. Business loans**
- D. Insurance purposes**

The primary purpose of an Employer Identification Number (EIN) is for tax reporting. An EIN is a unique identifier assigned by the Internal Revenue Service (IRS) to businesses and entities for tax administration purposes. It is used to identify a business entity for various tax-related activities, including filing tax returns, reporting employee wages, and making tax payments. Having an EIN is essential for businesses that have employees, operate as a corporation or partnership, or need to file specific tax forms. It plays a crucial role in ensuring that the business complies with federal and state tax laws. The IRS uses the EIN to track the tax obligations and activities of various business entities, ensuring proper tax collection and reporting. While an EIN is necessary for employee identification, obtaining business loans, and insurance purposes, those aspects are secondary uses of the number. In essence, the EIN's primary role is rooted in its function as a tax identifier, critical for maintaining legal and financial accountability in business operations.

**8. What does the acronym GAAP stand for?**

- A. General Accepted Accounting Principles**
- B. Government Accounting and Auditing Procedures**
- C. Global Accounting Assessment Practices**
- D. General Accounting Analysis Program**

The acronym GAAP stands for Generally Accepted Accounting Principles. These principles are a set of rules and guidelines that govern financial accounting and reporting in the United States. They provide a standardized framework for preparing financial statements, ensuring consistency, reliability, and comparability of financial information across different organizations. GAAP encompasses a wide range of accounting standards and practices, including how to recognize revenue, how to classify liabilities, and how to report expenses. This set of principles is essential for maintaining transparency and trust in the financial markets, as adherence to GAAP helps investors, regulators, and the public understand a company's financial health. The other choices do not accurately define GAAP. Government Accounting and Auditing Procedures, for instance, are specific practices related to governmental financial management but do not encompass the broader accounting principles applicable to all types of business entities. Similarly, Global Accounting Assessment Practices and General Accounting Analysis Program do not represent established or recognized frameworks within accounting standards.

**9. What is the best way to reduce insurance costs without increasing risk?**

- A. Compare premiums and coverage yearly**
- B. Decrease the coverage**
- C. Increase the deductible**
- D. Get a policy for overlapping coverage**

Comparing premiums and coverage yearly is the most effective strategy for reducing insurance costs without increasing risk. This proactive approach allows a contractor to assess different insurance options available in the market, which can lead to finding better rates or more suitable coverage that fits the current needs of the business. By regularly evaluating the coverage, a contractor can identify potential savings and ensure they are not over-insured or under-insured, maintaining a balance that protects against risk adequately. This comparison process also helps a contractor stay informed about changes in the insurance marketplace, including discounts or new policies that could offer better protection at lower costs. Mining these details yearly ensures that the contractor is not locked into a policy that may no longer be the best option for their current operations. While decreasing coverage could lower insurance costs, it can dangerously expose the contractor to higher risk, compromising essential protections needed for the business. Increasing the deductible can reduce premium costs but also poses a risk of higher out-of-pocket expenses during a claim. Getting a policy for overlapping coverage may lead to redundancy and unnecessary costs without providing added security. Hence, the most strategic move is to conduct a thorough comparison annually.

**10. Where should a statement about the contractor's responsibilities regarding delays from weather be placed in a contract?**

- A. Before the job description**
- B. After the signatures**
- C. After the change order clause**
- D. After the approximate work period**

Placing a statement about the contractor's responsibilities regarding delays from weather after the approximate work period in a contract is strategic and logical. The reason this location is most effective is that it allows for a clear understanding of the expected timeline for the project before diving into the contingencies that may affect that timeline, such as weather-related delays. The approximate work period sets the stage for when the project is anticipated to commence and when it is expected to be completed. By placing the weather-related clause immediately after, it provides a natural flow of information. Stakeholders can see the timeline first and then understand how certain unpredictable factors like weather may extend the duration of the project. This positioning emphasizes awareness of potential risks while maintaining clarity regarding the project's expected delivery dates. In contrast, discussing this clause too early in the contract, such as before the job description or change order clause, could introduce confusion or derail the focus of essential project details that must be understood first. Additionally, positioning it after the signatures may not provide it the visibility necessary for all parties when actively reviewing the obligations before the agreement is formally executed.